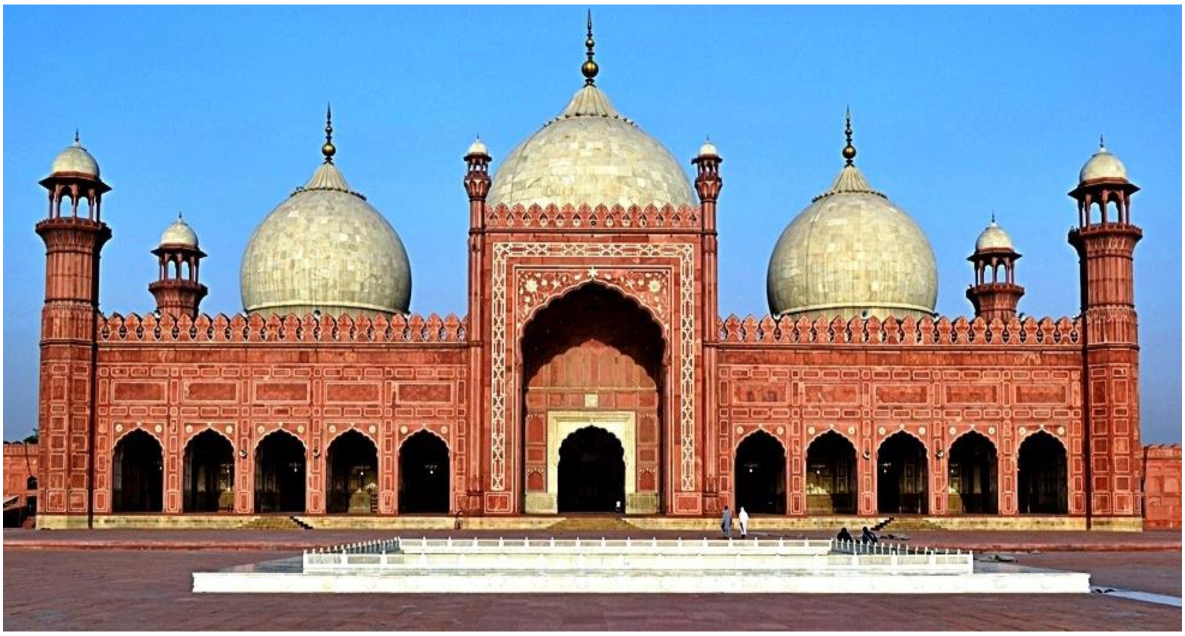
Pakistan: Punjab

Public Expenditure and Financial Accountability (PEFA) Assessment Report

August 19, 2019



Collaborating partners:

FISCAL YEAR
July 1–June 30

CURRENCY EQUIVALENTS
Currency unit = Pakistan Rupee (PKR)
USD 1 = PKR 158.44 (09 August 2019)

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Acronyms

ADP	Annual Development Program	IMF	International Monetary Fund
AG	Accountant General	IPSAS	International Public Sector Accounting Standards
AGP	Auditor General of Pakistan	ISSAI	International Standards for Supreme Audit Institutions
APPM	Accounting Policies and Procedures Manual	PEFA	Public Expenditure and Financial Accountability
BOR	Board of Revenue	PPPRA	Punjab Public Procurement Regulatory Authority
C&W	Communication and Works	PRA	Punjab Revenue Authority
CCI	Council of Common Interest	M&E	Monitoring and Evaluation
CDWP	Central Development Working Party	MTFF	Medium-term Fiscal Framework
CGA	Controller General of Accounts	NAM	New Accounting Model
COFOG	Classification of Functions of Government	NFC	National Finance Commission
DAO	District Accounts Office/r	O&M	Operations and Maintenance
DDO	Drawing and Disbursement Officer	P&D	Planning and Development
DDWP	District Development Working Party	PAC	Public Accounts Committee
DFID	U.K. Department for International Development	PC	Planning Commission
DG	Directorate General	PDWP	Provincial Development Working Party
ECNEC	Executive Committee of National Economic Council	PEFA	Public Expenditure and Financial Accountability
EU	European Union	PFC	Provincial Finance Commission
FD	Finance Department	PFM	Public Financial Management
FI	Financial Information	PFR	Punjab Financial Rules
FY	Fiscal Year	PI	Performance Indicator
GDP	Gross Domestic Product	PIFRA	Project to Improve Financial Reporting and Auditing
GFMIS	Government Financial Management Information System	PIM	Public Investment Management
GFR	General Financial Rules	PKR	Pakistan Rupee
GFS	Government Finance Statistics	PSC	Public Sector Corporation
GFSM	Government Finance Statistics Manual	PSE	Public Sector Entity
GoPb	Government of Punjab	PWD	Public Works Department
GST	General Sales Tax	SNG	Subnational Government
HLG	Higher Level Government		
HR	Human Resources		

PEFA Check

Pakistan: Punjab – Public Expenditure and Financial Accountability (PEFA) Report - August 2019

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat,
August 21, 2019

EXECUTIVE SUMMARY

Purpose and Management

1. The sequel to the Punjab Growth Strategy is currently being formulated and the GoPb plans to embed the second-generation PFM reforms with its overall growth strategy. To steer the reforms agenda, GoPb requested a review on the upgraded PEFA Framework (2016). PEFA assessments in 2007 and 2012 informed the reform dialogue while other targeted diagnostics were commissioned to determine performance causality to guide the reform implementation. These included the Open Budget Survey (OBS), Fiduciary Risk Assessment (FRA) and other bespoke public expenditure reviews during 2014-2017.

2. This PEFA assessment has been completed as a collaborative exercise led by the GoPb in partnership with the participating Development Partners. The Team administering the review included DFID (UK), the World Bank and PEFA expert (Consultant). The PEFA Steering Committee, chaired by the Secretary Finance and comprising the heads of the key stakeholders in GoPb, provided oversight and strategic direction. A comprehensive quality assurance mechanism was put in place involving the Sector Specialists at the World Bank and the external peer reviewers including the PEFA Secretariat and DFID (Details in Section 1.2).

Scope, coverage, and timing

3. The review applied the PEFA Framework 2016 and the related guidance for sub-national assessment. The coverage of the assessment is the Punjab provincial government fiscal operations while the lower level local governments, public sector enterprises and the extra-budgetary units in Punjab are covered to the extent of financial reporting against allocated budget. The cut-off date for the assessment was 30 June 2018 and the review period included fiscal year 2015-16, 2016-17 and 2017-18 (Chronology in Table 1.1).

Impact of PFM on budgetary and fiscal outcomes

4. The results, based on the PEFA Framework (2016) signals the tenacity of challenges on a range of PFM jurisdictions. These include fiscal oversight, asset and liability management, performance and strategic perspective in budgeting, policy based fiscal strategy, revenue risk management, commitment accounting and external audit. However, there are notable redeeming features of high performance such as the controls on the aggregate expenditure outturns, improved public disclosure and a robust budget classification system.

5. The results of the current PEFA assessment are viewed in the context of the three budgetary outcomes - aggregate fiscal discipline, strategic allocation of resources and the efficient use of resources for service delivery.

Aggregate fiscal discipline

6. Fiscal transfers constitute around 77 percent of the total Punjab government's receipts . The variation in the fiscal transfers and provincial own source revenue outturns impacted on fiscal discipline as both categories of actual revenue were significantly below the budgeted amounts . At the aggregate level the government managed the expenditure outturns relative to that budgeted; however the variations

in the economic and functional classification wise expenditure overshadowed the overall government's performance.

7. The expenditure projections are based on uninformed revenue targets evident from the budget revisions, while excessive virements during the year is discouraging improvements at the planning stage. The lack of a robust fiscal strategy, the absence of the determination of the fiscal impact of expenditure and revenue policy proposals and the fragilities in the revenue management (risk management, arrears monitoring, and audits) were the key challenges to the fiscal discipline.

Strategic allocation of resources

8. Decision-making in the PFM realm is characterized by a one-year vision owing to the lack of a medium term perspective in budgeting. The situation is aggravated when the the impact of the current year's capital investment decisions on the recurrent budget is unknown, thus constraining strategic budget management. It has been 16 years since the Government of Punjab took the policy decision to adopt the output based and medium term budgetary framework and yet it has been only partially implemented. Its graduation to the whole of the government is critical to help linking policy planning to budget.

9. The Budget Strategy Paper (BSP) that provides the fiscal aggregates and the status of the overall budget position in the projected years facilitated the strategic allocation of resources. However, the practice of the preparation of the BSP was discontinued and while it resumed in 2017-18, its non-submission to the Cabinet diluted the effectiveness of the strategy. Regular preparation of the BSP, connecting it with sector strategies and obtaining the legislature's approval would ensure allocative efficiency and foster accountability.

10. The existing development budget[1] practices do not support effective public investment management (PIM). Although the guidelines on the Annual Development Program (ADP) formulation recommends the Line Departments to align the investment decisions with the Punjab Growth Strategy (2014-18), the lack of 'costed sectoral strategies' undermined the value for money (VfM) perspective in public investment. The vulnerabilities in project planning, costing, appraisal and massive budget adjustments have all impacted the public sector portfolio management. The rationalization of the development budget should be given a priority. GoPb may consider introducing criteria for the ADP to include only those schemes that are highly complex and capital intensive and those projects that have externalities for other districts. This will make the ADP realistic and improve the overall public investment management.

Efficient use of resources for service delivery

11. An open and orderly PFM provides an enabling environment for better service delivery. The current PFM practices in the province lack the performance perspective that attenuates the strategic allocation of resources. The unavailability of indicative budget ceilings undermines proper planning by the service delivery units, while the

[1] Development budget, mananged by the planning and development department, initially comprised of the public investments (capital expenditure), however it now also inlcudes items of non capital nature.

lack of budget codes for lower tiers of the service delivery units in GFMIS obfuscates expenditure tracking.

12. Effective internal controls promote innovations[2] in the service delivery while excessive controls stifle it. The introduction of the grants to service delivery units in the education sector was meant to promote creativity but excessive controls overshadowed it. The procedural complexities, lack of integrated systems and capacity are constraining innovations in service delivery. Although output-based and medium term budgeting are essential elements, the fundamentals need to be set right. Modern budgeting in the traditional setting comprising of fragmented budgeting, uninformed resource allocations, manual processes parallel to automated systems, poor incentive regime and so on can have a counter effect on the reform efforts.

13. The existence of large expenditure arrears points to deficiencies in the budget allocations vis-à-vis cash availability to the spending units. As well the absence of the commitment accounting practices has concealed the under swell created due to expenditure arrears. What appears to be efficient budget utilization could be illusive. Inadequate cash releases in a milieu of sizeable arrears can foster moral hazard. The provincial wage bill consumes the largest share of resources, leaving limited finances for the non salary budget. With a large number of civil servants it is essential to introduce system based payroll-budget checks, an effective internal audit framework and more importantly periodic pay roll audit to keep the ghost workers phenomenon at bay.

Performance changes since PEFA assessment 2012

14. The advancements in the PEFA Framework (2016) with the upgraded methodology, extended coverage and revised scoring criteria have influenced the results[3]. However, the comparative analysis between PEFA 2012 and PEFA 2019 using the previous PEFA framework (2011) reveals a number of bright spots (See Annex 4). The Government's ownership was the key factor sustaining the spirit of the PFM reforms.

15. The comparative results certify that the Government of Punjab managed to stay the course of PFM reforms with 62 percent of the indicators showing favorable results (C and above). Of the total 29 performance indicators including (HLG), the performance did not change on 13 indicators while 5 indicators recorded improvement. Although, the performance appears to have deteriorated on 11 indicators, it is important to note that it cannot be entirely attributed to the government's performance but rather to the optimism in the previous review. This has led to the decrease in the rating of 6 indicators.

16. The improvement in 5 indicators included the Government's efforts to maintain fiscal discipline in expenditure management at the aggregate level while the compositional outturns compared to PEFA 2012 recorded a minor improvement. The controls in the tax payer registration system was the only tax dimension that

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[2] Ruffner, M & Sevilla, J (2004), 'Public Sector Modernisation: Modernising Accountability and Control' OECD Journal on Budgeting, Vol. 4 No. 2

[3] https://www.pefa.org/sites/default/files/201680917-2016%20vs%202011%20and%202011%20vs%202016.pdf

documented improved rating due to the introduction of the tax payer's identification number for GST on services. The debt sustainabilty analysis conducted by the FD in collaboration with the World Bank and the consolidation of cash balances improved the cash and debt management scores. The legal framework provided for procurement operations led to a slight improvement on the overall indicator, however this requires continued attention for making procurement operations transparent and competitive.

17. Where the rating declined due to poor performance. the 5 indicators included the lack of reliability of the revenue forecasts. The performance on revenue adminstration was found lagging and requires immediate attention. Although, the devolution of the GST on services has remarkably improved tax collection, it is yet to be ascertained whether collection is commensurates with the revenue potential. It also needs to be explored how much of the revenue is lost owing to the absence of robust revenue risk management, audit and investigation mechanisms. The transparency of the intergovernmental fiscal relations was influenced by the late communication of the budget allocations to the lower level local governments. The oversight of the public sector enterprises and autonomous bodies deteriorated. With an increase in the number and the volume of such entities, improving government oversight is vital. The medium term perspective in fiscal planning has remained a weak area, despite being part of the government's commitment to introduce a medium term perspective and performance orientation to its budget. The audit coverage in relation to the PEFA 2012 decreased, resulting in a lower score.

PFM reform agenda

18. The qualified and experienced leadership in the Punjab Finance Department assisted in generating the appreciation of the significance of the PFM reforms, which was evidenced by active participation in setting the reform agenda. A dash board was developed for the Finance Minister and the Secretary requiring fortnightly updates to monitor the reform implementation.

19. Key reform efforts in Punjab included the reorganization of the Finance Department. To increase fiscal oversight the Corporate Finance Unit was established; however it is only responsible for the companies created under the Companies Act, 2017. Enhancing its scope will aid in compiling full picture of the GoPb fiscal operations. The Debt Management Unit was formed; however a medium debt management strategy is still lacking to guide the Government's debt related decisions and its proposals for the debt management framework in the changed landscape of fiscal federalism (2010). Although the tax reform unit has been created and tax collection has improved since the devolution of General Sales Tax (GST) on services, the own source revenue management needs government's attention. Currently the focus of reform efforts is mainly on the GST which needs to be extended to other provincial taxes.

20. The Government's plan for the second-generation PFM reforms coincides with the new government elected to office in 2018. Although the signs of the reforms continuity exist, however the pace of reforms in future would reflect the ownership and the interest of the new regime.

21. The following table provides the summary ratings of the current assessment using the PEFA Framework 2016. Details of the assessment and the narrative are provided in Section 3.

Overview of the scores of the PEFA indicators							
Pillar	Indicator		Dimensions Rating				Indicator Rating
			1	2	3	4	
HLG	A. Transfers from HLG	*M1*	*C*	*C*	*D*		**D+**
I. Budget reliability	PI-1. Aggregate expenditure outturn						**B**
	PI-2. Expenditure composition outturn	*M1*	*D*	*C*	*A*		**D+**
	PI-3. Revenue outturn	*M2*	*D*	*D*			**D**
II. Transparency of public finances	PI-4. Budget classification						**A**
	PI-5. Budget documentation						**C**
	PI-6 Provincial government operations outside financial reports	*M2*	*D**	*D**	*D**		**D**
	PI-7. Transfers to SNG	*M2*	*A*	*C*			**B**
	PI-8. Performance information for service delivery	*M2*	*D*	*D*	*D*	*C*	**D**
	9. Public access to fiscal information						**A**
III. Management of asset and liabilities	PI-10 Fiscal risk reporting	*M2*	*C*	*D*	*D*		**D+**
	PI-11 Public investment management	*M2*	*C*	*B*	*C*	*B*	**C+**
	PI- 12 Public asset management	*M2*	*C*	*C*	*D*		**D+**
	13. Debt management	*M2*	*B*	*A*	*D*		B
IV. Policy-based fiscal strategy and budgeting	14. Macroeconomic and fiscal forecasting	*M2*	*NA*	*C*	*NA*		**C**
	PI-15. Fiscal strategy	*M2*	*D*	*C*	*C*		**D+**
	PI-16. Medium-term perspective in expenditure budgeting	*M2*	*D*	*D*	*C*	*D*	**D**
	PI-17. Budget preparation process	*M2*	*A*	*D*	*D*		**C**
	PI-18. Legislative scrutiny of budgets	*M1*	*C*	*C*	*A*	*B*	**C+**
V. Predictability and control in budget execution	PI-19. Revenue administration	*M2*	*B*	*D*	*D*	*D**	**D+**
	PI-20. Accounting for revenue	*M1*	*A*	*A*	*C*		**C+**
	PI-21. Predictability of in-year resource allocation	*M2*	*A*	*D*	*B*	*C*	**C+**
	PI-22. Expenditure arrears	*M1*	*D**	*D*			**D**
	PI-23. Payroll controls	*M1*	*B*	*A*	*A*	*C*	**C+**
	PI- 24 Procurement	*M2*	*D**	*D**	*C*	*C*	**D+**
	PI-25. Internal controls on non-salary expenditure	*M2*	*A*	*C*	*A*		**B+**
	PI-26. Internal audit	*M1*	*D*	*C*	*D*	*D*	**D+**
VI. Accounting and reporting	PI-27. Financial data integrity	*M2*	*D*	*D*	*D*	*A*	**D+**
	PI-28. In-year budget reports	*M1*	*C*	*B*	*C*		**C+**
	PI-29. Annual financial reports	*M1*	*C*	*B*	*B*		**C+**
VII. Legislative scrutiny and audit	PI-30 External audit	*M1*	*C*	*C*	*C*	*C*	**C**
	PI-31. Legislative scrutiny of audit reports	*M2*	*D*	*A*	*A*	*C*	**B**

1. INTRODUCTION

22. This section outlines the rationale and purpose of the Public Expenditure and Financial Accountability (PEFA) assessment, the management and quality assurance process, and the methodology used in undertaking the assessment.

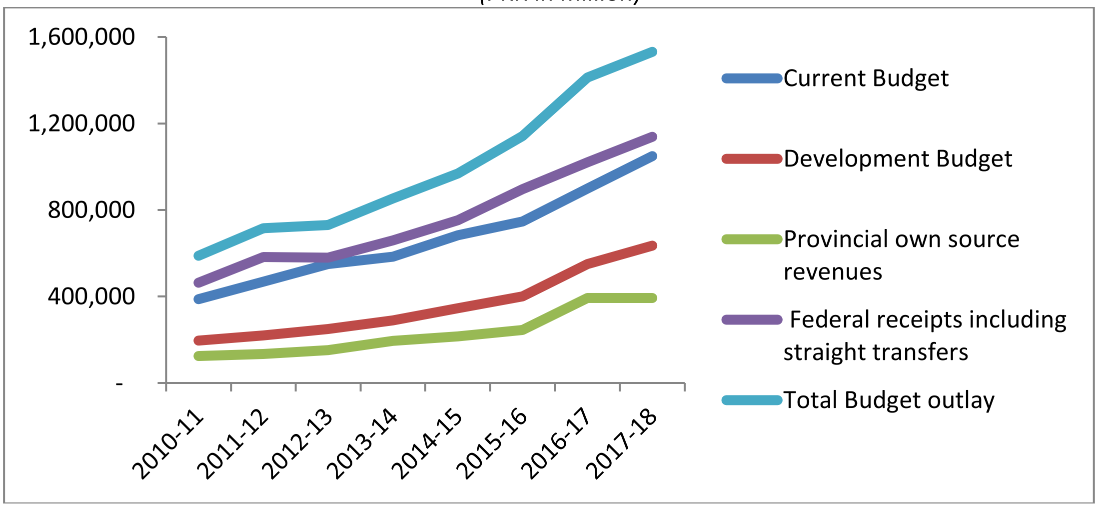
1.1 Rationale and purpose

23. The sequel to the Punjab Growth Strategy is currently being formulated and the Government of Punjab plans to embed the second-generation PFM reforms with its overall growth strategy. To steer the reforms agenda, GoPb requested a review of existing PFM performance using the upgraded PEFA Framework (2016). Previous GoPb efforts to remodel and strengthen its PFM systems and practices commenced in a harmonized fashion with the roll out of the Punjab Resource Management Program (2001-2006), supplemented with the Punjab Government efficiency improvement program (2007-2012). Since then, the Government has completed two PEFA assessments in the years 2007 and 2012 with the objective to provide evidence to measure the effectiveness of the reform efforts. The current 2019 PEFA assessment is designed to make the review process current.

24. The 18th Amendment (2010) to the Constitution (1973) redefined the fiscal federalism in Pakistan expanding the provinces' responsibilities of service delivery functions. To meet the fiscal requirements, the National Finance Commission (NFC)[4] increased the share of the provinces in the 7th NFC award. The vertical share from the divisible pool surged from 47.5 percent to 56 percent (2010-11, first year of the NFC Award) to 57.5 percent in the remaining years. This share has become the minimum benchmark protected by Article 160 (3a) of the Constitution. The increase in the resource envelope manifested the need for robust PFM for efficient and effective use of public resources.

Illustration 1: Fiscal trends

(PKR in million)



Source: fiscal data, Finance Department, GoPb

[4] The NFC is a constitutional body responsible for making recommendations to the President of Pakistan for the distribution of revenues among the federal and provincial governments. The 7th National Finance Commission signed the Award on 30th December, 2009 and its recommendations were given legal cover with effect from 1st July 2010 through President's Order No.5 of 2010 (Distribution of Revenues and Grants-in-Aid Order, 2010).

25. The GoPb own source revenue increased by 2.3 times in the period under review however the key contributor to this increase was the General Sales Tax (GST) on Services that was devolved to the provinces in the year 2012. By 2017-18, GST on services comprised over half of the total provincial revenue collection. During the PEFA review period other provincial revenues recorded an aggregate increase from 6 to 13 percent while the GST on services grew from 12 to 31 percent.

26. The increase in provincial resources trebled the public investment portfolio (Illustration 1) that contributed, amongst other factors to the reduction in poverty estimates to 22.3 percent by 2015 (Planning Commission, 2016[5]). However the Punjab Economic Report (2017) sounded caution with the evidence of strong 'clustering' around the poverty line, suggesting that a large proportion of the population remains vulnerable to income shocks. The social sector indicators though have improved yet 'nearly 22 percent of children (age group 5 to 9 years) are not enrolled in schools while more than 11 million children between the ages of 3 to 17 are out of school' (Ibid). This coupled with low health related indicators points to the need of reorientation of the public sector expenditure for better development outcomes.

27. A comprehensive review of performance and factors inhibiting it is the logical first step toward strengthening PFM and creating circumstances conducive to better service delivery. GoPb partnered with the donor agencies to take stock of the overall performance of the PFM systems and practices. The GoPb has drafted a PFM reform strategy; and the findings from the PEFA assessment will also inform the finalization of the strategy and establish baselines and performance trajectories for the subsequent assessments.

1.2 Assessment management and quality assurance

28. The GoPb approached the World Bank in April 2017 to carry out PFM assessment on the upgraded PEFA Framework. Collaborators on the assessment were the European Union (EU), the U.K. Department for International Development (DFID), and the World Bank. The GoPb managed the process with a high-level Steering Committee (Box 1) chaired by the Secretary of the Finance Department (FD) with representation from the Secretaries of relevant departments, Provincial Accountant General (AG), Director General Civil Audit and the heads of the Revenue and Procurement Regulatory Authorities, Provincial Assembly and research institute. Following is the chronology of the PEFA assessment.

Table 1.1: Chronology

Date	Activity
Jun 2017	Concept Note reviewed and approved by the World Bank and PEFA secretariat.
Nov, 2018	Concurrence of the Concept Note and go ahead for the launch of the PEFA assessment received from Government of Punjab
Nov 2018	PEFA launch at the PEFA Steering Committee meeting chaired by the Secretary Finance. Followed by orientation session for the focal persons at Finance Department
Dec 18- Mar 19	Field Work- Interviews, data collection, screening and validation
Mar 2019	Preliminary results shared with the PEFA Steering Committee

[5] https://www.pc.gov.pk/uploads/report/National_Poverty_Report_2015-16_12-07-18(Formatted_by_JACC)1.pdf

Apr 2019	Steering Committee meeting for feedback on the preliminary results and validation
May 2019	Draft report submitted for peer review
Aug 2019	Report revision, review (2 rounds), and finalization of report (PEFA Check)

29. The scope of the PEFA assessment includes the provincial budgetary government entities, provincial lower level local governments and public sector enterprises, the latter to the extent of fiscal monitoring. The province of Punjab dependency factor on transfers from the federal government is high, around 77 percent of the total general receipts (Table 2.1). To capture the impact of the Higher-Level Government (HLG) transfers, the supplementary guidelines for sub-national assessment (2016) were followed to reflect the performance on account of HLG transfers.

30. The Steering Committee, nominated by the GoPb, provided oversight over the PEFA assessment and subsequentlyto steer the course of PFM reforms following the assessment results. The office of the Additional Secretary, Finance Department was the focal point for the PEFA review facilitated by the Deputy Secretary (Resources) and the Section Officer to coordinate meetings with the relevant stakeholders. In the first steering committee meeting, focal persons at each PEFA relevant department/ agency were identified to coordinate the field work. To facilitate the PEFA assessment, government officials were continuously engaged during the assessment process. Eight field missions were conducted for data collection and results validation, while four meetings were held with the participating development partners to keep them informed of the assessment process and outcomes.

Box 1: Assessment and Quality Assurance arrangement	
PEFA assessment Management & Organization	
Oversight Team	1. Secretary Finance, Government of Punjab, Chairperson Members include: 2. Provincial Accountant General 3. Member Tax Policy, Board of Revenue 4. Secretary, Local Government & Community Development 5. Secretary, Planning and Development Department 6. Secretary, Excise and Taxation Department 7. Secretary, School Education Department 8. Secretary, Primary and Secondary Health Care 9. Secretary Specialized Health Care and Medical Education Department 10. Secretary, Communication and Works Department 11. Chairman, Punjab Revenue Authority 12. Managing Director Punjab Procurement Regulatory Authority 13. Director General, Provincial Audit 14. Director, Punjab Economic Research Institute 15. Director General, Punjab Bureau of Statistics 16. Task Team Lead, PEFA, World Bank 17. Governance Adviser, DFID, UK
Assessment Manager	Ismaila Ceesay, Practice Manager, World Bank
Assessment Team	1. Mr. Akram El Shorbagi, Task Team Lead, World Bank 2. Haider Raza, Senior Procurement Specialist 3. Kirk Schmidt, Governance Specialist, World Bank 4. Irum Touqeer, Public Sector Specialist, World Bank 5. Naveed Aziz, Governance Adviser DFID, UK

	6. Ali Javed, Economic Adviser, DFID, UK 7. Omar Mukhtar, Governance Adviser, DFID, UK 8. Mian Asif Shah, Lead PEFA Expert
Review of CN	
Date of Reviewed Draft CN	27 May 2017
Invited Peer Reviewers	1. Mr. Rana Obaid, Additional Secretary, Budget, Finance Department, Government of Punjab. On behalf of the PEFA Steering Committee 2. Sarah Cooper, Team Lead, DFID, UK 3. Clelia Kalliopi Helena Rontoyanni (WB) 4. Khwima Lawrence Nthara (WB) 5. Robert J. Gilfoyle (WB) 6. Ghazanfar Abbas Jilani (Government of Pakistan - Additional Secretary – Budget) 7. Dr. Amaury HOSTE (EU Team Leader) 8. Lewis Hawke (PEFA Secretariat)
Reviewers who provided comments	1. Mr. Rana Obaid, Additional Secretary, Budget, Finance Department, Government of Punjab. On behalf of the PEFA Steering Committee 2. Sarah Cooper, Team Lead, DFID, UK 3. Clelia Kalliopi Helena Rontoyanni (WB) 4. Khwima Lawrence Nthara (WB) 5. Robert J. Gilfoyle (WB) 6. Ghazanfar Abbas Jilani (Government of Pakistan - Additional Secretary – Budget) 7. Holy Tiana Rame (PEFA Secretariat)
Date of Final CN	June 27, 2017
Review of the Assessment Report	
Date of Reviewed Draft Report	1st Review: June 26, 2019 2nd Review: August 5, 2019
Invited Peer Reviewers	1. Mr. Obaid Rana, Additional Secretary, Finance Department, Government of Punjab, Pakistan 2. Holy Tiana Rame, Senior Public Finance Specialist – PEFA Secretariat 3. Sarah Cooper, Team Lead, UK Department for International Development (DFID), Pakistan 4. Michelle Stone, Fiscal Affairs Department, International Monetary Fund (IMF) 5. Clelia Rontoyanni, Lead Public Sector Specialist, World Bank 6. Khwima Nthara, Economic Advisor, World Bank 7. Patrick Piker Uma Tete, Senior Financial Management Specialist, World Bank
Reviewers who provided comments	1. Guillaume Brulé**,** Senior Public Sector Specialist – PEFA Secretariat 2. Government of Punjab provided comments on the scores during the Steering Committee meeting scheduled to discuss PEFA results. 3. Sarah Cooper, Team Lead, UK Department for International Development (DFID), Pakistan 4. Clelia Rontoyanni, Lead Public Sector Specialist, World Bank 5. Patrick Piker Uma Tete, Senior Financial Management Specialist, World Bank
Date of Final Report	August 19, 2019

1.3 Assessment methodology

31. This PFM assessment applied the PEFA Framework (2016) and the supplementary guidelines for sub-national assessment. The report takes into account provincial budgetary expenditure and own revenues; public sector enterprises are covered in terms of their reporting (SOEs) and whether there were operations outside the budget (EBUs). The assessment was conducted against 31 PFM performance management indicators grouped into 7 pillars of an open and orderly PFM system: (a) budget reliability; (b) transparency of public finances; (c) management of assets and liabilities; (d) policy-based fiscal strategy and budgeting; (e) predictability and control in budget execution; (f) accounting and reporting; and (g) external scrutiny and audit. The dimensions related to macroeconomic functions are not applicable to the sub-national governments therefore are not rated. In addtion there is a specific indicator that measures how transfers from the federal government (HLG) are managed.

32. With the revisions in the PEFA Framework (2016), the comparison of the current PEFA scores with previous assessment (Punjab PEFA 2012) is not recommended. In order to track performance changes, Annex 4, 'Tracking changes in performance based on PEFA Framework (2011)' provides a comparison with the previous Punjab PEFA review (2012) on 29 performance indicators including the HLG transfers. The donor related indicators (D1-D3) were not included because of the GoPb preference for the feedback on the government's own performance to inform its PFM reforms strategy.

33. The fiscal year of the government commences on July 1 and ends on June 30. The cut-off date for the assessment was June 30, 2018. The last completed fiscal year for the review is 2017-18. The sources of information used for this assessment are presented in Annex 3.

34. A one-day capacity-building workshop was organized by the Assessment Team on November 28, 2018 for the members of the Steering Committee and the relevant government officials. This was scheduled before the data collection phase with the objective to familiarize the officials with the upgraded PEFA Framework (2016) and acquaint them with the requirements of the PEFA assessment. The assessment team held consultations with the Public Accounts Committee (PAC) which is a representative legislative body and the Director General Provincial Audit. Development partners were engaged through PEFA working group meetings. The Steering Committee included representation from the Punjab Economic Research Institute and the Bureau of Statistics.

2. COUNTRY BACKGROUND INFORMATION

2.1 Economic situation

2.1.1 Country Economic Situation

35. Pakistan, with approximately 207 million citizens, is the world's sixth most populous country. Besides an erratic trend in the economic growth rates, the national poverty estimates recorded a decline from 50.4 in 2005-06 to 24.3 percent in the year 2015-16. The reduction in the poverty head count can be attributed to targeted poverty reduction programs, growth recovery from a meager under 2 percent in

2008-09 to 5.4 percent in 2017, higher remittances and improvements in the security situation[6].

36. Gross domestic product grew by 5.8 percent for FY18, up from 5.4 percent in FY17. The services sector grew by 6.4 percent in FY18, owing to sustained growth in wholesale and retail trade. The agriculture sector grew by 3.8 percent, boosted by livestock and improved production of sugarcane and cotton, while the industry sector posted its strongest growth rate of 5.8 percent in a decade. On the demand side, private consumption contributed 5.4 percentage points to GDP growth in FY18, supported by low inflation and interest rates, as well as growing remittances. Investment demand contributed 1.0 percentage point to GDP growth, on the back of public investment, while private investment contracted slightly in FY18, highlighting the need for transformative investment climate reforms.

37. Despite robust growth in FY18, imbalances on the fiscal and external fronts grew, increasing vulnerabilities that could compromise Pakistan's future growth. The fiscal consolidation efforts made during the period FY14-16 were reversed, with the fiscal deficit reaching 6.6 percent of GDP (excluding grants) in FY18. Weak revenue growth and large increases in recurrent spending contributed to the large fiscal deficit. This, coupled with a large current account deficit (CAD) has accentuated the country's vulnerabilities. Energy sector arrears have also been accumulating, as well as fiscal contingencies, due to investment guarantees mainly associated with projects for the China-Pakistan Economic Corridor. The widening twin deficits resulted in an increase in the public debt-to-GDP ratio to 73.5 percent, the highest level since FY03.

38. Besides growing macroeconomic imbalances, population growth, impact of climate change and lack of women's participation in the labor force have further dampened the growth outlook. GDP growth is projected to decelerate in FY19 due to contractions in private and public consumption, as the authorities tighten fiscal policy and adjust other policy levers to correct the imbalances. Renewed efforts are essential to advance medium-term structural reforms to shift the growth model away from being consumption-led to one led by investment and productivity. Integration into the global economy provides opportunities for Pakistani firms to increase productivity—the fundamental driver of growth. Moreover, with the contribution of human capital in total wealth growing globally, the creation of a skilled labor force that is more productive and better able to adopt and adapt to new technologies is at the core of a long-term growth path for Pakistan.

2.1.2 Subnational Government Economic Situation

39. Punjab is Pakistan's second largest and most populous province with a population estimate at just above 110 million. According to estimates by the Pakistan Bureau of Statistics, by 2025 the population of Punjab is projected to exceed 125 million.

40. Punjab is central to Pakistan's economy, and according to the Punjab Economic Report (2017), accounts for almost half of the country's annual production of goods and services. The economic growth trajectory of the province has fluctutaed

[6] Information in this section from the National Poverty Report 2015-16, Ministry of Planning, Development and Reforms

between 1.5 percent in the year 2008 to 5 percent in 2016. The Gross Provincial Product[7] of Punjab has increased at an average rate of nearly 4.4 percent annually from 2005 to 2016. The growth in GPP was slightly higher than the average growth rate of the GDP of Pakistan, which averaged at 3.75 percent per annum over the same period.

41. The structure of Punjab's economy has changed over time with the share of agriculture decreasing by 6 percentage points and that of the services sector expanding by 12 percentage points. The share of manufacturing has increased by 2 percentage points.

42. Punjab's total labor force is estimated at 36.92 million, which represents about 33.5 percent of the population of the province. Between 2007 to 2015, Punjab's labor force has grown at an average rate of around 2.8 percent, thought the overall employment rate has grown at around 2.3 percent. The total labor force participation rate of Punjab stands at about 35.4 percent. The male participation rate, estimated at 50.4 percent, is much higher than the female labor force participation rate of 20.5 percent. In terms of overall employment levels, agriculture is still the dominant sector. The share of formal employment in Punjab increased from 13.1 percent in 2007 to 14.6 percent in 2015.

43. The report on multidimensional poverty in Pakistan (2017) published by the Ministry of Planning shows that poverty in Punjab has followed a declining trend viewed against the poverty estimates, based on the 2004-05 and 2005-06 household surveys. During the period 2004-2015 the overall multidimensional poverty index (MPI) noted a reduction from 0.254 to 0.152. Segregating the numbers for the rural and urban poverty in Punjab, it faced a downward trend from 0.325 to 0.214 and 0.089 to 0.026 respectively. However, the Punjab Economic Research Institute cautions that there is evidence of strong 'clustering' around the poverty line, suggesting that a large proportion of the population is most vulnerable to small income shocks (Punjab Economic Report, 2017).

44. The reduction in the poverty is a result of multiple factors related to agriculture and industrial productivity, distribution of natural resources, law and order situation and weather patterns, however in the PFM context the public policy and public sector spending inclined towards poverty eradication also contributed to favorable MPI statistics.

45. Over the past 10 years, GoPb has launched three economic growth strategies for the province. The most recent growth strategy for 2014-18 targeted a growth rate of over 7 percent by 2018 and creation of 1 million jobs annually. The Punjab Economic Report (2017) notes that all three analytical exercises make strong recommendations that Punjab should calculate its own accounts and investment data, improve lives of citizens by enhancing human resource in the province, increase the focus on women and marginalized groups, encourage a vibrant and high value-

[7] GoPb does not calculate the provincial GDP rather the provincial estimates of Gross Provincial Product (GPP) are taken from the Punjab Bureau of Statistics which uses a "provincial share" methodology of estimation.

adding agriculture sector and facilitate the private sector with access to high value export markets. Though, these recommendations are based on sound analysis, overall implementation and coordination on macro-economic policy is weak in Punjab. This may result in less than optimal returns on government investments. A key way of addressing this issue is by strengthening policy implementation and coordination between the relevant departments .

2.2 Fiscal and budgetary trends

46. Punjab is a provincial government in the federal structure of Pakistan. The largest source of revenue for the Punjab province is from its share of the federal divisible pool transfers which is based on the National Finance Commission (NFC) Award. However, small variations in the Federal Board of Revenue's budgeted and actual collection can lead to large re-adjustments in provincial receipts[8]. Provincial tax collection in Punjab is low. Increasing provincial revenues requires addressing constraints related to low coverage, low rates, manual systems of collection and lack or harmonization with the federal government. In particular, there is room to increase revenue collections from Sales Tax on Services and Urban Immovable Property Tax[9].

Table 2.1: Punjab Fiscal Trends (Actual, PKR, billions)

	FY15-16	FY16-17	FY17-18
Receipts:			
General Revenue Receipt	**1,108.10**	**1273.4**	**1386.5**
Federal Divisible Pool	895.5	921.5	1071.3
Provincial taxes	142.8	155.4	197.6
Provincial non-tax	69.8	196.5	117.6
Capital Receipts - A/C I and II	**147.2**	**150**	**117.5**
Total Provincial Consolidated Fund	**1,255.3**	**1,423.4**	**1,504.0**
Expenditure:			
Current Revenue Expenditure	730.0	851.1	960.6
Current Capital Expenditure	172.0	185.7	144.9
Development Expenditure	347.6	426.9	488.7
Total Expenditure	**1249.6**	**1463.7**	**1594.2**
Primary balance	**378**	**422**	**426**
Net	**6**	**(40)**	**(90)**

Source: Annual budget statement. Figures are based on actual

47. The GoPb managed to maintain a primary surplus of PKR 378, 422 and 426 billion in the years 2015-16, 2016-17 and 2017-18 respectively. However, the overall balance other than in the year 2015-16 remained in negative, 40 and 90 billion in the years 2016-17 and 2017-18 respectively. The annual budget for the ongoing year (2018-19) has targeted a fiscal surplus of PKR 148 Billion; however the year end estimates indicate a deficit PKR 25 billion. The variation has resulted largely to due to over optimism in the revenue forecast that shrunk by PKR 187 Billion while the current expenditure was not curtailed to reflect this reduction.

Table 2.2: Expenditure composition by major functional classification

[8] White Paper 2018-19, Finance Department, Government of Punjab.

[9] Ibid

(As a percentage of total expenditure)

Functional head	2015-16	2016-17	2017-18
General Public Service	44%	45%	42%
Public Order and Safety Affairs	10%	10%	10%
Economic Affairs	23%	22%	23%
Housing and Community Amenities	5%	5%	6%
Health	8%	10%	11%
Education Affairs and Services	6%	7%	6%
Social Protection	3%	1%	1%

Source: Finance Department, Government of Punjab. Figures are based on actuals

48. The expenditure composition by function (Table 2.2) illustrates a regular trend with the expenditure on the general public service, law and order and the running of the government consuming over 75 percent of the total resources. While expenditure on health has increased as a share, expenditure in the education sector fluctuated as sahre around 6 percent. Table 2.3 shows the movements in different categories of inputs. Grants and subsidies for infrastructure projects claimed a major share. The subsidies on the road transport systems almost doubled from PKR 6 Billion in 2017 PKR 12.5 Billion in 2019. The employee related expenses account for almost 29 percent of the overall expenditure (retirement benefits included) translating in an increase from PKR 189 billion in 2014 to 248 Billion in 2018. The pension scheme is a defined contribution 'pay as you go[10]' and is not fully accounted for in the annual budget.

Table 2.3: Expenditure composition by economic classification

(As a percentage of total expenditure)

Major Economic Heads	2015-16	2016-17	2017-18
Employee Related Expenses	18%	17%	17%
Operating Expenses	6%	6%	7%
Employees Retirement Benefits	9%	11%	12%
Grants, Subsidies and Write-offs of Loans/Advances/Others	44%	44%	44%
Transfers	5%	4%	3%
Interest Payment	1%	1%	1%
Expenditure on Acquiring of Physical Assets	2%	3%	2%
Civil Works	14%	13%	12%
Repairs and Maintenance	1%	2%	2%

Source: Finance Department, Government of Punjab. Figures are based on actuals

2.3 Legal and regulatory arrangements

2.3.1 Legal and Regulatory arrangements for decentralization

49. Pakistan is a federation comprising of the four federating units (provinces), and the capital territory, Azad Jammu and Kashmir and Gilgit Baltistan as administrative regions. The Constitution of Pakistan (1973) provides complete autonomy to the provinces, authorized through the provincial legislature (Assembly) within its remit of responsibilities (For details, please see Annex 6).

[10] https://pide.org.pk/pdf/publications/Monograph/Monograph.pdf

50. Article 87 and 127 of the Constitution (1973) provides for the Parliament and the provincial legislature. Prior to the year 2010, the Constitution contained federal legislative and concurrent lists of juristriction. The former contained subjects for the Parliament to legislate upon while the latter featured forty-seven subjects on which both the Parliament and a Provincial Assembly could legislate. All other subjects that did not appear either in the Federal Legislative List or the Concurrent Legislative List were residuary in nature and powers to legislate on such matters vested solely in the provinces.

51. The 18th amendment (2010) to the Constitution (1973) extended greater political, administrative and fiscal autonomy to the provinces. It abolished the concurrent list and since the amendment, all functions not listed in the federal legislative falls in the provincial mandate. The Constitution provides for the provincial consolidated fund and public account authorized by the provincial legislature for spending through the annual budgets (Finance Acts).

52. The Chief Minister exercises the executive authority in each of the provinces with support from the Cabinet of Ministers and civil administration under the supervision of the Minister or the Chief Minister as the case may be, manages the affairs of the government.

53. The judicial structure includes the Lower (civil and sessions) and High courts, the latter being administratively responsible to the Supreme Court.

54. The Constitution obligates the provinces for the establishment of the Local Governments (LG) with complete political, administrative and fiscal authority to the elected representatives of the local governments. The provincial election commission is the authorized entity to conduct the provincial and local government elections. The LG system in Punjab has undergone a paradigm change three times in the past 2 decades - Punjab Local Government Ordinance (2001), Punjab Local Government Act (2013) and the Local Government Act (2019). Each enactment has changed the structure, function, powers, roles and responsibilities.

2.3.2 Legal and Regulatory arrangements for PFM

55. The fundamentals and broad contours of the PFM architecture is defined in the Constitution of the Islamic Republic of Pakistan (1973) further delineated in the sub legislations while the rules, notifications, and manuals/handbook provide for the operational framework to guide the users on procedures and processes. The Constitution provides for a federal structure and parliamentary system of government authorizing national (upper and lower houses) and the provincial assemblies to approve budgets through annual fiscal year votes. The procedure for tabling bills on subjects listed in the federal legislative list are defined in Article 70 and Article 99 and 160-171 providing an overarching legal framework with respect to public finance, debt management and audit. An organic budget law has still not been enacted to regulate the PFM functions, and these are mostly governed under the Constitutional stipulations and the rules, while some functions like procurement, accounting and audit have dedicated enactments.

56. The Constitution (1973) also provides for an independent Auditor General of Pakistan (AGP) (supreme audit institution). According to Article 170 of the

Constitution, the AGP is the authority to prescribe the form of the accounts of the federal and the provinces and the methods and the principles underlying their maintenance. The legislative scrutiny of budget proposals and expenditure are further delineated in the Punjab Assembly Rules of Procedure (1997). The range and composition of the services provided are determined each fiscal year by the respective upper and lower houses.

57. The assignment of fiscal powers and distribution of revenues between the federation and provinces is laid out in Article 160 of the Constitution. The Punjab PPRA Act (2009) provides for the legal and regulatory framework for public sector procurement supported by the Procurement Rules and Notifications.

58. Public sector bodies are defined by major types of entities including (a) departments of the government administered directly by the federal/provincial governments, and (b) autonomous bodies that are indirectly administered by their respective governments. Government departments are further divided into centralized accounting entities, self-accounting entities, and exempt entities. Autonomous bodies are divided into two categories: statutory bodies established for nonprofit objectives and public sector enterprises.

59. The legal framework governing internal controls of the GoPb is stipulated in the relevant articles of the Constitution, which establishes an overarching framework for the internal controls, and the segregation of functions. The controls framework is further elaborated in sub legislation, rules and regulations and manuals:

- Auditor General of Pakistan and Controller General of Accounts Ordinances
- Manual of Accounting Practices complemented with guidelines, handbooks, and manuals for accounting and reporting;
- General Financial Rules and Punjab Financial Rules;
- Supplementary and Treasury Rules;
- Pakistan Public Works Departmental Code;
- Pakistan Public Works Account Code;
- Delegation of financial power rules;
- Procedure for Assignment Account and revolving fund accounts;
- Public procurement law and rules;
- Rules of Procedure- Punjab Provincial Assembly;
- Financial Audit Manual;
- Government Rules of Business

60. In addition to the legal framework, the enforcement of internal controls is supported with the pre-audit function of the AG Office, external audit, and legislative oversight. The public procurement regulatory authority prescribes the rules for public procurement and its compliance is ensured through the findings of external audit and the authority's interventions.

61. The New Accounting Model (NAM) adopted in 2000 embodies the Classification of Functions of Government (COFOG) and Government Finance Statistics (GFS). The latter complies with GFS 1986 with certain modifications (International Monetary Fund [IMF] Article IV Report, 2015). The Chart of Accounts notified with the NAM provides for uniform classification on the following elements:

Entity, Function, Object, Fund, and Project. The countrywide unified Scheme of Classification (Chart of Accounts) along with an automated online/real-time interface provides the required IT backing to the control framework.The principles for the ethical and integrity framework are grounded in the General Financial Rules (standards of financial propriety), Cabinet division notifications (gifts by public servants and deposit in Toshakhana),[11] and Procurement Law (code of ethics and integrity pact).

62. The competency framework and commitment is defined in the civil service structure notified in the relevant codes and procedures of the Government. However, in practice, inconsistencies occur where individuals from different service groups are posted to positions where the requirements may have been different from the training received by the individuals. The rules and manuals prescribe the systems and procedures and processes to be in place for the control environment, which is supported by the authorization requirements in the Government Financial Management Information System (GFMIS). Different levels of authority are granted to access and use the GFMIS to ensure the data integrity. The human resources (HR) policies and procedures are provided in the establishment code (federal and provincial), Civil Servants Act (appointment, promotion and transfer rules), efficiency and discipline rules, and other related rules and policies issued from time to time.

63. In line with the constitutional stipulations (Article 30 and 140-A), each province has to establish a local government system (LG) devolving political, administrative, and financial responsibility and authority to the elected representatives of the LGs. In Punjab, the Local Government Ordinance (2001) was replaced with the Local Government Act (2013) that re-introduced an urban and rural divide whereby every District is divided into an urban (Town/ Municipal Committees) and rural (District council and Union councils) areas. The local bodies are directly accountable to the Provincial Local Government Department. Another development has been the establishment of the health and education authorities at the provincial level whereas previously the primary and secondary health and education functions were vested with the district governments. The provincial finance commission determines and implements the vertical and horizontal resource distribution mechanism (See Annex 6 for details).

2.4 Institutional arrangements for PFM

64. The GoPb functions under the provisions of the Constitution of Pakistan (1973) and enactments of the Provincial Assembly (legislature), which comprises 371 members (including reserved seats). The Provincial Assembly elects the leader of the House and serves as the Chief Executive of the Province (Chief Minister) assisted by a Cabinet of Ministers heading the 40 administrative departments[12]. The Governor of the province is appointed by the federal government and represents the federal government in the province. The provincial bureaucracy is headed by the Chief

[11] Toshakhana refers to a vault or a place to keep valuable items or gifts received by a monarch. In modern times the reference is to gifts received by a public office-holder of a certain value and must be deposited with the Government in a Toshakhana.

[12] https://www.punjab.gov.pk/provincialdepartments

Secretary and is assisted by the Departmental Secretaries[13]. Some of the Departments have autonomous or semi-autonomous bodies to manage specific functions.

65. Article 160 of the Constitution provides for the NFC to make recommendations to the President of Pakistan on vertical and horizontal distribution of revenues.[14] At intervals not exceeding 5 years, NFC makes recommendations regarding the distribution of the net proceeds of defined taxes; the grants-in-aid by the Federal Government to the provincial governments; the exercise by the Federal Government and the provincial governments of the borrowing powers conferred by the Constitution; and any other matter relating to finance referred to the Commission by the President. In the 7th NFC Award (2009), a consensus was reached for enhancing the provincial share in vertical distributions from 46.5 percent in 2010 to 56 percent in 2011 and to 57.5 percent for the next four years and, instead of using the traditional population-based revenue sharing, adopted a broader formula for revenue sharing. The general sales tax on services was recognized as the right of the provincial governments and was devolved to the provinces in 2011.

Table 2.4: Structure of the Public Sector

Year	**Government Sector**		**Social Security Funds**	**Public Corporation Sub Sector**	
2018	**Budgetary Units**	**Extra-budgetary Units**		**Non-Financial Public Corporation**	**Financial Corporation**
Provincial	40 departments and 102 attached departments	174	0	49[1]	0
Local **(See Annex 6 for details)**	36 Districts, 144 MCs and 3,454 Union Councils	17 Companies and 3 autonomous bodies	0	0	0

Note: the assessment team has put together this data using budget documents, rules of business, and Punjab government web portal. The financial data was not available (See PI 6). 1. See annex 7.

66. The provincial FD compiles the budget in accordance with the defined timetables (issued with the Budget Call Circular) with input from the line departments and the P&D Department (responsible for development budget). The budget proposals are laid before the Provincial Assembly (legislature) for review and approval. The drawing and disbursing officers (DDOs), nominated officers in the spending departments, submit expenditure bills to the accounts offices for payment. The accounts offices at the district and provincial level process payment claims while exercising budgetary controls and compliance checks. As per the legal framework, the provincial AG through its Accounts Offices maintains the accounts of financial transactions and prepares financial reports, both in-year and the annual financial statements for the province. The District Treasury Office in Lahore is responsible for the payments, recording and reconciliation of the Public Works Department (PWD), revenue deposit, personal ledger accounts, special drawing and assignment accounts.

[13] With the exception of P&D Department that is headed by the Additional Chief Secretary

[14] The NFC consists of the Federal and Provincial Ministers of Finance; the President may appoint such other persons to the NFC after consultation with the Governors.

67. The Controller General of Accounts (CGA) is tasked with the production of timely and accurate financial statements according to the form and method prescribed by the AGP. The promulgation of the Controller General of Accounts Ordinance 2001 and the Auditor General Ordinance 2001 separated the roles and responsibilities of the offices of CGA and the AGP regarding accounting and auditing respectively. In Punjab province, the AG represents the CGA and functions with independent staff and budget. The Provincial AG reports to the CGA at the federal level. The CGA carries out policy formulation, coordination, and administration responsibilities.

68. Functionally the distinction in audit related responsibilities is created in terms of the Directorate Generals (DG) for Civil Audit, Revenue Receipts, Works, Commercial enterprises and District audit. While, the administrative structure of the audit in the province is divided into two zones- North and South. The DGs conduct external audit of the accounts on behalf of the office of the AGP, and the audited accounts and audit reports are submitted to the Governor of the province for tabling at the Provincial Assembly for legislative scrutiny.

69. The Provincial Assembly Rules of Procedure provide for 2 Public Accounts Committees (PAC) to conduct legislative oversight of the provincial financial operations. Each PAC comprises of 17 members of the Provincial Assembly (legislators) with Finance Minister as its ex-officio member. The members elect the chair of the committee.

2.5 Other important features of PFM and its operating environment

70. The Punjab Health and Education Authorities receive funds based on the Provincial Finance Commission formula that treat the authorities at par with the local government. However, as per the guidelines provided by the PEFA secretariat for this review the two authorities are not considered as local governments in PI 7 rather extrabudgetary units. Table 2.4 uses the criteria notifed by the PEFA secretariat for SNG level definitions and typology.

Table 2.5: Relevance of the sub-national structure

Sub-national structure	Corporate body (having a legal status to enter into contract)	Perform public functions within their territorial jurisdictions	Have their own elected political leadership	Autonomy in Preparing and approval of its own budgets
Health Authority	Yes	Yes	No	Partial
Education Authority	Yes	Yes	No	Partial

Source: PEFA Secretariat (2013) 'PEFA Performance Measurement Framework at Sub National Government Level – definitions and typology'

71. The Constitution (Article 81 and 121) provides for charged or obligatory expenditure for certain offices and functions that include the offices of President and provincial Governor, Supreme and High Courts, Election Commission, Chairman and Deputy Chairman of the Senate, Speaker and Deputy Speaker of the National and Provincial Assemblies, AGP, debt servicing, judicially decreed amounts, and any other sums declared by the National Assembly to be charged.

72. The audit and accounts function has been separated between the Auditor General and Controller General of Accounts Ordinances (2001); however, administrative separation has not taken place as the officers responsible for accounting and auditing functions belong to the same cadre (i.e., the Pakistan Audit and Accounts Service, which is under the administrative control of the AGP). The central and provincial governments follow disintegrated budgeting where the current (recurrent) budget is the responsibility of the Finance Division (in case of federal government) and FD (in case of the GoPb). The Planning Commission (federal government) or P&D Department (GoPb) administer the development budget.

73. In case of a province, the Constitution provides for the submission of the audit reports to the Governor by the Auditor General Pakistan for onward submission to the legislature. In Punjab province the DG Audit submits annual audit reports to the Governor on behalf of the AGP. Therefore the audit report is not submitted directly to the legilsature and can influence the PEFA rating related to submission of audit reports to the provincial assembly.

3. ASSESSMENT OF PFM PERFORMANCE

74. This chapter details the assessment of the key elements of the PFM system based on 31 Performance Indicators (PI) grouped together under 7 pillars. Punjab is a provincial government in the federal structure of Pakistan so the assessment takes into consideration the supplementary guidelines issued by the PEFA Secretariat for the sub-national PEFA assessment, which include an additional indicator relating to transfers from a higher level of government.

75. Scoring of the 31 performance indicators is the heart of the PEFA process. For each indicator, the score takes into account a number of dimensions, which are aggregated according to methodology using the weakest link (M1) or the average (M2). Each dimension is scored separately on a four-point ordinal scale: A, B, C, or D, according to precise criteria established for each dimension. In order to justify a particular score for a dimension, every aspect specified in the scoring requirements must be fulfilled. If the requirements are only partly met, the criteria are not satisfied and a lower score should be given that coincides with achievement of all requirements for the lower performance rating. A score of C reflects the basic level of performance for each indicator and dimension, consistent with good international practices. A score of D means that the feature being measured is present at less than the basic level of performance or is absent altogether, or that there is insufficient information to score the dimension. If there is insufficient information, this is denoted by the addition of *.

A. Transfers from Higher Level Government (HLG)

76. The constitutional provisions and related sub-legislation govern the intergovernmental fiscal transfer system in Pakistan. Article 160 of the Constitution of the Islamic Republic of Pakistan (1973) provides for the National Finance Commission (NFC) to be responsible for drawing up recommendations for the President of Pakistan on revenue distribution. Where NFC is not constituted or it does not reach a consensus decision, the Constitution provides for interim awards through a Presidential Order.

77. The NFC Award (2009) raised the provincial share in the divisible pool taxes from 47 percent to 57.5 percent from FY 2011-12 onwards. The traditional population based revenue distribution system was revised to adopt multiple indicators — population (82 percent), poverty and backwardness (10.3 percent), revenue collection/generation (5 percent), and inverse population density (2.7 percent).

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
Transfers from HLG	**D+**	**Overall rating based on M1 methodology**
HLG 1. Out-turn of transfers from HLG	*C*	*Transfers were 102, 88 and 85% of the original budget in the FY 2015-16, 2016-17 and 2017-18*
HLG 2. Earmarked grants outturn	*C*	*The difference between the original budget estimate and actual earmarked grants did not exceed 10 percent in two of the three FYs: 8% in2015-16, 11% in 2016-17 and 8% in 2017-18*
HLG 3. Timeliness of transfers from HLG	*D*	*Federal Government in the month of May communicates a disbursement schedule for*

		revised estimates of the ongoing year and the budget estimates for the next year. In an agreed arrangement between the center and the provinces, funds from divisible pool are released fortnightly however in year variations have been sizeable in each month in the last 3 years.

HLG 1 Outturn of transfers from higher-level government

78. The functions and responsibilities as well as taxation powers of the federal and provincial governments are defined in the Constitution (1973). The fiscal transfers from HLG constitute a major source in the overall provincial resource envelope. In case of Punjab the reliance on transfers is 77 percent of the total general receipts. The federal transfers under divisible pool taxes are primarily dependent on the collection by the Federal Board of Revenue (central government). For this dimension, the calculation was based on the following data:

i. Federal tax assignment
ii. Straight transfers;
iii. Net Hydel Profit and Arrears of Net Hydel Profit;
iv. Foreign project assistance;
v. Other federal grants, including the public sector development program, capital receipts, and population welfare.

79. Table 3.1 provides the data for aggregate transfers and variation. (See Annex 5 for calculation sheets). The key factors for the outturns are beyond the provincial government's control. The inadequacy of the federal transfers due to at source deduction and shortfall in the revenue collection at the federal level impacted the amount of federal transfers. The releases under foreign project assistance and capital receipts have been substantially lower than the budgeted amount while the federal government's public sector development program was not budgeted in the year 2016-17. Due to high variation in the transfers in two of the three years (Table 3.1), the dimension is rated 'C'.

Table 3.1: HLG Transfer Outturns

(PKR in Million)

Particulars	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Aggregate transfers	988,948	1,005,816	1,187,355	1,045,936	1,409,239	1,197,733
Transfers as % of original budget	102%		88%		85%	

Source: Finance Department, Government of Punjab

HLG 2 Earmarked grants outturn

80. The earmarked grants for this dimension are the:
i. Federally funded public sector development programs
ii. Foreign project assistance

iii. Federal Grants earmarked for particular development programs like the Orange Line Train
iv. Other pass-through funds for non development programs
v. As per PEFA guidelines all non ear marked (general purpose) transfers are counted as one aggregate component

81. Table 3.2 shows the variation in actual transfers vis-à-vis the original budget estimates (See Annex 5). The difference between the original budget estimate and actual earmarked transfers was under 10 percent in two of the three years reviewed, therefore the dimension is rated 'C'.

Table 3.2: Results matrix for Earmarked transfers

2015-16	8%
2016-17	11%
2017-18	8%

Note: Calculation based on the weighted average method.
Source: Finance Department, Government of Punjab

HLG 3 Timeliness of transfers from higher-level government

82. The budget and revised estimates for fiscal transfers for the next budget year and ongoing year is communicated by the central government (MOF) between end of May to mid-June each year (fiscal year begins on 01 July). The disbursement arrangement has been agreed between the Center and the provinces in the National Finance Commission and has long been practiced. The transfers from the divisible pool are in line with the revenue collection reported by the Federal Board of Revenue on a fortnightly basis and are transferred to the provinces the next working day. The timing of remaining transfers vary - the foreign project assistance depends on foreign finance disbursements while the PSDP is subject to approval of the Ministry of Planning which is dependent on the fiscal releases by the Finance Division and project execution performance.

83. The data for budget estimates of different types of transfers is available on annual basis rather than monthly; as a result the in-year delays could not be determined. The HLG transfers constitute a major share of the GoPb resource envelope (77 percent), therefore the timeliness and adequacy of transfers have considerable impact on the budget reliability of the subnational governments. To rate this indicator, in the absence of monthly budget estimates, the month over month variations in the actual transfers was considered. In each successive month variation can be evidenced (Table 3.3) in the range of 1 percent to over 150 percent. Therefore this dimension is rated 'D'.

Table 3.3: Month over Month changes in Transfers from Divisible Pool

2017-18	Variation over previous month	2016-17	Variation over previous month	2015-16	Variation over previous month
Jul-17	-	**Jul-16**	-	**Jul-15**	-
Aug-17	-14%	**Aug-16**	32%	**Aug-15**	26%
Sep-17	159%	**Sep-16**	91%	**Sep-15**	22%
Oct-17	-43%	**Oct-16**	-45%	**Oct-15**	115%
Nov-17	-2%	**Nov-16**	-4%	**Nov-15**	-30%
Dec-17	7%	**Dec-16**	98%	**Dec-15**	1%
Jan-18	34%	**Jan-17**	-28%	**Jan-16**	-28%
Feb-18	-39%	**Feb-17**	17%	**Feb-16**	-13%
Mar-18	2%	**Mar-17**	-3%	**Mar-16**	30%
Apr-18	12%	**Apr-17**	-19%	**Apr-16**	-12%
May-18	28%	**May-17**	37%	**May-16**	21%
Jun-18	-17%	**Jun-17**	-1%	**Jun-16**	145%

Source: PEFA team's calculation based on Finance Department data. Base-data for annual transfers from HLG is available at Annex 5; FY starts in July each year.

Pillar I: Budget reliability

84. Pillar I assesses whether the government budget is realistic and implemented as intended. Budget reliability indicators reflect the quality of planning for revenue and expenditure components during the budget-making process. Least variations between the original and actual budget underpin good fiscal management which is vital for fiscal sustainability in the long run. Improvement in service delivery is dependent on wider governance factors; nevertheless budget reliability provides an enabling environment for better service delivery.

85. The results of the three years under review were not influenced by any natural disaster or other unexpected macroeconomic shocks; however, the last fiscal year in the review was the election year.

PI-1 Aggregate expenditure outturn

86. This indicator assesses the extent to which actual aggregate expenditure deviates from the original budget for the last three years of available data (including expenditures financed externally by grants reported in the budget).

Indicator and Dimension	Indicator Score	Brief Explanation
PI-1 Aggregate Expenditure Outturn	B	*Aggregate expenditure outturn was 93, 91 and 88 percent of the approved original budget in the years 2015-16, 2016-17 and 2017-18*

87. The aggregate expenditure outurns have remained under 10 percent in the two of the three years reviewed. 2017-18 was the election year and that led to a surge in the development budget. However the revenue collection did not increase correspondingly nor did the fiscal transfers actualize which resulted in the deviation from the original budget estimates. The aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgetedd expenditure in at least two of the last three years, therefore the indicator is rated 'B'.

PI-2 Expenditure composition outturn

88. This dimension measures the variance between budgeted and actual expenditure at the functional and economic levels and the extent of the expenditure from contingency reserve. The calculation sheets for the three fiscal years reviewed are available in Annex 5.

Indicator and Dimensions	Indicator/ *Dimension Scores*	Brief Explanation
PI-2 Expenditure composition outturn	**D+**	**Overall rating based on M1 methodology.**
2.1 Expenditure composition outturn by function	*D*	*Variance in expenditure composition by functional classification was 20, 25 and 8 percent in the FY 2015-16, 2016-17 and 2017-18.*
2.2 Expenditure composition outturn by economic type	*C*	*Variance in expenditure composition was 13, 11 and 9% in 2015-16, 2016-17 and 2017-18*

2.3 Expenditure from contingency reserve	*A*	*GoPb does not use contingency as budget code*

2.1 Expenditure composition outturn by function type

89. The Auditor General Pakistan (AGP) notified the New Accounting Model (NAM) with a new Chart of Accounts that provides classification based on the following 5 elements:

- Entity
- Function
- Object
- fund and
- project.

90. The provincial Accountant General produces the annual financial statements that disaggregate the revenue and capital budget and expenditure data.. The expenditure reports from the Government Financial Management Information System (GFMIS) were provided by the Finance Department, as per the defined functional classification. Table 3.4 provides the results matrix for expenditure out-turns using the average weighted variance method (For calculation sheets, refer to Annex 5). The key reasons for high variation are the significant in-year budget re-appropriations, the lack of informed budget allocations for the development budget owing to the lack of project related information, protracted procurement processing, continuous revisions in project documents (PC-1) and the unpredictability in the availability of funds. As a result the variance in expenditure composition by function was more than 15 percent in two of the three years assessed, therefore this dimension is rated 'D'.

Table 3.4: Results Matrix

Year	Composition Variance by function type
2015-16	20%
2016-17	25%
2017-18	8%

Source: Finance Department, Government of Punjab

2.2 Expenditure composition outturn by economic type

91. For this dimension, the expenditure outturn calculation is based on the 2 digit comparable GFS economic classification[15]. The data tables include debt servicing while the GoPb does not use contingency[16] as accounting head (Refer to Calculation sheets in Annex 5). The variance in expenditure composition was less than 15 percent in all three years therefore the dimension is rated 'C'.

[15] IMF article IV consultation report (2009) notes that the classification scheme in Pakistan is aligned with GFSM 1986, albeit with alight modifications to match with GFSM 2001

[16] The expenditure on contingent (liveried) staff in governemnt accounts does not fall in the continegncy definition used in PEFA framework

Table 3.5: Results Matrix

Year	Composition Variance by economic type
2015-16	13%
2016-17	11%
2017-18	9%

Source: Finance Department, Government of Punjab

2.3 Expenditure from contingency reserves

92. Government of Punjab (GoPb) does not use contingency as separate budget item. It was reportedly used in the years (2011-13) due to floods however has been discontinued since. The data provided for the review as contingency items included allocation for contingent paid staff, which are actually payments of the daily wage staff, and therefore has not been considered under this dimension. The development budget include totals for "umbrella" schemes, however the sectors for investments are identified ex ante. Therefore this dimension is rated 'A'.

PI-3 Revenue outturn

93. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. Data on revenue estimates is based on the original approved budget and actual revenue collection is based on the audited financial statements.

Indicator and Dimensions	Indicator/ *Dimension* Scores	Brief Explanation
PI-3 Revenue Outturn	**D**	**Overall rating based on M2 methodology**
3.1 Aggregate Revenue Outturn	*D*	*Actual revenue outturn was 82, 90 and 93 percent of the original budget in the years 2015-16, 2016-17, and 2017-18*
3.2 Revenue composition outturn	*D*	*Variance in revenue composition was 16, 11 and 16 percent in the years 2015-16, 2016-17 and 2017-18.*

3.1 Aggregate revenue outturn

94. Government of Punjab managed to maintain fiscal discipline in the aggregate expenditure outturns however the overall revenue (actual collection) were 82, 90 and 91 percent of the original budget estimates (Table 3.6), therefore the dimension is rated 'D'.

Table 3.6: Results Matrix

Year	Total revenue deviation	Composition variance
2015-16	82%	16%
2016-17	90%	11%
2017-18	93%	16%

Source: Finance Department, Government of Punjab

3.2 Revenue composition outturn

95. The PEFA Framework (2016) includes both domestic and external sources. However in case of sub-national government (SNG) in Pakistan the external financing is channelled via the federal government and all external financing are in the form of project assistance or program loan or budgetary support with sector specific policy actions. Therefore all such financing has been considered under HLG transfers. For dimension 3.2 the following revenue types were considered for scoring this dimension:

- Direct Taxes
  Tax on Income (Agriculture)
  Property Tax
  Land Revenue
  Tax on Profession, Trades and Callings
  Other Direct Taxes
- Indirect Taxes
  General Sales Tax (Services)
  Provincial Excise
  Stamps Duty
  Motor Vehicles
  Others Indirect Taxes
- Non-Tax revenues of the provincial government

96. During the period under review, the variation has been more than 15 percent in two of the three years assessed therefore the dimension is rated 'D'.

Pillar II: Transparency of public finances

97. Enhanced transparency underpins the realization of desirable budget outcomes. Pillar II assesses the comprehensiveness, uniformity and accessibility of budget related information. This can be ensured through comprehensive budget classification; consistency in reporting, and easy access to budget related information. Such practices foster transparency and accountability of the Executive with respect to budget policy decisions and the management of public funds.

PI-4 Budget classification

98. This indicator assesses the extent to which the government budget and accounts classification system is consistent with international or comparable standards. The assessment is based on the classification system used introduced in the Year 2000 with the adoption of the New Accounting Model (NAM) by the Auditor General Pakistan.

Indicator	Indicator Score	Brief Explanation
PI-4 Budget classification	A	*Budget formulation, execution, and reporting use a classification system that can produce consistent documentation comparable with GFS/COFOG 1986, however with certain modifications*.

99. With the notification of NAM, the Chart of Accounts (2000) replaced the Chart of Classification (1981) and provided for the five-tier accounting framework (Table 3.7). The IMF in its Article IV consultation report (2009) notes that although the CoA (2000) is aligned with GFSM (1986), it is with certain modifications.

100. Government of Pakistan under the Project for Improvement in Financial Reporting and Auditing (PIFRA) brought a paradigm change in the accounting, reporting and audit systems. As a result, the current classification system can produce consistent documentation to track expenditure according to the 5 elements (Table 3.7). The accounting framework, per the Constitutional stipulationsl is notified centrally and is adopted with the prevalent nomenclature in the provinces.

Box 3.1: Constitution of the Islamic Republic of Pakistan (1973)

Article 170 (1) Power of Auditor-General to give directions as to accounts:

The accounts of the Federation and of the Provinces shall be kept in such form and in accordance with such principles and methods as the Auditor-General may, with the approval of the President, prescribe.

101. Development budget, at the formulation stage, is a single-line item and is not mapped out per the CoA. However, the budget execution can only take place after it is mapped out per the object head wise classification, which allows for budget execution monitoring at detailed level. However, comparison with budget allocations can take place at aggregate level. The indicator is rated ‘A’.

Table 3.7: Description of the Elements and Sub-elements in the Chart of Accounts

Element	Element Description	Sub-element Description
1. Entity	The entity element enables reporting of transactions by the organizational structure creating the transaction.	The structure of the element is further divided in Government, that is, Federal or Provincial; The ministry or department; location district wise; and the DDO (the lowest level at which the budgetary controls occur.
2. Object	The object element enables the collection and classification of transactions into expenditure and receipts and to facilitate recording of financial information about assets, liabilities, and equity. The use of the object element is mandatory for all accounting transactions.	The object element consists of two sub-elements:
		1. Accounting element is a single alpha character sub-element and defines the accounting element to which a transaction is classified:
		• A0000 Expenditure
		• B0000 Tax receipts
		• C0000 Non-tax receipts
		• E0000 Capital receipts
		• F0000 Assets
		• G0000 Liabilities
		• H0000 Equity.
		2. Account Number is a five-character numeric sub-element. This sub-element defines the detailed “natural” accounts to which transactions will be classified (for example, salaries, utilities, and so on). The account number contains a further internal structure:
		• Major object
		• Minor object
		• Detailed object
		Example:
		Accounting Element A Expenditure
		Major Object A2 Employee Related Expenses
		Minor Object A 21 Basic Pay
		Detailed object A 211101 Officers
3. Fund	The fund sub-element is a one alpha character and identifies the fund as being the Consolidated Fund or Public Account	The sub-fund sub-element is two numeric characters, which divides the Consolidated Fund between the development, current, and charged expenditure. It also divides the Public Account between trust accounts and special deposit accounts. The sub-fund element also shows the source of funding.
4.Function	The function element provides reporting of transactions by economic function and program. The function code is mandatory for transactions relating to expenditure and revenue.	It consists of 3 sub-elements:
		1. Major function is identified by two numeric characters per GFSM
		2. Minor function is identified by a single numeric character providing the lowest level of economic function to which a transaction will be classified per GFSM but modified where necessary
		3. Detailed function is identified by two numeric characters providing an additional level of detail and analysis and will be uniquely applied to each major/minor function combination.
		Also, the system has the capacity for program accounting, however it has not yet been introduced.

5. Project	The project element enables transactions to be aggregated and reported at a project level (generally equivalent to “sub grant” level in the project development budget).	The project code is used for all development projects and the use of this code for all such projects will be mandatory. The project element consists of the project number, which is identified by four numeric characters

PI-5 Budget documentation

102. This indicator assesses the comprehensiveness of the information provided in the annual budget package submitted to the legilsature. The assessment is based on the documentation for the budget year 2017-18.

Indicator	Indicator Score	Brief Explanation
PI-5 Budget documentation	C	*GoPb provides 3 basic elements and 1 additional element (Table 3.8) in its budget documents. While, elements 5 and 6 are not applicable to Punjab being a SNG.*

103. The legislature role from a PFM perspective is essential at two levels — scrutiny and approval of Executive’s budget proposal (ex ante) and of fiscal operations (ex post). It is therefore critical that the Executive submits a comprehensive proposal for meaningful review by the legislators. Two additional elements (Table 3.8) are not applicable to Punjab being a SNG; therefore the rating is based upon exclusion of those two elements. The indicator is rated ‘C’.

Table 3.8: Elements of information in the Budget documents		
Basic elements		**Provided in:**
✗	1. Forecast of the fiscal deficit or surplus or accrual operating result.	No (As per GFSM the fiscal deficit must consider the rearrangement of the assets and liabilities and adjusted with net borrowing).
✓	2. Previous year’s budget outturn presented in the same format as the budget proposal.	Yes. Annual Budget statement and MTDF includes the actual accounts data
✓	3. Current fiscal year’s budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes. Annual Budget Statement and proposals follow the same format
✓	4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Yes. Presented in the Annual Budget Statement and the demand for grants
Additional elements		
NA	5. Deficit financing, describing its anticipated composition.	NA
NA	6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	NA
✓	7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	Yes. Debt Bulletin and Budget White Paper

✗	8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	No. Debt Bulletin and Budget White Paper provides information to the extent of financial assets relevant to SNG. The companies created under Section 42, and Bank of Punjab provide separate annual financial reports detailing the government's ownership position but not in the budget documents.
✗	9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership contracts, and so on.	No. Exact size of fiscal risk (guarantees and PPP transactions) is not provided in the budget documents. The debt bulletin includes guarantees related data up to the limit allowed under CCI decision, however, is not submitted to the legislature. The budget documents also do not provide information on the potential legal claims from pending court cases.
✗	10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	No. The fiscal impact of new policy initiatives is not provided.
✗	11. Documentation on the medium-term fiscal forecasts.	No. Only MTDF provides medium-term fiscal forecasts, which are for development budget only.
✗	12. Quantification of tax expenditures.	Information on items like the fiscal impact of exemptions is not provided.

PI-6 Provincial government operations outside financial reports

104. The indicator measures the extent to which government revenue and expenditure are reported outside the government financial reports produced by the AG office.

Indicator and Dimensions	Indicator/ *Dimension* Scores	Brief Explanation
PI-6 Provincial government operations outside financial reports	**D**	**Overall rating based on M2 methodology.**
6.1 Expenditure outside financial reports	*D**	*FD lacks a central mechanism to determine the exact size of expenditure and revenue data outside government financial reports.*
6.2 Revenue outside financial reports	*D**	
6.3 Financial Reports of extra-budgetary units	*D**	*The attendance of the government representative in the Board meeting and submission of the financial accounts to the Board is the mechanism of provision of the financial reports. A methodical system for financial reporting does*

		not exist to facilitate the provision of information on the details of assets and liabilities, and guarantees and long-term obligations

Accounting and Reporting Framework

105. The 'Manual of Accounting Principles' (Auditor General Pakistan, 1999) provides for three types of accounting entities:

i. **Centralized Accounting Entities** are those where the Accountant General (AG) has primary responsibility for the accounting and reporting function of that entity.

ii. **Self Accounting Entities are those** for whom the Principal Accounting Officer and not the AG has primary responsibility for the accounting and reporting functions.

iii. **Exempt Entities** are defined as those which fall outside the responsibility of the Auditor General of Pakistan and have own accouting and reporting system.

106. The Manual of Accounting Principles lays down the Principles, Policies and Procedures in relation to centralized accounting entities and outlines the Principles for Self Accounting Entities because the Policies and Procedures for Self Accounting Entities are covered by their individual rules and regulations.

107. Moreover, the public sector companies incorporated under Companies Act, 2017 (Companies Ordinance 1984) are also outside the purview of the Auditor General for accounting and reporting purposes, provided these companies get funding from the government budget. The private sector audit firms conduct the audit of these companies while Auditor General Pakistan can audit to the extent of the funds received from the consolidated fund. With respect to PEFA, these companies are assessed in PI-10.1.

108. Government of Pakistan and the provincial governments follow the cash basis accounting system with certain modifications (NAM 2000), however the exempt entities can adopt accrual basis of accounting.

109. The rationale of the assessment under this indicator is firstly to obtain financial information of extra-budgetary units with details of the 'actual revenue and expenditure, assets and liabilities, guarantees and long-term obligations'. Secondly for the government to have a system where the 'extra-budgetary' units submit separate annual financial reports, these need to be sufficiently detailed (for example, by providing expenditure by economic classification) and timely to yield a full picture of government financial operations when combined with the government's annual financial reports. Table 2.7 indicates that there are 174 extrabudgetay units in the provinc. The Punjab Health and Education Authorities receive funds based on the Provincial Finance Commission formula that treat the authorities at par with the local government. These are considered as EBUs as noted in Section 2.5.

6.1 Expenditure outside financial reports

110. Government of Punjab does not have a system to establish the exact size of the expenditure outside financial reports therefore this dimension is rated 'D*'.

6.2 Revenue outside financial reports

111. The assessment team was unable to ascertain the completeness of data because the government does not have a system to establish the exact size of the revenue outside financial reports therefore this dimension is rated ‘D*’.

6.3 Financial reports of extra-budgetary units

112. A methodical system for submission of financial reports and recording of financial expenditure and revenue does not exist. In cases of autonomous bodies, separate letters of annual allocations is provided. In cases where the government is represented on the Board of Governors, the attendance of the government representative in the Board meeting and submission of the financial accounts to the Board is considered compliance with the submission of the financial reports, which is insufficient for scoring of this dimension.

113. In the absence of a methodical system of financial monitoring of autonomous bodies the completeness of the financial information could not be determined therefore this dimension is rated ‘D*’.

PI-7 Transfers to Sub-national government (SNG)

114. This indicator assesses the transparency and timeliness of transfers from the provincial government to the local governments with a direct financial relationship. It considers the basis for transfers from GoPb and assesses if the local governments receive information on their allocations in time to facilitate budget planning process.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-7 Transfers to SNG	**B**	**Overall rating based on M2 methodology**
7.1 System for allocating transfers	*A*	*The horizontal allocation of **all** transfers to local governments from province is determined by transparent and rule-based systems.*
7.2 Timeliness of information on transfers	*C*	*The SNGs receive the budget ceilings after the passage of the provincial budget.*

7.1 System for allocating transfers

115. Chapter XVI of the Punjab Local Government Act 2013 entrusts the resource distribution (vertical and horizontal) to the Punjab Finance Commission (PFC). The Act provides for broad features of fiscal transfers and stipulates that the Commission should determine a formula for their distribution.

116. The composiiton of the PFC includes Minister for Finance (Chairperson); Minister for Local Government (Co-Chairperson); seven members of the Provincial Assembly of Punjab, five members, including at least one female member to be nominated by the Chief Minister. and two members, including at least one female member. to be nominated by the Leader of the Opposition in the Provincial Assembly; Mayor, Metropolitan Corporation; one Mayor of Municipal Corporation, one Chairman of Municipal Committee, one Chairman of District Council and one

Chairman of Union Council to be nominated by the Government; Secretary to the Government, Finance Department; Secretary to the Government, Planning and Development Department; Secretary to the Government, Local Government and Community Development Department; and two professional members from the private sector to be nominated by the Government.

117. The PFC makes recommendations on the formula for the distribution of resources between the provincial government and the local governments, which includes 36 Districts (that also includes district health and education authorities), 144 Municipal corporations/committees and 3,454 Union Councils.

118. The rules adopted under the interim PFC award (2017) for resource sharing were as follows: The provincial retained and allocable ratio was decided to be 62.5:37.5. The total provincial consolidated fund was PKR 1.4, 1.6 and 1.9 Trillion in the years 2015-16, 2016-17, and 2017-18, respectively. The horizontal share would be distributed with population carrying a 75 percent weight while other multiple indicators for development were assigned 25 percent weight. The share of different local governments and authorities is as follows:

(% Share)

Grant Type	DEAs	DHAs	Councils	Unions	Total
General Purpose Grant	57.0	13.0	9.0	3.0	82.0
Development Grant	5.2	2.3	2.5	1.0	11.0
Transition Grant	4.7	1.0	1.3	0.0	7.0
Total	66.9	16.3	12.8	4.0	100.0

Note: DEA and DHA=District Education and Health Authorities.
Source: Policy paper on PFC Award (2017), Center for Peace and Development initiatives.

119. The Local government Act also entrusts the PFC with certification requirements for the fiscal transfers, which is carried out through the implementation reports of the PFC awards. The periodic cash releases to the local governments according to the PFC award are published on the local government department's website. Therefore the dimension is rated 'A'.

7.2 Timeliness of information on transfers

120. Government of Punjab (GoPb) presented its annual budget to the legislature in June each year (See PI 17). Subsequent to the enactment of the provincial budget the local governments are informed of the budget allocations. Although the process by which the local governments receive information on their annual transfers is managed through the budget rules and guidelines, which provides clear and sufficiently detailed information however the LGs were allowed less than 4 weeks to complete their budget before the start of the fiscal year. Therefore this dimension is rated 'C'.

PI-8 Performance information for service delivery

121. This indicator assesses the service delivery performance information in the executive's budget proposal or its supporting documentation. The availability of performance information on service delivery assists policy-makers and managers in promoting operational efficiency while timely availability of information can assist in taking remedial measures where performance is lagging.

Indicator and *Dimensions*	Indicator/ *Dimension* Scores	Brief Explanation
PI-8 Performance information for service delivery	**D**	**Overall rating based on M2 methodology.**
8.1. Performance plan for service delivery	*D*	*GoPb has not adopted output-based budgeting nor is separate Information published on policy or program objectives, key performance indicators, outputs to be produced, and the outcomes planned.*
8.2. Performance achieved for service delivery	*D*	
8.3 Resources received by service delivery units	*D*	*GFMIS does not capture the service delivery unit level information owing to the lack of budget codes for a large size of primary health and education service delivery units. As a result, neither the budget documents, nor the annual financial statements or GFMIS can generate this data*
8.4 Performance evaluation for service delivery	*C*	*External evaluations have been carried out by the Directorate of M&E and under externally funded program at Education and Health Departments. While performance audits have been conducted of the projects in irrigation, transport, and revenue departments*

122. The Local Government Act (2013) provides for district health and education authorities as body corporates to be headed by Chief Executive Officers, appointed by the Provincial Government through open competition. According to PEFA Handbook (2016), the reports on service delivery considered for this dimension captures all aspects of resources received by service delivery units including budget resources, own source revenues (i.e., fees and charges collected directly by the service delivery unit, whether these are transferred to the Treasury or retained), and funds received from external resources (e.g., international organizations and other donors).

8.1 Performance plans for service delivery

123. For Dimensions 8.1 and 8.2, the government neither prepares output and outcome based budgets not does it prepare separate reports to enable the review of performance of the service delivery units. The incremental and separate budgeting process for the current and development budgets do not allow for a performance orientation. The budget books such as the White Paper, Citizens budget and budget speech provides for the key initiatives for infrastructure development and service

delivery. However these are neither the logical sequence of results to be provided nor are the performance indicators identified. Therefore the dimension is rated 'D'.

8.2 Performance achieved for service delivery

124. The dimension is rated D. For details see 8.1

8.3 Resources received by service delivery units

125. Government financial management information system (GFMIS) or the budget codes does not disaggregate financial information for the primary health and education service delivery units. Nor is a separate report prepared by the Line Departments on the resources received by the primary service delivery units to 'support the comparison of service performance with the actual resources received'. Therefore this indicator is rated 'D'.

8.4 Performance evaluation for service delivery

126. Government of Punjab has instituted a multiple level monitoring and evaluation framework. The Directorate of Monitoring and Evaluation, Planning and Development Department conducts monitoring as well as evaluations. The latter includes impact (e.g. Danish schools, and vocational training). In addition the health and education departments have been providing support by foreign funded programs where the M&E is conducted as part pf project modality at these departments. The provincial representatives of the Auditor General Pakistan also conducted performance audits.

127. The evaluations conducted are mainly of the schemes/projects completed under the annual development program (Details of 81 evaluation reports at Annex 8). These evaluations do not reflect the overall service delivery perspective (both current and development budget) but the evaluation of the scheme/project execution. 81 evaluation reports including third party validation were published by DG M&E during the year 2018 with the estimated cost of the projects evaluated at PKR 24 Billion. In total there were 9,450 schemes/projects in the ADP 2017-18 with an estimated cost of PKR 2,166 Billion while in the year 2016-17 there were 4,830 schemes with an estimated cost of 1,548 Billion.

128. The evaluations have been conducted for some sector departments' schemes and initiatives, therefore the dimension is rated 'C'.

PI-9 Public access to fiscal information

Indicator and Dimension	Indicator Score	Brief Explanation
PI-9 Public access to fiscal information	A[17]	Government makes available to public all basic and one additional element. (Macroeconomic forecasts not applicable to SNG).

9.1 Public access to fiscal information

The Punjab Assembly, fostering a transparency regime, enacted the Right to

[17] According to the supplementary guidance for SNG, when element 9 is not applicable, then if 5 basic elements and 1 additional are published, the score is A.

Information Act 2013 that provides an enabling environment for public access to government records. However, this dimension is assessed on the basis of proactive disclosures. The criterion for macroeconomic forecasts is not applicable to the sub-national governments. As all five basic elements and one of the three applicable additional elements are made available, the score is 'A'.

Table 3.9: Compliance status

Basic elements		Status
✓	1. Annual Executive budget proposal (EBP) documentation. A complete set of EBP is available to the public within one week of the Executive's submission of them to the legislature.	Budget proposals and supporting documents are available on the FD website the day after the legislative budget session starts.
✓	2. Enacted budget. The annual Budget Law approved by the legislature is publicized within two weeks of passage of the law.	The budget and supporting documents are uploaded on the website within 2 weeks after the enactment.
✓	3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	Reports are available on the FD website within one month after the close of the month, however, includes data on budget, expenditure and variance numbers.
✓	4. Annual budget execution report. The report is made available to the public within 6 months of the fiscal year's end.	The annual budget execution reports are made available to the public within 4 months of the close of FY.
✓	5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within 12 months of the fiscal year's end.	Audited annual financial statements are available on the provincial AG and CGA websites within 9 months after the close of the fiscal year.
Additional elements		
✗	6. Pre-budget statement. The broad parameters for the EBP regarding expenditure, planned revenue, and debt is made available to the public at least 4 months before the start of the FY	PBS not prepared 4 months before the start of fiscal year in the period under review
✗	7. Other external audit reports. All non-confidential reports on provincial government consolidated operations are made available to the public within 6 months of submission.	Audit reports are only made available to public after the legislative scrutiny is completed. The last report publicly available is more than 5 years old.
✓	8. Summary of the budget proposal. A clear, simple summary of the Executive budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within 2 weeks of the Executive budget proposal's submission to the legislature and within 1 month of the budget's approval.	Citizens' budget prepared in Urdu and English languages and presented to the public within 2 weeks of the EBP submission to the legislature. The structure of the citizen's budget is such that the approved budget owing to insignificant cut motions, the content remains the same even after budget approval.
NA	9. Macroeconomic forecasts.	Not applicable

Pillar III: Management of assets and liabilities

129. This pillar provides an analysis of the effectiveness of assets and liabilities management to assess the adequacy of the risk identification and monitoring. It also assesses the adequacy of procedures for public investment and whether financial and non financial assets are monitored and asset disposal follows transparaent rules. Off balance sheet (budget) items such as contingent liabilities are not reflected in the government's net worth and therefore can considerably impact on the government's fiscal position in case of an eventuality. The process for the monitoring of fiscal risks is assessed. Finally, the pillar includes a review of the debt management practices.

PI-10 Fiscal risk reporting

130. This indicator assesses the extent of the systems and practices facilitating the Government's oversight role in the other parts of public sector and how the fiscal risks are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of sub-national governments, public corporations, and contingent liabilities from the government's own programs and activities, including extra budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters.

Indicator and Dimensions	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-10 Fiscal risk reporting	**D+**	**Overall rating based on M2 methodology.**
10.1 Monitoring of public corporations	*C*	*Government receives financial reports from public corporations/PSEs within 9 months of the end of financial year (FY)*
10.2 Monitoring of sub-national governments	*D*	*Audited or unaudited financial reports of the sub-national governments are not published within 9 months of the close of FY.*
10.3 Contingent liabilities and other fiscal risks	*D*	*Budget White paper and debt bulletin provides the guarantees issued against the limit allowed by the Council of Common interest (CCI). While Bank of Punjab submits separate annual financial reports to the Government providing details of guarantees. However, the annual financial statements prepared by the AG office does not quantity and produces such data in its financial reports.*

Public Sector Entities (PSE) Governance framework

131. In Punjab, the public sector enterprises (PSEs) can broadly be classified as statutory bodies established through an exclusive Act of the legislature (example Punjab Seed Corporation Act 1976) and those established under the Companies Act 2017[18] (example, Punjab Industrial Estates Development and Management Company).

[18] Companies Act 2017 repealed the Companies Ordinance 1984 save as provided in Section 509

Table 2.4 indicates that there are 49 non-financial companies operating as public sector companies and these are listed in Annex 7.

132. The regulatory framework under which the public sector companies are incorporated provides for the governance and fiduciary arrangements. In case of government allocating budget to these companies, it is made under grant modality of the respective administrative department's allocations, and the monthly civil accounts reflect the expenditure position as one line item. Directorate of Commercial Audit certifies the annual accounts and conducts external audit. However, the entities incorporated under section 42 of the Companies' Act 2017 (Companies Ordinance 1984) are audited by the private sector with the report presented to the Board of Directors where GoPb is represented.

10.1 Monitoring of public corporations

133. The public sector companies/corporations incorporated and had completed one fiscal year operations by the PEFA review cut off date – 30 June 2018, submitted their financial accounts to the Corporate Finance Unit, Finance Department. The unaudited annual financial information for the autonomous bodies was available with the respective sections in the Finance Department. The key gap identified was with regard to the compilation of the expenditure and revenue and consolidation of the fiscal risks to present a holistic view of the government's financial position.

134. The companies and corporations that have completed one fiscal year have submitted their annual accounts (audited or unaudited) within 9 months of the completion of FY, therefore this dimension is rated 'C'. The details of all such entities' annual expenditure, revenue collected and grants from the government are provided in Annex 7.

10.2 Monitoring of sub-national governments

135. Chapter XIII of the Punjab Local Government Act (2013) prescribes the principles and responsibility for accounting and auditing function. Owing to multiple tiers and creation of specialized entities (health and education authorities) multiple authorities have responsibilities for accounting, pre-audit and post audit (Box 3.2).

136. The post audit of the local government is the responsibility of the Auditor General Pakistan (AGP). DG, District Audit represents the AGP in the province. Given the size and population of the province, it is divided into two regions – North and South.

137. Neither audited nor unaudited accounts for most of the local governments and authorities are published on the government's website. Therefore this dimension is rated 'D'.

Box 3.2: Punjab Local Government Act (2013)
Key clauses on Accounts and Audit

107. Accounts
(1) The accounts of all receipts and expenditure of a local government shall be kept in such form and in accordance with such principles and methods as may be prescribed by the Auditor-General of Pakistan
(2) In addition to maintenance of accounts by a local government, Provincial Director, Local Fund Audit of the Government shall maintain the accounts of the local governments, other than the accounts of the Union Councils, District Education and Health Authorities.
(3) The Union Secretary shall maintain the accounts of the Union Council.
(4) Accountant General and District Accounts Officer of the District shall maintain the accounts of the District Education Authority and District Health Authority.
(5) The Provincial Director, Local Fund Audit of the Government shall pre-audit all the payments from the Local Fund of a local government other than the payments from the Local Fund of the Union Councils and accounts of the District Education and Health Authorities.
(6) The Union Secretary shall pre-audit all the payments from the Local Fund of the Union Council.
(7) The Accountant General and the District Accounts Officer shall pre-audit all the payments from the Local Funds of the District Education Authority and District Health Authority.
(8) A local government shall not withdraw or disburse money from the Local Fund unless it is pre-audited in the prescribed manner.
(9) The Provincial Director, Local Fund Audit and the Accountant General shall, by fifteenth day of July, prepare an annual statement of receipts and expenditures of the accounts of local governments, District Education and Health Authorities for the preceding financial year and shall transmit the statement to the Government and the concerned local government.
(10) A copy of the annual statement of accounts shall be displayed at a conspicuous place in the office of the local government for public inspection and all objections or suggestions concerning such accounts received from the public shall be considered by the local government and appropriate decision shall be taken

108. Audit
(1) The Auditor-General of Pakistan shall, based on such audit, as he may consider appropriate or necessary, certify the accounts of a local government for each financial year.
(2) The Auditor-General shall audit the accounts of a local government in such form and manner as may be deemed appropriate.

10.3 Contingent liabilities and other fiscal risks

138. This dimension assesses the 'explicit' contingent liabilities of GoPb. The legal section at FD is responsible for maintaining the financial component of the legal cases. The Debt Management Unit and the Resources section of FD records the debt and guarantees issued by the government within the Council of Common Interests[19] (CCI) specified limit. The debt bulletin provides the aggregate figure of the guarantees while the Budget White Paper provides a detailed analysis of pension liabilities. The Bank of Punjab where the government is major shareholder submits its annual financial statements to the Finance Department. Based on the above most significant contingent liabilities are provided in the government budget books and separate reports like the debt bulletin. However the government's financial statements

[19] CCI is a constitutional body, headed by the Prime Minister with the responsibility to maintain relations through dispute resolution between the federation and provinces

prepared by the AG office does not inlcude the data with regard to liabilities therefore this dimension is rated ‘D’.

PI-11 Public Investment Management

139. This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the Government with an emphasis on the most significant projects.

Indicator/*Dimension*	**Score**	**Brief Justification for Score**
PI-11 Public Investment Management	**C+**	**Overall rating based on M2 methodology**
Dimension 11.1 Economic Analysis of Investment Proposals	C	*Economic analysis is conducted for major investment projects, reviewed by P&D Department but results are not published.*
Dimension 11.2 Investment Project Selection	B	*Provincial screening forums have a clear mandate for project proposals. The criteria for project selection are provided in the P&D guidelines on ADP formulation and the Provincial Development Working Party prioritize the projects.*
Dimension 11.3 Investment Project Costing	C	*The budget documents only provide project-wise details of total capital and recurrent cost for the budget year but in the two outer years in the MTDF these costs are provided at aggregate level and not segregated by capital and recurrent cost estimates.*
Dimension 11.4 Investment Project Monitoring	B	*Investment project monitoring is conducted by implementing unit as well as the P&D department. ‘Punjab Works code’ serves as the rules for implementation. P&D publishes project monitoring reports during project execution and evaluation reports post execution on its website.*

Public Sector Planning Framework

140. The Planning and Development Department is the apex body in the province steering the provincial planning mandate that also includes the annual development program (ADP) formulation and monitoring. The Provincial Development Working Party (PDWP) is the project appraisal body in the province while the departmental development working party (DDWP) is responsible for project approval within the given ceilings. The federal government bodies screen the projects that involve foreign funding or are beyond the PDWP ceiling.

141. At the federal level, the Planning Commission, Ministry of Planning, Development and Reforms prepares national economic and social development plans as well as annual Public Sector Development Program (PSDP) of the federal government. The national guidelines for investment projects are provided in the Planning Commission Manual for Development Projects. Punjab province further refined those guidelines with their own Provincial Planning Manual, which identifies the specific workflows, cost ceilings, and processing for development projects in the province. The guidelines or the formulation of the ADP provides the criteria and

parameters for the preparation of the annual development budget. The federal and provincial governments follow same templates, known as PC proformas (I – V). The purpose of each is:

• Planning Commission Proforma I (PC-I) is a project proposal template. A simplified form of PC-I is required for small projects costing up to PKR 1 million (nonrecurring).

• Large projects are expected to produce a PC-II (before PC-I), which is a detailed feasibility study to provide full justification for undertaking the project before any funding is used. PC-II is also used for soft interventions such as capacity-building programs, surveys, and so on.

• PC-III represents the template to be used for quarterly monitoring and reporting on progress of ongoing projects that is required of executing/sponsoring agencies that implement projects. PC-III is expected to cover physical and financial progress and report on any implementation issues.

• PC-IV is prepared upon completion of projects and serves as the instrument for handing and taking over of the projects between the agency responsible for project execution and the parent department.

• PC-V is used for end-of-project/program evaluation and is to be prepared annually over a five-year period.

142. A sampling approach was adopted for the assessment of PI 11. Most of the major investment projects, largest in terms of project cost, are donor funded that require compliance with a detailed appraisal process. Selection of only the largest projects would have presented a skewed analysis and not reflect on the government's systems and processes. Therefore the approach adopted was to select projects that were not only donor funded but largest among those that are financed from government's own sources as well. Moreover, to reflect on the government wide performance the largest projects (by cost) of different departments were selected. These sectors included Energy, Irrigation, Transport and Roads, Home (law and order), Health and Education. Based on this sampling process, the following ten major investment projects were selected (Table 3.10).

Table 3.10: Project proposals reviewed

Project ID	Title	Location	Cost *(PKR Million)*
1,332	Establishment of Khawaja Farid University of Engineering and Information Technology (UEIT) R.Y. Khan	Rahim Yar Khan	3,848
1,794	Institute of Urology & Transplantation Rawalpindi	Rawalpindi	3,417
3,731	Construction of Flyover on G.T Road at Aziz Road Cross	Gujranwala	7,580
3,878	Dualization of Khanewal Lodhran Road	Lodhran	7,688
3,927	Dualization of road from Muzzafargarh to DG Khan	Dera Ghazi Khan	7,218
6,015	Southern Punjab Poverty Alleviation Project (SPPAP)	Multiple districts	7,566
4,280	Lahore Orange Line Metro Train Project	Lahore	165,126
5,852	Punjab Policy integrated command and Control center	Lahore	17,520
4,950	New Khanki Barrage Construction Project	Gujranwala	23,442
3,711	Khadim-e-Punjab Ujala Program (Southern Punjab)	Punjab	4,500

11.1 Economic Analysis of Investment Proposals

143. The Planning Commission Manual provides detailed guidance on the type of techniques and information to be included in the financial and economic appraisals. The consistency and quality of the analysis conducted by the province varies greatly. Additionally, there are not any requirements to publish the financial and economic analysis of the proposed or implemented projects.

144. The provincial ADP, which is published, does provide a full listing of all projects included in the budget. It includes any project that has public funds attached to it, including projects implemented through a public private partnership (PPP). The ADP includes both approved and unapproved projects; unapproved projects are included but have not gone through the same scrutiny and approval process as the approved projects. Unapproved projects have a lower execution rate than approved projects, vary in size from small to large, and are included in every sector.

145. The Punjab ADP also includes several items that are more closely aligned with the recurrent budget, such as ongoing maintenance or minor repairs. Additionally, many of the projects that are listed are not one project but a grouping of smaller projects that increase the difficulty in planning, implementing and reviewing their performance. Economic analysis for all major investment projects was conducted, with varying quality of economic appraisal. The project proposals were reviewed by the planning and development department; however the results were not published. Therefore the dimension is rated 'C'.

11.2 Investment Project Selection

146. Project selection is conducted by the respective Development Working Parties with PDWP being the apex screening body in the province. The guidelines issued by the Planninng and Development Department for the formulation of the ADP, provides the parameters and criteria for the Line Departments in project preparation.

147. Agencies are required to ensure their project proposals fit within the resource envelope and overall sector strategies. None of the project appraisals reviewed included alternative options to implementing the project. This includes a comparison of the cost of project implementation versus doing nothing or by using different options to implement including coordination with other sectors. The lack of alternative options limits the usefulness of assessments and studies that are provided to help determine if a project should be selected and implemented. However, as a requirement most of the major projects are screened by the PDWP prior to the inclusion in the annual budget. Of the selected projects, only two projects were included in the ADP/Budget were approved on the basis of a concept note, however a detailed project proposal (PC-I and or PC-II) were developed after the 'budget was approved'. Therefore the dimension is rated 'B'.

11.3 Investment Project Costing

148. In Punjab like other provinces the Planning and Development department is responsible for the management of development budget and the Finance department is responsible for the recurrent budget.

149. Project sponsors or implementing agencies while preparing the project documents provide the estimates of the capital costs and the recurrent costs (salary and non salary) in the the project documents for the project cycle. Although project documentation did include multi-year cost breakdowns for the capital and recurrent costs associated with the projects, however in the Medium term development framework (MTDF) document, one of the budget documents package, does not included segregated information for the outer years. The bugdet year provided a segregation of the capital and recurrent cost estimates while the subsequent two projected years only included overall aggregate estimates. Therefore dimension is rated 'C'.

11.4 Investment Project Monitoring

150. Monitoring during project execution is conducted by the implementing agency as well as the Planning and Development Department. The 'Public Works Code' provides the procedural framework for project implementation. The C&W department prepares monthly progress reports for all ADP schemes under execution providing physical and financial progress in a tabulated format. M&E directorate, P&D department monitors projects above PKR 10 million during the execution stage. It has prepared a proforma for the monitoring of major schemes (projects). The monitoring reports provide summary information for key aspects of project execution:

- Status as per the procurement stages identified in the proforma
- Physical/civil works progress
- Financial progress and budget allocation trend and
- HR recruitment

151. All reports are made public on the M&E directorate's web portal. 61 monitoring reports, some sector wise (with different ADP schemes/projects) and some per ADP scheme were made public in the year 2018. The dimension is rated 'B'.

PI-12 Public Asset Management

152. This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. The period for the PEFA assessment and rating is one year (Fiscal Year 2017-2018).

Indicator and *Dimensions*	**Score**	**Brief Justification for Score**
PI-12 Public Asset Management	**D+**	**Overall rating based on M2 methodology**
12.1 Financial assets management	C	*The government maintains a record of its holdings in* ***major*** *categories of financial assets but is not published.*
12.2 Nonfinancial asset management	C	*The Government maintains a record of its non-financial assets; however, it is neither consolidated nor is the information published. Partial information on usage and age is available.*
12.3 Transparency of asset disposal	D	*The transfer and sale of financial assets is governed by the Punjab Financial Rules while the sale of non-financial assets is governed under the auction rules. The information on sale of nonfinancial assets only*

		to the extent of sale proceeds is provided in the budget.

12.1 Financial Asset Monitoring

153. The nature of financial assets is defined in GFS 2014. In the provincial perspective these are quite limited. GoPb documents and publishes information related to financial investments in its budget document and the annual White Paper prepared by the Finance Department. The White Paper provides detail on the performance and exposure to different investment types within the Pension Fund and less detail about the General Provident Fund.[20] The Punjab budget statement includes information on revenue and expenditures related to cash balances.

154. GoPb owns securities of companies incorporated under Companies Ordinance 1984. 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 consolidated in the financial statements of the Provincial Government. New investments made by the Provincial Government in such entities are capitalized and any grants to the entities are classified as an expense of the Provincial Government, if any, 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. [21].

155. Line departments are required to maintain a record of shareholding; however no information about performance of these securities and holdings is available. There is no practice of recognizing the securities on fair market value in line with international accounting standards. The Government also does not publish information on the performance of its financial assets as part of the financial statements or separately. The dimension is rated 'C'.

12.2 Non-financial Asset Monitoring

156. Each line department (Drawing and Disbursing Officer level) is required to maintain a record of non-financial assets. The departments prepare registers of assets and stock accros thei locations. The dead stock register identifies the inventory. It includes information on the type of asset, the date it was purchased/transferred, location, status (for example if land or buildings have been leased). The inventories or stock related data is more elaborateas it also includes purchase order number, identification number, object code and manufacturer. This record has become more robust since the asset recording in the GFMIS started. However, the record of GFMIS and field formations register is unreconciled in cases where the adjustment entries are required due to return or replacement of assets purchased.

[20] The General Provident Fund is a defined contribution scheme for government employees and is part of the government account of Punjab.
[21] Government of Punjab Financial Statement 2016-17

Table 3.11: Status of record of category wise assets relevant to SNG			
Categories	**Subcategories**	**Where captured**	**Comments**
Fixed Assets	Buildings and structures	Registers of the respective departments	Complete
	Machinery and Equipment	Dead stock registers at each DDO office	Complete for assets purchased however not reconciled with the disposed/disarded assets
Inventories	-	Dead stock registers at each DDO office	Complete but not reconciled with adjustment entries
Non produced assets	Land	State land is mostly reported in the registers of the Board of Revenue and other relevant departments' alloted land like agriculture and industries.	Complete
	Minerals and Energy resources	Mines and Minerals department, Punjab Mineral company and Punjab Mineral Development Corporation.	Partially complete for the survey based data of minerals deposits

157. The government lacks a mechanism to centrally consolidate non-financial assets. The non-financial assets are not depreciated; they are valued at their purchase price until disposed of. Partial information on age and usage is available, but is not published. The dimension is rated 'C'.

12.3 Transparency of Asset Disposal

158. The financial rules provide for the asset sale, transfer and disposal while the Accounting, Policies and Procedures Manual (APPM) provides for their accounting treatment. Assets are disposed of through public auction, which are rule based and held in a transparent manner. However, the budget documents only include the receipts from sale proceeds. The informtion on the original cost against sales is not included nor is the list of all assets disposed of during the year. Therefore this dimension is rated 'D'.

PI-13 Debt management

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-13 Debt management	**B**	**Overall rating based on M2 methodology**
13.1 Recording and reporting of debt and guarantees	*B*	*Domestic and foreign debt records are complete, reconciled and produced bi-annually in the debt bulletin available on FD website*
13.2 Approval of debt and guarantees	*A*	*Constitution provides for borrowing by the provinces, subject to conditions. In addition, the GFR, Securities Manual, and the Accounting Policies and Procedures Manual (APPM) provide for the operational framework. In provinces, the responsibility rests with the Finance Department and the annual borrowing is approved by the provincial legislature.*
13.3 Debt management strategy	*D*	*A current medium-term debt management strategy does not exist.*

13.1 Recording and reporting of debt and guarantees

159. In provinces, the debt management function is basic. The debt stock primarily contains the debt created at the federal level. The debt instruments available to the provinces where the government has the authority to contract debt are the running account finance for the procurement of wheat and the limit (0.85 % of GDP) authorized by the federal government for overdraft. Foreign debt is contracted by the federal government and recorded at the federal level as well as the province.

160. World Bank supported Government of Punjab and conducted debt sustainability analysis in the FY 2015-16. Debt recording is conducted on Excel sheets and MS Access based Cash flow tool is used for debt projections. In the given framework, debt related record is complete, accurate, updated, and reconciled monthly. A debt bulletin is prepared and published bi annually, therefore this dimension is rated 'B'.

13.2 Approval of debt and guarantees

161. Article 166 and 167 of the Constitution of Pakistan (1973) stipulates the overall framework for the debt management and supported with the Fiscal Responsibility and Debt Limitation Act 2005. The 18th Constitutional Amendment (2010) authorizes the Provinces 'to raise domestic or international debt, or give guarantees on the security of the Provincial Consolidated Fund within such limits and subject to such conditions as may be specified by the National Economic Council'.

162. Article 167 (3) limits this function in the province by stipulating 'in raising loan if there is still outstanding any part of a loan made to the province by the federal government or in respect of which guarantee has been given by the federal government', it would be federal government's prerogative to extend consent as it seems fit.

163. Administratively the Federal Government (Economic Affairs Division) is the entity entrusted with contracting foreign debt for both federal and provincial governments. In provinces the Finance department is responsible for debt creation and management. Currently as a stopgap arrangement ,the provinces are allowed to create debt domestically up to 0.85 percent of the GDP against its consolidated fund. For debt instruments such as an overdraft from the central bank and for Food provincial account, aIl the responsibilities and procedures are clearly laid out. GoPb contracts running account finance for procurement of wheat, which is regulated by a separate framework notified by the AGP. The General Financial and Treasury Rules provides for the operational framework. The provincial Assembly authorizes borrowing through enactment of the finance bills. The dimension is rated 'A'.

13.3 Debt management strategy

164. As noted, the World Bank supported Government of Punjab and conducted debt sustainability analysis in the FY 2015-16. The Government of Punjab has drafted a fiscal responsibility and debt limitation bill and prepares a debt bulletin that provides the debt stock position segregated by debt source, the debt servicing estimates and debt redemption profile. The debt bulletin is available on the FD website. However, it is not submitted to the provincial assembly. In the absence of a current medium term debt management strategy the dimension is rated 'D'.

Pillar IV: Policy-based fiscal strategy and budgeting

165. This pillar assesses whether the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. Policy-based fiscal strategy and budgeting processes enable the government to plan the mobilization and use of resources in line with its fiscal policy and strategy. The ability of the government to project the fiscal impact of potential changes under different economic and fiscal scenarios empowers it to adjust to varying circumstances.

PI-14 Macroeconomic and fiscal forecasting

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-14 Macroeconomic and fiscal forecasting	**C**	**Overall rating based on M2 methodology.**
14.1 Macroeconomic forecasts	*NA*	*Not Applicable. Macroeconomic functions rest with the central government.*
14.2 Fiscal forecasts	*C*	*Government prepared BSP and MTFF report with qualitative analysis, however, was not submitted to the legislature.*
14.3 Macro fiscal sensitivity analysis	*NA*	*Not Applicable.*

14.1 Macroeconomic forecasts

166. PEFA Framework (2016) assesses not only the macroeconomic assumptions but also the preparation of the macroeconomic forecasts and 'these can only be applied to the budget for analysis if that particular tier of the government has the authority and autonomy to prepare the macroeconomic forecasts'. In Pakistan, the macroeconomic functions like the determination of the exchange rate and interest rates rests with the federal (central) government, consequently, dimension 14.1 is not applicable to SNGs in Pakistan.

14.2 Fiscal forecasts

167. GoPb prepared the Bugdet Strategy Paper (BSP) and Medium Term Fiscal Framework (MTFF, 2014-18) as a top down fiscal policy statement to project its revenue and expenditure estimates and the overall budget position. The accompanying analysis in the BSP and MTFF report provides a time series analysis and estimates for the budget year and two outer years. The BSP and MTFF report are prepared providing underlying assumptions and brief explanation of the variances It is used for internal purposes and not submitted to the legislature Therefore the dimension is rated 'C'.

14.3 Macro fiscal sensitivity analysis

168. As with PI-14.1, this dimension is also 'not applicable' because the provincial governments cannot take measures to adjust to macroeconomic contingencies.

PI-15 Fiscal strategy

169. This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

Indicator and Dimensions	Indicator/ Dimension Scores	Brief Explanation
PI-15 Fiscal strategy	**D+**	**Overall rating based on M2 methodology.**
15.1 Fiscal impact of policy proposals	*D*	*Government does not prepare the estimates of the fiscal impact of revenue and expenditure policy proposals.*
15.2 Fiscal strategy adoption	*C*	*GoPb prepares for internal use BSP and MTFF supported with analytical report.*
15.3 Reporting on fiscal outcomes	*C*	*The government prepares presentation on the progress made against its revenue mobilization proposals*

15.1 Fiscal impact of policy proposals

170. Government does not calculate the fiscal impact of the proposed revenue and expenditure policies. Therefore the dimension is rated 'D'.

15.2 Fiscal strategy adoption

171. The government prepares the Budget Strategy Paper (BSP) and MTFF with analytical report for internal use. It does not take into account financial assets and liabilities but provides information on the primary budget balance based on its revenue and expenditure position. It also sets the fiscal targets over medium term. This report is not submitted to the legislature. In addition, the Government prepares annually the proposal for revenue mobilization measures for submission to the Cabinet and the Assembly but this does not have a medium term perspective. Therefore the dimension is rated 'C'.

15.3 Reporting on fiscal outcomes

172. The Government prepares for internal use, annual reports and presentations to the Finance Minister and the Cabinet, reporting on the fiscal targets and the actual revenue collection as well as actual expenditure. The dimension is rated 'C'.

PI-16 Medium-term perspective in expenditure budgeting

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-16 Medium-term perspective in expenditure budgeting	**D**	**Overall rating based on M2 methodology.**
16.1 Medium-term expenditure estimates	*D*	*Only the annual 'development' budget includes a medium-term perspective (budget year and two following years).*
16.2 Medium-term expenditure ceilings	*D*	*Aggregate and or department level medium term expenditure ceilings were not provided to the Line departments prior to the issuance of budget call circular.*
16.3 Alignment of strategic plans and medium-term budgets	*C*	*Medium-term sector strategies are prepared for majority of the sectors - agriculture, education, industries, urban development, health, WASH. Expenditure proposals in the annual budget for some departmental estimates align with the strategic plans.*
16.4 Consistency of budgets with previous year's estimates	*D*	*Medium term budget has not been adopted government wide therefore the budget document does not provide the variance analysis with a medium-term perspective*

16.1 Medium-term expenditure estimates

173. The executive budget proposal includes the following:

- Budget Speech
- Annual Budget Statement
- Estimates of Receipt
- White Paper
- Citizen Budget
- Estimates of Charged Expenditure and Demand for Grants
- Supplementary 2017-2018
- Annual Development Programme (2018-21)
- Development- Vol. – I and II
- Non-Development Vol. – I and II

174. The annual development program only contains the Medium-Term Development Framework (MTDF) with the budget year and two subsequent years' estimates. The rest of the budget documents does not have a medium term perspective. Therefore the dimension is rated 'D'.

16.2 Medium-term expenditure ceilings

175. The fiscal year of the government runs from the 1st July to 30th June. The Finance Department issues the budget call circular (BCC) each year. During the review period the BCCs were issued in the months of October and November. The expenditure ceilings were not provided before the issuance of the budget call circular therefore the dimension is rated 'D'.

16.3 Alignment of strategic plans and medium-term budgets

176. GoPb does not prepare a government wide output based budget with a medium term perspective. A medium term development framework (MTDF) is adopted only for the development budget. With regard to the sector ministries the medium-term sector strategies and or plans[22] are prepared for majority of the sectors - agriculture, education, industries, urban development, health and WASH However, the summary information of fiscal needs is provided at the aggregate level rather than fiscal estimates by output or outcome. The expenditure proposals in the annual `budget do not explain the financing shortfall in the fiscal needs and the actual budget allocations.

177. Health, education, agriculture, and WASH comprise 37 percent of the total government expenditure (2017-18). These represent the majority of fiscal requirements in the sector strategy aligned to the annual budget estimates. The government has not adopted medium term budget estimation for the overall budget, rather only in the medium term development framework which comprises the development budget. Therefore the dimension is rated 'C'.

16.4 Consistency of budgets with previous year's estimates

178. The Executive's budget proposal does not have a medium term perspective (See 16.1) therefore the budget documents do not include the variance analysis of budget years between two medium term frameworks. The dimension is rated 'D'.

PI-17 Budget preparation process

179. This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including the political leadership and whether that participation is orderly and timely.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-17 Budget preparation process	**C**	**Overall rating based on M2 methodology.**
17.1 Budget calendar	*A*	*A clear BCC exists and is adhered to by the LDs. FD issued BCC in Oct 2017 (for budget year 2018-19) and allowed the line departments at least 6 weeks to prepare the budget estimates.*
17.2 Guidance on budget preparation	*D*	*BCC for the budget year 2018-19 included detailed guidelines and forms but*

22 http://www.pndpunjab.gov.pk/economic_growth_strategy

		indicative budget ceilings were not included.
17.3 Budget submission to the legislature	*D*	*GoPb submitted budget proposals to the legislature less than one month before the start of the fiscal year.*

180. The Constitution of Pakistan (1973) provides the salient features of Public Financial Management in Pakistan. At the provincial level, the budget related responsibilities are shared between the Departments of Finance, and Planning and Development. The former is responsible for the current budget and the latter for thedevelopment budget. The bottom-up budget processes are mainly driven by line departments and include the key processes of resource allocation, inter/intra departmental consultations, and submission of budget proposals to Finance and P&D Departments.

181. In Punjab, the operational framework for PFM is governed by a set of rules and notifications that includes the Treasury and Subsidiary rules, the Punjab Financial Rules, the delegation of financial powers rules, the Budget Manual, the Budget call circular and the guidelines issued by the Planning and Development Department for the formulation of the development budget.

17.1 Budget Calendar

182. A budget calendar is included in the budget call circular (BCC) issued by the Finance Department indicating the timeline for the steps for budget preparation. Table 3.12 provides the planned dates for key steps in the budget making process, taken from BCC. The fiscal year ends on 30th June by which time the budget has to be enacted by the Provincial Assembly. Therefore the dates given in the BCC are complied with by the line depatments and Finance and Planning. On sample basis the key steps and dates have been verified (Table 3.12) by the PEFA assessmnet team. The Line Departments observed the indicative dates, and while some departments complied with the deadline, others submitted the schedule and proposals almost one week before the date stipulated in the BCC. As more than six weeks are allowed to the LDs for the preparation of the budget estimates, therefore this dimension is rated 'A'.

Table 3.12: Compliance dates - Budget Year 2018-19

Current Budget	
Date	**Activity**
13-Oct-17	Budget call circular issued
	Statement of Excesses and Surrenders
25-Nov-17	Forms Distributed
31-Jan-18	Forms submitted to FD
30-Apr-18	Examination and Finalization by FD
	Supplementary Budget
01-May-18	Examination and Finalization by FD
10-May-18	Communication to Computer center
25-May-18	Final Proof
	Schedule for receipts
06-Nov-17	Forms distributed for BE 2018-19 and RE 2017-18
31-Jan-18	Forms submitted to FD

30-Apr-18	Examination and Finalization by FD
Development budget	
15-Jan-18	ADP Guidelines issued by P&D
15-Mar-18	LDs submit draft budget estimates for ADP to P&D
28-May-18	Date of submission of ADP to FD.
05-Jun-18	Budget proposals submitted to the legislature

Source: Budget Call circular, 2018-19

17.2 Guidance on Budget Preparation

183. In order to commence the budget preparation process the Finance Department issues the Budget call circular, subsequent to which the P&D Department issues the Guidelines for ADP formulation. The circular and guidelines also include the budget calendar, forms, and format that provide elaborate guidance to the line departments/spending units for preparing the budget proposals. However as the budget ceilings are not included in the BCC this dimension is rated ‘D’.

17.3 Budget submission to the legislature

184. The government submitted the budget proposals to the legislature in the month of June that allowed less than one month for review therefore this dimension is rated ‘D’.

Table 3.13: Budget submission to legislature

Fiscal Year	Date of submission	Fiscal Year begins
2017-18	02 June 2017	01 July 2017
2016-17	13 June 2016	01 July 2016
2015-16	12 June 2015	01 July 2015

Source: Punjab Provincial Assembly

PI-18 Legislative scrutiny of budgets

185. This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature’s procedures for scrutiny are well established and respected and the existence of rules for in-year amendments to the budget without ex ante approval by the legislature.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-18 Legislative scrutiny of budgets	**C+**	**Overall rating based on M1 methodology.**
18.1 Scope of budget scrutiny	*C*	*Legislative review covers details of expenditure and revenue (demand for grants) but does not include review of the fiscal policies. The MTFF is not submitted to the legislature*
18.2 Legislative procedures for budget scrutiny	*C*	*Rules of Procedure (1997) provide for the budget scrutiny procedure and are adhered to. The rules do not provide for technical support and review committee.*
18.3 Timing of budget approval	*A*	*Budget has been approved prior to the start of fiscal year in the last three years*
18.4 Rules for budget adjustment by the Executive	*B*	*The rules for adjustments are set out clearly and are adhered to in most cases. Rules are silent on the amounts of expenditure that can be re-appropriated.*

18.1 Scope of Budget Scrutiny

186. Punjab Assembly is the provincial legislature comprising 369 members directly elected and those on reserved seats. The Assembly in its ambit performs the legislative, executive's oversight and financial accountability functions. The Rules of Procedure of the Provincial Assembly (stipulated in 1997) provides for the conduct of legislative business that includes budget scrutiny. The provincial Finance Minister presents the executive budget proposal. The following documents forms part of the package:

Table 3.14: Executive Budget Proposal documents	
Annual Budget Statement	Supplementary budget 2017-2018
Estimates of Receipt	Annual Development Program (2018-21)
White Paper	Development- Vol. – I and II
Citizen's Budget	Non-Development Vol. – I and II
Estimates of Charged Expenditure and Demand for Grants	

187. The legislative review covers the revenue projections and expenditure forecasts (demands for grants) but does not include fiscal policies and nor does the budget proposal have a medium term perspective. Therefore the dimension is rated 'C'.

18.2 Legislative procedures for budget scrutiny

188. The overarching legislative authority for budget review is provided for in the Constitution (1973). The procedures to conduct the review are delineated in the Punjab Assembly Rules of Procedure (RoP) 1997. Upon the Governor's assignment of the day

for the presentation of the budget to the provincial Assembly, the Speaker allocates the number of days for the review. Budget scrutiny takes place in two stages:

- General discussion on the Budget as a whole, including discussion on expenditure charged upon the Provincial Consolidated Fund; and
- Discussion and voting on demands for grants (in respect of expenditure other than charged expenditure), including voting on motions for reduction, if any.

189. After a lapse of two days since the Finance Minister presents the budget, 'the Speaker shall assign not less than 4 days for general discussion on the budget'. Although the stated practices are adhered to, the rules do not provide for review by specialized committee which restricts the ability to refer the budget to a Standing or Select Committee. Therefore the rating of this dimension is 'C'.

18.3 Timing of budget approval

190. In all three years reviewed (FY 2015-16, 2016-17 and 2017-18) the Provincial Assembly has approved the budget before the start of the fiscal year to which it applies (Table 3.15). The budget debate is focused on the demand for grants and the scrutiny duration in the PEFA review period has been circa two weeks.

Table 3.15: Timing of Budget approval

Fiscal Year	Date of submission	Date of Promulgation
2017-18	02 June 2017	16 June 2017
2016-17	13 June 2016	29 June 2016
2015-16	12 June 2015	26 June 2015

191. The provincial legislature has approved the budget before the start of the year therefore this dimension is rated 'A'.

18.4 Rules for budget adjustment by the executive

192. The Government of the Punjab Finance Department Punjab Financial Handbook no.4 The Punjab Budget Manual seventh edition, 2008 sets out the guidelines for supplementary budgets in paragraphs 15.2 to 15.5 the salient points are as follows:

193. Re-appropriation means the transfer of savings in the provision of expenditure made for a particular object to meet excess expenditure anticipated under another such object. The following principles govern the re-appropriation operations: -

(a) No re-appropriation should be made from one grant to another.
(b) No re-appropriation should be made from the funds allocated for a particular financial year after the expiry of that financial year.
(c) Re-appropriation should not be made between funds authorized for expenditure charged upon the Provincial Consolidated Fund and other expenditure.
(d) No re-appropriation should be made to meet expenditure not sanctioned, by an authority competent to sanction it. If the authority sanctioning reappropriation of funds for a particular purpose is authorized to sanction expenditure for that purpose, its order of re-appropriation will also operate as sanction for such expenditure.

(e) Re-appropriation should not be made to meet expenditure on purposes not contemplated in the Schedule of Authorized Expenditure pertaining to a particular financial year. If funds to meet such expenditure are available under the relevant grant, re-appropriation to meet such expenditure may be made but only after a token sum has been authorized through a Supplementary Grant.
(f) No re-appropriation should be made to meet expenditure for a purpose the allotment for which was specifically reduced or refused by the Provincial Assembly.

194. The rules are unambiguous with regard to the justification for budget adjustment and are strictly followed; however, since a financial limited and number of adjustments are not imposed, therefore this dimension is rated 'B'.

Pillar V: Predictability and control in budget execution

PI-19 Revenue administration

195. This indicator relates to the procedures used to collect and monitor government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. These may include public enterprises that operate as regulators and holding companies for government interests.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-19 Revenue administration	**D+**	**Overall rating based on M2 methodology.**
19.1 Rights and obligations for revenue measures	*B*	*Entities collecting majority of revenue provide on its website the information on main revenue obligations and rights and conduct media campaigns to educate taxpayers on taxes and incentives offered*
19.2 Revenue Risk Management	*D*	*A partly structured risk management is conducted for a few of the taxes.*
19.3 Revenue audit and investigation	*D*	*Revenue audit and investigations are not based on a systematic plan nor does a methodical compliance improvement plan exist in most of the revenue authorities.*
19.4 Revenue arrears monitoring	*D**	*The stock of revenue arrears particularly the historical data could not be determined.*

196. The assessment is based on the review of the following 3 revenue authorities of the Government of Punjab[23]:

i. Board of Revenue (BoR) is the successor of the Office of the Financial Commissioner, constituted under the provisions of West Pakistan Board of Revenue Act, 1957. It was reconstiuted in 1970 and became the Board of Revenue, Punjab. BoR is responsible for direct (example agriculture income tax) and indirect taxes (example Stamp levy).

ii. Provincial Excise and Taxation Department is responsible for direct taxes (example Transfer of Property tax) and indirect taxes (example Motor vehicles)

iii. Punjab Revenue Authority was established in (2012), subsequent to the devolution of the general sales tax (GST) on services from the federal government.

[23] Other adminstrtiave departments are also assigned revenue collection responsibilties but mainly non tax revenues

Table 3.16: Entity wise share of direct and indirect tax collection

	Entity	Actual 2017-18 (PKR Million)	% Of total revenue collection	% Of total Direct and indirect tax collection
1	Board of Revenue	65,302	24%	32%
2	Excise and Taxation (E&TD)	28,753	10%	14%
3	Provincial Revenue authority	109,440	40%	54%
4	Other indirect taxes- shared collection like property tax between E&TD and BOR	637	0%	0%
	Sub-total Direct and indirect taxes	204,132		
5	Non tax receipts by 17 departments	73,329	26%	
	Grand total including non-tax receipts	277,461		

Source: data from civil accounts, provided by Finance Department

19.1 Rights and obligations for revenue measures

197. The information on the rights and obligations of the taxpayers are prescribed in the laws and rules of the respective revenue authorities. Other than the Board of Revenue, the web portals of the Provincial Revenue Authority (PRA) and the Excise and Taxation Department, collecting half of the total provincial revenues are responsive to taxpayers needs. Excise and taxation department provides online information related to rates, rents, valuation tables, tax calculators, grievance redressal mechanism, laws and rules. Similarly PRA provides legal instruments on its website. Moreover, PRA has also developed e filing and electronic 'how to guides' for registration, enrolment, filing of tax return and payment of taxes. The tax calendar is available to guide on the due date for payment of different types of tax and on filing of returns. The Punjab Sales Tax On Services Act (2012) provides for the appeal procedures and the PRA webportal supports the grienvance redress mechanism by providing online appeal form and E-courts portal that inlcudes the first tier and appelate tribunal list and date of hearing and court orders. In addition, the two revenue authorities have help-desks to respond to electronic and in person queries, while media campaigns are conducted to educate the taxpayers and create awareness of the incentives offered. The dimension is rated 'B'.

19.2 Revenue risk management

198. A methodical and systematic revenue risk management does not take place in the revenue authorities. PRA, being a nascent entity, is in the process of developing systems and capacity for revenue-compliance risk management. The revenue risk management is weakest at the Board of Revenue while Excise and Taxation Department conducts a partly structured risk management internally.

199. Finance Department carries out periodic reviews. However a methodical risk management detailing the risks in revenue collections; and prioritization of compliance risks, causes, and redresses measures for improvement is not carried out

by the revenue authorities. No evidence was available to determine if the resources were allocated to where the risk to revenue were the greatest. Therefore the dimension is rated ‘D’.

19.3 Revenue audit and investigation

200. This dimension consider the preparation of the compliance improvement plan and ascertain whether the plan includes measures for (i) most or the majority of revenue; (ii) key payer segments; and (iii) risks associated with the four main obligation areas which are (registration; timely filing of declarations; payment of liabilities on time; and complete and accurate reporting of information in declarations).

201. The revenue audits and investigation practices do comply with a systematic and methodical approach. The revenue authorities do not prepare, at the beginning of the fiscal year, a compliance improvement plan to assist in planning and improving audit coverage and addressing revenue arrears to enhance collections. The Board of Revenue (BoR) conducts periodic field office examinations. These, however, are not based on a compliance improvement plan. PRA in the PEFA review period accorded priority to measures related to promoting tax friendly culture than tax audits. While the Excise and Taxation Department did not have a structured compliance plan. it conducted unstructured audits and investigations. Therefore the dimension is rated ‘D’.

19.4 Revenue arrears monitoring

202. This dimension assessed the arrears management in terms of the volume of the stock of revenue arrears in comparison with the total revenue collection segregated by the total accumulated revenue arrears vis-à-vis the past one year revenue arrears. Most of the revenue targets have largely been incremental than predicated on an objective analysis of the potential of the revenue type. Similarly the arrears are not based on the demand created but a variation in the revenue targets and actual collection for most of the revenue types. In the absence of arrears data particularly the historical arrears data, the assessment could not be conducted therefore this dimension is rated ‘D*’.

PI-20. Accounting for revenue

203. This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected and reconciling the revenue accounts and covers both tax revenues and non-tax revenues collected by the government.

Indicator and *Dimensions*	Indicator/ *Dimension* **Scores**	Brief Explanation
PI-20 Accounting for revenue	**C+**	**Overall rating based on M1 methodology**
20.1 Information on revenue collections	*A*	*FD website provides monthly information on revenue collection*
20.2 Transfer of revenue collections	*A*	*Entities collecting most of the provincial government revenues use the Treasury account for the revenue collection. The amount of collection outside the treasury as identified by the Revenue receipts audit was less than 1 % of the total revenue collection*
20.3 Revenue accounts reconciliation	*C*	*Monthly reconciliation of tax and non-tax collection and transfer takes place but not of the assessments and the arrears.*

20.1 Information on revenue collections

204. The monthly civil accounts provide data on provincial revenue collection by budget estimates, actual collection and the outturns. This information is broken down by revenue type and revenue agency. This report captures quantitative data of revenue collection performance for both tax and non-tax revenues reported by the District Treasury and the provincial AG offices. The information is posted on the Finance Department website monthly within one month from the end of the month. This dimension is rated 'A'.

20.2 Transfer of revenue collections

205. The provincial government's own source revenues include tax and non-tax receipts which are collected under the following standing arrangements:

- Direct deposit in the nominated banks and the State Bank of Pakistan,
- Collection at departmental chest and its onward deposit into the nominated banks and the Provincial Non-Food Account-I
- Revenues resulting from deduction at source from employees/vendors.

206. All nominated branches of the banks where the provincial government revenue is tendered, prepare and disseminate daily bank reports to the District Treasury and the District Accounts offices/Provincial AG. These offices incorporate the reports on a daily basis in the GFMIS.

207. Revenue paid at departments is required to be deposited the next day when revenue is realized. At source deductions by the DTO/DAO against the payment claims from employees/vendors are realized by charging it to the relevant budget and auto-realization under respective revenue head in the GFMIS.

208. The audit reports provided by the DG receipts were for the audit year 2016-17 and did not cover the mechanism of revenue collection outsourced to the private sector, though the size of revenue collection is relatively small. Audit reports identified the inefficiencies in the tax collection; however they did not include findings on the delay of the transfer of those revenues not collected through the Treasury Accounts. The State Bank of Pakistan submits a daily cash position to the

Finance Department, accounting of the cash balances to facilitate decision-making with regard to the cash releases. The Dimension is rated ‘A’.

20.3 Revenue accounts reconciliation

209. This dimension assesses the extent to which aggregate amounts related to assessments/charges, collections, arrears and transfers to (and receipts by) the Treasury or designated other agencies take place regularly and are reconciled in a timely manner.

210. In practice, the monthly reconciliation of collection and transfers takes place between revenue-collecting offices and DTO and AG as well as between revenue-collecting offices and FD. However reconciliation of assessments and arrears does not take place. This is also evident from PI 19.4 on the non-availability of the historical revenue arrears data, therefore this dimension is rated ‘C’.

PI-21 Predictability of in-year resource allocation

211. This indicator assesses the extent to which the MoF can forecast cash commitments and requirements and provide reliable information on the availability of funds to budgetary units for service delivery.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-21 Predictability of in-year resource allocation	**C+**	Overall rating based on M2 methodology
21.1 Consolidation of cash balances	*A*	*SBP provides daily cash position to FD that is based on bank balance position of main accounts and sub accounts. The cash position does not capture deposits in the schedule banks[24]. The indicator is rated based on the provincial government main accounts and not ‘extra-budgetary units.*
21.2 Cash forecasting & monitoring	*D*	*Cash forecasting and monitoring takes place daily relying on the cash position provided by the SBP. However, the forecasts do not reflect the commitments of the line departments or liabilities created.*
21.3 Information on commitment ceilings	*B*	*FD does not notify a cash release policy but provide information on cash availability 3-6 months in advance for current and development budget respectively.*
21.4 Significance of in-year budget adjustments	*C*	*In-year budget estimates are rules based and transparent, but significant number of adjustments takes place.*

[24] Scheduled Banks” means, “All Commercial banks and specialized banks which are included in the list of scheduled banks maintained under sub-section (1) of section 37 of the State Bank of Pakistan Act, 1956” with the mandate to deal in deposit mobilization and investments.

21.1 Consolidation of cash balances

212. The fiscal operations of Government of Punjab are conducted through the following bank accounts:

- Account I (Non Food)
- Account II (Food)
- Account III (Zakat)
- Account V (Health Authority)
- Account VI (Education Authority)
- Assignment Accounts (Foreign funded and local)

213. The accounts are maintained by the District Accounts, District Treasury and the Provincial AG office. The Ways and Means Section of the Finance Department is responsible for the consolidation of cash balances and their reporting. Daily cash balance position is prepared based on the receipts, payments and adjustments reported by the State Bank of Pakistan (SBP). The net flows are accounted for against the opening balance to arrive at the daily cash balance.

214. The foreign funded revolving finance assignment accounts are separately maintained in the authorized Branch of the National Bank of Pakistan (NBP) under a special arrangement approved by the MoF and operated by the respective Project Offices. Most projects are not integrated with GFMIS for system-based consolidation, however a variety of measures have been adopted to integrate in-country project expenditure in the government's fiscal operations. MoF amended the procedures and designated a special Sub-Fund Identification Number upon establishment of the account. The individual sub account together constitutes a single but separate account (sub account) under the Central Government Account No.1 (Non-Food) held with the State Bank of Pakistan (SBP). The transactions against individual assignment accounts are recorded and reported along with the other Government balances to SBP on daily basis. The balances of such accounts are reported in SBP's daily report of the consolidated balances of the Federal/Provincial Government Account along with other Government balances to the Federal /Provincial Government (Finance Division/FD/Respective Federal (AGPR) and provincial AGs).

215. This dimension does not consider the extra-budgetary units (PI-6) but is based on the provincial government accounts maintained with the SBP and the NBP. The cash position also provides the receipts and payments segregated by the SBP offices, NBP offices, the Bank of Punjab and the intergovernmental adjustments. Table 3.17 provides sample data of cash position prepared on daily and monthly basis.

Table 3.17: Government of Punjab cash balance position *(PKR in Million)*

Type of Account	14-5-19	15-5-19	31-5-19	30-6-19
Current Account- Nonfood Account I	40,551	44,927	66,325	29,095
District Education Authority Account V	7,666	7,283	10,454	5,979
District Health Authority- Account VI	13,695	13,413	14,948	6,933
Sub Total	61,912	65,623	91,727	42,007
Food Account II	56,408	29,316	30,041	28,332
Zakat Fund	1,656	1,657	1,656	1,565

Source: Daily cash balance position submitted by State Bank of Pakistan to Finance Department

216. The government does not have a Treasury Single Account[25] (SBP, 2019). However a daily cash positon of the main government accounts is provided by the central bank (State Bank) to Finance Department, GoPb for daily cash consolidation. Therefore this dimension is rated 'A'.

21.2 Cash forecasting and monitoring

217. The Resources section at the FD prepares cash position. Although all revenue sources are covered, the share of HLG transfer accounts for around 77 percent, therefore the focus of forecasting is mainly on federal transfers. For own source revenues, the status of revenue collection is obtained from the civil accounts for monitoring purposes. However, the commitments by the line departments are not reflected in the cash forecasting, therefore the dimension is rated 'D'

21.3 Information on commitment ceilings

218. The assessment for this dimension relied on the information provided by the Finance Department to the spending agencies in the PEFA review period. FD does not issue a (cash) release policy at the beginning of fiscal year stipulating the pattern of cash releases for recurrent and development expenditure, to allow the budgetary units to plan expenditure in advance.

219. Budgetary units are authorized to initiate procurement after the budget approval and based on the budget allocations they can commence contracting. In the event of austerity measures being adopted or development budget being cut to address a budget deficit, line departments' commitments can be affected as a result, leading to creation of expenditure arrears.

220. The information on cash availability is provided to the spending units in the range of 3 month to 6 months in advance. Under current budget some spending units have been provided this information by 3 months while others by 6 months in advance. For development budget, some spending agencies were provided information on cash availability one quarter in advance. Therefore the dimension is rated 'B'.

21.4 Significance of in-year budget adjustments

221. In case of supplementary budget, the Constitution authorizes the provincial government for the issuance of supplementary grants subject to final endorsement by the legislature. The Government of the Punjab Finance Department Punjab Financial Handbook no.4 The Punjab Budget Manual seventh edition, 2008 sets out the guidelines for supplementary budgets in paragraphs 15.6 to 15.15 which are summarized as follows.

222. Under Article 124 of the Constitution, if in respect of any financial year it is found that the amount authorized to be expended for a particular service for the current financial year is in-sufficient, or that a need has arisen for expenditure upon some new service not included in the Annual Budget Statement for that year the Provincial Government shall have power to authorize expenditure from the Provincial Consolidated Fund, whether the expenditure is charged by the Constitution upon that

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[25] State Bank of Pakistan press release on TSA http://www.sbp.org.pk/press/2019/Pr-17-Apr-19.pdf

Fund or not, and shall cause to be laid before the Provincial Assembly a Supplementary Budget Statement setting out the amount of that expenditure. Therefore, it is advisable that unless the Head of Department is certain before the preparation of the statements of excesses and surrenders those funds will not be available for the additional expenditure he should, as far as possible, postpone submission of applications for supplementary grant till the date of submission of Statement of Excesses and Surrenders. In cases where the Head of Department is certain before the preparation of the Statements of Excesses and Surrenders that supplementary grant is necessary, he should take action to move for the supplementary demand being laid before the Provincial Assembly in the earliest possible session. Before the Supplementary Budget Statement is laid before the Provincial Assembly, it should be considered and approved by the Cabinet. For this purpose, the Finance Department should arrange to have a meeting of the Cabinet fixed at the proper time. As a demand for Grant should not be made except on the recommendation of the Government of the Punjab, the approval to the Supplementary Budget Statement should be obtained before it is laid before the Provincial Assembly. The manner in which the Supplementary Budget Statement should be presented to the Provincial Assembly and discussed in and voted on, in the said Assembly, is the same as that prescribed in respect of the Annual Budget Statement.

223. Following consideration by the Provincial Assembly of the Supplementary Budget Statement in respect of a year, the Chief Minister authenticates by his signature a Schedule, prepared in the same form as the Supplementary Budget Statement, specifying; (a) the sums required to meet the expenditure charged upon the Provincial Consolidated Fund; and (b) the sums granted, or deemed to have been granted by the Provincial Assembly. The Supplementary Schedule of Authorized Expenditure should then be laid before the Provincial Assembly for information,

224. The in-year budget adjustments primarily relate to unforeseen expenditure like foreign grants for development projects realized/approved after the passage of the budget. Administratively such grants have to be endorsed by the Finance and Planning and Development departments. While other adjustments like budget cuts owing to austerity measures and lag in revenue collection takes place towards the end of the year. Table 3.18 provides the volume of the supplementary budget. The rules cleary define the budget adjustments procedures and are complied with in practice making the process cleary defined and transparent, however due to significant numbers of adjustments during the year this dimension is rated 'C'.

Table 3.18: Size of supplementary budget

Year	Supplementary Budget *(PKR Million)*
2017-18	85,402
2016-17	168,681

Source: Supplementary Budget, Finance Department

PI-22 Expenditure arrears

225. This indicator measures the extent to which there is a stock of arrears and the extent to which a systemic problem in this regard is being addressed and brought under control and addressed.

Indicator and Dimensions	Indicator/ *Dimension* Scores	Brief Explanation
PI-22 Expenditure arrears	**D**	**Overall rating based on M1 methodology.**
22.1 Stock of expenditure arrears	*D**	*Owing to the lack of functional commitment accounting practices, GoPb does not have a mechanism to record expenditure arrears.*
22.2 Expenditure arrears monitoring	*D*	*Information on expenditure arrears is not available therefore monitoring of expenditure arrears does not take place.*

226. 'Arrears are overdue debts, liabilities, or obligations. They constitute a form of nontransparent financing. Expenditure payment arrears are expenditure obligations that have been incurred by government, for which payment to the employee, retiree, supplier, contractor or loan creditor is overdue' (PEFA Framework, 2016). Besides the possibility of arrears accumulation in the normal course, it can be aggravated in the event of cash shortages and budget cuts that not only increase costs to the government but can significantly dent fiscal discipline.

22.1 Stock of expenditure arrears

227. GFMIS has the ability to record commitments however it is not implemented undermining the commitment recording, consolidation and reporting. GoPb does not have a mechanism to centrally report on the expenditure arrears. The size of the arrears in comparison with the total expenditure could not be determined, therefore the dimension is rated 'D*'.

22.2 Expenditure arrears monitoring

228. Data on expenditure arrears is not available therefore the monitoring of expenditure arrears does not take place. The dimension is rated 'D'.

PI-23 Payroll controls

229. This indicator assesses the management of the payroll for public servants, including how changes are handled, and consistency with personnel records management. Wages for casual labor and discretionary allowances that do not form part of the payroll system are not assessed here.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-23 Payroll controls	**C+**	**Overall rating based on M1 methodology.**
23.1 Integration of payroll and personnel records	*B*	*Payroll is supported with full documentation and checked against previous month's data. Staff hiring is controlled by budget availability and sanctioned strength. Additional budgetary requirement arising out of staff promotion is addressed through supplementary grants if the existing budget is insufficient.*

23.2 Management of payroll changes	*A*	*The retroactive adjustments were 2.4 percent of the total salary payments in the year 2017-18*
23.3 Internal control of payroll	*A*	*Authorization and basis of changes in personnel record and payroll are comprehensively defined in the control framework- Punjab Financial Rules and APPM.*
23.4 Payroll audit	*C*	*Partial payroll audit/physical survey has been conducted however not across the province.*

23.1 Integration of payroll and personnel records

230. The creation of staff positions complies with the prescribed procedure and its inclusion in the original budget through new item statement (NIS) is mandatory for which the approval of the FD is required. A comprehensive personnel record including the approved list is created and maintained at the Services and General Adminstration Department with a copy of the record available at the respective Administrative Departments. In the event that staff positions are created mid-year these follow the same HR process but are accommodated in the supplementary budget.

231. GFMIS introduced under PIFRA provides an IT platform for payroll management under a centrally controlled environment with predominant role of the FD for funding purposes and the AG/DAOs for expenditure authorization and reporting. Payroll management is controlled via a specialized HR module in GFMIS connected with financial modules. The rollout of the organizational management (OM) module has further strengthened the integrity of payroll management, providing a linkage between financial information and HR modules.

232. The AG/DAO processes payroll only after complete documentation is provided and budget availability confirmed. Monthly reconciliation takes place between the AG/DAO and the spending entities. To ensure consistency of budget and payroll data, the designation codes and job descriptions have been alligned with position codes. Prior to this, discrepancies occurred due to differences in the job titles between the Chart of Accounts and approved budget books. The mode of payment on account of salaries is well defined in APPM; payments are mostly routed through the bank accounts of employees as per a predefined schedule and protocols. The AG office conducts system-based checks to identify variation in volume of salary payments and trails variations. The dimension is rated ‘B’.

23.2 Management of payroll changes

233. Accounting Policies and Procedures Manual (APPM) stipulates, ‘all changes received by the 10th of the month are incorporated in the same month while those received thereafter are processed in the following month’s payroll. Hence, all changes received within the stipulated timeline and cleared for payment after a thorough review/certification are included in the payroll run for the following month’s payments. There is a complete log available of all such changes.

234. Retroactive changes are rare; primarily these relate to arrears in allowances or salary increments made retrospectively after the stipulated authorizations or the judicial orders, or due to posting/transfer of staff. A team of officials from the AG office continuously inspect the payroll data in the field with respect to the changes in salaries. The AG office conducts a system check with respect to month-to-month variations in salary payments.

Table 3.19: Retroactive Adjustments Data

Year	Total Payroll Expenditure	Retroactive Adjustments	% of Adjustments
2017-18	PKR 249,843,058,681	PKR 6,186,792,892	2.4

Note: Retroactive adjustments include recoveries and arrears payments
Source: Accountant General, Punjab.

235. The changes to personnel and payroll record are updated monthly, though the onus of reporting changes is on the personnel. Retroactive adjustments were 2.4 percent of the total salary payments (Table 3.19). Therefore the dimension is rated 'A'.

23.3 Internal control of payroll

236. The payroll is processed in a well-defined system of command and control documented in the Punjab Financial Rules and the Establishment and Budget Rules and APPM. Payroll management, which includes changes to payroll data triggered by recruitment, promotion, transfer, deputation, secondment, removal, dismissal, death, and retirement are segregated with clearly defined roles and responsibilities both at the line department level and within the AG/DAOs.

237. Drawing and Disbursing Officers (DDO) notify the changes in the personnel data and these take effect with the submission of the prescribed HR form to the district accounts office (DAO). The form passes through a series of checks for validation, payment, recording, and reporting. Payroll management is undertaken in the GFMIS, therefore the transactions and changes get recorded in the HR module and logs aremaintained enabling an audit trail. The business processes at AG/DAOs for an automated system entail a robust mechanism whereby users with predefined roles are created to strengthen proper command and control by those delegated with necessary powers to manage the payroll system. The dimension is rated 'A".

23.4 Payroll audit

238. System-based checks are conducted by the AG's office; however a detailed audit/physical survey to validate personnel records has not been conducted. School education conducts census and the reports are published. The DG audit, in the course of yearly compliance audits, conducts sample checks. However these are limited to the DDO level – which is the lowest level of record availability. In certain cases of primary and secondary health and education clusters, DDOs are notified. As a result the audit outreach would be to the extent of DDO rather than the primary service delivery unit which constrains the scope. Therefore the dimension is rated 'C'.

PI-24 Procurement

239. This indicator examines the key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI- 24 Procurement	**D+**	**Overall rating based on M2 methodology**
24.1 Procurement monitoring	*D**	*Spending units are obligated to maintain all procurement related records. Database to monitor the record at PPRA is available. However, the value of procurements by non-competitive methods was not available. Materiality could not be determined to rate this dimension.*
24.2 Procurement methods	*D**	*Data segregated by competitive and non-competitive procurement method was not available.*
24.3 Public access to procurement information	*C*	*Complete and reliable Information is available on PPRA website for legal framework, bidding opportunities and bid evaluation reports. Bidding opportunities and BERs were reviewed for the following sectors: Health, Transport, Energy and Communication and Works departments that represent the majority of the public sector investments.*
24.4 Procurement complaints management	*C*	*Complaint management system complies with requirement 1, 2 and 6. PPRA Rules (2014) briefly provides for grievance redress, but separate procedures have not been notified.*

24.1 Procurement monitoring

240. Punjab Financial Rules (Clause 17) obligates all government entities to retain all auditable records for audit purposes and the Auditor General Pakistan Ordinance (2001) provides the right to access government record to the AGP. Additionally, the procurement rules require the maintenance of procurement related record for five years. In order to reflect on the external monitoring aspect, the PPRA has developed a management information system supported with a database on procurement. The record for those procurements that were exempted based on the criteria notified by PPRA was not available. For the rest, the data for the most of the procurement methods with respect to what has been procured, its value and the name of the contractor were available. During the PEFA review the data of procurements on non competitive methods could not be furnished the comprehensiveness of the procurement monitoring is undermined, therefore this dimension is rated 'D*'.

24.2 Procurement methods

241. The Procurement Rules (22) declare open bidding competition as the default method of procurement but Rules also provides for single source/direct contracting and exemptions. PPRA has developed criteria for the exemptions. However, the data

for procurements following noncompetitive method was not available therefore the fraction of procurement carried out on non-competitive methods could not be determined. The dimension is rated D*.

24.3 Public access to procurement information

242. The information on Serial Numbers 1-3 in the following table is made public, therefore this dimension is rated 'C'.

Sr. No	Benchmark	Status and Explanation
1	Legal and regulatory framework	**Yes**. Legal and regulatory framework (Law and Rules) are available on PPRA website.
2	Government procurement plans	**Yes.** The Procurement plans were publicly available. Some entities uploaded it on its own website while others on PPRA and a few entities followed a different format, but the plans were published.
3	Bidding opportunities	**Yes.** According to the PPRA Rules (2014) all procuring entities are legally bound to advertise unless exception is accorded due to national security and proprietary or intellectual rights reasons. The stipulated ceiling and source of advertisements is also provided for. The sample sectors reviewed had bidding opportunities published on the department's or the PPRA website.
4	Contract awards (purpose, contractor and value)	**No.** The procuring agencies are maintaining record of procurement and contracts however the record of contract awards is not made public for 'all' procurements.
5	Data on resolution of procurement complaints	**No**. The PPRA provides an overall requirement for grievance redress however; the complaint review mechanism (both first and second tier) is not fully developed. Neither are separate rules or procedures developed for complaint review. Consolidated data on review of complaints (particularly first tier) on resolution of complaints is not made public.
6	Annual procurement statistics	**No.** Current report not made public. Punjab PPRA prepares annual report providing quantitative and qualitative information on procurement operations; however, the report is made public with a time lag. In the year 2019 (during PEFA review), report available for public pertained to the year 2015-16.

24.4 Procurement complaints management

Sr. No	Benchmark	Status and explanation
Complaints are reviewed by a provincial body which:		
1	Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	**Yes**, but the rules do not provide for this separation. It has been ensured through separate circular and trainings by PPRA. Sample check confirmed this segregation but runs the possibility of conflict if not covered in the legal framework.
2	Does not charge fees that prohibit access by concerned parties	**Yes**

3	Follows processes for submission and resolution of complaints that are clearly defined and publicly available	**No**, Separate rules or procedures are not notified.
4	Exercises the authority to suspend the procurement process	**No**
5	Issues decisions within the timeframe specified in the rules/regulations	Not all decisions were issued within 15 days as identified in the procurement rules.
6	Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).	**Yes**

243. The dimension is rated 'C' as citeria 1 and two other criterias have been met.

PI-25 Internal controls on non-salary expenditure

244. This indicator measures the effectiveness of internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. Internal control processes ensure that the fiscal discipline is maintained at the micro as well as the macro levels and that resources are allocated as intended and properly authorized and that service delivery has access to and uses the resources provided under legal and regulatory authority and for only those purposes.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-25 Internal controls on non-salary expenditure	**B+**	**Overall rating based on M2 methodology**
25.1 Segregation of duties	*A*	*All accounts offices have adopted three-level segregation of duties notified by the CGA. The General Financial Rules and the APPM stipulates the segregation for authorization, recording, custody of assets, and reconciliation functions.*
25.2 Effectiveness of expenditure commitment controls	*C*	*Practice of commitment accounting is patchy. Alternative methods like the budget availability and cash releases are adopted which are not effective for expenditure commitments evident from the expenditure arrears reported in the FM budget speech (2018-19).*
25.3 Compliance with payment controls	*A*	*All payments (over 90 percent) comply with payment procedures and exceptions are noted. Audit findings include approximately 3 percent of the audited expenditure incurred in violation of rules.*

Summary of control framework for non-salary expenditure

245. The Constitutional provisions provide an overarching expenditure control framework, 'no expenditure can be incurred from the provincial consolidated fund

without approved budgetary allocation'. Budget allocation serves as the first key control ensured through preaudit and the budget check feature in GFMIS for non salary expenditure. General Financial Rules stipulate, 'no authority may incur any expenditure or enter into any liability involving expenditure until the expenditure has been sanctioned by general or special orders of an authority to which power has been duly delegated and the expenditure has been provided for in the authorized grants and appropriations for the year'. Indication of the source of appropriation in the sanction to expenditure is mandatory. The competent authorities are defined in the delegation of financial powers rules.

246. Exceptions to any of the rules are properly authorized and approved by the competent authorities. Exceptions are effected based on clearly spelled out regulations. According to APPM, all cheques beyond a threshold are issued in the name of the vendor. Exceptions (i.e., cheques issued in the name of DDO) require a certificate describing the justification and are entertained only after the prior approval of a designated officer in AG/DAO.

25.1 Segregation of Duties

247. The administrative segregation is provided for in the organic structure where the accounting and payment processes are conducted by two different offices. The Accountant General Office is responsible for payments and accounting functions, while the procurement and contract management takes place at the line departments/spending units. The Controller General of Accounts notified a three-tiered segregation for payment processing and authorization.

248. PFR and APPM stipulate the covenants and procedures for the segregation of duties, while, the delegation of financial power rules delineates the categories of officers and expenditure-sanctioning competencies. The following eight steps are stipulated in the APPM:

(a) sanction of expenditure
(b) preparation of claim voucher (bill) for payment
(c) approval of expenditure,
(d) registration of purchase order/claim voucher
(e) certification (pre-audit) of claims
(f) authorization of payment,
(g) payment, and
(h) recording of expenditure in the accounting records.

249. APPM elucidates a comprehensive process flow model in respect of major categories of expenditures. In order to exercise effective control over expenditure, the roles and responsibilities are assigned as per the following arrangement:

- Head of the Administrative Department as Principal Accounting Officer
- Head of the Attached Department/Public Corporation/Project Director/Autonomous Body as Controlling Authority
- Head of the Office as DDO.

250. The non-salaried expenditure for centralized accounting entities entail double-checks (i.e. a process for preparation and approval of payment bills at departmental level) as well as pre-audit at the AG/DAOs. In both streams, payments are processed

under a well-defined and segregated scheme of assignments. These policies and procedures and other rules have detailed provisions on segregation of duties for the core business processes related to authorization, recording, and custody of assets, reconciliation, and/or audit. Based on these attributes, the dimension is rated 'A'.

25.2 Effectiveness of expenditure commitment controls

251. A key factor in ensuring expenditure commitment controls is the existence of commitment accounting, in the absence of which deficiencies prevail in the controls framework. Effective commitment control entails locking of funds with the purchase order. GFMIS has the ability to support commitment accounting mandated through auto-checks/controls in GFMIS-SAP ECC 6. Although system ability exists, implementation has not been comprehensive and alternative legacy methods are applied such as cash release controls. Cuts in development budget or variation in releases as a result of lower out-turn in fiscal transfers have impacted the commitments of the departments. The dimension is rated 'C".

25.3 Compliance with payment controls

252. Dimenion 25.1 and 25.2 provides the notified control framework while this dimension captures implementation. . In practice, the budget availability review, alongwith other key controls for non-salaried expenditure includes the sanction to expenditure by competent authorities (defined in the delegation of financial powers rules), adherence to the provisions of punjab financial rules, administrative and technical approvals for works related expenditure, the fulfillment of responsibilities related to accounts maintenance, regular reconciliation of expenditure and compliance with the different levels of controls on GFMIS. All these controls are adhered to. Exceptions if any are properly authorized and approved by the competent authorities.

253. The dimension has been rated relying on the findings of the external audit reports. In the audit report (2017-18), out of the total audited expenditure (PKR 1,264,190 million), auditors recommended recovery of PKR 8,424 million and PKR 34,306 million violated rules and regulations {noncompliance with the standards of financial propriety (Box 3.4) stipulated in the financial rules}. These anomalies subsist besides the existence of the pre audit function. Another issue in practice relates to the administrative non segregation of staff. The officer cadre recruited through the federal public service commission (Audit and Accounts group) can be posted in the accounts as well as the audit offices. Given that the volume of the non compliance in relation to the audited expenditure is only 3 percent, therefore the dimension is rated 'A'.

Box 3.4: Excerpts from the Punjab Financial Rules (2016)

(Canons of financial property)

Every officer authorized to incur expenditure from the public funds should observe high standards of financial propriety; a few of them are:

1. To exercise the same vigilance in respect of expenditure from public money, as a person of ordinary prudence would exercise in respect of expenditure of his/ her own money;
2. The expenditure should not be prima-facie more than the occasion demands;
3. No authority should pass any order which will be directly or indirectly to his/ her own benefit;

4. Generally public moneys should not be utilized for the benefit of a particular person or section of the community; The amount of allowances should be so regulated that it is not, on the whole, a source of profit to the recipients

PI-26 Internal audit

254. This indicator assesses the standards and procedures applied in internal audit.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-26 Internal audit	**D+**	**Overall rating based on M1 methodology**
26.1 Coverage of internal audit	*D*	*Internal audit function exists in most of the departments however is not supported with audit programs and functioning in line with IIA standards.*
26.2 Nature of audits and standards applied	*C*	*Internal auditors do not conduct evaluation of the internal controls effectiveness but primarily focus on financial audit'*
26.3 Implementation of internal audits and reporting	*D*	*Only the internal audit wing of the Excise and taxation department provided data of audit programs with 40 percent compliance. While DG commercial audit noted the internal auditor reporting to the Heads of Finance.*
26.4 Response to internal audits	*D*	*Internal audit reports are not prepared by most of the entities as a result there is no response by the Management.*

26.1 Coverage of internal audit

255. In the existing framework the internal audit function is relatively more established in the offices of the local fund audit and the Health authorities than the other provincial departments. Separate service rules exist for the internal audit wing established in the specialized health care and medical equipment department. However, the overall internal audit function of the provincial government is not functional in line with the international internal audit standards (IIA) on the audit work programs, audit documentation, reporting, and follow-up activities. The dimension is rated ‘D’.

26.2 Nature of audits and standards applied

256. The internal audits are mainly focussed on financial compliance than the evaluation of the adequacy of the internal controls and capacity building at the provincial departments. The dimension is rated ‘C’.

26.3 Implementation of internal audits and reporting

257. An internal audit plan exists for some of the internal audit sections/wings. The Internal audit Wing of the specialized health care submits the internal audit reports to the Additional Chief Secretary. Nevertheless these are focussed on financial compliance and compliance of the Departmental Accounts Committee’s directives. Therefore the dimension is rated ‘D’.

26.4 Response to internal audits

258. Management response to internal audit function as a whole is weak. In public sector enterprises the DG Commercial audit reported that the internal audit officers reporting to the head of finance rather than to the chief executive. A few entities that prepare the internal audit reports are not in sync with the IIA while others do not submit a formal report at all. Therefore the dimension is rated 'D'.

Pillar VI: Accounting and reporting

259. This Pillar assesses the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Accounting and Reporting Framework

260. Article 170 of the Constitution of the Islamic Republic of Pakistan (1973) empowers the Auditor General of Pakistan (AGP) to prescribe the principles, forms, and methods for maintenance of accounts with the approval of the President of Pakistan.

261. In December 2000, the AGP prescribed the New Accounting Model (NAM) embodying a new Chart of Accounts (CoA) to improve budgeting, accounting, reporting and auditing. The preparation and maintenance of accounts and related functions were separated with the promulgation of Controller General of Accounts (Appointment, Functions and Powers) Ordinance, 2001.

262. Operationally, the accounting and reporting framework is supported with the following instruments:

- Manual of Accounting Practices complemented with guidelines, handbook, and manuals for accounting and reporting;
- Punjab Financial Rules
- Supplementary and Treasury Rules
- Delegation of financial power rules
- Procedure for Assignment Account and revolving fund accounts
- Public procurement rules

263. In the provincial context, the GoPb has adopted the budget classification, accounting, and reporting framework of the Government of Pakistan. The provincial AG Office, an extension of the CGA, provides the accounting and financial reporting support. The Provincial AG Office is supported by the DAOs. The provincial government also has the district Treasury office under the Finance department. It is responsible for the payments, recording and reconciliation of the public works, revenue deposit, personal ledger accounts, special drawing and assignment accounts.

264. The reporting framework is defined in the Financial Reporting Manual (1999) notified by the AGP that provides for accounting reports, financial statements and financial controls reports. The periodicity of these reports range from daily to yearly.

PI-27 Financial data integrity

265. This indicator assesses the extent to which bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

Indicator and *Dimensions*	Indicator/ *Dimension* Scores	Brief Explanation
PI-27 Financial data integrity	**D+**	**Overall rating based on M2 methodology**
27.1 Bank account reconciliation	*D*	*Book and Bank reconciliation as a process takes place on monthly basis, however the bank reconciliation statements included sizeable 'unidentified' amounts in each month during the FYs reviewed.*
27.2 Suspense accounts	*D*	*Reconciliation of suspense account as a process takes place monthly, however the 'DO Suspense accounts' record showed un-reconciled balances more than two months after the close of FY 2017-18.*
27.3 Advance accounts	*D*	*DG Works Audit report included findings on non-recovery of supplier's and works related advances. While TA advances data included unsettled TA advances of 223.8 Million more than three months after the end of the FY.*
27.4 Financial data integrity process	*A*	*Since the introduction of integrated FMIS the access and changes to records is restricted and recorded. Any change results in an audit trail. The DG audit conducts periodic inspections to verify financial data integrity.*

27.1 Bank account reconciliation

266. Accounting Policies and Procedures Manual (APPM) provides for the bank reconciliation process emphasizing the daily checking of the ledger and the monthly reconciliation.

267. National Bank of Pakistan (NBP) submits daily returns (including the ledger and the supporting evidence) to be checked by the delegate officer in the DAO. The aggregate balances are reconciled and misclassifications are addressed in the monthly reconciliation. NBP prepares a monthly-designated branch statement and submits it to the Accounts offices on the 2nd working day after the close of the month. The Accounts office responds within 2 working days. Upon verification, the balances are reported to the State Bank on the 6th working day. SBP consolidates the information received from various NBP branches and report to the provincial AG on the 8th working day after the close of the month. In case of any differences in the

consolidated report of the SBP, the delegated officer at the DAO/AG prepares the balance 'exception list' and reports the differences within 2 working days.

268. The Bank reconciliation statements for the FY 2017-18 were reviewed. The reconciliation process takes place monthly, however all reconciliation statements included sizeable unidentified amounts. The PEFA Framework (2016) indicates the identification of all 'mismatches' in the reconciliation. With the bank reconciliation statements reflecting unidentified amounts in each month's reconciliation statement , this dimension is therefore rated 'D'.

27.2 Suspense accounts

269. APPM prescribes the practice and treatment/settlement of suspense accounts. Accordingly, the suspense accounts are cleared on monthly basis. However, transactions that relate to accounting for losses and recovery have a separate procedure. "In cases where the circumstances and ultimate amount of a loss is uncertain and the account for the financial year is still open, the amount shall be transferred to a suspense loss account pending the investigation" (APPM: 8.3.4.1). Such transactions are reversed when recoveries are made during the fiscal year. On the contrary, the outstanding balance in the suspense loss account at the end of the year is charged to unrecovered losses (expense).

270. The process of the suspense accounts reconciliation takes place monthly, however the outstanding balances are not cleared timely (Table 3.20). The data obtained from the AG office showed outstanding balances throughout the year in the suspense amount and not reconciled more than 2 months after the end of the year. The nature of transactions is such that it does not create a risk for the governemnt, as these relate to payments or receipts on behalf of other DAOs. However based on the inefficiency in the practices this dimension is rated 'D'.

Table 3.20: Suspense account- Inter DAO transactions

(PKR in Million)

MONTH	Addition	Clearance	Net	Addition	Clearance	Net
		Expenditure			Receipt	
Jul-17	332.2	(0.7)	331.5	0.01	(0.3)	(0.2)
Aug-17	28.2	(185.3)	(157.1)	8.10	(2.4)	5.7
Sep-17	12.8	(166.9)	(154.1)	36.57	(3.3)	33.2
Oct-17	11.9	(138.3)	(126.4)	0.29	(3.9)	(3.6)
Nov-17	10.7	(13.0)	(2.3)	2.61	(0.2)	2.4
Dec-17	9.5	(3.4)	6.0	0.89	(157.4)	(156.5)
Jan-18	19.1	(4.7)	14.3	1.92	(2.1)	(0.2)
Feb-18	16.6	(12.0)	4.6	9.50	(0.4)	9.1
Mar-18	163.6	(3.6)	160.0	130.63	(7.1)	123.6
Apr-18	243.7	(19.0)	224.7	85.93	(2.4)	83.6
May-18	12.8	(251.6)	(238.8)	3.20	(82.9)	(79.7)
Jun-18	19.1	(62.3)	(43.1)	967.84	(976.2)	(8.4)
6-2018 FINAL	5.1	(2.6)	2.5	6.86	(0.1)	6.8
TOTAL	885.3	(863.5)	21.8	1,254.37	(1,238.8)	15.6

Source: Accountant General Office

27.3 Advance accounts

271. This dimension assesses advances to the government officials', suppliers advance, revenue advances (under the Land Improvement Act), and departmental advances (under special orders). The nature of advances, operation (preparation, authorization, treatment, consolidation, and reconciliation of advances) is provided in the Public Works Code, General Financial Rules, APPM, public procurement rules.

272. Government of Punjab does not provide staff advances Outstanding travelling advances amounted to PKR 223 Million in the year (2017-18). The process of the advance settlement upon submission of the invoices and receipts is swift; however amounts are outstanding mainly because of non-submission of invoices by the travelling staff. The DG works audit report was relied upon to determine the status of supplier's advance. The report included findings with respect to non-recovery of supplier's and works related advances and in some cases recommended disciplinary action. Therefore the dimension is rated 'D'.

27.4 Financial data integrity processes

273. The introduction of GFMIS, particularly the roll out of organizational management (OM) module and the integration of human resource (HR) and Financial (FI) modules, has improved financial data integrity. System based budget checks are applied on the non-salary expenditure as a result any claim not having budget allocated on the GFMIS is returned.

274. All changes in the background data for salary and non-salary transactions are made after written authorization of the competent authorities. Access on GFMIS is restricted subject to the authority levels and the changes made in the data leaves a trail for audit.

275. Access on GFMIS is by authorization and based on the level and nature of authorization. The CGA Office has notified three levels for data entry and authorization at Level 0, 1, and 2. Multiple levels of checks and balances are available within the AG Office and counter checked by the Director General Provincial Audit. A team within the AG Office verifies the data integrity and conducts surprise unscheduled inspections. The assessment is based on the framework, rules, and procedures notified which in theory and practice are quite robust. Therefore the dimension is rated 'A'.

PI-28 In-year budget reports

276. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow the monitoring of budget performance and, if necessary, timely use of corrective measures.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-28 In-year budget reports	**C+**	**Overall rating based on M1 methodology**

28.1 Coverage and compatibility of reports	*C*	*Coverage and classification of expenditure data allows direct comparison to all items of the current budget, but in case of development budget the comparison is at the aggregate level only as development budget is presented as single line.*
28.2 Timing of in year budget reports	*B*	*Monthly Civil accounts and C&W monthly progress reports are issued within 4 weeks from the end of each month. The former includes outturns data and the latter includes summary physical progress in percentage numbers.*
28.3 Accuracy of in year budget reports	*C*	*Monthly civil accounts and the progress reports capture the budget execution for payments only and not commitments. Moreover, the data is not supported with qualitative analysis.*

28.1 Coverage and comparability of reports

277. The budget and expenditure can be classified according to the Entity, Function, Object, Fund, and Project. The IT Platform provided for the accounting function facilitates report generation on these elements from GFMIS. Provincial AG Office generates reports such as the monthly civil accounts from the system; IPSAS cash basis financial reports, appropriation accounts and budget execution reports. All spending units have been provided a GFMIS terminal.

278. The current budget is comprehensively classified at the time of the budget preparation; however gaps exist in the classification of the development budget as it is presented as one-line. The district education and health authorities and the local government's transfers in the interest of maintaining their autonomy are transferred as one-line and reported as such in the annual financial statements. The development budget comprises almost one third of the total provincial consolidated fund. The dimension is rated 'C'.

28.2 Timing of in-year budget reports

279. Each drawing and disbursing officer (DDO) using the appropriatee code can get budget execution performance online at even the minor object head level. It includes information on budget, supplementary budget, re-appropriations, excesses and surrenders, cash released, expenditure and balance. In addition, monthly civil accounts provide the budget execution status along with the variance and are available online within four weeks after the end of the month. For the development budget, the C&W department that is responsible for infrastructure development submits monthly progress reports that provide summary physical progress and expenditure utilization. The reports do not include (commentary) qualitative analysis but provides outturns data, therefore the dimension is rated 'B'.

28.3 Accuracy of in-year budget reports

280. The monthly civil accounts are sourced from GFMIS and therefore captures the payments related data and not commitments. The key issue with the development budget is the compatibility. For some projects (umbrella schemes) a

direct match with the budget execution is not possible because the umbrella schemes have to be broken down at the DDO level when the project execution commences while the budget data in the ADP is provided at aggregate level. Therefore this dimension is rated 'C'.

PI-29 Annual financial reports

281. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-29 Annual financial reports	**C+**	**Overall rating based on M1 methodology**
29.1 Completeness of annual financial reports	*C*	*Financial reports are prepared annually and provide budget and actual data, but do not include information on financial assets, liabilities, guarantees and obligations*
29.2 Submission of reports for external audit	*B*	*Submission of error free financial reports takes place within 6 months after the end of fiscal year.*
29.3 Accounting Standards	*B*	*Annual financial statements are prepared according to IPSAS cash basis financial reporting format. Majority of the IPSAS cash basis financial reporting standards (mandatory requirements) have been adopted. The standards and variations are disclosed in the annual financial reports*

282. Like other provinces, in Punjab the responsibility for the preparation of annual financial statements rests with the Provincial Accountant General (AG). Annual financial statements are prepared using the IPSAS cash-basis format for financial reporting.

29.1 Completeness of annual financial reports

283. The provincial AG office produces the annual civil and appropriation accounts and the annual financial statements (AFS). The cash basis IPSAS format is used for the preparation of AFS. The Auditor General Pakistan certifies and provides opinion on the AFS. Although modified cash basis of accounting is adopted, the CGA in the preface to the AFS discloses that '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'. As the AFS does not include information on assets, liabilities, guarantees and obligations the dimension is rated 'C'.

29.2 Submission of reports for external audit

284. The first draft for the finalization of accounts is submitted in August of each year, which is finalized by DG Audit by 1st week of December each year. The fiscal year

ends on 30th June. Error free reports are submitted to Auditor General Pakistan within 6 months of the end of the fiscal year therefore this dimension is rated 'B'.

Table 3.21: Date of Submission of Final Accounts

Year	First draft submitted by AG office	Final Report submitted by DG Audit
2017-18	30 August 2018	05 December 2018

Source: DG Civil Audit

29.3 Accounting standards

285. The financial statements are prepared by the AG (Punjab) under New Accounting Model (NAM) and comply with the format of IPSAS cash-basis financial reporting. Majority of the international standards have been incorporated. The mandatory requirements for IPSAS Cash basis financial reporting are adopted for the preparation of the statement of receipts and payment and the variance analysis. AFS includes the following:

- Statement of cash receipts and payments
- Statement of cash flows
- Statement of comparison of the budget and actual amounts by function
- Statement of comparison of budget and actual expenditure by department

286. The financial statements include the 'notes to the financial statements' and the auditor's opinion—the 'auditor's note' and the 'preface' of the reports provides the variations. The notes to the financial statements also provides the 'disclosures, explanatory notes and the accounting policies' followed. The annual financial statements include 'third party payments' certified by the AGP office providing evidence to the incorporation of the majority of the international standards.

287. The commitment and asset and liability accounting practices are not yet implemented and the reports do not include accrued receipts and liabilities. The standards not incorporated relate to the 'Restrictions on Cash Balances and Access to Borrowings and the exchange rate differences for the opening and closing cash balances'. As majority of the international standards for cash basis accounting have been incorporated, the dimension is rated 'B'.

Pillar VII: External scrutiny and audit

288. This pillar assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

PI-30 External audit

289. This indicator examines the characteristics of external audit.

Indicator and *Dimensions*	**Indicator/** *Dimension* **Scores**	**Brief Explanation**
PI-30 External audit	**C**	**Overall rating based on M1 methodology**
30.1 Audit coverage and standards	*C*	*Financial reports of Government of Punjab and PSEs representing the 'majority' of total expenditure and revenue have been audited, using national auditing standards incorporating ISSAI's. Significant issues have been highlighted.*
30.2 Submission of audit reports to the legislature	*C*	*Audited financial reports were submitted to the legislature within 9 months of the receipt of financial reports from the provincial AG.*
30.3 External audit follow up	*C*	*A comprehensive response is provided by the Executive to audit findings however not timely, as delays in holding DACs were noted and MFDAC (2016-17) included findings from the year 2013.*
30.4 SAI independence	*C*	*Provincial directorates of the Auditor General Pakistan (AGP) enjoy full independence from the Executive, being the administrative arm of the AGP. It conducts its operational matters independently and has no restriction in access to government's finance related record nor has any limitations on audit reports publication once reviewed by PAC. It prepares its own budget within the budget ceilings conveyed to all state institutions.*

External Audit in Pakistan

290. The Auditor General Pakistan (AGP) is the Supreme Audit Institution (SAI) of Pakistan, entrusted under Constitutional provisions (Box 3.5) with the audit of the Federal, Provincial and Local Governments. The Auditor General's (Functions and Powers) Ordinance 2001 delineates the functions and powers of AGP. The reports are presented to the President and the Governors in the Center and Provinces respectively, 'who cause them to be laid before respective National and Provincial Assemblies' to be discussed by the respective Public Accounts Committees.

291. The respective offices of the Director Generals of Audit represent the AGP in the provinces. Functional distribution of work amongst the Director Generals is Civil, Works, Receipts, District, Commercial, Petroleum Audit and so on. Owing to workload due to area and population of the province, administratively the province is divided

into two regions- North and South. Audit offices are staffed with the officers from the Pakistan Audit and Accounts Service (PA&AS) and the ex-cadre departmental staff.

30.1 Audit coverage and standards

292. AGP has adopted the INSTOSAI auditing standards (AGP annual report 2017) and notified:

- Financial Audit Manual (FAM),
- associated Working Papers Tool Kit;
- Field Audit Guidelines; Quality Management (QMF) and the Quality Control (QC) Frameworks.
- Guidelines on Audit Command Language (ACL) has also been developed and adopted.

293. As per AGP policy, all audit assignments are to be conducted in compliance with FAM (amended in 2010), Performance Audit Manual and guidelines that are based on the INTOSAI standards and guidelines. The implementation of QMF (2010) ensures periodic reviews for compliance with quality standards. The Quality Control Reviews examine the compliance with standards / methodologies and document deviations for rectification.

294. AGP Strategic Plan (2015-19) notes no gaps pertaining to auditing standards and methodologies notified, however, the QC reviews document gaps in its compliance owing to lack of capacity. Functionally the audit coverage includes revenue and expenditure using ISSAI standards, key issues have been identified, however the financial coverage (Table 3.22) shows the **majority** of the expenditure and revenues have been audited therefore the dimension is rated 'C'.

Table 3.22: Audit coverage statistics

Audit Report Year	**Provincial government operations coverage**		**District government, health and education authorities**
	% Of Expenditure audited	% Of Revenue audited	% Of Exp. audited
2017-18	66%	87%	66%
2016-17	55%	77%	63%
2015-16	74%	26%	52%
3-year average	65%	63%	60%

Source: Audit reports of the respective Directorates. For district audit average calculated based on sample audit reports

30.2 Submission of audit reports to the legislature

295. Two types of audit reports are submitted to the legislature- compliance audit is the audit of the spending agencies with irregularities (findings/paras) reported, while the certification audit is the audit of the annual appropriation accounts. This dimension according to the PEFA Handbook assesses the audited financial reports which in Pakistan perspective refer to the certification audit, while the compliance audit reports are covered in PI 31, reflecting on the PAC's performance. According to

the data obtained from the DG Provincial Audit Table 3.23 gives the time lapse between submission and receipt of reports by the respective offices.

Table 3.23: Status of submission of audited financial reports

Fiscal year	Draft Financial reports submitted for audit	Certification by Audit	Submission to provincial assembly	Time lapse since the date of receipt
2015-16	28-Aug-16	30-Dec-16	24-Mar-17	7 months
2016-17	23-Aug-17	28-Dec-17	31-Jan-18	5 months
2017-18	30-Aug-18	29-Dec-18	25-Feb-19	6 months

Source: Monitoring Wing, Finance Department

296. As per the Auditor General Pakistan notification, the first draft of the financial reports has to be submitted by the AG office by the 30th August each year which after certification by the Auditor General Pakistan are submitted to the Governor of the Province for submisison to the legislature. Table 3.23 provides the time lapse since the receipt of the financial repots, indicating a delay of 7, 5 and 6 months respectively. The dimension is rated 'C'.

30.3 External audit follow-up

297. The Financial Audit Manual (FAM) stipulates the following reporting cycle of compliance audit*:*

i. Development of Draft Audit Report (DAR)
ii. Departmental Accounts Committee (DAC) meeting
iii. Quality assurance review at DAGP
iv. Audit report issued to President
v. Pre-PAC meeting with the AGP or Additional Auditor-General
vi. Public Accounts Committee (PAC) Meeting

298. For compliance audit, a team headed by an Audit Officer is assigned to audit field formations/entities of the provincial government. The irregularities (observation statement) identified in the field are reported to the concerned Drawing and Disbursing Officer (DDO) for response. If the audit observation is not resolved at the DDO level it forms part of audit inspection reports (AIR) and is submitted to the Principal Accounting Officer (PAO, the head of the line department/provincial entity). The PAO directs the officers to prepare a reply to these Proposed Draft Paras (findings) and an annotated response for the auditor is prepared which includes the audit finding, the department's response and the Departmental Accounts Committee (DAC) directive. The Departmental Accounts Committee (DAC) is the forum that provides for the monitoring of compliance of the audit observations. The Draft audit report is updated based on the DAC proceedings. The findings other than those forming part of the audit report are compiled and issued as MFDAC.

299. The Executive made a formal and comprehensive response, however issues were identified in terms of timeliness of the DAC meetings and the settlement of findings. MFDAC attached with the audit report 2016-17 included findings pertaining to the year 2013-14 while the delay in responding to audit findings was reported frequently as were the repetition of similar findings. Therefore this dimension is rated 'C'.

30.4 Supreme audit institution (SAI) independence

300. The Auditor General Pakistan (AGP) is a Constitutional position appointed by the President of Pakistan and enjoys complete independence during its tenure and autonomy in operational matters (Box 3.5). Article 161 and 162, in describing the functions and powers of the AGP, authorizes it to audit federal and provincial government accounts or accounts of any entity established or under control of the federal or provincial governments. [26]

Box 3.5: Constitution of Pakistan (1973) **<u>Article: 168 Auditor-General of Pakistan</u>**
1) There shall be an Auditor-General of Pakistan, who shall be appointed by the President. (2) Before entering upon office, the Auditor-General shall make before the Chief Justice of Pakistan oath in the form set out in the Third Schedule. **[(3) The Auditor-General shall, unless he sooner resigns or is removed from office in accordance with clause (5), hold office for a term of four years from the date on which he assumes such office or attains the age of sixty-five years, whichever is earlier.]** **[(3A) The other terms and conditions of service of the Auditor-General shall be determined by Act of Majlis-e-Shoora (Parliament); and, until so determined, by Order of the President.]** (4) A person who has held office as Auditor-General shall not be eligible for further appointment in the service of Pakistan before the expiration of two years after he has ceased to hold that office. (5) The Auditor-General shall not be removed from office except in the like manner and on the like grounds as a Judge of the Supreme Court. (6)At any time, when the office of the Auditor-General is vacant or the Auditor-General is absent or is unable to perform the functions of his office due to any cause,**[the President may appoint the most senior officer in the Office of the Auditor-General to]** act as Auditor-General and perform the functions of that office

301. The budget of the AGP's Department (DAGP) is charged upon the Federal Consolidated Fund and is not required to be voted in the Parliament. The process entails the Ministry of Finance to convey indicative budget ceilings for all state institutions, based on which the office of the Auditor General Pakistan prepares its own budget. This process as stated in the Auditor General's Strategic Plan[27] does not fully comply with INTOSAI standards with respect to financial independence. The Strategic Plan states that "efforts would be made to secure approval of Federal Government for the appropriate changes in the Rules of Business 1973 to upgrade the status of the DAGP and enhanced financial/ administrative powers for AGP, to meet the INTOSAI recommendations on organizational and financial independence".

302. The DG Audits (Revenue, Works, Commercial, Water resources, Power sector, Petroleum, Provincial, District and so on) represent the Auditor General in the province and exercises complete autonomy from the Executive in its appointment,

[26] The annual report of the Auditor General 2017-18 provides detailed description of the constitutional independence http://www.agp.gov.pk/userfiles1/file/DAGP-AR-17-18.pdf
[27] www.agp.gov.pk/userfiles1/file/Strategic-Plan-2015-19.pdf

removal, budget availability, and operations. By virtue of the constitutional position and the Auditor General Ordinance (2001), the AGP office and its representatives have unrestricted and complete access to the Government records for all offices of the provincial governments, extra-budgetary units, and those corporations that receive either full or partial funding from the Government.

303. The provincial directorates of AGP prepare its own audit plan independently from the executive, though it is approved by its parent office (AGP). It has unrestricted access to all provincial government records as stipulated in the Auditor General Pakistan Ordinance (2001). There is no limitation on the audit office to publish reports. For reports reviewed by the PAC, as the PAC prepares and publishes an annual report based on the findings of the audit reports, the audit office does not publish these reports to avoid repetition. The dimension is rated 'C' given that the budget is not fully independent of the executive in its preparation and approval.

PI-31 Legislative scrutiny of audit reports

304. This indicator focuses on legislative scrutiny of the audited financial reports of the provincial government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.

Indicator and *Dimensions*	**Indicator/** Dimension **Scores**	**Brief Explanation**
31. Legislative scrutiny of audit reports	**B**	Overall rating based on M2 methodology
31.1. Timing of audit report scrutiny	*D*	*Scrutiny of audit reports takes place more than 12 months after the submission of the audit reports.*
31.2. Hearings on Audit findings	*A*	*In-depth hearings on audit reports take place with participation of the senior audit staff and relevant line department staff is ensured*
31.3 Recommendations on audit by the legislature	*A*	*PAC issues directives for compliance and follows up; however, instead of a robust system-based monitoring and reporting of directives, it is carried out manually by the PAC secretariat.*
31.4. Transparency of legislative scrutiny of audit reports	*C*	*Committee reports are published on the Provincial Assembly website after the review is completed and the report is endorsed by the House. The last audit report available to the public pertains to the audit year 2011-12*

305. Legislative oversight of Government's fiscal operations is stipulated in the Constitution of the Islamic Republic of Pakistan (1973) and Section C, Chapter XVII of the Rules of Procedure, 1997 of the Provincial Assembly that provides for two Committees of Public Accounts. Clause 177 stipulates the functions of the PAC assiging it the scrutiny of the appropriation accounts and the income and expenditure statements of the public sector entities and autonomous bodies.

31.1 Timing of audit report scrutiny

306. This dimension assesses the audit reports examined by the Public Acccounts Committee (PAC). The Constitution of Pakistan (1973) stipulates the procedure for submission of audit reports to the legislature at the federal and provincial levels. According to Article 171 of the Constitution of Pakistan, "…the reports of the Auditor-General relating to the accounts of a Province shall be submitted to the Governor of the Province, who shall cause them to be laid before the Provincial Assembly…". This constitutional stipulation involves the role of the additional office (Governor) prior to submission of audit report to the legislature. The compliance audit is not subject to the finalization of accounts rather the audit of the spending agencies commences after the end of FY according to the audit plan of respective audit offices.

307. According to the Punjab Assembly Rules of Procedure (1997), the scrutiny of the audit reports, unless the Provincial Assembly passes a motion otherwise, should be completed 'within a period of one year from the date on which the reference is made to it by the Assembly'.

308. In PEFA review period, the audit reports were submitted to the provincial Assembly with a time lag (Table 3.24). The tenure of the previous provincial assembly concluded in May 2018. Subsequent to the general election the members of the provincial assembly took oath on August 2019. The Public Accounts Committee (PAC) was constituted in March 2019 and the hearings of the findings in the compliance audit report commenced in May 2019. This dimension is based on the review of the schedule, sample working papers and minutes of the FY 2015-16, 2016-17 and 2017-18. The PAC met for 31 days in the FY 2015-16, 45 days in the year 2016-17 and 37 days in the year 2017-18 to review the audit reports for the period 2012-13, 2013-14 and 2014-15. The review completion process took more than twelve months, therefore the dimension is rated 'D'.

Table 3.24: Duration of Legislative Scrutiny

Audit Year	Date of Audit Report Submission	Status of the hearings by the PAC as of July 2019
2015-16	18 October 2016	Commenced May 2019
2016-17	18 October 2017	Report not yet discussed by PAC
2017-18	02 May 2018	Report not yet discussed by PAC

Source: Punjab Provincial Assembly Secretariat

31.2 Hearings on audit findings

309. Punjab Provincial Assembly has two PACs and a de facto arrangement entails the Leader of the Opposition to chair one PAC. The meetings of the PAC take place during the days when the House is adjourned. The process of PAC hearings commences with the preparation of working paper on the audit findings by the Executive for submission to the PAC. Owing to the large number of observations, the hearings are scheduled to ensure participation of the Executive (department relevant to audit findings) and the Director General Provincial Audit or its representatives at the PAC hearings.

310. All those departments that have received a qualified or adverse opinion are included in the schedule of hearings and participate as per the schedule. The press communiques and the PAC reports offer evidence to the detailed hearings taking place at the PAC meetings. In the absence of the review of the audit reports of the FY 2015-16, 2016-17 and 2017-18 by PAC, sample working papers and the minutes of the ongoing meetings of the two PACs were reviewed to ascertain the level of participation. The working papers and PAC reports provided the details of the discussions during the hearings. The sample working paper and the minutes reviewed pertained to fiscal year 2017-18 however included findings from audit reports relevant to the years 2012-13, 2013-14 and 2014-15. As the hearings are indepth with participation of senior level officers from the departments with observations, the DG Audit and the Accountant General (where relevant) the dimension is rated 'A'.

31.3 Recommendations on audit by the legislature

311. The PAC issues directives (recommendations) on audit findings (referred to as audit paras). The types of directives issued include those where the PAC is satisfied are settled, or further information is requested or in case where it is considered necessary it recommends to the Executive an action according to the Service and Disciplinary Rules or under other anti-corruption framework. After the first PAC meeting, the review of the prior directives is the order of the business for susbequent meetings. In addition, monitoring an implementation sub committee is also formed that reviews the follow up action on compliance of the directions of Public Accounts Committee.

312. However, owing to the absence of a robust MIS, the PAC lacks a system based support for monitoring of compliance by the Executive; rather it is carried out manually by the PAC secretariat. PAC hearings and directives (recommendations) are documented for the annual report that constitutes the audit finding, response from the executive and the PAC recommendations. The dimension is rated 'A'.

31.4 Transparency of legislative scrutiny of audit reports

313. Clause 158 of the Punjab Assembly Rules of Procedure (1997) requires the sittings of a Committee shall be held in private unless the Committee, by a majority, decides otherwise. Currently, press releases are issued to the media. The PAC reports, subsequent to its tabling to the House and after its endorsement, are uploaded on the Provincial Assembly website. The last report available on Provincial Assembly website is for the year 2011-12 that was made public in April 2018 and the report for the year 2010-11 was published on May 2017. Therefore the dimension is rated 'C'.

4. CONCLUSIONS ON THE ANALYSIS OF PFM SYSTEMS

314. This section presents an integrated analysis of the PFM performance across the seven pillars. It explains how the performance affects the government's ability to achieve the fiscal and budgetary outcomes and identifies the key strengths and weaknesses.

4.1 Integrated assessment of PFM performance

Transfers from Higher-Level Government (HLG)

315. Government of Punjab (GoPb) is dependent on the Federal fiscal transfers (77 percent of the general receipts). With limited options for other sources of resource mobilization, the variation in HLG transfers can impact the fiscal discipline in the province with a corresponding influence on the service delivery. The variation in fiscal transfers (general purpose) was high which then led to the traditional practices of budget adjustments to avoid unfunded outturns. GoPb has decided to explore alternate options and as a first step has drafted the fiscal responsibility and debt limitation bill. With Debt Sustainability Analysis conducted, GoPb will benefit from a medium term debt management strategy to initiate dialogue with the Center for debt creation. Simultaneously, the Government is to focus on enhancing the revenue base as it allows greater predictability and spending autonomy.

Pillar I. Budget Reliability

316. The assessment of this Pillar was conducted based on integrated data for both domestic and foreign financed expenditure and grants. The original budget estimates vis-à-vis the actual collections were reviewed to reflect on the quality of estimates.

317. Besides high volatility of federal transfers and fluctuating revenue collection the Finance Department managed its budget well, keeping the aggregate expenditure outturns within 10 percent during the PEFA review period. However, performance plummets when viewed from the functional and economic classification perspective. High deviations can be mainly attributed to the optimism in the estimates, excessive virements and weak public investment management regime. The latter is largely due to the lack of supporting evidence to inform development budget allocations. Budget allocation without having the requisite supporting information and without taking into consideration the time required in the administrative and procurement processes invariably results in the underutilization of funds, paving the way for budget adjustments, evidenced in the massive re-appropriations.

318. The General Sales Tax (GST) on services comprises the major revenue source, devolved to the provinces in 2012 (administration of the tax by the provinces commenced in the year 2013-14). Since its devolution, the collection under GST has seen a continuous increase, whereas other taxes did not display a similar result, except the 'stamp collection' that was reformed and automated recently. The Agriculture Income Tax, which has been a provincial mandate all along, showed a declining trend while the property tax collection evidenced the highest outurns..

Pillar II. Transparency of Public Finances

319. The Punjab Assembly recognized the citizen's right to information by enacting the Right to Information Act (2013) to improve transparency. In order to make the

budget process more transparent the Government relied on the 'Open Budget Survey' which facilitated in improving the citizen's access to information.

320. The budget classification system adapted from the central/federal government provides for uniformity in the fiscal disclosures. The Chart of Accounts (COA), embedded in GFMIS is aligned with the GFS (1986) allowing timely and comparable reporting, albeit for the current budget only. The development budget is presented as single line. The citizen's budet is now prepared however with technical support. The citizen's budget is published and so are the monthly civil accounts. Including qualitative information in the budget utilization reports that has further enhanced the transparency regime.

321. Transfers to the SNG are formula based and transparent, but the timeliness on the information of the resource availability to the primary service delivery units is poor which inhibits informed budget making at the service delivery levels. The lack of a medium term output based budgeting has undermined performance evaluation and rendered the budget allocation mechanism random and arbitrary. Finally, the Government established the Corporate Finance Unit to enhance its oversight of the fiscal operations outside the government financial reports; however it has a limited mandate. A large number of autonomous bodies funded by the Government have remained under the monitoring radar, particularly the deposits held in the scheduled banks by the extra-budgetary units.

Pillar III. Management of assets and liabilities

322. The lack of a complete picture of the assets (financial and non-financial) and the lack of a comprehensive monitoring can create considerable fiscal risks. In the given milieu, the risks are mitigated largely due to a lean debt management framework in the province. A limited facility for debt creation is available to the province while the local governments are barred from creating debt. However, there is no current debt management strategy. In future, the government is considering bond issue and further tapping public private partnerships to augment its resource envelope. Both areas have the potential for creating fiscal risks, hence the need for strengthening the regulatory capacity.

323. The recording of non-financial assets is scattered. Almost all key departments own non-financial assets - land, buildings and so on. There is no robust asset management system and on the bookkeeping side no balance sheet. Public investment while treated as expenditure, ultimately convert into an asset, however this is not accounted for towards the government's net worth. Given that the government is contemplating to explore the debt market and issue bonds, the absence of a government's balance sheet would seriously limit the government's options. FD in support from the WB, conducted debt sustainability analysis (DSA) and has drafted a fiscal responsibility and debt limitation bill on the pattern of the federal government.

324. The lack of linkage between public investment regime and the overall provincial growth strategy (currently under review for the second round), with the sector strategies weakens the budget allocation mechanism. Currently, the annual development program (ADP) is coming apart from the seams. Over 9,300 schemes (projects) were included in the ADP 2017-18 with a scheme costing as low as PKR 0.4

million (USD 0.002 million) to as high as 165,226 million (USD 1,180 million). Disintegrated and incremental budgeting has eclipsed the impact of capital investments on the recurrent budget. While other budgeting reforms (medium term output based budgeting) are in the pipeline, there is no rationalization of the ADP..

325. Fiscal monitoring of the sub national governments is a weak area. The local governments have portent revenue sources that need to be augmented but lack a robust fiscal monitoring mechanism. The LG system has been amended thrice since 2001. The continual changes in the LG system and structure created more confusion than certainty.

Pillar IV. Policy-based fiscal strategy and budgeting

326. GoPb adopted the MTFF to present its medium term fiscal goals and objectives. It aided the FD in maintaining fiscal discipline at the aggregate expenditure level. While the FD encountered volatility in revenue generation and unpredictability in the HLG fiscal transfers, it could only make timely adjustments to maintain discipline in the public expenditure at the aggregate level. However, the discipline gave way when analyzed from the functional and economic classification perspective. The traditional budgeting and massive re-appropriations turned out to be the nemesis of MTFF. The lack of an output based and medium term perspective in the budget is posing serious challenges for GoPb in strategic allocation of resources.

327. The lack of a policy based fiscal strategy is impacting budget management. The expenditure policies with stated objectives are not costed to offer its fiscal impact on the budget and two outer years. As a result the policies are devised without determining the fiscal impact. The same is true for the revenue policies. The current practice of submission of the revenue mobilization measures to the Cabinet lacks a strategic and medium term perspective. The non-quantification of tax exemptions results in policies such as the deferred collection of property tax is a case in point.

328. Budget preparation in terms of processes is elaborate with a clearly defined calendar for different steps that has ensured approval of budget before the start of the new fiscal year; however two aspects are clearly wanting. The budget calendar is adhered to however the late start of the budget preparation process takes the submission of the budget to the legislature to the last fortnight of the budget year, leaving little time for legilsative scrutiny. Secondly, the strategic perspective of the budget-making is eluded when the indicative budgetary ceilings are not provided to the budgetary units. Finally, the scope and depth of the legislative scrutiny of budget is limited. Currently, the scrutiny process does not provide for specialized committee within the legislature to review the budget and also the review largely focuses on the ADP rather than a holistic scrutiny from an improvement in the service delivery perspective.

Pillar V. Predictability and control in budget execution

329. Although the legal framework supporting revenue administration is relatively robust, the fragilities in the revenue administration particularly revenue risk management, audit an investigations and arrears management has taken a toll on the budget realiability, evidenced in the revenue outturns. The revenue collection (direct and indirect taxes) is clearly defined and mostly conducted through the treasury.

Reporting daily by the State Bank of Pakistan informs the cash management practices. However, the revenue reconciliation process only focuses on the adjustments of misclassifications rather than reconciliation of assessments and arrears.

330. The key constraining factor in the predictability of funds and fiduciary controls is the lack of commitment accounting. The lack of its practice by the Line Departments undermines the desire not to incur expenditure arrears, consequently influencing the cash forecasting and monitoring by the Finance Department. The creation of large volume of arrears and limited cash releases creates a mirage of efficient budget execution and obfuscates project execution inefficiencies. Limited cash releases against large expenditure arrears allow discretions at the payment stage that can create moral hazard.

331. While the procurement monitoring has improved, the grievance redress mechanism, quality of procurement plans and use of competitive methods are areas of weakness. The non-availability of data for procurements using non-competitive methods has undermined the transparency of procurement operations.

332. Theoretically, the controls framework particularly the segregation of duties is quite elaborate; however its implementation may suffer in the event of shortage of staff. The system based budget check is applied for non-salary expenditure negating payments in the event of non-availability of budget; however the same is not applied on salary expenditure on the pretext of protected expenditure. The lack of a robust internal audit function coupled with the absence of payroll audit questions the effectiveness of the actual practice of fiduciary controls, while the administrative non-separation of the auditing and accounting function defeats the spirit of the fiduciary controls.

Pillar VI. Accounting and reporting

333. The timely production of the accounts and financial statements has improved tremendously. Although the advances and suspense accounts as a practice rated poorly, their limited scope and volume and the nature of the outstanding balances are not a cause of concern. The outstanding advances mainly pertain to staff travel advances while the suspense amounts relate to payments on behalf of a different district accounts offices. The bank reconciliation as a process takes place monthly but includes unidentified amounts throughout the year undermining the data integrity.

Pillar VII. External scrutiny and audit

334. The offices of the provincial audit[28] are extensions of the Supreme Audit Institution, Auditor General Pakistan, therefore are free from the Executive's influence and exercises the authority stipulated in the Constitution and the sub legislation. The audit coverage was not sufficient despite the administrative distribution of audit offices (North and South region) to ensure greater spread. The follow up of audit findings by the Executive is insipid, as long outstanding audit findings still continue to be part of the audit reports.

335. The existing systems and capacity do not provide an enabling environment for an effective legislative oversight. Public Accounts Committee (PAC) lacks proper

[28] It refers to the various provincial direcotrates of audits representing the AGP

support, in terms of dedicated budget and staff. Most of the work is conducted manually (Excel and Word based). A robust and automated monitoring mechanism is needed for PAC Secretariat that would to assist in ascertaining the status and ageing of compliance of its directives by the Executive.

4.2 Effectiveness of the internal control framework

336. The internal control framework of Punjab, as set out in Annex 2 has assorted features. While the theoretical framework for some functions reflects good practice, it also includes paradoxes.

Control environment: Legal framework

337. The Constitution of Pakistan (1973) sets out the broad principles for intergovernmental fiscal relations, budgeting, accounting, and audit and legislative oversight. In addition the sub legislation, rules and manuals complement the control environment. The roles, procedures, and processes for the control environment (PI-10-13, PI-18 and PI-22-27) are delineated in the following statues and manuals:

General Financial Rules/Punjab Financial Rules	Pension Rules
Treasury and Supplementary Rules	Statutory Regulatory Orders/Notifications
Delegation of Financial Powers	Assignment Account procedures
Pakistan Public Works Departmental and Account Codes	Civil Service Act and the Rules of Business
Manual of Accounting Practices and APPM	Auditor General Pakistan and Controller General of Accounts Ordinance
Public Procurement Law and Rules	Punjab Provincial Assembly Rules of Procedure
Relevant tax and non-tax laws	Companies Act

Control environment: Operational framework

338. The enforcement of internal controls is supplemented with the pre-audit function of the AG Office and inspection role of the DG audit. The New Accounting Model (NAM) adopted in 2000 includes the Chart of Accounts providing for uniform classification on the following elements: Entity, Function, Object, Fund, and Project. The country-wide unified Scheme of Classification (Chart of Accounts) along with an automated online/real-time interface provides the required IT backing to the control framework.

339. The principles for the ethical and integrity framework are grounded in the General Financial Rules (standards of financial propriety), Cabinet division notifications (gifts by public servants and deposit in Toshakhana),[29] and Procurement Law (code of ethics and integrity pact). The competency framework and commitment is defined in the civil service structure notified in the relevant codes and procedures of the Government. However, in practice, inconsistencies occur where individuals from different service groups are posted to positions where the requirements are different from the training received by the individuals.

340. The rules and manuals prescribe the systems and procedures and processes to be in place for the control environment, which is supported by the authorization

[29] Toshakhana refers to a vault or a place to keep valuable items or gifts received by a monarch. In modern times the reference is to gifts received by a public office-holder of a certain value and must be deposited with the Government in a Toshakhana.

requirements in the GFMIS. Different levels of authority are granted to access and use the GFMIS to ensure the data integrity.

341. A proactive model of promoting disclosures within the entity and incentivizing entrenchment of ethical behavior and integrity does not exist. All government departments have an organizational structure representing the hierarchy and the administrative and functional reporting requirements. The HR policies and procedures are provided in the establishment code (federal and provincial), Civil Servants Act (appointment, promotion and transfer rules), efficiency and discipline rules, and other related rules and policies issued from time to time.

Risk assessment

342. The key shortcoming in the internal control framework is the absence of internal audit function on the lines of IIA and the lack of a methodical risk assessment (PI-10, 13, and 19). The internal audit function (PI-26) is rudimentary and not backed by internal audit regulations while the focus is largely on financial compliance than providing support to review and strengthen internal controls. The Management's response ranges from non-existent to minimal. The deficiencies in commitment accounting (PI-21 and 25), debt management (PI-13), and oversight of extra budgetary units and public sector enterprises (PI-6 and 10) have constrained risk management.

343. GFMIS has the capacity for asset management, and purchases of above PKR 500,000 are recorded in that module. However, robust asset management does not exist. Because the record is not reconciled between the AG and line departments, activities such as asset return are not captured. Finally, the number of budget revisions taking place in the form of re-appropriations and supplementary grants in a fiscal year undermines controls and risk assessment.

Control activities

344. The Manual of Accounting Practices and other relevant rules governing financial management define the control activities for authorization and approval procedures, segregation of duties, access to records, verifications, and reconciliations. Eight key steps (PI-25) are necessary in expenditure transactions: (a) sanction of expenditure; (b) preparation of claim voucher (bill) for payment (except for salaries and wages); (c) approval of expenditure; (d) registration of purchase order/claim voucher; (e) certification (pre-audit) of claims; (f) authorization of payment; (g) issue of payment; and (h) recording of expenditure in the accounting records. In order to exercise effective control over expenditure, the roles and responsibilities are assigned as per the following arrangement:

- Head of the Administrative Department as Principal Accounting Officer;
- Head of the Attached Department/Public Corporation/Project Director/Autonomous Body as Controlling Authority;
- Head of the Office as DDO.

345. The expenditure bill processing entails double-checks (a due process for preparation and approval of payment bills at departmental level) as well as an extensive pre-audit at DAO/AG Office. The policies, procedures, and rules have sufficient provisions on segregation of duties for data entry, pre audit, and payments.

Delegation of financial powers (PI-25 and -27) outlines the categories of officers, powers common to all departments, and special powers to certain departments vis-à-vis their expenditure-sanctioning competency.

346. In order to ensure that the government's payment obligations remain within the limits of annual budget allocations (as revised) and within projected cash availability, the GoPb Financial Rules stipulate budget availability review and the raising of a purchase order for authorization of expenditure. The revised estimates of expenditure for a financial year are used as the best possible forecast of the actual expenditure for that year and serves as expenditure control mechanism. The FD in consultation with the administrative department heads around the third quarter of the fiscal year finalizes the revised estimates of expenditure. Punjab Financial Rules, APPM, Budget Manual (1999), and annual Budget Call Circular stipulates provisions on the preparation, scrutiny, review, and authentication of the revised estimates.

347. The government does not notify an annual cash release policy (PI-8 and 21) but makes cash available 3-6 months before to ensure predictability of funds. Expenditure cannot be incurred without a prior release approved by the FD. This serves as a control over non-salaried expenditure/commitments against appropriated budget and actual cash availability.

348. In addition to budget availability review, other key controls for non-salaried expenditure (PI-25) constitute sanction to expenditure by competent authorities as per delegation of financial powers, adherence to the provisions of relevant rules and regulations, administrative and technical approvals for expenditure related to works, and fulfillment of responsibilities related to accounts maintenance and regular reconciliation of expenditure. All of these key controls are mostly adhered to, and exceptions if any are properly authorized and sanctified by competent authorities. Any exceptions and its procedure are spelled out in the APPM, and any variation is allowed after provision of justification and approval.

Gaps in control activities

349. The repeated audit findings of similar irregularities and the continuous reporting of weak internal controls in the external audit reports reflect on the effectiveness of the control environment.

- The lack of a capacitated internal audit unit backed with rules and procedures, audit programs and documentation is the key gap in the control activities.
- The administrative non-separation of the audit and accounts function creates a conflict of interest.
- The commitment accounting is not practised and as a result expenditure arrears cannot be determined.
- The continuity of manual procedures with the automated system has deterred the full automation of accounting function. The manual submission of the credit memo copy for the GP fund and the last pay certificate are still mandatory practices for the staff to draw their salaries upon posting to another district.
- Segregation of duties is comprehensively stipulated. Controller General of Accounts (CGA) notified a three-tiered segregation in the accounting office (AGPR/

Accounts General) for data entry, pre-audit, and cheque issuance. However, the segregation tends to get compromised in the event of shortage of staff at the DAOs.

Information and communication

350. GFMIS provides IT backing for financial management and reporting. The monthly civil accounts available to the line departments online can produce the budget execution reports that can facilitate the management decision support system by collecting financial performance. Additionally, information is submitted to the P&D Department on the financial performance of the projects (ADP schemes). The framework, in terms of rules of business, and complementary rules and manuals are available and define the flow of information inter- and intra-departmentally. However, in practice, some of the areas had shortcomings in terms of availability of information with the P&D Department on off-budget projects and the availability of information on public sector enterprises with the FD.

Monitoring

351. A multi-tier M&E framework forms part of the government oversight mechanism. The implementing agencies responsible for public investments like C&W conduct monitoring during the project execution. The DG M&E conducts project monitoring and impact evaluations of the ADP projects (PI-6, 8, 11, 26, and 28). Similarly external mechanisms (PI-18, 30, and 31) – audit and legislative oversight of the budget and fiscal operations also exist. However, the legislative oversight is not system based and methodical.

4.3 PFM strengths and weaknesses

352. A transparent and orderly PFM system enables the achievement of the three budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient use of resources for service delivery. This section explains the results from the three budgetary outcomes perspective.

Aggregate fiscal discipline

353. Government of Punjab being a SNG, this PEFA assessment commenced with the review of the transfers from the higher-level government (HLG). The variation in the fiscal transfers had a direct bearing on fiscal discipline. At the aggregate level the government managed the expenditure variation by constraining the cash releases and through budget cuts; however this has led to the accumulation of expenditure arrears. Although the government does not have a system to document the expenditure arrears, the Finance Minister’s speech in the 2018-19 budget pointed at non-payment of substantial contractor’s liabilities.

354. Amongst others, the lack of a robust fiscal strategy and the absence of determination of the fiscal impact of expenditure and revenue policy proposals have impacted budget credibility. Property tax is a case in point, which is either impacted by the overestimation or uninformed policy decisions or both. The deficiencies in the revenue administration (risk management, arrears monitoring, and revenue audits) have kept the dependence on the federal transfers very high.

355. On the expenditure management side, estimation is based on optimistic revenue forecasts that ultimately results in budget cuts and revisions. Finally, the

weak strengthening the internal audit function has lead to ineffective internal controls that in turn inhibits fiscal discipline.

Strategic allocation of resources

356. An effective and predictable allocation mechanism of resources to strategic policy priorities is dependent upon reliable revenue forecasts. However, the revenue outturns offer evidence to the unreliability of forecasts. The decision-making in the PFM realm is characterized by a one-year vision. The consequences of the current year's capital investment decisions on the recurrent budget are unknown, constraining strategic budget management. Government of Punjab (GoPb) took a decision in the year 2003 (ADB-PRMP Validation report) to give a medium term perspective to budget. Under the Punjab Resource Management Program (PRMP) the efforts to pilot medium term and output based budgeting were rolled out, but it is not graduated to the whole of the government to help linking policy planning to budget.

357. The Budget Strategy Paper (BSP) provides the fiscal aggregates and the status of the budget (balance/imbalance) in the projected years, facilitated the strategic allocation of resources. The practice of the preparation of the BSP discontinued in the year 2014-15 to resume again in the FY 2017-18. The irregular preparation of the BSP, its submission to the legislature and linking it with the sector plans has limited allocative efficiency and fiscal discipline.

358. The existing development budget practices do not support effective public investment management (PIM). Although the guidelines issued by the P&D Department on the ADP formulation referred to aligning the investment decisions with the Punjab Growth Strategy (2014-18), the lack of costed sectoral strategies undermined the allocative efficiency. The fragilities in project planning, costing, prioritization, and screening coupled with a large number of virements impacted the investment decisions. Given the limited resources, there is no rationalization of the development budget that ensures strategic allocation of resources. The criterion for ADP does not include only those schemes that are highly complex and capital intensive and those projects that have externalities for other districts which does not make the ADP manageable and weakens public investment decisions.

Efficient use of resources for service delivery

359. While PFM may not directly improve service delivery, research has proven that deficient PFM is directly proportional to oor service delivery. The current PFM practices in Punjab lack the performance element. The budget documents lack performance information weakening accountability in the use of resources. The lack of availability of the indicative budget ceilings undermines proper planning by the service delivery units. While the lack of budget codes for the primary and some secondary service delivery units in GFMIS dilutes the expenditure tracking below a certain level.

360. Effective internal controls promote innovations in service delivery, while excessive controls can stifle it. The introduction of the grants to service delivery units in the education sector was meant to promote creativity but excessive controls overshadowed it. The procedural complexities, lack of integrated systems, and

capacity are constraining innovations in the service delivery. The output-based and medium term budgeting is essential however the fundamentals are not developed.

361. The existence of large expenditure arrears offers evidence to the deficiencies in the budget allocations. The absence of the commitment accounting clouds the under swell created due to payment arrears and what appears to be efficient budget utilization could be misleading. A large share or resources are consumed by wage bill, leaving little resources for innovations in service delivery. The lack of the internal audit framework and periodic pay roll audit may limit the efforts to ensure ghost workers phenomenon is kept in check. Finally, the legislative oversight is currently focused on the infrastructure development. Scrutiny from the perspective of improving service delivery generates debate and elicits questions on the outputs and outcomes of the public investments but this is lacking and inhibits budget reform.

4.4 Performance changes since a previous assessment

362. This section provides a comparison of the results using PEFA 2011 Framework with the current data (2015-16, 2016-17 and 2017-18) to determine the progress or regression since the last Punjab PEFA assessment in 2012. The comparator assists in assessing how the changes since the previous assessment are likely to strengthen the ability to achieve the three fiscal and budgetary outcomes – aggregate fiscal discipline, strategic allocation of resources and efficient budget management.

363. The results in the comparator validate that the Government of Punjab managed to stay the course of PFM reforms. The overall results show that the performance increased on 17 percent of the indicators while the rating remained the same on 45 percent of the indicators. Including the HLG indicator, of the total 29 indicators assessed, performance improved on 5 indicators and remained the same on 13. The performance on 11 indicators decreased however it was not entirely due to the government's performance rather the optimism and the lack of contextualization in the previous PEFA led to the decline in the scores on 6 indicators.

364. The 5 indicators where the rating declined due to poor performance included the lack of reliability of the revenue forecasts that resulted in the lower revenue outturns relative to the budget. The transparency of the intergovernmental fiscal relations was impacted due to the late communication of the budget allocations to the local governments. The oversight of the public sector enterprises and autonomous bodies deteriorated which may be linked to an increase in the number and the volume of such entities' portfolio. Moreover, the continuous changes in the local government system created uncertainty for service providers as well as for the audit. The medium term perspective in fiscal planning has remained a weak area, besides being part of the government's commitment to introduce a medium term perspective and performance alignment to its budget process. The coverage of audit declined as compared to the performance in the prior PEFA 2012 decreased, resulting in a lower score. In addition, while the reconciliation of bank accounts, advance and suspense accounts takes place regularly however the outcomes showed unsettled balances beyond the stipulated period.

365. The improvement on 5 indicators included the Government's efforts to maintain fiscal discipline in expenditure management at the aggregate level and the compositional outturns as comapred to PEFA 2012 recorded a slight improvement.

The controls in the tax payer registration system was the only tax administration dimension that documented improved rating due to the introduction of the tax payer's identification number under GST on services. The debt sustainabilty analysis conducted by the FD in collaboration with the World Bank and the consolidation of cash balances improved the cash and debt management practices while slight improvement was recorded on procurement related indicator with respect to the robustness in the legal framework.

366. The performance indicators where the performance remained static were internal audit, legislative scrutiny (both ex ante and ex post). These indicators show that strengthening the legislative oversight while improving the internal audit function has not moved which are vital for instituting effective internal controls. Finally, the government has benefitted from the devolution of the GST on services and collection has remarkably improved, however it is yet to be seen whether the collection of major provincial revenues matches its potential and how much of revenue is lost due to the absence of a robust revenue risk management, audit and investigation mechanisms.

5. GOVERNMENT PFM REFORM PROCESS

5.1 Approach to PFM reforms

367. Government of Punjab's efforts to strengthen PFM were formalized in the ADB funded Punjab Resource Management Program[30] (PRMP, 2003-07) mandated to improve 'fiscal and financial management reforms to improve resource mobilization, reduce debt service, and provide fiscal space for poverty-focused initiatives'. The Program validation report (ADB, 2011) recognized the fiscal space created through the retirement of expensive debt but noted that the fiscal and financial reforms required continued support. As a result ADB approved PRMP II[31] (2007-2011) articulating reform measures for performance orientation in planning and budgeting frameworks; a fully-funded and well-managed civil service pension system; improved efficiency of the civil service apparatus, and introduction of public private partnerships.

368. The World Bank funded Punjab public management reform program[32] (2013-18) was rolled out with the mandate to improve transparency and resource management of targeted departments of the Province of Punjab. In addition, parallel support with PFM components in social sector was provided in the Education and Health sector reforms programs.

369. DFID (UK) funded Sub-national Governance (SNG) Program (2013-18) supported public financial management, planning and local government reform in Punjab province. In 2015, Government initiated a structured approach towards PFM reforms undertaking a consultative exercise and drafted a PFM reform strategy. A donor coordination forum was established and reform areas were allocated to different development agencies. A Government counterpart was also nominated for each of the activities. Quarterly monitoring meetings chaired by the Finance Minister were held to review progress on each activity.

370. The initial thrust of PFM reforms required consolidation therefore the GoPb commissioned PEFA assessments in the year 2007 and 2012 to take stock of the reform efforts and provide a roadmap for concerted efforts.

371. The lack of alignment of budget with the overall development strategy (Punjab Growth Strategy, 2013-18) is the key constraining factor. The second round of the Punjab Growth Strategy is being formulated and the GoPb plans to embed the upcoming PFM reforms strategy into the overall growth strategy. The current PEFA assessment in this regard is quite timely, as its results will inform the new PFM reforms strategy.

5.2 Recent and on-going reform actions

372. **Finance Department restructuring**: In a bid to improve service delivery in the province, Government of Punjab constituted companies under the Companies Act to

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[30] ADB (2011) 'Validation report - Punjab Resource Management Program'

[31] ADB (2014) 'Project Completion Report- Punjab Governemnt Efficiency Improvement program'

[32] World Bank (2019) 'Implementation status and Results Report-Punjab Public Management Reform Program'

allow autonomy in its operations. Given the size and volume of its fiscal operations, it was deemed necessary to build capacity of the Finance Department to provide oversight to address fiscal risks. Similarly to strengthen debt management and fiscal policy making in the province debt and tax reform units were established. In the wake of aforementioned developments a comprehensive review and restructuring exercise was carried out in 2015 that led to the creation of the following specialized units at the Finance Department:

373. **Debt Management Unit**: The DMU was made operational, enabling government to manage debt and new borrowing, and maintain debt records and debt liabilities in an efficient and effective manner. DMU has been instrumental in the sale of Federal Government's promissory note, developing a draft fiscal responsibility act for the province, developing software for effective debt record-keeping, initiating the process of credit rating for GoPb; and making recommendations for the issuance of provincial bonds, subject to the federal government's approval.

374. **Corporate Finance Unit (CFU)** was established to enhance the capacity to enhance the oversight of the fiscal operations and risks associated with the corporate entities. CFU's activities have included developing a financial database of public sector companies (PSCs) to help assess liabilities arising out of PSCs and allowing alignment of their fiscal needs with the provincial budget, representing the Finance Department in board meetings of these PSCs; and developing a draft performance management index to monitor the quality of governance of PSCs.

375. **Tax Reform Unit (TRU)** was created to help GoPb design an evidence-based tax policy. TPU's activities include undertaking studies to assess revenue potential, tax expenditure, and revenue gaps in Punjab, regularly analysing collection of revenue by provincial departments, advising the Finance Department on tax related policymaking, helping develop evidence-based tax proposals; and developing an evidence-based estimate of own-source revenues during the last two years.

376. **Making budget process participatory:** In order to prioritize public investments the Government instituted a pre budget consultation mechanism facilitating the citizen's sector experts' feedback in the budget formulation process. The stakeholders involved in the process included the legislators, the chamber of commerce and industries and other segments of society including agriculturists. For the input of Provincial Assembly members, a Pre-Budget consultation questionnaire was developed to determine priorities for budgetary allocation in different sectors. The priorities formed in the pre budget session of the provincial assembly were ranked and compiled in a report and shared with all departments to use in the budget making process. The evaluation of influencing the budget allocations would offer evidence on the effectiveness of this mechanism.

377. **Medium Term Budgetary Framework (MTBF)**: Government is striving to shift from an incremental approach to budgeting. It has been developing technical documents such as MTFFs and budget strategy papers (BSPs). Recently, the Finance Department issued budgetary ceilings to all line departments, which will help improve prioritization of budget.

378. **Provincial Revenue Authority** responsible for collection of sales tax on services was established after this tax was devolved to the provinces in the year 2012.

The establishment of the PRA in 2013 and in the successive years enhanced the revenue base as it increased the scope of tax from 14 services to 62 in the year 2018, while 25,000 new taxpayers were identified. The revenue collection enhanced from PKR 44 Billion in 2012 to PKR 106 Billion in 2018.

379. **Automation of Property Tax Records:** One of the major problems in collection of Urban Immoveable Property Tax (UIPT) was the absence of a central and electronic registry of properties in Punjab. The initiative in a phased manner conducted geo-tagging of all properties and creation of a database in all districts.

380. **Introduction of E-Stamping:** The manual and disorganized issuance of the Stamp papers[33] was not only a loss to the provincial exchequer as stamp papers were counterfeited but hindered service delivery to the citizens. A pure home-grown idea, GoPb launched E-Stamp Paper initiative in collaboration with Finance Department, Punjab Information Technology Board (PITB), Board of Revenue and Bank of Punjab. E Stamping has resulted in increase of approximately 40% in revenue.

5.3 Institutional considerations

Government leadership and ownership

381. Top leadership has been sponsoring PFM reforms in the province that created ownership from the top down facilitating the implementation of the reform efforts. The Finance Ministers in the province have been highly qualified individuals with specialization in Economics and Finance. The leadership appreciated the significance of the PFM reforms and has been active participants. A road map was developed for strengthening PFM and the reform agenda entailed increasing fiscal space and mobilizing provincial resources, reducing transaction costs, capacity building of the Finance Department, and establishing systems to attain value for money in the public investments.

382. In order to manage the reform efforts, M&E framework and a dash board was developed requiring fortnightly updates for review by the Finance Minister and Finance Secretary. With the general elections in the year 2018, a new regime has been sworn in. Although improving governance is inherent to the new government's vision, continuity of provision of stewardship to PFM reforms would be required to ensure the reforms gain traction.

Coordination across government

383. A comprehensive PFM strategy has to take into account the requirements of the line ministries / departments. Therefore, effective coordination mechanism both interdepartmental and government to donors is vital for the success of PFM reforms.

384. The PFM roadmap instituted during the last Government provided an effective forum for donor coordination as well as intra Government coordination. A Donor Coordination Committee was set up for coordination between government departments and development partners, including Gesellschaft für Internationale Zusammenarbeit (GIZ), World Bank, DFID to support the implementation of PFM

[33] The stamp paper is used for issuing a power of attorney or transacting agreements containing financial deals, contracts, affidavits and declarations

reforms in Punjab. Quarterly progress review meetings were held. In the year 2018, due to elections the meetings could not be held however, with the new government in place, the coordination mechanism would need to be reinvigorated to ensure concerted efforts for reforms.

Sustainable reform process

385. Government has taken significant measures to formalize and institutionalize initiatives such as the re-organization of Finance Department, establishment of debt management, tax policy and corporate finance units. However, PFM reforms, like other reforms, cannot be sustained unless appropriate capacity building efforts accompanies the reforms. An overarching capacity building capacity building strategy is vital to ensure staged capacity building of the government officials to facilitate knowledge transfer from consultants to civil servants.

386. Similarly while citizen's budget initiative was completed without technical assistance support, it remains to be seen whether Government can continue to do analyses like MTFF or Budget strategy paper without technical support. Sizeable resources have been allocated for the provision of technical support by the development partners in the form of programs like PRMP, PGEIP, PPRM and SNG. Government may like to plan for the fiscal space required for TA support in the event the government has to assume fiscal responsibility.

Transparency of the PFM program

387. The validation reports of different programs refer to the development of the PFM reforms strategy and prior to that a PFM roadmap guiding the PFM reform efforts. However, the lack of public availability of the strategy undermined the transparency of the PFM reform program.

388. Operationally the Government of the Punjab has demonstrated its commitment to making the budget more transparent and in this regard, the open budget survey was conducted with technical assistance provided by the SNG program. This led to the development and publication of the annual Citizens' Budget and 'Punjab Budget Transparency Review' report. This initiative has led to the improved Open Budget Index (OBI)/ Budget Transparency Report (BTR) score of the Government.

389. However the lack of public availability of the PFM reforms strategy undermines the transparency of the PFM reform process. The commitment towards introduction of the medium term budgetary framework has been articulated in the PRMP (2003-07), reiterated in the PRMP II (2007-12) and in SNG programme (2013-18), however it has still not been adopted government wide. Transparency is important for setting expectations and soliciting contributions and collaboration from various stakeholders, while the program's financing needs to be fully reflected in the government's budget documentation ex-ante and ex-post.

ANNEXES

Annex 1. Performance indicator summary

Indicator /Dimension	Score	Brief description of requirement met
Transfers from HLG	**D+**	**Overall rating based on M1 methodology**
HLG 1.1. Outturn of transfers from HLG	*C*	*Transfers were 102, 88 and 85 % of the original budget in the FY 2015-16, 2016-17 and 2017-18*
HLG 1.2. Earmarked grants outturn	*C*	*The difference between the original budget estimate and actual earmarked grants did not exceed 10 percent in two of the three FYs: 2015-16, 2016-17 and 2017-18*
HLG 1.3. Timeliness of transfers from HLG	*D*	*Federal Government in the month of May communicates a disbursement schedule for revised estimates of the ongoing year and the budget estimates for the next year. In an agreed arrangement between the center and the provinces, funds from divisible pool are released fortnightly however in year variations have been sizeable in each month in the last 3 years.*
Pillar I. Budget reliability		
PI-1 Aggregate expenditure outturn	B	*Aggregate expenditure outturn was 93, 91 and 88 percent of the approved original budget in the years 2015-16, 2016-17 and 2017-18*
PI-2 Expenditure composition outturn	**D+**	**Overall rating based on M1 methodology.**
2.1 Expenditure composition outturn by function	*D*	*Variance in expenditure composition by functional classification was 20, 25 and 8 percent in the FY 2015-16, 2016-17 and 2017-18.*
2.2 Expenditure composition outturn by economic type	*C*	*Variance in expenditure composition was 13, 11 and 9% in 2015-16, 2016-17 and 2017-18*
2.3 Expenditure from contingency reserve	*A*	*GoPb does not use contingency as budget code*
PI-3 Revenue outturn	**D**	Overall rating based on M2 methodology
3.1 Aggregate Revenue Outturn	*D*	*Actual revenue outturn was 82, 90 and 91 percent of the original budget in the years 2015-16, 2016-17, and 2017-18*
3.2 Revenue composition outturn	*D*	*Variance in revenue composition was 16, 11 and 16 percent in the years 2015-16, 2016-17 and 2017-18.*
II. Transparency of Public Finances		
PI-4 Budget classification	**A**	Budget formulation, execution, and reporting use a classification system that can produce consistent documentation comparable with GFS/COFOG 1986, however with certain modifications. The development budget is presented as single line therefore does not include sub functional classification
PI-5 Budget documentation	C	*GoPb provides 3 basic elements and 1 additional element (Table 3.8) in its budget documents. While, elements 5 and 6 are not applicable to Punjab being a SNG.*

Indicator /Dimension	Score	Brief description of requirement met
PI-6 GoPb operations outside financial reports	**D**	**Overall rating based on M2 methodology.**
6.1 Expenditure outside financial reports	*D**	*FD lacks a central mechanism to determine the exact size of expenditure and revenue data outside government financial reports.*
6.2 Revenue outside financial reports	*D**	
6.3 Financial reports of extra budgetary units	*D**	*The attendance of the government representative in the Board meeting and submission of the financial accounts to the Board is the mechanism of provision of the financial reports. A methodical system for financial reporting does not exist to facilitate the provision of information on the details of assets and liabilities, and guarantees and long-term obligations*
PI-7 Transfers to SNG	**B**	**Overall rating based on M2 methodology**
7.1 System for allocating transfers	*A*	*The horizontal allocation of **all** transfers to local governments from province is determined by transparent and rule-based systems.*
7.2 Timeliness of information on transfers	*C*	*The SNGs receive the budget ceilings after the passage of the provincial budget.*
PI-8 Performance information for service delivery	**D**	**Overall rating based on M2 methodology.**
8.1 Performance plan for service delivery	*D*	*GoPb has not adopted output-based budgeting nor is separate Information published on policy or program objectives, key performance indicators, outputs to be produced, and the outcomes planned.*
8.2 Performance achieved for service delivery	*D*	
8.3 Resources received by service delivery units	*D*	*GFMIS does not capture the service delivery unit level information owing to the lack of budget codes for a large size of primary health and primary and secondary education service delivery units. AS a result, neither the budget documents, nor the annual financial statements or GFMIS can generate this data*
8.4 Performance evaluation for service delivery	*C*	*External evaluation of health and education programs and performance audits have been carried out of the projects in Irrigation, Transport and revenue in the year 2015-16 and 2016-17.*
PI-9 Public access to fiscal information	A	Government makes available to public all basic and one additional element. (Macroeconomic forecasts not applicable to SNG).
III. Management of Assets and Liabilities		
PI-10 Fiscal risk reporting	**D+**	**Overall rating based on M2 methodology.**

Indicator /Dimension	Score	Brief description of requirement met
10.1 Monitoring of public corporations	*C*	*Government receives financial reports from public corporations/PSEs within 9 months of the end of financial year (FY)*
10.2 Monitoring of subnational governments	*D*	*Audited or unaudited financial reports of the sub-national governments are not published within 9 months of the close of FY.*
10.3 Contingent liabilities and other fiscal risks	*D*	*Budget White paper and debt bulletin provides the guarantees issued against the limit allowed by the Council of Common interest (CCI). While Bank of Punjab submits separate annual financial reports to the Government providing details of guarantees. However, the annual financial statements prepared by the AG office does not quantity and produces such data.*
PI-11 Public investment management	**C+**	**Overall rating based on M2 methodology**
11.1 Economic analysis of investment proposals	C	*Economic analysis is conducted for major investment projects, reviewed by P&D Department but results are not published.*
11.2 Investment project selection	B	*Provincial screening forums have a clear mandate for project proposals. The criteria for project selection is provided in the P&D guidelines on ADP formulation and the Provincial Development Working Party prioritize the projects.*
11.3 Investment project costing	C	*The budget documents only provide project-wise details of total capital and recurrent cost for the budget year but in the two outer years in the MTDF these costs are provided at aggregate level and not segregated by capital and recurrent cost estimates.*
11.4 Investment project monitoring	B	*Investment project monitoring is conducted by implementing unit as well as the P&D department. 'Punjab Works code' serves as the rules for implementation. P&D publishes project monitoring reports during project execution and evaluation reports post execution on its website.*
PI-12 Public asset management	**D+**	**Overall rating based on M2 methodology**
12.1 Financial asset monitoring	C	*The government maintains a record of its holdings in **major** categories of financial assets but is not published.*
12.2 Non-financial asset monitoring	C	*The Government maintains a record of its non-financial assets however is neither consolidated nor the information is published. Partial information on usage and age is available.*
12.3 Transparency of asset disposal	D	*The transfer and sale of financial assets is governed by the Punjab Financial Rules while the sale of non-financial assets is governed under the auction rules. The information on sale of nonfinancial assets only to the extent of sale proceeds is provided in the budget.*

Indicator /Dimension	Score	Brief description of requirement met
PI-13 Debt management	**B**	**Overall rating based on M2 methodology**
13.1 Recording and reporting of debt and guarantees	*B*	*Domestic and foreign debt records are complete, reconciled and produced bi-annually in the debt bulletin available on FD website*
13.2 Approval of debt and guarantees	*A*	*Constitution provides for debt creation by the provinces, subject to conditions. In addition, the GFR, Securities Manual, and the Accounting Policies and Procedures Manual (APPM) provide for the operational framework. In provinces, the responsibility rests with the Finance Department and the annual borrowing is approved by the provincial legislature.*
13.3 Debt management strategy	*D*	*Medium-term debt management strategy does not exist.*
IV. Policy-based Fiscal Strategy and Budgeting		
PI-14 Macroeconomic and fiscal forecasting	**C**	**Overall rating based on M2 methodology.**
14.1 Macroeconomic forecasts	*NA*	*Not Applicable. Macroeconomic functions rest with the central government.*
14.2 Fiscal forecasts	*C*	*Government prepared BSP and MTFF report with qualitative analysis, however, was not submitted to the legislature.*
14.3 Macro fiscal sensitivity analysis	*NA*	*Not Applicable.*
PI-15 Fiscal strategy	**D+**	**Overall rating based on M2 methodology.**
15.1 Fiscal impact of policy proposals	*D*	*Government does not prepare the estimates of the fiscal impact of revenue and expenditure policy proposals.*
15.2 Fiscal strategy adoption	*C*	*GoPb prepares for internal use BSP and MTFF supported with analytical report.*
15.3 Reporting on fiscal outcomes	*C*	*The government prepares presentation on the progress made against its revenue mobilization proposals*
PI- 16 Medium-term perspective in expenditure budgeting	**D**	**Overall rating based on M2 methodology.**
16.1 Medium-term expenditure estimates	*D*	*Only the annual 'development' budget includes a medium-term perspective (budget year and two following years).*
16.2 Medium-term expenditure ceilings	*D*	*Aggregate and or department level medium term expenditure ceilings were not provided to the Line departments prior to the issuance of budget call circular.*
16.3 Alignment of strategic plans and medium-term budgets	*C*	*Medium-term sector strategies are prepared for majority of the sectors - agriculture, education, industries, urban development, health, WASH. Expenditure proposals in the annual budget for some departmental estimates align with the strategic plans.*
16.4 Consistency of budgets with previous year's estimates	*D*	*Medium term budget has not been adopted government wide therefore the budget document does not provide the variance analysis with a medium-term perspective*

Indicator /Dimension	Score	Brief description of requirement met
PI-17 Budget preparation process	**C**	**Overall rating based on M2 methodology.**
17.1 Budget calendar	*A*	*A clear BCC exists and is adhered to by the LDs. FD issued BCC in Oct 2017 (for budget year 2018-19) and allowed the line departments at least 6 weeks to prepare the budget estimates.*
17.2 Guidance on budget preparation	*D*	*BCC for the budget year 2018-19 included detailed guidelines and forms but indicative budget ceilings were not included.*
17.3 Budget submission to the legislature	*D*	*GoPb submitted budget proposals to the legislature less than one month before the start of the fiscal year.*
PI-18 Legislative scrutiny of budgets	**C+**	**Overall rating based on M1 methodology.**
18.1 Scope of budget scrutiny	*C*	*Legislative review covers details of expenditure and revenue in the form of demand for grants but does not include review of the fiscal policies. MTFF is also not submitted to the legislature*
18.2 Legislative procedures for budget scrutiny	*C*	*Budget scrutiny procedures have been provided for in the Provincial Assembly Rules of Procedure (1997) stipulating the 'fundamentals' of the budget proposals review. These are adhered to in practice. The rules do not provide for technical support and review committee.*
18.3 Timing of budget approval	*A*	*Budget has been approved prior to the start of fiscal year in the last three years*
18.4 Rules for budget adjustment by the Executive	*B*	*The rules for adjustments are set out clearly and are adhered to in most cases. Rules are silent on the amounts of expenditure that can be reappropriated.*
V. Predictability and Control in Budget Execution		
PI-19 Revenue administration	**D+**	**Overall rating based on M2 methodology.**
19.1 Rights and obligations for revenue measures	*B*	*Entities collecting majority of revenue provide on its website the information on main revenue obligations and rights and conduct media campaigns to educate taxpayers on taxes and incentives offered*
19.2 Revenue Risk management	*D*	*A partly structured risk management is conducted for a few of the taxes.*
19.3 Revenue audit and investigation	*D*	*Revenue audit and investigations are not based on a systematic plan nor does a methodical compliance improvement plan exist in most of the revenue authorities.*
19.4 Revenue arrears monitoring	*D**	*The stock of revenue arrears particularly the historical data could not be determined.*
PI-20 Accounting for revenue	**C+**	**Overall rating based on M1 methodology**
20.1 Information on revenue collections	*A*	*FD website provides monthly information on revenue collection*

Indicator /Dimension	Score	Brief description of requirement met
20.2 Transfer of revenue collections	*A*	*Entities collecting most of the provincial government revenues use the Treasury account for the revenue collection. The amount of collection outside the treasury as identified by the Revenue receipts audit was less than 1 % of the total revenue collection*
20.3 Revenue accounts reconciliation	*C*	*Monthly reconciliation of tax and non-tax collection and transfer takes place but not of the assessments and the arrears.*
PI-21 Predictability of in-year resource allocation	**C+**	**Overall rating based on M2 methodology**
21.1 Consolidation of cash balances	*A*	*SBP provides daily cash position to FD that is based on bank balance position of main accounts (like A/C 1) and sub accounts (like RFAs), however the Treasury Single Account does not exist, and the cash position does not capture deposits in the schedule banks. The indicator is rated based on the provincial government main accounts and not Extrabudgetary units.*
21.2 Cash forecasting & monitoring	*D*	*Cash forecasting and monitoring takes place daily relying on the cash position provided by the SBP. However, the forecasts do not reflect the commitments of the line departments or liabilities created.*
21.3 Information on commitment ceilings	*B*	*FD does not notify a cash release policy but provide information on cash availability 3-6 months in advance for current and development budget respectively.*
21.4 Significance of in-year budget adjustments	*C*	*In-year budget estimates are rules based and transparent, but significant number of adjustments takes place.*
PI-22 Expenditure arrears	**D**	Overall rating based on M1 methodology.
22.1 Stock of expenditure arrears	*D**	*Owing to the lack of functional commitment accounting practices GoPb does not have a mechanism to record expenditure arrears.*
22.2 Expenditure arrears monitoring	*D*	*Information on expenditure arrears is not available therefore monitoring of expenditure arrears does not take place.*
PI-23 Payroll controls	**C+**	**Overall rating based on M1 methodology.**
23.1 Integration of payroll and personnel records	*B*	*Payroll is supported with full documentation and checked against previous month's data. Staff hiring is controlled by budget availability and sanctioned strength. Additional budgetary requirement arising out of staff promotion is addressed through supplementary grants if the existing budget is insufficient.*
23.2 Management of payroll changes	*A*	*The retroactive adjustments were 2.4 percent of the total salary payments in the year 2017-18*
23.3 Internal control of payroll	*A*	*Authorization and basis of changes in personnel record and payroll are comprehensively defined in the controls framework- Punjab Financial Rules and APPM.*

Indicator /Dimension	Score	Brief description of requirement met
23.4 Payroll audit	*C*	*Partial payroll audit/physical survey has been conducted however not across the province.*
PI-24 Procurement	**D+**	**Overall rating based on M2 methodology**
24.1 Procurement monitoring	*D**	*Spending units are obligated to maintain all procurement related records. The database to monitor the record at PPRA is available. However, the value of procurements by non-competitive methods was not available therefore the materiality could not be determined to rate this dimension.*
24.2 Procurement methods	*D**	*Data segregated by competitive and non-competitive procurement method was not available.*
24.3 Public access to procurement information	*C*	*Complete and reliable Information is available on PPRA website for legal framework, bidding opportunities and bid evaluation reports. Bidding opportunities and BERs were reviewed for the following sectors: Health, Transport, Energy and Communication and Works departments that represent the majority of the public sector investments.*
24.4 Procurement complaints management	*C*	*Complaint management system complies with requirement 1, 2 and 6. PPRA Rules (2014) briefly provides for grievance redress, but separate procedures have not been notified.*
PI-25 Internal controls on non-salary expenditure	**B+**	**Overall rating based on M2 methodology**
25.1 Segregation of duties	*A*	*All accounts offices have adopted three-level segregation of duties notified by the CGA. The General Financial Rules and the APPM stipulates the segregation for authorization, recording, custody of assets, and reconciliation functions.*
25.2 Effectiveness of expenditure commitment controls	*C*	*Practice of commitment accounting is patchy. Alternative methods like the budget availability and cash releases are adopted which are not effective for expenditure commitments evident from the expenditure arrears reported in the FM budget speech (2018-19).*
25.3 Compliance with payment controls	*A*	*All payments (over 90 percent) comply with payment procedures and exceptions are noted. Audit findings include approximately 3 percent of the audited expenditure incurred in violation of rules.*
PI-26 Internal audit	**D+**	**Overall rating based on M1 methodology**
26.1 Coverage of internal audit	*D*	*Internal audit function exists in most of the departments however is not supported with audit programs and functioning in line with IIA standards.*
26.2 Nature of audits and standards applied	*C*	*Internal auditors do not conduct evaluation of the internal controls effectiveness but primarily focus on financial audit'*

Indicator /Dimension	Score	Brief description of requirement met
26.3 Implementation of internal audits and reporting	*D*	*Only the internal audit wing of the Excise and taxation department provided data of audit programs with 40 percent compliance. While DG commercial audit noted the internal auditor reporting to the Heads of Finance.*
26.4 Response to internal audits	*D*	*Internal audit reports are not prepared by most of the entities as a result there is no response by the Management.*
VI. Accounting and Reporting		
PI-27 Financial data integrity	**D+**	Overall rating based on M2 methodology
27.1 Bank account reconciliation	*D*	*Book and Bank reconciliation as a process takes place on monthly basis, however the bank reconciliation statements included sizeable 'unidentified' amounts in each month during the FYs reviewed.*
27.2 Suspense accounts	*D*	*Reconciliation of suspense account as a process takes place monthly, however the 'DO Suspense account' record showed un-reconciled balances more than two months after the close of FY 2017-18.*
27.3 Advance accounts	*D*	*DG Works Audit report included findings on non-recovery of supplier's and works related advances. While TA advances data included unsettled TA advances of 223.8 Million more than three months after the end of the FY.*
27.4 Financial data integrity process	*A*	*Since the introduction of integrated FMIS the access and changes to records is restricted and recorded. Any change results in an audit trail. The DG audit conducts periodic inspections to verify financial data integrity.*
PI-28 In-year budget reports	**C+**	**Overall rating based on M1 methodology**
28.1 Coverage and compatibility of reports	*C*	*Coverage and classification of expenditure data allows direct comparison to all items of the current budget, but in case of development budget the comparison is at the aggregate level only as development budget is presented as single line.*
28.2 Timing of in year budget reports	*B*	*Monthly Civil accounts and C&W monthly progress reports are issued within 4 weeks from the end of each month. The former includes outturns data and the latter includes summary physical progress in percentage numbers.*
28.3 Accuracy of in year budget reports	*C*	*Monthly civil accounts and the progress reports capture the budget execution for payments only and not commitments. Moreover, the data is not supported with qualitative analysis.*
PI-29 Annual financial reports	**C+**	**Overall rating based on M1 methodology**
29.1 Completeness of annual financial reports	*C*	*Financial reports are prepared annually and provide budget and actual data, but does not include information on financial assets, liabilities, guarantees and obligations*

Indicator /Dimension	Score	Brief description of requirement met
29.2 Submission of reports for external audit	*B*	*Submission of error free financial reports takes place within 6 months after the end of fiscal year.*
29.3 Accounting Standards	*B*	*Annual financial statements are prepared according to IPSAS cash basis financial reporting format. Majority of the IPSAS cash basis financial reporting standards (mandatory requirements) have been adopted. The standards and variations are disclosed in the annual financial reports*
VII. External Scrutiny and Audit		
PI-30 External audit	**C**	**Overall rating based on M1 methodology**
30.1 Audit coverage and standards	*C*	*Financial reports of Government of Punjab and PSEs representing the majority of total expenditure and revenue have been audited, using national auditing standards incorporating ISSAI's. Significant issues have been highlighted.*
30.2 Submission of audit reports to the legislature	*C*	*Audited financial reports were submitted to the legislature within 9 months of the receipt of financial reports from the provincial AG.*
30.3 External audit follow up	*C*	*A comprehensive response is provided by the Executive to audit findings however not timely as delays in holding DACs were noted and MFDAC (2016-17) included findings from the year 2013.*
30.4 SAI independence	*C*	*Provincial directorates of the Auditor General Pakistan (AGP) enjoy full independence from the Executive, being the administrative arm of the AGP. It conducts its operational matters independently and has no restriction in access to government's finance related record nor has any limitations on audit reports publication once reviewed by PAC. It prepares its own budget within the budget ceilings conveyed to all state institutions.*
31. Legislative scrutiny of audit reports	**B**	Overall rating based on M2 methodology
31.1 Timing of audit report scrutiny	*D*	*Scrutiny of audit reports takes place more than 12 months after the submission of the audit reports.*
31.2 Hearings on Audit findings	*A*	*In-depth hearings on audit reports take place with participation of the senior audit staff and relevant line department staff is ensured*
31.3 Recommendations on audit by the legislature	*A*	*PAC issues directives for compliance and follows up; however instead of a robust system-based monitoring and reporting of directives it is carried out manually by the PAC secretariat.*
31.4 Transparency of legislative scrutiny of audit reports	*C*	*Committee reports are published on the Provincial Assembly website after the review is completed and the report is endorsed by the House. The last audit report available to the public pertains to the audit year 2011-12*

Annex 2. Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	The genesis of control environment for financial management can be traced back in Chapter VI of the constitution further delineated in the sub legislations and complemented with manuals and notifications. A robust framework for the control environment is provided for in the statutes. However, a key deficiency in the legal framework relates to the non-separation of audit and accounts service, which is beyond the provincial government's mandate. Additionally, gaps were found in theory and practice explained in the following sections.
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.	The principles for the ethical and integrity framework are provided in the General Financial Rules (Standards of financial propriety), Cabinet division notifications (gifts by public servants and deposit in Toshakhana) and Procurement law (Code of ethics and integrity pact).
1.2. Commitment to competence	The competency framework and commitment are defined in the civil service structure notified in the relevant codes and procedures of the Government. However, in practice inconsistencies occur where individuals from different service groups are posted to positions where the requirements are different from the trainings received by the individuals
1.3. The "tone at the top" (i.e., management's philosophy and operating style)	PAC report identifies poor compliance with PAC directives by the Executive and the Auditor General has identified repeatedly the lack of focus on strengthening internal controls at the Line Departments. From the aforementioned, it can be construed that the tone at the top for internal controls is not as supportive as it is required.
1.4. Organizational structure	All government departments have an organizational structure representing the hierarchy and the administrative and functional reporting requirements.
1.5. Human resource policies and practices	HR policies and procedures are provided for in the establishment code, civil servants act (appointment, promotion and transfer rules), efficiency and discipline rules and other related rules and policies issued from time to time.
2. Risk assessment	Risk assessment is the key weaknesses found in the government operations. A rudimentary level revenue risk assessment is not carried. Internal audit though at pilot stage however focuses on the financial compliance. The absence of a debt management strategy indicates lack of risk assessment. Similarly, fiscal risk reporting is weak owing to lack of monitoring of corporations and w weaknesses in monitoring the SNGs.
2.1 Risk identification	Corporate finance unit (CFU) and debt management unit (DMU) conducts fiscal risk assessments
2.2 Risk assessment	CFU and DMU conducts fiscal risk assessments
2.3 Risk evaluation	CFU and DMU conducts fiscal risk assessments
2.4 Risk appetite assessment	CFU and DMU conducts fiscal risk assessments

Internal control components and elements	Summary of observations
2.5 Responses to risk (transfer, tolerance, treatment or termination)	Not available
3. Control activities	Control activities tend to get compromised owing to disintegrated budgeting, Manual procedures parallel to automated system and gaps in practice in Segregation of duties
3.1 Authorization and approval procedures	Procedurally, eight key steps (PI 25) are required to be followed in all expenditure transactions, as stipulated in the Accounting Policies and Procedure Manual (APPM) that includes sanction of expenditure; preparation of claim voucher (bill) for payment (except for salaries and wages); approval of expenditure; registration of purchase order/claim voucher; certification (pre-audit) of claims; authorization of payment; issue of payment; recording of expenditure in the accounting records. A comprehensive process flow model in respect of major categories of expenditures is provided in APPM.
3.2 Segregation of duties (authorizing, processing, recording, reviewing) 3.3 Controls over access to resources and records	Segregation of duties is comprehensively provided for in the APPM and related documents. The CGA notified a three-tier segregation for data entry, pre audit and cheque issuance. However, in practice these tend to get compromised in the event of shortage of staff. Financial data integrity is ensured with a comprehensive mechanism of access and changes to records with an audit trail.
3.4 Verifications	Multiple levels of checks are in place at the AG Office and counter checked by the DG Civil Audit.
3.5 Reconciliations	The reconciliation of bank accounts, advances and suspense accounts are conducted monthly.
3.6 Reviews of operating performance	
3.7 Reviews of operations, processes and activities	
3.8 Supervision	Authorizations are defined in the delegation of financial powers rules and the APPM.
4. Information and communication	Monthly civil accounts are available online to facilitate the management decision support system. The framework in terms of rules of business and complementary rules and manuals is available and defines the flow of information inter and intra-departmental.
5. Monitoring	The function exists however weaknesses were found in the institutional arrangement, timeliness and quality of reporting.
5.1 Ongoing monitoring	P&D and FD monitor development and current budget of budgetary and Extra-budgetary units (PI 6, 11, 8, 26 and 28). DG audit conducts inspections for the adequacy of internal controls. Internal audit is weak. External mechanism (PI 18, 30 and 31) in terms of audit and legislative oversight of the budget (Ex ante) and fiscal operations (Ex post) is provided for in the government systems.
5.2 Evaluations	The M&E directorate of P&D conducts external monitoring and impact evaluation studies. From fiduciary controls perspective, the lack of a robust internal audit function the evaluations of internal controls do not take place while the Audit and Accountant General office conducts internal control process evaluations.

Internal control components and elements	Summary of observations
5.3 Management responses	The Management's approach towards the internal control framework is deficient. The instructions for compliance with the legal framework are issued from time to time, yet successive audit findings identify weak controls as a systemic issue.

Annex 3. Sources of information
Annex 3, A. List of Surveys and Analytical Work

No.	Institution	Title	Date	Link
1	Auditor General Pakistan	Annual Report (2016-17)	2017	www.agp.gov.pk
2	Auditor General Pakistan	Strategic Plan (2014-2019)	2014	www.agp.gov.pk
3	Annual Status Of Education	Annual Status Of Education Report 2018	2018	http://aserpakistan.org/index.php
4	Asian Development Bank	Validation Report, Punjab Resource Management Program	2010	www.adb.org
5	Asian Development Bank	Project Completion Report, Punjab Government Efficiency Improvement Program	2014	www.adb.org
6	Center for Peace and Development Initiatives	Policy Paper on Punjab Provincial Finance Commission (PFC) Award	2018	www.cpdi-pakistan.org
7	IMF	Fiscal Monitoring/Article IV consultation report	2009 and 2015	www.imf.org
8	NFC, Pakistan	NFC Award Biannual report	2017 and 2018	www.finance.gov.pk/nfc/reportofthenfc_2009.pdf
9	Oxford Policy Management	Briefing Note- Fiscal Transparency in Pakistan: rapid improvement in two provinces	2017	www.opml.co.uk
10	Punjab Economic Research Institute	Punjab Economic Report	2017	www.peri.gov.pk
11	Punjab Economic Research Institute	Analysis of Annual Development Program	2017	www.peri.gov.pk
12	PEFA Secretariat	Punjab Public Financial Management and Accountability Report	2007 and 2012	www.pefa.org
13	PEFA Secretariat	PEFA assessment guidelines and SNG supplementary guidelines	2016	www.pefa.org
14	World Bank	Fiscal implication of the 18th amendment- The Outlook for provincial finances	2011	World Bank policy paper series in Pakistan 02/12. www.worldbank.org
15	World Bank	Implementation status and Results Report-Punjab Public Management Reform Program’	2019	www.worldbank.org

Annex 3, B. List of Individuals Met

Department*	Name	Position
Finance Department	Hamed Yaqub	Secretary
Finance Department	Rana Obaid	Additional Secretary (Resources)
Finance Department	Ali Shahzad	Additional Secretary (ES)
Finance Department	Khalid Mahmood	Additional Secretary/Dir
Finance Department	Asad Khalid	Head, Corporate Finance Unit
Finance Department	Sara Hayat	Deputy Secretary (Resources 1)
Finance Department	M. Imran	Deputy Secretary
Finance Department	Sidra Saleem	Deputy Secretary (ES)
Finance Department	Khurram Aziz	Deputy Secretary Health
Finance Department	Bilal Hassan	Deputy Secretary (Resources 2)
Finance Department	Ayesha Ghumman	Deputy Secretary (Infrastructure)
Finance Department	Rooman Burana	Deputy Secretary (HE)
Finance Department	Khawaja Umair	Section Officer (Loans)
Finance Department	Kashif Rashid	Section Officer
Finance Department	Mirza Adnan Baig	Section Officer
Finance Department	Ghias Baig	Section Officer
Finance Department	Samia Mughtar	Corporate Governance Specialist
Finance Department	Umer Saeed	Corporate Governance Specialist
Finance Department	Sonya Ali	Financial Adviser
Finance Department	Khalid	District Treasury Officer
Finance Department	Rizwan	Treasury Officer 3
Finance Department	Haneef	Treasury Officer 2
Health Department	Wajid Ali	Deputy Secretary
Health Department	Farrukh Yasin	Internal Auditor
Health Department	Mehr Aziz	PFM Specialist
AG Office	M. Umer	Additional AG
AG Office	Dr. Zahid	Deputy Accountant General
AG Office	Saba Hameed	Assistant Additional AG
Civil Audit	Sarfraz Ahmad	Director
Civil Audit	M. Arif	Deputy Director Receipts
Civil Audit	Hafiz Akhtar	Audit Officer
Civil Audit	Imran Shah	Audit Officer
District Audit	Zia ul Islam Niazi	Director
Provincial Assembly	Samad	
Provincial Assembly	Faqeer Jilani	Superintendent
Board of Revenue	Amna Tahir	Deputy Secretary
Punjab procurement Regulatory Authority	Khalid Mahmood Sindhu	Deputy Director
Punjab procurement Regulatory Authority	Najam ul Hassan	MIS officer

Department*	Name	Position
Provincial Revenue Authority	Kamran Ahmad	Member Legal
Provincial Revenue Authority	Farhan Sattar	Additional Commissioner
Excise and Taxation Department	Mushtaq Faridi	Director
Excise and Taxation Department	M. Idrees	Section Officer
Excise and Taxation Department	M. Akram	Excise and Taxation Officer
Excise and Taxation Department	Tariq Malik	Accounts Officer
Excise and Taxation Department	Asif Saeed	Assistant Director Audit
Excise and Taxation Department	Tabassum Rafiq	Assistant Director Enforcement
National Bank Pakistan	Aurangzeb	Regional Chief
National Bank Pakistan	Amjad Monem	Manager Foreign Exchange
National Bank Pakistan	Ghulam Mustafa	In charge Government Collections
National Bank Pakistan	Imran Yasin	RM
National Bank Pakistan	Jamshed	Coordinator
School Education Department	Asif Majeed	Additional Secretary
School Education Department	Farrukh	Director
School Education Department	Rasheed	Budget and Planning
School Education Department	Mansoora	Deputy District Education Officer
Education Department	Rana Iqbal	PIFRA Programmer
P&D Department	Dr. Amanullah	Chief Economist
P&D Department	Javed Latif	Chief Coordination

Note: In Pakistan, the provincial cabinet of ministers is appointed by the Chief Minister for each or a group of administrative departments in the government, however the reference to 'Ministry' is only at the federal/central level.

Annex 3, C. Sources of Information by Indicator

Indicator	Rating	Sources
HLG. Transfers from HLG		1. Budget Documents. 2. Fiscal Transfers Data provided by FD 3. Transfer notifications. Ministry of Finance, Islamabad 4. PEFA (2016) 'Supplementary Guidance for subnational PEFA assessment'
PI-1 Aggregate expenditure outturn		'Annual Appropriation Accounts' and 'Annual Financial Statements'. (2015-16, 2016-17, 2017-18). AG 'Annual Budget Statements' (2015-2018)
PI-2 Expenditure composition outturn		'Annual Appropriation Accounts' and 'Annual Financial Statements'. (2015-16, 2016-17, 2017-18). AG 'Annual Budget Statements' (2015-2018)
PI-3 Revenue outturn		'Annual Appropriation Accounts' and 'Annual Financial Statements'. (2015-16, 2016-17, 2017-18). AG 'Annual Budget Statements' (2015-2018)
PI-4 Budget classification		Chart of Accounts and IMF Article IV consultation Report. IMF (2014) GFSM
PI-5 Budget documentation		Annual Budget proposals including white paper and Minister's speech
PI-6 Provincial government operations outside financial reports		Information provided by FD
PI-7 Transfers to SNG		PFC Reports and sample notification of funds transfer.
PI-8 Performance information for service delivery		Education Sector Plan, Education Census reports. Department of Education. Sector strategies- Transport, health, education and agriculture.
PI-9 Public access to fiscal information		Annual Budget proposals and enacted budgets, annual budget statements, Monthly civil accounts and Progress reports), monthly and annual civil accounts, external audit reports, performance audit reports. Annual Financial Statements
PI-10 Fiscal risk reporting		Audit annual financial statements and reports, and White Paper.
PI-11 Public investment management	*C*	1. P&D Department, (2015-16, 2016-17 and 2017-18) 'Guidelines for formulation of Annual Development Program (ADP)' 2. Planning Commission, Government of Pakistan (2008) 'Guidelines for project management' 3. Project documents (PC-1) of the selected projects 4. ADP, P&D.

Indicator	Rating	Sources
		5. Annual Monitoring reports by the DG M&E, 6. Sample Minutes of the PDWP Evaluation reports by DG M&E.
PI-12 Public asset management		Budget Documents, Stock/Asset register
PI-13 Debt management		Budget documents, relevant articles of the constitution. Report on the fiscal implication of the 18th amendment. Debt sustainability analysis
PI-14 Macroeconomic and fiscal forecasting		Budget Documents, MTFF report and Punjab Growth Strategy,
PI-15 Fiscal strategy		'Summary for Cabinet- Resource Mobilization Measures. MTFF report
PI-16 Medium-term perspective in expenditure budgeting		MTFF and Budget documents
PI-17.Budget preparation process		Budget Call Circular. Development budget formulation guidelines, P&D, Budget proposal Submission letters to the legislature by the FD.
PI-18 Legislative scrutiny of budgets		Provincial Assembly Rules of Procedure. Calendar of Assembly's budget sessions notified to the legislators. Record of the demand for grants for legislative review. Confirmation from the provincial assembly on budget proposal submission and approval dates.
PI-19. Revenue administration		Rules and taxpayers information on the authorities' websites.
PI-20 Accounting for revenue		DG revenue receipts audit reports
PI-21 Predictability of in-year resource allocation		AG Data projected Cash position statement, FD (Resources Wing). Budget re-appropriation data, FD. SBP monetary reports.
PI-22 Expenditure arrears		
PI-23 Payroll controls		APPM; Financial Statement 2014/15; APPM Forms; Payroll Input Forms; Payroll Audit Report 2014
PI-24 Procurement		PPRA Act and Procurement-Rules, Project documents (PC-1) of the selected projects, ADP, P&D. Annual reports by the DG M&E, P&D, Bidding documents of the selected projects, advertisements of the procurements, notification of the procurement committee, annual procurement plans, annual budget proposals and enacted budgets, Budget Execution Reports, monthly and annual civil accounts, external audit reports, performance audit reports.
PI-25 Internal controls on non-salary expenditure		APPM; Delegation of Financial Powers 2001; General Financial Rules; Budget Manual 1999; Integrated BCC; Budget White Paper; Financial Statements
PI-26 Internal audit		Internal Audit Charter. Internal audit reports of the pilot departments. Internal audit plans.
PI-27 Financial data integrity		APPM; Monthly Bank Reconciliation Statements; Quarterly Bank Reconciliation

Indicator	Rating	Sources
		Statements; Meeting Minutes & Settlements/Book Adjustments under Clearing House Meetings; DAOs Suspense Account Meetings and Settlements; Monthly Advises issued by SBP for inter-provincial/inter-district adjustments; Appropriation Control Registers; Treasury Rules; General Financial Rules
PI-28 In-year budget reports		Chart of Accounts; Financial Statements & Appropriation Accounts AG Monthly Civil Accounts online BERs on the FD web portal
PI-29 Annual financial reports		Delegation of Financial Powers Rules, FD. Treasury Rules. 'Annual Appropriation Accounts' and 'Annual Financial Statements' Confirmation letters from DG Provincial audit indicating the dates of submission of accounts for audit,
PI-30 External audit		Constitution of Pakistan (relevant articles). Controller General of Accounts of Auditor General Pakistan Ordinance (2001). Sample minutes of the DAC meetings, Audit Reports and sample working papers.
PI-31 Legislative scrutiny of audit reports		PAC's annual reports. Sample working papers submitted for legislative scrutiny by the Line Departments. Meeting schedule notified for PAC hearings, External Audit Reports.

Document Description:

Auditor General Pakistan (1999) 'Handbook of Accounting Guidelines'

Auditor General Pakistan (1999) 'Manual of Accounting Principles'

Auditor General Pakistan (1999) Financial Reporting Manual'

Auditor General Pakistan (Functions, Powers and Terms and Conditions of Service) Ordinance (2001)

Bank of Punjab (2017) 'Annual Report for the year 2015'

Controller General of Accounts (Appointment, Functions & Powers) Ordinance, 2001

Delegation of Financial Powers Rules

Education Department (2015) Annual Statistical Report- (2017)

Finance Acts (2015-16, 2016-17,2017-18)

Finance Department, 'Budget Call Circulars' (2015-16, 2016-17, 2017-18)

Finance Department (2015-16, 2016-17,2017-18), Budget White Paper

Finance Department ((2015-16, 2016-17,2017-18) 'Summary for Cabinet- Resource Mobilization Measures'

Finance Department (2016) 'District Government Budget Rules'

Finance Division, Government of Pakistan (2015-16, 2016-17,2017-18) 'Estimates of federal transfers to the Government of Punjab'

Fiscal Responsibility and Debt Limitation Act (2005)

Fiscal Transfer Rules (2016)

Government of Punjab 'Punjab Financial Rules'
Government of Punjab (1985) 'Rules of Business'
Government of Punjab (2014) 'Punjab Growth Strategy (2014-18)'
Government of Punjab 'Treasury Rules'
Government of Pakistan 'Pakistan Economic Survey (2018)
IMF (2015) 'Pakistan- Article IV Consultation Staff Report'
IMF (1986) 'Government Finance Statistics Manual'
IMF (2001) 'Government Finance Statistics Manual'
IMF (2014) 'Government Finance Statistics Manual'
Punjab 'Local Government Act' (2013)
Punjab 'Procurement Regulatory Authority Act' (2009)
Punjab 'Procurement Rules' (2014)
Punjab 'Provincial Assembly Rules of Procedures (1997)'
Punjab 'Public Accounts Committee report 2012-13'
Monitoring and Evaluation Directorate (2015) 'Annual M&E report '
National Assembly (2010) 'Constitution of the Islamic Republic of Pakistan (1973) with amendments till 2010'
Planning and Development Department, (2015-2018) 'Guidelines for formulation of Annual Development Program (ADP)'
Planning Commission, Government of Pakistan (2008) 'Guidelines for project management'
Public Expenditure and Financial Accountability (2016) 'Framework for assessing public financial management'
Public Expenditure and Financial Accountability (2016) 'Supplementary Guidance for subnational PEFA assessment'

Annex 4. Tracking changes in performance based on PEFA Framework (2011)

Comparison with Punjab PEFA (2012) scores

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
Transfers from HLG	D+	**D+**	*Note: HLG data does not include foreign grants and foreign project assistance*	No change
HLG-1.1. Outturn of transfers from higher-level government	B	*B*	*Transfers were 98, 93 and 89 % of the original budget in the FY 2015-16, 16-17 and 17-18*	No change
HLG-1.2. Earmarked grants outturn	D	*B*	*Variance in the earmarked transfers was 0.4, 9.7 and 1 percent in the years 2015-16, 16-17 & 17-18*	Performance improved due to low outturns
HLG-1.3. Timeliness of transfers from higher-level government	A	*D*	*Federal Government in the month of May communicates a disbursement schedule for revised estimates of the ongoing year and the budget estimates for the next year. In an agreed arrangement between the center and the provinces, funds from divisible pool are released fortnightly however in year variations have been sizeable in each month in the last 3 years.*	Performance deteriorated due to high in-year variations in actual transfers
A. PFM-OUTTURNS: Credibility of the Budget ***Note: As per PEFA field guide May 2013, the calculation does not include foreign grants or foreign project assistance***				
PI-1 Aggregate expenditure outturn compared to original approved budget	**B**	**A**	*In the review period 2015-16, 2016-17 and 2017-18 the expenditure outturns*	Performance improved with better controls

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
			were between 95 and 105 percent in two of the three years assessed.	
PI-2 Composition of expenditure outturn compared to original approved budget	**D**	**D+**		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	*In the review period variance in expenditure composition (functional) was more than 15 percent in 2 of the three years. (18,18 and 5%).*	No change
(ii) The average amount of expenditure charged to the contingency vote over the last three years.	NS	A	*GoPb does not use contingency allocations*	The dimension was not scored in the prior PEFA review
PI-3 Aggregate revenue outturn compared to original approved budget	**A**	**D**	*Aggregate revenue outturn was 82, 90 and 91 % in the last three years (2015/16-2017/18)*	Budget credibility deteriorated due to high variance
PI-4 Stock and monitoring of expenditure payment arrears	**NR**	**NR**		
(i) Stock of expenditure payment arrears and a recent change in the stock.	NR	NR	*Sufficient information not available owing to the lack of commitment accounting and any alternative procedure to account for arrears*	No change
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	D	D	*Sufficient information not available owing to the lack of commitment accounting and any alternative procedure to account for arrears*	No Change
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	**A**	**A**	*Budget formulation, execution, and reporting use a classification system that can produce consistent*	No change

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
			documentation comparable with GFS/COFOG 1986, however with certain modifications. The development budget is presented as single line therefore does not include sub functional classification	
PI-6 Comprehensiveness of information included in budget documentation	**A**	**B**	*Government provides 4 elements (serial 4,6,7 and 8), while serial 1 and 3 are not relevant to a SNG*	Performance changed because of inclusion of macroeconomic projections and fiscal deficit in the previous year, which are not applicable to SNG
PI-7 Extent of unreported government operations.	**C+**	**NR**		Insufficient information therefore not rated
(i) Level of unreported government operations	A	NR	*Data could not be generated on the level of government expenditure outside financial operations*	
(ii) Income/expenditure information on donor-funded projects	C	NR	*Data of foreign funded off budget projects was not available, nor could the total revenue from Extra-budgetary units be determined*	
PI-8 Transparency of inter-governmental fiscal relations.	**B+**	**B**		
(i) Transparency and objectivity in the horizontal allocation amongst Subnational Governments	A	A	*The provincial finance commission applies a broad-based formula for horizontal transfers. For details Please refer to PI 7 in Chapter 3.*	No change

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
(ii) Timeliness and reliable information to subnational governments on their allocations	B	C	*The SNGs receive the budget ceilings after passage of the provincial budget.*	Rating declined due to delay in communication of budget allocations
(iii) Extent of consolidation of fiscal data for general government per sectoral categories	B	B	*Local fund audit collects information for more than 75 percent of the SN governments and consolidates it for audit purposes*	No change
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	**C+**	**NR**		
(i) Extent of government monitoring of autonomous entities and public enterprises	C	NR	*In line with PI 6, chapter 3, the exact size of the expenditure and revenue outside the financial reports could not be determined due rot lack of information which reflects on the government's ability to monitor the fiscal risk from the PSEs (including Extrabudgetary units) therefore is NR.*	Performance deteriorated due to non-availability of information.
(ii) Extent of central government monitoring of subnational government's fiscal position	A	A	*The Local Governments are not allowed to create debt. Local Fund audit consolidates the fiscal position of the local governments.*	No change
PI-10 Public access to key fiscal information	B	B	*Annual budget, in year budget execution reports and year-end financial statements are available on websites in the stipulated time. While resource*	No change

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
			availability to primary service delivery units is not published but can be accessed under the Right to Information (RTI) Act (2013)	
C. BUDGET CYCLE				
C(i) Policy-Based Budgeting				
PI-11 Orderliness and participation in the annual budget process	**A**	**B**		
(i) Existence of, and adherence to, a fixed budget calendar	A	*A*	*A clear BCC exists and is generally adhered to. FD issued BCC in Oct 2017 (for budget year 2018-19) and guidelines for development budget on 15 January 2018 requiring submission of proposals by 15 March 2018. The Line departments were allowed at least 6 weeks (at central and service delivery unit levels) to prepare the budget estimates*	No Change
(ii) Guidance on the preparation of budget submissions	B	*D*	*FD and P&D Department issue detailed guidelines for budget formulation. The indicative ceilings are provided for current budget. The Cabinet approval is obtained after the issuance of Budget Call Circular.*	Performance changed because previous assessment did not consider the budgetary ceilings
(iii) Timely budget approval by the legislature	A	A	*Budget was approved by the legislature before the start of the FY*	No Change
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B+**	**C+**		

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
(i)Multiyear fiscal forecasts and functional allocations	A	C	*Budget strategy paper and MTFF report provides fiscal aggregates. For expenditure the aggregate by economic classification (Major object code) wise are provided for budget and two outer years. In the review period BSP was prepared for only one year (2017-18).*	Performance deteriorated because the regularity of the Budget Strategy papers discontinued
(ii)Scope and frequency of debt sustainability analysis	A	A	*DSA was conducted in 2015 and updated each year*	No change
(iii) Existence of costed sector strategies	B	C	*Sector strategies exist for main sectors, however not all are costed. Some provide overall fiscal estimates but not segregated by main economic type expenditure.*	Performance deteriorated because most of the sector strategies did not include fiscal estimates broken down by economic type.
(iv) Linkages between investment budgets and forward expenditure estimates	B	D	*Punjab follows disintegrated budgeting with the project proposals focusing only on capital costs*	Previous PEFA assessment was based on a one-off study instead of reflecting on inherent government practices
C(ii) Predictability and Control in Budget Execution				
PI-13 Transparency of taxpayer obligations and liabilities	**C+**	**C+**		
(i) Clarity and comprehensiveness of tax liabilities	C	C	*Legislation and procedures for all major taxes are comprehensive and clear but discretionary powers of the tax authorities also exist*	No change
(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	B	*Provincial Revenue Authority and Excise and taxation provide information to taxpayers on their websites. They have*	No change

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
			also included FAQs for the respective taxes, conduct media campaign educate taxpayers on taxes and incentives offered	
(iii) Existence and functioning of a tax appeal mechanism.	C	C	*A tax appeal system exists but is not standard due to the nature so taxes and has a varied performance in the three revenue authorities. In a few cases Conflict of interest in terms of tax administrator reviewing complaints exist*	No change
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**D+**	**C**		
(i) Controls in the taxpayer registration system	C	B	*Provincial Revenue Authority has introduced the PIN for taxpayers and has provided the online registration facility for taxpayers. The database is linked to other databases like PRAL that allows the NTN holders to have their record registration record transferred to PRA's and assign a code 'P' to distinguish for Punjab*	Rating improved because of additional measures adopted
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	*Penalties for non-compliance exist but are not effectively applied owing to the lack of revenue audit and investigation and risk management practices.*	No change

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
(iii)Planning and monitoring of tax audit and fraud investigation programs	D	D	*Revenue audit and investigations are not based on a systematic plan nor does a comprehensive and methodical compliance improvement plan exist in most of the revenue authorities*	No change
PI-15 Effectiveness in collection of tax payments	**D+**	**D+**		
(i) Collection ratio for gross tax arrears	D	NR	*Data on revenue arrears was not available*	No Change
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	*Entities collecting most of the provincial government revenues use the Treasury account for the revenue collection. The amount of collection outside the treasury as identified by the Revenue receipts audit was less than 1 percent of the total revenue collection*	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	D	*District Treasury Office Lahore on behalf of FD and District Accounts offices in other districts conduct reconciliation of only revenue collection and transfers with the revenue authorities. The reconciliation of assessment and arrears does not take place*	The earlier PEFA assessment did not consider the reconciliation of arrears and assessment but revenue collection and transfer only
PI-16 Predictability in the availability of funds for commitment of expenditures	**B+**	**D+**		

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
(i) Extent to which cash flows are forecasted and monitored	A	D	*Cash forecasting and monitoring takes place daily relying on the cash position statement provided by the SBP, however the cash forecasting does not include the commitments.*	Performance deteriorated because the previous assessment did not consider commitments impact on cash forecasting
(ii) Reliability and horizon of periodic in-year information to ministry/department/ agency's on ceilings for expenditure	B	B	*Significant in year budget adjustments take place both in terms of amount and number. The budget adjustments are governed under the constitutional provisions and further elaborated in the delegation of financial power rules*	No change
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of ministry/department/agency's	B	C	*In-year budget estimates are rules based and transparent, but significant number of adjustments takes place.*	Performance changed because previous assessment did not consider the frequency of virements
PI-17 Recording and management of cash balances, debt and guarantees	**B**	**B+**		
(i) Quality of debt data recording and reporting.	C	B	*DSA conducted in 2015 and debt bulletin prepared which is updated biannually*	Rating improved with additional measures adopted
(ii) Extent of consolidation of the government's cash balances.	B	B	*SBP provides daily cash position to FD that is based on bank balance position of main accounts; however, it does not capture the deposits or balances of those Extrabudgetary units, incorporated under Companies Act.*	No change
(iii) Systems for contracting loans and issuance of guarantees.	A	A	*Constitution provides for the debt creation authority and responsibility. FD at*	No change

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
			the provincial level is responsible for the debt management and the provincial assembly approves the borrowing by the government	
PI-18 Effectiveness of payroll controls	**C+**	C+		
(i)Degree of integration and reconciliation between personnel records and payroll data.	B	B	*Payroll is supported with relevant documentation and examined against prior month's data. Staff hiring is controlled by budget availability and approved staff strength. In year changes in staffing due to promotions with retrospective effect is addressed through supplementary grants*	No change
(ii) Timeliness of changes to personnel records and the payroll.	A	A	*The retroactive adjustments were 2.4 percent of the total salary payments in the year 2017-18*	No change
(iii) Internal controls of changes to personnel records and the payroll.	A	A	*Authorization and basis of changes in personnel record and payroll are comprehensively defined in the controls framework-General Financial Rules and APPM.*	No change
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	C	C	*Partial payroll audits have been conducted in the last 3 FY.*	No change
PI-19 Competition, value for money and controls in procurement	**D**	**D+**		
(i)Transparency, comprehensiveness, and competition in the legal and regulatory framework.	C	B	*The legal framework meets all criteria except iii and its noncompliance by the procuring agency*	Rating improved with better implementation of the legal and

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
			in certain cases is reported in audit reports	regulatory framework
(ii) Use of competitive procurement methods.	D	D	*The data on noncompetitive methods could not be provided*	No Change
(iii) Public access to complete, reliable and timely procurement information.	D	C	*Complete and reliable Information is available on PPRA website for legal and regulatory framework, bidding opportunities and bid evolution reports. While information on other aspects like procurement plans, contract awards, procurement complaints resolution is partially available. Data on annual procurement statistics available to public in the year 2019 was for the year 2014-15.*	Rating improved with greater public access to procurement related information
(iv) Existence of an independent administrative procurement complaints system.	D	D	*The first-tier grievance redress mechanism does not include representation from the CSO or private sector.*	No change
PI-20 Effectiveness of internal controls for non-salary expenditure	**C+**	**C+**		
(i)Effectiveness of expenditure commitment controls	B	C	*The Commitment accounting module is not fully practiced. Alternative methods like the budget availability and cash releases methods are adopted which are not effective for expenditure commitments evident from the 'estimated' expenditure arrears*	GoPb now does not issue cash release policy (at the beginning of the year), which was a measure to control commitments. Therefore, the rating deteriorated

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
			reported in the FM budget speech (2018-19).	
(ii)Comprehensiveness, relevance and understanding of other internal control rules/procedure.	C	C	*Detailed legal framework (Laws, rules and guidelines) stipulates the internal control procedure. Rules like delegation of financial power rules were revised, however some of the rules like Treasury and supplementary rules needs to be updated to match the Manual of Accounting practices (1999) to avoid duplication*	No change
(iii)Degree of compliance with rules for processing and recording transactions	C	B	*Most payments comply with payment procedures and exceptions are noted. Approximately 3 percent of the audited expenditure was incurred in violation of rules.*	Rating improved with capacity and systems development
PI-21 Effectiveness of internal audit	**D**	**D**		
(i)Coverage and quality of the internal audit function.	D	*D*	*Internal audit partially exists in the key service delivery ministries and revenue authority (Excise and Taxation). However, is not backed by internal audit rules and charter nor does it have a methodical audit work programs, audit documentation or follow up activities.*	No change

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
(ii) Frequency and distribution of reports	NA	*D*	*Expenditure side government wide Annual audit programs do not exist; therefore, formal reporting does not take place. Only the internal audit wing of the Excise and taxation department provided data of audit programs with 40 percent compliance.*	No change
(iii) Extent of management response to internal audit function.	NA	*D*	*Internal audit reports are not prepared by most of the entities as a result there is no response by the Management.*	No change
C(iii) Accounting, Recording and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation	**B**	D		
(i) Regularity of bank reconciliation	B	*D*	*Book and Bank reconciliation as a process takes place on monthly basis, however the bank reconciliation statements included sizeable unidentified amounts undermining the integrity of the accounting records.*	Previous PEFA assessment considered the process but not the results.
(ii) Regularity and clearance of suspense accounts and advances	B	*D*	*DO Suspense account showed reconciled suspense accounts more than two months after the close of FY 2017-18. The TA advances data included unsettled TA advances of 223.8 Million more than three months after the end of the FY.*	Rating deteriorated due to Outstanding advances and suspense accounts.
PI-23 Availability of information on resources received by service delivery units	**A**	*D*	*GFMIS does not capture the service delivery unit level information owing to*	Rating deteriorated because of optimism in the

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
			the lack of budget codes for a large size of primary and secondary health education service delivery units. As a result, neither the budget documents, nor the annual financial statements or GFMIS can generate this data	last PEFA assessment
PI-24 Quality and timeliness of in-year budget reports	C+	**C+**		
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	C	C	*Coverage and classification of expenditure data allows direct comparison to all items of the current budget, but in case of development budget the comparison is at the aggregate level only as development budget is presented as single line. Expenditure is captured at payment stage*	No change
(ii) Timeliness of the issue of reports	A	*A*	*Monthly Civil accounts and C&W monthly progress reports are issued within 4 weeks from the end of each month. The former includes outturns data and the latter includes summary physical progress in percentage numbers.*	No change
(iii) Quality of information	B	B	*In year budget reports have some errors largely occurring due to late reporting by the bank, which are adjusted in the subsequent month.*	No change

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
PI-25 Quality and timeliness of annual financial statements	**C+**	C+		
(i) Completeness of the financial statements	C	C	*Financial reports are prepared annually and provide budget and actual data, but does not include information on financial assets, liabilities, guarantees and obligations*	No change
(ii) Timeliness of submissions of the financial statements	A	A	*Submission of error free financial reports takes place within 6 months after the end of FY.*	No change
(iii) Accounting standards used	C	B	*Annual financial statements are prepared according to IPSAS cash basis financial reporting format. Majority of the IPSAS cash basis financial reporting standards (mandatory requirements) have been adopted. The standards and variations are disclosed in the annual financial reports*	The advancements in financial reporting has improved the rating
C(iv) External Scrutiny and Audit				
PI-26 Scope, nature, and follow-up of external audit	**B**	C+		
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	C	*Financial reports of Government of Punjab (province and district) representing 73% of total expenditures and revenues have been audited, using national auditing standards that incorporate ISSAI's. Significant issues have been highlighted.*	The rating deteriorated because of reduction in the coverage of audit

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
(ii) Timeliness of submission of audit reports to the Legislature	B	B	*Financial reports were submitted within to the legislature 7,6 and 5 months of the receipt of financial reports from the provincial AG for the FY 2015-16, 2016-17 and 2017-18.*	No change
(iii) Evidence of follow up on audit recommendations	B	C	*A comprehensive response is provided by the Executive to audit findings however not timely as delays in holding DACs were noted and MFDAC (2016-17) included findings from the year 2013.*	Rating deteriorated because of performance
PI-27 Legislative scrutiny of the annual budget law	**D+**	D+		
(i) Scope of the legislature scrutiny	A	C	*Legislative review covers details of expenditure and revenue in the form of demand for grants but does not include review of the fiscal policies. MTFF is also not submitted to the legislature*	Rating deteriorated because of optimism in Punjab PEFA 2012
(ii) Extent to which the legislature's procedures are well established and respected.	B	C	*Budget scrutiny procedures have been provided for in the Provincial Assembly Rules of Procedure (1997) stipulating the 'fundamentals' of the budget proposals review. These are adhered to in practice. The rules do not provide for technical support and committee for review of budget proposals*	Rating deteriorated because of optimism in Punjab PEFA 2012

Indicator/Dimension	Score 2012	Score 2019	Description of Requirements Met in Current Assessment	Explanation of Change
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	*The legislature was allowed less than a month for budget scrutiny*	No Change
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	B	*The Constitution of Pakistan authorizes the Executive for supplementary grants during the year after the enactment of finance bill. The rules are adhered to in most cases.*	Performance improved. Rules silent on expenditure expansion, however in the review period the total expenditure did not expand over BE in 2015-16 and 2016-17 while in the year 2017-18 it increased by 1 % therefore higher rating.
PI-28 Legislative scrutiny of external audit reports	**D+**	**D+**		
(i) Timeliness of examination of audit reports by the legislature	D	D	*Audit reports are reviewed with a gap of over 12 months*	No change
(ii) Extent of hearing on key findings undertaken by the legislature	A	*A*	*In-depth hearings on audit reports take place with participation of the senior audit staff and relevant line department staff is ensured*	No change
(iii) Issuance of recommended actions by the legislature and implementation by the executive	B	*B*	*PAC issues directives for compliance and follows up. Not all recommendations are implemented.*	No change

Annex 5. Calculation Sheets of budget variances for HLG, PI-1, 2 and 3

HLG 1 and HLG 2 Calculation sheets

Data for year =	2015-16	(PKR in Million)				
Administrative or functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	%
PSDP	25,154	22,767	25,583	-2,816	2,816	11%
Other Federal Grants.	0	0	0	0	0	-
Foreign Project Assistance for earmarked projects	34,418	27,318	35,005	-7,686	7,686	22%
Lahore Orange Line Metro Train Project	0	41,988	0	41,988	41,988	-
General purpose transfers	929,376	913,743	945,228	-31,485	31,485	3%
Total Transfers	988,948	1,005,816	1,005,816	0	83,976	8%
Aggregate outturn						101.7%
Earmarked variance						8.3%
Data for year =	**2016-17**					
PSDP	0	48,643	0	48,643	48,643	-
Other Federal Grants.	0	0	0	0	0	-
Foreign Project Assistance for earmarked projects	29,953	16,988	26,385	-9,398	9,398	36%
Lahore Orange Line Metro Train Project	85,000	28,160	74,876	-46,716	46,716	62%
All other General-purpose transfers	1,072,402	952,145	944,675	7,471	7,471	1%
Total Transfers	1,187,355	1,045,936	1,045,936	0	112,227	11%
Aggregate outturn						88.1%
Earmarked variance						10.7%
Data for year =	**2017-18]**					
PSDP	30,663	32,255	26,061	6,194	6,194	24%
Other Federal Grants.	-	467	-	467	467	-
Foreign Project Assistance for earmarked projects	23,646	13,779	20,097	(6,318)	6,318	31%
Lahore Orange Line Metro Train Project	93,455	38,605	79,429	(40,824)	40,824	51%
All other General-purpose transfers	1,261,475	1,112,626	1,072,146	40,480	40,480	4%
Total Transfers	1,409,239	1,197,733	1,197,733	0	94,283	
Aggregate outturn						85.0%
Earmarked variance						7.9%

		Results Matrix	
	year	Aggregate variance	Ear marked variance
	2015-16	102%	8%
	2016-17	88%	11%
	2017-18]	85%	8%

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Base data for HLG 3								
2017/ 18	**Timeline of receipts of transfers**				(PKR in Million)	**Foreign Project Assistance**		
Month	Transfers from Divisible pool (Federal Tax)	Straight Transfers	PSDP	Other Federal Grants.	Capital receipts	Foreign Project Assistance	Lahore Orange Line Metro Train Project	Other Foreign Grants
Jul-17	66,671	214	-		1,969	1,012	-	236
Aug-17	57,663	587	21,770	100	1,596	341	-	1,562
Sep-17	149,462	219	1		263	711	2,831	3,024
Oct-17	84,485	348	31		190	431	2,245	-
Nov-17	82,994	375	1,019	50	7	4,023	5,904	-
Dec-17	88,832	1,364	-		30	3,371	12,524	1,411
Jan-18	119,396	998	2,029	200	123	251	-	1,856
Feb-18	72,484	142	300	33	107	1,159	-	-
Mar-18	74,078	1,404	499		4,605	281	-	-
Apr-18	82,633	179	303		2,576	1,716	12,606	-
May-18	105,467	380	10	57	74	407	2,495	1,178
Jun-18	87,996	392	6,293	27	10,720	78	-	2,340
2016/ 17					(PKR in Million)			
Jul-16	39,972	123	1,297	-	166	986	-	25
Aug-16	52,670	197	-	-	33	1,104	-	3,047
Sep-16	100,768	797	301	-	687	1,355	3,957	-
Oct-16	55,693	276	17	-	25	754	54	-
Nov-16	53,287	541	755	-	162	1,451	3,767	1,570
Dec-16	105,637	397	1,372	-	2,121	3,496	595	1,277
Jan-17	76,570	1,288	15,104	-	123	384	-	798
Feb-17	89,486	541	650	-	175	1,094	-	524
Mar-17	86,847	487	-	-	4,215	1,213	78	-
Apr-17	70,113	899	10,121	-	2	1,117	3,179	-
May-17	96,001	750	5,655	-	84	1,387	5,095	1,447
Jun-17	94,653	848	13,372	-	6,822	2,648	11,436	-
2015/ 16					(PKR in Million)			
Month	Transfers from Divisible pool (Federal Tax assignment)	Straight Transfers	PSDP	Other Federal Grants.	Capital receipts	Foreign Project Assistance	Orange Line Metro Train Project	Other Foreign Grants
Jul-15	35,053	240	129		2	1,053	-	381
Aug-15	44,253	271	2,960		29	2,295	-	-
Sep-15	54,029	320	2,960		2	1,005	-	710
Oct-15	115,975	433	1,000		2	681	-	1,727
Nov-15	81,221	329	839		2	2,713	-	-
Dec-15	82,263	1,239	557		562	2,302	-	-
Jan-16	59,170	883	3,885		175	215	-	-
Feb-16	51,698	418	279		2	2,314	-	2,932
Mar-16	67,046	338	807		631	4,147	-	-
Apr-16	59,049	425	1		2,775	4,345	-	-

May-16	71,219	337	411		243	2,849	34,473	1,073
Jun-16	174,806	439	8,939		1,039	3,400	7,515	-

Calculation Sheets for PI 1 and 2						
Data for year =	**2015-16 (Amount in PKR million)**					
Administrative or functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Percent
01 - General Public Service	419,314	466,434	393,023,	73,411,	73,411	18.7%
03 - Public Order and Safety Affairs	124,897	110,481	117,066	-6,584	6,584	5.6%
04 - Economic Affairs	329,400	249,793	308,747	-58,954	58,954	19.1%
05 - Environment Protection	2280	264	213,922	50,458,	50,458	23.6%
06 - Housing and Community Amenities	61,762	56,163	57,890	-1,727	1,727	3.0%
07 - Health	82,504	87,381	77,331	10,049	10,049	13.0%
08 - Recreational, Culture and Religion	6,574	4,239	6,162	-1,922	1,922	31.2%
09 - Education Affairs and Services	103,595	61,968	97,100	-35,131	35,131	36.2%
10 - Social Protection	9,644	29,849	9,039	20,809	20,809	230.2%
21 (= sum of rest)			0.0	0.0	0.0	
Allocated expenditure	1,137,922	1,066,576	1,066,576	0.0	208,641	
Interests	15,088	11,002				
Contingency						
Total expenditure	1,153,010	1,077,578				
Aggregate outturn (PI-1)						93.5%
Composition (PI-2) variance						19.6%
Contingency share of budget						0.0%
Data for year =	**2016-17**					
Administrative or functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Percent
01 - General Public Service	488,759	563,683	442,457	121,226	121,226	27%
03 - Public Order and Safety Affairs	145,471	123,500	131,690	-8,190	8,190	6%
04 - Economic Affairs	424,197	276,703	384,012	-107,309	107,309	28%
05 - Environment Protection	378	331	342	-11	11	3%
06 - Housing and Community Amenities	81,186	69,394	73,495	-4,101	4,101	6%
07 - Health	101,834	127,665	92,187	35,478	35,478	38%
08 - Recreational, Culture and Religion	6,229	3,209	5,639	-2,430	2,430	43%
09 - Education Affairs and Services	127,579	86,731	115,493	-28,762	28,762	25%
10 - Social Protection	9,852	11,166	8,976	2,190	2,190	24%
21 (= sum of rest)			0.0	0.0	0.0	
Allocated expenditure	1,385,485	1,262,382	1,254,291	8,091	310,839	
Interests	14,458	15,628				
Contingency						
Total expenditure	1,399,943	1,278,010				
Aggregate outturn (PI-1)						91.2%
Composition (PI-2) variance						24.8%
Contingency share of budget						0.0%

Data for year =	**2017-18**					
Administrative or functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Percent
01 - General Public Service	675,584	601,170	589,875	11,295	11,295	2%
03 - Public Order and Safety Affairs	148,954	149,830	130,057	19,773	19,773	15%
04 - Economic Affairs	439,313	329,044	383,579	-54,535	54,535	14%
05 - Environment Protection	941	417	822	-404	404	49%
06 - Housing and Community Amenities	96,205	91,605	84,000	7,605	7,605	9%
07 - Health	153,175	151,529	133,742	17,787	17,787	13%
08 - Recreational, Culture and Religion	11,549	7,218	10,083	-2,865	2,865	28%
09 - Education Affairs and Services	105,772	93,030	92,353	676	676	1%
10 - Social Protection	8,199	7,826	7,159	667	667	9%
21 (= sum of rest)			0.0	0.0	0.0	
Allocated expenditure	1,639,697	1,431,674,	1,431,674	0.0	115,609	
Interests	16,141	17,678				
Contingency						
Total expenditure	1,655,838	1,449,35				
Aggregate outturn (PI-1)						87.5%
Composition (PI-2) variance						8.1%
Contingency share of budget						0.0%

		Results Matrix	
		For PI-1.1	For PI-2.1
	Year	Total exp. Outturn	Composition variance
	2015-16	93%	20%
	2016-17	91%	25%
	2017-18	88%	8%

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Calculation sheet PI 2.2						
Data for year =	**2015-16**	***Amount in PKR million***				
Economic head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Percent
A01-Employee Related Expenses	211,199	179,815	197,382	-17,567	17,567	8.9%
A02-Project Pre-investment Analysis	285	358	266	91	91	34.4%
A03-Operating Expenses	64,497	66,910	60,277	6,633	6,633	11.0%
A04-Employees Retirement Benefits	105,681	116,103	98,768	17,335	17,335	17.6%
A05-Grants, Subsidies and Write-offs of Loans/Advances/Others	501,788	505,837	468,960	36,877	36,877,	7.9%
A06-Transfers	56,028	29,752	52,363	-22,610	22,610	43.2%
A07-Interest Payment	15,088	11,003	14,101	-3,097	3,097	22.0%
A08-Loans and Advances	-	-	0.0	0.0	0.0	-
A09-Expenditure on Acquiring of Physical Assets	17,427	24,134	16,287	7,847	7,847	48.2%
A10-Principal Repayments of Loans	-	(97)	0.0	-97	97	-
A11-Investments	13	33	12	20	20	161.2%
A12-Civil Works	163,846	124,138	153,127	-28,989	28,989	18.9%
A13-Repairs and Maintenance	17,003	19,134	15,891	3,243	3,243	20.4%
A14-Suspence and Clearing	150	355	140	215	21	153.4%
Total expenditure	1,153,010	1,077,578	1,077,578	0.0	144,527	
Composition variance						13.4%
Data for year =	**2016-17**					
Economic head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Percent
A01-Employee Related Expenses	225,612	211,549	205,961	5,588	5,588	2.7%
A02-Project Pre-investment Analysis	558	15	509	-493	493	96.9%
A03-Operating Expenses	92,440	80,987	84,389	-3,401	3,401	4.0%
A04-Employees Retirement Benefits	130,021	144,848	118,696	26,151	26,151	22.0%
A05-Grants, Subsidies and Write-offs of Loans/Advances/Others	666,866	557,702	608,781	-51,078	51,078	8.4%
A06-Transfers	68,746	46,014	62,758	-16,743	16,743	26.7%
A07-Interest Payment	14,458	15,627	13,199	2,428	2,428	18.4%
A08-Loans and Advances	0	2,000	0.0	2,000	2,000	-
A09-Expenditure on Acquiring of Physical Assets	32,912	34,196	30,045	4,151	4,151	13.8%
A10-Principal Repayments of Loans	0	0	0.0	0.0	0.0	-
A11-Investments	14	27	13	14	14	112.1%
A12-Civil Works	149,088	164,398	136,102	28,296	28,296	20.8%
A13-Repairs and Maintenance	19,066	20,543	17,405	3,137	3,137	18.0%
A14-Suspence and Clearing	161	97	147	-49	49,	33.7%

Total expenditure	1,399,947	1,278,010	1,278,010	0.0	143,536	
Composition variance						11.2%

Data for year =	**2017-18**	***Amount in PKR million***				
Economic head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolut e deviatio n	Percent
Data for year =						
A01-Employee Related Expenses	261,703	248,609	229,068	19,540	19,540	9%
A02-Project Pre-investment Analysis	123	22	107	-85	85	79%
A03-Operating Expenses	97,716	100,273	85,531	14,742	14,742	17%
A04-Employees Retirement Benefits	177,353	178,450	155,237	23,213	23,213	15%
A05-Grants, Subsidies and Write-offs of Loans/Advances/ Others	774,181	632,276	677,639	-45,363	45,363	7%
A06-Transfers	70,985	44,697	62,133	-17,435	17,435	28%
A07-Interest Payment	16,141	17,678	14,128	3,549	3,549	25%
A08-Loans and Advances	..	..	..	999	999	11424582%
A09-Expenditure on Acquiring of Physical Assets	30,372	23,102	26,585	-3,482	3,482	13%
A10-Principal Repayments of Loans	..	35	..	35	35	3998539%
A11-Investments	14	14	13	1	1	14%
A12-Civil Works	203,595	180,885	178,207	2,678	2,678	2%
A13-Repairs and Maintenance	23,482	22,192	20,553	1,638	1,638,	8%
A14-Suspence and Clearing	168	114	147	-32	32	22%
Total expenditure	1,655,838	1,449,352	1,449,352	0.0	132,800	
Composition variance						9.2%

	Results Matrix	
	Year	Composition variance
	2015-16	13%
	2016-17	11%
	2017-18	9%

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PI 3		*PKR in million*				
Data for year =	**2015-16**					
Provincial receipts	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	%
Tax revenues						
B 01-Direct Taxes						
Tax on Income (Agriculture)	2,300	1,388	1,888	(500)	500	26.5%
Property Tax	10,320	2,040	8,469	(6,430)	6,430	75.9%
Land Revenue	13,678	12,008	11,225	783	783	7.0%
Tax on Profession, Trades and Callings	770	637	632	5	5	0.8%
Other Direct Taxes	-	18	-	18	18	-
B02 and 03 Indirect Taxes						
Sales Tax (GST Provincial)	72,000	58,670	59,089	(419)	419	0.7%
Provincial Excise	2,800	2,655	2,298	357	357	15.5%
Stamps Duty	24,401	27,172	20,025	7,147	7,147	35.7%
Motor Vehicles	11,755	11,800	9,647	2,153	2,153	22.3%
Others Indirect Taxes	13,766	14,822	11,297	3,524	3,524	31.2%
Non-Tax revenues						
C-01 Non tax revenue excluding grants from Federal Govt. and foreign donors	54,892	38,409	45,049	(6,639)	6,639	14.7%
Grants						
Total revenue	206,682	169,620	169,620	0	27,975	-
Overall variance						82.1%
Composition variance						16.5%
Data for year =	**2016-17**	*PKR in million*				
Tax revenues						
B 01-Direct Taxes:						
Tax on Income (Agriculture)	2,300	876	2,072	(1,196)	1,196	57.7%
Property Tax	13,124	4,661	11,823	(7,162)	7,162	60.6%
Land Revenue	14,447	11,862	13,015	(1,153)	1,153	8.9%
Tax on Profession, Trades and Callings	810	663	730	(67)	67	9.2%
Other Direct Taxes	-	5	-	5	5	-
B02 and 03 Indirect Taxes:						
Sales Tax (GST Provincial)	85,000	77,738	76,574	1,165	1,165	1.5%
Provincial Excise	2,920	2,706	2,631	76	76	2.9%
Stamps Duty	31,599	28,782	28,467	315	315	1.1%
Motor Vehicles	13,525	12,922	12,185	737	737	6.1%
Other Indirect Taxes	8,436	4,167	7,600	(3,432)	3,432	45.2%
C-01 Non tax revenue excluding grants from Federal Govt. and foreign donors	85,382	87,631	76,918	10,713	10,713	13.9%
Total revenue	257,544	232,013	232,013	(0)	26,022	11%
Overall variance						90.1%
Composition variance						11.2%

Data for year =	2017-18	PKR in million				
Economic head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
B 01-Direct Taxes:						
Tax on Income (Agriculture)	1,530	775.4	1,386.2	-610.8	610.8	44.1%
Property Tax	13,301	10,477.4	12,050.9	-1,573.5	1,573.5	13.1%
Land Revenue	14,589	11,907.4	13,218.0	-1,310.6	1,310.6	9.9%
Tax on Profession, Trades and Callings	927	727.1	839.9	-112.8	112.8	13.4%
Other Direct Taxes	-	0.5	0.0	0.5	0.5	-
B02 and 03 Indirect Taxes:						
Sales Tax (GST Provincial)	127,000	109,440	115,064.1	-5,624.1	5,624.1	4.9%
Provincial Excise	4,135	3,284	3,746.1	-462.5	462.5	12.3%
Stamps Duty	31,824	49,262	28,832.7	20,429.2	20,429.2	70.9%
Motor Vehicles	15,238	14,346	13,805.5	540.2	540.2	3.9%
Others Indirect Taxes	9,811	637	8,888.9	-8,251.9	8,251.9	84.1%
Non-Tax revenues						
C-01 Non tax revenue excluding grants from Federal Govt. and foreign donors	78,157	73,329	70,812	2,2,517	2,517	3.2%
Total revenue	296,511	277,461	268,643.9	0.0	41,939.6	
Overall variance						93.5%
Composition variance						15.6%
	Table 5 - Results Matrix					
	Year	Total revenue deviation			Composition variance	
	2015-16	82%			16%	
	2016-17	90%			11%	
	2017-18	93%			16%	

Calculation sheets for HLG, PI 1 and 2 of Annex 4

Data for year =	**2015-16**				PKR Million	
Administrative or functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Percent
PSDP	25,154	22,767	24,679	-1,912	1,912	7.7%
Other Federal Grants.	0	0	0	0	0	-
General purpose transfers	929,376	913,743	911,830	1,912	1,912	0.2%
Total Transfers	954,530	936,509	936,509	0	3,825	0.4%
Aggregate outturn (PI-1)						98.1%
Composition variance						0.4%
Data for year =	**2016-17**					
PSDP	0	48,643	0	48,643	48,643	-
Other Federal Grants.	0	0	0	0	0	-
All other General-purpose transfers	1,072,402	952,145	1,000,788	-48,643	48,643	4.9%
Total Transfers	1,072,402	1,000,788	1,000,788	0	97,286	9.7%
Aggregate outturn						93.3%
Composition variance						9.7%
Data for year =	**2017-18]**					
PSDP	30,663	32,255	27,180	5,076	5,076	18.7%
Other Federal Grants.	-	467	-	467	467	-
All other General-purpose transfers	1,261,475	1,112,626	1,118,169	(5,542)	5,542	0.5%
Total Transfers	1,292,139	1,145,349	1,145,349	0	11,085	
Aggregate outturn (PI-1)						88.6%
Composition (PI-2) variance						1.0%

Results Matrix		
Year	Aggregate variance	Earmarked transfers
2015-16	98%	0.4%
2016-17	93%	9.7%
2017-18]	89%	1.0%

Calculation sheets PI -1 and 2 Annex 4 PKR Million						
Data for year =	**2015-16**					
Functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	%
01 - General Public Service	414,193	465,182	398,007	67,174	67,174,	16.9
03 - Public Order and Safety Affairs	124,897,	110,481	120,016	-9,534	9,534	7.9
04 - Economic Affairs	303,929	248,399	292,053	-43,653	43,653	14.9
05 - Environment Protection	228	264	219	45	45	20.5
06 - Housing and Community Amenities	61,486	56,024	59,083	-3,059	3,059	5.2
07 – Health	82,504	87,381	79,280	8,100	8,100	10.2
08 - Recreational, Culture and Religion	6,574	4,239	6,317	-2,078	2,0781	32.9
09 - Education Affairs and Services	103,593	61,968	99,545	-37,576	37,576,	37.7
10 - Social Protection	9,644	29,849	9,267	20,581	20,581	222.1
Allocated expenditure	1,107,052	1,063,791	1,063,791	0.0	191,804	
Interests	15,080	11,002				
Contingency						
Total expenditure	1,122,140	1,074,794				
Aggregate outturn (PI-1)						95.8
Composition (PI-2) variance						18.0
Contingency share of budget						0.0%
Data for year =	**2016-17**					
01 - General Public Service	487,242	563,532	480,654	82,878,	82,878	17%
03 - Public Order and Safety Affairs	145,471	123,500,	143,504	-20,004	20,004	14%
04 - Economic Affairs	312,394	269,350	308,170	-38,820	38,820	13%
05 - Environment Protection	378	331	373	-41	41	11%
06 - Housing and Community Amenities	81,186	69,394	80,088	-10,694	10,694	13%
07 – Health	101,834	127,664	100,457	27,207	27,207	27%
08 - Recreational, Culture and Religion	6,229	3,209	6,145	-2,936	2,936	48%
09 - Education Affairs and Services	127,491	86,730	125,767	-39,03	39,036	31%
10 - Social Protection	9,851	11,165	9,718	1,447	1,44	15%
Allocated expenditure	1,272,081	1,254,879	1,254,879	0.0	223,065	
Interests	14,458	15,627				
Contingency						

Total expenditure	1,286,540	1,270,507				
Aggregate outturn (PI-1)						98.8 %
Composition (PI-2) variance						17.8 %
Contingency share of budget						0.0%
Data for year =	**2017-18**					
01 - General Public Service	673,565	598,060	609,655,	-11,595	11,595,	2%
03 - Public Order and Safety Affairs	148,954	149,830	134,821	15,009	15,00	11%
04 - Economic Affairs	326,476	280,585	295,499	-14,913,	14,913	5%
05 - Environment Protection	881	418	798	-380	380,187	48%
06 - Housing and Community Amenities	96,205	91,605	87,077,	4,528	4,528	5%
07 – Health	153,175	151,529	138,641	12,888	12,888	9%
08 - Recreational, Culture and Religion	11,549	7,218	10,453	-3,234	3,234	31%
09 - Education Affairs and Services	105,772	93,030	95,736	-2,706	2,706	3%
10 - Social Protection	8,199	7,826	7,421	405	405	5%
Allocated expenditure	1,524,781	1,380,105	1,380,105	0.0	65,660	
Interests	16,141	17,678				
Contingency						
Total expenditure	1,540,922	1,397,783				
Aggregate outturn (PI-1)						90.7 %
Composition (PI-2) variance						4.8%
Contingency share of budget						0.0%

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Results Matrix

Year	For PI-1 Total exp. Outturn	For PI-2.1 Composition variance	For PI-2.2 Contingency share
2015-16	96%	18.0%	
2016-17	99%	17.8%	0.0%
2017-18	91%	4.8%	

Annex 6. Sub-national government profile

Sub-national structure

Pakistan is a federation comprising of the four federating units (provinces), the capital territory, Azad Jammu and Kashmir and Gilgit Baltistan as administrative regions. The Constitution of Pakistan (1973) provides complete autonomy to the provinces, authorized through the provincial legislature (Assembly) within its remit of responsibilities. The 18th amendment (2010) to the Constitution extended greater political, administrative and fiscal autonomy to the provinces. The 7th National Financial Commission (NFC) increased the share of resources for the provinces.

The executive in the province comprises of the Chief Minister with support from the Cabinet of Ministers and civil administration manages the affairs of the government. The judicial structure includes the lower (civil and sessions) and high courts, the latter being administratively responsible to the Supreme Court. The Constitution provides for the provincial consolidated fund and public account authorized by the provincial legislature for spending through the annual Finance Act.

<table>
<tr><th colspan="9">A- Overview of sub-national governance structure in Pakistan</th></tr>
<tr><th>Government level</th><th>Corporate body?</th><th>Own political leadership?</th><th>Approves own budget?</th><th>Number of jurisdictions</th><th>Population in Million</th><th>% Of public expenditure</th><th>% Of public revenue</th><th>% Funded by transfers</th></tr>
<tr><td>Central</td><td>Yes</td><td>Yes</td><td>Yes</td><td>1</td><td>207.7</td><td>80% (based on ratio of external receipts in federal budget)</td><td>80% (based on ratio of external receipts in federal budget)</td><td>0</td></tr>
<tr><td>SN/ Provinces</td><td>Yes</td><td>Yes</td><td>Yes</td><td>4</td><td>110 (Punjab Actual) National Average: 42</td><td>*100%</td><td>100%</td><td>72</td></tr>
<tr><td colspan="9">Local Government levels:</td></tr>
<tr><td>District*</td><td>Yes</td><td>Yes</td><td>Yes</td><td>36</td><td rowspan="4">110</td><td>100%</td><td>100%</td><td>92</td></tr>
<tr><td>Union Councils</td><td>Yes</td><td>Yes</td><td>Yes</td><td>3,454</td><td>100%</td><td>100%</td><td>99</td></tr>
<tr><td>District Education authorities</td><td>Yes</td><td>No</td><td>No</td><td>36</td><td>100%</td><td>-</td><td>100</td></tr>
<tr><td>District Health Authorities</td><td>Yes</td><td>No</td><td>No</td><td>36</td><td>100%</td><td>-</td><td>100</td></tr>
</table>

Notes: During the PEFA review period the Punjab Local Government Act (2013) prevailed, however a new local government law was passed in 2019 changing the LG system.

** District level comprises of the Metropolitan/Municipal Corporation, Municipal Committees and district rural comprises of the District councils and Municipal Committees*

The Constitution obligates the provinces for the establishment of the Local Governments (LG) with complete political, administrative and fiscal authority to the elected representatives of the local governments. The provincial election commission is the authorized entity to conduct the provincial and local government elections. The LG system in Punjab has undergone a paradigm change three times in the past 2 decades - Punjab Local Government Ordinance (2001), Punjab Local Government Act (2013) and the Local Government Act (2019). Each enactment has changed the structure, function, powers, roles and responsibilities.

The Punjab Local Government (PLG) Act 2013 envisages establishment of local governments through adult franchise and joint electorate with a four years term. The PLG Act (2013) has re-introduced urban and rural divide whereby every District is divided into an urban area (Town/ Municipal Committees) and rural area (District council and Union councils). The PLG Act (2013) also provides for District Education Authorities (DEA) and District Health Authorities (DHA). The DEA and DHA are treated as local bodes, but the heads of the authorities are appointed by the Provincial Government.

The Provincial Finance Commission (PFC) determines the intergovernmental fiscal relations. The revenue sharing mechanism is determined in the PFC Award for the elected local bodies, DEA and DHA.

2. Main functional responsibilities at the sub-national levels

The Constitution of Pakistan (1973) prior to 2010 had a federal legislative and concurrent list. Any function not in these two lists was assigned to the province, while the functions listed in the concurrent list could be legislated upon by the National as well as the provincial assemblies, the former taking priority in case of decision on which tier to legislate. The 18^{th} amendment (2010) to the Constitution abolished the concurrent list and since all functions not listed in the federal legislative list carries the provincial mandate.

At the provincial level (in case of Punjab) the Local Government Act 2013 provides the functions (See Table 6.1) of the different tiers. The general members are directly elected in the Union and District Council and Metropolitan/Municipal Corporation and Municipal Committees while the reserve seats and Mayors, Deputy Mayors, Chairman and Vice Chairman as executive heads at the respective levels are indirectly elected. Only the Chairman and the Vice Chairman of the Union Council are directly elected.

The Provincial Government appoints the heads of the District and Health Education Authorities.

Table 6.1: Key Functions
Union Council (UC)
• Approve: budget of the UC, levy of tax or fee assigned to the UC; • Nominate members of the Panchayat or Musalihat Anjuman and monitor performance • Improve and maintain public ways, public streets, public open spaces, graveyards, public gardens and playgrounds; • Maintain rural water supply schemes and public sources of drinking water, including wells, water pumps, tanks, ponds and other works for the supply of water and open drains; • Establish cattle pounds; Manage and maintain grazing areas, common meeting places and other common property; • Hold fairs and recreational activities; Provide conservancy services in the Union Council; • Registration of births, deaths, marriages and divorces
District Council
• Approve bye-laws and taxes; annual and supplemntary budget of the Distrit Council; proposals and long term and short term development plans; • review the performance of all offices working for the District Council; • promote social counseling to inculcate civic and community spirit and motivate and • galvanize the general public for compliance with municipal laws, rules and bye-laws. • control over land-use, spatial planning, land-subdivision, land development and zoning
Municipal Committees
• Prepare spatial plans for the local government including plans for land use and zoning; • Execute and manage development plans; exercise control over land-use, land-subdivision, land development and zoning • Enforce all municipal laws, rules and bye-laws regulating its functioning • Provide, manage, operate, maintain and improve the municipal infrastructure & services • Prepare budget, revised budget, annual and long term municipal development program; • Approve taxes and fees; Assist in disaster relief
Metropolitan and Municipal Corporations
• Approve spatial plans, master plans, zoning, land use plans and implement • Implement rules and bye-laws governing land use, housing, markets, zoning, environment, roads, traffic, tax, infrastructure and public utilities; • Approve proposals for public transport and mass transit systems, construction of express ways, fly-overs, bridges, roads, under passes, and inter-town streets; • Approve development schemes for beautification of urban areas; • Develop integrated system of water reservoirs, water sources, treatment plants, drainage, liquid and solid waste disposal, sanitation and other municipal services; • Execute and manage development plans; • Enforce all municipal laws, rules and bye-laws governing its functions and prevent and remove encroachments; regulate affixing of sign-boards and advertisements wihtin its remit • Provide, manage, operate, maintain and improve municipal infrastructure and services, • Environmental control in accordance with Federal and Provincial laws and standards; • Undertake urban design and urban renewal programs; • Develop and maintain museums, art galleries, libraries, community & cultural centers;

• Prepare budget, revised budget and annual and long-term municipal development program; • Approve taxes and fees; etc.

Sub-national budgetary systems

The fundamentals of the PFM landscape for the Center and the provinces are defined in the Constitution of the Islamic Republic of Pakistan (1973), further delineated in the sub legislations while the rules, notifications, and manuals/handbook provide for the operational framework to guide the users on procedures and processes. The Local Government Act (2013), Chapter XIII provides for the local government finances including budgeting at the local levels.

The National Finance Commission decides on the vertical and horizontal distribution between the center and the provinces, while the Provincial Finance Commission decides on vertical and horizontal distribution between the province and the local governments/authorities.

The provincial Assembly approves the budget for the province while the Councils, Corporations/Committees for the respective tiers. The fiscal year for all tiers is the same 01 July- 30 June. The budget procedures are, more or less, the same commencing with the issuance of budget call circular and concluding with the legislature's approval. GoPb have notified the fiscal transfer rules and budget rules for the provincial and local governments. The sub-national governments' budget cycle follows the same regulations as set for the higher tiers and similar accounting framework. The only difference is with the bank accounts.

All tiers have the authority to procure its own supplies and incur capital expenditure within the remit of its responsibilities. The public procurement law and rules notified by the provincial assembly and the provincial public regulatory authority respectively are applicable to all tiers of SNGs. Although the LGs can approve projects for the functions prescribed in the PLG Act 2013, however the administrative approval ceiling for project approval is PKR 60 million. Above this ceiling the projects must be approved by the province's respective working parties.

Sub-national fiscal systems

The provincial government is largely dependent on the federal fiscal transfers while the local governments mainly rely on the fiscal transfers from the province and the share in lieu of the freezing of the Octroi and Zilla Tax.

Overview of Punjab finances 2017-18			
Item	**Total Value PKR, millions**	**Value Per Capita PKR**	**Percent of Total**
Wage and salary expenditure	248,609	2,260	17
Non-wage recurrent administrative expenditure	711,987	6,472	49
Capital expenditure	488,756	4,443	34
Total expenditure	**1,449,352**	**13,175**	**100**
Fiscal transfers	1,052,500	10,295	73

Other revenue sources	392,931	3,572	27
Total revenue	**1,445,431**		**100**
Borrowing	138,112	1,255	9

Source: Annual Budget statement

Sub-national institutional (political and administrative) structures

The Constitution of Pakistan (1973) provides complete autonomy to the provinces, authorized through the provincial legislature (Assembly) within its remit of responsibilities. The Assembly members are mostly directly elected save the reserved seats (women, minorities etc.) with tenure of five years. The 18th amendment (2010) to the Constitution extended greater political, administrative and fiscal autonomy to the provinces. The 7th National Financial Commission (NFC) increased the share of resources for the provinces. The provinces are represented in the NFC, responsible for allocation of resources between the center and the federation

The Chief Minister is the executive head in the province and is supported by a Cabinet of Ministers and Advisers. The civil administration comprises of 40 departments, 102 attached departments and 184 autonomous bodies.

The political leadership at the provincial level has an authority to appoint and remove its provincial staff except for a few key staff positions. The final authority for the appointment of the Chief Administrator (Chief Secretary) is the federal government. Similarly, the provincial AG and DG Provincial audit are also appointed by the Center (AGP and CGA). The Governor of the province is the representative of the federal government.

The local government although provided for in the Constitution, however, is a provincial subject and the provincial assembly legislates for creation of local governments.

Annex 7. Entity wise detail of expenditure, revenue and grants (PI-10)

Public sector corporations and companies						*(PKR Million)*
Serial No	**Name**	**Department**	**Financial Year**	**Revenue**	**Expenditure**	**Grants**
1	Tourism Development Corporation of Punjab	Youth Affairs, Sports, Archeology Tourism	2017-18			15.000
2	Punjab Bio Energy Co Pvt Ltd	Agriculture	2017-18	9.123	37.228	
3	Punjab Energy Holding Co Pvt Ltd	Energy	2017-18			60.000
4	Punjab Power Development Company Ltd	Energy	2017-18	56.795	125.992	149.242
5	Punjab Thermal Power (Pvt) Limited	Energy	2017-18			13,400.000
6	Quaid-i-Azam Solar Power Company	Energy	2017-18	2,795.045	1,956.346	
7	Quaid-i-Azam Thermal Power Company	Energy	2017-18	10,618.602	11,973.643	
8	South Punjab Forest Company	Forestry, Wildlife and Fisheries	2017-18	1.849	83.124	92.000
9	Lahore Knowledge Park	Higher Education	2017-18	70.410	175.319	250.000
10	Punjab Education Endowment Fund	Higher Education	2017-18	969.011	5,792.309	4,076.262
11	Punjab Land Development Company	Housing, Urban Development and Public Health Engineering (HUD& PHE)	2017-18			
12	Punjab Saaf Pani Company North	HUD&PHE	2017-18			
13	Punjab Saaf Pani Company South	HUD&PHE	2017-18	247.848	425.578	
14	Faisalabad Industrial Estate Development & Management Company	Industries, Commerce and Investments	2017-18			
15	Punjab Board of Investment and Trade	Industries, Commerce and Investments	2017-18			37.500
16	Punjab Industrial Estate Development & Management Company	Industries, Commerce and Investments	2017-18			
17	Punjab Model Bazaar Management Company	Industries, Commerce and Investments	2017-18	255.794	304.196	250.000
18	Punjab Social Security Health Management Company	Labor and Human Resource	2017-18			
19	Punjab Agriculture and Meat Company	Livestock and Dairy Development	2017-18			

20	Punjab Livestock & Dairy Development Board	Livestock and Dairy Development	2017-18			
21	Bahawalpur Waste Management Company	Local Govt. & Community Development	2017-18			294.000
22	Cattle Market Management Company Bahawalpur	Local Govt. & Community Development	2017-18			
23	DG Khan Cattle Market Management Company	Local Govt. & Community Development	2017-18			
24	Faisalabad Cattle Market Company	Local Govt. & Community Development	2017-18			
25	Faisalabad Parking Company Ltd	Local Govt. & Community Development	2017-18			
26	Faisalabad Waste Management Company	Local Govt. & Community Development	2017-18			1,142.664
27	Gujranwala Cattle Market Management Company	Local Govt. & Community Development	2017-18			
28	Gujranwala Waste Management Company	Local Govt. & Community Development	2017-18			924.000
29	Lahore Division Cattle Market Management Company	Local Govt. & Community Development	2017-18			
30	Lahore Parking Company Ltd	Local Govt. & Community Development	2017-18			
31	Lahore Waste Management Company	Local Govt. & Community Development	2017-18			8,836.580
32	Multan Cattle Market Management Company	Local Govt. & Community Development	2017-18			
33	Multan Waste Management Company	Local Govt. & Community Development	2017-18	38.000	847.380	988.785
34	Punjab Municipal Development Fund	Local Govt. & Community Development	2017-18	40.829	120.004	103.274
35	Punjab Rural Support Programme	Local Govt. & Community Development	2017-18	497.185	498.066	11.250
36	Rawalpindi Cattle Market Management Company	Local Govt. & Community Development	2017-18			
37	Rawalpindi Waste Management Company	Local Govt. & Community Development	2017-18			2,655.106
38	Sahiwal Cattle Market Management Company	Local Govt. & Community Development	2017-18			
39	Sargodha Cattle Market Management Company	Local Govt. & Community Development	2017-18			

40	Sialkot Waste Management Company	Local Govt. & Community Development	2017-18			341.960
41	Punjab Minerals Company	Mines & Minerals	2017-18			500.000
42	Engineering Consultancy Services Punjab	Planning & Development	2017-18			
43	Punjab Skill Development Fund	Planning & Development	2017-18	29.421	3,655.447	2,051.000
44	Urban Sector Planning and Management Services Unit Pvt Ltd	Planning & Development	2017-18			
45	Punjab Population Innovation Fund	Population and Welfare Department	2017-18			
46	Punjab Health Facilities Management Company	Primary & Secondary Healthcare	2017-18			4,471.274
47	Punjab Health Initiative Management Company	Specialized Health Care and Medical Education	2017-18	47.241	1,342.242	2,200.000
48	Lahore Transport Company	Transport	2017-18	132.237	314.897	569.977
49	Quaid-i-Azam Hydel Power Company	Energy	2017-18	0.468	4.880	(31.632)
Grand Total				**15,809.859**	**27,656.651**	**43,388.242**

Annex 8. List of evaluation reports (PI-11)

Department	Program/Project	Year of Report	Author	Estimated Cost (PKR Million)
Health	500 bed hospital Wah	2018	M&E Directorate	1,329
Forest	Evaluation of establishment of Punjab Forest Academy	2018	M&E Directorate	59
Industry	Establishment of Mini Sanatzar	2018	M&E Directorate	46
Health	Up gradation of ENT at Ganga Ram Hospital	2018	M&E Directorate	35
Urban Development	Improvement of Aam Khas Bagh, Multan	2018	M&E Directorate	50
Urban Development	Improvement of Bagh Langey Khan	2018	M&E Directorate	20
Agriculture	Improvement of Khadija Tul Kubra Women Hostel	2018	M&E Directorate	177
Forest	Afforestation in Debalpur	2018	M&E Directorate	124
Health	Data warehousing and Business Intelligence Project	2018	M&E Directorate	199
Health	Disease Surveillance system project	2018	M&E Directorate	198
Excise	MVT registration reform program	2018	M&E Directorate	182
Women Development	Gender Management Information system project	2018	M&E Directorate	28
Heath	Allied Breast Clinic project	2018	M&E Directorate	70
Irrigation	Flood embankment RYK	2018	M&E Directorate	284
Irrigation	Management of Hill Torrent in Irrigation Zone DG Khan.	2018	M&E Directorate	969
Health	Emergency services under DDP	2018	M&E Directorate	171
Health	Up-gradation of TT Singh DHQ	2018	M&E Directorate	451
Jails	Rajanpur Jail improvement	2018	M&E Directorate	926
Jails	Computerization of Police Stations	2018	M&E Directorate	195
Education	Government special education center, Tandianwala	2018	M&E Directorate	17
Education	Government special education center, Jhang	2018	M&E Directorate	17
Revenue	Ease for taxpayer project	2018	M&E Directorate	8
Livestock	Prophylactic measures and surveillance of camel and milk processing in Punjab	2018	M&E Directorate	84
P&D	Capacity Building project	2018	M&E Directorate	400
Health	Establishment of Breast Cancer screening unit	2018	M&E Directorate	88

Department	Program/Project	Year of Report	Author	Estimated Cost (PKR Million)
Special Education	Government special education for hearing impaired	2018	M&E Directorate	10
Education	Provision of transportation buses for schools-Bahawalpur	2018	M&E Directorate	27
C&W	Khadem e Punjab Rural roads	2018	M&E Directorate	112
C&W	Sharif Forest Park Gujjar Khan	2018	M&E Directorate	7
Health	Regional Diagnostic Laboratory	2018	M&E Directorate	72
Health	Up-gradation of DHQ Faisalabad	2018	M&E Directorate	181
Health	Up-gradation of ICU and Op' Theaters Faisalabad	2018	M&E Directorate	336
Fisheries	Fish Seed rearing and biological diversification in Chashma	2018	M&E Directorate	82
Police	Construction of Stable at Multan Police Lines	2018	M&E Directorate	13
Special Education	Government special education center, Sahiwal	2018	M&E Directorate	7
Special Education	Government special education center, Pakpattan	2018	M&E Directorate	13
Public Health	Extension of Water Resources Faisalabad	2018	M&E Directorate	6,020
Public Health	Institute of public Health	2018	M&E Directorate	55
Forest	Rehabilitation of forest parks Jhelum	2018	M&E Directorate	157
Mines	Establishment of Mines Rescue	2018	M&E Directorate	79
Health	Extension of emergency services to Tehsils	2018	M&E Directorate	1,036
Forestry	Promotion of Social forestry	2018	M&E Directorate	86
Health	Equipment to DHQ hospital Rawalpindi	2018	M&E Directorate	137
Women Development	Establishment of VAW centers	2018	M&E Directorate	270
	Establishment of Job centers, Bhakkar	2018	M&E Directorate	15
Women Development	Harassment awareness program	2018	M&E Directorate	68
Health	Cancer treatment hospital Multan	2018	M&E Directorate	320
Health	Doctors Hostel Lahore	2018	M&E Directorate	11
Special Education	Government special education for hearing impaired, Jalalpur	2018	M&E Directorate	10

Department	Program/Project	Year of Report	Author	Estimated Cost (PKR Million)
Health	Missing facilities provision in Teaching Hospital Lahore	2018	M&E Directorate	33
Special initiatives	Chief Minister's Rozgar Programme	2018	M&E Directorate	547
Prosecution	Computerization of Public prosecution department	2018	M&E Directorate, Report not issued	
Police	Security Wall Multan Jail	2018	M&E Directorate	33
C&W	Up gradation of Punjab Ring road	2018	M&E Directorate	34
Health	Up gradation of Cardiology Unit Lahore	2018	M&E Directorate	200
Police	Police Station construction, Sarghoda	2018	M&E Directorate	26
	Up gradation of Bahawalpur Cooperative training institute	2018	M&E Directorate	52
Health	Up gradation of Neurosurgery in Jinnah hospital	2018	M&E Directorate	398
Health	Hostels at Faisalabad Institute of Cardiology	2018	M&E Directorate	142
Prosecution	Digitalization of Public Prosecution Dept. Ph- 2	2018	M&E Directorate	66
Health	Angiography equipment at Institute of Cardiology	2018	M&E Directorate	239
Health	Up gradation of Holy Family hospital Rawalpindi	2018	M&E Directorate	52
Women Development	Project on Punjab police integrated communication	2018	M&E Directorate	16,000
Women Development	Establishment of VAW centers Multan	2018	M&E Directorate	270
Excise	Motor Transport MIS	2018	M&E Directorate	517
Special Education	Government special education center, Tandianwali	2018	M&E Directorate	17
Health	Neurosurgery Department at Allied hospital	2018	M&E Directorate	192
Special Education	Government special education center, Jhang	2018	M&E Directorate	17
Local Government	Capacity building of Local Government Department	2018	M&E Directorate	178
Human Rights & Minorities	Renovation of Catholic Church, Kasur	2018	M&E Directorate	1
Public Health	Sewerage system in Nankana	2018	M&E Directorate	2
Public Health	Provision of Tuff tiles	2018	M&E Directorate	1
Education	Internal Merit scholarship EESE	2018	M&E Directorate	400

Department	Program/Project	Year of Report	Author	Estimated Cost (PKR Million)
Education	Nursing college RYK	2018	M&E Directorate	179
Health	Neonatal ICU Rahim Yar Khan	2018	M&E Directorate	100
Energy	Energy Solutions in villages	2018	M&E Directorate	232
Forestry	Maintenance of roadside plantation	2018	M&E Directorate	182
C&W	Construction of building at Bureau of Statistics	2018	M&E Directorate	115
Health	Addition of 25 bed surgical facilities, BBH	2018	M&E Directorate	150
Health	TPV of Mobile Health Units	2018	e-Medicare solution	347
Livestock	TPV of Poverty Alleviation of Poor Women- Provision of Heifer & Sheep/ Goats in Punjab	2018	Sid-Agri private limited. M&E Directorate	4,016