

Khyber Pakhtunkhwa Province, Pakistan

Public Financial Management Assessment Report

October 2017



Islamia College, Peshawar. Courtesy: Government of Khyber Pakhtunkhwa

ABSTRACT

This report is prepared using the revised Public Financial Management (PFM) assessment framework notified by the Public Expenditure and Financial Accountability (PEFA) Secretariat in February 2016 and the supplementary guidance for subnational assessment issued in March 2016. The report offers evidence on the strengths and gaps in the PFM system in the province of Khyber Pakhtunkhwa to assist the Government in refining its reform agenda and facilitate the development partners in aligning the reform efforts.

FISCAL YEAR

July 1–June 30

CURRENCY EQUIVALENTS

Currency unit = Pakistan Rupee (PKR)

USD 1 = PKR 103.7 (July 1, 2017)

Table of Contents

Abbreviations and Acronyms	5
Executive Summary	7
I. Introduction	13
1.1. Rationale and purpose	13
1.2. Assessment management and quality assurance	14
1.3 Assessment methodology	16
II. Country Background Information	18
A. Country economic situation	18
B. Khyber Pakhtunkhwa profile	18
C. KP fiscal and budgetary trends	20
D. Legal and regulatory arrangements for PFM	22
E. Institutional arrangements for PFM	24
F. Other important features of PFM and its operating environment	26
III. Assessment of PFM Performance	28
A. Transfers from HLG	28
HLG 1.1 Outturn of transfers from higher-level government	29
HLG 1.2 Earmarked grants outturn	29
HLG 1.3 Timeliness of transfers from higher-level government	30
B. Budget reliability	30
PI-1 Aggregate expenditure outturn	31
PI-2 Expenditure composition outturn	31
PI-3 Revenue outturn	32
C. Transparency of public finances	33
PI-4 Budget classification	33
PI-5 Budget documentation	35
PI-6 Provincial government operations outside financial reports	36
PI-7 Transfers to SNG	38
PI-8 Performance information for service delivery	40
PI-9 Public access to fiscal information	45
D. Management of assets and liabilities	46
PI-10 Fiscal risk reporting	47
PI-11 Public investment management	50
PI-12 Public asset management	55
PI-13 Debt management	56
E. Policy-based fiscal strategy and budgeting	57
PI-14 Macroeconomic and fiscal forecasting	58
PI-15 Fiscal strategy	59
PI-16 Medium-term perspective in expenditure budgeting	60
PI-17 Budget preparation process	62
17.2 Guidance on Budget Preparation	64
PI-18 Legislative scrutiny of budgets	65
F. Predictability and control in budget execution	67
PI-19 Revenue administration	67
PI-20 Accounting for revenue	69
PI-21 Predictability of in-year resource allocation	70
PI-22 Expenditure arrears	73
PI-23 Payroll controls	73
PI-24 Procurement	76

PI-25 Internal controls on non-salary expenditure	80
PI-26 Internal audit.....	82
G. Accounting and reporting.....	83
PI-27 Financial data integrity	84
PI-28 In-year budget reports.....	86
PI-29 Annual financial reports.....	89
H. Legislative scrutiny and audit	90
PI-30 External audit	90
PI-31 Legislative scrutiny of audit reports	93
IV. Conclusions on the Analysis of PFM Systems	95
A. Integrated assessment of PFM performance	95
B. Effectiveness of the internal control framework.....	99
C. PFM Strengths and Weaknesses	103
D. Performance changes since 2007.....	104
V. Government PFM Reform Process	106
A. Approach to PFM reforms	106
B. Recent and ongoing reform actions.....	106
C. Institutional considerations: Stewardship for reforms.....	108
Annex 1: Performance Indicator Summary	109
Annex 2: Summary of Observations on the Internal Control Framework	116
Annex 3: Sources of Information	119
Annex 4: Comparison with Previous Assessment	125
Annex 5: Calculation Sheets for HLG Transfers & Expenditure Out-turns	137
Annex 6: Subnational Government Profile	145
Annex 7: List of Off-Budget Projects	152
Annex 8: Objectives and TORs - Planning Commission	153
Annex 9: Project Documents Reviewed for PIM	154
Annex 10: List of Budgetary, Extra-budgetary and Public Corporations	155
Annex 11: Procurements Reviewed.....	158

Abbreviations and Acronyms

ADB	Asian Development Bank
ADP	Annual Development Program
AG	Accountant General
AGP	Auditor General of Pakistan
APPM	Accounting Policies and Procedures Manual
C&W	Communication and Works
CDWP	Central Development Working Party
CGA	Controller General of Accounts
COFOG	Classification of Functions of Government
DAO	District Accounts Office/r
DDO	Drawing and Disbursement Officer
DDWP	District Development Working Party
DFID	U.K. Department for International Development
DG	Directorate General
ECNEC	Executive Committee of National Economic Council
EU	European Union
FATA	Federally Administered Tribal Areas
FD	Finance Department
FI	Financial Information
FY	Fiscal Year
FMIU	Financial Management Information Unit
GDP	Gross Domestic Product
GFMS	Government Financial Management Information System
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GoKP	Government of Khyber Pakhtunkhwa
HDF	Hydel Development Fund
HLG	Higher-level Government
HR	Human Resources
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards for Supreme Audit Institutions
KP	Khyber Pakhtunkhwa
KP-PPRA	Khyber Pakhtunkhwa Public Procurement Regulatory Authority
KPRA	Khyber Pakhtunkhwa Revenue Authority
M&E	Monitoring and Evaluation
MDTF	Multi-Donor Trust Fund
MTBF	Medium-term Budget Framework
MTFF	Medium-term Fiscal Framework
NAM	New Accounting Model
NFC	National Finance Commission
P&D	Planning and Development
PAC	Public Accounts Committee
PC	Planning Commission
PDWP	Provincial Development Working Party
PEFA	Public Expenditure and Financial Accountability
PFC	Provincial Finance Commission
PFM	Public Financial Management
PI	Performance Indicator
PIFRA	Project to Improve Financial Reporting and Auditing
PIM	Public Investment Management
PKR	Pakistan Rupee
SNG	Subnational Government
USAID	United States Agency for International Development



Khyber Pakhtunkhwa Province, Pakistan – Public Financial Management Assessment
Report - October 2017

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,
October 10, 2017

Executive Summary

1. The spill-over effects of the war on terror and the natural calamities in the years 2005 (earthquake) and 2010 (floods) deeply affected the province of Khyber Pakhtunkhwa (KP), impeding its socioeconomic development. Large-scale military operations ensued the security challenges in the neighboring tribal areas leading to internal migration, mainly to KP. As a result, the resource focus diverted to absorb the fiscal impact of the war on terror. Although the security situation has improved, in an effort to avoid recurrence of security challenges particularly originating from the tribal areas with profound impact on KP, the state institutions have to ensure provision of rights, social services, and an enabling environment for the economic growth.

2. Efforts by the Government of Khyber Pakhtunkhwa (GoKP) focused on improving governance in the province; and among a wide array of reforms, it took measures for strengthening public financial management (PFM). The GoKP has been a forerunner in PFM reforms. Under the World Bank-funded Project for Improvement in Financial Reporting and Auditing (PIFRA), KP was the first province to automate the District Accounts Offices (DAOs). The Public Expenditure and Financial Accountability (PEFA) assessment (2007) and Fiduciary Risk Assessment (2010) by the U.K. Department for International Development (DFID) created a stimulus for the first PFM reforms strategy adopted in 2010 to improve budget formulation, execution, and fiscal disclosures.

3. The 18th Amendment (2010) to the Constitution (1973) of the Islamic Republic of Pakistan enhanced the service delivery responsibilities. The increase in resource envelope and responsibilities created an impetus for strengthening PFM, which led to a number of reform measures (Section 5). To assess the strengths, weaknesses, and opportunities resulting from its reform measures, the GoKP partnered with the World Bank to take stock of the impact of the reform efforts by conducting a PFM assessment.

4. In the last decade, the GoKP has taken concrete steps to build the foundations for improved PFM. The reforms gained further momentum with the surge in resource envelope owing to the increased share in the National Finance Commission Award (2009).¹ The increased share of the provinces in the divisible pool, allocation of additional share for KP in recognition of the fiscal impact of the war on terror, and the decision on enhanced profits from hydel power generation more than doubled the resource envelope. Although the federal transfers increased, provincial own source revenue has not responded with a corresponding pace. The increase in provincial own source revenues reflected in the budget books in the last two fiscal years is the result of devolution of general sales tax on services to the provinces. Other provincial taxes did not increase correspondingly.

5. The GoKP initiated consultations for the formulation of the second round of the PFM reforms strategy. To facilitate informed and evidence based policy making, GoKP approached the World Bank to collaborate in taking stock of the prior reform efforts, diagnose the gaps and provide recommendations to bridge the gaps. It was agreed to conduct PFM assessment on the updated PEFA Framework (2016) and based on the findings of the PEFA review further diagnosis will be planned to explore the gaps and find remedial measures. PEFA assessment was carried out as a joint government and donors initiative. Key development partners engaged with the GoKP in supporting PFM reform collaborated in the review. It was agreed that the World Bank, on behalf of the donors would

¹ The National Finance Commission (NFC) is responsible for recommending vertical and horizontal revenue sharing mechanism for the federation

administer the review. GoKP notified a high level Steering Committee chaired by the Secretary Finance (GoKP) while the Donors' PFM working group remained active during the assessment. A Team headed by the Practice Manager and represented by the financial management and public sector specialists at the World Bank was formed and consultants recruited to conduct the exercise in partnership with the GoKP (Details available at Section 1.2 of the report). An elaborate quality assurance mechanism was put in place comprising of the sector specialists at the World Bank as well as external peer reviewers comprising of the representatives of the; PEFA Secretariat, participating development partners and the Government of Khyber Pakhtunkhwa. The PEFA assessment was financed under the multi donor trust fund (MDTF) initiatives.

6. The cutoff date for the assessment was set at 30 June 2015 (the last day of the last fiscal year) for which the audited financial statements were available. Since the GoKP is a subnational government (SNG), the assessment applied the PEFA Framework 2016 and guidance for subnational assessment (2016). The coverage of the assessment is the provincial government fiscal operations. The public sector enterprises and the extra-budgetary units are covered to the extent of financial reporting against budget allocated.

Aggregate fiscal discipline

7. The assessment highlighted the inadequacies in fiscal discipline evidenced in the expenditure and revenue out-turns, eventuated by fluctuations in the federal transfers and aggravated with the deficiencies in PFM practices in KP. The weaknesses in pillars (II-VII) weigh in on the overall performance of Pillar I (Budget reliability).

8. Poor revenue estimation can be attributed to the lack of a robust fiscal strategy defined in quantitative and qualitative terms. The deficiencies in the revenue administration ranging from risk management to arrears monitoring to revenue audits have kept the dependence on the federal transfers high. The expenditure estimation is based on inflated revenue targets, rendering the development budget formulation unrealistic, evident from the repeated budget cuts and revisions. Disintegrated budgeting overshadows the impact of development budget on recurrent; as a result, a holistic view of the budget is not available. The GoKP has recently piloted internal audit and its functionalization is critical for strengthening internal controls.

9. The many budget adjustments, though legally provided for but without a limit on the number of adjustments; the lack of systems and capacity for legislative oversight; and the lack of compliance with the instructions and guidelines of the Finance Department (FD) and Planning and Development (P&D) Department at the budget formulation stage has impacted the fiscal discipline and resulted in high-revenue and expenditure out-turns.

10. The internal controls framework notified is quite robust, but issues remain with its application. Audit reports point at weak internal controls at the line departments. The Public Accounts Committee (PAC) has repeatedly observed the lack of interest of the Executive to comply with its directions. Also, the GoKP has piloted the internal audit in key departments: however, due to lack of capacity, the focus of internal audit is largely on financial compliance rather than strengthening of systems through evaluations and quality assurance. The lack of management response on internal audit reports is mirrored in PAC's finding indicating "weak tone at the top".

Strategic allocation of resources

11. The GoKP has adopted output-based budgeting and provided a medium-term perspective to budgeting to ensure prudent use of fiscal resources. Also, efforts are geared for improving fiscal disclosures and making budget process participatory, besides attempting to link policy planning to budget. The GoKP, having provided an enabling environment is now focusing on systems development and capacity building to entrench these reforms.

12. The practices that are hindering strategic allocation of resources are the vulnerabilities in project planning, costing, prioritization, and screening. Additionally, the incremental increases in the Annual Development Program (ADP), conveyed in the P&D guidelines undermine the utility of the medium-term and output-based budgeting. The provincial development portfolio impinges on the devolved functions; as a result, the ADP includes projects that if analyzed on the principles of subsidiarity should rest with the local governments. Redirecting the ADP's focus to strategic public investments would contribute to appropriate allocation of resources, keep the ADP size manageable, address the issue of inclusion of unapproved schemes (project proposals) in the budget, and reduce the throw-forward effect. Finally, achieving the potential of the medium-term frameworks entail balancing the political considerations with an informed iterative process to ensure demands articulated from various forums are channeled through the notified mechanism and processes.

Efficient use of resources for service delivery

13. The overall development budget utilization rate has averaged around 70 percent. However, unfurling the monthly spending pattern shows the inconsistencies. In the last 5 years (2010-11 to 2014-15), the fund utilization rate ranged between 15-18 percent of the total budget execution in the first six months of the fiscal year. In the last month of the fiscal year, it rises to 38 percent. Complexities in budget execution originating from procedural deficits leads to delays in project approvals; procurement process completion and fluctuations in cash releases impact the efficient use of resources.

14. The GoKP is endeavoring to link planning with budgeting. It has provided a medium-term perspective to budgeting, introduced decentralization reforms to improve service delivery, and enacted the right to information: however, these measures have yet to gain traction. The procedural complexities, lack of integrated systems and capacity, and non-segregation of funds at primary service delivery unit level are hampering the efficient use of resources and innovations in the service delivery.

15. The output-based budgeting and other PFM reforms have provided a foundation for improving the budgeting process; however, the use of these tools particularly for legislative scrutiny is almost non-existent. A key result of PFM reforms is procedural improvements. These can be entrenched with interest articulation by all stakeholders. The lack of a robust legislative scrutiny of budget and fiscal operations dilutes the oversight on the Executive. Greater interest and deeper involvement of the legislature will ensure utility and entrenchment of the reform measures.

16. The GoKP has also taken significant measures to improve fiscal disclosure. The Right to Information Act (2013) is a step in this direction; however, the PEFA Framework focuses on proactive disclosure rather than public registering and requesting for information disclosures. The proactive disclosures and the change in the criteria for transparency in the public finances in the PEFA Framework lend a lower rating to the transparency pillar in this assessment. The FD lacks a methodical

system for collection and review of the financial position of the public sector entities and is currently negotiating support with development partners for capturing the off-budget foreign-funded expenditure and establishment of system at Finance to monitor expenditure outside the government's financial reports.

Political economy perspective

17. In the past decade a number of reforms were introduced to improve budget planning, budget execution, and transparency (see Section 5); and to provide greater legitimacy and leadership, the PFM Reforms Oversight Committee was constituted and chaired by the Minister of Finance with membership of Senior Minister Local Government and Ministers of Health and Education, Advisor to the Chief Minister for P&D, and the Secretaries of FD, P&D Department, and local government departments. The high-level participation by key departments (ministers and secretaries) can yield multiple benefits. It leads to cross fertilization of ideas and prioritization and sequencing of reforms, while consensus building facilitates the reforms rollout.

18. However policy orientations and structural transformation have to be practiced in a political economy where varied interests can tend to slow down the progress or otherwise, if inadequately incentivized. The OECD² concludes it is very hard to classify successes or failures. What may look initially like a failure to reform may provide the necessary impetus for a subsequent major policy change. And what looks like a successful reform may eventually be reversed. In Pakistan, albeit on a wider spectrum, the introduction of the autonomous local government system (2001) and the Government Financial Management Information System (GFMIS) (1998) provides evidence to the latter and the former.

19. The literature on governance reforms acknowledges the long gestation period³ of the reforms, to gain traction. In KP it has been a time consuming but ongoing process. The GoKP leadership has demonstrated stewardship and perseverance, evident from the continuity of reform efforts, however the focus has primarily been on the establishment of the institutions (for example, procurement and revenue authorities, internal audit cells, and so on), introduction of advanced tools (like a medium-term fiscal framework [MTFF], output-based budgeting, internal audit), and policy and strategy formulations. Efforts are now needed to coordinate these efforts among the stakeholders (Line Departments, Audit, and Legislature) to ensure its application by all, which could be accomplished with a capacity development response reaching out to a broader group for wider knowledge transfer. With the introduction of modern tools the GoKP needs to focus on building analytical capacity of the individuals to help appreciate the utility of these tools and its implementation. Continuous efforts are required through advocacy and dialogue for attitudinal change and it is imperative that the practices (manual processing, annual budgeting approach, and so on) prevailing before the introduction of modern methods are discontinued to realize the potential of the modern tools and the automated systems.

Comparison with last PEFA assessment

20. The last PEFA assessment of KP province was conducted in 2007 using the PEFA Framework 2005. Annex 4 provides the performance trajectory based on the PEFA Framework 2005

² OECD (2009), 'The political economy of reform' Lessons From Pensions, Product Markets and Labour Markets In Ten OECD Countries

³ UNDP (1999) 'Delivering the Goods - Building local government capacity to achieve Millenium Development Goals'

applied in 2017. The comparison shows that the budget credibility improved as the variance between budgeted and actual expenditure decreased over the years, at aggregate level as well as by composition. The overall budgeting process remained well organized and participatory with extensive guidance to line departments and the general adherence to budget calendar by the line departments. The multi-year perspective in fiscal planning, expenditure policy, and budgeting improved with the approval and implementation of the KP Integrated Development Strategy. Public access to key fiscal information improved with the release of in-year, budget execution reports. The promulgation of KP Public Procurement Regulatory Authority (KP-PPRA) Act 2012 and KP-PPRA Rules 2014 yielded improvements in the procurement regime. The comprehensive rollout of the GFMIS enhanced the quality of information in the budget execution reports.

21. Deficiencies were noted in oversight of fiscal policy and tax administration. The institutional mechanism for fiscal reporting did not improve in capturing the extra-budgetary operations and information on off-budget donor-funded projects. Neither was improvement noted in the oversight of aggregate fiscal risk from public sector entities/autonomous entities. There has been no significant improvement in tax administration performance, particularly in the areas of transparency of taxpayer obligations and liabilities, registration, and assessment and collection of taxes. In 2013, the GoKP established the Khyber Pakhtunkhwa Revenue Authority (KPRA) to collect sales tax on services, which is now the largest provincial tax but is still in the process of developing systems and capacity for revenue-compliance risk management. The predictability regarding availability of funds declined because of the practices followed in the cash releases for development budget, significant in-year budgetary adjustments and the absence of commitment accounting. Internal controls continue to pose challenges for the GoKP. The performance with regard to the scope and coverage of the payroll audit declined and non-salary expenditure commitment controls deteriorated largely owing to the lack of commitment accounting. Although the GoKP piloted internal audit, the focus of internal audit on financial compliance and lack of management response continues to undermine the deepening of fiduciary controls.

22. The following table provides the summary ratings of the current assessment conducted on the PEFA Framework 2016. Details of the assessment and the narrative are available in Section 3.

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

I. Introduction

1.1. Rationale and purpose

23. The Government of Khyber Pakhtunkhwa (GoKP) has taken commendable measures to improve public financial management (PFM) since the last Public Expenditure and Financial Accountability (PEFA) assessment (2007); and with about a decade of continuous efforts, the GoKP decided on stocktaking to reflect on the impact of reform measures.⁴ The GoKP resolve to strengthen PFM is echoed in the commitment of the leadership, both political and bureaucratic.

24. The 18th Amendment to the Constitution of the Islamic Republic of Pakistan enhanced the landscape of service delivery functions. The National Finance Commission (NFC)⁵ increased the share of the provinces in the divisible pool from 47.5 to 56 percent in the first year (2010-11) to 57.5 percent in the remaining 4 years. In recognition of the impact on the war on terror, additional 1 percent of divisible pool was allocated for KP.⁶ The agreement between federal and provincial governments on transferring PKR 110 billion over 5 years to KP under the hydel profit⁷ arrears further augmented the fiscal position. As a result, the resource envelope of the GoKP increased approximately 2.5 times (Table 1) manifesting the need for robust PFM for efficient and effective use of public resources.

Table 1.1: GoKP Fiscal Outlay

(PKR, millions)

Year	Total Budget Outlay	Total Current Budget	Total Development Budget	Provincial Revenues
2010-11	197,241	127,958	69,283	6,414
2011-12	234,141	149,000	85,141	8,828
2012-13	303,000	205,542	97,458	10,057
2013-14	344,000	226,000	118,000	11,720
2014-15	404,805	265,000	139,805	20,011
2015-16	487,884	298,000	174,884	21,492

Source: Annual Budget Statements and Budget White Papers, GoKP.

Note: Provincial revenues included in total budget outlay

25. The GoKP resource base deepened owing to a larger share in the divisible pool/transfers; however, the performance of own source revenues has not reciprocated. The increase in the last two years (Table 1) can largely be attributed to devolution of the general sales tax on services to the provinces, comprising almost 60 percent of the total provincial tax collection. The GoKP is committed to achieving value for money in public investments to improve service delivery; at the same time, it needs to focus on improving own source revenues.

26. As a result of the increase in the public investments, there has been improvement in the socioeconomic indicators; however the improvement does not correspond with the additional financing available to the province (see Section 2.1).

⁴ The last Public Financial Management and Accountability Assessment was completed in 2007 using PEFA Framework 2005.

⁵ 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.

⁶ Total divisible pool taxes for 2014-15 were budgeted at PKR 1.9 trillion.

⁷ Article 161 (2) of the Constitution (1973) allows net proceeds from the bulk generation of power at a hydroelectric station to the province in which the hydroelectric station is situated.

27. A comprehensive review of performance and factors inhibiting performance is the logical first step toward strengthening PFM and creating circumstances conducive to better service delivery. The GoKP therefore partnered with the donor agencies to take stock of the overall performance of the PFM systems and complement the findings of the PEFA report with subsequent detailed diagnostics study on impediments in budget execution. The GoKP 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 GoKP approached the World Bank in June 2015 to carry out PFM assessment on the PEFA Framework. However, as the PEFA Framework was in testing phase, it was agreed to delay the assessment until revision/finalization of the Framework. The administrative procedures for the PEFA assessment were completed by January 2016; and the assessment was formally launched in February 2016, after notification of the revised PEFA Framework (2016).

29. Collaborators on the assessment were the Asian Development Bank (ADB), the European Union (EU), the U.K. Department for International Development (DFID), the United States Agency for International Development (USAID) and the World Bank. The GoKP managed the process with a high-level Steering Committee chaired by the Secretary of the Finance Department (FD) with representation from the Accountant General (AG), and the Secretaries of the P&D Department, Local Government, Excise and Taxation Departments; Provincial Assembly; Director General Provincial Audit; and the heads of the Revenue and Procurement Regulatory Authorities (Refer to Box 1.1 for details). Following is the activity schedule complied with for the KP-PEFA assessment.

Table 1.2: Chronology

Date	Activity
Dec 07, 2015	Draft concept note shared with GoKP, PEFA Secretariat, participating development partners, and quality assurance team within the World Bank.
Dec 14, 2015	Comments received and Videocon held for deliberations on the draft concept note.
Jan 20, 2016	Briefing to the Steering Committee Chair (Secretary Finance) and AG on the activity plan for PEFA assessment.
Jan 29, 2016	Concept note revised and shared with all stakeholders.
Feb 01, 2016	Government concurrence of concept note received.
Feb 12, 2016	Steering Committee and focal persons within the government notified.
Feb 16, 2016	Orientation workshop and formal launch.
Feb 22, 2016	Field work - Data collection, analysis, interviews commenced.
Mar- May 2016	Clarifications and guidance sought from PEFA Secretariat during PEFA training at Budapest and through email correspondence.
Aug 26, 2016	Meeting with GoKP (FD and Chair, Steering Committee) on results validation.
Sep 15, 2016	Draft report shared with GoKP.
May 16, 2017	Draft report shared with peer reviewers
Oct 11, 2017	Revisions, review, and finalization of report (PEFA Check)

30. The scope of the PEFA assessment covered the provincial budgetary government entities and public sector enterprises. The province of KP is largely dependent upon transfers from the federal

government. To capture the impact of the Higher-Level Government (HLG) transfers, the supplementary guidelines for subnational assessment were followed to reflect the performance on account of HLG transfers.

31. The Steering Committee, notified by the GoKP, provided oversight over the PEFA assessment and has plans to steer the course of reform following assessment results. To facilitate the PEFA assessment, focal groups were notified in the FD and the Office of the Accountant General. In order to transfer the knowledge for the PEFA assessment, government officials were continuously engaged during the assessment process. Six missions were conducted in KP province, and four meetings were held at the World Bank office with the GoKP representatives. Three meetings were held with the development partners to keep the participating representatives abreast of the assessment process and outcomes.

Box 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organization

• **GoKP Oversight Team. PEFA Steering Committee with the following composition**

Ali Raza Butta	Secretary Finance (Chair)
Najeeb Ullah	AG
Syed Zafar Ali Shah	Secretary, P&D Department
Syed Jamal Uddin Shah	Secretary Local Government Department
Muhammad Israr	Secretary Excise and Taxation Department
Mr. Amanullah	Secretary Provincial Assembly
Idrees Marwat	Special Secretary, FD
Kamran Rahman	Managing Director- KP Public Procurement Regulatory Authority (KP-PPRA)
Javed Iqbal	Director General Provincial Audit
Afzal Latif	Senior Member Board of Revenue
Javed Marwat	Managing Director, Khyber Pakhtunkhwa Revenue Authority
Asim Khattak	Additional Secretary, FD

- **Assessment Manager:** Filly Sissoko, World Bank.

- **Assessment Team Leader and Team Members:**

The World Bank led the exercise and comprised of the following individuals:

- Akram El Shorbagi (Task Team Leader),
- Rafika Chaouali (Lead Financial Management Specialist and leader of public investment management [PIM] indicator assessment),
- Muhammad Waheed (Senior Economist),
- Rehan Hyder (Senior Procurement Specialist and leader of procurement indicator assessment),
- Sher Shah Khan (Senior Governance Specialist),

- vi. Abid Khan (Program Associate),
- vii. Mian Asif Shah (Lead PEFA Consultant) and
- viii. Jehanzeb Pervez (Consultant).

- **Review of concept note**

Dates of reviewed draft concept note: December 11 and 14, 2015.

- **Invited reviewers included:**

- i. Julia Dhimitri: PEFA Secretariat
- ii. Imtiaz Ayub, Coordinator Reforms Unit and coordinator for PEFA Steering Committee, GoKP
- iii. Development Partners included:
- iv. Fily Sissoko, Practice Manager,
- v. Saeeda Sabah Rashid, Senior Public Sector Specialist;
- vi. Ousman Jah, Program Coordinator (Multi-Donor Trust Fund [MDTF]),
- vii. Asif Ali, Senior Procurement Specialist,
- viii. Mohan Gopalakrishnan, Senior Financial Management Specialist
- ix. Diep Pham, ADB
- x. Frank Rijnders, Development Advisor, EU, Islamabad
- xi. Feroz Shah, USAID, Islamabad
- xii. Imran Yousaf, USAID, Islamabad
- xiii. Najam us Saquib, DFID, Islamabad

- **Reviewers who provided comments:**

- i. Saeeda Sabah Rashid, Senior Public Sector Specialist; World Bank
- ii. Mohan Gopalakrishnan, Senior Financial Management Specialist. World Bank
- iii. Asif Ali, Senior Procurement Specialist, World Bank
- iv. Imran Yousaf, USAID, Islamabad
- v. Julia Dhimitri, PEFA Secretariat
- vi. Imtiaz Ayub. Coordinator, Reforms Unit conveyed concurrence of the Government of KP

- **Date of final concept note:** February 4, 2016

- **Review of the assessment report**

1st Draft report submitted on 16 May 2017. Peer review comments received from 31 May to 05 June 2017)
 2nd Draft report submitted on 15 September 2017. Peer reviewer's comments received on 23 September 2017.
 3rd draft report submitted on 09 October 2017

- **Reviewers who provided comments:**

The draft report was shared with the same panel members that was formed for the Concept Note. The comments were provided by the following:

- i. Saeeda Sabah Rashid, Senior Public Sector Specialist; World Bank (05 June 2017)
- ii. Mohan Gopalakrishnan, Senior Financial Management Specialist. World Bank (30 May 2017)
- iii. Imran Yousaf, USAID, Islamabad (31 May 2017)
- iv. Misbah Riaz, Section Officer, Finance Department on behalf of the Government of KP (18 January 2017)
- v. Julia Dhimitri, PEFA Secretariat (02 June 2017)
- vi. Guillaume Brule, PEFA Secretariat (23 September 2017)

1.3 Assessment methodology

32. This PFM assessment used the PEFA Framework (2016) with reliance on supplementary guidelines (2016) for subnational assessment that reflected KP province. This report takes into account the provincial budgetary expenditure; the public sector enterprises are covered to the extent

of budget allocations and reporting there-against. The assessment was conducted against 31 PFM performance management indicators grouped in 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.

33. The fiscal year for the GoKP commences on July 1 and ends June 30. The cutoff date for the assessment was June 30, 2015. Therefore, the last completed fiscal year in the case of the GoKP is 2014-15. The sources of information used for this assessment are available in Annex 3.

34. A one-day capacity-building workshop was organized by the Assessment Team on February 16, 2016 for GoKP officials before the data collection phase with the objective to familiarize the officials with the upgraded PEFA Framework (2016) and acquaint them with the method and methodology, indicators, and requirements of the PEFA assessment. The assessment team held consultations with the Public Accounts Committee (PAC) (representative legislative body) and the Director General Provincial Audit, and the development partners were engaged through PEFA working group meetings.

II. Country Background Information

A. Country economic situation

35. The Government of Pakistan released the Economic Survey (2015-16) on June 05, 2016, documenting variegated results in different sectors. The population of Pakistan with an estimated growth rate of 1.89 percent is projected at 195 million.⁸ With investment in the social sectors, life expectancy has improved to age 67.5 for females and 65.5 for males, while literacy rate has gone up to 60 percent. The real gross domestic product (GDP) growth of 4.7 percent, averaging 3.7 percent over the last decade, is inadequate to absorb the unemployed (5.9 percent) and address the socio-economic needs. The Government is faced with formidable challenges: 29.5 percent of the population lives below the poverty line;⁹ maternal, infant, and child mortality rates are at 178, 66, and 81 per 100,000, respectively; and agriculture has a recorded negative growth (2015-16) while around 70 percent of the citizens rely on this sector.

36. National economic growth is showing signs of recovery aided by falling commodity and fuel prices, increased energy availability for manufacturing sector, and improvement in security conditions. Survey data show industrial growth accelerating on the back of large-scale manufacturing and construction, the latter being driven largely by the China Pakistan Economic Corridor (CPEC) infrastructure, and energy projects. Exogenous-led growth entails risks that are beyond government's control. Rise in oil prices or a dip in remittances can impact growth momentum. In order to increase and sustain growth rates, the Government should undertake domestic structural reforms like tax and expenditure management.

37. Pakistan still faces significant economic, governance, and security challenges to achieve durable development outcomes. Such challenges impedes development and growth, and a range of governance and business environment indicators suggests that deep improvements in governance are needed to harness the growth potential.

B. Khyber Pakhtunkhwa profile

38. Khyber Pakhtunkhwa (KP) is a federating unit (province) of Pakistan. The Constitution of Pakistan provides for autonomous provinces and prescribes the functional jurisdiction for which the provincial assembly (legislature) has full authority to enact laws. The provincial government is entrusted to exercise implementation of those laws. The fiscal authority and autonomy is stipulated in the Constitution and elaborated in subsequent laws, rules, and regulations. The Constitution provides for an elected local government with administrative, fiscal, and political authority (see Section 2 for legal and institutional arrangements for PFM in Pakistan and Annex 6 for the SNG profile).

39. The last population census was conducted in 1998, documenting Pakistan's population at 132 million and KP's population at 17.7 million. These numbers¹⁰ are now (2015-16) estimated at 180

⁸ Ministry of Finance (2016), Pakistan Economic Survey 2015-16.
http://www.finance.gov.pk/survey/chapters_16/12_Population.pdf

⁹ Planning Commission adopted a new poverty line based on cost-of-basic-needs approach, which focuses on the consumption patterns of households in the reference group, and it comes to PKR 3,030 per adult equivalent per month using the latest available HIES 2013-14 data (MoF, 2016).

¹⁰ Government of Pakistan has commenced national census. The report is due by the end of 2017

million and 29 million, respectively. The KP Province is spread across 74,521 square kilometers with mountainous terrain in the North; predominantly irrigated flat lands at the center; and flat lands, largely rain fed (other than areas irrigated by barrages), and hill tracts in the South.

40. The factual provincial economic data is not available as the GoKP does not calculate provincial GDP. The macroeconomic functions like the interest, exchange rate, and inflation rests with the central/federal government. The GoKP started using provincial GDP data in its budget strategy papers in FY2014-15. However the provincial GDP data is not actual but extrapolated from national GDP on the basis of provincial share in Federal Divisible Pool, that is, 9.07 percent (Budget Strategy Paper, GoKP).

Table 2.1: Macroeconomic Outlook of KP (PKR billions)

	2013-14	2014-15	2015-16
National GDP	25,068	27,384	30,533
KP GDP (Projected)	2,274	2,484	2,796
KP budget size	344	405	488
Budget as % of provincial GDP	15%	16%	17%
Federal transfers as % of provincial GDP	11%	11.40%	10.80%
Tax receipts as % of provincial GDP	0.40%	0.80%	0.80%
Non-tax receipts as % of provincial GDP	0.30%	0.40%	1.10%

Source: KP- Budget Strategy Paper, 2015-16.

41. The province of KP has an agrarian economy with a large rural population base (83 percent) relying on the agriculture sector (GoKP Integrated Development Strategy 2014-18). The labor force participation rate is 9 percentage points less than the national average (46 percent) indicating a high unemployment rate and is even more profound when disaggregated with women's participation at 18 percent only (Pakistan Bureau of Statistics 2014). Although the economy is recovering, it will require a continuous focus on the policy and budgeting arena to trigger and sustain economic growth.

42. Besides increasing public expenditure in the social sectors the results historically have not corresponded with the improvement in the human development indicators (HDI). The Integrated Development Strategy (2014-18) notes that the pace of growth in education indicators in percentage terms is minimal. The net enrollment rate declined from 54 percent to 53 percent (Pakistan Economic Survey 2016-17) while one-third of children leave school before completing primary education. UNICEF calculates the total number of out-of-school children (OOSC) in KP at primary level at over 1 million (37 percent) and almost 500,000 (32 percent) at lower secondary level.

43. With regard to infrastructure in the health and education sector IDS 2014-18 notes that the non-availability of basic facilities is undermining the required progress in the HDIs. In recent decades, expanding the number of schools to fill the gaps in coverage has been a strong focus of investment. However, the emphasis on new buildings has led to a neglect of the maintenance of existing infrastructure. The same is relevant to the infrastructure investments and outcomes in the health sector that not only have undermined the progress in the development indicators but have enhanced the out-of-pocket expenditure on health. The current government has focused on improving the health and education sector, and data from the subsequent independent surveys will provide evidence in this regard.

44. The subnational government (SNG) profile is available in Annex 6. Summarily, the KP administrative structure comprises 26 districts,¹¹ 77 tehsils and towns, and 3,501 villages and neighborhood councils. The KP Provincial Assembly acts as the legislature with complete autonomy in functions assigned to the provinces in the Constitution. The assembly, with 124 seats, legislates on annual budget and can enact taxes within its mandate of functions. In the upper house (Senate), the provinces are equally represented; and in the lower house (National Assembly), 43 elected members represent KP Province. The executive authority rests with the Chief Minister aided by the provincial cabinet of ministers (15) and a bureaucracy of 33 administrative departments. The provincial judicature comprises the High Court supported by Sessions and Civil Courts and Tribunals established for special purposes, such as the Banking Tribunal.

45. The total 2015-16 budget was pitched at PKR 488 billion (see Section 1.1 and 2.2 for fiscal details). The GoKP has independent tax sources and has the authority to levy taxes through an act of the Provincial Assembly. The resource base of the province primarily comes from the transfers from the federal (central) government.

C. KP fiscal and budgetary trends

46. The total budget outlay for FY2015-16 was set at PKR 487 billion (an increase of about 21 percent over FY2014-15) of which the total amount of Annual Development Program (ADP) was set at PKR 175 billion, an increase of 25 percent over FY2014-15. Allocation for the newly established local governments stood at PKR 30 billion as district grants were transferred under the Provincial Finance Commission (PFC) directives. Like in other provinces in Pakistan, federal transfers constitute a large chunk of KP provincial resources amounting to over 80 percent of the total ‘general revenue receipts’ and exceeds 90 percent if considered against all fiscal transfers. The provincial tax and non-tax receipts present an erratic trend and have remained under 8 percent of total general revenue receipts (Table 2.2).

47. Of all the provincial taxes, the recently devolved general sales tax on sales tax constitute over half of the total collection under direct and indirect taxes. The GoKP should focus equally on the potential of provincial taxes to tap the expected potential. Table 2.2 summarizes the budgetary trends based on a revised budget.

Table 2.2: KP Fiscal Trend

	FY2013-14 (%)	FY2014-15 (%)	FY2015-16 (%)
RECEIPTS:			
Federal transfers (including Net Hydel Profit arrears)	85.9	80.7	85.0
<i>Provincial tax</i>	1.5	5.8	3.6
<i>Provincial non-tax</i>	2.5	3.1	2.8
Subtotal provincial tax and non-tax	4.0	8.9	6.3
Development receipts	9.9	10.2	4.9
Capital receipts	0.2	0.3	3.8
EXPENDITURE:			
Current revenue expenditure	64.9	64.1	65.2
Development expenditure	30.7	33.9	31.3
Current capital expenditure	4.4	2.0	3.5

Source: Annual Budget Statements. *Note:* Receipts do not reflect savings. Figures are based on revised estimates.

¹¹ The matter of creation of a district is pending adjudication in the provincial High Court.

48. The Budget Strategy Paper submitted with the annual budget proposals to the legislature, stipulate the Government's sectoral priorities and initiatives. In the years under review (2012-13, 2013-14, and 2014-15) the GoKP's main thrust of investments in the social sector has been on education and health, and to accelerate economic growth it is focusing on energy and power as well. The security situation has been the key impediment to economic activity and therefore has been a priority for the government investments.

Table 2.3: Budget Allocations by Function (PKR, millions)

Description	2012-13	2013-14	2014-15
I. Current Revenue Expenditure	191,600	211,000	250,000
01 General Public Service	127,836	59,694	73,281
02 Defense Affairs & Services	-	59	62
03 Public Order and Safety Affairs	28,784	30,029	35,428
04 Economic Affairs	11,376	17,524	19,340
05 Environment Protection	22	30	37
06 Housing and Community Amenities	193	4,293	4,770
07 Health	7,236	19,109	20,986
08 Recreational, Culture, and Religion	605	737	818
09 Education Affairs and Services	10,973	72,688	87,632
10 Social Protection	4,574	6,837	7,645
II. Development Expenditure	97,458	118,000	139,805
(i) Revenue Expenditure (including FPA)	14,045	17,883	28,378
(ii) Capital Expenditure (including FPA)	83,413	100,117	111,427
III. Total Expenditure (1+2)	289,058	329,000	389,805
IV. Current Capital Expenditure (Account-I)	13,942	15,000	15,000
(i) Loans and Advances	6,003	6,290	290
(ii) Debt Servicing	7,939	8,710	14,710
V. Total Expenditure Account-I	303,000	344,000	404,805
Expenditure on Revenue Account-I (1 + 2(i))	205,645	228,883	278,378
Expenditure on Capital Account-I (2(ii) + 4)	97,355	115,117	126,427
VI. Net Current Capital Expenditure (Account-II)			
i) State Trading in Food	78,286	86,000	86,514
ii) Debt Servicing (Floating)	9,500	12,000	15,000

Source: FD, GoKP.

49. The GoKP wage bill increased from PKR 49 billion in FY2009-10 to PKR 145 billion in FY2014-15 owing to the devolution of functions from the federal government, salary revisions, and recruitment. The GoKP has been issuing austerity directives to check its non-salary expenditure (vehicle purchases, petroleum, foreign travel, limits on construction of new houses); however, the GoKP still manages its budget deficit with cash balances that also include savings from financing of the development budget and annual budget cuts.

Table 2.4: Budget Allocations by Economic Classification (PKR, millions)

Major Object	2012-13	2013-14	2014-15
A01-Employees Related Expenses.	44,299	125,238	145,772
A02-Project Pre-Investment Analysis	443	1,178	2,187
A03-Operating Expenses	72,099	93,633	96,027
A04-Employees' Retirement Benefits	18,584	21,020	24,554
A05-Grants Subsidies and Write Off Loans	89,709	11,563	25,875
A06-Transfers	1,312	1,391	1,484
A07-Interest Payment	9,563	11,169	13,090
A 08- Loans and Advances	6,002	6,280	280
A09-Physical Assets	404	2,752	3,148
A10-Principal Repayments of Loans	7,939	8,710	14,710
A11-Investment	9,000	10,000	12,000
A12-Civil Works	40,704	46,428	59,928
A13-Repairs and Maintenance	2,943	4,638	5,750
Total	303,000	344,000	404,805

Source: FD, GoKP.

D. Legal and regulatory arrangements for PFM

50. In summary, the PFM framework in Pakistan, at the federal and provincial levels, is defined in the Constitution of Pakistan (1973), complimented with function-specific legislation and supported with rules, notifications, and manuals/handbook. The latter are meant to guide the users on procedures and processes.

51. The Constitution of the Islamic Republic of Pakistan (1973) provides for a parliamentary system of government and authorizes national (upper and lower houses) and the provincial assemblies to approve budgets through annual fiscal year votes. The Constitution stipulates authority to enact by the respective tiers on subjects defined in the legislative list of the fourth schedule of the Constitution, including public finances. 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, public debt management, and public sector audit.

52. The legislative scrutiny of budget proposals and expenditure are further delineated in the KP Assembly Rules of Procedure. The range and composition of the services provided are determined each fiscal year by the respective houses. For local governments, the KP Local Government Act (2013) entails the list of expenditure to be charged on the respective fund of the local government and includes conduct of elections and audit services, repayment of debt, and maintenance of specified functions.

53. The Constitution 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.

54. In the PEFA context, the assignment of fiscal powers and distribution of revenues for HLG transfers between the federation and provinces is laid out in Article 160 of the Constitution. The KP-PPRA Act (2013) provides for the legal and regulatory framework for the public sector procurement supported by the Procurement Rules and Notifications.

55. 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.

56. The legal framework governing internal controls of the GoKP 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 the sub legislation, that is, the laws, rules, and regulations and supported with notified procedures. In addition the GoKP introduced internal audit functions for 3 pilot departments which was extended to 11 line departments and 1 provincial revenue authority.¹² To ensure robust internal controls, each element on the PFM continuum (fiscal transfers, budget, procurement, accounts, audit, and legislative oversight) has notified rules and manuals prescribing the procedures and processes. The internal control framework is supported with the following instruments:

- 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;
- 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- KP Provincial Assembly;
- Financial Audit Manual;
- KP Internal Audit Charter;
- KP Government Rules of Business.

57. 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

¹² The internal audit at the provincial excise and taxation department was introduced in the year 2016, beyond the PEFA review period

regulatory authority prescribes the rules for public procurement and its compliance is ensured through the findings of external audit and the authority's interventions.

58. 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),¹⁵ and Procurement Law (code of ethics and integrity pact).

59. 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. 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.

60. A significant change to the institutional and legal framework of Pakistan has been the 18th Amendment to the Constitution that devolved greater authority to the provinces. The concurrent list containing the subjects that both the federal and provincial assemblies could legislate on was omitted with effect from July 1, 2011. As a result most of the subjects defined in the concurrent list became provincial, except those that have been transferred to the federal list.

61. In line with the constitutional stipulation (Article 140-A), each province has to establish a local government system devolving political, administrative, and financial responsibility and authority to the elected representatives of the local government. In KP, the Local Government Act, 2013, provided for a new three-tiered local governance system with districts, tehsils, and village/neighborhood councils. The rules of business, fiscal transfer rules, budget rules, and other related rules and regulations have been notified for the execution of PFM functions at the LG levels.

E. Institutional arrangements for PFM

62. The GoKP functions under the provisions of the Constitution of Pakistan (1973) and enactments of the Provincial Assembly (legislature), which comprises 124 elected members (99 regular seats, 22 seats reserved for women, and 3 seats for non-Muslims). The Provincial Assembly elects the leader of the House and serves as the Chief Executive of the Province (Chief Minister) assisted by a

¹⁵ 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.

Cabinet of Ministers¹⁴ heading the 33 administrative departments¹⁵ (including 72 directorates). 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 Secretary and is assisted by the Departmental Secretaries.¹⁶ Some of the Departments have autonomous or semi-autonomous bodies to look after various functions.

63. Article 160 of the Constitution provides for the NFC to make recommendations to the President of Pakistan on vertical and horizontal distribution of revenues.¹⁷ 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 devolved to the provinces in 2011.

Table 2.5: Structure of the Public Sector (Details in Annex 10)

Year	Government Sector		Social Security Funds	Public Corporation Sub Sector	
	Budgetary Units	Extra-budgetary Units		Non Financial Public Corporation	Financial Corporation
Provincial	116 (34 Departments and 82 directorates/authorities)	44	0	12	0
Local	Directorate General (DG), TMA and Village and Neighborhood councils	3,604 (26+77+3501)	0	0	0

Source: Consolidated data is not available with the GoKP. The data has been put together by the assessment team using KP budget documents, rules of business, and interviews with GoKP staff.

Notes: List of units and corporations provided in Annex 10; Bank of Khyber has not been mentioned in the above table because although the Government owns 70 percent of the shares, it is listed on the Pakistan stock exchange and most of its products are based on market prices. Therefore it does not strictly qualify to be pure financial corporation according to the IMF Government Finance Statistics Manual (GFSM); financial reports of most of the entities were not available therefore the financial turnover could not be ascertained

64. At the provincial level, the vertical and horizontal shares are determined by the PFC stipulated in the Local Government Act 2013 that provides for the three-tiered local government system in KP that assigns revenue and expenditure functions at the local levels (district, tehsil and village/neighborhood councils). In KP, subsequent to the Local Government Act, the PFC was constituted in 2016 to manage the apportionment of the share to the local governments in the provincial divisible pools.

¹⁴ The current Cabinet consists of 15 Ministers and 5 Advisors. <http://kp.gov.pk/page/ministers>

¹⁵ <http://kp.gov.pk/page/departments>

¹⁶ With the exception of P&D Department that is headed by the Additional Chief Secretary

¹⁷ 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.

65. 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 KP province.

66. 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 the KP 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.

67. The DG Provincial Audit conducts 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 them at the Provincial Assembly for legislative scrutiny. The Directorate General District Audit audits the local governments and the DG Commercial Audit audits public sector entities. The PAC of KP Provincial Assembly conducts the legislative oversight of the provincial financial operations. The PAC is headed by the Speaker of the Assembly and comprises the members of the Provincial Assembly (legislators) with dedicated staff in the Provincial Assembly providing the secretarial support.

68. The Local Government Act 2013 provided for the creation of the local government system in the province. The elections were held in 2015 with the oath ceremony for elected representatives conducted in October 2015. The institutional framework entails a three-tiered framework with district government, Tehsil municipal administration and village/neighborhood councils. Each tier has been assigned revenue and expenditure functions according to the Schedule III of the Local Government Act. The cutoff date for this assessment was June 30, 2015 while the establishment of PFM and accountability functions was on-going during the assessment period. Therefore the dimensions in the indicators related to the lower tiers (PI-7 and 8) are not according to the local government system in line with the Local Government Act 2013 because the elected local government system was operationalized after the PEFA assessment cutoff period (June 2015). The rating of indicators was conducted due to significant activity at the LG level with the entire administrative structure existing at the LG level and key fiscal operations carried out at the three tiers. The District Account IV was discontinued but the sub districts (TMA) continued to operate its account.

F. Other important features of PFM and its operating environment

69. 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.

70. The audit and accounts function has been separated vide 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 GoKP). The Planning Commission (federal government) or P&D Department (GoKP) administer the development budget.

71. The AGP derives its existence from the Constitution. As a result per constitutional stipulations, the AGP — in case of KP province, the DG Provincial Audit submits annual audit reports to the Governor rather than directly to the Provincial Assembly (legislature).

III. Assessment of PFM Performance

72. The assessment for KP province takes into account the supplementary guidelines issued by the PEFA secretariat for the assessment of SNGs. The province is highly dependent on the HLG transfers and, according to Budget White Paper (2015-16), constitutes approximately 84.4 percent of total general revenue receipts. However, the percentage surges to approximately 93 percent if the hydel settlements, the development, and other receipts are accounted for. Such high dependence on HLG enhances the significance of transfers. Formula-based transfers instill equitable resource allocation, whereas predictable, transparent and timely information on resource availability strengthens the budgeting process at the subnational level.

A. Transfers from HLG

Indicator and Dimensions	Dimension Scores	Indicator Score	Brief Explanation
Transfers from HLG		D+	Overall rating based on M1 methodology
<i>HLG 1.1. Out-turn of transfers from HLG</i>	D		<i>Transfers have been 83%, 88%, and 76%, respectively, of the original budget estimate in the last three fiscal years (2012-13, 2013-14, and 2014-15).</i>
<i>HLG 1.2. Earmarked grants outturn</i>	D		<i>Variation in earmarked grants was 9%, 16%, and 13% in the last 3 fiscal years (2012-13, 2013-14 and 2014-15).</i>
<i>HLG 1.3. Timeliness of transfers from HLG</i>	B		<i>Transfers are notified to take place fortnightly; however, variation exists in the transferred and budgeted amounts. The ascertainment of transfers' modality is according to the federal government decision.</i>

73. Pakistan has a federal form of government with a central (federal) government in the Federal Capital of Islamabad, four provinces — Balochistan, KP, Punjab, and Sindh, Federally Administered Tribal Areas (FATA), and such States and territories as are or may be included in Pakistan, whether by accession or otherwise.

74. 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 NFC responsible for making recommendations to the President of Pakistan on revenue distribution. The NFC Award is tabled to the legislature (Upper and Lower House and the provincial assemblies). In case NFC is not constituted or NFC does not reach a consensus decision, the Constitution provides for interim awards through Presidential Order (for details, see section 2.3).

75. The last NFC Award (2009) altered the traditional population-based revenue distribution to multiple indicators — population (8 percent), poverty and backwardness (10.3 percent), revenue collection/generation (5 percent), and inverse population density (2.7 percent). Recognizing the impact of war on terror in KP, NFC approved an additional share of 1 percent of the divisible pool. It also raised the provincial share in the divisible pool taxes from 47 percent (prior to NFC Award 2009) to 57.5 percent from FY2011-12 onwards.

76. The functions and responsibilities as well as taxation powers of the federal and provincial governments are defined in the Constitution of the Islamic Republic of Pakistan (1973). A major part of the resources (more than 93 percent) is generated at the federal level whereas the provinces generate less than 7 percent of the total resources (NFC report, 2009).

HLG 1.1 Outturn of transfers from higher-level government

77. The share of HLG transfers constitutes a major source in the overall provincial resource envelope. The federal transfers under divisible pool taxes are primarily dependent on the collection by the Federal Board of Revenue. For this dimension, the calculation was based on the following data:

- Federal tax assignment - Shared taxes and 1 percent for financing the impact of war on terror;
- Straight transfers;
- Net Hydel Profit and Arrears of Net Hydel Profit;
- Foreign project grants;
- Other federal grants, including the public sector development program, capital receipts, and population welfare.

78. Table 3.1 provides the data for aggregate transfers and variation.

Table 3.1: HLG Transfers Trend

Particulars	2012-13		2013-14		2014-15	
	Budget	Actual	Budget	Actual	Budget	Actual
Aggregate transfers (PKR, millions)	287,037	238,602	326,941	287,234	370,348	281,374
Transfers as % of original Budget estimates		83%		88%		76%

Source: Financial Management Information Unit (FMIU), FD. Calculation sheet in Annex 5

HLG 1.2 Earmarked grants outturn

79. The HLG transfers are mainly general-purpose grants with complete autonomy for the provincial government on its use. The earmarked grants for this indicator are the public sector development program, foreign project assistance, and other non-development but ear-marked grants from the federal government. Additionally, in the last NFC Award, the KP province was assigned 1 percent of the net divisible pool earmarked for war against terror. The aforementioned components provide the basis for assessment of this dimension. Table 3.2 shows the variation in actual transfers vis-à-vis the original budget estimates.

Table 3.2: Results matrix for Earmarked transfers	
Year	Composition variance
2012-13	9%
2013-14	16%
2014-15	13%

Note: Calculation based on the weighted average method. Calculation sheets in Annex 5.

HLG 1.3 Timeliness of transfers from higher-level government

80. The budget and revised estimates for fiscal transfers for the next budget year and ongoing year are conveyed by HLG (MOF) between end of May to mid-June in the three assessed fiscal years. Table 3.3 illustrates the weighted average deviation on federal tax assignments, straight transfers, transfers for war on terror, Net Hydel Profits and its arrears, the development and other federal government grants, and foreign grants.

Table 3.3: Weighted Average Deviation

	2012-13	2013-14	2014-15
Budget	287,036	326,941	370,349
Actual	238,603	285,130	276,856
Adjusted	345,301	374,884	495,414
Deviation	(106,698)	(89,754)	(218,558)
Absolute	108,442	92,724	218,558
%	31%	25%	44%

Source: FD, GoKP.

Note: Calculation based on weighted average method for total transfers budgeted and actual.

81. The notification from the Ministry of Finance conveying the shares also indicates that the actual transfers are subject to actual collection reported by the collecting agencies, implying that the releases through the year are subject to tax and non-tax collection performance leading to deviation in the budget and actual transfers.

82. Funds are transferred to the GoKP fortnightly (16-17 and 30-31 of the month), however, the volume of transfer varies considerably and is subject to the collection by the federal agencies under the category of divisible pool taxes and straight transfers. The GoKP has raised the issue of inadequacy of transfers and its impact on the budget execution with the Ministry of Finance (federal government). The Net Hydel Profit arrears of PKR 110 billion were agreed through arbitration between the federal and provincial governments. In the first-year, the federal government transferred a lump-sum amount of PKR 10 billion; however, in subsequent years, PKR 25 billion per annum in 12 tranches were released each year. The transfers' modality is according to the federal government decision. Finally, at source deduction available for use at the discretion of the federal government is applied for the electricity dues from the provincial transfers for payment to Peshawar Electricity Supply Corporation (PESCO). This practice has been continuously contested owing to the disagreements over billing by PESCO.

B. Budget reliability

83. Budget reliability indicators reflect the quality of planning during the budget-making process. Although improvement in service delivery is contingent on wider governance indicators, greater budget reliability contributes to improvement in service delivery.

PI-1 Aggregate expenditure outturn

Indicator and Dimension	Indicator Score	Brief Explanation
PI-1 Aggregate Expenditure Outturn	C	Aggregate expenditure outturn was 88%, 81%, and 86% of approved budget for fiscal years 2012-13, 2013-14, and 2014-15, respectively.

84. This indicator takes into account the overall expenditure funded by both local and foreign sources. The analysis is based on the originally approved budget vis-à-vis expenditure incurred.

PI-2 Expenditure composition outturn

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	C	Expenditure outturn was less than 15% in 2 of the last 3 fiscal years (9%, 18%, and 12% for 2012-13, 2013-14, and 2014-15, respectively).
2.2 Expenditure composition outturn by economic type	D	Expenditure composition outturn was 15%, 25%, and 21 % in the fiscal years 2012-13, 2013-14, and 2014-15.
2.3 Expenditure from contingency reserve	D*	Separate head of account for contingency is not provided in GoKP budget.

2.1 Expenditure composition outturn by function

85. In 2000, the AGP notified the NAM that is compliant with the GFS 1986 although with a few modifications.¹⁸ The Chart of Accounts, notified with the NAM, provides classification based on the following 5 elements — entity, function, object, fund and project. The annual financial statements produced by the AG Office segregates the revenue and capital budget and expenditure data as per functional classifications, but does not reflect the debt servicing as a separate item. For assessment purposes, data was retrieved from the GFMS to capture the debt servicing data using the template notified for PEFA, though adapted to capture the variations in the data classification. Table 3.4 provides the results matrix for expenditure out-turns using the average weighted variance method (Refer to Annex 5 for calculation sheets).

Table 3.4: Results Matrix

Year	Total Expenditure Deviation	Composition Variance
2012-13	88%	9%
2013-14	81%	18%
2014-15	86%	12%

¹⁸ IMF article IV consultation report.

2.2 Expenditure composition outturn by economic type

86. For this dimension, the expenditure outturn calculation is based on the 2 digit comparable GFSM economic classification, however IMF article IV consultation report (2009) notes that the classification scheme is aligned with GFSM 1986, albeit with modifications. The data tables include debt servicing; however contingency items are not included because the GoKP does not use contingency as a separate budget head (refer to 2.3). The composition variance in the last completed three years stood at 15 percent, 25 percent, and 21 percent (calculation sheet in Annex 5).

Table 3.5: Results Matrix

Year	Composition Variance
2012-13	15%
2013-14	25%
2014-15	21%

2.3 Expenditure from contingency reserves

87. The GoKP does not use contingency as a separate head in the budget. Alternate measures used are lump-sum provision at the disposal of the FD for unanticipated expenditure in different sectors. However, this allocation is an internal arrangement and is not based on the code assigned in the Chart of Accounts. As a result, actual expenditure tracking for lump-sum allocation is not possible as the amount re-appropriated gets absorbed in the regular budget allocations. This dimension, due to lack of sufficient data it is rated D*.

PI-3 Revenue outturn

Indicator and Dimensions	Indicator/ Dimension Scores	Brief Explanation
PI-3 Revenue Outturn	D	Overall rating based on M2 methodology
<i>3.1 Aggregate Revenue Outturn</i>	<i>D</i>	<i>Aggregate revenue out-turns were 83%, 113%, and 43% in fiscal years 2012-13, 2013-14, and 2014-15</i>
<i>3.2 Revenue composition outturn</i>	<i>D</i>	<i>Revenue composition out-turns were 37%, 19%, and 87% in fiscal years 2012-13, 2013-14 and 2014-15.</i>

3.1 Aggregate revenue outturn

88. Table 3.6 presents the results matrix. The key reason for high out-turns is the change in the tax administration structure. General sales tax on services constituting almost half of the tax revenue collection was devolved to the provincial governments, and tax administration commenced after establishment of the provincial revenue authority called the Khyber Pakhtunkhwa Revenue Authority (KPRA) in 2013. Prior arrangements entailed the administration of GST on services by the federal government and the amount collected was transferred to the provinces after deduction of an administration fee. The variation in the revenue collection in KP in the year 2012-13 is largely due to the transition of tax and also due to target setting and collection by two different tiers of government.

Table 3.6: Results Matrix

Fiscal Year	Total Revenue Deviation	Composition Variance
2012-13	83%	37%
2013-14	113%	19%
2014-15	43%	87%

89. Annex 5 provides details on tax and non-tax assessed and the weighted variance of aggregate and revenue composition out-turns and illustrates the high-revenue out-turns during the last three fiscal years. The revenue base has been augmented since the transfer of the general sales tax on services to the provincial governments and comprises of more than half of the total tax collections. However, the tax administration regime in KP requires greater attention with a focus on the following key areas: revenue forecasting, revenue arrears management, audit and investigation to improve its revenue base and collections.

3.2 Revenue composition outturn

90. Table 3.6 provides the composition variance and calculation sheets are available in Annex 5. The following taxes and non-taxes have been considered for the assessment of this dimension:

Table 3.7: List of Tax and Non-Tax Receipts

Tax Receipts	Non-tax Receipts
Excise and Taxation	Departmental collections ^c
Board of Revenue	Hydel own generation
General Sales Tax ^a	Population Welfare
Others - Licensing, advertising, electricity duty, etc.) ^b	Net Hydel Profit ^d
	Net Hydel Profit Arrears

Notes:

- General sales tax on services was devolved to the province, but its administration by the GoKP commenced in FY2014-15
- Does not include the local council share, which is a fee charged on different services and the collection is transferred to the local councils.
- Departmental collections refer to fee collected by different departments like Food, Home, Forest and so on.
- Net Hydel Profit refers to revenues from hydropower generation

C. Transparency of public finances

91. A robust budget classification system is not only essential to ensure expenditure tracking and creating an effective control framework, but a uniform coding can foster transparency and accountability.

PI-4 Budget classification

Indicator and Dimension	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.

92. The NAM introduced in 2000 replaced the Chart of Classification (1981) with the Chart of Accounts to improve budgeting, accounting, reporting, and auditing. According to PIFRA, the Chart of Accounts facilitates classification of receipts, expenditure, assets, liabilities, and equity (residual value). The Chart of Accounts is built on a framework that helps in classification for the aforementioned based on the following 5 Elements:

Table 3.8: Elements and Sub-elements Description

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.	<p>The object element consists of two sub-elements:</p> <p>1. Accounting element is a single alpha character sub-element and defines the accounting element to which a transaction is classified:</p> <ul style="list-style-type: none"> • A0000 Expenditure • B0000 Tax receipts • C0000 Non-tax receipts • E0000 Capital receipts • F0000 Assets • G0000 Liabilities • H0000 Equity. <p>2. Account Number is a five-character numeric sub-elements. 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:</p> <ul style="list-style-type: none"> • Major object • Minor object • Detailed object <p><i>Example:</i></p> <p>Accounting Element A Expenditure Major Object A2 Employee Related Expenses Minor Object A 21 Basic Pay Detailed object A 211101 Officers</p>
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.	<p>It consists of 3 sub-elements:</p> <p>1. Major function is identified by two numeric characters per GFSM</p> <p>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</p>

		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 hasn't been introduced as yet.
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

93. Although the budget classification, accounting, and reporting system is aligned with GFS 1986 (IMF Article IV consultation report) and given the (modified) cash-basis accounting system adopted by the Government of Pakistan, the current classification system can produce consistent documentation to track expenditure according to the 5 elements.

94. The issue however, identified at the budget formulation stage, is the single-line item for the development budget and inclusion of umbrella schemes that are not coded. During the budget execution stage, this issue is addressed as the budget releases are subject to provision of detailed object head-wise classification that allows for expenditure tracking.

PI-5 Budget documentation

95. The legislature role from PFM perspective is essential at two levels — scrutiny and approval of Executive's budget proposal (ex ante) and legislative scrutiny of expenditure (ex post). It is therefore critical that the Executive submit a comprehensive proposal for a meaningful review by the legislators.

Indicator and Dimension	Indicator Score	Brief Explanation
PI-5 Budget documentation	B	GoKP provides 3 out of 4 basic elements and 4 out of 7 additional elements. Elements 5 and 6 are not applicable, KP being an SNG

96. In the past, the GoKP included actual amount in the budget books; however, it was discontinued and in the assessment period (FY2012-13 to FY2014-15) the actual amounts were reflected in one budget only (i.e., 2014-15). The summary of fiscal risks and quantification of tax expenditures¹⁹ is not provided either. As KP is an SNG, the macroeconomic assumptions indicator is not applicable.

Basic elements		Provided in:
✓	1. Forecast of the fiscal deficit or surplus or accrual operating result.	Budget White Paper and strategy paper
✗	2. Previous year's budget outturn presented in the same format as the budget proposal.	The budget documents did not include the actual 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.	Annual Budget Statement and proposals follow the same format

¹⁹ The Manual of Fiscal Transparency (IMF 2007) refers to quantification of tax expenditure to capture the impact of the exemptions, allowances, tax credits, tax rate reductions, and tax deferrals.

✓	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.	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 other comparable standard.	Budget White Paper
✓	8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Budget White Paper
✗	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.	Exact size of fiscal risk is not available. Therefore the reliability of summary information, though provided in the budget documents, could not be established
✓	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.	Budget White Paper and Budget Strategy Paper
✓	11. Documentation on the medium-term fiscal forecasts.	Medium term estimates for service delivery and White Paper providing medium-term fiscal forecasts
✗	12. Quantification of tax expenditures.	

PI-6 Provincial government operations outside financial reports

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 and P&D Department lack a mechanism to determine the exact size of expenditure data outside financial reports.
6.2 Revenue outside financial reports	D*	The FD lacks a mechanism to determine the exact size of revenue data outside financial reports.
6.3 Financial Reports of extra-budgetary units	D*	A methodical system for financial reporting does not exist to provide details of assets and liabilities, and guarantees and long-term obligations.

6.1 Expenditure outside financial reports

97. The FD and P&D Departments lack a mechanism to determine the exact size of the expenditure outside financial reports. The FD lacks a mechanism to consolidate the expenditure data for the extra-budgetary units/authorities and the P&D Department lacks a mechanism to consolidate the expenditure data of the off-budget foreign assistance.

6.2 Revenue outside financial reports

98. The exact size of the revenue outside government financial reports could not be ascertained owing to the lack of a robust reporting framework. The revenue authorities per the notified rules have to transfer to all revenues collected in the Treasury. Most revenues are reflected in the government system; however, the local rates and local taxes at the Tehsil level remain outside financial reports like the annual financial statements.

99. The revenue collection mechanism for motor vehicles has been outsourced by the GoKP and the company initially collects the revenue in the Bank of Khyber and is supposed to transfer it to the Treasury within 15 days. However, instances were noted in the DG revenue receipts audit report where transfers were made with a lapse of a week (beyond 15 days). The LG Act extends the responsibility of the LG audit to the AGP through the Director General District Audit. The GFMIS has not been rolled out beyond the district offices making the consolidation of TMA accounts (expenditure and revenue) difficult. As a result the accounts maintained at the District Accounts Office (DAO) level and consolidated at the provincial level does not include the TMA revenues. The lack of consolidation of the TMA revenues in the provincial accounts undermines the determination of the exact size of the total revenue collection; therefore this dimension could not be rated.

100. Also, the GoKP has established authorities (like KP Oil and Gas Company Limited, Khyber Pakhtunkhwa economic zone and development management company, and also have other legacy authorities) some of which although have been incorporated as Section 42 companies that provides autonomy to these companies in its operations, but considerable public resources are made available to these companies. These entities have been recently created, with the first fiscal year beyond the PEFA assessment period, and therefore have not been taken into account for the rating of the indicator. It is however timely to highlight that the GoKP will benefit from adopting timely remedial measures by instituting a mechanism at the FD that can ensure efficient financial reporting from extra-budgetary units and corporations. Such measures will facilitate the FD to provide fiscal oversight and help the Government conduct analysis like the economic and financial return over public investments.

6.3 Financial reports of extra-budgetary units

101. This dimension assesses the financial reporting of extra-budgetary units by the following types – off-budget projects,²⁰ the entities incorporated under the Banking Companies Ordinance, Section 42 of the Companies Ordinance, and the statutory entities established through an act of provincial legislature.

102. The financial reporting to the FD takes place randomly, particularly in case of statutory companies. The annual accounts are submitted to the parent (administrative) department. The entities incorporated through an Act of legislature and utilizing public funds are audited by the DG commercial audit (List available under PI-10). The review of the audit reports identified an anomaly in the case of the Forest Development Corporation. The DG Commercial Audit noted non-production of financial reports for audit.

103. The entities incorporated under Section 42 of the Companies Ordinance that use government grants in addition to their own revenues and foreign funding are audited by the private sector and

²⁰ Some of these projects were included in the ADP but without a PC-I. All such projects reviewed did not use the GFMIS and were operated through the assignment accounts.

submit the audited annual accounts to its Board of Directors. Separate submission of financial reports to the FD does not take place; however, representatives of the key government departments are the members of the Board of Directors and submission of the annual report to the Board is considered submission to the Government.²¹ However, during review it was noted that the FD does not have a formal system for consolidating the overall financial performance, particularly of those extra-budgetary units and corporations that are partially funded by the provincial budget and have been authorized to generate revenues as well.

104. Deficiencies in the record keeping mechanism particularly the financial reports at the FD constrained the rating of this dimension. Although the GoKP is represented on the Board of the aforementioned entities and the financial reports are presented at the Board meetings, the historical record, particularly for the period under review, was not available at the FD. The FD would benefit from instituting a mechanism to conduct analysis of the financial reports to establish performance standards to assess the return on investments.

105. The off-budget projects financed by donor agencies are audited by the private sector. Its finances are not captured in the government accounts either, and the audited financial reports not submitted to the GoKP.

PI-7 Transfers to SNG

106. Budget planning to SNGs is contingent upon predictable, timely, and transparent resource availability, while formula-based transfers ensure equitable resource allocation.

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	<i>The resource allocation for all transfers (90% and above) takes place on the formula prescribed in PFC Award.</i>
7.2 Timeliness of information on transfers	C	<i>The SNGs receive the budget ceilings after passage of the provincial budget (end June). This arrangement is relevant to the current dispensation of the local government system. In the absence of elected local government system, the budget process was centrally managed.</i>

7.1 System for allocating transfers

107. The existing three-tiered KP local government system, enunciated in the Local Government Act 2013, are categorized as district (or city district in case of urban centers), tehsil (or town in case of urban centers), and village council (or neighborhood in case of urban centers). The LG Act (2013) assigns revenue and expenditure responsibilities at each tier. The current local government system is nascent having been enacted in 2013 while the elections to local assemblies (councils) took place in 2015. As a result the LGs in the current form were operationalized only in FY2015-16 (Cutoff period for this PEFA assessment is June 2015).

²¹ Bank of Khyber (BOK) submits its annual report to the FD, and highlights are included in the budget documents. The fiscal year of the Government (Jul-Jun) is different from the BOK (Jan- Dec).

108. The PEFA assessment takes into account the fiscal transfer system prevalent under the previous local government system which was introduced through an ordinance in the year 2001 but rolled back in 2012. However the rolling back of system implied only the political decentralization dimension, that is, it became dormant because the local assembly/elected representatives term ended in 2010 and elections for the subsequent tenure were not held. As a result, the local assemblies mandated to approve budgets for local jurisdictions did not exist. However, all other arrangements were in place like the administrative machinery continued to function at the LG levels and fiscal arrangements continued albeit with some amendments. For instance, in the absence of local assemblies the legal cover for expenditure was provided in the budget enacted by the provincial legislature. Similarly in the absence of local elected representatives, interim PFC awards were notified for managing fiscal transfers.

109. The arrangement for intergovernmental fiscal transfers and each jurisdiction's share allocation continued on the formula approved by the PFC constituted under LG system (2001). All PFC awards are posted on the FD website. Following is the formula used for the horizontal distribution of resources with the objective of fiscal equalization which has continued during the interim period till the fiscal year 2014-15.

- (a) Population 60%
- (b) Backwardness(Based on MICS) 20%
- (c) Lag in Infrastructure 20%

110. The LG budgetary share was provided for through the LG Department and respective line departments' budget enacted by the provincial assembly. The releases were coordinated centrally through the provincial account 1.

111. In 2015, the District Account IV became operative for both current and development budget. In October 2015, the PFC was constituted after the provincial budget was passed for FY2015-16. The LGs prepared and approved the budget midyear to legitimize its fiscal operations. The current PFC's award for distribution of resources (2016-17), is beyond this review and will be assessed in the subsequent PEFA assessment.

7.2 Timeliness of information on transfers

112. During the assessment period, the elected local governments were not in place; however alternate arrangements were put in place because the administrative set up of district administration existed. Therefore, the 'district development initiatives' were channeled centrally through the respective line departments and the local government department (refer to 7.1). The budget calendar and the budget process relevant to the provincial government were also applicable to the district-level service delivery units.

Table 3.9: ADP Preparation Calendar 2015-16

Date	Action
December 2014	Circulation of guidelines for preparation of the draft ADP 2015-16 to all departments.
March 31, 2015	Submission of draft ADP 2015-16, proposals by concerned departments to the P&D Department.
April 8, 2015	All chiefs of sections will have to submit the draft ADP 2015-16 to Computer Section for processing after scrutiny and examination of the proposal received from counterpart line department(s).
April 15, 2015	Computer Section will furnish the consolidated report of draft ADP 2015-16 to the Chief Economist, P&D Department.
April 20, 2015 to May 9, 2015	Meetings with departments to discuss and finalize the draft ADP 2015-16
May 15, 2015	Submission of 2nd draft ADP 2015-16 by the concerned departments to the P&D Department.
May 22, 2015	Meeting of Additional Chief Secretary with departments to finalize the draft ADP 2015-16.
June 3, 2015	Submission of draft ADP 2015-16 to Chief Minister for approval.
June 7, 2015	Final draft ADP 2015-16 sent to printer with copy to FD for budgeting.
July 2, 2015	Circulation of ADP 2015-16 to all concerned departments.

Source: P&D Department. <http://www.pndkp.gov.pk>

113. Similarly, the provincial cash release policy (see dimension 8.3) was relevant to the district entities as well. In 2015, with the promulgation of the new local government system, the budget planning process for the subsequent fiscal year (2015-16) had commenced. This was the first fiscal year for the new local government system, and the local councils were involved in the budget process. However, the LGs indicative planning figures were not provided. In the past also, LGs budget proposals were presented to the local assemblies after the enactment of provincial budget in June each year, while the government fiscal year for all tiers is July-June.

PI-8 Performance information for service delivery

114. The performance information on service delivery assists the policy-makers and managers in promoting operational efficiency, and timely 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	B	Overall rating based on M2 methodology.
<i>8.1. Performance plan for service delivery</i>	<i>A</i>	<i>Output-based budgeting/ budget estimates for service delivery provides line department wise performance plan for service delivery.</i>
<i>8.2. Performance achieved for service delivery</i>	<i>A</i>	<i>Budget estimates for service delivery includes key achievements at line department level for the previous year and the plans for the budget year for improving service delivery.</i>
<i>8.3 Resources received by service delivery units</i>	<i>C</i>	<i>The provincial release policy defines the resource requirements and transfers scheduled in July and November each year. Monthly civil accounts provide DDO,</i>

		<i>project/program-wise expenditure position, accessible on line. However, information on the frontline service delivery units at primary level is not available on the GFMIS. Only for Health department expenditure tracking, a survey was conducted in the year 2015.</i>
8.4 Performance evaluation for service delivery	D	<i>5 Impact evaluation studies were conducted by P&D Department supported by the MDTF. 3 performance audits were approved by the AGP, though these audits were not of service delivery units. The studies' focus is the evaluation of a specific development budget initiative than a sector specific evaluation of the efficiency and effectiveness of the service delivery as a whole.</i>

8.1 Performance plans for service delivery

115. The GoKP introduced output-based budgeting on pilot basis in 2011 and was extended to all line departments. The GoKP submits to the legislature along with the budget proposal, a document titled “medium-term (3 years) budget estimates for service delivery”, which contains the medium-term fiscal framework (MTFF) and budget estimates by component of the provincial government account-I. The document also provides a summary of the overall budget estimates for sectors followed by departmental policy statement, vision, outcomes and outputs, strategic overview, and future plans. Details of budget estimates per outcome and output are provided along with the key performance indicators and medium-term targets. This document is also published on the FD website and provides a tool to assess the performance of the line departments. The information provision is quite robust; however the application in terms of performance evaluation of the service delivery departments based on information provided needs attention.

Table 3.10: Entity Level Performance Indicators for the Planned Outputs and Outcomes

Score	Program Objectives	Key Performance Indicators		Planned Output (Quantity)	Planned Outcome (Measurable)	Activities	Materiality (No. of Ministries)
		Output Indicators	Outcome Indicators				
A	Y	Y	Y	Y	Y	n.a.	Most > 75%

Source: Derived from the medium-term output based budget estimates for service delivery.

8.2 Performance achieved for service delivery

Table 3.11: Performance Achieved for Service Delivery (Line Ministry Level)

Score	Outputs Produced Quantity	Outcomes Achieved Measurable	Activities	Materiality (No. of Ministries)
A	Y	Y	NA	Most > 75%

116. The ‘medium-term budget estimates for service delivery (output based budget)’ is submitted as the executive’s budget proposal annually to the legislature that among other items, reflect on the performance of the ongoing fiscal year in terms of achievements against the targets at the beginning of the year. In addition, the progress reports by the Communication and Works (C&W) department

provide information on monthly and cumulative yearly basis on the performance of the development budget execution.

117. The medium-term budget estimates (output based budget) also include the sectoral-/departmental-level achievements during the year and future plans. Additionally, the intradepartmental performance is assessed through the information collected at the service delivery unit level by the key social services departments, internally through two streams. Departments like Education, have externally financed programs as well as their own monitoring and evaluation (M&E) cell, collecting data on different indicators; however, reliance on the former is greater. The information collected also assists in validating the information uploaded on the Education Management Information System. At the controlling departments level, the M&E Directorate (within the P&D Department) provides monitoring reports while the impact evaluation studies have been piloted recently funded by the development partners.

Table 3.12: Performance Data on Planned Service Delivery

Department	Budget Allocation		Performance Data			Planned Performance	
	Total	SD Program	No. of SD Programs	SD Objectives	Performance Indicators	Outputs	Outcomes
Administration of Justice	6,023	6,023	-	-	0	0	0
Agriculture, Livestock, and Cooperatives	5,856	5,856	564	564	46	7	3
Auqaf, Hajj, Religious, and Minority Affairs	314	314	44	44	12	6	3
Communication and Works	24,836	24,836	788	788	10	6	3
Elementary and Secondary Education	28,514	28,514	5,905	5,905	58	5	3
Energy and Power	3,820	3,820	61	61	14	4	1
Environment and Forestry	3,512	3,512	309	309	45	6	3
Establishment and Administration	2,835	2,835	40	40	22	5	4
Excise and Taxation	999	999	68	68	23	4	2
Finance	237,454	237,454	319	319	32	7	1
Food	87,285	87,285	113	113	8	2	2
Health	33,819	33,819	1,075	1,075	51	13	5
Higher Education, Archives, and Libraries	14,786	14,786	583	583	27	5	2
Home, Tribal Affairs, and Police	41,762	41,762	439	439	61	9	2
Housing	673	673	20	20	10	2	3
Industries	6,577	6,577	496	496	22	7	3
Information Public Relation and Culture	381	381	60	60	10	3	1

Interprovincial Coordination	40	40	2	2	5	1	2
Irrigation	10,479	10,479	498	498	18	7	2
Labor	371	371	102	102	15	5	1
LG Election and Rural Development	26,364	26,364	167	167	21	4	1
Mineral	1,111	1,111	80	80	20	6	1
Planning and Development	22,119	22,119	90	90	26	6	2
Population Welfare	778	778	130	130	16	3	2
Provincial Assembly	791	791	-	-	0	0	0
Public Health Engineering	8,933	8,933	186	186	18	6	2
Relief Rehabilitation and Settlement	7,674	7,674	80	80	19	4	1
Revenue and Estate	3,101	3,101	109	109	29	6	1
Science Technology and Information Technology	1,155	1,155	64	64	22	5	2
Sports, Culture, Tourism, Archaeology & Museums	1,652	1,652	198	198	28	7	4
Transport	456	456	43	43	19	2	1
Zakat, Ushr, Social Welfare, Special Education and Women Empowerment	1,271	1,271	313	313	43	7	2

Source: Medium-term budget estimates for service delivery, FD, GoKP. SD = Service Delivery

118. The reports generated by the M&E Directorate have a time lag of around one year. As of June 2016, the latest annual M&E report available was for the year ended June 2014. In case of line departments, the Education Department's reporting mechanism was relatively robust; however, most of the reports produced were in house. It is important to note that this dimension was assessed in the absence of the local government system and the entire service delivery units were managed centrally through the respective line departments. Therefore, Table 8.3 is based on the centralized performance evaluation mechanism.

8.3 Resources received by service delivery units

119. The assessment takes into consideration the fact that the GFMIS is not able to generate resource availability reports at the service delivery level (primary schools and primary health unit level) owing to the lack of budget coding at the service delivery unit level. However the Internal Monitoring Unit at the Education and Health Departments collect HR, infrastructure, and other performance data but does not include fiscal/budget related data in the reports.²² In 2015, the Subnational Governance

²² Annual School Census report (Department of Education) and Annual Reports of District Health Information System (Department of Education)

Program at the request of the Health Department conducted an expenditure tracking survey for the Health Department using data for the fiscal year 2013-14 and 2014-15.

120. In addition, the district governments operated the financial matters through the District Account IV; however, this account was closed after the local government system (2001) became defunct because the elections to the local councils (assemblies) were not held. Consequently, the financial matters were managed centrally - the provincial government account-1. In the absence of the elected local government system, all line departments (parent departments for service delivery units) were conveyed the budget allocations through the schedule of authorized expenditure in July each year, and the FD's release policy conveyed the resource availability in July and November each year. Table 3.13 provides key elements of the FD's release policy for the entire department (issued in July each year). The resource availability is based on the nature of expenditure.

Table 3.13: Extracts from (Fund) Release Policy

No.	Objects	Funds to Be Released
1.	<ul style="list-style-type: none"> • Salary • Electricity (after 10% cut) • Sui Gas Charges • Advertisement Charges • Financial Assistance to the families of Government servants who die while in service 	100% (The advertisement charges are to be utilized on current budget side only)
2.	Rest/others (after 15% cut on POL charges)	50%
3.	Physical assets	50%
4.	Maintenance and repair.	50%
5.	Lump sum provision.	Not to be released.
6.	Wheat subsidy	Withheld (to be released on the direction of Finance Secretary).
7.	SNE- Schedule of New Expenditure (Fresh)	Authentication of audit copy by FD, GoKP, would be made with clearance of Additional Finance Secretary (Budget)

Source: Release Policy, FD, GoKP (2013-14).

121. Line departments were informed of the remaining budget releases in November. The development budget releases are based on different criteria. Key features are: 100 percent are notified for releases for the ongoing projects "nearing completion" and for ongoing projects in "snowbound areas". Other projects were notified to be released 50 percent in the month of July. The subsequent releases in the latter case were subject to budget execution rate. One hundred percent releases were also subject to the nature of project (e.g., textbooks) and seasonal factors (e.g., agriculture). For new projects, 25 percent releases were available, subject to administrative approvals for the projects.

122. The issue however remains at the primary health and education service delivery levels. The expenditure tracking at the service delivery unit can be conducted by the provincial line departments, however it cannot take place on the GFMIS due to non-disaggregation of the budget at DDO level at primary school and basic health units, rural health centers, and dispensaries. The receipt of special purpose funds, like petty repairs and classroom consumables for parent-teacher councils (in education) and procurement of drugs and medicines (in health), presently cannot be assessed by each service delivery unit in a GFMIS-based standardized manner.

123. In case of education, the budget for primary schools is consolidated at the district education office (Assistant Education Officer) level. The expenditure tracking on the GFMIS is not possible for those service delivery units for which the Assistant Education Officer is responsible and not the head of the service delivery unit. With new decentralized local government system in place, the GoKP may consider an institutional mechanism to foster the comparison of actual performance with funds received by each facility.

8.4 Performance evaluation for service delivery

124. Within the overall GoKP framework, multiple mechanisms exist to assess the performance of the service delivery units. Line departments have units responsible for M&E, and donor-funded programs have also provided support particularly to health and education departments. The P&D Department conducts reviews of ongoing projects, and the Provincial Development Working Party (PDWP) reviews all project proposals that reflect the overarching performance of “prior” investments. Finally, the M&E Directorate of the P&D Department conducts monitoring as well as evaluations of the development projects.

125. With support from the MDTF, impact evaluation studies have commenced mirroring the service delivery performance evaluation. Limited performance audits are conducted by the DG Provincial Audit. AGP approved three performance audit reports of the DG Provincial Audit; however, the PAC for capacity reasons has not reviewed these. Also, the performance audit has been conducted on a criteria issued by the Performance Audit Wing of AGP; the criteria is more akin to development projects than service delivery units, therefore service delivery-level performance audits have not taken place. The monitoring reports and evaluations are not institutionally integrated to feed the results into policy-making. However all of the above are not a sector-specific service delivery based performance evaluation to reflect holistically on the efficiency and effectiveness of the services delivered in a particular sector but are either a reflection on the performance of the development (capital) budget execution or a project specific evaluations or at best monitoring reports of the line departments.

PI-9 Public access to fiscal information

Indicator and Dimension	Indicator Score	Brief Explanation
PI-9 Public access to fiscal information	D	GoKP complies with 2 basic elements and 1 additional element in the criteria.

9.1 Public access to fiscal information

126. The criterion for macroeconomic forecasts is not applicable to the subnational GoKP. The in-year budget execution reports can be produced on real-time basis although consolidated reports are not available to the public; therefore, the rating of the sub-dimension is not the same as dimension 28.3. The KP Provincial Assembly, fostering the transparency regime, enacted the Right to Information Act 2013 that provides an enabling environment for public access to government records, without which the requested information would not be protected under another law. However, the criteria for this dimension takes into account the proactive disclosures.

Basic elements		Status
✓	1. Annual Executive budget proposal documentation. A complete set of Executive budget proposal documents (as	Budget proposals and attached documents like the medium-term estimates, citizens

	presented by the country in PI-5) is available to the public within one week of the Executive's submission of them to the legislature.	budget, and related documents are hoisted 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.	Finance Act hoisted on the website within 2 weeks after the Governor's assent to the Finance Act
✗	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 prepared but not made available to public neither on FD nor AG websites. Although the FD web portal has the facility to generate budget execution reports for recurrent and development budget, however the PEFA Framework emphasizes the preparation and dissemination of reports than the mere FMIS potential availability for report generation.
✗	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 not made available to the public on any of the provincial government web portals.
✗	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.	During the assessment period (Feb-Nov 2016) and at the time of finalization of PEFA report (July 2017) the last audited annual financial reports available on the AG office website was for the year 2013-14.
Additional elements		
✗	6. Pre-budget statement. The broad parameters for the Executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least 4 months before the start of the fiscal year.	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 and has a considerably long period of processing (refer to PI-31) before public availability.
✓	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 citizens 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. The forecasts, as assessed in PI-14.1, are available within 1 week of their endorsement.	Not applicable to provincial government.

D. Management of assets and liabilities

127. Comprehensive asset and liability management aids in capturing fiscal risk and therefore provides a true picture of government's ability to absorb fiscal risks and aids the government in planning for eventualities. Off-balance sheet/budget items like contingent liabilities are not included in the government's net worth therefore can considerably impact the government's net worth in case of eventuality. A robust asset and liability management assists the governments in mitigating/absorbing the fiscal risks.

PI-10 Fiscal risk reporting

Indicator and Dimensions	Indicator/Dimension on Scores	Brief Explanation
PI-10 Fiscal risk reporting	D	Overall rating based on M2 methodology.
10.1 Monitoring of public corporations	D	<i>The FD lacks a mechanism to document the financial reports and analyze the fiscal risks. Therefore the timing of submission could not be established. However, audit of such corporations take place on sample basis where all entities are not audited in one year. Yet the findings of the DG commercial audit included non-submission of last 2 years audited accounts, in the case of Forest Development Corporation..</i>
10.2 Monitoring of subnational governments	D	<i>The audited annual financial statements for all district governments are audited within 9 months from the close of the year, however, the TMA accounts remain outside the provincial accounts. Also, audited financial statements are not made public within one year of the close of the fiscal year.</i>
10.3 Contingent liabilities and other fiscal risks	D*	<i>Systematic and methodical contingent liability and fiscal risk monitoring does not take place at the FD; as a result, contingent liabilities and other fiscal risks are not quantified and reported in financial reports.</i>

10.1 Monitoring of public corporations

128. The public sector enterprises can broadly be classified as statutory bodies established through an Act of Parliament and those established under the Companies Ordinance 1984. Following is the list of public sector enterprises and fund houses of the GoKP:

- | | |
|---|--|
| (a) Forest Development Corporation (FDC) | (f) Tourism Corporation, KP |
| (b) Sarhad Development Authority | (g) Peshawar Development Authority |
| (c) Small Industries Development Board | (h) Hydel Development Fund (HDF) |
| (d) Sarhad Minerals Limited | (i) General Provident Investment Fund & Pension Fund |
| (e) Government Printing & Stationary Department | |

129. The following companies have been incorporated under Section 42 of the Companies Ordinance 1984:

- (a) KP Oil and Gas Company Limited
- (b) Water and Sanitation Services Peshawar²³
- (c) Pakhtunkhwa Energy Development Organization
- (d) Khyber Pakhtunkhwa economic zone and development management company

130. Additionally, the Bank of Khyber was incorporated under Banking Companies Ordinance with the GoKP share-holding at 70 percent. The incorporation of these entities establishes the governance and reporting arrangements. Budget allocation to these entities is made under grant modality in the

²³ During the ongoing year, water and sanitation services, Mardan and Kohat, have been established as Section 42 Companies and Malakand.

respective parent department's allocations, and the monthly civil accounts reflect the expenditure position though the cost center for section 42 companies is the parent department.

131. Directorate of Commercial Audit certifies the annual accounts and conducts external audit. However, the companies incorporated under section 42 of the Companies' Ordinance 1984 are audited by the private sector with the report presented to the Board of Directors where the GoKP is represented, however issues were identified with respect to formal submission and archiving and analysis (determination of contingent liability and risks) at the FD. Secondly, the audit or any other financial reports do not report on the assets and liabilities of such companies; therefore the associated fiscal risks could not be determined by the GoKP. At the PAC hearing, the issue of these companies being audited by the AGP was raised owing to the use of government grants. Most of the section 42 companies have been recently incorporated in KP, and the first full fiscal year will be completed on June 30, 2016 therefore the assessment of such companies is beyond this PEFA review.

132. The FD receives audit reports²⁴ from the DG Commercial audit (for entities at i-vii); however, monitoring by the FD in terms of analysis of efficiency and effectiveness in use of public resources and return on public investments is not conducted.

10.2 Monitoring of subnational governments

133. The Local Government Act (2013) prescribes the principles, method, form, and responsibility for accounting and auditing functions of SNGs at three tiers. Clause 36 of the Act assigns the following offices for accounting and pre-audit at the three tiers - DAO for district government; Tehsil Accounts Office for tehsil municipal administration; and Village Accountant and Neighborhood Accountant for village and neighborhood councils. Clause 37 assigns the responsibility of audit to the office of the AGP.

134. In case of KP, the representative office of AGP, is the DG District Audit that certifies the accounts and submits certified accounts with such notes, comments, or recommendations as considered necessary to the provincial government and *nazim* (mayor) of the respective local council. The AGP issues a calendar for review and certification of accounts and submission of audit reports. The final accounts are to be submitted for audit by the provincial AG by end August and are certified by the Auditor in November (see Dimension 29.2 for submission and certification dates). The calendar stipulates submission of a draft audit report by end-January and final report by end-March each year after the close of the fiscal year (June 30). However the mentioned timeline for the lower tiers of LG is not often complied with.

135. During the review period the 'elected' LGs did not exist, however the administrative structure was in place to incur expenditure for LG functions. Table 3.14 provides the audit coverage statistics at each tier.

136. The key gap identified from the assessment perspective is the timely certification of LG accounts particularly at the lowest tiers and the lack of timely publication of the consolidated accounts. The audited annual financial statements of the province includes district government allocation and expenditure at the aggregate level as one line, however the TMA revenues and expenditure are not consolidated and reconciled in the provincial accounts nor is a separate report made public. The annual

²⁴ For Bank of Khyber where the GoKP has 70% shareholding, the annual audit report (by private sector audit firm) is submitted to the GoKP.

financial statements whether audited or unaudited are not published even after a lapse of one year of the close of fiscal year.

137. The local governments are not allowed to create debt per the Local Government Act 2013; therefore, the probability of fiscal risk from the LG perspective for the province is mitigated to the extent of debt creation.

Table 3.14: Audit Coverage Statistics - Local Government Levels

Fiscal Year	Audit Year	Municipalities, District Councils and Local Council Boards		Union Council and Assistant Director Offices		Development Authorities		Special Audits	Performance Audit
		Total Formations	Audited	Total Formations	Audited	Total Formations	Audited		
2014-15	2015-16	86	86	1,013	356	11	11	1	2
	%	100%		35%		100%			
2013-14	2014-15	86	86	1,013	342	11	11	0	0
	%	100%		34%		100%			

Notes: Special audit conducted in 24 districts and performance audit of fly over (overhead) bridge.

10.3 Contingent liabilities and other fiscal risks

138. The notes to the audited annual financial statements of the GoKP confirm that the asset and liability accounting practices, including commitment accounting, have not been implemented (AFS, 2014-15) therefore the GoKP financial statements are prepared on cash basis only. As a result the materiality of all significant liabilities could not be established. Although the budget documents (White Paper) includes information on the pension liability and the funds created for General provident fund, pension fund and HDF and its investments, however the relative size could not be determined.

139. In addition, the GoKP has 70 percent shareholding in the Bank of Khyber (BOK) and banking business creates fiscal risks from issuance of guarantees. The GoKP may only be legally obliged to a certain extent for the BOK liabilities, however from the political economy perspective it may have to intervene in the event of crisis. This is not an extraordinary phenomenon and has happened in Pakistan before when other financial institutions went bankrupt. The Bank of Khyber submits its annual report and the Government presents a summary of the bank's performance in the white paper.

140. The FD does not conduct a detailed risk analysis independently. The record of cases in litigation is documented in the Regulations Wing; however, the impact of financial liability from indemnities, legal claims, and others is not consolidated and reported.

141. Also, the GoKP has not established a debt management framework in line with the 18th Constitutional Amendment, which authorizes provincial governments to borrow against its consolidated funds. Article 167 (4) states, 'a province may raise domestic or international loan, 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 (NEC). This requires capacity to articulate a proposal for the said framework, to the NEC to generate a debate. Although Article 167

(4) authorizes the province to raise loans or give guarantees, Article 167 (3) constrains the provinces to exercise the constitutional right“...A Province may not, without the consent of the Federal Government, raise any 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; and consent under this clause may be granted subject to such conditions, if any, as the Federal Government may think fit to impose.” Therefore, the contingent liability from government guarantees against its consolidated fund is not yet relevant to the province.

142. The FD is responsible for maintaining the record of the contingent liabilities and other fiscal risks. In this regard, the department is contemplating establishment of a corporate governance unit to monitor the fiscal risk created by the public sector enterprises and funds.

PI-11 Public investment management

143. When developed and implemented properly, public investments are the means by which the government achieves the country’s economic development plans and policies in the pursuit of economic growth and sustainable development. The PIM 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 and Dimensions	Indicator/Dimension Scores	Brief Explanation
PI-11 Public investment management	C	Overall rating based on M2 methodology.
<i>11.1 Economic analysis of investment proposals</i>	C	<i>Economic analyses for most of investment projects are conducted and are reviewed by an entity other than the sponsoring agency (PDWP, in provincial context). PDWP agenda and post-meeting press release is issued; however, project/ scheme analyses by PDWP and District Development Working Party (DDWP) are not published.</i>
<i>11.2 Investment project selection</i>	B	<i>The provincial and federal project proposal screening forums (PDWP, Central Development working Party [CDWP], and Executive Committee of National Economic Council [ECNEC]) are used for major investment projects selection. In the provincial context, the guidelines for preparation of the ADP issued by P&D Department includes the broad parameters for project selection.</i>
<i>11.3 Investment project costing</i>	C	<i>The project proposals (PC-I) include project-financing plan for the project-execution duration but includes the development budget (capital) costs only and not the recurrent budget for the post project completion.</i>
<i>11.4 Investment project monitoring</i>	D	<i>The project costs monitoring are conducted regularly by P&D Department on PC-III format as independent review forum; however, given the large number of projects, delays incur in physical progress reporting in M&E reports by the time it is documented and reported.</i>

Provincial PIM Framework

144. The P&D Department is the principal planning organization at the provincial level, headed by the Additional Chief Secretary. The P&D Department steers the provincial public investment program (development budget) and coordinates, screens, and reviews the development proposals prepared by the line departments. The project identification and selection takes place at the sponsoring agencies and reviewed by P&D Department at the PDWP, the highest provincial forum mandated for appraisal and approval of project proposals.²⁵ Projects can be developed, appraised, and financed from the province's ADP, but only up to a particular ceiling. Projects over PKR 5 billion are also reviewed and approved by the federal government. Pre-PDWP meetings are held among the line departments and the P&D sections to review the technical details of project proposals.

145. The guidelines for the review of capital investment projects (development budget) are laid out in the document titled, *Planning Commission: Manual for Development Projects*. Planning Commission (see Annex 8) is the highest level of the federal government responsible for Pakistan's public sector development program. The Manual sets out the responsibilities for planning, approval, implementation, and evaluation of development/investment projects. The Manual further defines the planning documents and responsible departments. It also describes the steps to be followed at the federal and provincial levels in the planning, implementation, and evaluation of development projects. The Manual includes a set of templates (referred to as Planning Commission Proforma or PC) to be used and followed at each stage of the project cycle:

- PC-I is used for infrastructure project preparation. A simplified form of PC-I is required for small projects costing up to PKR 1 million (non-recurring).
- PC-II (prior to PC-I) is expected from large projects and 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 like capacity-building programs, surveys, and others.
- PC-III represents the template to be used for quarterly monitoring and reporting on progress of on-going projects that is required of executing/sponsoring agencies implementing projects. PC-III is expected to cover physical and financial progress and report on any implementation issue.
- PC-IV is prepared upon completion of the projects and serves as the instrument for handing and taking over of the projects between the agency responsible for project execution (Communication and Works, or Frontier Works Organization) and the parent department.
- PC-V is used for end-of-project/program evaluation and is to be prepared annually for 5 years.

146. At appraisal stage, the guidelines require that new projects cover the following four sections:

- (a) Project information, name, implementing entity, completion period, summary of costs details, and objectives of project;
- (b) Project description and justification, location, market analysis, technical description, operating or recurrent cost estimates, capital cost estimates, unit costs, sectoral benefits, cash flow, financing arrangements, foreign exchange component, risk analysis, beneficiaries participation;
- (c) Project requirements (i.e. HR, physical and other facilities, materials, supplies and equipment); and

²⁵ Departmental Development Working Party approves projects for inclusion in the ADP up to PKR 90 million. This ceiling varies per provincial governments' requirements.

- (d) Environmental aspects, including impact assessment (i.e., for water sewerage and solid waste), and recommendations to mitigate environmental pollution.

147. A sampling approach was adopted for the assessment of this indicator. Ten projects were selected to assess the dimensions (list of projects in Annex 9). Some of the departments like C&W or Energy and Power execute the largest projects in the province and most of these projects are donor funded that require compliance with a detailed appraisal process. Selection of only the largest projects would have presented a skewed analysis and will not reflect on the government's own processes. Therefore the approach adopted was to select projects that were not only donor funded but financed from government's own sources as well. Additionally, to reflect on the government wide performance the largest projects (investment wise) of different departments were selected. These sectors included Education, Health, Roads, Energy and Power, Transport, and Training and Capacity Building.

148. However, the GoKP public sector development portfolio does not include the complex and major investments but only comprises thousands of common (run-of-the-mill) projects with some projects, investment wise, as small as USD 20,000 (equivalent) only. The rating of the indicator is based on the major investments only, however the narrative also identifies the issues in the run-of-the-mill projects also owing to the inclusion of a large number of such projects in the development portfolio.

11.1 Economic analysis of investment proposals

149. The Planning Commission Manual stipulates that appraisal of development projects depends on economic policies of the government, then on the rate of return (financial, and economic) in addition to considerations of social and environmental impacts and risks. For most of the major investment projects owing to its complexity and size, the Government involves donors for financial and technical assistance; therefore all such projects have to comply with a strict appraisal process. However, no clear guidance exists on whether there are considerations of alternative projects before selecting the ones that get funded.

150. Moreover, instances were noted, though very few, in the last three years, where large projects were included in the provincial portfolio after the approval of annual budget by the Provincial Assembly (legislature) commonly referred to as non-ADP schemes (projects). Such projects are submitted for legislature approval in the revised estimates of the budget.

151. The economic analysis of the major investment decisions within the provincial remit are conducted independently by the P&D Department through the PDWP. However the detailed project analysis and its results are not published.

152. The provincial portfolio does not only include large and complex projects but also includes the small run-of-the-mill projects and the number of such schemes runs in hundreds, making the formal project document preparation and appraisal a challenging task. The practice of inclusion of "unapproved schemes" (project proposals not screened by the PDWP) is common; over 500 such project proposals were included in 2015-16. As a result, project prioritization and appraisal is undermined. A large number of development projects included in the ADP are small projects that neither qualify as capital investment (some are training, some relate to operations and maintenance costs) nor are large enough to warrant a due process and feasibility review. Sponsoring agencies for such projects do not carry out systematically the needed due process before, including projects in the

budget, despite the requirements to carry out an economic, financial, social, and sustainability analysis (with the preparation of PC-I and PC-II) prior to projects' submission to the P&D Department for review and consolidation.

153. Finally, the provincial ADP includes umbrella schemes that cannot be comprehensively screened the way the proposals for the targeted interventions are reviewed. The umbrella schemes when unfurled after identification of targeted beneficiaries and geographic location add up to the already large development of portfolio of the province in terms of number of projects making the planning, review, monitoring, and evaluation tasks challenging.

11.2 Investment project selection

154. The formal procedures to plan for development projects emanate from the Planning Commission guidelines on project management, P&D Manual, annual guidelines for formulation of the provincial ADP, PC proformas and appended instructions, budget rules and manual, and development working parties framework.

155. Most of the major investment projects of the GoKP follow the prioritization process. Particularly for donor-funded projects the scrutiny is relatively higher as the proposals get reviewed not only by the provincial bodies but also by the federal government and must comply with the donor review requirements as well, which entails a detailed multi dimensional appraisal and selection process. These are often accompanied by a feasibility study and a detailed project costing as part of PC-I or PC-II (depending on the nature of the project). A specific selection criterion for arbitrage among the competing projects is a measure P&D can adopt to strengthen project prioritization.

156. The P&D issues ADP Guidelines which provide instructions for ADP formulation. Although the criteria that can be derived from the guidelines is relevant to most of the major investment decisions, they becomes redundant for all other investments because a considerable number (about 90 percent) of small to medium sized projects are included in the budget but not screened per the criteria. The practice of token allocations and the large throw forward is also symptomatic of the lack of robust selection criteria and lack of compliance with the ADP Guidelines, for small and medium sized projects. The GoKP can infuse project selection and prioritization by introducing a robust project appraisal mechanism for ordinary projects and ensuring compliance with such a mechanism.

11.3 Investment project costing

157. The GoKP as other provincial governments and the federal government has disintegrated budgeting with the P&D Department responsible for development (investment) budget and the FD for current (recurrent) budget. The GoKP adopted medium-term frameworks (fiscal and budgetary) that give estimates for the budget year and two subsequent years. The estimated cost is broken down per cost category for the project duration; however, the project planning documents focus on capital (development) budget and do not integrate the recurrent costs or analyze the impact on recurrent budget after the completion of the project. Lack of compliance with PC guidelines for estimation of both ongoing and new projects costs and allocative inefficiencies results in throw-forward, which is the balance of funding needed to complete the projects.

158. When a project is completed, a notification of completion of new projects is made through a document known as the New Item Summary issued by the project-sponsoring agency and submitted

to the FD. It is only then that operations and maintenance costs can be included in the annual budget; however, confirmation of financing is subject to availability of funding at review time of the New Item Summary. Operations and maintenance costs are included in the recurrent costs budget by the executing agencies but are subject to rationing on the basis of funding availability. To compensate for that, departments often end up including small activities of refurbishment and maintenance in the development budget when in fact these should be operations and maintenance and part of the recurrent budget. These practices are the result of the fragmentation of the costing and budgeting, and of the difficulty to have a consolidated budget between recurrent and investment covering projects and operational needs.

11.4 Investment project monitoring

159. The M&E Directorate of the P&D Department acts as the central agency overseeing project execution through periodic M&E. The Directorate aims to cover 25 percent of the portfolio in any given year. In addition, the M&E Directorate monitors only the first three years of project implementation. Annual monitoring reports of the M&E Directorate performed as part of the planning framework²⁶ are published, however have a time lag. During the assessment period (May-June 2016), the latest report available on M&E Directorate pertained to FY2013-14. The Directorate is being provided support through World Bank projects for systems and capacity building in project and program evaluations.

160. Executing agencies/line departments also have in-house M&E units with variegated performance. Departments that have been provided technical and financial support fare better than others without. The infrastructure projects are implemented through the Communication and Works/Works and Services Department; monitoring of the projects by the line departments during project execution phase is patchy. Evaluations of completed projects are covered under PC-V, but these are rarely conducted and PC-V document is rarely prepared.

²⁶ <http://www.mandc.gkp.pk/index.php>.

PI-12 Public asset management

Indicator and Dimensions	Indicator/Dimension Scores	Brief Explanation
PI-12 Public asset management	D+	Overall rating based on M2 methodology.
12.1 Financial asset monitoring	C	GoKP maintains a record of its investments and publishes it in the annual budget.
12.2 Non-financial asset monitoring	D	Government departments maintain the record of key non-financial assets but information on the usage and aging is not available. Asset recording and management has been continuously identified as a weak area in the audit reports.
12.3 Transparency of asset disposal	C	Procedures and rules for the transfer or disposal of non-financial assets are established. Partial information on transfers and disposals is included in budget documents, financial reports, or other reports.

12.1 Financial asset monitoring

161. The scope of financial assets defined in GFS 2014 is not entirely relevant to the GoKP being an SNG; however, in the given scope, GoKP documents and publishes information related to its investments in the annual white paper (fund management section). It is submitted to the legislature along with the budget documents and available on the FD, KP website. The GoKP has established three types of funds -- General Provident Investment Fund and Pension Fund, headed by Chief Secretary; and HDF, headed by the Chief Minister (details are available in the budget white paper). The investments are predominantly in fixed income schemes. Owing to high risk, the GoKP decided to withdraw the investments from listed companies and mutual funds. The process of withdrawal is underway (White Paper 2015-16). The information available in the budget documents covers the opening balance, amount released during the year, profit earned, and closing balance.

12.2 Non financial asset monitoring

162. According to GFS, the non-financial assets are categorized as:

- Fixed assets (building, machinery, equipment, intellectual property rights);
- Inventories (materials and supplies, work in progress);
- Valuables (non-monetary gold, precious stones, and metals, paintings); and
- Non-produced assets (land, natural resources, goodwill).

163. In the GoKP, the Board of Revenue (Revenue and Estate Department) maintains the record of land, both state and privately owned. Additionally other departments own land and properties and maintain the record like Auqaf (evacuee or donated property), agriculture, irrigation, and others. In the event where land is declared urban, the ownership is transferred to the relevant authority for development, management, and sale/purchase arrangements. The management of natural resources is entrusted to the federal government, therefore the record is maintained by federal agencies and resources are distributed per constitutional provisions and decided on the recommendations made by the NFC. Line departments, including the Board of Revenue, maintains the register of assets and inventories. The record of non-financial assets is maintained to the extent of recording of asset only.

The record is not published. Weak asset and inventory management has been continuously identified in the external audit reports.

12.3 Transparency of asset disposal

164. The asset disposal and accounting procedures are defined in the General Financial Rules, delegation of financial power rules, accounting policies, and procedures manual. Additionally, Cabinet approval is sought in cases like vehicle disposals. In the event of transfer of land from one government department to the other, the Urban Management Ordinance, Land Revenue Act, West Pakistan Immoveable Property Act supported with the aforementioned rules and Land Administration Manual govern the transfer procedure. Although the assets disposal framework is in place, deficiencies exist in efficient transfer and disposal. The accumulation of discarded moveable assets and inefficiencies in leasing out non-financial assets (land and properties) resulting in loss to the Government has been repeatedly identified in the audit reports.

PI-13 Debt management

Indicator and Dimensions	Indicator/Dimensi on Scores	Brief Explanation
PI-13 Debt management	C	Overall rating based on M2 methodology.
13.1 Recording and reporting of debt and guarantees	C	Domestic and foreign debt records are reconciled and produced annually in the Budget White Paper.
13.2 Approval of debt and guarantees	B	Constitution provides for debt creation by the provinces, subject to conditions. In addition, the Public Debt Act, Securities Manual, and the Accounting Policies and Procedures Manual (APPM) provide for the operational framework, though defined at the federal level, segregating the domestic & foreign debt responsibilities between Economic Affairs Division & the FD. In provinces, procedures for other domestic debts like running finances for procurement of wheat are comprehensively documented and responsibility assigned to the FD.
13.3 Debt management strategy	D	A systematic and methodical medium-term debt management strategy does not exist.

165. Articles 166 and 167 of the Constitution of Pakistan (1973) govern debt management supported by the Fiscal Responsibility and Debt Limitation Act 2010. 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.” However, the GoKP and the National Economic Council have yet to agree on a framework for debt creation and debt management by the province for foreign debt contracting. Article 167 (3) imposes further restriction on debt creation by the provinces and limits the province “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”. Although the federal government can extend consent as it seems fit.

13.1 Recording and reporting of debt and guarantees

166. PIFRA introduced the GFMIS; however, the linkages through a dedicated and specialized module for debt management between Economic Affairs Divisions, Ministry of Finance/FD, and State Bank of Pakistan has not yet been operationalized. Therefore, the legacy system essentially comprising of filing system and Excel-based general purpose solution is used to capture and report the federal debt and guarantees-related information.

167. Annual reconciliation is undertaken by the GoKP FD with the Economic Affairs Division (federal government) with respect to foreign debt and Ministry of Finance Islamabad (federal government) with respect to domestic debt. The reconciled information on foreign and domestic debt is produced annually in the KP Budget White Paper and is made public along with other budget documents.

13.2 Approval of debt and guarantees

168. The Economic Affairs Division contracts the foreign debt for the provinces while the Ministry of Finance approves domestic debt (ways and means limit). The Constitution (Article 167) stipulates the borrowing by provinces. After the 18th Amendment to the Constitution, the provinces are authorized to incur debt against its consolidated fund with the proviso that a framework for debt management shall be agreed with the National Economic Council. The framework has not been developed, however as an interim arrangement the National Economic Council has approved a limit for domestic debt creation for KP province based on the provincial share.

169. For other debt instruments like the overdraft from the central bank and for Food provincial account II (procurement of wheat) the responsibilities and procedures are clearly laid out. Under provincial account II, the provincial government contracts running finance for procurement of wheat, which is regulated with a separate framework notified by the AGP Office and the Ministry of Finance with regard to accounting procedure and account maintenance respectively. The annual limit for both running finance and overdraft is approved by the provincial legislature. The domestic debt recording and management responsibility under the current dispensation is vested in the FD.

13.3 Debt management strategy

170. There is no evidence to demonstrate that the provincial government has any approved medium-term debt management strategy. The GoKP has requested technical support from the World Bank for debt sustainability analysis. Consultations have commenced with the CGA Office for creation of dashboard and system to support debt sustainability analysis.

E. Policy-based fiscal strategy and budgeting

171. The ability of governments to develop realistic and robust macroeconomic and fiscal forecasts is crucial to developing a sustainable fiscal strategy that can translate in greater predictability of budget allocations. The existence of such capacity assists governments in projecting the fiscal impact of potential changes under different economic and fiscal scenarios and creates ability to adjust to changing circumstances and minimize the possibility of stifling the development initiatives from essential resources.

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	<i>Not Applicable. Macroeconomic functions rests with the central government.</i>
14.2 Fiscal forecasts	C	<i>Government prepares MTFF forecasting revenue (by type), expenditure, and budget balance for the budget year and the two subsequent fiscal years. However, underlying assumptions of the forecasts are not provided</i>
14.3 Macro fiscal sensitivity analysis	NA	<i>Not Applicable.</i>

14.1 Macroeconomic forecasts

172. PI-14.1 is not relevant to the provincial government and therefore is rated 'Not Applicable' based on the following two considerations:

- (a) The macro economic functions like the determination of the exchange and interest rates (which also influences the inflation and GDP growth rates) rests with the central (federal) government in Pakistan. Therefore, the provincial governments can neither notify a different interest rate nor can it conduct market operations to influence the exchange rate.
- (b) The PEFA Framework under 14.1 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 have the authority and autonomy to prepare the macroeconomic forecasts. Consequently, dimension 14.1 is not applicable to the provincial governments in Pakistan.

14.2 Fiscal forecasts

173. The GoKP introduced the MTFF in 2010 to project its revenue and expenditure estimates for the budget year and two subsequent years. The MTFF is revised annually; and although it includes projections by the revenue type however, neither the underlying assumptions are provided nor the variation between forward estimates and actual expenditure is explained to feed into the subsequent MTFF and policy making at large. Consequently, the utility of medium-term perspective in budgeting is not achieved optimally. Two keys reasons cited for variation were erratic fiscal transfers from the central government and non-realization of the recently devolved general sales tax on services.

14.3 Macro fiscal sensitivity analysis

174. In continuation to the considerations presented for PI-14.1, this dimension is also not applicable because the provincial governments cannot take measures to adjust to macroeconomic contingencies. Also, the Economic Affairs Division (Federal government) is the authority to enter into debt-related agreements while the MOF (Federal Government) is the authority for creation and approval of debt instruments. Therefore any action requiring approval for changes to existing debt (even the authority for premature retirement of existing debt) or creation of a new instrument rests with the Ministry of Finance (Federal Government). Finally, some of the debt created by the federal

government, does not have earmarked shares for the provinces, constraining the determination of exact share of the provinces in the debt. Finally, the fiscal responsibility and debt limitation act also does not provide province level limits. Therefore in the existing situation debt sustainability analysis at the provincial level is not possible unless the aforementioned apportioning take place. In such a scenario, dimension 14.3 is not applicable to Pakistan.²⁷

PI-15 Fiscal strategy

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	GoKP prepares MTFE detailing revenue and expenditure- type estimates for the budget year and the following two fiscal years and submits to the legislature. A revenue mobilization proposal is prepared and submitted with the finance bill for changes in existing tax or imposition of new tax but is only for one fiscal year.
15.2 Fiscal strategy adoption	D	GoKP has not formulated a fiscal strategy to provide quantitative targets and qualitative analysis and objectives.
15.3 Reporting on fiscal outcomes	NA	Budget speech of the Finance Minister makes reference to fiscal outcomes and variations at the aggregate level. Separate report providing quantitative and qualitative analysis is not prepared.

15.1 Fiscal impact of policy proposals

175. The GoKP prepares the MTFE reflecting revenue and expenditure estimates for the budget and two subsequent fiscal years. The MTFE is made part of the budget documents submitted for legislative scrutiny. The documents that provide greater details on revenue are the White Paper followed by the Budget Strategy Paper. On the expenditure side, in addition to the two papers (documents), the medium-term estimate for service delivery (output-based budget) provides more details. On revenue side, the Budget Strategy Paper and White Paper are mainly the description of the provincial tax and non-tax revenues than an analysis documenting causes of variation. The analysis part is limited to variations in the HLG transfers only, whereas the revenue mobilization proposal submitted to the Cabinet for approval does not provide a medium-term perspective.

176. Besides the aforementioned, the documents do not include a qualitative analysis detailing the assumptions and estimated methodology. For expenditure policy proposals although costed strategies are prepared, these strategies and proposals provide the capital investment dimensions only and not the recurrent costs associated with the capital costs.

15.2 Fiscal strategy adoption

177. The GoKP has adopted development and growth strategies that touch upon the revenue component and present the vision; however, a broader fiscal strategy detailing explicit time-based, quantitative fiscal goals and targets together with qualitative analysis and objectives has not been adopted. The GoKP prepares a summary for the Cabinet titled “Resource Mobilization Measures” detailing recommendations for revenue mobilization. The analysis and recommendations in the

²⁷ Confirmed by the PEFA Secretariat.

summary proposal are based on revised budget estimates rather than original budget estimates, and the projected impact of recommendations on revenue collection is for one year only. The proposal forms part of the Finance Bill.

178. Additionally, the revenue-collecting authorities hold discussions during the course of the year with the FD suggesting measures on addressing the lag in revenue-collecting targets.

15.3 Reporting on fiscal outcomes

179. The budget speech of the Finance Minister to the legislature includes reference to the variation in targets at the aggregate level. A report detailing its assessment of achievements against the stated fiscal objectives and targets, explanation of deviations from the approved objectives and targets, and corrective actions are not developed; therefore this dimension is rated NA as per PEFA guideline 15.3:2.

PI-16 Medium-term perspective in expenditure budgeting

Indicator and Dimensions	Indicator/Dimensions on Scores	Brief Explanation
PI-16 Medium-term perspective in expenditure budgeting	C	Overall rating based on M2 methodology.
<i>16.1 Medium-term expenditure estimates</i>	<i>A</i>	<i>GoKP adopted an MTFE and medium-term budget framework (MTBF) providing 3 years estimates by administrative, economic & functional classification.</i>
<i>16.2 Medium-term expenditure ceilings</i>	<i>D</i>	<i>Medium-term expenditure ceilings are communicated separately as GoKP follows the disintegrated budgeting process with the current (recurrent) budget managed by the FD and the development (investment) budget by P&D Department.</i>
<i>16.3 Alignment of strategic plans and medium-term budgets</i>	<i>C</i>	<i>Out of 34 departments only Education and Health Departments have sectoral plans aligned with the budget, however the two sectors account for 32 percent of total expenditure and 46 percent of the total recurrent expenditure</i>
<i>16.4 Consistency of budgets with previous year's estimates</i>	<i>D</i>	<i>Ministry-level variance analysis not provided in the budget documents.</i>

16.1 Medium-term expenditure estimates

180. The GoKP introduced medium-term perspective in budgeting with the adoption of an MTBF and MTFE in 2010. The two frameworks and the Budget Strategy Paper establish the resource envelope and the budget priorities, while the line departments bid strategically through their budgetary proposals for service delivery in the shape of output-based budgets, adopted in 2013. The MTFE is an overarching framework capturing revenue and expenditure estimates and is used as a tool to determine the fiscal space for the public investment portfolio. Major revenue types and expenditure estimates are segregated in Current Revenue, Current Capital, and Development Expenditure categories. Each major type of expenditure further details these estimates.

181. The FD as part of its annual budget preparation process develops the interim and final MTFF for the budget and two following fiscal years. The interim MTFF is developed at the start of the budget preparation cycle (October-November) each year, whereas the final MTFF (II) appears around end May based on the budget review sessions. The GoKP relies on fiscal transfers from the federal government (around 84 percent), therefore the forecasts are updated on rolling annual basis. The MTFF is made part of all key budget documents (i.e., Budget Strategy Paper, Budget White Paper, and Output-Based Budget/Budget Estimates for Service Delivery) submitted to the legislature and disseminated to the public via the FD website.

182. The following scheme of classification for medium-term estimates is adhered to:

- Budget estimates by major components of Provincial Account – I;
- Budget estimates by major type of expenditure;
- Budget estimates by key sectors;
- Administrative unit-wise budget estimates further disaggregated by major type, outcomes, and outputs.

16.2 Medium-term expenditure ceilings

183. The GoKP follows the disintegrated budgeting process with the current (recurrent) budget managed by the FD and the development (investment) budget by the P&D Department. The FD issues “current budget indicative ceilings” in the Budget Call Circular for the budget year and two following fiscal years (Table 3.15). Whereas the P&D Department communicates the indicated ceilings through issuance of ADP Guidelines to commence ADP formulation.

184. However, the development budget ceilings per P&D-issued guidelines for formulation of the ADP (FY2015-16) states, “The exact size of the program cannot be indicated at this stage. However, the overall size of your budgeted program should not be more than 10% above the allocations for the current year.”

Table 3.15: Budget Call Circular Issuance Date

Fiscal Year	Recurrent Budget	Development Budget
2014-15	November 20, 2013	December 21, 2013
2015-16	November 27, 2014	December 23, 2014
2016-17	November 30, 2015	December 20, 2015

185. The indicative current budget ceilings are issued with the Budget Call Circular (November each year), and the indicative size of the budgeted program is issued to the line departments in the P&D guidelines in December of each year.

16.3 Alignment of strategic plans and medium-term budgets

186. The GoKP formulated a Strategic Development Partnership Framework, 2013-2018, spelling out the development agenda that focuses on poverty reduction and inclusive growth. The Framework was complemented with the Integrated Development Strategy, 2014-18, to align medium-term policy priorities with the reform agenda and consolidate prior development strategies.²⁸ In 2015, a Medium-Term Inclusive Growth Strategy (2015-18) was adopted for accelerating growth in the province. The

²⁸ Comprehensive Development Strategy, Economic Growth Strategy, and Post Crises Needs Assessment

aforementioned strategies provide an umbrella framework for subsequent sectoral strategies; however, only Education and Health Departments have formulated costed sector strategies. The Health Sector Strategy (2010-17) and Education Sector Plan (2010-15) are considerably aligned with the annual budget via out-based budgeting. The rating takes into account the share of the education and health sectors in the overall GoKP expenditure. The two sectors consume approximately 32 percent of the total expenditure and 46 percent of the total recurrent expenditure.

187. The GoKP each year communicates guidelines to the line departments for alignment of their budgetary proposals with broader provincial-level policy objectives and the stipulations of sector specific strategies/plans particularly in education and health sectors.

188. The P&D Department conducted an annual strategy review to assess the degree of alignment of the ADP with the policy aspirations of the provincial government. However, the last published annual strategy review pertains to FY2012-13.

16.4 Consistency of budgets with previous year's estimates

189. The budget documents do not cite reasons for variation in expenditure estimates between the last medium-term budget and the current medium-term budget at the department level or provide an explanation of any changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the department level. In the last three years, the actual expenditure data against budget was provided in only one year (2014-15). As a result the variation could not be ascertained.

190. The GoKP like in the federal and other provincial governments follows disintegrated budgeting, therefore the impact of development budget on recurrent is not known. Also, in the pilot phase of the MTBF, the GoKP introduced Budget Call Circulars to facilitate the assessment of consistency of budgets with previous year's estimates, but the practice was not sustained. Due to aforementioned reasons, the potential of medium-term perspective could not be availed.

PI-17 Budget preparation process

Indicator and Dimensions	Indicator/Dimension Scores	Brief Explanation
PI-17 Budget preparation process	B	Overall rating based on M2 methodology.
17.1 Budget calendar	A	Annual budget calendar exists, which is adhered to and allows more than 6 weeks for preparation of budget estimates
17.2 Guidance on budget preparation	B	FD and P&D Department issue detailed guidelines for budget formulation, including indicative ceilings clearly defined for current budget. The ceilings conveyed by P&D Department are not definite and are incremental. Cabinet approval is obtained after the issuance of Budget Call Circular.
17.3 Budget submission to the legislature	D	GoKP submitted budget proposals to the legislature less than one month before the start of fiscal year.

191. The FD has the primary responsibility for the annual budget preparation process for the GoKP. Significant steps have been taken to improve the budget preparation cycle with an integrated, top-down approach complemented with bottom-up component for budget-making. The former include the MTFP; budget strategy papers; Budget Call Circular; indicative budgetary ceilings; and three-tiered, pre-budget consultations (i.e., departmental pre-budget hearings, Parliamentary jirga, and district-level consultations with civil society). The FD and P&D Department lead the top-down processes.

192. The bottom-up processes are mainly driven by line departments and include the key processes of strategic resource allocation, performance benchmarking, inter/intra departmental consultations, and submission of budget proposals to the FD and P&D Department. The provincial government through its integrated Budget Call Circulars and ADP Guidelines has effected these improvements in the budget-making process since 2013-14. To provide an effective control and operational framework the local government budget rules were notified by the provincial government in 2016 for the recently established three-tiered, local government system.

17.1 Budget Calendar

193. The FD initiated the budget-making process for the 2015/16 budget through the issuance of Integrated Budget Call Circular on November 27, 2014 (Budget call circulars and calendars available on <http://www.financekpp.gov.pk/FD/attachments/article/260/Budget-Call-Circular-2017-18.pdf>.) Similarly, the P&D Department initiated ADP formulation for 2015/16 in December 2014 via issuance of ADP Guidelines. Both instruments contain fixed budget calendars with clearly defined roles and responsibilities, timelines, and key activities. The Budget Calendar embodied in the Integrated Budget Call Circular amply depicts the schedule for key types of current expenditure, schedule of activities for output-based budgeting, schedule of receipts, and schedule of development budget.²⁹ Whereas, the Budget Calendar circulated vide ADP Guidelines entail a comprehensive schedule covering the whole cycle of ADP formulation by key actions.

194. The line departments (LDs) are provided more than six weeks to complete the budget estimates and it is mandatory for the LDs to comply with the dates stipulated in the budget calendar. Table 3.16 provides the compliance dates for key stages starting from issuance of BCC to the approval by the legislature.

²⁹ It is called the integrated Budget Call Circular after the introduction of the MTBF/OBB that is a departure from the conventional annual budgeting approach. It includes a separate set of guidelines and budget preparation forms developed to facilitate Departments/Attached Departments and the spending units in the realization of the overall reforms agenda of the Government (Budget Call Circular 2015-16)

Table 3.16: Compliance Dates for Key Activities

	FY2012-13	FY2013-14	FY2014-15
1. Issuance of BCC			
Due Date	December 7, 2011	November 22, 2012	November 15, 2013
Actual Date	December 1, 2011	November 22, 2012	November 15, 2013
2. Issuance of Indicative Budgetary Ceilings			
Due Date	December 7, 2011	November 22, 2012	November 20, 2013
Actual Date	December 1, 2011	November 22, 2012	November 20, 2013
3. Examination & Finalization of Budget and Revised Estimates			
Due Date	February 6, 2012	January 14, 2013	February 26, 2014
Actual Date	February 6, 2012	January 14, 2013	February 26, 2014
4. Budget Approval by Provincial Legislature			
Fiscal Year begins July 1			
Actual Date	June 20, 2012	June 26, 2013	June 23, 2014

Source: Department of Finance, GoKP.

17.2 Guidance on Budget Preparation

195. The GoKP each year issues the Budget Call Circular and ADP Guidelines to all its spending units to initiate budget preparation process for the next year. The Finance Department issued Integrated Budget Call Circular for Budget 2015-16 in November 2014; subsequently, the P&D Department issued the ADP Guidelines for formulation of ADP 2015-16 in December 2014. The circular and guidelines provide elaborate guidance to the line departments/spending units for preparing the budget proposals for the medium term (3 years). The circular and guidelines comprise guidelines and indicative ceilings (ceilings are clearly defined for current budget only), Budget Calendar, forms, and formats.

196. The aggregated, indicative expenditure ceilings for 2015-18 were determined under the MTFP 2015-18 segregated by each line department. The Finance Minister as part of the Integrated Budget Call Circular approved it in November 2014 and subsequently ceilings for current expenditure for a period of three years were issued to all line departments along with the Integrated Budget Call Circular. The ADP Guidelines 2015-16 document that the exact size of the resource is not available but for planning purposes provide incremental increase indicating 10 percent growth in development budget allocations over the last year.

17.3 Budget submission to the legislature

197. The Annual Budget Statement is required to be laid before the Provincial Assembly on a date fixed by the Governor of the Province under Article 120 of the Constitution (1973) of the Islamic Republic of Pakistan. Other key budget publications are laid before the Provincial Assembly as supporting documents of the Annual Budget Statement. Under Article 122 of the Constitution no demand for grant shall be made to the Provincial Assembly except on the recommendations of the

Provincial Government. The submission of budget proposals to the legislature has taken place in June each year in the last three years (Table 3.17) indicating little time for legislative scrutiny.

Table 3.17: Date of Submission of Budget Proposals to the Legislature

Fiscal Year	Date Budget proposal submitted to the Legislature	Enactment date
2015-16	June 15, 2015	June 22, 2015
2014-15	June 14, 2014	June 23, 2014
2013-14	June 17, 2013	June 26, 2013

Note: Fiscal year starts July 1 and ends June 30.

PI-18 Legislative scrutiny of budgets

Indicator and Dimensions	Indicator/Dimension Scores	Brief Explanation
PI-18 Legislative scrutiny of budgets	C+	Overall rating based on M1 methodology.
<i>18.1 Scope of budget scrutiny</i>	<i>A</i>	<i>GoKP submits the annual and medium-term budget estimates, its summary and details to the KP legislature.</i>
<i>18.2 Legislative procedures for budget scrutiny</i>	<i>C</i>	<i>Legislative procedures have been notified in 1988 covering the 'fundamentals' of the budget proposals review and are adhered to by the legislature. The rules do not provide for technical support and committee for review of budget proposals</i>
<i>18.3 Timing of budget approval</i>	<i>A</i>	<i>Budget has been approved prior to the start of fiscal year in the last three years</i>
<i>18.4 Rules for budget adjustment by the Executive</i>	<i>B</i>	<i>The Constitution of Pakistan authorizes the Executive for supplementary grants during the year not reflected in the budget.</i>

18.1 Scope of Budget Scrutiny

198. The Fiscal Procedure for Provincial Governments under Articles 118-127 of the Constitution (1973) provides the overarching framework to enforce legislative engagement in the scrutiny and approval of annual budget. The Rules of Procedure of the KP Provincial Assembly, GoKP Budget Manual, and General Financial Rules and related instruments provide the guidelines for legislative review and approval modalities of the annual budget by legislature. The GoKP submits the following budget documents for legislative scrutiny:

- Annual Budget Statement,
- Demands for Grants (current and development budget)
- Medium-Term Budget Estimates for Service Delivery
- ADP
- Citizens' Budget
- Budget White Paper
- Budget Speech

199. Parliamentary Jirgas (Councils) are held, including representation of elected representatives and other key stakeholders, before submission of budget to the legislature aimed at soliciting their input. The GoKP is an SNG and with macroeconomic functions like the interest rates, inflation, and so on being central government functions, the GoKP does not issue a fiscal policy statement on the pattern of central government. However the Budget Strategy Paper, the White Paper, and the Finance Minister's speech provides the budget priorities, economic assumptions (national data), and the impact of the national GDP growth rate on the provincial resource base, and briefly comment on the fiscal space for the development financing. The historical trend and the medium-term fiscal forecasts, priorities, and details of revenue and expenditure are included in the White Paper and the medium-term estimates for service delivery and the demand for grants (recurrent and development budget).

18.2 Legislative procedures for budget scrutiny

200. The overarching procedure to review budget proposals is notified in the Provincial Assembly (Legislature) Rules of Procedure (1988). The Provincial Assembly in respect of its budget review sessions largely adheres to the Rules of Procedure. However, the rules do not provide for technical support and the budget review committee. The following is the three-staged approach for budget review/discussion:

- (a) General discussion on the Budget as a whole;
- (b) Discussion on appropriations (in respect of charged expenditure);
- (c) Discussion and voting on demands for grants (in respect of expenditure other than charged expenditure), including voting on cut motions, if any.

201. The Speaker of the Provincial Assembly upon receipt of budget proposals from the Executive issues a schedule announcing the days for discussion on budget, cut motions, and voting for demands for grants. The process for legislative review is articulated in the Rules of Procedure (1988).

18.3 Timing of budget approval

202. In the last three years, the GoKP has submitted the budget proposal around mid June (See Indicator 17.3, Table 18), and the budget has been enacted by the legislature prior to June 30 each year. The fiscal year start (July 1) leaves around 2 weeks for the legislature to review budget proposals.

18.4 Rules for budget adjustment by the executive

203. Article 124 of the Constitution of Pakistan (1973) authorizes the Executive to incur expenditure on items (a) not reflected in the ongoing year's budget or (b) the existing funds are deemed insufficient and additional financing would exceed the budget limits. However, the Article binds the Executive to seek legislature's endorsement in such cases through presentation of revised estimates with the next fiscal years budget proposal. The re-appropriation and supplementary grant procedures are notified in Chapter 5 of the General Financial Rules and the powers of re-appropriation by subordinate authorities are provided in Schedule III of the delegation of the financial power rules. The KP Budget Manual 1999 explains the budget adjustments in more details.

204. The rules and manual are unambiguous with regard to the justification for budget adjustment and the rules are strictly followed; however, since the limit in terms of 'supplementary and excess grants' and number of adjustments is not imposed, the in-year adjustments are considerably large. Also with low budget execution rates and varied performing projects, re-appropriations, and

supplementary grants are a common phenomenon. In the last three years the re-appropriations in the development budget amounted to PKR 11.7 billion, PKR 10.8 billion, and PKR 7.7 billion, respectively, and the number of re-appropriations averaged 625 each year in the development budget only.

F. Predictability and control in budget execution

PI-19 Revenue administration

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	D	Information on rights and grievance redress mechanism is not available.
19.2 Revenue Risk Management	C	A methodical risk management does not take place.
19.3 Revenue audit and investigation	D	Revenue audit and investigations are not based on a systematic plan.
19.4 Revenue arrears monitoring	D*	Historical arrears data not available. The last three years stock of arrears are 74% of the total revenue collection in 2014-15.

205. The GoKP revenue administration in terms of tax type comprises the Provincial Excise and Taxation Department (including KPRA), Irrigation Department, and the Board of Revenue. The assessment team has based its findings on these revenue authorities.

19.1 Rights and obligations for revenue measures

206. Transparency of rights and obligations is an area in the provincial revenue administration that has remained weak. This is particularly so in the Board of Revenue that is responsible for land record and land revenue-related matters and is also the highest court of appeal for land revenue-related cases. Its website does not provide information on the rights and obligations of the taxpayers, but rather a reference is made to the relevant laws.

207. Similarly, the Excise and Taxation Department - responsible for motor vehicle tax, urban immovable property tax, professional tax, and others provides on its website the obligation of the taxpayer but does not disclose the rights. It reaches out to the citizens through newspapers on tax obligations, particularly during the last quarter of the collection period, but does not offer information on the procedure for aggrieved taxpayers.

208. The KPRA was established in 2013 to collect general sales tax on services. The Authority's website provides the method for e-registering and e-enrollment; however, the information on rights and appeal mechanism is not available.

19.2 Revenue risk management

209. A methodical and systematic approach for revenue risk management does not take place. In its letter issued to the administrative departments for austerity measures, the FD obligates the administrative secretaries and heads of autonomous and semi- autonomous bodies responsible for revenue collection to convene monthly meetings and submit minutes of the meetings to the FD. While Finance carries out biannual review, a methodical risk management detailing the risks in revenue

collections; and prioritization of compliance risks, causes, and redress measures for improvement is not carried out.

210. The approach for establishing revenue targets is incremental and not disaggregated and therefore deters risk management. The KPRA is responsible for general sales tax on services, which adopts the self-assessment method. The Authority has been recently established (2013) and is in the process of developing systems and capacity for revenue-compliance risk management. The Board of Revenue and Excise and Taxation Department conducts a partly structured risk management internally. The collection on account of general sales tax on services for the year 2014-15 (actual collection data) accounted for 25.4 percent of the total provincial direct and indirect taxes while the Excise and Taxation Department responsible for other taxes and fees also contributes 36.3 percent to total provincial direct and indirect taxes.

19.3 Revenue audit and investigation

211. The GoKP tax regime includes self-assessment for general sales tax on services (KPRA) and revenue authorities-administered assessment (Excise and Taxation and Board of Revenue). Revenue audit and investigation in both types is critical, particularly in the self-assessment regime. Although revenue audits and investigations do take place, they are more random than systematic and methodical to assist in planning and improving audit coverage and addressing revenue arrears to enhance collections.

19.4 Revenue arrears monitoring

212. In the absence of a robust fiscal strategy, the revenue collection efforts are influenced by the lag of background work with regard to a systematic and research-based approach to target allocations, audit planning, and arrears monitoring. The annual targets for revenue authorities have largely been incremental and not segregated in terms of arrears recovery and fresh targets. This practice leads to deficiencies in revenue arrears management.

213. In the absence of historical arrears data, the assessment team reviewed the last three years budget estimates and actual collection to arrive at the revenue arrears accumulated in the last three fiscal years (2012-13, 2013-14, and 2014-15) which were 74 percent of the total revenue collected in 2014-15. The fiscal policy formulation and tax administration requires particular attention. The revenue targets have largely been incremental than predicated on an objective analysis of the potential of the revenue type. As a result, the arrears are not based on the demand created but a variation in the targets and actual collection. In the absence of a robust tax policy and administration regime, the revenue potential remains unexploited.

PI-20 Accounting for revenue

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	C	Information on revenue collections is available on the GFMIS accessible to Finance and authorities responsible for revenue collection. The data is consolidated but analytical report is not prepared by Finance or for submission to Finance.
20.2 Transfer of revenue collections	C	According to Treasury Rules, revenue collections should be paid into Treasury without delay. Audit report findings included delay in transfer of funds by 15 days in certain cases.
20.3 Revenue accounts reconciliation	C	Reconciliation of only revenue collection and transfers takes place monthly between the AG and the revenue authority and with the FD.

20.1 Information on revenue collections

214. The AG, KP, compiles monthly civil accounts covering all revenues realized during the period with disclosure by type of revenue as per the classification structure of Chart of Accounts. The GFMIS has enabled real-time data collection on revenue and expenditure, supported with Treasury Single Account reflecting data in the government systems. The FD (Resources Wing) collects data from the monthly civil accounts available on the GFMIS per revenue type and variation in the revenue-collection targets is shared with the revenue-collecting agency. Secretary-level, mid-year review on revenue collection status takes place.

20.2 Transfer of revenue collections

215. The GoKP 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 GoKP bank account at State Bank of Pakistan (i.e., Provincial Non Food Account-I),
- Revenues resulting from deduction at source from employees/vendors.

216. All nominated branches of the banks where the GoKP revenue is tendered on a daily basis prepare and disseminate daily bank scrolls to the treasury wings in DAOs. These wings incorporate the same on a daily basis in the GFMIS. Revenue realized at departmental chest is required to be deposited the next day when revenue gets realized. At source deductions by the AG/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. However, audit reports findings included 15-day delay in transfer of revenue collected from the Bank of Khyber to the Treasury. Other instances noted were delay in transfer of revenue receipts by the relevant National Bank branches to the Treasury through its headquarters.

20.3 Revenue accounts reconciliation

217. Reconciliation of all revenue types is a regular feature necessitated by APPM. Monthly reconciliation takes place between revenue-collecting offices and AG/DAO as well as between revenue-collecting offices and FD. Reconciliation of assessments and arrears does not take place. Recently, Finance in a bid to improve revenue reconciliation introduced revenue-collecting officers' codes. The measure was intended to ensure proper accounting and reporting of revenue/receipts realized. The monthly reconciliation is carried out within 2 weeks after the end of the month. All anomalies identified as a result of this reconciliation process mostly get addressed in the accounts of the next month.

218. However, it was noted that the relevant authorities did not include the revenue-collecting officers' code, and audit reports pointed at non-reconciliation of revenues by the authorities, particularly in the property tax (Excise and Taxation), stamp duty, and registration fee (Irrigation Department) and mutation fee and CVT (Board of Revenue).

PI-21 Predictability of in-year resource allocation

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	Cash & bank balances are consolidated daily.
21.2 Cash forecasting & monitoring	D	Cash forecasting and monitoring takes place on monthly basis but however does not reflect the commitments of the line departments or liabilities created.
21.3 Information on commitment ceilings	B	Information on cash releases is communicated in July (beginning of the FY) which for recurrent budget includes information on 100 percent of salaries and 50 percent of non salary budget. The information on cash releases issued in July each year also includes information on the cash availability for the development budget however it is on quarterly basis with subsequent releases dependent on the project's utilization performance.
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.

21.1 Consolidation of cash balances

219. The provincial and district governments' fiscal operations are managed through Provincial Account I (Non Food), Provincial Account II (Food), and the District Account IV. The accounts are linked in the GFMIS and maintained by the DAO at the district level and the provincial AG office. All accounts managed by the DAO/AG are consolidated on a daily basis. The exempt entities and body corporates by nature of its incorporation have separate mechanisms and the DAO/AG are not responsible for such entities.

220. The assignment accounts for the foreign aid projects are separately maintained and managed by each project office. Most project offices are not integrated with the GFMIS for system-based consolidation, however a variety of measures have been adopted over time to integrate project expenditure in the government's fiscal operations. A comprehensive framework has been notified by

the Ministry of Finance for such accounts and the procedures have been amended from time to time to ensure adequate fiduciary controls and prudent account operations. These accounts are operated as separate Revolving Fund Accounts, maintained at the National Bank of Pakistan. It is designated a special Sub-Fund Identification Number upon establishment of the account. The individual sub account together constitute a single but separate account (child account) under 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).

221. The Tehsil Municipal Administrations (TMA) mainly responsible for municipal functions (water supply, sanitation, and solid waste management) due to the nature of its functions have been historically body corporates managing their operations through two types of accounts—the Personal Ledger Account and the Government approved bank accounts for own source revenue collection. The former is maintained at the DAO and the latter is consolidated at aggregate level by the local fund audit, but not reflected in the provincial annual accounts. The recently created village and neighborhood councils (established after the assessment cutoff period) also maintain their own accounts and are not reflected in the provincial accounts. However the fiscal transfers from the HLGs for both levels are channeled through the District Account IV. The GoKP may benefit from instituting a formal reporting mechanism for TMA's own source revenues.

222. At the provincial level the only authority to create debt through approved instruments is the provincial government and the lower tiers (LGs) are barred by the LG Act 2013 to create debt. Therefore the overdraft and running finance limits for the provincial governments are centrally managed at the provincial FD.

223. The Ways and Means Section in the FD is responsible for consolidation of cash balances and reporting thereon for Provincial Accounts-I and II and District Account IV. Daily cash balance position is prepared based on the inflows and outflows reported by the State Bank and National Bank and taking into account the intergovernmental adjustments. The net flows are accounted for against the opening balance to arrive at the daily cash balance. However, in case of foreign-funded off-budget projects the fiscal position is not reported to the government for being off-budget assistance. Such accounts do not impact the cash position of the Government because the source and application of such resources is externally managed. The gap is not reflected in the rating because these accounts pertain to the foreign-funded but off-budget projects.

21.2 Cash forecasting and monitoring

224. The Resource Wing at the FD prepares cash position. Although all revenue sources are covered, the share of HLG transfer accounts for around 80 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. Owing to the lack of commitment accounting, the commitments by the line departments are not reflected in the cash forecasting. The analysis to explore alternate sources to meet cash requirements is also not carried out. The GoKP has planned technical support to institute a more robust mechanism for cash forecasting and monitoring.

21.3 Information on commitment ceilings

225. The FD issues a (cash) release policy at the beginning of fiscal year (in the month of July) that stipulates the pattern of cash releases for recurrent and development expenditure, allowing the budgetary units to plan expenditure in advance. Under current expenditure, 100 percent cash is released (authorization for expenditure) in accordance with the budget appropriated under salary budget and 50 percent for non-salary. For development budget, the release policy varies for projects. 100 percent was notified to be released for the ongoing projects nearing completion and for ongoing projects in snowbound areas. Other projects were notified to be released 50 percent in the month of July. The subsequent releases in the latter case were subject to budget execution rate and that is where variation exists however largely owing to the utilization performance of the budgetary unit. 100 percent releases were also subject to the nature of project (for example, textbooks) and seasonal factors (for example, agriculture). The release policy stipulated 25 percent releases for new projects carrying administrative approvals. The policy is issued in the month of July and, although policy prescriptions are available, the in-year releases from the federal government tend to fluctuate (see HLG 1.1).

226. Budgetary units are authorized to initiate procurement after the budget approval and based on the budget allocations it can commence contracting. The volume of federal fiscal transfers can impact the commitments, which is beyond the provincial government's controls. Also, in the event the austerity measures are adopted or development budget is slashed to address budget deficit, the line departments' commitments can be affected leading to creation of expenditure arrears. In FY2014-15, the availability of cash balances compensated for the fluctuation in the federal transfers. In the event of cash flow problems, the economy and austerity measures adopted by the FD are approved by the provincial cabinet. The cheques are issued by the DAO/AG for which the invoices/bills are pre-audited and the cheque issuance is subject to budget availability on FMIS and the necessary fiduciary controls.

21.4 Significance of in-year budget adjustments

227. In-year budget adjustments take place owing to several factors -- cash availability, unpredictability in the volume of releases from HLG and revenue collection, lower-budget execution, and unanticipated expenditure. A mechanism for in-year adjustments is notified in the rules for re-appropriation and supplementary grants. The rules are clear and precise and complied with; however, with no restriction on the number of adjustments, the number of re-appropriations and supplementary grants is considerable. Although the variation in percentage terms is low (Table 3.18), the number of adjustments in the development budget has averaged 600 for each year in 2013-14 and 2014-15.

Table 3.18: Budget Revisions in Key Heads of Accounts

Particulars	PKR, millions				Variation
	2013-14		2014-15		
	Budget Estimate	Revised Estimate	Budget Estimate	Revised Estimate	
Federal transfers	249,588	235,048	283,674	260,170	-8%
Provincial tax and non-tax revenue	16,921	20,645	28,781	30,405	6%
Current expenditure	211,000	222,000	250,000	255,000	2%
Development expenditure	118,000	104,848	139,805	134,737	-4%

Source: Budget strategy papers, GoKP.

PI-22 Expenditure arrears

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*	GoKP lacks a mechanism to record and monitor expenditure arrears.
22.2 Expenditure arrears monitoring	D	

228. Expenditure arrears constitute overdue debts, liabilities, or obligations like pensions, staff welfare and claims, and contractors' payment due but not paid particularly during cash shortages and budget cuts. Like other provinces, KP does not have a mechanism to centrally record data on expenditure arrears. There were instances noted in the assessment that had the potential of creating expenditure arrears; however, a mechanism to centrally document and monitor was not available. Lack of comprehensive rollout of the commitment accounting procedure/module is the key factor for lack of availability of data on expenditure arrears.

22.1 Stock of expenditure arrears

229. Data not available

22.2 Expenditure arrears monitoring

230. Data not available

PI-23 Payroll controls

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 by 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	Amendments to payroll data & personnel records are updated monthly and results in audit trail. Retroactive adjustments are rare and less than 3% of the wage bill.
23.3 Internal control of payroll	A	Authorization and basis of changes in personnel record and payroll are comprehensively defined in the controls framework- General Financial Rules and APPM.
23.4 Payroll audit	C	Partial payroll audit/physical survey has been conducted however not across GoKP.

23.1 Integration of payroll and personnel records

231. The fiscal space of the GoKP is largely absorbed in salary-related expenditure evident from increase in wage bill from PKR 21 billion in 2004-05 to PKR 170 billion in 2015-16 manifesting the need for robust payroll controls. The creation of staff positions has to comply with the prescribed procedure and its inclusion in the original budget through new item statement (NIS) for which the approval of the FD is required. A comprehensive personnel record including the approved list is created and maintained at the provincial Establishment Department and summary information is available at the respective Administrative Departments as well. In the event the staff positions are created mid-year these follow the same HR process but are accommodated in the supplementary budget which is submitted for legislative endorsement toward the end of the year. The GFMS 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. The responsibility for recording and management of personnel records continue to rest with the administrative departments for which departmental information systems are used, though fragmented from the mainstream GFMS and supported with complete documentation.

232. Payroll management is controlled via a specialized module in SAP software (i.e., SAP HR) connected with functional (more importantly accounting and reporting) modules. The rollout of organizational management (OM) module has further strengthened the integrity of the payroll management, providing a linkage between financial information and HR modules.

233. 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 synergized with position codes. Earlier, 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 the APPM; the payments are mostly routed through the bank accounts of employees as per predefined schedule and protocols. The AG office conducts system-based checks to identify variation in volume of salary payments and trails variations.

23.2 Management of payroll changes

234. Timely management of payroll changes is ensured by the clearly defined business process and supported with the GFMS. There is a predefined timeline for submission of these changes on a monthly basis as per the stipulated policies and procedures in the APPM:

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.

235. Hence, all changes received within the stipulated timeline and cleared for payment after a thorough review/certification get included in the payroll run for the following month's payments. There is a complete log available of all such changes.

236. Retroactive changes are rare, primarily owing to arrears in allowances or salary increments, which are made effective from a previous date after stipulated authorizations or the judicial orders. A team of officials from the AG office (Pay committee) continuously inspect the payroll data in the field with respect to the changes in salaries and the AG office conducts a system check with respect to month-to-month variations in salary payments. Peshawar district has the largest share of the civil servants salary processing data and the month of April 2017 showed the adjustments to the tune of 0.0001 percent of the actual payroll.

Table 3.19: Retroactive Adjustments Data

Month Selected	Actual Payroll Expenditure:	Retroactive Adjustments	% of Adjustments
April, 2017	PKR 599,755 million	PKR 0.7 million	0.0001%

Source: AG, KP.

23.3 Internal control of payroll

237. The payroll processing is undertaken in a well-defined system of command and control documented in the General Financial Rules and the Establishment and Budget Rules (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.

238. Changes in the payroll data is notified by DDOs under relevant rules and regulations. The prescribed HR form is submitted to AG/DAOs and is passed through series of checks for validation, incorporation, payment, recording, and reporting. Payroll management is undertaken in the GFMS (SAP ECC 6), therefore each and every movement in the HR module gets recorded and logs maintained enabling a complete 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.

23.4 Payroll audit

239. System-based checks are conducted by the AG's office. However a detailed audit/physical survey to validate personnel records has not been conducted. Elementary and secondary education conducts census, and the reports are published; however, the AG's office does not use the results/findings for validation of personnel record.

240. During 2013-14, an IT-based payroll audit covering the period 2010-13 was conducted for elementary and secondary education. The design and methodology of this audit ensured objectivity and independence during the course of its conduct. However, without its entrenchment in either external or internal audit structure, it could not yield effective follow-up on its findings and recommendations.

PI-24 Procurement

Indicator and Dimensions	Indicator/Dimension Scores	Brief Explanation
PI- 24 Procurement	B	Overall rating based on M2 methodology
24.1 Procurement monitoring	B	<i>Databases or records are maintained by all procurement entities for the 'selected large contracts'. For the remaining, most of the departments have the information available on what has been procured, value of procurement, and who was awarded the contract.</i>
24.2 Procurement methods	B	<i>Open competitive bidding is default procurement method as also evidenced from sample of large procuring entities assessed for 24.2. In absence of exceptions/exemptions data from open competitive bidding, the sub-indicator is being rated a notch below its assessed rating.</i>
24.3 Public access to procurement information	B	<i>Procurement information's dissemination through posting advertisement in print media is overwhelming. In accordance with the regulatory environment of the province, a structured but freely accessible option under Right to Information is available to all interested parties.</i>
24.4 Procurement complaints management	B	<i>Comprehensive procurement complaint management is devised in KP-PPRA. However more granular processes are not properly disseminated and evidence for timely disposal of complaints could not be obtained</i>

24.1 Procurement monitoring

241. In accordance with the measurement guidance, five provincial Line Departments (LD) were selected for having the largest gross annual expenditures commenced in FY2014-15; these five are (a) Education, (b) Communication & Works, (c) Higher Education, (d) Public Health Engineering, and (e) Health Departments. To further streamline assessment, 10 large procurements of various natures like purchase of goods, civil works, and hiring of consultant in each of the selected five LDs were identified and examined against the PEFA indicators as per the checklist attached in Annex 11 and Table 3.20 provides the list of procurements with record deficiency.

Description of Activity/Project	Value of Procurement	Contractor Details	Amount of Contract
NR03001088-Improvement & Standardization of DHQ Nowshera (Matching Grant).	340,993,000		340,993,000
PR13000396-"Integration of Health Services Delivery with special focus on MNCH, LHW and Nutrition Program	613,270,000		613,270,000
PR14000059-Treatment of Poor Cancer Patients (Phase-II).	200,000,000		200,000,000
NR03101088-Improvement & Standardization of DHQ Nowshera	500,000,000		500,000,000
PR13000272-"Integration of Health Services Delivery with special focus on MNCH, LHW and Nutrition Program	250,000,000		250,000,000
HR13000263-""Purchase of equipment for 1Category-A, 4 Category-C and 4 Category-D Hospitals of KP	83,212,000		83,212,000
NR14000536-Establishment of Nowshera Medical College	186,120,000		186,120,000

Source: Respective offices procurement record

242. All procurement entities maintained databases or records for these selected projects, and invariably all departments had the information available of what had been procured, value of procurement, and who was awarded the contract. In fact, these line departments are bound under General Finance Rules 17 to retain all auditable records for the consumption of audit, which is a statutory right of AGP. The data available was checked and verified and was found accurate and complete in all means for most of the procurements of goods, works and consultancy services.

243. It would be pertinent to note that the KP-PPRA is an autonomous body established under Act of Provincial Assembly of KP in September 2012. Since inception, KP-PPRA strives to establish procurement functions across the province, whereby policy, procedure, accountability, and controls for addressing all kind of procurements are in place. The KP-PPRA is also focused on revitalizing its website with recording and following up complaints on real-time basis. With World Bank assistance, KP-PPRA is also in the process finalizing a robust web-based monitoring framework through which it can access the record of procurement and even call for audit of specific procurement through "A" category Chartered Accountant of State Bank of Pakistan.

24.2 Procurement methods

244. The KP-PPRA Rules declare open bidding competition as the default method of procurement and offer various methods of procurement for goods, services and works, keeping in mind sensitivities and peculiarities attached with the procuring entity and with the nature of procurements. It is categorically mentioned in the Section 14B of KP-PPRA Act 2012 that, except as otherwise provided for in this Act and Rules, all procurement shall be conducted so as to maximize competition and to achieve value for money. Rules 6 and 14 KPPR-2014 also declares competitive bidding as a default method. The KP-PPRA Act 2012 also gives provision of exemptions from adherence to full or some clauses of KP-PPRA rules under its Section 15(i, ii, iii); however, the same is again restricted for acquisition of service only and with the reasons recorded in writing by the procuring entity in Section 14B of KP-PPRA Act 2012.

245. With the examination of various forms of procurements occurring in the sample 5 CGs, it is clear that almost all of 10 large procurements selected were done through open competitive bidding. Procuring entities have followed all the pre-requisites of competitive bidding like public advertisement, notifying procurement committees, evaluation of bids, award of contract, contract management, work

completion certificate; and have maintained all relevant transactional record with them for audit consumption.

246. Exemptions to competitive bidding process are only provided through competent authority. Such record is maintained in the relevant files on case-to-case basis in Chief Minister Secretariat. Similarly, the AG/DAO can be consulted to get an idea of procurements done in procuring entities by examining payment vouchers received; but that would require examination and verification of payroll sections as this information would not be readily available on the system.

247. The KP-PPRA when consulted indicated that 80 percent of procurements are through open bidding competition. They framed their opinion on the basis of publication of bidding opportunities in newspapers, which it tracks on daily basis, with almost 100 percent coverage. It is pertinent to mention that procuring entity availing exemptions from KP-PPRA could also publish such arrangements in newspapers for wider publicity after acquiring approval from competent authority as per section 15 (2) of KP-PPRA Act 2012. However in view of no absolute information on absence of exceptions, it is being rated a notch below its assessed rating.

24.3 Public access to procurement information

Sr. No	Benchmark	Status
1	Legal and regulatory framework for procurement	✓
2	Government procurement plans	✓
3	Bidding opportunities	✓
4	Contract awards (purpose, contractor and value)	✓
5	Data on resolution of procurement complaints	☒
6	Annual procurement statistics	✓

248. Legal and regulatory framework exists in the form of KP-PPRA Act 2012 and KP-PPRA Rules 2014 with the full-fledged Authority ensuring compliance to its various provisions and rules. Field assessment of 5 selected GoKP units has confirmed the availability of procurement plans in their respective sections. Some of the GoKP units have also posted their Annual Procurement Plans on their own and KP-PPRA's websites. Capacity building and training of procuring entities is planned in current financial year and next financial year for preparation and posting of Annual Procurement Plans.

249. According to KP-PPRA Rules 2014, all the procuring entities are legally bound to advertise their bids in print media, appearing in at least one national and one local newspaper. The procuring entities are also bound to post bids on their own and KP-PPRA's websites. Similar practice of compliance has been observed in the sample 5 departments, where bids have been publicly disseminated in local newspapers, the entities and KP-PPRA's website.

250. The departments selected are maintaining the procurement records pertaining to nature/purpose of procurement, value of procurement, and details of contractor. Information on the the procuring entities' websites, which is compulsory as per KP-PPRA rules, is being uploaded. All procuring entities have systematically maintained procurement records. As clarified by the PEFA Secretariat, the terms "public access", "made available to the public", "publicly reported", and "publicized" mean that a document is available without restriction, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified in relation to specific country

circumstances. The KP Right to Information Act 2013 fully assists any interested party to access the relevant information once contract is awarded

251. The KP-PPRA addresses queries forwarded by the procuring entity or bidder pertaining to on-going procurement and keeps a record of such addressed queries in its files. However, there was no consolidated data on resolution of complaints. The KP-PPRA published annual procurement statistics periodically in a newspaper.

24.4 Procurement complaints management

Sr. No	Benchmark	Status
Complaints are reviewed by a body which:		
1	Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	✓
2	Does not charge fees that prohibit access by concerned parties	✓
3	Follows processes for submission and resolution of complaints that are clearly defined and publicly available	✓
4	Exercises the authority to suspend the procurement process	✓
5	Issues decisions within the timeframe specified in the rules/regulations	☒
6	Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).	✓

252. The decisions pertaining to procurement are made by the Procurement Committee instituted for the purpose by the procuring entity, although the Committee can seek guidance from KP-PPRA in the form of advice through formal official correspondence. However KP-PPRA is not a party to any procurement transactions.

253. Referenced to the value of procurement, a nominal fee is charged for complaint management and does not appear prohibitive. The fee covers the operational costs such as printing, photocopying, and other requirements of bid documents.

254. Rule 35 of KP-PPRA Act 2012 gives detailed procedure of Grievances Redressal Mechanism with the following highlights:

- (a) Two-tier grievances mechanism is established where (i) complaint is filed with procuring entity and (ii) filing of appeal against the decision of the procuring entity within 15 days in accordance with the prescribed procedure; and
- (b) The decision of KP-PPRA on Appeal shall be final.

255. So far, procedure prescribed for complaint resolution is not commonly known to all the procuring entities; however, complaints lodged by bidders to KP-PPRA are responded to accordingly. Since procedures for Grievance Redressal Review are not notified, the views of KP-PPRA are considered as “advice”, which is not binding unless actions of procuring entity are in total violation of KP-PPRA Rules 2014. The KP-PPRA is of view that advice is fully complied with by procuring entities.

256. The KP-PRA decisions on appeals are final; however, it does preclude their rights to access other higher legal authorities although aggrieved party does challenge some KP-PPRA decisions in High Court. The evidence for adherence to timelines for complaint resolutions could not be obtained.

PI-25 Internal controls on non-salary expenditure

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	<i>Segregation of duties have been comprehensively stipulated in General Financial Rules and APPM for authorization, recording, custody of assets, and reconciliation or audit.</i>
25.2 Effectiveness of expenditure commitment controls	C	<i>Commitment controls are exercised through the available controls framework notified in the rules and manuals. The GFMS has the capacity for commitment accounting; however, its implementation hasn't been comprehensive.</i>
25.3 Compliance with payment controls	A	<i>An elaborate payment controls system is available in the government rules and manuals. All expenditure is in compliance with the payment controls, and exceptions are duly authorized.</i>

257. The provincial government operates its non-salary expenditure through a comprehensive set of rules and regulations. The NAM introduced an internal control system for non-salary expenditure. The policies and procedures entailed in the NAM-introduced seven modules apply to centralized accounting entities and self-accounting entities. The Chart of Accounts supported by automated online/real-time interface provides a strengthened edifice to ensure the proper application of these rules and regulations. Non-salary expenditure by GoKP is well regulated through the annual budget cycle, with budget checks activated within the online/real-time automated system (GFMS-SAP ECC 6).

25.1 Segregation of Duties

258. There are eight key steps required to be followed in all expenditure transactions, as a general policy under the APPM, ranging from (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.

259. The 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.

260. 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 an extensive pre-audit at the AG/DAOs. In both streams, payments are processed under a well-defined and segregated scheme of assignments. Additionally, the delegation of financial power rules delineates the categories of officers and expenditure-sanctioning competencies. The aforementioned policies and

procedures and other rules have detailed provisions on segregation of duties for the core business processes related to authorization, recording, custody of assets, reconciliation, and/or audit. At the AG/DAOs, the segregation of duties prior to issuance of checks includes data entry level (Level 0) and 3 levels of pre-audit.

25.2 Effectiveness of expenditure commitment controls

261. 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. With the adoption of the NAM, commitment accounting was introduced. As a result, the cash-basis accounting has been modified to recognize some items of expenditure on a commitment basis. The 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 but not effective.

262. After issuance of the schedule of authorized expenditure (based on approved budget), the FD communicates the (funds) release policy providing the overarching framework for line departments to enter contractual obligations for goods, works, and services. The framework tends to be compromised particularly during budget revisions. There were instances where in a bid to introduce austerity in government expenditure, budget for POL was revised downwards and the budget utilization by the concerned line department exceeded the amount allocated. Similarly in the event of cuts in development budget or variation in releases eventuated due to out-turns in fiscal transfer have impacted commitments at the line departments.

25.3 Compliance with payment controls

263. Overarching expenditure controls are stipulated in the Constitutional provision: “no expenditure can be incurred from the provincial consolidated fund without approved budgetary allocation”. Thus availability of sufficient funds (budget) for any expenditure serves as the first key control. Application of this control is ensured through activation of budget check on non salary expenditure in the GFMIS. Principally, no expenditure is allowed for payment by the system without budgetary coverage. 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.

264. In addition to the budget availability review, other key controls for non-salaried expenditure constitute sanction to expenditure by competent authorities such as ‘delegation of financial powers rules’, adherence to the provisions of other relevant rules and regulations, administrative and technical approvals for expenditure related to works, fulfillment of responsibilities related to accounts maintenance, regular reconciliation of expenditure and compliance with the different levels of controls on GFMIS. All the aforementioned controls are adhered to. Exceptions if any, are properly authorized and approved by the competent authorities. Exceptions are effected based on clearly spelled out regulations. According to APPM, all checks beyond a threshold are issued in the name of vendor. Exceptions (i.e., checks 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.

265. This indicator was rated based on the findings of the external audit reports. In the year 2013-14, out of the total audited expenditure (PKR 162,517 Million), auditors recommended recovery of PKR 394 Million indicating 0.24 percent expenditure did not comply with the payment procedures. Similarly in the year 2014-15, out of the total audited expenditure (PKR 205,000 Million), PKR 591 Million worth of recoveries were recommended, indicating 0.29 percent did not comply with the notified procedures.

PI-26 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 cells are established in 11 line departments under a charter approved by the provincial cabinet; however, internal audit function was being established at one revenue authority during the assessment period.
26.2 Nature of audits and standards applied	C	Internal audit activities as defined in the Internal Audit charter and plan would be focussed on financial compliance as well as evaluation of the internal control systems. However, the function being at embryonic stage is not as comprehensive in practice and focuses on financial compliance.
26.3 Implementation of internal audits and reporting	D	Annual audit programs were developed with support of USAID-funded Assessment and Strengthening Program; however, lack of staff ability impacted the implementation of the internal audit programs.
26.4 Response to internal audits	D	Management response is a weak area identified in support provided by the Assessment and Strengthening Program.

26.1 Coverage of internal audit

266. The Provincial Cabinet of Ministers approved the establishment of the internal audit function for the GoKP in 2012. Subsequently, in the light of international standards for internal auditing and best practices, toolkits and internal audit plans were developed with support from the USAID-funded Assessment and Strengthening Program. Initially, the staff from local fund audit was seconded to internal audit; however, later 6, 18, and 6 positions were sanctioned in the FY2013-14, 2014-15, and 2015-16, respectively.

267. Local Government Act (2013) mandates Nazim (Mayor), District Council, and Tehsil Council to appoint an internal auditor as principal support person for provision of information to the Nazim and members of the respective local council on fiscal performance of the local government. The Assessment and Strengthening Program is supporting piloting internal audit in Peshawar district government. The revenue authorities did not have an internal audit function. In FY2015-16, it is being established at one of the revenue authorities, the Excise and Taxation Department. The internal audit

cell was piloted in three departments in 2013 and has since been rolled out to 11 departments responsible for majority public investments.³⁰

26.2 Nature of audits and standards applied

268. The nature of internal audit defined in the Charter, toolkits, plans, and manuals developed are holistic ranging from financial compliance to assessment and strengthening of internal control systems. However, full potential has yet to be exploited owing to the lack of staff availability and entrenchment of the internal audit function at the line departments. The review of the internal audit for the first completed fiscal year shows the focus primarily is on financial compliance. Technical support is being provided to the internal auditors to build capacity to comply with the international standards.

26.3 Implementation of internal audits and reporting

269. The internal audit plan and toolkits developed with support from the USAID-funded Assessment and Strengthening Program stipulate a robust annual audit program; the three departments where the internal audit function was piloted and staff seconded could execute the annual plan. However, the remaining departments lacking availability of staff could not implement the plan. The internal audit function is nascent and needs continued support to gain traction in the line departments.

26.4 Response to internal audits

270. Management response to internal audit is the key gap, reportedly attributed to the lack of ownership of the function at the highest level, which is currently being targeted. A formal launch with Chief Minister's involvement is being planned to bring the need for strengthening internal controls at the highest forum for necessary recognition.

G. Accounting and reporting

271. Pillar VI reflects on the quality of accounting and reporting in terms of accuracy and completeness of reports and financial data integrity.

272. Article 170 of the Constitution of the Islamic Republic of Pakistan (1973) empowers the AGP to prescribe the principles, forms, and methods for maintenance of accounts with the approval of the President of Pakistan. In December 2000, the AGP with the approval of the President of Pakistan prescribed the NAM. It also replaces the previous Chart of Classification notified in 1981 with the new Chart of Accounts 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. 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;

³⁰ Agriculture, Elementary and Secondary Education, Higher Education, Energy and power, Irrigation, Public Health, Industries, Food, Communication and Works and Health.

- General Financial Rules;
- Supplementary and Treasury Rules;
- Delegation of financial power rules;
- Procedure for Assignment Account and revolving fund accounts;
- Public procurement rules.

273. In the provincial context, the GoKP 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 to the GoKP. The Provincial AG Office is supported by the DAOs.

PI-27 Financial data integrity

Indicator and Dimensions	Indicator/ Dimension Scores	Brief Explanation
PI-27 Financial data integrity	B	Overall rating based on M2 methodology
27.1 Bank account reconciliation	D	Monthly bank account reconciliation takes place between the DAO and the Bank and is reported to the AG Office each month. However the quarterly reconciliation with the SBP is conducted physically before the end of following quarter.
27.2 Suspense accounts	A	Suspense accounts are cleared on monthly basis and also at the end of the year.
27.3 Advance accounts	B	Most advances (79%) are cleared in a month. The TA advances are cleared within a quarter after the close of the month (Based on TA bill submission)
27.4 Financial data integrity process	A	Access and changes to records is restricted and the documentation leaves an audit trail. Multiple levels of checks are in place at the AG office and counter checked by the DG Provincial Audit office.

274. In the given framework of cash-basis accounting system, the financial data integrity has improved considerably since the last PEFA assessment in 2007. A number of reform measures in terms of the rollout of GFMIS modules have infused controls and improved transparency. However, issues remain in terms of administrative separation of the accounting and auditing function; segregation of duties at DAO can be undermined in cases of shortage of staff and reporting of third party payments.

27.1 Bank account reconciliation

275. A key accounting control mechanism is the reconciliation of the books of accounts. Recommended for periodic inter- and intra-agency reconciliations to validate the transactions with alternative record. As stipulated in the Treasury rules and APPM, the National Bank of Pakistan (NBP) issues a daily return including the scroll and supporting evidence to the DAOs. For the DAO, the APPM stipulates daily checking of the bank scroll/return and monthly reconciliation of accounts.

276. In practice, the National Bank of Pakistan submits daily returns to the DAO and AG that includes the bank scroll which is checked by the delegate officer at the DAO. The aggregate balances are reconciled and misclassifications are addressed in the monthly reconciliation. On a monthly basis,

NBP prepares a monthly designated branch statement and submits it to the DAO and AG office on the 2nd working day after the close of the month. The DAO 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 report the differences within 2 working days. The entire process involves balance reconciliation.

277. The bank reconciliation statement reviewed were submitted within four weeks (in certain cases from 26-28) after the close of the month and in two cases it was submitted on the 5th of the next month (6 weeks). However, it was also noted that the reconciliation with the SBP is on a quarterly basis where the team from the AG (KP) visits the SBP in Karachi. Such reconciliation visits are for clarification in terms of misclassifications between the federal and provincial accounts and take place before the end of the following quarter (Jul-Sep 2014, reconciled on December 12, 2014).

278. It was also noted that the reconciliation statement included a disclosure with effect to historically unreconciled figure before the DAO office automation, however the existing aggregate balances were reconciled between the bank data and AG books of accounts.

27.2 Suspense accounts

279. The 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).

280. 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). The nature of transactions is such that settlement of account is contingent to recoveries, the rest of the suspense account entries are settled monthly within a month from the end of each month.

27.3 Advance accounts

281. Advances can be classified as interest bearing and or interest free advances to the government officials’, suppliers advance, revenue advances (under the Land Improvement Act), and departmental advances (under special orders). The preparation, authorization, treatment, consolidation, and reconciliation of advances is prescribed in the General Financial Rules, Treasury Rules, APPM, public procurement rules, and delegation of financial powers rules.

282. The reconciliation of most of the advances takes place in a timely manner between the DDO office in the line department and DAO/AG office, as the case may be. The instruments used for reconciliation of staff advances are the salary statement (AG office) and the Budget Control Register (DDO office). The AG/DAO submits to the DDO the payroll data, including details of deduction against advances and variation if any has to be responded by the 10th of each month.

283. The delay in reconciliation takes place in the interest free advance for traveling (TA) and instances were reported where the advance was not settled within the stipulated time (within 30 days

after return). Table 3.21 provides the summary of the unreconciled TA advance in comparison with other advances indicating most advances (79 percent) are cleared in a month. The TA advances are cleared within a quarter after the close of the month.

Table 3.21: Volume of Unreconciled Travel-related Advance (Over 30 days)

Particulars	FY2014-15
	<i>(Amount in PKR)</i>
House Building Advance	42,546,612
Motor Car Advance	1,610,247
Motor Cycle Advance	14,282,494
Cycle Advance	122,909
OB Advance - Traveling Advance	42,550,768
Total	101,113,030
Un reconciled - Traveling Advance (outstanding over 30 days)	17,687,884
Total reconciled	83,425,146

Source: AG Office, KP Government Civil accounts 2014-15.

27.4 Financial data integrity processes

284. The recent reform measures at the office of the CGA have improved the financial data integrity particularly with the rollout of the organizational management module and the integration of HR and FI modules in the GFMIS. Although not practiced, it allows for budget check on the payroll and establishing the prerequisites for payments on the GFMIS. However, for non-salary expenditure, budget checks are applied and any claim not having budget allocated on the GFMIS is returned.

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

286. A team within the AG Office verifies the data integrity and conducts surprise inspections. Also the SAP competency cell and book section within the AG office conducts quality assurance of the financial transactions. The rating is based on the framework, rules, and procedures notified, which in theory are quite robust. However in practice deficiencies were observed in terms of segregation of duties compromised in the event of shortage of staff (in few DAOs), the posting of the integrity/inspection team members to the field (DAO) creates a conflict of interest.

PI-28 In-year budget reports

287. In-year budget reports are effective tools for management oversight and assist in pre-empting challenges and taking remedial measures for improving budget execution. Owing to disintegrated budgeting in KP akin to the rest of Pakistan, this function is divided among two control departments, the FD and P&D Department, with the former responsible for current (recurrent) budget and the latter responsible for development (investment) budget.

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	<i>Classification of current budget and expenditure is comprehensive; however, classification of development budget allows direct comparison to the original budget for main administrative heading only.</i>
28.2 Timing of in year budget reports	B	<i>AG office produces monthly budget execution reports and submits it to the administrative departments by the third week after the end of the month.</i>
28.3 Accuracy of In year budget reports	C	<i>Per government rules, the expenditure is captured at payment stage. Information on expenditure does not cover commitment stage. Data accuracy is undermined due to third party payments. With some organization, the data can be generated for the analysis of budget execution.</i>

28.1 Coverage and comparability of reports

288. The NAM introduced in 2000 provides for an elaborate Chart of Accounts that facilitates uniform basis for classification of receipts, expenditure, assets, liabilities, and equity (residual value). The budget and expenditure can be classified according to the Entity, Function, Object, Fund, and Project. With Treasury Single Account and GFMS support, data on the aforementioned elements can be generated. The AG Office can generate and compile monthly accounts from the system and reports like the International Public Sector Accounting Standards (IPSAS) based financial statement, appropriation accounts, finance accounts, and budget execution reports. The GFMS terminal at line departments has facilitated production of financial- and employee-related information.

289. The current budget is comprehensively classified; however, gaps exist in the classification of the development budget as it is presented as one line in the budget. Secondly, the foreign-funded projects are not classified according to the Chart of Accounts and therefore are reported as one line in the monthly civil accounts. The district government's transfers in the interest of maintaining the autonomy are transferred as one line and reported as one line in the annual financial statement. Although the transfers include salary amounts, transfers are effected from a code different from the salary code in the Chart of Accounts.

28.2 Timing of in-year budget reports

290. The GFMS has the facility for generating monthly civil accounts and budget execution reports. In addition, the FD has introduced on its web portal the facility to generate budget execution reports for both development and recurrent budget. This web based system for the development budget has the ability to generate project, sub sector and sector wise data for budget, releases, and expenditure. In case of recurrent budget the system can generate budget releases and expenditure data at DDO level with object head wise details.

291. Line departments have been provided with a GFMS terminal and web-based access for the above is available; however, owing to weak capacity at the LDs, majority of the departments seek assistance from the FMIU of the FD and P&D Department for generating budget execution reports

from the system available on the FD web portal. The C&W department submits monthly progress reports for review by the P&D Department but it covers only the development budget.

292. The provincial AG office produces the budget execution reports (BER) and submits them to the principal accounting officers in the GoKP (Administrative departments) within three weeks after the close of the month. The monthly BERs are prepared by the 10th of each month after the close of the month but they reach the line/administrative departments by the third week after the close of the month (BER for the month of May 2015 was received at the LDs on 18 June 2015). The BERs cover both the recurrent and development budget and expenditure. Although the FD has provided a more advanced web-based facility for data generation on budget execution at any time from any location, the criteria in the PEFA Framework stipulates a rating based on production and dissemination of reports.

28.3 Accuracy of in-year budget reports

293. The accuracy of in-year budget reports is undermined on two counts, the deficiencies in commitment accounting and financial reporting of foreign-funded projects. For projects that have counterpart funding, object-wise data is available; however, for the foreign component, the project expenditure heads are not mapped out per the Chart of Accounts, undermining the expenditure reporting per Chart of Accounts. Additionally, third party payments are not captured in entirety owing to delays and at times non-submission of expenditure reporting on formats issued by the CGA or Provincial AG Office. The segregation of the umbrella schemes (included in the provincial ADP) at the budget formulation stage for primary services (education and health) does not take place. As a result, budget execution reports at service delivery unit level for primary health and education cannot be generated. Additionally, the Education Department introduced grants for Parent Teacher Councils. The amount released under these grants is treated as expenditure; however, balances remain in the accounts for Parent-Teacher Councils impacting the true budget utilization status.

PI-29 Annual financial reports

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 include expenditure, revenue, cash balances, and cash flow statement only. Financial reports are comparable with the budget.
29.2 Submission of reports for external audit	B	Submission of error free financial reports takes place 5 months after the end of fiscal year.
29.3 Accounting Standards	B	The majority of the standards (mandatory requirements) have been incorporated into cash basis financial reporting notified in the Financial Reporting Manual and variations are disclosed in the annual financial reports

294. The responsibility for preparation of annual financial statements vests in the CGA vide the Controller General of Accounts Ordinance (2001) with provincial responsibility extended to the Provincial AG. Annual financial statements are prepared using the IPSAS cash-basis format for financial reporting.

29.1 Completeness of annual financial reports

295. The financial reports for budgetary provincial government, called the annual financial statements, are prepared annually and submitted to the DG Provincial Audit for certification and opinion. With the adoption of the NAM, modified cash-basis system of accounting is followed. However, the accounting practice is based on cash basis therefore the assets and liability accounting are not yet implemented. Annual financial statements are prepared on cash-basis accounting (annual financial statement 2013-14).

29.2 Submission of reports for external audit

296. The DG Provincial Audit issues a calendar of activities for certification of accounts that established a timeline for submission of annual financial statement. The calendar stipulates submission of draft annual financial statement by August 30 each year. The AG Office complied with the target dates, however scrutiny of the process shows iterative submissions and the error free annual financial statements are submitted (Table 3.22) by November each year.

Table 3.22: Trend of Annual Financial Statements Submission for Audit

Fiscal Year	Date of Receipt of 'Final' Financial Statement from AG	Date of Opinion on Financial Statements
2014-15	November 26, 2015	April 15, 2016
2013-14	November 18, 2014	March 24, 2015
2012-13	November 12, 2013	March 3, 2014

Source: DG Provincial Audit, KP

29.3 Accounting standards

297. The financial statements are prepared by the AG (KP) under the 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 is adopted for the preparation of the statement of receipts and payment and the variance analysis. The GoKP in its annual financial statement 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

298. The financial statements include the ‘notes to the 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.

299. 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’.

Box 3.1: Excerpts from the Annual Financial Statements

The current financial year’s statements have been prepared under the NAM and the format of the IPSAS Cash basis—Financial Reporting under the cash basis of accounting has been adopted for the preparation of these financial statements’.

H. Legislative scrutiny and audit

300. The Constitution of Pakistan decrees the legislative oversight and auditing body and in the provincial perspective Article 171 stipulates, “...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...”.

PI-30 External audit

Indicator and Dimensions	Indicator/ Dimension Scores	Brief Explanation
PI-30 External audit	D+	Overall rating based on M1 methodology
30.1 Audit coverage and standards	C	AGP has adopted International Standards for Supreme Audit Institutions (ISSAI) standards; however, gaps remain in its implementation. In the last three years, audit coverage has remained below 65%. Significant systemic issues have been repeatedly highlighted
30.2 Submission of audit reports to the legislature	D	Audit reports have been submitted to the legislature with considerable delays.
30.3 External audit follow up	C	Formal response is provided by the Executive on PAC directives; however, compliance per PAC report ‘is poor’.
30.4 SAI independence	B	SAI (AGP) is a constitutional position with full independence in tenure and operational matters, however does not publicize the audit reports.

30.1 Audit coverage and standards

301. The AGP adopted the Financial Audit Manual in 2006 (amended in 2010) that incorporates ISSAI standards. The Financial Audit Manual details guidance for the audit team on methods and approaches for public sector auditing. The Financial Audit Manual encompasses a risk-based approach and provides for system-based analysis, including review of internal control structures. From implementation perspective, gaps exist in the implementation of the Financial Audit Manual due to lack of capacity and systems for system-based audit techniques, audit samplings, and audit report quality. The types of observations are repeatedly highlighted reflecting the significance accorded to the audit observations. Table 3.23 provides audit coverage in the last three completed fiscal years.

Table 3.23: Audit Coverage

Audit Year	PKR, billions			
	Total Expenditure in DG Provincial Audit Jurisdiction	Total Expenditure Audited	Total Formations in Audit Jurisdiction	Total Formations Audited
2014-15	315.1	205.0	4,699	425
2013-14	320.7	162.5	1,275	260
2012-13	249.2	157.6	1,251	155

30.2 Submission of audit reports to the legislature

302. The constitutional provisions dictate 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 offices prior to submission of audit report to the legislature. According to the data obtained from the DG Provincial Audit and the PAC, Table 3.24 gives the time lapse between submission and receipt of reports by the respective offices.

Table 3.24: Trend of Audit Reports Submission to the Legislature

Year	Audit Report Submitted to the Governor	Audit Report Received at the Provincial Assembly
2014-15	April 15, 2016	Not yet received*
2013-14	March 24, 2015	Not yet received
2012-13	March 3, 2014	November 1, 2014

Source: DG Provincial Audit and PAC.

Note: *As of June 2016.

30.3 External audit follow-up

303. The Office of the Director General Provincial Audit assigns an audit team, headed by an Audit Officer for audit of provincial government entities. The discrepancies or noncompliance identified in the field are reported to the concerned DDO for redressal/compliance. 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 DAC directive.

304. The Departmental Accounts Committee (DAC) is the forum that provides for the monitoring of compliance of the audit observations at the LDs and the membership includes representatives of the Line Department (LD) and the DG Provincial Audit. At the DAC the responses are reviewed and meetings record is prepared documenting the actions taken by the LD and the resultant agreement or otherwise of the DG office. The relevant staff at the LD prepares a response to the audit observations. The meeting record (minutes) serves as evidence in preparation of ‘annotated reply’ that includes the DAC’s directive.

305. For the audit year 2012-13, 2013-14 and 2014-15 formal responses (annotated replies to audit paras) were prepared by the Executive. However, the response was not received at the DG office in the time stipulated in the AIR largely owing to the irregularity of the Departmental Accounts Committee (DAC) meetings at the LDs that has been continuously identified in the Audit and PAC reports as the key impediment to the timely response to the audit.

30.4 Supreme audit institution (SAI) independence

306. The AGP is a Constitutional position appointed by the President (Article 168 of the Constitution) and enjoys complete independence during its tenure and autonomy in operational matters. The removal of the AGP, according to the Constitution would follow, the same procedure as that of a Judge of the Supreme Court. Article 161 and 162 in describing the functions and powers of the AGP authorizes the AGP to audit federal and provincial government accounts or accounts of any entity established or under control of the federal or provincial governments. AGP budget is a ‘charged’ expenditure stipulated in the Constitution (Article 81), implying it is passed by the legislature as presented.

307. The DG Provincial Audit represents the KP Auditor General and exercises complete autonomy from the Executive in its appointment, 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 GoKP budget. The DG provincial audit prepares its own audit plan independently from the executive, though its is approved by its parent office (AGP). It has unrestricted, timely access to all provincial government records as stipulated in the Auditor General Pakistan Ordinance (2000).

308. The gap remains with access to the auditor’s reports. The audit reports, even those that have been reviewed by the PAC are not uploaded on the AGP website.

PI-31 Legislative scrutiny of audit reports

Indicator and Dimensions	Indicator/Dimensi on Scores	Brief Explanation
31. Legislative scrutiny of audit reports	C+	Overall rating based on M2 methodology
31.1. <i>Timing of audit report scrutiny</i>	D	<i>Scrutiny of audit reports takes 12 months or more.</i>
31.2. <i>Hearings on Audit findings</i>	A	<i>In-depth hearings on audit reports take place with participation of the audit staff and relevant line department staff that receive a qualified or adverse opinion</i>
31.3 <i>Recommendations on audit by the legislature</i>	B	<i>PAC issues directives for compliance and follows up; however, a proper follow-up system supported with a monitoring and reporting framework is not available.</i>
31.4. <i>Transparency of legislative scrutiny of audit reports</i>	D	<i>Legislative scrutiny is not open to public, but summary press releases are issued to the state media network. The time lag in the publication of reports has been considered for rating this criteria.</i>

309. Legislative oversight is stipulated in the Constitution of the Islamic Republic of Pakistan (1973) and Section C, Chapter XX of the Rules of Procedure, 1988, of the Provincial Assembly of the KP makes provision for a PAC.

310. Rule 160 of the Rules of Procedure stipulates “examination on behalf of the provincial assembly (legislature), the accounts showing the appropriation of sums granted by the Assembly for the expenditure of the Government, the annual finance accounts of the Government, the report of the Auditor-General of Pakistan and such other matters as the Minister for Finance may refer to it”.

31.1 Timing of audit report scrutiny

311. The scrutiny of audit reports in the PAC is conducted through hearings attended by the relevant parties and upon completion of scrutiny of the audit report the PAC report is compiled and laid to the House (Assembly). Rule 161 stipulates submission of report to the House by the PAC within one year from the date the audit report is referred to the PAC.

312. In the past three years, the scrutiny process and submission of the PAC report to the House is completed with a time lag of over 12 months or over. The recently completed legislative scrutiny of accounts pertains to audit year 2011-12 and FY2010-11 (Table 3.25). However, the report also included audit observations pertaining to prior fiscal years.

Table 3.25: Duration of Legislative Scrutiny

Audit Year	Date of Audit Report Submission	PAC Report Submitted to the House
2008-09	August 29, 2010	November 24, 2011
2009-10	September 9, 2011	January 14, 2013
2010-11	May 7, 2012	October 24, 2014
2011-12	January 22, 2014	May 20, 2016
2012-13	November 1, 2014	March 25, 2016
2013-14	Not yet received	
2014-15	Not yet received	

31.2 Hearings on audit findings

313. The Speaker of the House (Provincial Assembly) is the PAC Chair, per the Rules of Procedure of the Provincial Assembly. The PAC meetings 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.

314. 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 minutes of the PAC hearings offered evidence of the participation of the Executive and the Auditor. The press communiques and the PAC reports offer evidence to the detailed hearings taking place at the PAC meetings.

31.3 Recommendations on audit by the legislature

315. The PAC issues directives (recommendations) on audit findings (paras). The directives can be categorized under three main groups. If the PAC is satisfied with the information furnished, the finding is dropped or further investigation is suggested or recommends to the Executive an action according to the Service and Disciplinary Rules or under other anti-corruption framework. Owing to the lack of a comprehensive and robust MIS, the PAC lacks a robust system and capacity for systematically following up on its directives. During the interviews it was observed that the PAC work is carried out manually. The PAC hearing and directives (recommendations) are documented for the annual report that constitutes the audit finding, response from the executive and the PAC recommendation. However, the PAC does not have a system or support to systematically monitor the compliance or aging of compliance of its directives by the Executive. It was also observed during the interviews that at times individuals' memory is relied upon for follow-up on audit findings.

31.4 Transparency of legislative scrutiny of audit reports

316. Public access to the PAC hearings is restricted. Private media is not allowed access unless specifically approved by the PAC. The Media Wing of the PAC issues a summary press release to the national television and radio broadcasting. The PAC reports are hoisted on the Provincial Assembly website only after the reports are laid before the House, finalized, and approved for public dissemination. There are considerable delays evident from dimension 31.1. During the assessment time (data collection from March-May 2016), the only PAC report available on the website pertained to the audit year 2010-11.

317. The review in compliance with the PEFA field guide considers the time period stipulated in the criteria—indicating the review of the last three completed fiscal years, which in this case would be the audit reports of 2011-12, 2012-13, and 2013-14. During the review period these reports were not made public on the provincial assembly website or by any other means therefore the Dimension is rated D.

IV. Conclusions on the Analysis of PFM Systems

318. This assessment was conducted using the PEFA Framework 2016 and the supplementary guidance for subnational assessment (2016). The GoKP has taken commendable measures to strengthen PFM. It has provided an enabling environment for transparency in public finances with robust budget classification; documentation and performance information however lags on public access to information particularly on budget execution. The GoKP has also directed its efforts toward linking policy, planning, and budgeting. The key messages from the assessment are documented in this section.

319. The cutoff date for the assessment was June 30, 2015 (end of FY2014-15), the year for which annual financial statements were compiled by the provincial AG and certified by the AGP.

A. Integrated assessment of PFM performance

Budget reliability

320. According to the revised PEFA Framework 2016, this assessment examines the expenditure financed by both domestic and foreign (grant) sources and similarly revenues both domestic and foreign grants. In order to reflect on the quality of planning, the assessment took into account the original budget estimates vis-à-vis the actual expenditure and revenue collection. The out-turns reflect weaknesses in the budget reliability; and in the three years assessed, the expenditure out-turns have been high. A number of factors contributed to expenditure out-turns — cash management affected by erratic releases, weak project planning, and costing. The deficiencies in the screening mechanism leads to inclusion of unapproved schemes (project proposals) in the budget, which has a domino effect with delay in the administrative approvals, leading to late commencement of procurement and delay in project execution. The security situation in the province of KP and neighboring tribal areas add up to the technical gaps eventuating in revenue and expenditure out-turns.

321. The GoKP has undertaken a number of measures to improve public expenditure management and the upstream revenue functions were accorded a medium-term perspective for revenue estimation; however, the GoKP needs to strengthen its revenue administration with revenue risk management, transparency in arrears monitoring, audit, and investigation.

Transparency in public finances

322. The GoKP has taken substantial measures to promote transparency in public finances. The rating has largely been affected owing to lack of public access to fiscal information, particularly the budget execution reports and audited financial reports. The budget classification complies with COFOG and IMF's GFS (1986) and is embodied in the NAM adopted by the Government of Pakistan in 2000. The current budget is comprehensively mapped out per the Chart of Accounts; however, issues remain with the development budget. It is reported as one line in the budget proposal and execution stages. The monthly civil accounts reflect aggregate expenditure only.

323. In order to provide an enabling environment for the public's access to information, the KP Assembly enacted the Right to Information Act in 2013. The GoKP conducted budget transparency review using the open budget survey methodology, which contributed toward improvement in the fiscal disclosures.

324. The GoKP adopted output-based budgeting with a medium-term outlook; however, its implementation in terms of evaluation of forward estimates with actual expenditure and its potential for monitoring and resource allocation has not been fully utilized by the central departments (P&D Department and FD) and the legislature. Additionally, instituting third party evaluation to capture the impact at the service delivery unit level of performance achieved vis-à-vis resources allocated would significantly enhance the performance and ensure allocative efficiency. The expenditure outside financial reports is not significant; however, introduction of a mechanism to ensure provision of financial reports would help the FD in better allocation of resources and determining the returns on investments.

Management of assets and liabilities

325. Asset and liability management aids the governments in identifying and mitigating risks. This is the weakest pillar with all indicators scoring between C and D+ largely owing to lack of a robust policy and procedural framework. Monitoring and reporting of fiscal risks emanating from public sector enterprises, particularly for contingent liability, is weak. SNGs do not pose a high risk as the law prohibits the local governments from debt creation and are not allowed to have deficit budget. However, the local governments are assigned revenue functions, and not utilizing the revenue potential would make them entirely dependent on transfers from the provincial governments. The FD has envisioned creation of a corporate governance unit to institute a robust monitoring mechanism in order to determine the financial and economic returns on investments in public sector enterprises and establish a framework for monitoring contingent liabilities.

326. In the 18th Amendment to the Constitution, the provinces are now allowed to create debt but have to agree on an overarching framework with the National Economic Council. With a broader debt management function, the GoKP would benefit from instituting a debt management framework to conduct debt sustainability analysis, and develop options prior to approaching the National Economic Council for informed policy making.

327. The key gap in PIM is the lack of robust screening mechanism to ensure unapproved schemes (project proposals) are not included in the budget/ADP. Compliance with a robust screening mechanism will address the throw forward by ensuring timely execution of projects, provision of requisite resources rather than token allocations, and a required balance between the ongoing and new schemes. Additionally, to make the public sector portfolio manageable, the P&D Department has to ensure that the project proposals (schemes) of those functions that are assigned to local governments are not included in the ADP, unless the project has externalities over other districts. The GoKP will benefit from third party evaluation studies to facilitate cascading the findings of the impact evaluation studies into policy making.

328. Public asset management, particularly the non-financial asset, is a concern due to the appalling returns on state-land and properties. In addition, the moveable asset disposal is not efficient, and the discarded assets keep accumulating until it fetches minimum returns for the government due to delays in its disposal.

Policy-based fiscal strategy and budgeting

329. The macroeconomic functions rest with the federal (central) government therefore the estimates and assumptions are included in the national budget. The GoKP has developed overall

development and economic growth strategies, and from fiscal perspective the strategies do not provide qualitative and quantitative analysis and tangible recommendations. The GoKP prepares resource mobilization measures annually making recommendations for resource mobilization. However, the proposal does not provide a medium-term perspective of the revenue mobilization impact; and the analysis does not take into account the revenue potential. The GoKP budget documents and revenue mobilization strategy papers lacks the qualitative analysis of the own source revenues as the underlying assumptions to the provincial own source revenue forecasts are not provided.

330. The commendable measure adopted by the GoKP is providing medium perspective to budgeting; however, the utility of PFM reforms is time dependent. For the MTBF/output-based budgeting to gain traction, particularly at line departments, requires more time and technical support. Additionally, the key gap remains in its usage by the relevant stakeholders, including the legislature for monitoring purposes. The use of the MTBF by all stakeholders would aid in entrenching the reform measures and ensure continued improvement. The budget preparation process is quite comprehensive with a regular calendar and detailed guidelines, but it lags in timely communication of budget ceilings to line departments and timely submission of budget proposal to the legislature. The legislative scrutiny at an average has been completed in 10 working days (4-years average); and in the absence of a legislative committee to review demand for grants, late submission of budgetary proposal undermines robust legislative scrutiny.

Predictability and control in budget execution

331. Predictability in budget execution has been undermined owing to issues in the mid-stream functions like procurement monitoring, contract management, and lack of limits on budget re-appropriations. Weaknesses in revenue administration and accounting are acute. The former is aggravated with the lack of a methodical and system-based revenue risk management, audit and investigation, and revenue arrears management. In the latter case, most of the revenue collections takes place in Treasury accounts; however, analytical information is lagging. Reports providing quantitative and qualitative analysis segregated by current targets and arrears and supported with explanation for variances can provide sound feedback for fiscal strategy formulation.

332. Commitment accounting facilitates predictability and control in budget execution. Although commitment accounting was rolled out in 2010 (annual financial statement, 2014-15), the implementation was patchy and efforts are needed at both the line departments and the Account General Office. Implementation of commitment accounting will help the GoKP in strengthening cash forecasting and limiting the number of budget adjustments.

333. The organic structure of the government provides for internal controls, albeit to a certain extent, since the AG/DAAO conducts pre-audit of expenditure bills and issues checks on behalf of the spending units. The introduction of the GFMS and automation of DAO, provision of GFMS terminals at line departments, and availability of on-line civil accounts have improved the internal control processes, but issues still remain. Budget check in the FMIS was introduced to ensure that no financial claim is entertained through the system if the budget in the relevant head of account is not available to prevent wrong payments. Although the system has the ability to check budget availability for both salary and non-salary expenditure, in the case of the former it is not exercised due to political economy perspective—salary being protected/priority expenditure. Consequently, instances were noted where salaries were paid without budget availability. The internal audit function has been recently implemented but is not government-wide. It was introduced in 3 departments and by 2015,

it was extended to 11 departments. However, the effectiveness of internal audit has not been achieved as the function has largely been focusing on financial compliance rather than internal controls review, system development, and capacity building.

334. Since the KP-PPRA is a nascent entity with developing systems, the procurement indicator was instead assessed taking into account the line departments' procurement processes. The ratings based on line department's assessment presents a positive performance; however, the potential of the procurement function can be further improved with higher functionality of the procurement regulatory authority.

Accounting and reporting

335. The legal and procedural framework notified for accounting and reporting is quite comprehensive and robust to ensure financial data integrity with complete segregation of duties, comprehensive checks prior to honoring expenditure bills, and timely reconciliation and reporting. In practice, these are largely followed; however, in case of shortage of staff, the three-level segregation for bookkeeping notified by the CGA can get compromised. The administrative integration of audit and accounts services also compromises independence in the checks-and-balances mechanism. The GFMS has facilitated report generation; however, in practice, the capacity at the line departments constrain timely generation of budget execution reports.

External scrutiny and audit

336. The legislative scrutiny of budget and financial/audit reports is weak as is compliance by the Executive. The external audit reports are submitted to the legislature with considerable delays. 'Stale' findings and lack of materiality diminishes the significance, and the oversight is accorded a formality. Besides, the system and capacity do not provide an environment for effective legislative oversight. The audit reports were completed within 10 months of the close of fiscal year by the DG Provincial Audit but were received by the legislature after 18 months. The delay primarily is due to the submission procedure, which involves the Governor's office. Follow-up by the DG Provincial Audit and Assembly secretariat can result in timely submission of reports.

337. Several performance audits have been conducted. Three reports have been cleared by the AGP but for lack of capacity have not been taken up by the PAC. The PAC lacks a robust and automated compliance monitoring mechanism to ascertain the status of compliance in terms of its efficiency and aging of compliance.

Transfers from HLG

338. The GoKP, like other provinces, is heavily dependent on fiscal transfers, averaging over 80 percent of the general revenue receipts. The variation in volume of transfers impacts the budget execution that in turn influences the end result, and that is service delivery. The issue is further aggravated with a lack of a stand-by plan for alternate sources of resource mobilization (debt management strategy) or focusing on deepening local revenue base. As a result, budget adjustments and cuts are relied upon to address budget deficit. The GoKP can benefit by formulating evidence-based resource mobilization strategy to augment its own source revenue streams and alternate sources of resource mobilization.

B. Effectiveness of the internal control framework

339. The landscape of the internal control framework in KP presents an assorted picture. The legal framework for certain functions reflects good practice, but contradictions also exist. Also, in functions supported with a robust statutory framework, gaps were found in theory and practice (Summary of observations at Annex 2).

Control environment: Legal framework

340. The Constitution of Pakistan provides the framework for fiscal transfers, budgeting, accounting and auditing, and legislative oversight that set the basic and broad principles of the control environment. The subsequent rules and manuals notified by the relevant central agencies 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 statutes and manuals:

- (a) General Financial Rules
- (b) Treasury and Supplementary Rules
- (c) Delegation of Financial Powers
- (d) Pakistan Public Works Departmental Code
- (e) Pakistan Public Works Account Code
- (f) Manual of Accounting Practices and APPM Manual
- (g) Public Procurement Law, Rules and Notifications
- (h) Pension Rules
- (i) Statutory Regulatory Orders/Notifications
- (j) Provincial Internal Audit Charter
- (k) Assignment Account procedures
- (l) GoKP Rules of Business
- (m) KP Provincial Assembly Rules of Procedure

Control environment: Operational framework

341. In addition to the legal framework, the enforcement of internal controls is supplemented with the pre-audit function of the AG Office, external audit, and legislative oversight.

342. The NAM adopted in 2000 embodies COFOG and GFS. The latter complies with GFS 1986 with certain modifications (IMF Article IV Report, 2015). The Chart of Accounts notified with NAM provides 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.

343. 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),³¹ and Procurement Law (code of ethics and integrity pact).

344. 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

³¹ 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.

where individuals from different service groups are posted to positions where the requirements are different from the training received by the individuals.

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

346. 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

347. The key deficiency in the internal control framework is the lack of a methodical risk assessment (PI-10, -13, and -19). The internal audit function (PI-26) was piloted in the GoKP; however, owing to lack of capacity, the focus remained on financial compliance rather than providing support in the review of systems, identification of risks and mitigation measures, and capacity building. Also, the Management Response to internal audit findings is inadequate. Technical support is being provided by USAID for entrenching and improving the internal audit function.

348. The deficiencies in commitment accounting (PI-21 and -25), debt management (PI-13), and oversight of public sector enterprises (PI-6 and -10) have constrained risk management. The GFMIS has the capacity for asset management, and purchases of above PKR 500,000 are recorded in that module. However, a robust asset management does not take place. Because the record is not reconciled between the AG and line departments, activities like asset return are not captured in the module. A partly structured revenue risk assessment takes place (PI-19) but is very rudimentary. 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 and application of budget constraints.

Control activities

349. The APPM 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. A comprehensive process flow model, in respect of major categories of expenditures, is provided in APPM. 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.

350. The expenditure bill processing entails double-checks (i.e., 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.

351. 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 GoKP Financial Rules stipulate two key functions for authorizing expenditure: budget availability review and the raising of a purchase order. 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 revised estimates of expenditure are finalized by the FD in consultation with the administrative department heads around the third quarter of the fiscal year. General Financial Rules, APPM, Budget Manual (1999), and annual Budget Call Circular stipulate provisions on the preparation, scrutiny, review, and authentication of revised estimates.

352. Annual Release Policy (PI-8 and -21) of the FD also serves as a tool to control fund flows and expenditure based on the status of its cash balance at the State Bank of Pakistan. The release policy is issued in the first month of the fiscal year and covers development expenditure and each major type of current expenditure. Expenditure cannot be sanctioned/incurred without a prior release of it by the FD. This serves as a control over non-salaried expenditure/commitments against appropriated budget and actual cash availability.

353. 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 is spelled out in the APPM, and any variation is allowed after provision of justification and approval.

Gaps in control activities

354. **Disintegrated budgeting.** The budgeting procedure is disintegrated with the FD responsible for current (recurrent) budget and P&D Department responsible for development (investment) budget. During the budget formulation stage, the development budget is presented in a single line rather than the expenditure categories per the Chart of Accounts. Also, foreign-funded projects are particularly implemented through assignment accounts; and consolidation of expenditure, particularly for third party payments, is not captured in its entirety owing to lack of comprehensive reporting by projects to the Accounts General Office. Also, the expenditure reporting in the monthly civil accounts as aggregate level and single line undermining the controls.

355. **Manual procedures parallel to automated system.** The continuity of manual procedures with the automated system has deterred the full automation of accounting function. For instance,

although the records of the General Provident Fund are centrally maintained, upon posting of staff the credit memo copy has to be submitted to the DAO of the staff's duty station for receipt of acknowledgement of confirmation of transfer of balance. Another example of a manual system is the submission of the last-pay certificate upon posting of staff and the salary sheet for reconciliation between the DDO and DAO/Accountants General Office. Finally, for most of the foreign-funded ADP projects, the consolidation and reconciliation of expenditure is conducted manually.

356. **Segregation of duties** is comprehensively provided for in the General Financial Rules, Treasury Rules, APPM, and CGA notifications. The latter has notified the three-tiered segregation in the accounting offices (AGPR/Accounts General) for data entry, pre-audit, and check issuance. However, deficiencies are observed in practice. The segregation of duties can be compromised in the event of shortage of staff at the DAOs. For line departments, the audit reports each year refer to poor internal controls and segregation of duties at the line departments.

357. The civil service structure for audit and account service allows for an officer alternating as accounts and audit office. This non-separation of audit and accounts administrative service compromises the checks and balances. Similarly, in the AG Office, the inspection unit responsible for auditing the DAOs can be posted as staff of the DAOs. The two scenarios can create a conflict of interest; however, the recruitment by the Federal Public Service Commission and the administrative matters of audit and accounts are beyond the provincial government mandate and therefore the GoKP cannot offer a solution.

Information and communication

358. The 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

359. A multi-tier M&E framework exists in the GoKP. An in-house M&E framework exists at the line departments for monitoring the service delivery units and at the P&D and FD for monitoring the development and current budget (PI-6, -11, -8, -26, and -28). Similarly external mechanisms (PI-18, -30, and -31) in terms of legislative oversight of the budget (ex ante) and fiscal operations (ex post) is provided for in the government systems, however quality needs improvement. The M&E Directorate of P&D with support from the World Bank has commenced impact evaluation studies (PI-11) and 5 pilot studies were completed through external service provider. The GoKP is partnering with the development partners to build capacity of the M&E Directorate to make evaluation studies an integral part of the M&E function.

360. The key gaps in the M&E function include weak institutional arrangement for the Directorate responsible for the M&E function. Instead of the Directorate being an integral part of the organic structure of the Government, it has been established under a project funded from the ADP. The

legislative oversight that involves follow-up of the PAC directives is not system based and methodical. The PAC report acknowledges weak follow-up and indifference toward its directives. Finally, Management's approach toward the internal controls framework has inefficiencies. In case of former, instructions for compliance with the legal framework are issued from time to time, yet successive audit findings identify weak controls as a systemic issue.

361. The introduction of internal audit function in the GoKP on pilot basis should have attracted staff with relevant academic and professional background; however, staff from redundant office (Local Fund Audit) were seconded to the line departments for posting in the internal audit cells. Finally, the internal audit reports to the Secretary of the Department rather than the Minister, which is not fully compliant with the standards, and the lack of management response to the internal audit can dilute the significance and the utility of the internal audit function.

C. PFM Strengths and Weaknesses

362. A robust PFM system enables an efficient and effective policy transmittal and enables government policies are implemented as envisaged. The strengths and weaknesses identified with the help of PEFA ratings are predicated on the three budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient use of resources for service delivery

363. **Aggregate fiscal discipline.** The current PEFA ratings point at inadequacies in fiscal discipline reflected in the expenditure and revenue out-turns contributed by transfers from the HLG; however, the practices in the GoKP have had an aggravating factor. Generally, the weaknesses in the 6 pillars weigh in on the overall performance of Pillar I (budget reliability), but more specifically gaps exist in the revenue and expenditure management.

364. Lack of a robust fiscal strategy defined in quantitative and qualitative terms results in overestimation of revenues. While, the deficiencies in the revenue administration (risk management, arrears monitoring, and revenue audits) have kept the dependence on the federal transfers very high. On the expenditure management side, the estimation is based on inflated revenues, making it unrealistic, which is evident from budget cuts and revisions. Disintegrated budgeting overshadows the impact of development budget on recurrent, as a result a holistic view of budgeting is not available. The the GoKP has recently piloted internal audit; its functionalization will go a long way in improving internal controls to inculcate fiscal discipline.

365. **Strategic allocation of resources.** The GoKP has taken concrete measures for strategic allocation of resources by providing a medium-term perspective to budgeting. It is endeavoring to provide an enabling environment for graduating from incremental and input to output-based budgeting, and making budget process participatory. It has also taken measures to link policy planning to budgeting, improve transparency, and foster accountability. The GoKP, having provided an enabling environment, is now focusing on systems development and capacity building to entrench these reforms. The current practices that are hindering strategic allocation of resources are the fragilities in project planning, costing, prioritization, and screening coupled with large number of budget adjustments. The control departments need to ensure compliance with the notified procedures in order to rid the provincial ADP from the projects that are devolved functions. It would also aid in keeping the ADP size manageable, address the issue of unapproved schemes, and the throw-forward effect. Finally, achieving the potential of the medium-term frameworks entail balancing the political considerations with an informed iterative process.

366. **Efficient use of resources for service delivery:** The overall development budget utilization rate is averaged around 70 percent. However the monthly spending pattern is instructive evident from the last 5 years (2010-11 to 2014-15) analysis. The fund utilization rate ranges between 15-18 percent of the total budget execution in the first six months of the fiscal year, rising to 35 percent in the last three weeks of June, pointing at inefficiencies in the use of resources during the fiscal year. This erratic trend in fund utilization is attributable to complexities in budget execution originating from procedural deficits, which in turn leads to delays in project approvals and procurement process completion. The aforementioned, coupled with fluctuations in cash releases has influenced the efficient use of resources.

367. The Line Departments like Health and Education can monitor the performance of the service delivery units though it is a parallel process of information availability rather than using the GFMIS for retrieving budget and expenditure data. Due to the absence of budget codes for the service delivery level the data cannot be segregated in the GFMIS impacting the process of performance evaluation by the Departments of Finance and P&D and other external stakeholders. The FD is planning to address this deficiency in FY2016-17 by instituting specific budget codes which will be captured in the GFMIS to track the fund flows to the service delivery unit. Endeavoring to link planning with budgeting, the GoKP has provided a medium-term perspective to budgeting, introduced decentralization reforms to improve service delivery, and enacted the Right to Information; however, these measures have yet to gain traction. The procedural complexities, lack of integrated systems, and capacity are constraining innovations in the service delivery. The output-based budgeting and the medium-term budget estimates introduced have provided a background for improving the budgeting process; however, the implementation of these tools from monitoring perspective dovetailed with production of quality budget execution reports can improve resource allocation.

368. One of the key results of the PFM reforms is procedural improvements. These can be entrenched with interest articulation by all stakeholders one of which is the legislature. The lack of a robust legislative scrutiny of budget and fiscal operations dilutes the oversight; as a result, the instruments introduced to improve business processes are not utilized to generate debate and elicit questions from the Executive on the outputs and outcomes of the public investments. Consequently, the potential of reforms like the improvements in budget management either keeps gestating or remains un-utilized.

D. Performance changes since 2007

369. The last PEFA assessment was conducted in 2007 on the PEFA Framework (2005). The performance changes, based on the PEFA Framework (2005), exhibit improvement in the budget credibility as the variance between budgeted and actual expenditure decreased over the years, at aggregate level as well as by composition. The overall budget-making process remained well organized and participatory with extensive guidance to line departments and general adherence to budget calendar. Besides multi-year perspective in fiscal planning, expenditure policy and budgeting slightly improved with the approval and implementation of KP Integrated Development Strategy. A transparent and rules-based mechanism for fiscal transfers to the local governments continued to exist, at least 90 percent by value. Institutional mechanism for fiscal reporting did not improve to capture extra-budgetary operations and information on donor-funded projects. No improvement in the oversight of aggregate fiscal risk from autonomous entities, public enterprises and the local governments. Public access to key fiscal information improved with the release of in-year budget execution reports.

370. There has been no significant improvement in tax administration performance in the areas of transparency of taxpayer obligations and liabilities, their registration, and assessment and collection of taxes. In 2013, the GoKP established the KPRA to collect sales tax on services, which is now the largest provincial tax. The KPRA is still in the process of developing systems and capacity for revenue-compliance risk management. Predictability in the availability of funds declined because of quarterly cash releases of development budget, significant in-year budgetary adjustments and absence of commitment accounting. Debt management got weakened while improvement noticed in the consolidation of cash balances. Payroll controls largely remained at the same level with a decline in the coverage and scope of payroll audits. The promulgation of KP-PPRA Act, 2012 and KP-PPRA Rules, 2014 yielded improvements in the procurement regime. Controls for non-salary expenditure, largely unchanged with expenditure commitment controls, deteriorated for non-compliance to commitment accounting. Establishment of internal audit cells in 11 line departments slightly improved coverage of internal audit.

371. The rollout of the GFMIS enhanced the quality of information in budget execution reports. Reconciliation and clearance of suspense accounts improved to be on monthly basis while for advances it now happens at least quarterly. The 2007 assessment reported this timeline to be at least annually. Similarly, regularity of bank reconciliation also improved with coverage of all central government bank accounts against the earlier that noted only Treasury-managed bank accounts. The quality of financial statements slightly improved with the adoption of international standards.

372. Since the last assessment, performance related to external scrutiny and audit largely remains the same. However, the scope and audit coverage deteriorated relative to the earlier assessment. Time for legislative scrutiny of budget proposals remained less than a month before the start of fiscal year.

V. Government PFM Reform Process

A. Approach to PFM reforms

373. The GoKP has been a forerunner in PFM reforms. Under the World Bank-funded PIFRA, KP was the first province to have the DAOs automated. The GoKP rolled out an integrated PFM reform strategy (2010) informed by the PEFA assessment (2007) and Fiduciary Risk Assessment (2010) with the following objectives:

- (a) Making budget strategic by linking policy, planning, and budgeting;
- (b) Making budget result oriented by introducing output-based budgeting;
- (c) Enhancing the capacity of line departments to prepare, execute, and monitor budget;
- (d) Improving budget execution and reporting;
- (e) Improving M&E.

374. The GoKP formulated development strategies that culminated in expression of an integrated development strategy (2014-18) bringing under one umbrella its development priorities and related interventions. The GoKP has partnered with the international development agencies to strengthen planning, budgeting (DFID, UK, EU, and the World Bank) and internal controls (USAID). The PFM reforms were coordinated through the provincial reform program; however, the approach was discontinued with the rationale to indigenize the reform efforts. Therefore, the FD now steers the process with the Secretary Finance providing a lead role in negotiations with the development partners and rollout of the reform measures.

B. Recent and ongoing reform actions

Improved budget management

375. Provincial Reforms Program and Subnational Governance funded by DFID has aided the GoKP in moving toward results-oriented public sector governance to improve service delivery. The Provincial Reforms Program provided institutional and technical support to the reform process and efforts were directed toward strengthening the budget process by providing medium-term perspective to budgeting (MTFF and MTBF) and graduating from input- to output-based budgeting. The latter was piloted with DFID support in the education, health, and social welfare service delivery units in five districts. The output-based budgeting is now extended to all provincial government departments.

376. In order to foster the transparency regime, KP Assembly passed the Right to Information Act (2013) and invited a budget transparency review on the open budget initiative methodology to mirror the current transparency index and establish performance trajectories with subsequent transparency reviews. To ensure the budget process is participatory, pre-budget consultations were introduced with the legislators and civil society representatives.

377. To promote local communities participation in local development, the GoKP notified a Community-Driven Local Development Policy piloted in six northern districts of KP with support from the EU.

378. In the wake of conflict and natural calamities of 2005 and 2010, a joint government/donor damage and post-crisis needs assessment were conducted to take stock of the loss and the resultant infrastructure building requirements. Subsequently, strategies for growth and development were

formulated. Realizing the need for integration of the overarching planning framework, the GoKP articulated an integrated development strategy (2014-18) creating a nexus of different strategies (comprehensive development and economic growth strategies) and assessment studies (Post-Conflict Needs Assessment) to integrate policy planning and budgeting.

Transparency and Accountability

379. The KP Provincial Assembly enacted the Right to Information Act (2013) and *Ehtesab* Commission Act (2014)³² to promote greater transparency and foster accountability. The FD, GoKP, commissioned a budget transparency review on the open budget survey methodology to ascertain the fiscal disclosures environment in the province and develop a roadmap for promoting greater transparency in the budget formulation and execution process.

Revenue (tax and non-tax) reforms

380. The 18th Amendment to the Constitution provided an impetus to the fiscal decentralization and the National Finance Commission Award (2009) recognized the general sales tax on services to be a provincial mandate. The general sales tax on services was devolved to the provinces; consequently, the KP provincial Provincial Assembly enacted for the establishment of the KPRA. The Authority was established in 2014 and is in the process of revamping the general sales tax regime in the province. It has contributed toward increase in collection under general sales tax (services); however, support will be needed to strengthen tax administration – risk management, arrears monitoring, and audit and investigation.

381. To augment its resource base, KP has taken several measures in the form of establishing the HDF, Oil and Gas Company Limited, and energy development organizations to revitalize the manufacturing sector. The economic zone development and management company has been established and staffed with relevant experts. All aforementioned initiatives are nascent and necessitate continued support for the Government to avail their true potential.

Procurement

382. The KP Provincial Assembly in 2013 enacted establishment of the KP-PPRA. Procurement rules were notified in 2013 but revised in 2014. The Board of Director chaired by the Secretary Finance governs the Authority and the management responsibility vests in the Managing Director. Rules for compliant management system have been drafted and submitted to the Law Department for clearance. The KP-PPRA is collaborating with USAID and World Bank to institute transparent and competitive procurement regime in the province.

Internal audit

383. The Provincial Cabinet approved the Internal Audit Charter in 2013; the function was piloted with support from USAID-funded Assessment and Strengthening Program in 3 departments in 2013 and extended to 11 departments in 2015. The establishment of internal audit unit at the FD has been notified. The positions have been approved and budgeted and recruitment is partially completed. The 3 pilot departments have completed a fiscal year, and internal audit reports have been submitted. The Assessment and Strengthening Program has provided support in development of an internal audit toolkit and conducted capacity-building programs to assist the internal audit function to graduate from financial compliance to controls review and system strengthening.

³² Ehtesab is a local word for accountability.

Decentralization

384. The KP Provincial Assembly enacted the Local Government Act (2013) providing for elected local governments with complete fiscal autonomy. The elections process was completed in 2015. The Act devolves responsibility at three tiers: district, tehsil, and village and neighborhood council. Establishing local government system with adequate capacity to deliver on its mandate is a massive undertaking that requires support in system and capacity development in short to medium term to improve service delivery.

Corporate governance

385. The GoKP allocates considerable resources to public sector entities, funds (pension, Hydel, and General Provident Fund); however, monitoring of such entities and management of funds needed strengthening to allow the GoKP to determine the return on its investments. The FD is collaborating with the development partners for instituting corporate governance framework.

Monitoring and evaluation

386. The public sector investment program (referred to as the ADP) of the GoKP was pitched at PKR 161 billion for FY2016-17, which has increased from PKR 49 billion in 2009-10. A robust and comprehensive M&E function plays a key role in ensuring value for money in public investments by providing feedback on prior investments for designing subsequent development programs. In collaboration with the World Bank under the MDTF, the P&D Department is being provided support to strengthen the monitoring of ADP projects and introduction of impact evaluation studies. And DFID is providing support to the Education Department for independent monitoring that will facilitate entrenching output-based budgeting.

C. Institutional considerations: Stewardship for reforms

387. In the last decade, the GoKP has displayed strong ownership for reforms, evident from the results of prior PFM reforms program. The GoKP formulated PFM reforms strategy in 2010; based on this experience, the GoKP is devising another and broader strategy to sustain the pace of reforms. In order to provide greater legitimacy and ensure the reform efforts gain traction, PFM Reforms Oversight Committee was formed. The Committee is chaired by the Minister of Finance with membership of Senior Minister, Local Government; Ministers for Health and Education; Advisor to CM for P&D; Secretaries of Finance, P&D, and local government departments.

388. The high-level representation by key control and line departments (ministers and secretaries) ensures participation from key sectors. The participation of key government departments in brainstorming for prioritization and sequencing of reforms not only facilitates consensus building but also contributes toward reform implementation. Technical assistance provided by the donor-funded programs are mostly embedded in the government departments; the consultants' role is primarily limited to introduction of new business processes and capacity building. The civil servants mainly produce the key work products; however, instances were noted where parallel systems were put in place, substituting the in-house function like the internal monitoring unit (Education Department) and internal audit (FD).

Annex 1: Performance Indicator Summary

This is the first assessment using the PEFA Framework (2016)

Indicator / Dimension	Score	Brief description of requirement met
Transfers from HLG	D+	Overall rating based on M1 methodology
<i>HLG 1.1. Outturn of transfers from HLG</i>	D	<i>Transfers have been 83%, 88%, and 76%, respectively, of the original budget estimate in the last three fiscal years(2012-13, 2013-14, and 2014-15).</i>
<i>HLG 1.2. Earmarked grants outturn</i>	D	<i>Variation in earmarked grants was 9%, 16%, and 13% in the last 3 fiscal years (2012-13, 2013-14 and 2014-15).</i>
<i>HLG 1.3. Timeliness of transfers from HLG</i>	B	<i>Transfers are notified to take place fortnightly; however, variation exists in the transferred and budgeted amounts. The ascertainment of transfers' modality is according to the federal government decision.</i>
I. Budget Reliability		
PI-1 Aggregate expenditure outturn	C	Aggregate expenditure outturn was 88, 81, and 86% of approved budget for fiscal years 2012-13, 2013-14, and 2014-15, respectively.
PI-2 Expenditure composition outturn	D+	Overall rating based on M1 methodology.
<i>2.1 Expenditure composition outturn by function</i>	C	<i>Expenditure outturn was less than 15% in 2 of the last 3 fiscal years (9, 18 and 12% for 2012-13,13-14 and 2014-15, respectively).</i>
<i>2.2 Expenditure composition outturn by economic type</i>	D	<i>Expenditure composition outturn was 15, 25 and 21 % in the fiscal years 2012-13, 13-14 and 2014-15.</i>
<i>2.3 Expenditure from contingency reserve</i>	D*	<i>Separate head of account for contingency is not provided in GoKP budget.</i>
PI-3 Revenue outturn	D	Overall rating based on M2 methodology
<i>3.1 Aggregate Revenue Outturn</i>	D	<i>Aggregate revenue out-turns were 83, 113, and 43% in fiscal years 2012-13, 2103-14, and 2014-15</i>
<i>3.2 Revenue composition outturn</i>	D	<i>Revenue composition out-turns 37, 19 and 87% in fiscal years 2012-13, 2013-14 and 2014-15.</i>
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.
PI-5 Budget documentation	B	GoKP provides 3 out of 4 basic elements and 4 out of 7 additional elements. Elements 5 and 6 are not applicable, KP being an SNG
PI-6 GoKP operations outside financial reports	D	Overall rating based on M2 methodology.
<i>6.1 Expenditure outside financial reports</i>	D*	<i>Finance and Planning & Development Departments lack a mechanism to determine the exact size of expenditure data outside financial reports.</i>
<i>6.2 Revenue outside financial reports</i>	D*	<i>The FD and lacks a mechanism to determine the exact size of revenue data outside financial reports.</i>
<i>6.3 Financial reports of extra-budgetary units</i>	D*	<i>A methodical system for financial reporting does not exist to provide details of assets and liabilities, and guarantees and long-term obligations.</i>
PI-7 Transfers to SNG	B	Overall rating based on M2 methodology
<i>7.1 System for allocating transfers</i>	A	<i>The resource allocation for all transfers (90% and above) takes place on the formula prescribed in PFC Award.</i>

7.2 Timeliness of information on transfers	C	The SNGs receive the budget ceilings after passage of the provincial budget (end June). This arrangement is relevant to the current dispensation of the local government system. In the absence of elected local government system, the budget process was centrally managed.
PI-8 Performance information for service delivery	B	Overall rating based on M2 methodology.
8.1 Performance plan for service delivery	A	Output-based budgeting/ budget estimates for service delivery provides line department wise performance plan for service delivery.
8.2 Performance achieved for service delivery	A	Budget estimates for service delivery includes key achievements at line department level for the previous year and the plans for the budget year for improving service delivery.
8.3 Resources received by service delivery units	C	The provincial release policy defines the resource requirements and transfers scheduled in July and November each year. Monthly civil accounts provide DDO, project/program-wise expenditure position, accessible on line. However, information on the frontline service delivery units at primary level is not available on the GFMIS. For Health department expenditure tracking survey was conducted in the year 2015.
8.4 Performance evaluation for service delivery	D	P&D Department, supported by the MDTF, conducted 5 Impact evaluation studies. 3 performance audits were approved by the AGP, though these audits were not of service delivery units. The studies focus is the evaluation of a specific development budget initiative than a sector specific evaluation of the efficiency and effectiveness of the service delivery as a whole.
PI-9 Public access to fiscal information	D	GoKP complies with 2 basic elements and 1 additional element in the criteria.
III. Management of Assets and Liabilities		
PI-10 Fiscal risk reporting	D	Overall rating based on M2 methodology.
10.1 Monitoring of public corporations	D	The FD lacks a mechanism to document the financial reports and analyze the fiscal risks. Therefore the timing of submission could not be established. However, audit of such corporations take place on sample basis where all entities are not audited in one year. Yet the findings of the DG commercial audit included non-submission of last 2 years audited accounts, in case of Forest Development Corporation..
10.2 Monitoring of subnational governments	D	The audited annual financial statements for all district governments are audited within 9 months from the close of the year, however, the TMA accounts remain outside the provincial accounts. Also, audited financial statements are not made public within one year of the close of the fiscal year.
10.3 Contingent liabilities and other fiscal risks	D*	Systematic and methodical contingent liability and fiscal risk monitoring does not take place at the FD; as a result, contingent liabilities and other fiscal risks are not quantified and reported in financial reports.
PI-11 Public investment management	C	Overall rating based on M2 methodology
11.1 Economic analysis of investment proposals	C	Economic analyses for most of investment projects are conducted and reviewed by an entity other than the sponsoring agency (PDWP, in provincial context). PDWP agenda and post-meeting press release is issued; however, project/ scheme analyses by PDWP and DDWP are not published.
11.2 Investment project selection	B	The provincial and federal project proposal screening forums (PDWP, CDWP, and ECNEC) are used for major investment projects selection. In the provincial context, the guidelines for preparation of the ADP issued by P&D Department includes the broad parameters for project selection.

11.3 Investment project costing	C	The project proposals (PC-I) include project-financing plan for the project-execution duration but includes the development budget (capital) costs only and not the recurrent budget for the post project completion.
11.4 Investment project monitoring	D	The project costs monitoring is conducted regularly by P&D Department on PC-III format as independent review forum; however, given the large number of projects, delays incur in physical progress reporting in M&E reports by the time it is documented and reported.
PI- 2 Public asset management	D+	Overall rating based on M2 methodology.
12.1 Financial asset monitoring	C	GoKP maintains a record of its investments and publishes it in the annual budget.
12.2 Non-financial asset monitoring	D	Government departments maintain the record of key non-financial assets but information on the usage and aging is not available. Asset recording and management has been continuously identified as weak area in the audit reports.
12.3 Transparency of asset disposal	C	Procedures and rules for the transfer or disposal of non-financial assets are established. Partial information on transfers and disposals is included in budget documents, financial reports, or other reports.
PI-13 Debt management	C	Overall rating based on M2 methodology
13.1 Recording and reporting of debt and guarantees	C	Domestic and foreign debt records are reconciled and produced annually in the Budget White Paper.
13.2 Approval of debt and guarantees	B	Constitution provides for debt creation by the provinces, subject to conditions. In addition, the Public Debt Act, Securities Manual, and the APPM provide for the operational framework, though defined at the federal level, segregating the domestic & foreign debt responsibilities between Economic Affairs Division & the FD. In provinces, procedures for other domestic debts like running finances for procurement of wheat are comprehensively documented and responsibility assigned to the FD.
13.3 Debt management strategy	D	A systematic and methodical 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 rests with the central government.
14.2 Fiscal forecasts	C	Government prepares MTFE forecasting revenue (by type), expenditure, and budget balance for the budget year and the two subsequent fiscal years. However, underlying assumptions of the forecasts are not provided
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	GoKP prepares MTFE detailing revenue and expenditure- type estimates for the budget year and the following two fiscal years and submits to the legislature. A revenue mobilization proposal is prepared and submitted with the finance bill for changes in existing tax or imposition of new tax.
15.2 Fiscal strategy adoption	D	GoKP has not formulated a fiscal strategy to provide quantitative targets and qualitative analysis and objectives.

15.3 Reporting on fiscal outcomes	NA	Budget speech of the Finance Minister makes reference to fiscal outcomes and variations at the aggregate level. Separate report providing quantitative and qualitative analysis is not prepared.
PI- 16 Medium-term perspective in expenditure budgeting	C	Overall rating based on M2 methodology
16.1 Medium-term expenditure estimates	A	GoKP adopted MTFE and MTBF providing 3 years estimates by administrative, economic and functional classification.
16.2 Medium-term expenditure ceilings	D	Medium-term expenditure ceilings are communicated separately as GoKP follows the disintegrated budgeting process with the current (recurrent) budget managed by the FD and the development (investment) budget by P&D Department
16.3 Alignment of strategic plans and medium-term budgets	C	Out of 34 departments only Education and Health Departments have sectoral plans aligned with the budget, however the two sectors account for 32 percent of total expenditure and 46 percent of the total recurrent expenditure
16.4 Consistency of budgets with previous year's estimates	D	Ministry-level variance analysis not provided in the budget documents.
PI-17 Budget preparation process	B	Overall rating based on M2 methodology.
17.1 Budget calendar	A	Annual budget calendar exists, which is adhered to and allows more than 6 weeks for preparation of budget estimates
17.2 Guidance on budget preparation	B	FD and P&D Department issue detailed guidelines for budget formulation, including indicative ceilings clearly defined for current budget. The ceilings conveyed by P&D Department are not definite and are incremental. Cabinet approval is obtained after the issuance of Budget Call Circular.
17.3 Budget submission to the legislature	D	GoKP submitted budget proposals to the legislature less than one month before the start of fiscal year.
PI-18 Legislative scrutiny of budgets	C+	Overall rating based on M1 methodology
18.1 Scope of budget scrutiny	A	GoKP submits the annual and medium-term budget estimates, its summary and details to the KP legislature.
18.2 Legislative procedures for budget scrutiny	C	Legislative procedures have been notified in 1988 covering the 'fundamentals' of the budget proposals review and are adhered to by the legislature. The rules do not provide for technical support and committee for review of budget proposals
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 Constitution of Pakistan authorizes the Executive for supplementary grants during the year not reflected in the budget.
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	D	Information on rights and grievance redress mechanism is not available.
19.2 Revenue Risk management	C	A methodical risk management does not take place.
19.3 Revenue audit and investigation	D	Revenue audit and investigations are not based on a systematic plan.
19.4 Revenue arrears monitoring	D*	Historical arrears data not available. The last three years' stock of arrears is 74% of the total revenue collection in 2014-15.

PI-20 Accounting for revenue	C	Overall rating based on M1 methodology
20.1 Information on revenue collections	C	Information on revenue collections is available on the GFMS accessible to Finance and authorities responsible for revenue collection. The data is consolidated but analytical report is not prepared by Finance or for submission to Finance.
20.2 Transfer of revenue collections	C	According to Treasury Rules, revenue collections should be paid into Treasury without delay. Audit report findings included delay in transfer of funds by 15 days in certain cases.
20.3 Revenue accounts reconciliation	C	Reconciliation of only revenue collection and transfers takes place monthly between the AG and the revenue authority and with the FD.
PI-21 Predictability of in-year resource allocation	C+	Overall rating based on M2 methodology
21.1 Consolidation of cash balances	A	Cash & bank balances are consolidated daily.
21.2 Cash forecasting & monitoring	D	Cash forecasting and monitoring takes place on monthly basis but however does not reflect the commitments of the line departments or liabilities created.
21.3 Information on commitment ceilings	B	Information on cash releases is communicated in July (beginning of the FY) which for recurrent budget includes information on 100 percent of salaries and 50 percent of non salary budget. The information on cash releases issued in July each year also includes information on the cash availability for the development budget however it is on quarterly basis with subsequent releases dependent on the project's utilization performance.
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*	GoKP lacks a mechanism to record and monitor expenditure arrears.
22.2 Expenditure arrears monitoring	D	
PI-23 Payroll controls	C+	Overall rating based on M1 methodology
23.1 Integration of payroll and personnel records	B	Payroll is supported by 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	Amendments to payroll data & personnel records are updated monthly and results in audit trail. Retroactive adjustments are rare and less than 3% of the wage bill.
23.3 Internal control of payroll	A	Authorization and basis of changes in personnel record and payroll are comprehensively defined in the controls framework- General Financial Rules and APPM.
23.4 Payroll audit	C	Partial payroll audit/physical survey has been conducted however not across GoKP.
PI-24 Procurement	B	Overall rating based on M2 methodology
24.1 Procurement monitoring	B	Databases or records are maintained by all procurement entities for the 'selected large contracts'. For the remaining, most of the departments have the information available on what has been procured, value of procurement, and who was awarded the contract.

24.2 Procurement methods	B	Open competitive bidding is default procurement method as also evidenced from sample of large procuring entities assessed for 24.2. In absence of exceptions/exemptions data from open competitive bidding, the sub-indicator is being rated a notch below its assessed rating.
24.3 Public access to procurement information	B	Procurement information's dissemination through posting advertisement in print media is overwhelming. In accordance with the regulatory environment of the province, a structured but freely accessible option under Right to Information is available to all interested parties.
24.4 Procurement complaints management	B	Comprehensive procurement complaint management is devised in KP-PPRA. However more granular processes are not properly disseminated and evidence for timely disposal of complaints could not be obtained
PI-25 Internal controls on non-salary expenditure	B+	Overall rating based on M2 methodology
25.1 Segregation of duties	A	Segregation of duties have been comprehensively stipulated in General Financial Rules and APPM for authorization, recording, custody of assets, and reconciliation or audit.
25.2 Effectiveness of expenditure commitment controls	C	Commitment controls are exercised through the available controls framework notified in the rules and manuals. The GFMS has the capacity for commitment accounting; however, its implementation hasn't been comprehensive.
25.3 Compliance with payment controls	A	An elaborate payment controls system is available in the government rules and manuals. All expenditure is in compliance with the payment controls, and exceptions are duly authorized.
PI-26 Internal audit	D+	Overall rating based on M1 methodology
26.1 Coverage of internal audit	D	Internal audit cells are established in 11 line departments under a charter approved by the provincial cabinet; however, internal audit function was being established at one revenue authority during the assessment period.
26.2 Nature of audits and standards applied	C	Internal audit activities as defined in the Internal Audit charter and plan would be focused on financial compliance as well as evaluation of the internal control systems. However, the function being at embryonic stage is not as comprehensive in practice and focuses on financial compliance.
26.3 Implementation of internal audits and reporting	D	Annual audit programs were developed with support of USAID-funded Assessment and Strengthening Program; however, lack of staff ability impacted the implementation of the internal audit programs.
26.4 Response to internal audits	D	Management response is a weak area identified in support provided by the Assessment and Strengthening Program.
VI. Accounting and Reporting		
PI-27 Financial data integrity	B	Overall rating based on M2 methodology
27.1 Bank account reconciliation	D	Monthly bank account reconciliation takes place between the DAO and the Bank and is reported to the AG Office each month. However the quarterly reconciliation with the SBP is conducted physically before the end of following quarter
27.2 Suspense accounts	A	Suspense accounts are cleared on monthly basis and also at the end of year.
27.3 Advance accounts	B	Most advances (79%) are cleared in a month. The TA advances are cleared within a quarter after the close of the month
27.4 Financial data integrity process	A	Access and changes to records is restricted and the documentation leaves an audit trail. Multiple levels of checks are in place at the AG and counter checked by the DG Provincial Audit office.

PI-28 In-year budget reports	C+	Overall rating based on M1 methodology
28.1 Coverage and compatibility of reports	C	Classification of current budget and expenditure is comprehensive; however, classification of development budget allows direct comparison to the original budget for main administrative heading only.
28.2 Timing of in year budget reports	B	AG office produces monthly budget execution reports and submits it to the administrative departments by the third week after the end of the month.
28.3 Accuracy of In year budget reports	C	Per government rules, the expenditure is captured at payment stage. Information on expenditure does not cover commitment stage. Data accuracy is undermined due to third party payments. With some organization, the data can be generated for the analysis of budget execution.
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 include expenditure, revenue, cash balances, and cash flow statement only. Financial reports are comparable with the budget.
29.2 Submission of reports for external audit	B	Submission of error free financial reports takes place 5 months after the end of fiscal year.
29.3 Accounting Standards	B	Accounting standards comply with the national legal framework. 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	D+	Overall rating based on M1 methodology
30.1 Audit coverage and standards	C	AGP has adopted ISSAI standards; however, gaps remain in its implementation. In the last three years, audit coverage has remained below 65%. Significant systemic issues have been repeatedly highlighted
30.2 Submission of audit reports to the legislature	D	Audit reports have been submitted to the legislature with considerable delays.
30.3 External audit follow up	C	Formal response is provided by the Executive on PAC directives; however, compliance per PAC report 'is poor'
30.4 SAI independence	B	SAI (AGP) is a constitutional position with full independence in tenure and operational matters, however does not publicize the audit reports.
31. Legislative scrutiny of audit reports	C+	Overall rating based on M2 methodology
31.1 Timing of audit report scrutiny	D	Scrutiny of audit reports takes 12 months or more.
31.2 Hearings on Audit findings	A	In-depth hearings on audit reports take place with participation of the audit staff & relevant line department staff that receive a qualified or adverse opinion participate
31.3 Recommendations on audit by the legislature	B	PAC issues directives for compliance and follows up; however, a proper follow-up system supported with a monitoring and reporting framework is not available.
31.4 Transparency of legislative scrutiny of audit reports	D	Legislative scrutiny is not open to public, but summary press releases are issued to the state media network. The time lag in the publication of reports has been considered for this criteria.

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 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 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	Not carried out for most of the functions.
2.2 Risk assessment	Not carried out
2.3 Risk evaluation	Not carried out
2.4 Risk appetite assessment	Not carried out
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 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)	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.
3.3 Controls over access to resources and records	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 Provincial 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	The monthly civil accounts available to the Government departments Line departments online can produce the budget execution reports that can 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, 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.
5. Monitoring	The function exists however weaknesses were found in the institutional arrangement, timeliness and quality of reporting.
5.1 Ongoing monitoring	A multi-tier M&E framework exists in GoKP. In house (referring to the M&E framework at the line department) is available for monitoring the service delivery units and the P&D Department and FD monitoring mechanism for the development and current budget exists (PI 6, 11, 8, 26 and 28). Similarly external mechanisms (PI 18, 30 and 31) in terms of legislative oversight of the budget (Ex ante) and fiscal operations (Ex post) is provided for in the government systems, however the quality of monitoring and transparency needs improvements.
5.2 Evaluations	The M&E directorate of P&D with support from the World Bank has commenced impact evaluation studies (PI 11) and on pilot basis 5 studies were completed through external service provider. GoKP is partnering with the development partners to build capacity of the M&E Directorate to make evaluation studies an integral part of the M&E function.

5.3 Management responses

The Management's approach towards the internal controls framework has inefficiencies. 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. The introduction of internal audit function in GoKP on pilot basis should have attracted staff with relevant academic and professional background, however, staff from redundant office (Local Fund Audit) was seconded to the line departments for posting in the internal audit cells. Finally, the internal audit reports to the Secretary of the Department than the Minister, which is not fully compliant with the standards, and the lack of management response to the internal audit dilutes the significance and the utility of the internal audit function.

Annex 3: Sources of Information

Annex 3 A: List of Surveys and Analytical Work

No.	Institution	Title	Date	
1.	IMF	Fiscal Monitoring/Article IV consultation report	2009 and 2015	www.imf.org
2.	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
3	World Bank	Public Expenditure Review	2012	www.worldbank.org
4	PEFA	Public Financial Management and Accountability Report	2007	www.pefa.org
5	GIZ	Historical analysis of local government system in Khyber Pakhtunkhwa	2012	http://lgkp.gov.pk/wp-content/uploads/2014/03/4.-An-analysis-of-the-history-and-evolution-of-local-government-system-in-Khyber-Pakhtunkhwa.pdf
6	NFC, Pakistan	NGC Award implementation analysis report	2009	www.finance.gov.pk/nfc/report_ofthenfc_2009.pdf
9.	Subnational Government (SNG) Project	Expenditure tracking in primary health- Khyber Pakhtunkhwa	2015	DFID funded SNG project's report

Annex 3 B: List of Individuals Met

Department*	Name	Position
FD	Ali Raza Bhutta	Secretary
FD	Idrees Marwat	Special Secretary
FD	Asim Khattak	Additional Secretary (Budget)
FD	AsmatUllah Shah	Additional Secretary (Development)
FD	M. Bashir	Director, FMIU
FD	Hammad Raza	Budget Officer (Fund and Loans)
FD	Imtiaz Ayub	Coordinator, Reforms Monitoring Unit
AG Office	Taimur Khusrow	AG (KP)
AG Office	M. Safeer	Additional AG
AG Office	Shah Mahmood	Additional AG
AG Office	M. Medrar	Financial Reporting Specialist
AG Office	Unab Gul	Deputy AG
Provincial Audit	Javed Iqbal	Director General
Provincial Audit	AsadUllah Khan	Director
Provincial Audit	Zain-ul-Abideen	Deputy Director
Provincial Assembly	Amanullah	Secretary

Department*	Name	Position
Provincial Assembly	Mian Altaf	Additional Secretary
Provincial Assembly	Amjad Ali	Additional Secretary (PAC)
Provincial Assembly	M. Ibrahim	Assistant Secretary (PAC)
Provincial Assembly	Arsala Khan	Director Finance
Board of Revenue	Afzal Latif	Senior Member
Board of Revenue	Ikramullah	Member
Board of Revenue	Farukh Sair	Member
Board of Revenue	FakhruzZaman	Secretary I
KP-PPRA	Kamran Rehman	Managing Director
Provincial Revenue Authority	Javed Marwat	Managing Director
Provincial Revenue Authority	Younis Afridi	Director General
Provincial Revenue Authority	Abdul Siddique	Director Audit
Excise and Taxation Department	Mohammad Israr	Secretary
Excise and Taxation Department	Nasir Khan	Director General
Education Department	Afzal Latif	Secretary
Education Department	Qaiser Alam	Additional Secretary
Education Department	Idrees Azam	Chief Planning Officer
Education Department	Ulfat Begum	District Education Officer
Health Department	Masood Younis	Additional Secretary
Health Department	Pervez Kamal	Director General
C&W Department	Asif Khan	Secretary
C&W Department	Shakir Habib	Director Planning and Monitoring
P&D Department	M. Ayaz	Chief Economist
P&DDepartment	Khalid Ilyas	Chief Foreign Aid
P&D Department	Wahid Afzal	Director General M&E
P&DDepartment	M. Islam	Assistant Chief
Local Government Department	Amer Latif	Director General

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	<i>D+</i>	<ol style="list-style-type: none"> Budget Documents, GoKP. Fiscal Transfers Data provided by FMIU, FD, GoKP. Transfer notifications. Ministry of Finance, Islamabad PEFA (2016) ‘Supplementary Guidance for subnational PEFA assessment’
PI-1 Aggregate expenditure outturn	<i>C</i>	<p>‘Annual Appropriation Accounts’ and ‘Annual Financial Statements’ . (2012-13, 2013-14, 2014-15). AG, KP</p> <p>‘Annual Budget Statements’ (2012-13, 2013-14, and 2014-15)</p>
PI-2 Expenditure composition outturn	<i>D+</i>	<p>‘Annual Appropriation Accounts’ and ‘Annual Financial Statements’ . (2012-13, 2013-14, 2014-15). AG, KP</p> <p>‘Annual Budget Statements’ (2012-13, 2013-14, and 2014-15)</p>
PI-3 Revenue outturn	<i>D</i>	<ol style="list-style-type: none"> ‘Annual Appropriation Accounts’ and ‘Annual Financial Statements’ . (2012-13, 2013-14, 2014-15). AG, KP Annual Budget Statements and White Paper, FD, GoKP
PI-4 Budget classification	<i>A</i>	Chart of Accounts and IMF Article IV consultation Report. IMF (2014) GFSM
PI-5 Budget documentation	<i>B</i>	Annual Budget proposals, White Paper, Budget Strategy Paper, Medium Term Budget Estimates for service delivery. FD, GoKP
PI-6 Provincial government operations outside financial reports	<i>D</i>	
PI-7 Transfers to SNG	<i>B</i>	Cash Release Policy, PFC Reports and sample notification of funds transfer.
PI-8 Performance information for service delivery	<i>B</i>	Education Sector Plan, Education Census report. Department of Education, GoKP. Medium term budget estimates for service delivery FD, GOKP. Health Sector Strategy and Plan. Health Department, GoKP.
PI-9 Public access to fiscal information	<i>D</i>	Annual Budget proposals and enacted budgets, annual budget statements, Budget Execution Reports (Progress reports), monthly and annual civil accounts, external audit reports, performance audit reports. Annual Financial Statements
PI-10 Fiscal risk reporting	<i>D</i>	Audit annual financial statements and reports, Budget Strategy Paper, and White Paper.
PI-11 Public investment management	<i>C</i>	<ol style="list-style-type: none"> P&D Department, (2012-13, 2013-14, 2014-15) ‘Guidelines for formulation of Annual Development Program (ADP)’

Indicator	Rating	Sources
		2. Planning Commission, Government of Pakistan (2008) 'Guidelines for project management' 3. Project documents (PC-1) of the selected projects 4. ADP, P&D. GoKP 5. Annual reports by the DG M&E, P&D, GoKP 6. Minutes of the PDWP, GoKP
PI-12 Public asset management	D+	Budget Documents, GoKP. Stock/Asset register
PI-13 Debt management	C	Budget documents, relevant articles of the constitution. Report on the fiscal implication of the 18th amendment.
PI-14 Macroeconomic and fiscal forecasting	C	Budget Documents, GoKP. <i>IDS (2014-18)</i>
PI-15 Fiscal strategy	D	FD (2014-15 and 2015-16) 'Summary for Cabinet-Resource Mobilization Measures GoKP (2013) 'Strategic Development Partnership Framework' GoKP (2014) 'KP-Integrated Development Strategy (2014-18)'
PI-16 Medium-term perspective in expenditure budgeting	D+	MTFF and medium term budget estimates for service delivery. FD, GoKP
PI-17. Budget preparation process	B	Budget Call Circular, FD, GoKP. Development budget formulation guidelines, P&D, GoKP. Budget proposal Submission letters to the legislature by the FD.
PI-18 Legislative scrutiny of budgets	C+	KP 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	D	Rules and tax payers information on the authorities' websites.
PI-20 Accounting for revenue	C	DG revenue receipts audit reports
PI-21 Predictability of in-year resource allocation	C+	Cash Releases Policy, FD, GoKP. AG Data, projected Cash position statement, FD (Resources Wing). Budget re-appropriation data, FD, GoKP
PI-22 Expenditure arrears	D	
PI-23 Payroll controls	C+	APPM; Financial Statement 2014/15; APPM Forms; Payroll Input Forms; Payroll Audit Report 2014
PI-24 Procurement	B	KP-PPRA Act 2012, KP-PPRA-Procurement-Rules-2014, Project documents (PC-1) of the selected projects, ADP, P&D. GoKP, Annual reports by the DG M&E, P&D, GoKP, 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	B+	APPM; GoKP Delegation of Financial Powers 2001; General Financial Rules; Budget Manual GoKP 1999; Integrated BCC 2015/16; Budget White Paper 2015/16;

Indicator	Rating	Sources
		ADP Release Policy 2014/15; Financial Statements 2014/15
PI-26 Internal audit	D+	Internal Audit Charter. Internal audit reports of the pilot departments. Internal audit plans.
PI-27 Financial data integrity	B	APPM; Monthly Bank Reconciliation Statements; Quarterly Bank Reconciliation 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	C+	GoP Chart of Accounts; GoKP Financial Statements & Appropriation Accounts 2012/13, 2013/14, 2014/15; AG Monthly Civil Accounts 2012/15; GoKP ADPs 2012/15; GoKP online BERs on the FD web portal
PI-29 Annual financial reports	C+	Delegation of Financial Powers Rules, FD. Treasury Rules. 'Annual Appropriation Accounts' and 'Annual Financial Statements'. (2012-13, 2013-14, 2014-15). AG, KP Confirmation letters from DG Provincial audit indicating the dates of submission of accounts for audit,
PI-30 External audit	D+	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	C+	PAC's annual reports 2010-11 and 2009-10. 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 Khyber (2015) '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- Government Schools (2014-15)

Finance Acts (2012-13, 2013-14, 2014-15 and 2015-16)

Finance Department ((2013-14, 2014-15 and 2015-16) 'Funds Release Policy'

Finance Department (2012-13 to 2015-16) 'Budget Call Circulars'

Finance Department (2013-14, 2014-15 and 2015-16) KP Budget White Paper

Finance Department (2014-15 and 2015-16) 'Summary for Cabinet- Resource Mobilization Measures'

Finance Department (2014-17 and 2015-18) Out put Based Budget- Budget estimates for service delivery

Finance Department (2016) 'District Government Budget Rules'

Finance Division, Government of Pakistan (2013-14 and 2014-15) 'Estimates of federal transfers to the Government of KP'

Fiscal Responsibility and Debt Limitation Act (2005)

Fiscal Transfer Rules (2016)

Government of Khyber Pakhtunkhwa 'General Financial Rules'

Government of Khyber Pakhtunkhwa (1985) 'Rules of Business'

Government of Khyber Pakhtunkhwa (2012) 'Internal Audit Charter'

Government of Khyber Pakhtunkhwa (2013) 'Strategic Development Partnership Framework'

Government of Khyber Pakhtunkhwa (2014) 'KP-Integrated Development Strategy (2014-18)'

Government of Khyber Pakhtunkhwa 'Treasury Rules'

Government of Pakistan 'Pakistan Economic Survey (2015-16)

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'

Khyber Pakhtunkhwa 'Local Government Act' (2013)

Khyber Pakhtunkhwa 'Procurement Regulatory Authority Act' (2012)

Khyber Pakhtunkhwa 'Procurement Rules' (2014)

Khyber Pakhtunkhwa 'Provincial Assembly Rules of Procedures (1988)'

Khyber Pakhtunkhwa 'Public Accounts Committee report 2010-11'

Monitoring and Evaluation Directorate (2015) 'Annual M&E report – ADP 2013-14'

National Assembly (2010) 'Constitution of the Islamic Republic of Pakistan (1973) with amendments till 2010'

Planning and Development Department, (2012-13, 2013-14, 2014-15) '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: Comparison with Previous Assessment

Using PEFA Framework 2005

Performance Indicators		Scoring Method	2007					2017					
			Dimension Ratings				Overall Score	Dimension Ratings				Overall Score	
			i	ii	iii	iv		i	ii	iii	iv		
A - Credibility of the Budget													
PI-1	Aggregate expenditure outturn compared to original approved budget	M1	D					D	B				B
PI-2	Composition of expenditure outturn compared to original approved budget	M1	C					C	C				C
PI-3	Aggregate revenue outturn compared to original approved budget	M1	D					D	D				D
PI-4	Stock and monitoring of expenditure payment arrears	M1	D	D				D	NR	D			NR
B - Comprehensiveness and Transparency													
PI-5	Classification of the budget	M1	A					A	A				A
PI-6	Comprehensiveness of information included in budget documentation	M1	B					B	B				B
PI-7	Extent of unreported government operations	M1	A	D				D+	NR	D			NR
PI-8	Transparency of intergovernmental fiscal relations	M2	A	C	C			B	A	C	C		B
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	C				C	C	D			D+
PI-10	Public access to key fiscal information	M1	C					C	B				B
C - Policy-based Budgeting													
PI-11	Orderliness and participation in the annual budget process	M2	A	A	A			A	A	B	A		A
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	M2	A	A	C	C		B	A	A	B	C	B+
D - Predictability and Control in Budget Execution													
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	B	C			C+	C	B	C		C+

Performance Indicators		Scoring Method	2007					2017				
			Dimension Ratings				Overall Score	Dimension Ratings				Overall Score
			i	ii	iii	iv		i	ii	iii	iv	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C		C	C	C		C	
PI-15	Effectiveness in collection of tax payments	M1	D	A	C		D+	NR	B	D		NR
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C	A	B		C+	D	B	C		D+
PI-17	Recording and management of cash balances, debt, and guarantees	M2	B	B	A		B+	C	A	B		B
PI-18	Effectiveness of payroll controls	M1	B	A	B	A	B+	B	A	A	C	C+
PI-19	Competition, value for money, and controls in procurement	M2	C	C	C		C	B	A	B		B+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	B	B	C		C+	C	B	C		C+
PI-21	Effectiveness of internal audit	M1	D	D	D		D	D	D	D		D
E - Accounting, Recording, and Reporting												
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	B			B	D	A			C+
PI-23	Availability of information on resources received by service delivery unit	M1	B				B	C				C
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	C		C+	C	A	B		C+
PI-25	Quality and timeliness of annual financial statements	M1	B	B	B		B	C	A	A		C+
F - External Scrutiny and Audit												
PI-26	Scope, nature, and follow-up of external audit	M1	B	D	C		D+	C	D	C		D+
PI-27	Legislative scrutiny of the annual budget law	M1	A	B	C	B	C+	A	B	D	B	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	B	C		D+/D	D	B	C		D+

Calculation Sheets for PI-1 and PI-2 of Annex 4

Table 1 - Fiscal years for assessment	
Year 1	2012-13
Year 2	2013-14
Year 3	2014-15

Table 2						
Data for year	2012-13					
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
01 General public service	127,836	115,093	120,364	-5,271	5,271	4%
02 Defense affairs & services	-	-	-	-	-	0%
03 Public order and safety affairs	28,784	28,954	27,102	1,852	1,852	7%
04 Economic affairs	11,376	11,625	10,711	914	914	9%
05 Environment protection	22	23	21	2	2	11%
06 Housing and community amenities	193	170	182	-12	12	6%
07 Health	7,236	7,082	6,813	269	269	4%
08 Recreational, culture and religion	605	531	570	-39	39	7%
09 Education affairs and services	10,973	10,557	10,332	225	225	2%
10 Social protection	4,574	5,125	4,307	818	818	19%
(i) Revenue expenditure	14,045	11,099	13,224	-2,125	2,125	16%
(ii) Capital expenditure (excluding FPA)	60,155	59,661	56,639	3,022	3,022	5%
Capital expenditure: loans and advances excluding debt servicing	6,003	5,996	5,652	344	344	6%
Allocated expenditure	271,802	255,916	255,916	0	14,894	6%
Interests						
Contingency						
Total expenditure	271,802	255,916				
Aggregate outturn (PI-1)						94%
Composition (PI-2) variance						6%
Contingency share of budget						0%

Table 3						
Data for year	2013-14					
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
01 General public service	59,694	46,676	53,167	-6,491	6,491	12%
02 Defense affairs & services	59	56	53	3	3	7%

03 Public order and safety affairs	30,029	31,309	26,746	4,563	4,563	17%
04 Economic affairs	17,524	15,074	15,608	-534	534	3%
05 Environment protection	30	27	27	0	0	1%
06 Housing and community amenities	4,293	3,401	3,824	-423	423	11%
07 Health	19,109	18,620	17,020	1,600	1,600	9%
08 Recreational, culture and religion	737	608	656	-48	48	7%
09 Education affairs and services	72,688	70,937	64,740	6,197	6,197	10%
10 Social protection	6,837	4,317	6,089	-1,772	1,772	29%
(i) Revenue expenditure	17,883	14,260	15,928	-1,668	1,668	10%
(ii) Capital expenditure (excluding FPA)	65,117	55,895	57,997	-2,102	2,102	4%
Capital expenditure: loans and advances excluding debt servicing	6,290	6,276	5,602	674	674	12%
Allocated expenditure	300,290	267,456	267,456	0	26,076	10%
Interests						
Contingency						
Total expenditure	300,290	267,456				
Aggregate outturn (PI-1)						89%
Composition (PI-2) variance						10%
Contingency share of budget						0%

Table 4						
Data for year	2014-15					
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
01 General public service	73,281	58,249	66,875	-8,626	8,626	13%
02 Defense affairs & services	62	60	57	3	3	6%
03 Public order and safety affairs	35,428	36,833	32,331	4,502	4,502	14%
04 Economic affairs	19,340	17,083	17,649	-566	566	3%
05 Environment protection	37	32	34	-2	2	5%

06 Housing and community amenities	4,770	4,319	4,353	-34	34	1%
07 Health	20,986	22,392	19,151	3,241	3,241	17%
08 Recreational, culture and religion	818	647	746	-99	99	13%
09 Education affairs and services	87,632	83,198	79,971	3,227	3,227	4%
10 Social protection	7,645	4,566	6,977	-2,411	2,411	35%
(i) Revenue expenditure	28,378	24,974	25,897	-923	923	4%
(ii) Capital expenditure (excluding FPA)	71,672	67,285	65,406	1,879	1,879	3%
Capital expenditure: loans and advances excluding debt servicing	290	74	265	-191	191	72%
Allocated expenditure	350,339	319,712	319,712	0	25,703	8%
Interests						
Contingency						
Total expenditure	350,339	319,712				
Aggregate outturn (PI-1)						91%
Composition (PI-2) variance						8%
Contingency share of budget						0%

Table 5 - Results Matrix			
	for PI-1	for PI-2.1	for PI-2.3
Year	Total exp. Outturn	Composition Variance	Contingency Share
2012-13	94%	6%	0.0%
2013-14	89%	10%	
2014-15	91%	8%	

Brief Explanation of the Changes between 2007 and 2017

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
PI-1 Aggregate expenditure out-turn compared to original approved budget (i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	D	B	Performance Improved. The actual expenditure deviated by equivalent or more than 10 percent of the budgeted expenditure in only one of the last three years i.e. 2013-14. During the previous assessment, the actual expenditure deviated by equivalent or more than 15% of the budgeted expenditure in two out of the three fiscal years i.e. 2002-04.
PI-2 Composition of expenditure out-turn compared to original approved budget (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	C	C	Performance Unchanged. The 2007 PEFA assessment reported a variance in expenditure composition exceeding 10 percentage points in one fiscal year (2003-04). A similar situation continues with a variation in expenditure composition of 10% during 2013-14.
PI-3 Aggregate revenue out-turn compared to original approved budget (i) Actual domestic revenue compared to domestic revenue in the originally approved budget.	D	D	Performance Unchanged. Actual domestic revenue continued to remain below 92% of the budgeted domestic revenue estimates in two of the last three fiscal years.
PI-4 Stock and monitoring of expenditure payment arrears (i) Stock of expenditure payment arrears and any recent change in the stock	D	NR	Overall rating based on M1 methodology. Performance Unchanged. There was no system of recording stock of arrears previously and the same status prevails.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	Performance Unchanged. Data not available.
PI-5 Classification of the budget (i) The classification system used for formulation, execution and reporting of the central government's budget.	A	A	Performance unchanged. GFS 1986/COFOG compliant chart of accounts is used for budget formulation, execution and reporting since FY2004-05
PI-6 Comprehensiveness of information included in budget documentation (i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).	B	B	Performance Improved. Performance slightly improved through inclusion of information on financial assets in budget documentation. However, the overall score remains unchanged. GoKP needs to focus presenting prior year's budget out-turn information in its annual budget proposal
PI-7 Extent of unreported government operations	D+	NR	Overall rating based on M1 methodology.
(i) The level of extra-budgetary expenditure which is unreported i.e. not included in fiscal reports	A	NR	Performance Deteriorated. The exact size of expenditure outside financial reports could not be determined because both the FD and P&D Department lack the requisite institutional mechanism.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	D	D	Performance Unchanged. Information on donor-funded projects included in fiscal reports continues to be seriously deficient.
PI-8 Transparency of inter-governmental fiscal relations	B	B	Overall rating based on M2 methodology.
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)	A	A	Performance Unchanged. Formula based transfers i.e. PFC Award (at least 90 percent by value) continues as a prime instrument for horizontal allocation among SN Governments.
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year	C	C	Performance Unchanged. Even though during the assessment period elected LGs were not in place, but the key challenge of timely determination of LGs share continues to be restrained by less buoyant and highly uncertain revenue collection of Provincial Government.
(iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories	C	C	Performance Unchanged. Even though during the assessment period elected LGs were not in place, but consolidation and reporting of fiscal data in the accounts of Provincial Government (below district level) still remains as a key challenge.
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C	D+	Overall rating based on M1 methodology.
(i) Extent of central government monitoring of AGAs and PEs	C	C	Performance unchanged. The financial statements of most AGAs and PEs continue to be submitted to the Provincial Government at-least annually; however a consolidated overview of the overall fiscal risk situation for effective monitoring remains missing.
(ii) Extent of central government monitoring of SN governments' fiscal position	C	D	Performance Deteriorated. Absence of a robust institutional mechanism ensuring a consolidated

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
			overview of the net fiscal position of SN governments.
PI-10 Public access to key fiscal information (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).	C	B	Performance improved. Since the last assessment, in-year budget execution reports have been made publically available resulting in an improvement in the rating. At present, 3 out of 6 listed elements of information are publicly available; previously only 2 elements of information were publicly available.
PI-11 Orderliness and participation in the annual budget process (i) Existence of and adherence to a fixed budget calendar	A	A	Overall rating based on M2 methodology. Performance Unchanged. A clear annual budget calendar continues to exist, is generally adhered to and allows MDAs enough time (more than six weeks from receipt of the budget circular) to meaningfully prepare their budget estimates.
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	A	B	Performance Deteriorated. The previous assessment noted that budget circular is issued to MDAs, which reflects ceilings approved by Cabinet prior to the circular's distribution to MDAs. Deterioration in performance is noted as Cabinet's approval of ceilings now takes place after the circular distribution to MDAs.
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	A	A	Performance unchanged. The budget has always been approved by the legislature before the start of fiscal year in the last three years.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting (i) Preparation of multi -year fiscal forecasts and functional allocations	B	B+	Overall rating based on M2 methodology. Performance unchanged. The adoption of MTFP and MTBF continues to provide fiscal forecasts for the medium term of 3 years on rolling annual basis by administrative, economic and functional classification.
(ii) Scope and frequency of debt sustainability analysis	A	A	Performance unchanged. Debt sustainability analysis for external and domestic debt is undertaken annually by the FD.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	C	B	Performance Improved. Relatively, more robust costed statements of sector strategies for several major sectors introduced via Integrated Development Strategy, ESP, and HSS.
(iv) Linkages between investment budgets and forward expenditure estimates	C	C	Performance Unchanged. Weak linkages persist between investment decisions and sector strategies with little or no reflection of the flow-on affect in forward budget estimates.
PI-13 Transparency of taxpayer obligations and liabilities (i) Clarity and comprehensiveness of tax liabilities	C+	C+	Overall rating based on M2 methodology. Performance Unchanged. The discretionary powers vested with the tax authorities for the assessment of taxes continue to limit fairness of the system.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	B	Performance Unchanged. Taxpayers' access to information on liabilities and administrative

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
			procedures continues to be there for some of the major taxes.
(iii) Existence and functioning of a tax appeals mechanism	C	C	Performance Unchanged. The need for redesigning prevalent tax appeals system of administrative procedures prevails.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C	C	Overall rating based on M2 methodology.
(i) Controls in the taxpayer registration system	C	C	Performance Unchanged. Taxpayers' registration in weakly linked database systems for individual taxes persists.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	Performance Unchanged. The real impact of penalties on compliance still requires substantial changes in their structure, levels or administration.
(iii) Planning and monitoring of tax audit and fraud investigation programs	C	C	Performance Unchanged. Risk based assessment of tax audit and fraud investigation programs continue to be missing.
PI-15 Effectiveness in collection of tax payments	D+	NR	Overall rating based on M1 methodology.
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	D	NR	Performance Unchanged. Historical tax arrears data remains missing.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	B	Performance Deteriorated. Mostly nominated branches of the banks where the GoKP tax revenue is tendered, on a daily basis prepare and disseminate daily bank scrolls to the treasury wings in DAOs. These wings incorporate the same on a daily basis in the the GFMIS.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	C	D	Performance deteriorated. Reconciliation of tax revenue remains limited to tax collection and transfers. Tax arrears reconciliation does not take place between the FD and the Revenue authorities
PI-16 Predictability in the availability of funds for commitment of expenditures	C+	D+	Overall rating based on M1 methodology.
(i) Extent to which cash flows are forecast and monitored	C	D	Performance Deteriorated. Cash forecasting and monitoring takes place on monthly basis, however does not reflect the commitments of the LDs or liabilities created. However, the previous assessment considered the budget as cash forecast and rated the dimension as C.
(ii) Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment	A	B	Performance Deteriorated. Information on cash releases is made available on quarterly basis for development budget. The previous assessment considered intimation of release policy with actual cash releases at the discretion of PAOs and Budget DDOs and rate the dimension as A.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of departments	B	C	Performance Deteriorated. In year budget estimates are rules based and transparent, but significant number of adjustments takes place. The 2007 assessment reported that Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.
PI-17 Recording and management of cash balances, debt and guarantees	B+	B	Overall rating based on M2 methodology.
(i) Quality of debt data recording and reporting	B	C	Performance Deteriorated. Domestic and foreign debt records are reconciled and produced annually in the Budget White Paper. A dedicated and specialized module for debt management has not been operationalized in the GFMIS. The 2007 assessment reported quarterly reconciliation with a fairly high standard data produced annually and rated as B.
(ii) Extent of consolidation of the government's cash balances	B	A	Performance improved. Daily cash balance position is prepared based on the inflows and outflows reported by the State Bank, National Bank and taking into account the intergovernmental adjustments. The net flows are accounted for against the opening balance to arrive at the daily cash balance.
(iii) Systems for contracting loans and issuance of guarantees	A	B	Performance Deteriorated. After the 18th amendment to the Constitution, provinces authorized to incur debt against their consolidated funds, but the requisite framework for debt management in agreement with the National Economic Council not developed.
PI-18 Effectiveness of payroll controls	B+	C+	Overall rating based on M1 methodology.
(i) Degree of integration and reconciliation between personnel records and payroll data	B	B	Performance Unchanged. Payroll continues to be supported by full documentation and checked against previous month's data. However, direct linkage of personnel and payroll data is still missing.
(ii) Timeliness of changes to personnel records and the payroll	A	A	Performance Unchanged. Amendments to payroll data & personnel records are updated monthly and results in audit trail. Retroactive adjustments are rare and less than 3% of the wage bill.
(iii) Internal controls of changes to personnel records and the payroll	B	A	Performance Improved. Authorization and basis of changes in personnel record and payroll comprehensively defined in the controls framework-General Financial Rules and APPM.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	A	C	Performance Deteriorated. The assessment noted partial payroll audit/physical survey than across GoKP.
PI-19 Competition, value for money and controls in procurement	C	B+	Overall rating based on M2 methodology.
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	C	B	Performance Improved. Performance improved by establishment of KP-PPRA and KP public procurement rules, 2014. Open competitive bidding stands as a default procurement method.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(ii) Justification for use of less competitive procurement methods	C	A	Performance Improved. The KP-PPRA promulgated in 2012 and the KP-PPRA notified in 2014 entail sufficient and clear provisions on exemptions to competitive bidding process. The 2007 assessment noted weak or missing justification for use of less competitive bidding.
(iii) Existence and operation of a procurement complaints mechanism	C	B	Performance improved. Comprehensive procurement complaint management is devised in the KP-PPRA. However, evidence for timely disposal of complaints and its accessibility to public scrutiny could not be obtained.
PI-20 Effectiveness of internal controls for non-salary expenditure	C+	C+	Overall rating based on M1 methodology.
(i) Effectiveness of expenditure commitment controls	B	C	Performance Deteriorated. Commitment controls are exercised through the available controls framework notified in the rules and manuals. The GFMS has the capacity for commitment accounting however its implementation hasn't been comprehensive. The 2007 assessment used budget appropriation register as the basis for commitment control.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	B	B	Performance unchanged. Same Set of rules and regulations prevail, these are often excessive and mostly lead to operational delays.
(iii) Degree of compliance with rules for processing and recording transactions	C	C	Performance Unchanged. Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations remains an important concern.
PI-21 Effectiveness of internal audit	D	D	Overall rating based on M1 methodology.
(i) Coverage and quality of the internal audit function	D	D	Performance Unchanged. The 2007 assessment noted little or no internal audit. However, the current assessment reveals the establishment of Internal audit cells in 11 LDs under a charter approved by the provincial cabinet but it is still deficient to meet recognized professional standards and the criteria
(ii) Frequency and distribution of reports	D	D	Performance Unchanged. Frequency and distribution of internal audit reports remain very irregular.
(iii) Extent of management response to internal audit findings	D	D	Performance Unchanged. Management response to IA findings continues to be a key gap.
PI-22 Timeliness and regularity of accounts reconciliation	B	C+	Overall rating based on M2 methodology.
(i) Regularity of bank reconciliation	B	D	Performance deteriorated: Monthly reconciliation for all central government bank accounts takes place between the DAO and the Bank and is reported to the AG office each month. However, due to delays in reconciliation with SBP (more than 8 weeks after the close of the quarter) the dimension has been rated D.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B	A	Performance Improved. Reconciliation and clearance of suspense accounts takes place on monthly basis while for advances it takes place at least quarterly. The 2007 assessment reported this timeline to be at-least annually.
PI-23 Availability of information on resources received by service delivery units (i) Collection and processing of information to demonstrate that resources were actually received (in cash and in kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	B	C	Performance deteriorated. Cash and in kind resources received by primary service delivery units remain an area of concern. Information on the frontline service delivery units at primary level is not available on the GFMIS. One survey (Expenditure tracking survey) for primary health units conducted in the period under review and report prepared.
PI-24 Quality and timeliness of in-year budget reports	C+	C+	Overall rating based on M1 methodology.
(i) Scope of reports in terms of coverage and comparability with budget estimates	C	C	Performance Unchanged. Classification of development budget continues to allow direct comparison to the original budget for main administrative heading only. Expenditure continues to be captured at payment stage only.
(ii) Timeliness of the issue of reports	A	A	Performance Unchanged. All LDs provided with access to the online GFMIS and reports can be generated on needed periodicity.
(iii) Quality of information	C	B	Performance Improved. The roll out of the GFMIS enhanced the quality of information, though issues gaps remain with regard to lack of commitment accounting and reporting of assets and liabilities.
PI-25 Quality and timeliness of financial statements	B	C+	Overall rating based on M1 methodology.
(i) Completeness of the financial statements	B	C	Performance deteriorated. Annual Financial statements do not report on assets and liabilities.
(ii) Timeliness of the submission of the financial statements	B	A	Performance Improved. There is improvement as financial statements are submitted to external audit within 5 months of the close of the fiscal year. Earlier, the submission period was between 6-10 months.
(iii) Accounting standards used	B	A	Performance Improved. Financial reporting improved over time. The national framework complies with the majority of the mandatory requirements of IPSAS.
PI-26 Scope, nature and follow-up of external audit	D+	D+	Overall rating based on M1 methodology.
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	C	Performance Deteriorated. The current assessment noted that entities audited represent less than 75% of total expenditure. The 2007 assessment

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
			noted that all entities of the provincial and district governments are audited annually and rated as B.
(ii) Timeliness of submission of audit reports to legislature	D	D	Performance Unchanged. Considerable delays persist in submission of audit reports to legislature. The audit report for 2013-14 submitted to Governor in Mar, 2015 could not be received by the Assembly till Jun, 2016.
(iii) Evidence of follow up on audit recommendations	C	C	Performance Unchanged. A formal response is provided by the Executive however gaps were identified in the timely convening of the DAC
PI-27 Legislative scrutiny of the annual budget law	C+	D+	Overall rating based on M1 methodology.
(i) Scope of legislature's scrutiny	A	A	Performance Unchanged. The legislature's review covers fiscal policies, MTF, and medium term priorities as well as details of expenditure and revenue.
(ii) Extent to which the legislature's procedures are well-established and respected	B	B	Performance Unchanged. Simple procedures continue to exist for the legislature's budget review and are respected.
(iii) Adequacy of time for the legislature to provide response to budget proposals both 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)	C	D	Performance Deteriorated. GoKP submitted budget proposals to the legislature less than one month before the start of fiscal year. The 2007 assessment rated it C on the basis of political and administrative engagement outside the PA during the budget making process and higher dependency of GoKP on Federal Budget.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	B	Performance Unchanged. The Constitution of Pakistan authorizes the executive for supplementary grants during the year not reflected in the budget.
PI-28 Legislative scrutiny of external audit reports	D+/ D	D+	Overall rating based on M1 methodology.
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	D	D	Performance unchanged. In the past three years the scrutiny process and submission of the PAC report to the House is completed with a time lag of 12 months or over.
(ii) Extent of hearings on key findings undertaken by the legislature	B	B	Performance unchanged. When PAC is in session, it holds extensive hearings.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	C	C	Performance Unchanged. Compliance with PAC directives by the executive continues to be a serious concern.

S

Annex 5: Calculation Sheets for HLG Transfers & Expenditure Out-turns
HLG 1.1 Outturn of transfers from HLG and HLG 1.2 Earmarked Grants outturn

Data for year =	2012-13					
Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
1% War on terror	22,071	19,047	18,347	701	701	4%
Population Welfare	477	743	397	347	347	87%
Foreign Project Assistance	23,258	9,511	19,333	(9,822)	9,822	51%
PSDP (Federal)	2,446	3,656	2,034	1,622	1,622	80%
Foreign Grants (PDMA)	1,691	-	1,406	(1,406)	1,406	100%
Foreign Grants (Others)	-	-	-	-	-	-
Other transfers aggregate	237,093	205,644	197,086	8,558	8,558	4%
Total revenue	287,037	238,602	238,602	-	22,456	
Overall variance						83%
Composition variance						9%
Data for year =	2013-14					
HLG Transfers						
1% War on terror	23,823	21,630	20,930	700	700	3%
Population Welfare	477	834	419	415	415	99%
Foreign Project Assistance	35,000	15,405	30,749	(15,344)	15,344	50%
PSDP (Federal)	2,214	2,866	1,945	921	921	47%
Foreign Grants (PDMA)	-	-	-	-	-	-
Foreign Grants (Others)	8,412	-	7,390	(7,390)	7,390	100%
Other transfers aggregate	257,015	246,499	225,801	20,698	20,698	9%
Total revenue	326,941	287,234	287,234	-	45,469	
Overall variance						88%
Composition variance						16%
Data for year =	2014-15					
1% War on terror	27,290	24,423	20,734	3,689	3,689	18%
Population Welfare	477	1,283	362	921	921	254%
Foreign Project Assistance	35,350	9,722	26,857	(17,135)	17,135	64%
PSDP (Federal)	3,437	4,355	2,611	1,744	1,744	67%
Foreign Grants (PDMA)	1,500	529	1,140	(611)	611	54%
Foreign Grants (Others)	1,388	1,388	1,055	333	333	32%
Other transfers aggregate	300,906	239,673	228,615	11,058	11,058	5%
Total revenue	370,348	281,374	281,374	-	35,492	
Overall variance						76%
Composition variance						13%

PI 2: Expenditure Out-turns

Dimension 2.1 and 2.2: Aggregate and Functional expenditure composition Outturn

Data for year 2012-13						
Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
01 General Public Service	127,836	115,093	112,386	2,707	2,707	2%
02 Defense Affairs & Services	-	-	-	-	-	0%
03 Public Order and Safety Affairs	28,784	28,954	25,305	3,649	3,649	14%
04 Economic Affairs	11,376	11,625	10,001	1,624	1,624	16%
05 Environment Protection	22	23	19.8	3.0	3	15%
06 Housing and community amenities	193	170	170	0	0	0%
07 Health	7,236	7,082	6,362	720	720	11%
08 Recreational, culture and religion	605	531	532	(0)	0	0%
09 Education affairs and services	10,973	10,557	9,647	911	911	9%
10 Social Protection	4,574	5,125	4,021	1,103	1,103	27%
Total current revenue expenditure	191,600	179,161	168,443	10,717	10,718	6%
(i) Revenue Expenditure (including FPA)	14,045	11,099	12,347	(1,248)	1,248	10%
(ii) Capital Expenditure (including FPA)	83,413	63,144	73,332	(10,188)	10,188	14%
Total Development Expenditure (i+ii)	97,458	74,243	85,679	(11,436)	11,436	13%
Capital expenditure: Loans and Advances excluding debt servicing	6,003	5,996	5,277	719	719	14%
Allocated expenditure	295,061	259,400	259,400	-	22,873	9%
Contingency	-	-				
Total expenditure	295,061	259,400.2				
Overall (PI-1) variance						88%
Composition (PI-2) variance						9%
Contingency share of budget						0%

Data for year 2013-14						
Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
01 General Public Service	59,694	46,676	48,334	(1,658)	1,658	3%
02 Defence Affairs & Services	59	56	48	8	8	17%
03 Public Order and Safety Affairs	30,029	31,309	24,314	6,995	6,995	29%
04 Economic Affairs	17,524	15,074	14,189	885	885	6%
05 Environment Protection	30	27	24	3	3	12%
06 Housing and community amenities	4,293	3,401	3,476	(75)	75	2%
07 Health	19,109	18,620	15,472	3,147	3,147	20%
08 Recreational, culture and religion	737	608	597	11	11	2%
09 Education affairs and services	72,688	70,937	58,855	12,081	12,081	21%
10 Social Protection	6,837	4,317	5,536	(1,219)	1,219	22%
Total Current revenue Expenditure (01-10)	211,000	191,024	170,847	20,178	26,083	15%
(i) Revenue Expenditure (including FPA)	17,883	14,260	14,480	(220)	220	2%
(ii) Capital Expenditure (including FPA)	100,117	59,924	81,064	(21,141)	21,141	26%
Total Development expenditure (i+ii)	118,000	74,184	95,545	(21,360)	21,360	22%
Capital expenditure: Loans and Advances excluding debt servicing	6,290	6,276	5,093	1,183	1,183	23%
Allocated expenditure	335,290	271,484	271,484	-	48,626	18%
Contingency	-	-	-	-	-	
Total expenditure	335,290	271,484				
Overall (PI-1) variance						81%
Composition (PI-2) variance						18%
Contingency share of budget						0%

Data for year 2014-15						
Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
01 General Public Service	73,281	58,249	62,738	-4,489	4,489	7%
02 Defense Affairs & Services	62	60	53	7	7	13%
03 Public Order and Safety Affairs	35,428	36,833	30,331	6,502	6,502	21%
04 Economic Affairs	19,340	17,083	16,558	525	525	3%
05 Environment Protection	37	32	32	0	0	1%
06 Housing and community amenities	4,770	4,319	4,084	235	235	6%
07 Health	20,986	22,392	17,967	4,426	4,426	25%
08 Recreational, culture and religion	818	647	700	-53	53	8%
09 Education affairs and services	87,632	83,198	75,025	8,173	8,173	11%
10 Social Protection	7,645	4,566	6,545	-1,979	1,979	30%
Total current revenue expenditure (01-10)	250,000	227,380	214,033	13,347	26,389	12%
(i) Revenue Expenditure (including FPA)	28,378	24,974	24,295	678	678	3%
(ii) Capital Expenditure (including FPA)	111,427	81,545	95,396	-13,851	13,851	15%
Total Development Expenditure (i+ii)	139,805	106,519	119,692	-13,173	14,529	12%
Capital expenditure: Loans and Advances excluding debt servicing	290	74	248	-174	174	70%
Allocated expenditure	390,095	333,973	333,973	-0	41,092	12%
Contingency	-					
Total expenditure	390,095	333,973				
Overall (PI-1) variance						86%
Composition (PI-2) variance						12%
Contingency share of budget						0%

Dimension 2.2:

Data for year	2012-13					
Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
A01-Employees Related Expenses.	44,299	39,191	38,673	518	518	1%
A02-Project Pre-Investment Analysis	443	68	387	(319)	319	82%
A03-Operating Expenses	72,099	50,664	62,943	(12,278)	12,278	20%
A04-Employees' Retirement Benefits	18,584	17,540	16,224	1,317	1,317	8%
A05-Grants Subsidies And Write Off Loans	89,709	87,430	78,316	9,113	9,113	12%
A06-Transfers	1,312	6,724	1,145	5,579	5,579	487%
A07-Interest Payment	7,939	5,122	6,931	(1,809)	1,809	26%
A 08- Loans And Advances	6,002	5,996	5,241	755	755	14%
A09-Physical Assets	404	995	353	642	642	182%
A10-Principal Repayments Of Loans	9,563	5,257	8,349	(3,092)	3,092	37%
A11-Investment	9,000	9,000	7,857	1,143	1,143	15%
A12-Civil Works	40,704	33,285	35,535	(2,249)	2,249	6%
A13-Repairs And Maintenance	2,943	3,249	2,570	680	680	26%
Total expenditure	303,000	264,522	264,522	0	39,495	
Composition variance						15%

Data for year	2013-14					
Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
A01-Employees Related Expenses.	125,238	118,857	101,824	17,033	17,033	17%
A02-Project Pre-Investment Analysis	1,178	612	958	(346)	346	36%
A03-Operating Expenses	93,633	54,410	76,128	(21,718)	21,718	29%
A04-Employees' Retirement Benefits	21,020	21,449	17,090	4,359	4,359	26%
A05-Grants Subsidies And Write Off Loans	11,563	10,995	9,402	1,594	1,594	17%
A06-Transfers	1,391	8,403	1,131	7,273	7,273	643%
A07-Interest Payment	8,710	8,204	7,082	1,123	1,123	16%
A 08- Loans And Advances	6,280	6,276	5,106	1,170	1,170	23%
A09-Physical Assets	2,752	2,982	2,237	744	744	33%
A10-Principal Repayments Of Loans	11,169	6,034	9,081	(3,047)	3,047	34%
A11-Investment	10,000	9,500	8,130	1,370	1,370	17%
A12-Civil Works	46,428	28,453	37,748	(9,295)	9,295	25%
A13-Repairs And Maintenance	4,638	3,513	3,771	(257)	257	7%
Total expenditure	344,000	279,689	279,689	0	69,328	
Composition variance						25%

Data for year =	2014-15					
Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
A01-Employees Related Expenses.	145,772	132,508	122,565	9,943	9,943	8%
A02-Project Pre-Investment Analysis	2,187	921	1,839	(918)	918	50%
A03-Operating Expenses	96,027	64,290	80,740	(16,450)	16,450	20%
A04-Employees' Retirement Benefits	24,554	25,667	20,645	5,022	5,022	24%
A05-Grants Subsidies And Write Off Loans	25,875	25,702	21,756	3,947	3,947	18%
A06-Transfers	1,484	9,371	1,248	8,123	8,123	651%
A07-Interest Payment	14,710	6,388	12,368	(5,981)	5,981	48%
A 08- Loans And Advances	280	194	235	(41)	41	18%
A09-Physical Assets	3,148	3,636	2,647	989	989	37%
A10-Principal Repayments Of Loans	13,090	5,957	11,006	(5,049)	5,049	46%
A11-Investment	12,000	13,944	10,090	3,854	3,854	38%
A12-Civil Works	59,928	42,980	50,387	(7,408)	7,408	15%
A13-Repairs And Maintenance	5,750	8,803	4,835	3,968	3,968	82%
Total Expenditure	404,805	340,361	340,361	0	71,693	
Composition Variance						21%

PI 3: Revenue Out-turns

Data for year	2012-13					
Revenue Type	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	%
Tax revenues						
Excise & Taxation	1,767	1,612	1,459.0	152.5	152.5	10%
Board of Revenue	1,814	2,195	1,497.8	697.6	697.6	47%
GST (Federal)	9,886	2,411	8,163.0	-5,752.5	5,752.5	70%
Others- Licensing, advertising, electricity duty, etc.)	747	520	616.8	-96.8	96.8	16%
Other revenues						
Departmental collections	3,836	5,493	3,167.4	2,325.8	2,325.8	73%
Hydel own generation	2,402	1,900	1,983.7	-83.7	83.7	4%
Population Welfare	477	747	394.2	353.2	353.2	90%
Net Hydel Profit	6,000	3,000	4,954.1	-1,954.1	1,954.1	39%
Net Hydel Profit Arrears	25,000	25,000	20,642.0	4,358.0	4,358.0	21%
Total revenue	51,930	42,878	42,878	(0)	15,774	
Overall variance						83%
Composition variance						37%
Data for year	2013-14					
Revenue Type	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	%
Tax revenues						
Excise & Taxation	7,932	7,374	9,001.0	-1,627.0	1,627.0	18%
Board of Revenue	2,023	2,612	2,295.8	315.7	315.7	14%
GST (Federal)	-	1,415	0.0	1,414.7	1,414.7	100%
Others- Licensing, advertising, electricity duty, etc.)	720	494	816.5	-322.1	322.1	39%
Other revenues						
Departmental collections	4,272	6,731	4,847.4	1,883.4	1,883.4	39%
Hydel own generation	2,361	2,800	2,679.5	120.5	120.5	4%
Population Welfare	477	834	541.3	293.0	293.0	54%
Net Hydel Profit	6,000	8,100	6,808.7	1,291.3	1,291.3	19%
Net Hydel Profit Arrears	25,000	25,000	28,369.4	-3,369.4	3,369.4	12%
Total revenue	48,785	55,360	55,360	(0)	10,637	
Overall variance						113%
Composition variance						19%
Data for year	2014-15					
Revenue Type	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	%
Tax revenues						
Excise & Taxation	16,418	8,212	7,078.2	1,133.9	1,133.9	16.0%
Board of Revenue	2,699	3,119	1,163.6	1,955.6	1,955.6	168.1%

Others- Licensing, advertising, electricity duty, etc.)	776	336	334.5	1.0	1.0	0.3%
Other revenues						
Departmental collections	6,478	8,442	2,792.7	5,649.5	5,649.5	202.3%
Hydel own generation	2,850	2,598	1,228.7	1,368.8	1,368.8	111.4%
Population Welfare	477	1,283	205.6	1,077.7	1,077.7	524.1%
Net Hydel Profit	12,000	7,900	5,173.4	2,726.6	2,726.6	52.7%
Net Hydel Profit Arrears	32,272	-	13,913.1	-13,913.1	13,913.1	100.0%
Total revenue	73,971	31,890	31,889.9	0.0	27,826.2	
Overall variance						43%
Composition variance						87%
	Results Matrix					
	Year	Total revenue deviation		Composition variance		
	2012-13	83%		37%		
	2013-14	113%		19%		
	2014-15	43%		87%		

Annex 6: Subnational Government Profile

1. SNG structure

Pakistan has a federal form of government with a central (federal) government in the Federal Capital of Islamabad, four provinces — Balochistan, KP, Punjab, and Sindh, Federally Administered Tribal Areas (FATA), and such States and territories as are or may be included in Pakistan, whether by accession or otherwise.

The 18th amendment to the constitution completed the decentralization process extending greater political, administrative and fiscal autonomy to the provinces. The provinces have the adjudicative units lower and high courts, the latter being administratively responsible to the Supreme Court. The provinces have a consolidated fund to receive revenues loans raised. The funds received on or behalf of the provincial government, or provincial judicial proceedings shall be maintained as public account separately.

The Constitution obligates the provinces for establishment of the local governments 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.

A- Overview of subnational governance structure in Pakistan								
Government level	Corporate body?	Own political leadership?	Approves own budget?	Number of jurisdictions?	Average Population?	% of public expenditure?	% of public revenue?	% funded by transfers?
Central	Yes	Yes	Yes	1	* 180 M (Estimated population)	80% (based on ratio of external receipts in federal budget)	80% (based on ratio of external receipts in federal budget)	0
Provincial	Yes	Yes	Yes	4	29 M	**91%	91%	92 %
KP Local levels: District	Yes	Yes	Yes	26	1.116 M	100%	100%	99 %
Tehsil	Yes	Yes	Yes	77	0.376 M	100%	100%	NA
Village/ Neighborhood	Yes	Yes	Yes	3,501 (2,996 and 505)	0.008 M	100%	100%	100 %

Notes: The local government law was enacted in 2013 and subsequent to the elections the oath was administered to the elected representatives in October 2015. The fiscal year for the local government to approve and manage its budget was

for the fiscal year 2016-17 which is beyond the PEFA assessment period. The own source revenue composition of the total resources will be established at the end of FY2015-16.

*Population estimates. Census currently ongoing. 'Final' census data expected to be released by November 2017.

** % of public expenditure is the reliance of receipts on transfers and own source revenues vis-à-vis the foreign project assistance

*** Tehsil level has enjoyed body corporate status since inception and have multiple and portent revenue instruments. However collective data of its revenue mobilization is not available centrally.

In the year 2013, the provincial assembly of KP enacted the local Government Act (LGA) providing an overarching legal framework for the creation of the local governments (LG) in KP, further elaborated in the LG rules, budget rules, fiscal transfer rules and other ancillary rules and bye-laws. LGA provides for three tiers of local government – District/City District, Tehsil/Town and Village/Neighborhood Councils. There are 26 districts in KP, 72 Tehsil/Towns and 505 neighborhoods and 2996 village councils. LGA stipulates the population size for the village and neighborhood council between 2,000 and 10,000. The total estimated population of KP is 26 Million (The latest census is ongoing and data will be released towards the end of the 2017). The size of TMA and District varies with the largest population catered to by a District is Peshawar estimated at 1.8 Million.

2. Main functional responsibilities of the SNG

Amongst the three tiers of the LG, the District government is the most significant with the responsibility of major functions of service delivery and relatively largest budget in terms of expenditure, transfers and own source revenues. The key functions assigned at the district level according to the local government act are: Primary and secondary health and education, agriculture, district roads and buildings, rural development and so on. For economies of scale, additional functions are assigned if the district is notified as city district. The elevation to the city district is largely owing to the population size and the dependence of economy on urban activities greater than the rural/agriculture. Some of the revenue functions assigned at the subdistrict level (Tehsil) are assumed by the provincial government. The Urban Immovable property tax is collected by the provincial government and then transferred to the Tehsil.

3. Subnational budgetary systems

The GoKP notified the fiscal transfer rules and budget Rules for the local governments. The subnational budget cycle follows the same regulations as set for the higher tiers and similar accounting framework. The only difference is with the bank accounts. The district account are prescribed for in the Treasury with the AG office through the DAO providing the treasury and accounting functions for the Districts. All revenues, transfer and expenditure are processed through the District Account IV. At the subdistrict levels (Tehsil and VCs/NCs) are not opened in the national treasury but in banks notified by the Government and in the name of each tier, however under joint operation.

The budget and annual financial statements do not incorporate the LG budget and expenditure under an economic head, but is reflected as single line item for District government. The LGs are then required to segregate the single line allocation according to the chart of accounts.

According to the law, the SNG budgets should be enacted by its own Council (legislature) at each tier and that's how it is practiced since the year 2016. The law also provides for legislative oversight with accounts committee of the Councils at each tier.

The SNGs have the authority to procure its own supplies and capital expenditure within the remit of its responsibilities, however in the health sector the procurement of medicines and equipment takes place centrally (provincial level) for economies of scale and quality assurance. The public procurement law and rules notified by the provincial assembly and the provincial public regulatory authority are applicable to the SNGs. Although the LGs can approve projects for the functions prescribed in the LGA 2013, however the administrative approval ceilings -project approval of PKR 60 million at the district level and the technical sanction authority and the delegation of financial powers rules sets the limits within which the LGs have the independence to operate. Beyond the aforementioned ceiling, the provincial government approval is required.

4. Subnational fiscal systems

The local governments are nascent entities therefore the tax and non tax effort is not robust therefore relies mainly on the provincial transfers. The portent tax sources like the urban immoveable property tax although been devolved in the law hasn't been in practice. While another portent source i.e. advertisement tax on billboards hasn't been devolved to the LGs. In the past the octroi tax was a major source of revenue for LGs was discontinued and an equivalent collection is now provided as a federal transfer. Following are the types of taxes and non taxes notified in the Local Government Act (2013) for each tier:

<p>DISTRICT GOVERNMENT (DG)</p> <ol style="list-style-type: none"> 1. Tax for Education and Health. 2. Any other tax authorized by the Government. 3. Local rate on lands assessable to land revenue. 4. Fees in respect of educational and health facilities established or maintained by the DG. 5. Fee for licenses or permits and penalties or fines for violations. 6. Fees for specific services rendered by a DG 7. Collection charges prescribed for recovery of tax on behalf of the government, other local governments or any statutory authority. 8. Toll on roads, bridges, ferries maintained by District Government. 9. Rent for land, buildings, equipment, machinery, and vehicles owned by the DG 10. Fee for major industrial exhibitions and other public events organized by the DG 	<p>CITY DISTRICT GOVERNMENT</p> <ol style="list-style-type: none"> 1. Taxes enumerated in Part-I. 2. Fee on advertisements, other than on radio and television, and bill-boards. 3. Fee for approval of building plans, erection and re- erection of buildings. 4. Charges for execution and maintenance of works of public utility lighting of public places, drainage, conservancy and water supply operated and maintained by City District Government.
<p>TEHSIL MUNICIPAL ADMINISTRATION (TMA)</p> <ol style="list-style-type: none"> 1. Local tax on services. 2. Fee on sale of animals in cattle markets. 3. Market Fees. 4. Tax on the transfer of immovable property. 5. Urban Immoveable Property Tax as specified in this Act. 6. Fee for fairs, agricultural shows, cattle fairs, industrial exhibitions, tournaments and other public events organized by TMA 7. Fee for licenses or permits and penalties or fines for violations. 8. Fee on cinemas, drama, theatrical shows and tickets thereof, and other entertainment. 	<p>TOWN MUNICIPAL ADMINISTRATION (TMA)</p> <ol style="list-style-type: none"> 1. Taxes enumerated at Serial # 1 to 12 of Part-III. 2. Fee for approval of building plans, erection and re- erection of buildings with the approval of the City District Government.

<p>9. Collection charges prescribed for recovery of any tax on behalf of the Government, other local governments or any statutory authority.</p> <p>10. Rent for land, buildings, equipment, machinery and vehicles owned by TMA</p> <p>11. Fee for specific services rendered by a TMA.</p> <p>12. Tax on vehicles other than motor vehicles registered in the Tehsil.</p> <p>13. Fee on advertisements, other than on radio and television, and billboards.</p> <p>14. Fee for approval of building plans, erection and re-erection of buildings</p> <p>15. Charges for development, betterment, improvement and maintenance of works of public utility like lighting of public places, drainage, conservancy and water supply by Tehsil Municipal Administration.</p>	
VILLAGE & NEIGHBORHOOD COUNCILS	
<p>1. Prescribed fees for licensing of professions and vocations in the area of the Council.</p> <p>2. Fees for registration and certification of births, marriages, and deaths.</p> <p>3. Charges for specific services rendered by the Council.</p> <p>4. Rate for the remuneration of Village and Neighborhood guards.</p> <p>5. Rate for the execution or maintenance of any work of public utility like lighting of public places, drainage, conservancy and water supply operated by the Council.</p> <p>6. Conservancy charges.</p>	
<p><i>Source: Local Government Act 2013</i></p>	

The Local government Act (2013) bars the LGs from borrowing. For Fiscal Transfers, the Law (CHAPTER – XI PROVINCIAL FINANCE COMMISSION AND FISCAL TRANSFERS) provides for a Commission to formulate and monitor fiscal transfers and delineates the broad parameters of the fiscal transfer system. The Commission recommends to the GoKP the local governments share in the provincial consolidated fund including grants in lieu of Octroi and Zilla Tax. The share so determined is then allocated based on a formula with the objective of symmetric equalization scheme reflected in a formula incorporating the fiscal need, fiscal capacity, fiscal effort and fiscal performance. The Commission however has a membership of 12 individuals with only 33 percent representation from the local governments only.

Overview of SNG finances 2015-16			
Item	Total Value PKR, millions	Value Per Capita PKR	Percent of Total
Wage and salary expenditure	92,555	3,134	70%
Non-wage recurrent administrative expenditure	9,829	333	7%
Capital expenditure	30,274	1,025	23%
Total expenditure	132,658	4,492	100%
Intergovernmental fiscal transfers	132,658	4,492	100%
Other revenue sources	-	-	-
Total revenue	132,658	4,492	100%
Borrowing	-	-	-

Notes: Estimated population 29.53 (KP Bureau of Statistics).

Source: FD, GoKP.

5. Subnational institutional (political and administrative) structures

For the provincial set up, the Constitution provides for the provincial legislature, with the assembly members mostly directly elected and with some reserved seats (women, minorities etc.) elections to the assembly and functions delineated that the provincial assembly can legislate upon. The provinces are represented in the NFC, responsible for allocation of resources between the center and the federation. The local government although provided for in the Constitution, however is a provincial subject and the provincial assembly legislates for creation of local governments. In the year 2013 the provincial legislature enacted the local government act providing for a three-tiered local government system with direct elections to each Council (Legislature) of the LG.

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).

LGA (2013) provides for local council elections - Franchise, Wards and Electoral College. Following are the stipulations:

- (1) The election of members of village council, neighborhood council, tehsil council and district council shall be held on the basis of adult franchise and joint electorate.
- (2) Wards for the general seats in tehsil council and district council shall be single member territorial wards.
- (3) Each tehsil or, as the case may be, each district shall be a single ward for all seats reserved for women, peasants and workers, youth and non-Muslims allocated to the tehsil or district in the respective parts of Second Schedule.
- (4) Members to fill seats reserved for women, peasants and workers, youth and non-Muslims in the tehsil council and district council shall be elected through proportional representation system of political parties' list of candidates on the basis of the total number of general seats secured by each political party in the respective local council.

- (5) The Electoral College for the election of Nazim³³ and Naib-Nazim, District Council shall be members of the District Council.
- (6) The Electoral College for the election of Nazim and Naib-Nazim Tehsil Council shall be members of the Tehsil Council.
- (7) Elections to District Councils and Tehsil Councils shall be held on party basis and a political party shall be eligible to obtain an election symbol for contesting these elections.

Source: Local Government Act 2013

With regards to administrative decentralization, Local Government Act (LGA) 2013 devolves the following group of offices to the district government.

Devolved Offices	
(i) Primary and Secondary Education	(xiii) Livestock
(ii) Vocational Education	(xiv) On-Farm Water Management
(iii) Special Education	(xv) Soil Conservation & Soil Fertility
(iv) Adult Education and Literacy	(xvi) Fisheries
(v) Mother and Child Health Care Centers	(xvii) Cooperatives
(vi) Basic Health Units	(xviii) Social and Farm-forestry
(vii) Rural Health Centers	(xix) Hospitals other than District Headquarters, Teaching and Tertiary hospitals
(viii) Social Welfare	(xx) Rural Development & Rural Works
(ix) Community Development	(xxi) Communication and Works, District Roads and Buildings
(x) Sports and Culture	(xxii) Public Health & Public Health Engineering
(xi) Revenue & Estate	(xxiii) Population Welfare
(xii) Agriculture (Extension)	(xxiv) Coordination, Human Resource Management, Planning, Development, Finance and Budgeting functions for the devolved offices
<i>Source:</i> Local Government Act 2013.	

Clause 16 of the LGA provides for the disciplinary powers of the Nazim, District Council, 'Nazim District Council shall have powers to take disciplinary action against functionaries in district government under efficiency and disciplinary rules prescribed in this regard'. The law and order function has not been devolved to the LGs therefore the police do not report to the Nazim. Similarly, the provincial government does the appointment, posting and transfers of the District Commissioners. The Land revenue matters are also reported to the provincial government. Local government leadership has to request the provincial government for a change of such officers which although is not binding. The provincial government, on the contrary has the power to remove the LG political leadership though a process prescribed in the LG Act (Clause 55-60).

³³ Nazim is Mayor and Naib Nazim is Deputy Mayor

The KP Police Act 2017 now requires the establishment of the Public Safety Commissions for evaluation of police performance and taking cognizance of police excesses, however till the finalization of this report the Commissions had not been established.

The provincial level key political, administrative and fiscal arrangements are prescribed in the Constitution allowing for uniformity across the federation. However, the local government function being a provincial subject, the LG system in Pakistan has asymmetries with all four provincial assemblies having legislated for a system per its requirements and wishes. As a result, there are 4 different types of local government systems in the four provinces of Pakistan.

Annex 7: List of Off-Budget Projects

Project	Donor
Schools Infrastructure in Khyber Pakhtunkhwa	DFID
Khyber Pakhtunkhwa Immunization Support Program	GAVI
Peace Building Initiative Project for Khyber Pakhtunkhwa	DFID
Youth and Social Cohesion Project	UNDP
Technical assistance for Implementation of Citizens Justice and Peace Program in Khyber Pakhtunkhwa	EU
Strengthening Rule of Law Project	UNDP
Strengthening Rule of Law for Citizens Justice and Peace in Khyber Pakhtunkhwa	EU
Strengthening Govt. Efforts to Combat Child Labor through Child Labor Survey in Khyber Pakhtunkhwa	UNICEF
Khyber Pakhtunkhwa Governance Project	USAID
Multiple Initiatives under One UN Program	UN
Community Resilience in Malakand	UNDP
AAWAZ Voice and Accountability Program (DFID assisted).	DFID

Annex 8: Objectives and TORs - Planning Commission

Box 1. Objectives and TORs of the Planning Commission

The Planning Commission is the highest Authority of the Federal Government of Pakistan responsible for the Development Plan for the Country

The Cabinet Division's Resolution No. Cord(I)-8/29/59-III dated 3rd June, 1959

defined the objectives of the Planning Commission in the following terms:

1.10 **The economic and social objectives of the Government** are to promote the welfare of the people and raise the standard of living of common man by developing to the utmost the resources of the country as rapidly as possible by making provision for the basic necessities of life, educational and health facilities, and work under just and human conditions; by ensuring equitable adjustment of rights relating to the ownership and use of land and between employers and employees; and by preventing the concentration of wealth and means of production and distribution in a few hands to the detriment of the people as a whole; and by securing social justice and equal opportunity to all.

1.11 Consistent with these objectives, **the functions of the Planning Commission** were to be:

- (a) In consultation with the Central and Provincial Governments and other appropriate agencies:
 - (i) to prepare a national plan at periodic intervals for the economic and social development of the country;
 - (ii) to make assessments from time to time of the human and material resources of the country; and
 - (iii) to prepare the Annual Development Program (ADP) within the framework of the national plan and on determination of priorities to propose the allocation of resources;
- (b) To stimulate and where necessary initiate the preparation of development programs and projects; to examine and advise on all such programs and projects with a view to deciding whether these conform to national objectives and, in general, whether these contemplate the most efficient use of national resources.
- (c) To recommend such adjustments in the national plans as may be necessary in view of the changing economic situation.
- (d) To co-ordinate the examination of development programs and projects in consultation with the appropriate authorities and to secure the approval of the Central Government to acceptable programs and projects.
- (d) To advise on the nature of the machinery for securing the efficient execution of the national plan.
- (f) To watch and evaluate the progress of implementation of the development program.
- (g) To advise on important economic policies and problems of various fields.
- (h) To advise the Central and Provincial Governments, whenever so required, on economic policies and problems.
- (i) Development of appropriate cost and physical standards for effective technical and economic appraisal of projects.
- (j) Coordination of all work pertaining to:
 - (i) Indonesia - Pakistan Economic and Cultural Cooperation (IPECC);
 - (ii) Iran - Pakistan Joint Ministerial Commission;
 - (iii) Turkish - Pakistan Joint Ministerial Commission.
- (k) National Logistics Cell
- (l) Administrative control of:-
 - (i) Economists and Planners Group;
 - (ii) Pakistan Institute of Development Economics; and
 - (iii) Overseas Construction Board.

Source: Planning Commission: Manual for Development Projects.

Annex 9: Project Documents Reviewed for PIM

Sr. No	Project Title and Number
1	140612 - Establishment of 160 Govt. Primary Schools (B&G) on need basis in Khyber Pakhtunkhwa (Phase-IV)
2	140201 – Procurement of furniture under “School Furniture Project in Khyber Pakhtunkhwa.
3	110086 - Construction of Lawi HPP (69 MW) Chitral (10% ADP (Local) 90% (Rs. 12235.4 m) HDF) (PDWP 18-5-2011)
4	100168 - Construction of Karora HPP in District Shangla (9.3 MW)(10% ADP (Local) &90% (Rs. 2835.225 m) HDF/ F.I).
5	60282 - Development of Renewable energy in Khyber Pakhtunkhwa (REDSIP). (ADB Assisted/HDF)- Umbrella scheme
6	130567 - KP Districts Governance and Community Development Program (EU).
7	120888 - Integration of Health Services Delivery with special focus on MNCH, LHW and Nutrition Program (AusAid & World Bank Assisted).
8	130525 - Mass Transit Facility in Peshawar (Public Private Partnership/ADB Assisted)
9	31038 - Emergency Rural roads Rehabilitation project (JICA Assisted).
10	150737 – Multi-Donor Trust Fund for Improved Growth, Governance and Service Delivery (MDTF assisted)

Annex 10: List of Budgetary, Extra-budgetary and Public Corporations

Department	Directorates	Non-financial public corporations and authorities	Extra-budgetary units/Autonomous entities
Administration	Livestock and Dairy Development	Forest Development Corporation	Ayub Medical College, Abbottabad
Agriculture	Livestock and Dairy Development Research	Khyber Pakhtunkhwa Highway Authority	Ayub Teaching Hospital, Abbottabad
Auqaf, Hajj and Religious Minority affairs	Bureau of Agriculture information	Pakhtunkhwa Energy Development Organization	DHQ Hospital Bannu
Communication and works	DG Soil Conservation	Sarhad Development Authority	Women & Children Bannu
Culture, Sports, Tourism, Archaeology and Youth Affairs	Directorate of Agriculture Engineering	Small Industries Development Board	Khalifa Gulnawaz Tech. Hospital Bannu
Elementary and Secondary Education'	Directorate of Agriculture Extension	Tourism Corporation	Bannu Medical College
Energy and Power	Directorate of Agriculture Research	Worker Welfare Board	Gomal Medical College D.I.Khan
Establishment	Directorate of Crop reporting services	Worker Welfare Children Board	Mufti Mehmood Mem. Hospital D.I.Khan
Excise and Taxation	Directorate of Fisheries	Water and Sanitation Authorities (4)	DHQ Hospital D.I. Mardan Medical Complex, Mardan Khan
Finance	Directorate of On Farm Management	KP Oil and Gas Company Limited	Mardan Medical Complex
Food	Directorate of Veterinary Research Institute	Khyber Pakhtunkhwa economic zone and development management company	Bacha Khan Medical College Mardan
Forestry, Environment and Wildlife	Agricultural training institute	Peshawar Development Authority	Nowshera Medical College Nowshera
Health	Advocate General		Qazi Hussain Ahmad Med. Complex Nowshera
Higher Education	Stationery and Printing		Khyber Medical College, Peshawar
Home and Tribal Affairs	Auqaf and Religious Affairs		Postgraduate Medical Institute Peshawar
Housing	Bannu Development Authority		Khyber College of Dentistry, Peshawar
Industries	Board of Investment and Trade		Hayatabad Medical Complex, Peshawar
Information and Public Relations	Bureau of Statistics		Lady Reading Hospital Peshawar
Interprovincial Coordination	DG Local Board		Khyber Teaching Hospital, Peshawar
Irrigation	DG Excise and Taxation		Khyber Girls Medical College, Peshawar
Labor	DG Population Welfare		Pakistan Institute of Community Ophthalmology Hayatabad Medical Complex, Peshawar

Law, Parliamentary Affairs and Human Rights	DG Sports		Institute of Kidney Disease, Peshawar
Local Government	Directorate of anti-corruption		Bashir Bilour Memorial Children Hospital Peshawar
Minerals Development	Directorate of Archaeology and Museums		University of Peshawar
P&D	Directorate of Archives and Library		Abdul Wali Khan University
Population Welfare	Directorate of Civil Defence		University of Malakand
Public Health Engineering	Directorate of Cooperative Societies		Bacha Khan University, Charsadda
Relief, Rehabilitation and Settlement	Directorate of Culture		Shaheed Benazir Bhutto Women University Peshawar
Revenue	Directorate of Education and Manpower training		Gomal University, D.I.Khan
Science and Information Technology	Directorate of Elementary and Secondary education		Hazara University
Social Welfare	Directorate of Food		Institute of Management Sciences
Tourism	Directorate of Health Services		Islamia College university Peshawar
Transport	Directorate of Higher Education		Khyber Medical College University
Zakat and Usher	Directorate of Industries, Commerce and Labor		University of Agriculture, Peshawar
	Directorate of Information and Public Relations		Shaheed Benazir University, Sheringal
	Directorate of Information Technology		University of Swabi
	Directorate of Local Fund Audit		Kohat University of Science and Technology
	DG Monitoring and Evaluation		University of Science and Technology Bannu
	Directorate Probation and Reclamation		University of Swat
	Directorate of Prosecution		University of Engineering and Technology, Peshawar
	Directorate of Science and Technology		Provincial Disaster Management Authority
	Directorate of Social Welfare		Board of intermediate and Secondary Education, Peshawar
	Directorate of Transport		Board of intermediate and Secondary Education, Mardan
	Directorate of Treasury and Accounts		Board of intermediate and Secondary Education, Kohat

	Directorate of Women Sports		
	Directorate of Youth Affairs		
	Directorate of Zakat and Ushr		
	Employees Social Security Institution		Bank of Khyber (As footnote).
	Environmental Protection Agency		
	Directorate of Estate Office, Administration		
	Health Regulatory Authority		
	Information Technology Board		
	Labor Courts		
	Lissalie Wal Mahroom Foudation		
	Local Council Board		
	Directorate of Medical Faculty		
	Medical Health Foundation		
	Police		
	Police Public Safety Commission		
	Prison		
	Provincial Building and Maintenance Cell		
	Provincial Crisis Management Cell		
	Provincial Health Services Academy		
	Provincial Housing Authority		
	Provincial Inspection Team		
	Provincial Transport Authority		
	Reform Implementation Cell		
	Rescue 1122		
	Service Tribunal		
	Staff Training Institute		
	Technical Education		
	Wildlife		

Annex 11: Procurements Reviewed

Sr. No.	Provincial Department	District	Description of Activity/Project	Item Procured	Value of Procurement (Amount in PKR)
1	Education Sector	Peshawar	PR13000002-Establishment of 100 Govt. Primary Schools (B&G) on need basis in Khyber Pakhtunkhwa (Phase-III)	Construction	88,500,000
2	Education Sector	Peshawar	PR13000479-Establishment of GGHS Comboh GGHS Dir Colony GGHS Hasan Garhi & Rehabilitation of GHS Nanak Pura in Peshawar.	Construction	54,475,000
3	Education Sector	Peshawar	PR13000456-Continuance Capacity Development of Parent Teachers Councils (SBSE)	Consultancy	590,859,243
4	Education Sector	Mardan	MR11200416-Upgradation of 150 Middle Schools to High level (B&G) in Khyber Pakhtunkhwa on need basis (Phase-III)(SBSE)	Construction	90,402,581
5	Education Sector	Swat	SW13000470-Establishment of Cadet College Swat (Phase-II)	Construction	131,000,000
6	Education Sector	Abbottabad	AD12200359-Repair / Rehabilitation of 700 Govt. Primary Middle High & Higher Secondary Schools Partially Damaged due to floods 2010 through PTCs in Khyber Pakhtunkhwa (SBSE)	Construction	92,030,000
7	Education Sector	Peshawar	PR12100358-Provision of free Text books to all students up to Intermediate level (Phase-X)	Textbooks	2,416,893,808
8	Education Sector	Mansehra	MA14NAD006-PS11000410-Establishment of 200 Primary Schools (B&G) in Khyber Pakhtunkhwa	Construction	350,726,800
9	Education Sector	Peshawar	PR11000109-IT/Computer Science Teachers and Computer Labs Project in Khyber Pakhtunkhwa. (Phase-II)	IT Equipment	208,389,539
10	Education Sector	Swabi	SU13000238-Establishment of Karnal Sher Khan Shaheed Cadet College Swabi (Phase-II)	Construction	200,000,000
11	Roads Sector		TK14000470-"Purchase of Land for Food Grain Godowns in District Tank"	Land	1,645,000
12	Roads Sector		PR12000054-PS12000054-Dualization of Charsadda -Tangi Roadi/c Utmanzai Road Bypass District Charsadda (23 Kms).	Road	580,000,000

13	Roads Sector		PR13000501-Construction of Swat Expressway (Land Acquisition).	Land	517,538,000
14	Roads Sector		PR10000354-F/S of Northern Bypass Road Mardan.	Road	358,999,780
15	Roads Sector		PR09100086-PS09100086-F/S and Construction of road from Chukiathan to Sheringal and Patrakby FHA (36km) Dir Upper (Total cost 981.370 million -50:50 cost sharing basis with federal Government)	Road	351,587,000
16	Roads Sector		PR14000112-Construction of Haripur Bypass Road (23Km) (Land Acquisition) Phase-I	Road	340,000,000
17	Roads Sector		PR11100400- Upgradation/Rehabilitation of Road from Chakdara to Madian on the Right Bank of River Swat: Kanjo to Chakdara 41KM (MDTF Assisted)	Road	793,199,582
18	Roads Sector		PR13000497-Improvement and Rehabilitation of Barian-Nathia Gali Road (23 KM) Abbottabad.	Road	306,741,000
19	Roads Sector		PR11000185-Constn: of Service Roads, along with fencing on both sides of Eastern & Western by passes & 2 Nos.O/Hbridges on N-45 and Charsadda Road (62 Kms) (CM directives).	Road	300,000,000
20	Roads Sector		PR11100401- Upgradation/Rehabilitation of Road from Chakdara to Madian on the Right Bank of River Swat	Road	412,892,643
21	Health Sector		PR06001047-Establishment of Peshawar Institute of Cardiology Phase-II (Matching Grant).	Construction	550,000,000
22	Health Sector		NR03001088-Improvement & Standardization of DHQ Hospital in Nowshera (Matching Grant).		340,993,000
23	Health Sector		BU03001000-Establishment of Category-A Hospital at Bannu Township named as Khalifa Gul Nawaz Medical Complex	Construction	295,000,000
24	Health Sector		PR13000396-""Integration of Health Services Delivery with special focus on MNCH, LHW and Nutrition Program		613,270,000
25	Health Sector		PR14000059-Treatment of Poor Cancer Patients (Phase-II).		200,000,000
26	Health Sector		NR03101088-Improvement & Standardization of DHQ Hospital in Nowshera		500,000,000

27	Health Sector		MD13000263-""Purchase of equipment for 1Category-A,4 Category-C and 4 Category-D Hospitals of Khyber Pakhtunkhwa (DIK)	Equipment	166,182,000
28	Health Sector		PR13000272-""Integration of Health Services Delivery with special focus on MNCH, LHW and Nutrition Program		250,000,000
29	Health Sector		HR13000263-""Purchase of equipment for 1Category-A,4 Category-C and 4 Category-D Hospitals of Khyber Pakhtunkhwa (DIK,Ka)	Equipment	83,212,000
30	Health Sector		NR14000536-Establishment of Nowshera Medical College Nowshera.	Construction	186,120,000
31	Higher Education Sector		SU13100255-Establishment of Women University Campus in Swabi	Construction	400,000,000
32	Higher Education Sector		SU14000037-Support to Ghulam Ishaq Khan Institute Swabi.	Construction	200,000,000
33	Higher Education Sector		MR11000003-Establishment of Abdul Wali Khan University at Mardan.	Construction	192,197,000
34	Higher Education Sector		SW04001132-Establishment of Govt. Colleges in NWFP.	Construction	130,260,250
35	Higher Education Sector		PR14000018-Completion of PSDP Devolved Projects in District Shangla (GDC Puran & GGDC Alpuri)	Construction	80,000,000
36	Higher Education Sector		HR12000272-PS12000272- Upgradation of Haripur Sub-Campus to Haripur University.	Construction	411,287,000
37	Higher Education Sector		SW13000257-Establishment of Swat University (Counterpart funding for PSDP Project)	Construction	300,000,000
38	Higher Education Sector		PR14000023-Provision of Transport Facilities for Teachers / Students of Govt. Colleges in Khyber Pakhtunkhwa.	Transport	190,575,000
39	Higher Education Sector		PR14000031-Support for Establishment of Gandhara Hindko Academy.	Construction	70,000,000
40	Higher Education Sector		HR14000042-Construction of Boundary Wall of University of Haripur.	Construction	60,000,000
41	Water and Sanitation Sector		PR13000037-Construction of Sanitation schemes in Khyber Pakhtunkhwa.	WSS	308,938,916
42	Water and Sanitation Sector		PR13000036-Construction of Water Supply Schemes in Khyber Pakhtunkhwa.	WSS	308,412,645

43	Water and Sanitation Sector		MD09000040-Feasibility Study / Construction for Gravity based Water Supply Scheme Batkhela Town from River Swat.	Consulting	157,855,000
44	Water and Sanitation Sector		PR13000035-Rehabilitation of existing old water supply Schemes (Presentation to PDWP)	WSS	153,892,452
45	Water and Sanitation Sector		PR14000074-Sanitation and Sewerage Systems in Wazir and Alif Khan Colonies Khalisa-2 Peshawar.	WSS	100,000,000
46	Water and Sanitation Sector		NR12000142-"PS12000142-""Water Supply Scheme Risalpur, District Nowshera""	WSS	62,579,000
47	Water and Sanitation Sector		SW14000075-Gravity Based Water Supply Scheme Matta Swat.	WSS	62,500,000
48	Water and Sanitation Sector		DI14000081-Solarization of existing Water Supply Schemes.	WSS	38,949,989
49	Water and Sanitation Sector		PR14000079-Construction / Rehabilitation of Water Supply and Sanitation Schemes in Khyber Pakhtunkhwa.	WSS	158,314,374
50	Water and Sanitation Sector		CL07001082-Ext: of WSS Drosh, Chitral.	WSS	16,285,025