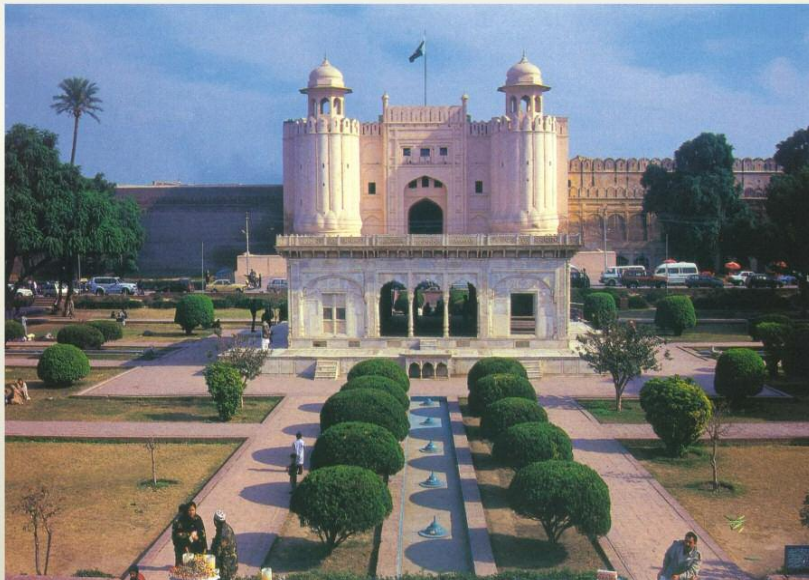


Report No. 39761-PK

Pakistan Punjab Province

Public Financial Management and Accountability Assessment

May 2007



Government of The Punjab and Development Partners



Government of The Punjab



The World Bank Group



The European
Commission



UK's Department
for International
Development



Asian Development Bank

Report No. 39761-PK

Pakistan Punjab Province

Public Financial Management and Accountability Assessment

May 2007

Government of The Punjab and Development Partners



Government of The Punjab



The World Bank Group



The European
Commission



UK's Department
for International
Development



Asian Development Bank

GOVERNMENT FISCAL YEAR JULY 1 - JUNE 30

ACRONYMS AND ABBREVIATIONS

AA	-	Assignment Accounts
ADB	-	Asian Development Bank
AG	-	Accountant General
AGA	-	Autonomous Government Agencies
AGP	-	Auditor General of Pakistan
CBR	-	Central Board of Revenue
CFAA	-	Country Financial Accountability Assessment
CGA	-	Controller General of Accounts
COA	-	Chart of Accounts
COFOG	-	Classification of the Functions of Government
DAC	-	Departmental or District Accounts Committee
DAGP	-	Department of the Auditor General of Pakistan
DAO	-	District Accounts Officer
DDO	-	Drawing and Disbursement Officer
DFID	-	Department for International Development (UK)
DG	-	Director General
DSP	-	Decentralization Support Program
EU	-	European Union
FD	-	Finance Department
FMC	-	Fiscal Monitoring Committee
FY	-	Fiscal Year
GFS	-	Government Financial Statistics
GoPj	-	Government of Punjab
GoP	-	Government of Pakistan
GP Fund-		General Provident Fund
IPSAS	-	International Public Sector Accounting Standards
LG	-	Local Government
LGO	-	Local Government Ordinance
MDA	-	Ministries, Departments and Agencies
MOF	-	Ministry of Finance
MTBF	-	Medium Term Budget Framework
MTDF	-	Medium Term Development Framework
NAM	-	New Accounting Model
NBP	-	National Bank of Pakistan
O&M	-	Operations and Maintenance
P&DD	-	Planning and Development Department
PAAS	-	Pakistan Audit and Accounts Service
PAC	-	Public Accounts Committee
PAO	-	Principle Accounting Officer

PCF	-	Provincial Consolidated Fund
PE	-	Public Enterprises
PEFA	-	Public Expenditure and Financial Accountability
PFC	-	Provincial Finance Commission
PFM	-	Public Financial Management
PFMAA	-	Provincial Financial Management and Accountability Assessment
PIFRA	-	Project for Improvement in Financial Reporting and Auditing
PLA	-	Personal Ledger Account
P-PRSP	-	Provincial Poverty Reduction Strategy Paper
PSDP	-	Public Sector Development Program
RA	-	Revenue Administration
SBP	-	State Bank of Pakistan
SN	-	Sub-National
SOE	-	State Owned Enterprise
TAC	-	Tehsil Accounts Committee
TMA	-	Tehsil Municipal Administration
TO	-	Tehsil Officer
UC	-	Union Council
ZAC	-	Zila Accounts Committee

CONTENTS

CONTENTS	vi
Summary Assessment.....	1
Chapter 1: Introduction.....	4
Chapter 2: Background Information for Punjab	6
2.1 Description of economic situation	6
2.2 Description of budgetary outcomes	7
2.3 Description of the legal and institutional framework for PFM.....	8
Chapter 3: Assessment of the PFM systems, processes and the institutions.....	10
3.1 Budget credibility	10
PI-1 Aggregate expenditure out-turn compared to original approved budget.....	10
PI-2 Composition of expenditure out-turn compared to original approved budget	11
PI-3 Aggregate revenue out-turn compared to original approved budget.....	12
PI-4 Stock and monitoring of expenditure payment arrears	13
3.2 Transparency and comprehensiveness	14
PI-5 Classification of the budget.....	14
PI-6 Comprehensiveness of information included in budget document	15
PI-7 Extent of unreported government operations	16
PI-8 Transparency of inter-governmental fiscal relations.....	17
PI-9 Oversight of aggregate fiscal risk from other public sector entities.....	19
PI-10 Public access to key fiscal information	20
3.3 Policy-based budgeting	21
PI-11 Orderliness and participation in the annual budget process	21
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	23
PI-13 Transparency of taxpayer obligations and liabilities.....	25
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	26
PI-15 Effectiveness in collection of tax payments	28
3.4 Predictability and control in budget execution.....	29
PI-16 Predictability in availability of funds for commitment of expenditures.....	29
PI-17 Recording and management of cash balances, debt and guarantees	30
PI-18 Effectiveness of payroll controls	32
PI-19 Competition, value for money and controls in procurement.....	34
PI-20 Effectiveness of internal controls for non-salary expenditure.....	35
PI-21 Effectiveness of internal audit.....	38

3.5	Accounting, recording and reporting	39
PI-22	Timeliness and regularity of accounts reconciliation.....	39
PI-23	Information on resources received by service delivery units	41
PI-24	Quality and timeliness of in-year budget reports	42
PI-25	Quality and timeliness of annual financial statements	43
3.6	External scrutiny and audit.....	44
PI-26	Scope, nature and follow-up of external audit	44
PI-27	Legislative scrutiny of the annual budget law	46
PI-28	Legislative scrutiny of external audit reports	48
3.7	Donor practices.....	51
D-1	Predictability of direct budget support	51
D-2	Reporting on project/ program aid	51
D-3	Proportion of aid that is managed by use of national procedures	52
Chapter 4: Government Reform Process		54
4.1	Description of recent and on-going reform measures	54
4.2	Institutional factors supporting reform planning and implementation	54
Annex 1: Summary of the Performance Indicators		55
Annex 2: Sources of Information		56
Appendix-1: Summary Diagnostics of Areas of Weak Performance		59

Summary Assessment

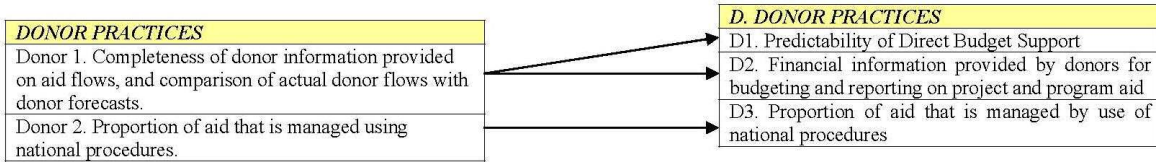
1. This summary assessment uses the indicator-led analysis to provide an integrated assessment of the Punjab Province's PFM system against the six core dimensions of PFM performance and provides a statement of the likely impact of those weaknesses on budgetary outcomes, on aggregate fiscal discipline, and on the strategic allocation of resources and efficient service delivery.

2. The earlier assessment carried out in May 2005 documented substantial areas of good PFM performance and summarized the priority actions required to enhance performance in the weak-performance areas. While this current assessment shows an overall improvement in the province's PFM performance when compared to the assessment carried out and completed in May 2005, it is noteworthy to state, ab initio, that the assessment is based on the final approved PEFA framework which cannot be compared on a like-with-like basis with the framework that the May 2005 assessment was based on. The framework used for the May 2005 assessment (Consultative Draft Version of February 2004) was only a *transitional* one, and that assessment may not and should not be used as a baseline for the province's performance as the rating methodologies for that erstwhile draft framework are, by and large, different, in a number of cases, from the approved framework of June 2005 – the basis for the current assessment. The underlying relevance in the interpretation of the outcome of this current assessment is that the province has indeed improved its PFM performance since the last assessment was carried out, notwithstanding the differences in the approaches taken. Therefore, the outcome for this particular assessment should henceforth serve as the baseline against which future PFM performance in the province shall be monitored.

3. Major differences between the PEFA consultative draft version of February 2004 vis-à-vis the approved version of June 2005 on which this assessment is premised could be found from the following indicator bridging table:

Consultative Draft Version, Feb. 2004	Final Approved Framework, June 2005
A. PFM OUT-TURNS	A. CREDIBILITY OF THE BUDGET
1. Aggregate fiscal deficit out-turn compared to ... budget	1. Aggregate expenditure out-turn compared to original appr. budget
2. Composition of expenditure out-turn compared to budget	2. Composition of expenditure out-turn compared to original approved budget
3. Aggregate revenue out-turn compared to original budget	3. Aggregate revenue out-turn compared to original approved budget
4. Stock of expenditure arrears; accumulation of new arr..	4. Stock and monitoring of expenditure payment arrears
B. COMPREHENSIVENESS AND TRANSPARENCY	B. COMPREHENSIVENESS AND TRANSPARENCY
5. Comprehensiveness of aggregate fiscal risk oversight	5. Classification of the budget
6. ... budget reports include all significant expenditures ..	6. Comprehensiveness of information included in budget documentation
7. Adequacy of information ... in budget documentation	7. Extent of unreported government operations
8. Classification of the budget.	8. Transparency of Inter-Governmental Fiscal Relations
9. Identification of poverty related expenditure in budget	9. Oversight of aggregate fiscal risk from other public sector entities
10. Publication and public accessibility of key fiscal info ..	10. Public Access to key fiscal information
C. BUDGET CYCLE	C. BUDGET CYCLE
C(i) Medium term planning and budgeting	C(i) Policy-Based Budgeting
11. multi-year perspective in fiscal planning, expenditure ..	11. Orderliness and participation in the annual budget process
12. Orderliness and participation in budget formulation pro	12. Multi-year perspective in fiscal planning, expenditure policy and budgeting
13. Coordination of the budgeting of recurrent and investment expenditures	
14. Legislative scrutiny of annual budget law.	C(ii) Predictability and Control in Budget Execution
C(ii) Budget execution	13. Transparency of taxpayer obligations and liabilities
15. Effectiveness of cash flow planning, management and ..	14. Effectiveness of measures for taxpayer registration and tax assmt
16. ... management and recording of debt and guarantees.	15. Effectiveness in collection of tax payments
17. Extent to which spending ministries and agencies are able to plan and commit...	16. Predictability in the availability of funds for commitment of expenditures
18. Evidence that budgeted resources reach spending units	17. Recording and management of cash balances, debt and guarantees
19. Effectiveness of internal controls.	18. Effectiveness of payroll controls
20. Effectiveness of internal audit.	19. Competition, value for money and controls in procurement
21. Effectiveness of payroll controls.	20. Effectiveness of internal controls for non-salary expenditure
22. transparent procurement system that provides for competition, value for money and effective controls.	21. Effectiveness of internal audit
C(iii) Accounting and reporting	C(iii) Accounting, Recording and Reporting
23. Timeliness and regularity of data reconciliation.	22. Timeliness and regularity of accounts reconciliation
24. Timeliness, quality and dissemination of in-year budget execution reports.	23. Availability of information on resources received by service delivery units
25. Timeliness and quality of audited financial statements.	24. Quality and timeliness of in-year budget reports
C(iv) External accountability, audit scrutiny	C(iv) External Scrutiny and Audit
26. The scope and nature of external audit.	25. Quality and timeliness of annual financial statements
27. Follow up of audit reports by the executive or audited e	26. Scope, nature and follow-up of external audit
28. Legislative scrutiny of external audit reports	27. Legislative scrutiny of the annual budget law
	28. Legislative scrutiny of external audit reports

Donor Indicators



4. This current assessment, while using the approved PEFA framework of June 2005, nevertheless built on the assessment already made in May 2005 and factored the overall progress achieved in enhancing the province’s PFM. Cardinal among the results of the current assessment are the following achievements at the PFM dimensional levels, including donor practices: (1) while the *credibility of the budget* figures as measured by differences between the budget and actual figures in terms of expenditure composition, as well as the maintenance of records in respect of stock of payment arrears, particularly as affecting local government institutions (a case of non-transparent financing), remains a weak area of performance, the actual overall expenditure and revenue outturns continue to show remarkable good performances; (2) the *transparency and comprehensiveness of the budget* scored excellent ratings except for the lack of inclusion of donor-funded project expenditures in the fiscal reports of the government – a phenomenon associated with the manner in which donor-funded projects are managed country-wide and their ‘ring-fenced’ arrangements. In addition, there is a lack of determination of the potential aggregate fiscal risks arising from limited oversight of other public sector entities (3) fiscal planning, using the principles of the MTBF, and the orderliness in the budget process, have continued to show remarkable good performances within the context of *policy-based budget* preparation framework in the province; (4) in respect of *budget execution*, the performance has been more or less uneven: while taxpayer assessments and obligations (in respect of province’s own tax assignments), procurement practices, and internal audit, are relatively weak areas of performance, the predictability of funds for commitments through front-loading of funds releases and the management of cash, debts and guarantees, maintenance of internal controls and tax collections have shown good performance outcomes; (5) the weakest link in performance as related to the area of *accounting and financial reporting* is the *reconciliation status* for both the fiscal and monetary balances. While there are efforts made to improve on the reconciliations of fiscal balances through timely reconciliation between accounting offices and expenditure DDOs, the lack of full connectivity of the province-wide IFMIS that is interfaced with the revenue and banking services continues to perpetuate high differences in reconciliation of Bank balances vis-à-vis Fiscal balances. Overall, however, in-year budget reports are timely and their quality has improved, though less substantially; (6) significant performance weaknesses remain in the areas of defining the scope and nature of external audits as well as the extent of legislative scrutiny of budget and audit reports, thus limiting the efficacy of independent, external, and legislative scrutiny functions – a country-wide phenomenon in the existing practices and systems; (7) the three *donor-related practices*’ indicators have all shown very good outturns, as significant parts of overall donor support, while highly predictable in the province, are budget-support related and, as such, have been implemented through use of government-owned PFM systems. Nonetheless, donor-funded *investment* projects that are being implemented in the province are ‘ring-fenced’ and continue to use parallel systems, although the annual disbursements against these projects are, overall, not significant.

5. Where performance has been found most lagging relate essentially to the financial reporting processes at lower levels of government and also the lack of consolidation of state owned enterprises’ annual financial statements to determine the overall fiscal risk that the province is exposed to. While pension liabilities are now being funded through a strategic ‘set aside’ of budgetary funds in a ‘fund-type’ of arrangement, the extent of the contingent liabilities, including those related to the General Provident Fund contributions, remains unknown at the moment. With

the gradual but phased implementation of the PIFRA, some of the historical data, currently uncollected and unknown, will become available for a full and determinable ascertainment of the Funds' liabilities (explicit and implicit).

6. As highlighted above, particularly poor results are shown for the external scrutiny and audit indicators, with a major impact on the proper use of resources and efficient service delivery because the fundamental requirements of transparency and accountability are not wholesomely applied. As at March 2006, there remained over 100,000 unresolved audit observations. Audit reports continually show substantial misuse of resources, weak management of the revenue collection processes, and inadequacy of internal control systems; but these findings result in inadequate remedial actions. Recent PAC and Department of Finance efforts have made strong attempts to improve matters, but there is no guaranteed enforcement of audit or PAC recommendations, nor is there any coherent and transparent monitoring of the enforcement process. The audit improvements underway in the PIFRA project will certainly help to enhance the quality side of audit but substantial behavioral changes from the auditees are also required to achieve meaningful improvements in the oversight arrangements. Otherwise, improved audits, which are underway, will still have little impact. Other specific technical areas requiring continuing attention of the GoPj are:

- Improvement of reporting on stock of expenditure arrears, particularly at lower levels of government, and improvement in the effectiveness of BOR's tax assessment and determination of tax payer obligations. This is valid in as much as taxation is largely a federal subject.
- More frequent and systematic monitoring of fiscal risks arising from SOEs, including contingent liabilities and government guarantees, preferably through quarterly consolidated summaries.
- Improvement of procurement processes through implementation of the proposed new procurement law, including independent complaints resolution processes and the establishment of a central procurement regulatory authority.
- Improvements in services delivery and budget execution through provision of meaningful and improved budget execution information at the level of service delivery units; and up-dating of the Punjab General Financial Rules.
- Establishment of an adequate system of internal audit based on standards promulgated by the Institute of Internal Auditors, USA.
- Continued improvement in reconciliations of accounts (fiscal and monetary) and supporting the fast-track implementation of the PIFRA systems at all DAOs, Treasuries, and Line Departments.
- Publication of the audited annual accounts of the Province and each district within at least 12 months of the year-end.
- Continued and more effective action by agencies on audit findings through the full activation and regularity of DAC meetings.
- Improved public perceptions of legislative scrutiny through streamlined reporting by the PAC and more public hearings.

Chapter 1: Introduction

1.1 This document reports on a Public Financial Management and Accountability Assessment (PFMAA) for the province of Punjab. The study was commissioned jointly by the World Bank, the Asian Development Bank (ADB), the UK Department for International Development (DfID), and the European Commission (EC). The Government of Punjab (GoPj) managed the process through a Steering Committee chaired by the Finance Secretary. The inaugural meeting for launching the assessment was held with the Steering Committee members in Lahore on September 23, 2006.

1.2 The assessment updates the May 2005 assessment and was conducted with the public sector stakeholders through extensive discussions with key groups. Devolution of powers to sub provincial levels of Government has been slowly taking place in the province, and although the financial management systems were assessed primarily at the provincial level some review was conducted for the systems at district and local government (sub-sub national) levels.

1.3 The PFMAA was conducted against 31 Public Financial Management (PFM) performance measurement indicators in accordance with the Public Expenditure and Financial Accountability (PEFA) framework¹. The framework is based on the following areas of performance:

- i. **Credibility of the budget** – The extent of budget realism in terms of being implemented as planned.
- ii. **Transparency and comprehensiveness** – The coverage of the budget, including the determination of overall fiscal risk, is adequate, and the public has unfettered access to budget and outcomes information.
- iii. **Policy-based budgeting** – The extent that budget formulation is in line with the policies of the provincial government.
- iv. **Predictability and control in budget execution** – The extent of systematic and predictable budget implementation and the effectiveness and efficiency of expenditure and revenue management and controls.
- v. **Accounting, recording and reporting** – The effectiveness and transparency in maintaining and reporting on the public finances and the reliability and adequacy of financial information for management decision-making.
- vi. **External scrutiny and audit** – The arrangement for, extent and scope of scrutiny of public finances as well as the timeliness and the strength of corrective measures taken.
- vii. **Donor practices** – The extent to which donor practices and the management of donor funds impact the PFM systems in the country.

1.4 PFM performance has been assessed against each of the indicators by assigning ratings of A to D based on criteria given in the PEFA framework document. A rating of ‘A’ would be an international level practice and that of ‘B’ a good achievement. Ratings of ‘C’ and ‘D’ identify PFM elements that are in relatively greater need of improvements.

1.5 The indicators focus on operational performance of the PFM system rather than on the inputs that enable the PFM system to reach a certain level of performance. The framework does not analyze

¹ Public Financial Management Performance Measurement Framework, June 2005, PEFA Secretariat, World Bank, Washington DC, USA - PEFA includes World Bank, IMF, European Commission, UK, France, Norway, Switzerland and SPA Strategic Partnership with Africa.

the actual fiscal or expenditure policy or whether there is value for money in the service delivery. The indicator assessment is used to identify the areas of PFM where further diagnoses and reforms are needed. The GoPj has already begun the process of using the earlier assessment as a basis for further PFM reform and has summarized progress in its 2006-07 Budget White Paper².

1.6 This report has been prepared after detailed deliberations with relevant stakeholders. The process began on 13 September 2006 when the objectives and processes of the assessments were shared in meetings with the Secretary Finance and other stakeholders. Relevant data were gathered during discussions in September 2006 with the stakeholders listed at Annex 2 and consultations with the task team and other parties proceeded in the period following.

1.7 The task team comprised Co-task Leaders Ismaila B. Ceesay, Sr. Financial Management Specialist, World Bank; David Johnson, Sr. Governance Advisor, UK Department for International Development (DFID); Sandra Nicoll, Sr. Governance Specialist, Asian Development Bank (ADB); and Thorsten Bargfrede, Second Secretary, European Community (EC). Asif Ali, Sr. Procurement Specialist, World Bank, Hanid Muktar, Sr. Economist, World Bank, Waqas ul Hasan, Project Officer, Asian Development Bank (ADB), Furqan Ahmed Saleem, Financial Management Specialist, World Bank, and Saeeda Sabah Rashid, Financial Management Specialist, World Bank, were also members of the task team. Altaf Ahmad, SARFM Program Assistant, World Bank, provided the logistical and administrative support, and Professor Dr. Khawaja Amjad Saeed, carried out a review of the draft as well as served as a resource person at the stakeholders' workshop in Lahore.

1.8 Michael Jacobs, International Consultant and Muhammad Zeeshan Tariq, National Consultant assisted with the development of the assessment report.

1.9 The peer reviewers were Margaret Robinson and Julie Lynn, UK DFID Financial Accountability and Anti-Corruption Team; Kathleen Moktan, Director, Capacity Development & Governance Division, ADB; Nicola Smithers, Adviser, WB (on the concept note); Jean Louis Lacube, EC., and Andy Wynne, Head – Public Sector – ACCA.

1.10 The GoPj welcomed the PFMAA study as another expert external look at the PFM progress in Punjab and as an opportunity for a stakeholders' review of their status of performance in the entire PFM cycle. It welcomed the joint involvement of the donors in carrying out the study to ensure all donors align their reform support strategies and thus avoid undue duplication and overlap to the maximum extent possible. One of the key outcomes of the previous assessment was the development of a "self assessment system" for the GoPj to monitor progress against the performance benchmarks agreed by the province during that assessment. The GoPj's Budget White Paper for 2006-07 transparently included a preliminary table on progress achieved during FY 2005-06 in improving financial management and accountability, and isolated areas of weakness for which further improvement would be necessary. This proactive stance of the GoPj is indicative of the province's commitment to reform and its ownership of the overall reform agenda. This current report will also form the basis for a renewed government reform agenda for the coming years and shall be featured as part of the GoPj's White Paper that will accompany its budget for FY 2007-08.

² White Paper on the Budget 2006-07, Appendix A, June 14, 2006.

Chapter 2: Background Information for Punjab

2.1 Description of economic situation

2.1.1 In its 2020 Vision for Punjab³, the Province is to pursue modernization, innovation, confidence and tolerance. The 2004 paper noted that the Punjab economy has to create at least one million new, sustainable and permanent jobs every year to reverse poverty. In terms of GDP growth this would require an annual GDP growth in excess of 7 percent. The average growth for Punjab was 2.64 percent over the period 1981 to 1998⁴ and 4.4 percent a year achieved during the past decade. Fifteen percent of the new one million jobs are to be created in the public sector and the rest to be generated by the private sector. The Government role would be to provide an environment conducive to the private sector to create the required jobs. The economy of Punjab rests on agriculture, manufacturing services, and minerals and natural resources – and the paper put forward strategies for each of these areas.

2.1.2 An Economic Report in 2005⁵ noted that the GoPj strategy is occupied not only with increasing output, but also encompasses items such as education, health, improved governance, and protection of the environment; and a private sector friendly business environment, including rationalizing tax legislation and the rules and procedures for implementation, and streamlining the system of sales tax refunds. The report proposed steps that were needed to achieve these reforms.

2.1.3 In the area of Public Financial Management, the Report noted that the deferred liability imposed by the G.P. Fund grows at an exponential rate on account of the exceedingly high rate of interest levied. It referred to the need for serious budgetary and financial management reforms including a performance budget, improved provincial revenue receipts, fiscal restraint on the recurrent budget, increased O&M allocations in the development budget, reductions in debt servicing, further progress in restructuring the property tax, greater use of the revenue potential of the agricultural income tax.

2.1.4 In its 2006-2007 Budget White Paper the GoPj notes that the budget for 2006-07 is expected to further realize the Vision 2020 aim of making Punjab a more prosperous, better educated, healthier, enlightened province with improved service delivery systems and an enhanced quality of life for its citizens. The budget focuses on economic infrastructure development to generate higher economic activity and includes a focus on reducing the repair and replacement backlog of the infrastructure and service delivery systems. Despite this re-emphasis, pro-poor spending has increased from one half of government spending in 2001-02 to more than two third in 2006-07. The government has restructured its debt profile to reduce debt charges. It has demonstrated its commitment to capitalize the funding of the Pension and GP Fund liabilities and to legislate, a framework for managing investments to fund the GP and Pension funds payments. Tax changes include rationalization of property tax through the progressive elimination of the differential between owner-occupied and rented-out properties, and revamping the agricultural income tax to an income-based levy over the medium term.

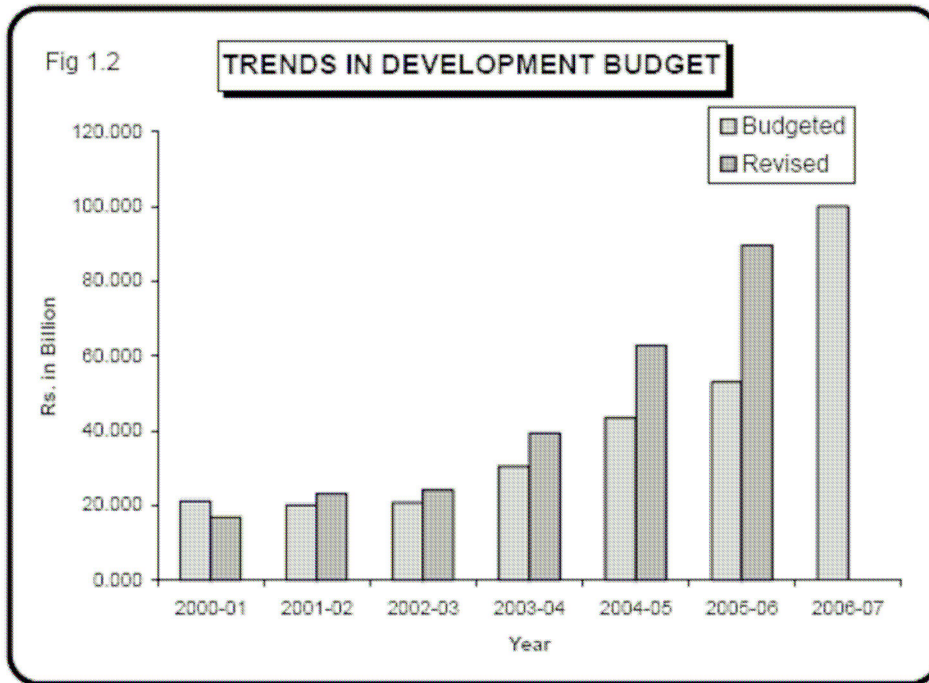
³ Punjab's Vision 2020 Pre budget policy address of Ch. Pervaiz Elahi, Chief Minister, June 15, 2004.

⁴ Area, Population, Density and Annual Growth Rate Pakistan by Provinces: 1998 Census.

⁵ Report No. 29373-PAK Punjab Economic Report 'Towards a Medium-Term Development Strategy', March 31, 2005.

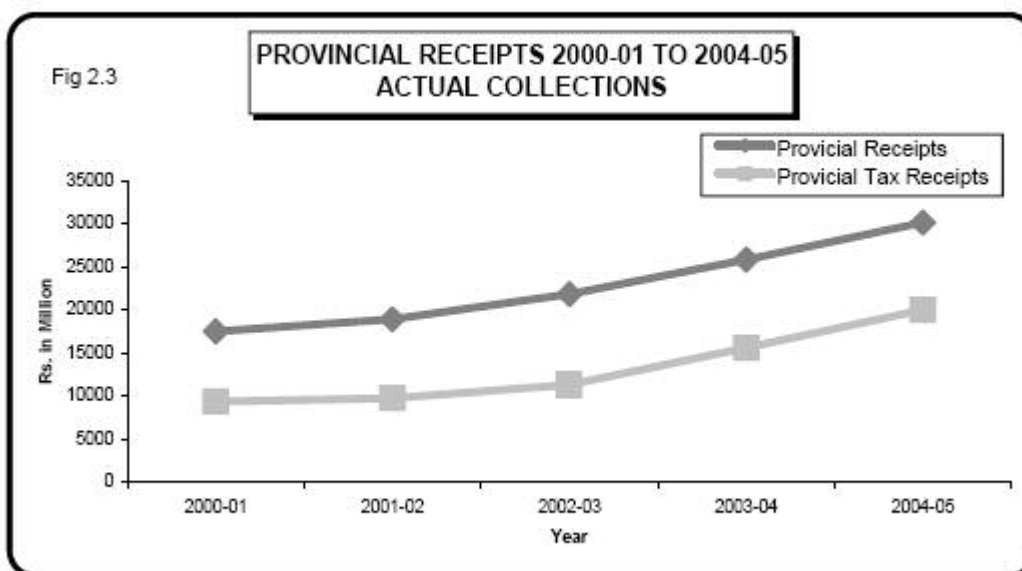
2.2 Description of budgetary outcomes

2.2.1 The 2006-07 White Paper shows that because of revenue surpluses generated in the revenue account from federal transfers and provincial receipts, the development budget has seen increases year by year as illustrated in the following chart:



The

figure below illustrates how provincial tax and other receipts have risen since 2000-01.



2.3 Description of the legal and institutional framework for PFM

2.3.1 As per the Constitution, Federal and Provincial Assemblies authorize expenditures on services to the people that are budgeted to be voted each fiscal year. The range and composition of the services that will be provided are determined each fiscal year by the respective National and Provincial Assemblies. The Constitution also provides for charged or obligatory expenditures on constitutional positions (such as the President, High Court Judges, Chief Election Commissioner, and the Auditor General) as well as for debt servicing. As for the District Governments, the respective *Zila* Councils are the district equivalents of the federal or provincial Assemblies, and they generally perform the same functions.

2.3.2 Public sector bodies are well defined in the financial system by major type of entities such as (i) Departments of the Government administered directly by the Federal and Provincial Governments; (ii) autonomous bodies that are indirectly administered by their respective governments. Government departments are further divided into centralized accounting agencies and self-accounting agencies. Autonomous bodies are also divided into two categories: (i) statutory bodies established for non-profit objectives; and (ii) public sector enterprises.

2.3.3 The 1973 Constitution was far reaching in its emphasis on financial management and provides (in Articles 79, 166, 168 and 169) for the following three enabling legal frameworks:

- i) On public finance — this law is expected to prescribe how the budgets would be prepared, monitoring, and evaluation mechanisms for assessing the performance of the government vis-à-vis the resources placed at its disposal, and internal controls over finances;
- ii) On public debt management — this law is expected to be designed to prescribe the objective criteria for borrowing (both internally and externally) with a view to minimizing the probability of misuse or waste of borrowed resources, to restrict the quantum of aggregate borrowings both in absolute and relative terms to ensure that debt servicing remains within reasonable limits (sustainability), and to ensure transparency and efficient management of debt; and
- iii) On public sector audit — this law is expected to be structured to provide the basis for independent and competent verification of the truth and fairness of representations of the executive with regard to their stewardship of public funds and achievements concerning the use of allocated resources.

2.3.4 There is no separate Public Finance Law in Pakistan. The Constitutional provisions are, in themselves, quite detailed and provide the enabling operational basis for public finance management in the federation. However, on an annual basis, an Appropriation Law is promulgated to cover aspects relating to public expenditures in pursuance of the annual budget; also a Finance Act that covers public revenues in pursuance of the annual budget is promulgated annually.

2.3.5 In respect of the Public Debt Management Law, the federation has promulgated a Fiscal Responsibility and Debt Limitation Law (FRDL) that covers the thrust of what the Constitution envisaged. This Law is being followed across the federation.

2.3.6 As regards the Public Sector Audit Law, there existed the Pakistan (Audit and Accounts) Order 1973, P.O. 21 of 1973 that was repealed in 2001 and replaced by two sets of legislation that also caused the bifurcation of the audit and accounts - the AGP and CGA Ordinances of May 2001. The foundation for these latter laws is contained in Article 169 of the Constitution and they govern the audit and accounting processes in Punjab as well as the other provinces. The General Financial

Rules and the Treasury Rules, which are largely obsolete, require updating for consistency with the renewed GoPj operational accountability practices.

2.3.7 Budget preparation has historically been primarily short-run, input focused, and incremental with little prioritization of expenditures. The use of the budget as a tool for implementing strategies towards achievement of policy goals of the government has been limited, but in the last few years the GoPj has been implementing a multi-year budget process, with the inclusion of some performance targets, aimed at implementing the longer term development strategies envisioned in its 2020 Vision document.

2.3.8 Fiscal transparency processes of the GoPj consist, inter alia, of: (i) presentation of the Budget to the Provincial Legislature, including discussion of the Revised Budget estimates of the previous year; and (ii) preparation of budget implementation reports by the Auditor General on the accounts of the Provincial Governments at the close of the fiscal year. These reports include: (a) Appropriation Accounts — containing the budget authorization and the actual expenditure against each grant; generally produced with a one year lag; and (b) Finance Accounts — containing balances and transactions in the Consolidated Fund and Public Accounts. The audited Appropriation and Finance Accounts and their associated Audit Reports are discussed at hearings in the Public Accounts Committees of the Provincial Assembly, and public officials (PAOs) are summoned to answer any audit queries raised against their departments. The GoPj has been taking action to improve the quantity and quality of fiscal information disseminated publicly through regular postings of provincial budgets and accounts on the Department of Finance website.

2.3.9 The basic framework for assignment of fiscal powers and distribution of revenues between the Federation and Provinces (including districts) is laid down in the Constitution. To allow for the distribution of fiscal resources, a divisible pool has been created whereby the net proceeds of specified taxes collected by the Federal Government are pooled and the Federal Government and the Provincial and Local Governments share in the pool. Under the Local Government Ordinance 2001, a number of public service functions have been devolved to local governments elected at the district and sub-district levels. Fiscal Commissions have been established to manage the apportionment of the shares in the divisible pools.

Chapter 3: Assessment of the PFM systems, processes and the institutions

3.1 Budget credibility

PI-1 Aggregate expenditure out-turn compared to original approved budget

Overall Rating 'B'

3.1.1 The ability to implement the budgeted expenditure is a crucial factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the actual total expenditure compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports) but excludes two expenditure categories over which the government will have less direct control - (a) debt service payments, and (b) donor funded project expenditure, the management and reporting of which are typically under the donor agencies' control to a high degree.

Score	Minimum Requirements (Scoring Method M1)
A	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
B	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.
C	(i) In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.
D	(i) In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

3.1.2 This measure provides an assurance whether the PFM system is delivering effective fiscal discipline and responsive to changes in macro-economic situations in accordance with budget intentions. To rate A according to the PFM Framework, in no more than one out of the last three years can the actual expenditure have deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.

3.1.3 Both the Department of Finance and the Accountant General are sources of data on expenditure budgets and out-turns. The Department of Finance provided data on budgeted expenditure and the Accountant General provided figures on aggregate actual expenditure. The variances exceeded 5% in two out of three years. Therefore, as per the laid down criteria, the indicator is rated as 'B'. As a general principle for all the outturn indicators (PI1 to PI4), ratings should be based on an assessment of the outturn against the original budget.

3.1.4 Details of the budget estimates and actual expenditure figures for aggregate expenditures as provided, respectively, by the Finance Department and Accountant General (dominant statistic) are provided in the table below:

Aggregate expenditure - budget and actual figures		(Rupees in millions)		
Particulars	2002-03	2003-04	2004-05	
Budgeted	195,320	224,335	277,882	
Actual	190,703	212,283	256,020	
Difference between budget and actual	-2.36%	-5.37%	-7.87%	

PI-2 Composition of expenditure out-turn compared to original approved budget
Overall Rating 'C'

3.1.5 Where the composition of expenditure varies considerably from the original budget figures, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an assessment of expenditure out-turns against the original budget at a sub-aggregate level. This is an important indicator to assess the extent of budget realism for different budget heads (including development and non-development).

3.1.6 This indicator measures the extent to which reallocations between budget lines have contributed to variances in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. To make that assessment, the variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years. The variance is to be calculated as the weighted average deviation between actual and originally budgeted expenditure for the budget lines calculated, taken as a percent of the budgeted expenditure, using the absolute value of the deviation.

Score	Minimum Requirements
A	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.
B	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.
C	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.
D	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.

3.1.7 The average weighted variance calculated on the basis of the PEFA PFM framework shows the compositional variance exceeded 5% in two years. The rating of 'C' is therefore appropriate. The tables show the calculations but the actuals for the latest year, 2005-06, are not audited figures; therefore, additional caution is needed in assessing and interpreting the figures. Also, the FY 2005-06 figures were derived from the new Chart of Accounts rather than the Chart of Classification, the coding basis for budgeting and accounting in prior years. Debt servicing and donor funded projects have not been, and do not have to be, taken into account in calculating the rating. The GoPj pointed out that some variations in the figures is to be expected as a special contingency item is not provided for contingent and unexpected events that need to be funded through variations to the budget composition. The earlier assessment of May 2005 showed a rating of 'B' but the PEFA rating criteria have been revised, as per the approved June 2005 framework, from allowing 20% variation to only 10%. If the earlier ratings rules had been applied for this report the rating would again have been a 'B'.

Primary expenditure - budget and actual figures							(Rupees in millions)
Head/year⁶	2002-03 Budget	2002-03 Actual	2003-04 Budget	2003-04 Actual	2004-05 Budget	2004-05 Actual	
General Administration	16,120	15,789	15,321	13,969	14,335	16,714	
Law & Order	12,188	12,919	15,777	13,966	18,844	17,810	
Community Services	5,528	5,040	1,950	1,669	2,312	2,127	
Social Services	41,644	40,867	10,889	8,759	14,009	9,052	
Economic Services	13,545	10,556	10,613	8,903	9,693	9,332	
Subsidies	3,000	3,000	1,920	2,019	1,200	1,500	

Primary expenditure - variance from budget

Head/year	2002-03 Variance	2003-04 Variance	2004-05 Variance
General Administration	2.05%	8.8%	16.6%
Law & Order	6.00%	11.5%	5.5%
Community Services	8.83%	14.4%	8.0%
Social Services	1.87%	19.6%	35.4%
Economic Services	22.07%	16.1%	3.7%
Subsidies	0.00%	5.2%	25.0%
Weighted Average Variance	5.78%	13.07%	15.26%

Year	For PI-1 total expenditure deviation	Total expenditure variance	For PI-2 variance in excess of total deviation
2002/3	2.36%	5.78%	3.42%
2003/4	5.37%	13.07%	7.70%
2004/5	7.87%	15.26%	7.39%

PI-3 Aggregate revenue out-turn compared to original approved budget

Overall Rating 'B' (for own revenues only, a rating of 'D' is relevant)

3.1.8 Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based upon that forecast. A comparison of budgeted and actual revenue provides an overall indication of the quality of revenue forecasting and achievement. The assessment examines the picture for both the overall revenue and the provincially-generated own revenue. As a general principle for all the outturn indicators (PI1 to PI4), ratings should be based on an assessment of the delivery of the total budget – i.e. total expenditure (current and capital), total revenue (from federal and other sources) and total debt stock. So the overall revenue rating is applied.

⁶ The Chart of Accounts was changed for 2005-06 in accord with the New Accounting Model.

Score	Minimum requirements
A	Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.
B	Actual domestic revenue collection was below 94% of budgeted domestic revenue estimates in no more than one of the last three years.
C	Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no more than one of the last three years.
D	Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no two or all of the last three years.

3.1.9 Details of the revenue estimates and actual results for revenue receipts (not including capital receipts) as provided by the Accountant General are provided in the table below. Revenue collection was below 94% of budgeted domestic revenue estimates in only one of the last three years. Therefore, a rating of 'B' applies:

Revenue Collection	(Rupees in millions)		
Year	2002-03	2003-04	2004-05
Budget estimates	131,227	149,435	180,066
Actual	132,247	136,122	171,625
Revenue difference as % of budget estimates	0.78%	-8.91%	-4.69%
Revenue as a percentage of budget estimates	100.78%	91.09%	95.31%

3.1.10 However if only own receipts figures are used, excluding federal transfers under the NFC Award, as compared to budgeted own revenues, the rating would be 'D'. Own-receipts budget seems very much over-estimated or the collection mechanism has remained weak. The GoPj opined that in estimating own revenues, it is important not to pitch on the low side as this is said to tacitly serve as an incentive for revenue collecting agencies to aim for achievement of reasonably higher targets.

Own-Revenue Collection (FY 2005-06 figures are not final)	(Rupees in millions)		
Year	2003-04	2004-05	2005-06
Budget own receipts	28,659	35,798	45,170
Actual own receipts	25,862	30,202	37,672
Variance: own actual receipts vs. budget estimates (%)	-9.76%	-15.63%	-16.60%

PI-4 Stock and monitoring of expenditure payment arrears

Overall Rating 'D'

3.1.11 Expenditure payment arrears are the expenditure obligations that have been incurred by government for which payment to the employee, supplier, contractor or loan creditor is overdue. It constitutes a form of non-transparent financing. A high level of arrears can indicate a number of different problems such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items and lack of information. This indicator is concerned with measuring the extent to which there is a stock of arrears, and the extent to which any systemic problem is being brought under control and addressed.

3.1.12 The two dimensions assessed for this indicator are:

- Sub-Rating Element (i) - Stock of expenditure payment arrears (as a percentage of actual. total expenditure for the corresponding (fiscal year) and any recent change in the stock – N/A.

- Sub-Rating Element (ii) - Availability of data for monitoring the stock of expenditure payment arrears - D.

Score	Minimum Requirements
A	(i) The stock of arrears is low (i.e. is below 2% of total expenditure). (ii) Reliable and complete data on the stock of arrears are generated through routine procedures at least at the end of each fiscal year (and includes an age profile).
B	(i) The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years. (ii) Data on the stock of arrears are generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.
C	(i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years. (ii) Data on the stock of arrears have been generated by at least one comprehensive ad hoc exercise within the last two years.
D	(i) The stock of arrears exceeds 10% of total expenditure. (ii) There is no reliable data on the stock of arrears from the last two years.

3.1.13 Presently, the Government does not keep a consolidated stock of the expenditure payment arrears. The incidences of expenditure arrears occur largely at the TMAs as services are rendered, works completed, and goods delivered by suppliers towards the end of the fiscal year remain unpaid, in a majority of cases, due to liquidity constraints, until budget resources are provided in a succeeding fiscal year. Recording is done only in memorandum form and not in any formal manner and these records are not transparently made available, neither are they reliable. Implementation of the full commitment/obligation recording, control, and management is a requirement under the New Accounting Model to be rolled-out under PIFRA auspices in due course, and this would be able to cater for and track such arrears.

3.1.14 As the Government does not keep a consolidated stock of the expenditure payment arrears and there are no available data, an overall rating of 'D' is applied.

3.1.15 The GoPj however recognizes the need to consolidate the data on expenditure payment arrears and keenly looks for PIFRA implementation to support the recording of commitments of significant value. A task force of federal and provincial finance officers is examining the modalities of introducing commitment accounting under PIFRA which is providing the systems to support these efforts.

3.2 Transparency and comprehensiveness

PI-5 Classification of the budget

Overall Rating 'A'

3.2.1 A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional and program. Where standard international classification

practices are applied, governments can report expenditure in GFS format and track poverty-reducing and other selected groups of expenditure.

3.2.2 One of the major areas of governance reform introduced by the Federal Government as well as the provincial Government of Punjab has been the development of Pakistan’s new accounting model (NAM). The Chart of Accounts for this model has been adopted for the budget. The new COA model will help in keeping track of budgetary commitments, fixed assets and liabilities, as well as the cash receipts and expenditures that are being recorded currently. It will be possible to generate financial statements in due course - receipts and payment account, cash flow statements and statements of assets and liabilities.

Score	Minimum Requirements (Scoring Method M1)
A	(i) The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)
B	(i) The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.
C	(i) The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.
D	(i) The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).

3.2.3 The ‘A’ rating has been given against the indicator since the Provincial Government has started using the new accounting model and the Chart of Accounts uses the United Nations statistical classification standards - Classification of the Functions of Government/General Financial Statistics (COFOG/GFS) - at the function level, and is now also mapped at the economic classification level for reporting purposes.

PI-6 Comprehensiveness of information included in budget document⁷
Overall Rating ‘A’

3.2.4 Annual budget documentation submitted to the legislature should allow a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. The annual budget documentation should include information on the following nine elements:

- i. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.
- ii. Fiscal deficit, defined according to GFS or other internationally recognized standard.
- iii. Deficit financing, describing anticipated composition.
- iv. Debt stock, including details at least for the beginning of the current year.
- v. Financial Assets, including details at least for the beginning of the current year.
- vi. Prior year’s budget out-turn, presented in the same format as the budget proposal.

⁷ This has been redefined in the approved framework of June 2005 and is not directly linked to the consultative draft version for the indicator.

- vii. Current year’s budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposal.
- viii. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year.
- ix. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.

Score	Minimum Requirements (Scoring Method M1)
A	(i) recent budget documentation fulfils 7-9 of the 9 information benchmarks
B	(i) recent budget documentation fulfils 5-6 of the 9 information benchmarks
C	(i) recent budget documentation fulfils 3-4 of the 9 information benchmarks
D	(i) recent budget documentation fulfils 2 or less of the 9 information benchmarks

3.2.5 Of the above items, details of financial assets and prior year’s budget out-turn are lacking (although some district governments do provide such latter information), but there is new information on debt and contingent liabilities and sufficient information on 7 of the above listed 9 parameters. Therefore, rating ‘A’ has been assigned. It is noteworthy to state here that the provincial government budget out-turn for the previous year was not provided in the budget document due to comparability reasons – i.e. the previous year having used the legacy Chart of Classification (CoC) which the current budget used the new Chart of Accounts (CoA).

PI-7 Extent of unreported government operations

Overall Rating ‘D+’

- Sub-Rating Element (i) - The level of extra-budgetary expenditure (other than donor funded projects) which is unreported - i.e. not included in fiscal reports - ‘A’.
- Sub-Rating Element (ii) - Income/expenditure information on donor-funded projects which is included in fiscal reports - ‘D’.

Score	Minimum requirements
A	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure). (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).
B	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure. (ii) Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.
C	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 5-10% of total expenditure. (ii) Complete income/expenditure information for all loan financed projects is included in fiscal reports.
D	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure. (ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations.

3.2.6 Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public, should cover all budgetary and extra-budgetary activities of central government to allow a complete picture of central government revenue, expenditures across all categories, and financing. This will be the case if (i) extra-budgetary operations (central government activities which are not included in the annual budget law, such as those funded through extra-budgetary funds), are insignificant or if any significant expenditures on extra-budgetary activities are included in fiscal reports, and if (ii) activities included in the budget but managed outside the government's budget management and accounting system (mainly donor funded projects) are insignificant or included in government fiscal reporting.

3.2.7 The budget is considered to include all Punjab government expenditure, including budget support loans, so sub-rating/dimension (i) scores 'A'. The Development Budget shows the foreign assistance loans and grants. Most of the development budget is handled through Personal Ledger Accounts and Assignment Accounts which are expensed by the government on the basis of transfers of funds into the accounts rather than on expenditure transactions from the PLAs and the province-established Assignment Accounts. They therefore remain largely unclassified in as much as they are reported on aggregate basis only. Currently, the funds remaining in lapsable and non-lapsable PLAs in the province stand at about PKR 12 billion. The fiscal reports do not comprehensively cover the details of expenditure information for loan-financed projects; therefore, sub-rating/dimension (ii) shows 'D'. Overall, a rating of 'D+' is assigned under the principles of the PEFA framework – MI rating methodology.

3.2.8 Significant disbursements/reimbursements continue to be made by donors directly into assignment accounts established for the implementation of foreign-aided projects, although these, compared with resources transferred to and transacted using government own systems, are not wholesomely material in any single year. Stronger reporting procedures for operation and maintenance of such accounts will ensure that foreign-aided project expenditures are reported as part of the overall provincial expenditures. The GoPj pointed out accountability, comprehensiveness of financial and fiscal information, as well as transparency will be fostered when reform actions are taken to prevent or discourage the establishment of Personal Ledger Accounts and have donors' Assignment Accounts funded through the budget process and government accountability mechanisms. A circular released by the Federal Finance Ministry and endorsed by the GoPj Finance Department defined in very clear terms the procedures to be adopted in budgeting, accounting, and reporting of expenditures on foreign-aided projects. However, the project management units as well as the Accountant General's department are currently not conforming to the arrangements. Conformance with the arrangements will ensure that all expenditures on foreign-aided projects are captured and reported as part of the overall GoPj's financial and fiscal reports.

PI-8 Transparency of inter-governmental fiscal relations

Overall Rating 'A'

- Sub-Rating Element (i) - Transparent and rules-based systems in the horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations) – A.
- Sub-Rating Element (ii) - Timeliness of reliable information to lower level governments on their allocations for the coming year – A.
- Sub-Rating Element (iii) - Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories – B.

3.2.9 Clear criteria, such as formulas, for the distribution of grants among lower level government entities are needed to ensure transparency and medium-term predictability of funds available for

planning and budgeting of expenditure programs by governments. It is also crucial for lower level governments that they continue to receive firm and reliable information on annual allocations (fiscal envelopes) well in advance of the completion and preferably before commencement of their own budget preparation processes.

Dimension	Minimum requirements for dimension score Scoring Methodology M2
(i) Transparency and objectivity in the horizontal allocation among SN governments	<p>Score = A: The horizontal allocation of almost all transfers (at least 90% by value) from provincial government is determined by transparent and rules based systems</p> <p>Score = B: The horizontal allocation of most transfers from provincial government (at least 50% of transfers) is determined by transparent and rules based systems.</p> <p>Score = C: The horizontal allocation of only a small part of transfers from provincial government (10-50%) is determined by transparent and rules based systems.</p> <p>Score = D: No or hardly any part of the horizontal allocation of transfers from provincial government is determined by transparent and rules based systems.</p>
(ii) Timeliness of reliable information to SN governments on their allocations	<p>Score = A: SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes.</p> <p>Score = B: SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.</p> <p>Score = C: Reliable information to SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made.</p> <p>Score = D: Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable.</p>
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	<p>Score = A: Fiscal information (ex-ante and ex-post) that is consistent with provincial government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.</p> <p>Score = B: Fiscal information (ex-ante and ex-post) that is consistent with provincial government fiscal reporting is collected for at least 75% (by value) of SN government expenditure and consolidated into annual reports within 18 months of the end of the fiscal year.</p> <p>Score = C: Fiscal information (at least ex-post) that is consistent with provincial government fiscal reporting is collected for at least 60% (by value) of SN government expenditure and consolidated into annual reports within 24 months of the end of the fiscal year.</p> <p>Score = D: Fiscal information that is consistent with provincial government fiscal reporting is collected and consolidated for less than 60% (by value) of SN government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all.</p>

3.2.10 The respective ratings for each of the dimensions (sub-rating elements) are as follows:

- Sub-Rating Element (i) Rated ‘A’ – as the horizontal allocation of all transfers from central government is determined by transparent and rules based systems. The 2006 Award of PFC Punjab is for 3 years and indicates 41.9 percent as the local governments’ share in the provincial consolidated fund. It further allocates shares for lower levels of local government.
- Sub-Rating Element (II) Rated ‘A’ – as the lower levels of government are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes.
- Sub-Rating Element (III) Rated “B” – as consolidated fiscal data for all levels of Government are not compiled. The PIFRA project anticipates supporting improved information flows.

3.2.11 On the basis of the above, the overall rating according to the Framework is ‘A’.

PI-9 Oversight of aggregate fiscal risk from other public sector entities
Overall Rating ‘C’

3.2.12 A Provincial Government will usually have a formal oversight role in relation to other public sector entities and should monitor and manage fiscal risks with provincial implications arising from activities of sub-national (SN) lower levels of government, autonomous government agencies (AGA) and public enterprises (PE). These fiscal risks can take the form of debt service defaulting, operational losses caused by unfunded operations, expenditure payment arrears and unfunded pension obligations.

3.2.13 Government should require and receive quarterly financial statements and audited year-end statements from AGAs and PEs that it controls, and monitor performance against financial targets. AGAs and PEs often report to parent line ministries, but consolidation of information is important for overview and reporting of the total fiscal risk for central government. Where lower level governments can generate fiscal liabilities for the provincial government, their fiscal position should be monitored, at least on an annual basis, again with consolidation of essential fiscal information.

Score	Minimum requirements
A	(i) All major AGAs/PEs submit fiscal reports to provincial governments at least six-monthly, as well as annual audited accounts, and provincial government consolidates fiscal risk issues into a report at least annually. (ii) SN government cannot generate fiscal liabilities for provincial government OR the net fiscal position is monitored at least annually for all levels of SN government and provincial government consolidates overall fiscal risk into annual (or more frequent) reports.
B	(i) All major AGAs/PEs submit fiscal reports including audited accounts to provincial governments at least annually, and provincial government consolidates overall fiscal risk issues into a report. (ii) The net fiscal position is monitored at least annually for the most important level of SN government, and provincial government consolidates overall fiscal risk into a report.
C	(i) Most major AGAs/PEs submit fiscal reports to provincial governments at least annually, but a consolidated overview is missing or significantly incomplete. (ii) The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete.

D	<p>(i) No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete.</p> <p>(ii) No annual monitoring of SN governments' fiscal position takes place or it is significantly incomplete.</p>
----------	--

3.2.14 The two dimensions and their assessed sub-ratings are as follows:

- Sub-Rating Element (i) - Extent of monitoring of AGAs and PEs – ‘C’.
- Sub-Rating Element (ii) - Extent of monitoring of lower level governments' fiscal position – ‘C’.

3.2.15 Autonomous bodies play a very significant role in public sector provision of social, economic, community and regulatory services. For the current FY, the budget allocation to these bodies is almost 10 billion rupees (for comparison, GoPj General Revenue Receipts are 274 billion rupees). Expenditures and receipts are not captured by the GoPj accounting system as these are self-accounting entities. The Budget papers describe ‘autonomous bodies’ as a generic term used to refer to more than one hundred and thirty quasi-independent establishments attached with various Departments of the Government of Punjab or in certain cases, Local Governments. These range from universities, colleges, libraries, tertiary healthcare hospitals and boards of education, to development authorities, water and sanitation agencies, industrial estate management companies, arts councils, Punjab Economic Research Institute, Punjab Employees Social Services Institute, and Child Protection Bureau.

3.2.16 The GoPj uses a transparent, predictable inter-governmental fiscal transfer system to release funds to local governments while maintaining a hard budget constraint on their recurrent expenditure side. However, the Local Government transfers are not systematically monitored, nor consolidated into the reporting side of the whole of the provincial government. This, in part, is attributed to the perception of absolute independence of the local governments within the local governments and the provincial government itself.

3.2.17 A rating of ‘C’ is applicable to dimension (i) as, while most major AGAs/PEs provide annual fiscal reports, these are not consolidated. A rating of ‘C’ applies to dimension (ii) because; while the net fiscal position is monitored annually, there is no comprehensive consolidated overview carried out as the information is incomplete without AGAs/PEs. The GoPj noted that other controls over fiscal risks are applied through restrictions on AGA/PE borrowings and oversight by government nominees to the Boards, especially of those entities with higher risks. Overall therefore, a rating of ‘C’ is assessed for the indicator.

PI-10 Public access to key fiscal information

Overall Rating ‘B’

3.2.18 Transparency will depend on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest group. Elements of information to which public access is essential include:

- i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.
- ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.
- iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.

- iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.
- v) Contract awards: Awards of all contracts with value above approx. USD 100,000 equivalent are published at least quarterly through appropriate means.
- vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).

3.2.19 For sub-rating elements (i) and (ii) - budgets and monthly civil accounts are made available on the web in a timely manner. Sub-rating element (vi) – primary service unit information, even at expenditure DDO levels, are readily available particularly for the health and education primary service units. As for sub-rating elements (iii), (iv) and (v), information relating to these elements are not readily accessible within the given time frame as per the framework. Accordingly, since only three out of the six listed elements are satisfied under the framework, a rating of ‘B’ applies to the indicator, using the scoring methodology as defined below.

Score	Minimum Requirements (Scoring Method M1)
A	(i) the government makes available to the public 5-6 of the 6 listed types of information
B	(i) the government makes available to the public 3-4 of the 6 listed types of information
C	(i) the government makes available to the public 1-2 of the 6 listed types of information
D	(i) the government makes available to the public none of the 6 listed types of information

3.2.20 Contracts related to donor-funded projects are published, and Punjab core government contracts could be similarly published. A pilot project in two large agencies for publication of contracts is already underway through the PRMP. The other information can also be published once the AGP and the relevant provincial, district and local government authorities decide to do so.

3.3 Policy-based budgeting

PI-11 Orderliness and participation in the annual budget process

Overall Rating ‘A’ (provincial) and overall ‘B’ (taking into account the districts).

3.3.1 The Finance Department (FD) is usually the driver of the annual budget formulation process, but effective participation in the budget formulation process by all ministries, departments and agencies (MDAs) as well as the political leadership, impacts the extent to which the budget will reflect macro-economic, fiscal and sector policies. Full participation requires an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar. Clear guidance on the budget process should be provided in the budget circular and budget formulation manual, including indicative budgetary ceilings for administrative units or functional areas.

3.3.2 The three dimensions under this indicator have been assessed and rated on the basis of the following rationale:

- Sub-Rating Element (i) Rated A - The 2006-2007 Budget Call Circular is clear and allows 8 weeks for submission of details. Processes are followed in an orderly way.
- Sub-Rating Element (ii) Rated B - A comprehensive and clear budget circular is issued to MDAs, which reflects sector estimates for current and development expenditures prior to the circular's distribution to MDAs.
- Sub-Rating Element (iii) Rated A (for Provincial) and 'D' (for District)- The provincial budget is passed before the beginning of the fiscal year. District budgets are however passed after the start of the fiscal year as their final budget figures depend on the approved budget of the provincial government, notwithstanding the PFC Award. For the districts, conformance with the PLGO 2001 is absent.

Dimension	Minimum requirements for dimension score Scoring Methodology M2
(i) Existence of and adherence to a fixed budget calendar	<p>Score = A: A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.</p> <p>Score = B: A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time,</p> <p>Score = C: An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely.</p> <p>Score = D: A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.</p>
(ii) Guidance on the preparation of budget submissions	<p>Score = A: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.</p> <p>Score = B: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission.</p> <p>Score = C: A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments.</p> <p>Score = D: A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.</p>

(iii) Timely budget approval by the legislature	<p>Score = A: The legislature has, during the last three years, approved the budget before the start of the fiscal year.</p> <p>Score = B: The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years.</p> <p>Score = C: The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.</p> <p>Score = D: The budget has been approved with more than two months delay in two of the last three years.</p>
--	---

3.3.3 The Punjab Development Forum settles development priorities of the government before the budget is prepared and finalized. The Committee on Resource Management finalizes tax and revenue proposals too. Development and recurrent budgets are proposed by the line departments. These are then negotiated between the Finance, P&D and line departments on the basis of the available resource envelope and competing demands. The process, which continues for at least a couple of months and involves several iterations, allows the line departments to argue for provision of financial resources. The draft budget formulated through this process is then presented to the provincial cabinet for final and higher level negotiations. The Cabinet finalizes the budget to be put before the Provincial Assembly for legislative approval.

3.3.4 The overall rating for the indicator is therefore assessed ‘A’ but diluted by the districts, it would be a ‘B’.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting
Overall Rating ‘B’

- Sub-Rating Element (i) - Preparation of multi -year fiscal forecasts and functional allocations – A.
- Sub-Rating Element (ii) - Scope and frequency of debt sustainability analysis – B.
- Sub-Rating Element (iii) - Existence of sector strategies with multi-year costing of recurrent and development/investment expenditure – C.
- Sub-Rating Element (iv) - Linkages between investment budgets and forward expenditure estimates – B.

3.3.5 Expenditure policy decisions have multi-year implications, and multi-year fiscal forecasts, including reviews of debt sustainability, are needed. Expenditure policy decisions or options should be described in sector strategy documents, which are fully costed.

3.3.6 The four dimensions (sub-ratings) are assessed according to the following scoring methodology:

Dimension	Minimum requirements for dimension score Scoring Methodology M2
------------------	--

<p>(i) Multi-year fiscal forecasts and functional allocations</p>	<p>Score = A: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained</p> <p>Score = B: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained.</p> <p>Score = C: Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.</p> <p>Score = D: No forward estimates of fiscal aggregates are undertaken</p>
<p>(ii) Scope and frequency of debt sustainability analysis</p>	<p>Score = A: DSA for external and domestic debt is undertaken annually.</p> <p>Score = B: DSA for external and domestic debt is undertaken at least once during the last three years.</p> <p>Score = C: A DSA for at least for external debt undertaken once during last three years.</p> <p>Score = D: No DSA has been undertaken in the last three years</p>
<p>(iii) Existence of costed sector strategies</p>	<p>Score = A: Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.</p> <p>Score = B: Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure.</p> <p>Score = C: Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts.</p> <p>Score = D: Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.</p>
<p>(iv) Linkages between investment budgets and forward expenditure estimates</p>	<p>Score = A: Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.</p> <p>Score = B: The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.</p> <p>Score = C: Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.</p> <p>Score = D: Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.</p>

3.3.7 For dimension (i) a rating of ‘A’ is assigned as forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis; for dimensions (ii) and (iv), a rating of ‘B’ is assigned respectively as debt

sustainability analysis is being carried out regularly particularly on foreign debt, and linkages between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained. In respect of dimension (iii), a rating of ‘C’ is applied as, although sector strategies are prepared for some sectors under the PRMP, not more than 25% of the primary expenditures are covered by those sectors’ costings. Overall therefore, a rating of ‘B’ applies to the indicator under the scoring methodology.

PI-13 Transparency of taxpayer obligations and liabilities

Overall Rating ‘C+’

- Sub-Rating Element (i) - Clarity and comprehensiveness of tax liabilities – C.
- Sub-Rating Element (ii) - Taxpayer access to information on tax liabilities and administrative procedures – B.
- Sub-Rating Element (iii) - Existence and functioning of a tax appeals mechanism – C.

3.3.8 Effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system but is also very dependent on the direct involvement and cooperation of the taxpayers from the individual and corporate private sector. Their contribution to ensuring overall compliance with tax policy is encouraged and facilitated by a high degree of transparency of tax liabilities, including clarity of legislation and administrative procedures, access to information in this regard, and the ability to contest administrative rulings on tax liability. A good tax collection system encourages compliance and limits individual negotiation of tax liability by ensuring that tax legislation is clear and comprehensive and that it limits discretionary powers.

Dimension	Minimum requirements for dimension score
(i) Clarity and comprehensiveness of tax liabilities	<p>Score = A: Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.</p> <p>Score = B: Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.</p> <p>Score = C: Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved.</p> <p>Score = D: Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities.</p>
(ii) Taxpayers’ access to information on tax liabilities and administrative procedures	<p>Score A: Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.</p> <p>Score = B: Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.</p> <p>Score = C: Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date.</p> <p>Score = D: Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient.</p>
(iii) Existence	Score A: A tax appeals system of transparent administrative procedures with

and functioning of a tax appeals mechanism	<p>appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.</p> <p>Score = B: A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed.</p> <p>Score = C: A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.</p> <p>Score = D: No functioning tax appeals system has been established</p>
---	---

3.3.9 Performance is assessed against the above three dimensions (sub-rating elements).

3.3.10 For sub-rating element (i), a ‘C’ score applies as, although the procedures for major taxes are comprehensive and clear, the fairness of the system is questioned and largely absent due to the substantial discretionary powers exercisable by the government entities involved.

3.3.11 In an ongoing process, the number of taxes and rates varies. A multiplicity of 22 provincial taxes has been reduced to 13, and steps are underway to further reduce to 4 taxes –urban property improvement tax, excise duty, motor registration tax, and GST for which provincial rather than federal administration is proposed as the assessment and collecting entity for reasons of efficiency and economic rationality. Tax liabilities are well defined but there are discretionary powers with the tax assessment officials as audit reports on the accounts of revenue receipts have shown potentials for misuse and revenue leakage affected by the inadequacy of clarity in the tax requirements. Audit reports have also shown a poor record of rectification of deficiencies which also affects the clarity of tax obligations. Impunity by reasons of influence or intransigence severely erodes tax clarity and comprehensiveness as well as fairness. The GoPj needs to evolve systems of automated tax assessment for its assigned taxes, as per federal initiatives, to considerably reduce the discretionary powers vested with the tax officials.

3.3.12 For sub-rating element (ii), a score of ‘B’ applies because, although taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for the major taxes, taxpayer education programs are lacking.

3.3.13 Information about taxes is passed on to the taxpayers as part of the budget speech, both at the federal and provincial level, and through the various taxation notices for the relevant taxes. Urdu is also used in these notices.

3.3.14 The computation of tax is a difficult task for the taxpayers as tax rates and conditions vary frequently. The information dissemination could be assisted by additional taxpayer education programs.

3.3.15 For sub-rating element (iii), a score of ‘C’ applies as despite the establishment of the administrative procedures for a tax appeals system, fairness, transparency and effectiveness of the procedures need further redefinition. The tax appeals system is subject to an issue of non-independence of the internal appeals mechanism.

3.3.16 Overall, therefore, a rating of ‘C+’ applies to the indicator.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment
Overall Rating ‘C+’

- Sub-Rating Element (i) - Controls in the taxpayer registration system – C.
- Sub-Rating Element (ii) - Effectiveness of penalties for non-compliance with registration and declaration obligations – B.
- Sub-Rating Element (iii) - Planning and monitoring of tax audit and fraud investigation programs – C.

3.3.17 Maintenance of a taxpayer database based on a unique taxpayer identification number is an important element of any tax control system, and is most effective if linked to other government registration systems RAs should ensure compliance with registration requirements through occasional surveys of potential taxpayers e.g. by selective, physical inspection of business premises and residences.

3.3.18 For sub-rating element (i), a score of ‘C’ applies because taxpayers are registered in database systems for individual taxes but there is no full or consistent linkage. Linkages to other registration/licensing functions are also weak.

Dimension	Minimum requirements for dimension score Scoring Methodology M2
(i) Controls in the taxpayer registration system.	<p>Score = A: Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations.</p> <p>Score = B: Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.</p> <p>Score = C: Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.</p> <p>Score = D: Taxpayer registration is not subject to any effective controls or enforcement systems</p>
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	<p>Score = A: Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered.</p> <p>Score = B: Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.</p> <p>Score = C: Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.</p> <p>Score = D: Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed).</p>
(iii) Planning and monitoring of tax audit programs.	<p>Score A: Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.</p> <p>Score = B: Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.</p> <p>Score = C: There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.</p>

	Score = D: Tax audits and fraud investigations are undertaken on an ad hoc basis if at all.
--	---

3.3.19 Taxpayer registration is problematic because of a lack of automated taxpayer databases for provincial taxes. Automated taxpayers databases are maintained for all the major federal direct and indirect taxes but do not yet cover the provincial-assigned taxes. It is to be underscored that the federal government should necessarily take a lead in this as the whole concept of taxation is more or less a federal subject.

3.3.20 For sub-rating element (ii), a score of ‘B’ applies because penalties for non-compliance exist for most relevant areas, but audit reports show they are not always effective, probably due to their magnitude and inconsistent administration.

3.3.21 Ensuring that taxpayers comply with their procedural obligations of taxpayer registration and tax declaration is usually encouraged by penalties that may vary with the seriousness of the fault. Effectiveness of such penalties is determined by the extent to which penalties are sufficiently high to have the desired impact, and are consistently and fairly administered. The system of imposing penalties is well defined but delegates a lot of discretion to the tax official.

3.3.22 For sub-rating element (iii), a score of ‘C’ applies because there is a continuous program of tax audits and fraud investigations, but audit programs are not based on sufficiently clear risk assessment criteria.

3.3.23 Inevitable resource constraints mean that audit selection processes must be refined to identify taxpayers and taxable activities that involve the largest potential risk of non-compliance. Indicators of risk are the frequency of amendments to returns and additional tax assessed from tax audit work. Collection and analysis of information on non-compliance and other risks is necessary for focusing tax audit activities and resources towards specific sectors and types of taxpayers that have the highest risk of revenue leakages. More serious issues of non-compliance involve deliberate attempts at tax evasion and fraud, which may involve collusion with representatives of the RA. The ability of the RA to identify, investigate and successfully prosecute major evasion and fraud cases on a regular basis is essential for ensuring that taxpayers comply with their obligations.

3.3.24 Overall, therefore, the rating against the indicator is assessed as ‘C+’

PI-15 Effectiveness in collection of tax payments

Overall Rating ‘B’

3.3.25 Accumulation of tax arrears can be a critical factor undermining high budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of all taxpayers, whether they pay voluntarily or need close follow up.

3.3.26 The three sub-rating elements (dimensions) are assessed as follows:

- Sub-Rating Element (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) – ‘B’.
- Sub-Rating Element (ii) - Effectiveness of transfer of tax collections to the Treasury by the revenue administration – ‘B’.
- Sub-Rating Element (iii) - Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury – ‘B’.

3.3.27 To score against this indicator, performance must be assessed using the methodology below:

Score	Minimum requirements (Scoring methodology: M1)
A	(i) The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections). (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.
B	(i) The average debt collection ratio in the two most recent fiscal years was 75-90% and the total amount of tax arrears is significant. (ii) Revenue collections are transferred to the Treasury at least weekly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.
C	(i) The average debt collection ratio in the two most recent fiscal years was 60-75% and the total amount of tax arrears is significant (ii) Revenue collections are transferred to the Treasury at least monthly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year.
D	(i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). (ii) Revenue collections are transferred to the Treasury less regularly than monthly (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay.

3.3.28 For this indicator a score of 'B' applies because all the three sub-rating elements (i), (ii) and (iii) rate very well with: (a) overall high collection rates (>75% of assessed taxes, according to information provided by E&T) in any given year, (b) strong systems for paying revenues into the treasury through the National Bank of Pakistan (the fiscal agent of the SBP), and (c) monthly revenue reconciliation processes by the Accountant General already in place although reconciliation differences remain. Overall, using the MI scoring methodology, the rating for the indicator is a 'B'.

3.4 Predictability and control in budget execution

PI-16 Predictability in availability of funds for commitment of expenditures

Overall Rating 'A'

3.4.1 Effective execution of the budget, in accordance with the work plans, requires that the spending ministries, departments and agencies (MDAs) receive reliable information on availability of funds within which they can commit expenditure for recurrent and capital inputs. This indicator assesses the extent to which the MOF provides reliable information on the availability of funds to MDAs that manage budget heads.

3.4.2 The three dimensions assessed under this indicator and their respective sub-ratings are as below:

- Sub-Rating Element (i) - Extent to which cash flows are forecast and monitored – ‘A’.
- Sub-Rating Element (ii) - Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment – ‘A’.
- Sub-Rating Element (iii) - Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs – ‘A’.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows. (ii) MDAs’ are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.
B	(i) A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows. (ii) MDAs are provided reliable information on commitment ceilings at least quarterly in advance. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.
C	(i) A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated. (ii) MDAs are provided reliable information for one or two months in advance. (iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency.
D	(i) Cash flow planning and monitoring are not undertaken or of very poor quality. (ii) MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment. (iii) Significant in-year budget adjustments are frequent and not done in a transparent manner.

3.4.3 The performance as measured by the three dimensions are well met by the GoPj. On sub-rating element /dimension (i), a score of ‘A’ applies as the GoPj, through the Department of Finance, prepares and updates monthly cash flows based on the daily monetary bank balances supplied by the banking sector; on sub-rating element / dimension (ii); a score of ‘A’ has been assessed as the reliability and predictability of funds availability through front-loaded releases of budgeted funds (not less than 40% of development budgets and 100% of recurrent budgets at the start of the FY) support MDAs to plan their expenditures properly; and on sub-rating element / dimension (iii); a score of ‘A’ also applies as in-year budget adjustments are carried out not more than once a year. On the basis of the above, all the three sub-rating elements score an ‘A’, and hence an ‘A’ overall rating is assigned to the indicator.

PI-17 Recording and management of cash balances, debt and guarantees

Overall Rating ‘A’

- Sub-Rating Element (i) - Quality of debt data recording and reporting – A.
- Sub-Rating Element (ii) - Extent of consolidation of the government’s cash balances – B.
- Sub-Rating Element (iii) - Systems for contracting loans and issuance of guarantees – A.

3.4.4 Debt management, in terms of contracting, servicing and repayment, and the provision of government guarantees are often major elements of overall fiscal management. Poor management of debt and guarantees can create unnecessarily high debt service costs and can create significant fiscal risks. The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over.

3.4.5 The criteria for assessing the three sub-rating elements/dimensions are as below:

Dimension	Minimum requirements for dimension score Scoring Methodology M2
(i) Quality of debt data recording and reporting	<p>Score = A: Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly</p> <p>Score = B: Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually.</p> <p>Score = C: Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content.</p> <p>Score = D: Debt data records are incomplete and inaccurate to a significant degree.</p>
(ii) Extent of consolidation of the government's cash balances	<p>Score = A: All cash balances are calculated daily and consolidated.</p> <p>Score = B: Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.</p> <p>Score = C: Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances</p> <p>Score = D: Calculation of balances takes place irregularly, if at all, and the system used does not allow consolidation of bank balances.</p>
(iii) Systems for contracting loans and issuance of guarantees.	<p>Score = A: Provincial government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.</p> <p>Score = B: Provincial government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.</p> <p>Score = C: Provincial government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.</p> <p>Score = D: Provincial government's contracting of loans and issuance of guarantees are approved by different government entities, without a unified overview mechanism.</p>

3.4.6 Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (covering debt service, stock, and operations) are produced at least quarterly. The White Paper contains a list of all loans contracted. GoPj has developed a debt management strategy to repay expensive loans from federal government. Based on the PFM Framework's scorings, a rating of 'A' is assessed for the first sub-rating element / dimension.

3.4.7 The cash balances of the government are consolidated regularly. For the assignment, PLA and Special Accounts, consolidation remains an issue. Rating of 'B' is therefore assigned to the second dimension as most cash balances are computed and consolidated at least weekly although some extra-budgetary funds as well as balances on foreign aided funds remain outside the arrangement.

3.4.8 The Finance Department has, on Microsoft Excel, amortization schedules for each and every debt it has contracted from the federal government or the donors through an on-lending agreement with the federal government. Also all the debts it has advanced are properly maintained and recorded. Special Funds to manage Pension and General Provident Fund Liabilities have also been notified and legislation is being drafted to govern their operation. The legislation is expected to be in place by the next financial year. A Debt Management Cell has been established. There is a system of issuing and recording guarantees. This sub-rating element/dimension is therefore rated 'A' as contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

3.4.9 The overall rating is 'A'.

PI-18 Effectiveness of payroll controls

Overall Rating 'C+'

3.4.10 The wage bill is usually one of the biggest items of government expenditure on the recurrent side (about 75% in respect of Punjab) and is traditionally susceptible to weak control and corruption. This indicator is concerned with the payroll for public servants only. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of general internal controls (PI-20). However, different segments of the public service may be recorded in different payrolls.

3.4.11 The four sub-rating elements/dimensions are assessed as follows:

- Sub-Rating Element (i) - Degree of integration and reconciliation between personnel records and payroll data – 'C'.
- Sub-Rating Element (ii) - Timeliness of changes to personnel records and the payroll – 'A'.
- Sub-Rating Element (iii) - Internal controls over changes to personnel records and the payroll – 'B'.
- Sub-Rating Element (iv) - Existence of payroll audits to identify control weaknesses and/or ghost workers – 'B'.

3.4.12 Punjab is implementing the payroll system incorporated into the SAP/R3 computer system which has automated processes for these indicators. The payroll for about 40% of the GoPj staff is currently being processed through a computerized system but there is no IT linkage between the HR database (manual at the moment) and the payroll application in SAP/R3. Changes to personnel data impacting the payroll are supplied to the payroll processing units within 2-6 weeks of the changes. Currently the approved establishment lists of staff in the line departments in Punjab are not incorporated in a fully implemented HRMIS system although work has started in that direction

through contracting the historical data collection to NADRA. At the moment therefore, inconsistencies exist between personnel data available from different sources.

3.4.13 Although pay-scale audits are carried out to reconcile payroll expenditures against sanctioned posts - particularly for payrolls processed through SAP - there remains the weakness that not all DDOs are proactive in ensuring that only eligible employees continue to remain active in processed payrolls.

Score	Minimum requirements (Scoring methodology: M1)
A	<p>(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.</p> <p>(ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).</p> <p>(iii) Authority to change records and payroll is restricted and results in an audit trail.</p> <p>(iv) A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.</p>
B	<p>(i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.</p> <p>(ii) Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.</p> <p>(iii) Authority and basis for changes to personnel records and the payroll are clear.</p> <p>(iv) A payroll audit covering all provincial government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).</p>
C	<p>(i) A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months.</p> <p>(ii) Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments.</p> <p>(iii) Controls exist, but are not adequate to ensure full integrity of data.</p> <p>(iv) Partial payroll audits or staff surveys have been undertaken within the last 3 years.</p>
D	<p>(i) Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists.</p> <p>(ii) Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments.</p> <p>(iii) Controls of changes to records are deficient and facilitate payment errors.</p> <p>(iv) No payroll audits have been undertaken within the last three years.</p>

3.4.14 With the three sub-rating elements/dimensions individually rated ‘C’, ‘A’, ‘B’, and ‘B’ respectively, the overall rating assigned, based on the MI scoring methodology, is therefore ‘C+’.

PI-19 Competition, value for money and controls in procurement

Overall Rating ‘C’

- Sub-Rating Element (i) - Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold) - B
- Sub-Rating Element (ii) - Extent of justification for use of less competitive procurement methods - C
- Sub-Rating Element (iii) - Existence and operation of a procurement complaints mechanism - D

3.4.15 Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively and efficiently. Open competition in the award of contracts has been shown to provide the best basis for achieving efficiency in acquiring inputs for and value for money in delivery of programs and services by the government. This indicator focuses on the quality and transparency of the procurement regulatory framework in terms of establishing the use of open and fair competition as the preferred procurement method and defines the alternatives to open competition that may be appropriate when justified in specific, defined situations.

3.4.16 The three sub-rating elements/dimensions are assessed under the scoring methodology as below:

Dimension	Minimum requirements for dimension score Scoring Methodology M2
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	<p>Score = A: Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.</p> <p>Score = B: Available data on public contract awards shows that more than 50% but less than 75% of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate.</p> <p>Score = C: Available data shows that less than 50% of contracts above the threshold are awarded on an open competitive basis, but the data may not be accurate.</p> <p>Score = D: Insufficient data exists to assess the method used to award public contracts OR the available data indicates that use of open competition is limited.</p>
(ii) Justification for use of less competitive procurement methods	<p>Score = A: Other less competitive methods when used are justified in accordance with clear regulatory requirements.</p> <p>Score = B: Other less competitive methods when used are justified in accordance with regulatory requirements.</p> <p>Score = C: Justification for use of less competitive methods is weak or missing.</p> <p>Score = D: Regulatory requirements do not clearly establish open competition as the preferred method of procurement.</p>

<p>(iii) Existence and operation of a procurement complaints mechanism</p>	<p>Score = A: A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny.</p> <p>Score = B: A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority.</p> <p>Score = C: A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints.</p> <p>Score = D: No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process.</p>
---	---

3.4.17 For sub-rating element (i), a score of ‘B’ is applied because pre-audit checks, including works audit, of the vouchers and bills provide indications that the method used to award public contracts is generally in accordance with the open competition rules applied in Punjab – not less than 75% - but the pre-audit checks are in themselves limited to documentary checks and therefore give an incomplete assessment of whether open competition was properly applied. They do not cover procurements made from PLAs and some assignment accounts.

3.4.18 For sub-rating element (ii), a score of ‘C’ is assigned because the justification for use of less competitive methods is weak or missing as the governing rules are largely subject to discretionary application.

3.4.19 For sub-rating element (iii), a score of ‘D’ is assigned because a basic process exists for submitting and addressing procurement complaints, but it is designed poorly, is less transparent, and does not operate in a manner that provides for timely resolution of complaints.

3.4.20 In Punjab, procurement procedures and their implementation need review in order to be made more transparent and less bureaucratic. The Auditor General’s district audits have reported that collusive tendering was prevalent. The audit reports also include common highlights of reported splitting of expenditures (circumvention of rules and applicable thresholds) to avoid sanction of competent authority. There is no access to information about the final award in tender exercises or the final disposal of appeals.

3.4.21 An overall rating of ‘C’ is therefore assessed.

PI-20 Effectiveness of internal controls for non-salary expenditure

Rating ‘C+’

3.4.22 The sub-ratings for each of the three dimensions are as follows:

- Sub-rating elements (i) - Effectiveness of expenditure commitment controls – ‘B’.
- Sub-rating elements (ii) - Comprehensiveness, relevance and understanding of other internal control rules / procedures – ‘C’.
- Sub-rating elements (iii) - Degree of compliance with rules for processing and recording transactions – ‘A’

3.4.23 An effective internal control system is one that (a) is relevant (i.e. based on an assessment of risks and the controls required to manage the risks), (b) incorporates a comprehensive and cost effective set of controls (which address compliance with rules in procurement and other expenditure

processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting), (c) is widely understood and complied with, and (d) is circumvented only for genuine emergency reasons. Evidence of the effectiveness of the internal control system should come from government financial controllers, regular internal and external audits or other surveys carried out by management. One type of information could be error or rejection rates in routine financial procedures.

Score	Minimum requirements (Scoring methodology: M1)
A	<p>(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised).</p> <p>(ii) Other internal control rules and procedures are relevant, and incorporate a comprehensive and generally cost effective set of controls, which are widely understood.</p> <p>(iii) Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.</p>
B	<p>(i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.</p> <p>(ii) Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.</p> <p>(iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.</p>
C	<p>(i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.</p> <p>(ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.</p> <p>(iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.</p>
D	<p>(i) Commitment control systems are generally lacking OR they are routinely violated.</p> <p>(ii) Clear, comprehensive control rules/procedures are lacking in other important areas.</p> <p>(iii) The core set of rules are not complied with on a routine and widespread basis due to direct breach of rules or unjustified routine use of simplified/emergency procedures.</p>

3.4.24 The Pakistan internal control system is rooted in a series of rules, including the General Financial Rules, Fundamental Rules, Supplementary Rules, Treasury Rules, Delegation of Financial Powers, and Rules of Business. Many of these instruments are derived from the colonial system and need revisions for consistency with modern standards and practices in PFM as well as with the existing organizational and institutional structures in government.

3.4.25 A Compendium of Instructions has been recently published to assist with knowledge of the rules. The District Audit reports for 2002-03 found that managers needed to play a larger part in internal controls. The audits observed what the more common violations of the financial rules are. The certification audit reports now show the frequency of errors discovered during the audits, e.g. the 2004-05 certification audit report for the Faisalabad District shows a good or excellent assessment with occasional lapses – 2% error rate for pay/allowances, 4% for contingent payments, 1% for works/services, and 0% error rate for compilation of accounts. The audit reports comment on specific internal controls.

3.4.26 Based on the error rate identified in published audit reports and the current system of internal control, a rating of 'C+', under the MI scoring methodology, is appropriate as the situation can fairly be described as follows:

- i) Expenditure commitment controls are in place through 100% pre-audit and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.
- ii) Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood but may, in some areas, be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.
- iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.

3.4.27 The majority of the large number of audit observations arising from audits over the last 10 years and still pending resolution relate to irregularities, non-compliance with rules and regulations and non-provision of information by departments to the auditors. This clearly indicates historic problems in the existence, effectiveness and operation of internal controls. These internal control procedures contained in the many rules and regulations have not generally been well understood and have multiple interpretations, which ultimately provide undue discretion to the government officials. Any steps to ensure that officials and the public that are in contact with these officials have a good knowledge of the applicable rules would clearly enhance internal controls.

3.4.28 In order to improve public financial accountability and reduce abuse of systems, successive governments over the years had introduced several layers of checks and balances; these made the payment release procedures very time-consuming and cumbersome. There is a need to re-engineer the processes to remove duplicate and redundant controls and steps; and to publish clear instructions.

3.4.29 The record of assets (dead stock register) is not integrated or reconciled with the accounting records and thus no asset accounting is being done. PIFRA implementation provides for asset accounting under the new accounting model, and the challenge will be to collect and feed the data relating to the public assets in existence when the system rolls-out.

3.4.30 Government officials need to be motivated through well-thought out, across the board, civil service reforms. Four elements are critical for any such reforms including training/retraining of staff, reasonable remuneration, necessary tools and equipment and sound risk management and accountability controls.

3.4.31 The Local Government Ordinance 2001 requires the District Governments to set up Monitoring Committees. Although the committees have been notified by the provincial and respective district governments but they have neither the capacity to deliver nor are practically functional.

PI-21 Effectiveness of internal audit

Overall Rating 'D'

3.4.32 Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). Such a function should meet international standards provided by the Institute of Internal Auditors, USA, in terms of (a) an appropriate structure particularly with regard to professional independence, (b) sufficient breadth of mandate, access to information and power to report, (c) the use of professional audit methods, including risk assessment techniques. The function should be focused on reporting on significant systemic issues in relation to: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

3.4.33 Three dimensions are to be assessed:

- Sub-Rating Element (i) - Coverage and quality of the internal audit function 'D'.
- Sub-Rating Element (ii) - Frequency and distribution of reports – 'D'.
- Sub-Rating Element (iii) - Extent of management response to internal audit findings – 'D'.

3.4.34 A number of key Government Departments have some form of internal audit functions but these are not focused on systems, the reporting is irregular and not focused, and not all the recommendations are acted upon. District audits reports have found that the internal auditors required by the LGO 2001 have generally not been appointed by District Nazims.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) Internal audit is operational for all provincial government entities, and generally meet professional standards. It is focused on systemic issues (at least 50% of staff time). (ii) Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI. (iii) Action by management on internal audit findings is prompt and comprehensive across provincial government entities.
B	(i) Internal audit is operational for the majority of provincial government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time). (ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI. (iii) Prompt and comprehensive action is taken by many (but not all) managers.
C	(i) The function is operational for at least the most important provincial government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards. (ii) Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI. (iii) A fair degree of action taken by many managers on major issues but often with delay
D	(i) There is little or no internal audit focused on systems monitoring. (ii) Reports are either non-existent or very irregular. (iii) Internal audit recommendations are usually ignored (with few exceptions).

3.4.35 The situation can be fairly assessed as a ‘C’ rating at the provincial government level as:

- i) The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.
- ii) Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI.
- iii) A fair degree of action taken by many managers on major issues but often with delay

3.4.36 Overall however, since there are virtually non-functioning internal audit units in the 35 districts apart from the pre-audit function as well as the audit work carried out by the Local Fund Auditors, a rating of ‘D’ is assessed for the whole province. Local Fund Audit units are examining the local funds but are operating largely as external auditors.

3.5 Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

Rating ‘B’

- Sub-Rating Element (i) - Regularity of bank reconciliations – B.
- Sub-Rating Element (ii) - Regularity of reconciliation and clearance of suspense accounts & advances – B.

3.5.1 Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants. Two critical types of reconciliation are (i) reconciliation of accounting data, held in the government’s books, with government bank account data held by central and commercial banks, in such a way that no material differences are left unexplained; and (ii) clearing and reconciliation of suspense accounts and advances i.e. of cash payments made, from which no expenditures have yet been recorded.

3.5.2 The scoring methodology for the two dimensions to be assessed is as below:

Dimension	Minimum requirements for dimension score Scoring Methodology M2
(i) Regularity of bank reconciliations	<p>Score = A: Bank reconciliation for all provincial government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.</p> <p>Score = B: Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.</p> <p>Score = C: Bank reconciliation for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter.</p> <p>Score = D: Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.</p>

<p>(ii) Regularity of reconciliation and clearance of suspense accounts and advances</p>	<p>Score = A: Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.</p> <p>Score = B: Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.</p> <p>Score = C: Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward.</p> <p>Score = D: Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.</p>
---	--

3.5.3 Reconciliation of expenditures recorded at the DAOs, with those recorded, on memorandum basis. Bank scrolls are also received daily and attempts made to reconcile them with the fiscal balances. However the audited Finance Accounts continue to show substantial unresolved differences between closing balances of Account I and Account II vis-à-vis the bank records. For example, in for FY 2002-03, audited Finance Accounts revealed that Account-I's reconciliation differences were 12.3 billion, while Account II's were 3.3 billion rupees. Also the overall difference for the two accounts increased by 0.86 billion rupees over the year, so these differences are not only attributable to discrepancies in the opening balances and demonstrate continuing deficiencies in the departmental accounts. However, later years' audited accounts show reductions in the differences as there have been some improvements. The Director General of Provincial Audit confirmed that the most recent audits in FY 2005-06 (yet to be finalized) also showed substantial differences although some of the differences may be due to unrepresented cheques yet to be fully reflected in the reconciliation statements. The lack of adequate reconciliation between the monetary and fiscal balances is a weakness feature across all provinces in Pakistan but since reconciliations are indeed regularly carried out, this dimension (i) is rated 'B' as per the scoring methodology.

3.5.4 A Fiscal Monitoring Committee (FMC) chaired by the Minister for Finance meets regularly and considers the status of reconciliations. While efforts are made to reconcile the Consolidated Fund financial transactions, the Public Accounts have remained largely unreconciled. At provincial and district levels, regular reconciliation processes are in place but substantial differences between compiled provincial accounts and departmental accounts remain largely unexplained. Reconciliation as at January 2005 (latest available FMC report) of receipts was at 92% and expenditures at 80%. Monthly Civil Accounts are produced by the Accountant General using reports from District Accounting Offices (DAOs) compiled from cash transactions processed through the Offices. For the published audited district and provincial accounts, the Auditor General had issued qualified audit certificates by reporting that the accounts properly present the accounting transactions in *most* material aspects (as contrasted with the requirement in the relevant international auditing standard and the Punjab Accountant General's Certification Manual that an unqualified certificate requires compliance in *all* material respects). This indicates that the new audit certification methodology has yet to be fully rolled out across audit formations in the province.

3.5.5 Suspense accounts as well as inter-governmental accounts are reconciled monthly and differences are cleared within the following quarter. As a result, that dimension (ii) is appropriately rated 'B'

3.5.6 Overall, therefore, the indicator is rated 'B' according to the Framework.

PI-23 Information on resources received by service delivery units

Overall Rating 'B'

3.5.7 Problems frequently arise in front-line service delivery units providing services at the community level (such as schools and health clinics) in obtaining resources that were intended for their use, whether in terms of cash transfers, distribution of materials in kind or provision of centrally recruited and paid personnel. The intended resource provision may not be explicit in budget documentation, but is likely to form part of line ministries' internal budget estimates preparation. Front line service delivery units, being furthest in the resource allocation chain, may be the ones to suffer most when overall resources fall short of budget estimates, or when higher level organizational units decide to re-direct resources to other purposes. There may be significant delays in transfers of resources to the unit whether in cash or in kind. Tracking of such information is crucial in order to determine, if the PFM systems effectively support front-line service delivery.

3.5.8 The indicator is measured by assessing the collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (with a 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. To score well, routine data collection or accounting systems should provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country; and the information should be compiled into reports at least annually.

3.5.9 Individual departments operate their own systems for monitoring the expenditure made in relation to the resources allocated for service delivery. For example the Department of Communications and Works operates a project tracking system on a monthly reporting basis, and the Departments of Education and Health have developed well defined budget allocation and payment systems for their front line units. Also the PIFRA SAP/R3 is progressively providing more flexibility, at those productive sites in the province, in generating individually tailored reports for management.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.
B	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).
C	(i) Special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country OR by primary service delivery units at local community level in several other sectors.
D	(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

3.5.10 A rating of ‘B’ is assigned against this indicator as the key sector departments (education and health) have in place a well functioning tracking mechanism, reported regularly, on resources received and deployed across their respective sectors. The other sector departments have yet to develop more mature systems.

PI-24 Quality and timeliness of in-year budget reports

Overall Rating ‘C+’

3.5.11 Ability to “bring in” the budget requires timely and regular information on actual budget performance to be available both to the department of finance (and Cabinet), to monitor performance and if necessary to identify new actions to get the budget back on track, and to the MDAs for managing the affairs for which they are accountable. The indicator focuses on the ability to produce comprehensive reports from the accounting systems on all aspects of the budget (i.e. flash reports on release of funds to MDAs are not sufficient).

3.5.12 The three dimensions assessed and their respective sub-ratings are as follows:

- Sub-Rating Element (i) - Scope of reports in terms of coverage and compatibility with budget estimates – ‘C’.
- Sub-Rating Element (ii) - Timeliness of the issue of reports – ‘A’.
- Sub-Rating Element (iii) - Quality of information – ‘B’.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. (iii) There are no material concerns regarding data accuracy.
B	(i) Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly, and issued within 6 weeks of end of quarter. (iii) There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/usefulness.
C	(i) Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both). (ii) Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter. (iii) There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.
D	(i) Comparison to the budget may not be possible across all main administrative headings. (ii) Quarterly reports are either not prepared or often issued with more than 8 weeks delay. (iii) Data is too inaccurate to be of any real use.

3.5.13 The scope of the reports, prepared monthly and available within 15-21 days of the end of the month, is narrow as detailed objects, including economic classifications, are not provided, although at the function/sub-function levels (largely on administrative headings), the reports come out very

well. As regards comparison of actuals in those reports (Civil Accounts) against budget appropriations, this is carried out on limited basis only and in certain districts like Faisalabad. Expenditure is captured at payment stage as no ‘commitment accounting’ is yet in place. On the basis of the scoring methodology for the sub-rating element (i), a ‘C’ is assigned.

3.5.14 Monthly returns are posted on the Finance website based on the monthly Civil Accounts from the Accountant General and the Chart of Accounts is taken from the New Accounting Model. With the reports prepared monthly and made available within 15-21 days after the end of the month, a sub-rating of ‘A’ applies to the sub-rating element (ii).

3.5.15 In respect of the accuracy and reliability of the data forming the information contained in the monthly civil accounts reports, a rating applicable to the sub-rating element (iii) is ‘B’ as, although there are some concerns on accuracy, they do not compromise the overall consistency of the reports themselves.

3.5.16 On the basis of the above, the overall rating for the indicator is ‘C+’, using the MI scoring methodology.

PI-25 Quality and timeliness of annual financial statements

Overall rating ‘B’

- i) Completeness of the financial statements – B.
- ii) Timeliness of submission of the financial statements – B.
- iii) Accounting standards used – B.

3.5.17 Consolidated year-end financial statements are critical for transparency in the PFM system. To be complete, they must be based on details for all ministries and departments. In addition, the ability to prepare year-end financial statements in a timely fashion is a key indicator of how well the accounting system is operating, and the quality of records maintained.

3.5.18 The three dimensions are assessed for this indicator are scored using the methodology as below:

Score	Minimum requirements (Scoring methodology: M1)
A	(i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities. (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied for all statements.
B	(i) A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities (ii) The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied.
C	(i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. (ii) The statements are submitted for external audit within 15 months of the end of the fiscal year. (iii) Statements are presented in consistent format over time with some disclosure of accounting standards.

D	<p>(i) A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor to enable audit.</p> <p>(ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year</p> <p>(iii) Statements are not presented in a consistent format over time or accounting standards are not disclosed.</p>
----------	---

3.5.19 For sub-rating element (i) a consolidated government statement is prepared annually; information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. A rating of 'B' is applied for this item as the statements have some exceptions in that there are some unreconciled balances as per PI 22.

3.5.20 For sub-rating element (ii) the financial statements are provided to audit 7-8 months after the end of the year and a rating of 'B' is applicable.

3.5.21 For sub-rating element (iii) statements are presented in a consistent format over time with some disclosure of accounting standards. The International Public Sector Accounting Standards (IPSAS) are broadly applied and a rating of 'B' is applied for this item.

3.5.22 Overall, a rating of 'B' is assigned.

3.5.23 The national rules for preparation of government financial statements are contained in the Constitution, the Accounts Codes/NAM, the Audit Code and the Local Government Accounts Rules in addition to other statutes and sub-ordinate legislation. The operational standards are in the process of substantial improvement through PIFRA as far as financial reporting and disclosure requirements are concerned and for their alignment with International Public Sector Accounting Standards. The AGP has, under his constitutional powers, notified the adoption of IPSAS Cash Basis of Financial Reporting, using IPSAS 2 cash flow statement and this standard is expected to be in use in the province for the preparation of the Finance Accounts as of FY 2007-08.

3.6 External scrutiny and audit

PI-26 Scope, nature and follow-up of external audit⁸

Overall rating 'D+'

3.6.1 A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of actual external audit comprise the scope/coverage of the audit, adherence to appropriate auditing standards including independence of the external audit institution (ref. INTOSAI and IFAC/IAASB), focus on significant and systemic PFM issues in its reports, and performance of the full range of financial audit such as reliability of financial statements, regularity of transactions and functioning of internal control and procurement systems. Inclusion of some aspects of performance audit (such as e.g. value for money in major infrastructure contracts) would also be expected of a high quality audit function.

3.6.2 The scope of audit mandate should include extra-budgetary funds and autonomous agencies. The latter may not always be audited by the Supreme Audit Institution (SAI), as the use of other audit institutions may be foreseen. The scope indicates the entities and sources of funds that are audited in any given year. Where SAI capacity is limited, the audit program may be planned by the

⁸ This indicator merges two earlier indicators of the consultative draft version of 2004. It is now more encompassing according to the June 2005 approved framework version.

SAI in line with legal audit obligations on a multi-year basis in order to ensure that most important or risk-prone entities and functions are covered annually, whereas other entities and functions may be covered less frequently.

3.6.3 Three dimensions assessed and their respective sub-ratings as follows:

- Sub-Rating Element (i) - Scope/nature of audit performed (including adherence to auditing standards) – ‘B’.
- Sub-Rating Element (ii) - Timeliness of submission of audit reports to legislature - ‘D’.
- Sub-Rating Element (iii) - Evidence of follow up on audit recommendations – ‘C’.

3.6.4 For sub-rating element (i) - the Auditor General Ordinance 2001 explains the constitutional mandate of the Auditor General of Pakistan whereby he is responsible for auditing all government formations and government enterprises (the latter where they are 50% plus funded by the government). PIFRA has updated auditing methods and a district audit function has been established since 2004. As all entities of the provincial and district governments are audited annually, a full range of financial audits and some aspects of performance audit are performed. Since *some* of the audit formations already began using the Financial Audit Manual (2005) that is generally compliant with international auditing standards as basis for their audits, a rating of ‘B’ applies for this dimension under the ‘new audit methodology’. The rating would ordinarily have been ‘A’ if coverage, using the Financial Audit Manual included all government formations and enterprises which is not the case at the moment.

3.6.5 For sub-rating element (ii) - the audit reports for the provincial and district governments for FY 2002-03 to FY 2004-05, already completed within 5 months of receipt of the financial statements, have been delayed by no less than 12 months before they were presented to the legislature. The situation is worse at the district level as the 2003-04 accounts which were already audited have still yet to be presented to the *Zila* Councils. As the latest audit reports for the entire province (FY 2004-05) have, for more than 12 months, not been presented to the legislature after receipt of the financial statements, a rating of ‘D’ applies for this dimension.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) All entities of provincial government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues. (ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. (iii) There is clear evidence of effective and timely follow up.
B	(i) Provincial government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues. (ii) Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. (iii) A formal response is made in a timely manner, but there is little evidence of systematic follow up.
C	(i) Provincial government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise

	<p>transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.</p> <p>(ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors).</p> <p>(iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.</p>
D	<p>(i) Audits cover provincial government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues.</p> <p>(ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors).</p> <p>(iii) There is little evidence of response or follow up.</p>

3.6.6 For sub-rating element (iii) - the Public Accounts Committees are reviewing and reporting on the outstanding audit reports for previous years and there is increasingly substantial departmental follow up of audit observations. At the provincial government level, two PACs have been established to support the fast track review process of audit reports and audited accounts for a backlog period of over 11 years. The Department of Finance, supported by the Additional Chief Secretary of the province, has recently established stronger procedures for Departmental Accounts Committees (DAC) to deal with the vast number of outstanding audit issues arising from more than 11 years of un-actioned audit reports. As of March 2006, there remained over 100,000 unresolved audit observations. The Additional Chief Secretary has accepted that the DAC process would never be able to deal with such large numbers of issues and has authorized the DAGP to liaise with individual DDOs and settle the outstanding matters directly where satisfactory compliance has been achieved. Also the DAGP has strengthened the audit consultations processes with the audited departments during the audit process to prevent so many unresolved audit objections going through to the report stage; rather they are taken up by the DAGP with departments through memoranda for discussion in DACs. The effect is apparent through the greatly reduced sizes of recent audit reports. A rating of 'C' is applied for this item, on balance, as the system for response and follow up, while present, is weak and unproven at the moment.

3.6.7 As per the scoring methodology (MI), the indicator scores an overall rating of 'D+' largely because of the poor timeliness in the audit reports.

PI-27 Legislative scrutiny of the annual budget law⁹

Overall rating 'D+'/'D' in respect of local government arrangements

- Sub-Rating Element (i) - Scope of the legislature's scrutiny – 'A'.
- Sub-Rating Element (ii) - Extent to which the legislature's procedures are well-established and respected – 'B'.
- Sub-Rating Element (iii) - Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined) – 'D'.
- Sub-Rating Element (iv) - Rules for in-year amendments to the budget without ex-ante approval by the legislature. – B.

⁹ This is an indicator which has been redefined in the final approved Framework.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) The legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue. (ii) The legislature’s procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. (iii) The legislature has at least two months to review the budget proposals. (iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
B	(i) The legislature’s review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue. (ii) Simple procedures exist for the legislature’s budget review and are respected. (iii) The legislature has at least one month to review the budget proposals. (iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.
C	(i) The legislature’s review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized. (ii) Some procedures exist for the legislature’s budget review, but they are not comprehensive and only partially respected. (iii) The legislature has at least one month to review the budget proposals. (iv) Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.
D	(i) The legislature’s review is non-existent or extremely limited, OR there is no functioning legislature. (ii) Procedures for the legislature’s review are non-existent or not respected. (iii) The time allowed for the legislature’s review is clearly insufficient for a meaningful debate (significantly less than one month). (iv) Rules regarding in-year budget amendments may exist but are either very rudimentary and unclear OR they are usually not respected.

3.6.8 The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised and will undermine the accountability of the government to the electorate. Assessing the legislative scrutiny and debate of the annual budget law will be informed by consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allowed for that process.

3.6.9 For sub-rating element (i) - the legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue; therefore the rating of ‘A’ applies. The legislature receives comprehensive budget documentation including extensive and well documented White Paper on budget and other reform matters.

3.6.10 For sub-rating element (ii) - simple procedures exist for the legislature’s budget review and are respected, but specialized committees are not used; therefore a rating of ‘B’ applies. The rules of the assembly although allow for extensive debates.

3.6.11 For sub-rating element (iii) - the budget is passed by the assembly after 10-14 days, which has been the practice for the last three financial years. The permissible criterion for adequacy of time – being one month – is not being applied; accordingly, the rating has been assigned a ‘D’.

FY	Budget Estimates laid before the Provincial Assembly	Budget Estimates voted by Provincial Assembly
2004-05	17.06.2004	25.06.2004
2005-06	09.06.2005	17.06.2005
2006-07	14.06.2006	22.06.2006

3.6.12 For sub-rating element (iv) - clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations so a rating of 'B' is appropriate.

3.6.13 Overall, however, a rating of 'D+' therefore applies to this indicator, province-wide, on the basis of the scores assigned to each of the four dimensions above, as well as the scores of 'D' assigned for local government performance, under the MI scoring methodology.

3.6.14 In respect of local governments, none of the above elements is satisfied as the legislative process is yet to fully mature since the start of devolution. Therefore, the specific rating for local governments is assessed as 'D'.

PI-28 Legislative scrutiny of external audit reports¹⁰

Overall Rating 'D+' for provincial PAC, but 'D' for local government arrangements.

3.6.15 The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee that examines the external audit reports and questions responsible parties about the findings of the reports. The operation of the committee will depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors.

Score	Minimum requirements
A	(i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports. (ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion. (iii) The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.
B	(i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports. (ii) In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion. (iii) Actions are recommended to the executive, some of which are implemented, according to existing evidence.
C	(i) Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports. (ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only. (iii) Actions are recommended, but are rarely acted upon by the executive.

¹⁰ The May 2005 assessment provided an incomplete analysis and did not factor in the districts' performance.

D	(i) Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete. (ii) No in-depth hearings are conducted by the legislature. (iii) No recommendations are being issued by the legislature.
----------	---

3.6.16 Three dimensions assessed have the following sub-ratings:

- Sub-Rating Element (i) - Timeliness of examination of audit reports by the legislature (for reports received within the last three years) – ‘D’.
- Sub-Rating Element (ii) - Extent of hearings on key findings undertaken by the legislature – ‘A’.
- Sub-Rating Element (iii) - Issuance of recommended actions by the legislature and implementation by the executive – D’.

3.6.17 Generally, the PAC is now operating at an ‘A’ rating level for dimension (ii) as their hearings are extensive and intensive. However, in respect of dimensions (i) and (iii) – both scoring ‘D’, lesser standards apply as (a) the PAC completes scrutiny of an annual audit report between an average of 12 to 18 months, and (b) there is less evidence available on the adequacy and enforcement of remedial actions. As the indicator rating is set by the weakest dimension under the MI scoring methodology, the overall rating is therefore a D+ at the provincial level, but a ‘D’ at the district government level, since the *Zila* Accounts Committees (district government equivalent of the PAC) have yet to commence their due deliberations on their respective district accounts.

3.6.18 Provincial Accounts have been routinely audited by the Auditor General of Pakistan and annual accounts submitted to the Legislature together with an audit certificate on the accounts. A separate detailed Audit Report on the expenditure and receipts transactions is provided subsequently and both are referred to the PAC for review. The Provincial Assembly of Punjab established two PACs in 2003 to enable a faster review process for the many years’ backlog of unreviewed audited accounts and audit reports.

3.6.19 The Committees have almost completed examination of the Auditor General’s Reports together with the audited accounts for the years 2000-01 and 2001-02. The Audit Reports for 2002-03 and 2003-04 were supplied to the PACs in October 2006. The Department of Finance has greatly increased the attention given to taking action on the audit observations and the PAC recommendations. Nevertheless there are serious difficulties in the power of the authorities to enforce action, and this matter needs continued attention.

3.6.20 The District Governments and other local government authorities have yet to develop and implement a mechanism to review and report on the accounts and reports.

3.6.21 There is concern that audit observations go into abeyance during the period between of their becoming part of the Audit Report and the PAC examining the observation. The Departmental Accounts Committees cease to consider audit observations once they are made part of the Audit Report. This has led to so many observations being pending for periods so long that investigation becomes impractical and is seen as a mechanism for avoiding proper scrutiny. The Budget Manual provides for the Finance Department to take action on any matters in the audit report that is laid before the Assembly. However this process should not prevent the DACs continuing their scrutiny and providing the PAC with information on the actions they have taken to deal with the audit observations.

3.6.22 At the local government level, the PFM checks and balances included in the LGO 2001 are not yet operating; so there are major risks that are not being managed. *Zila* Accounts Committees have been established in principle but only very few have started to examine the audit reports. A

December 2005 review of ZACs by the DSP found that the strengths of the ZACs should be that they promote transparency, accountability, good governance and was a means of incorporating public opinion in management of funds. The major weaknesses were thought to be lack of budgetary support, lack of administrative support, lack of knowledge of members of public-sector financial management, no training of ZAC members in their roles. In most districts, ZACs were constituted but not functioning except for Attock and Rawalpindi. In most districts, mandatory and non-mandatory report inputs were not received by the ZAC. The main reasons for this were late submission of accounts and audit reports to the *Zila* Council and no clearly defined reporting mechanism of the EDO, DAO, and District Auditors to the ZACs. Most types of non-mandatory report inputs were not prepared in most districts due to unawareness on how to prepare the reports.

3.6.23 The report of the DSP proposed a model set of rules and procedures to be made for the ZAC and associated training will be conducted in those rules and procedures. The rules will particularly emphasize on compelling public hearings, encouraging press monitoring of ZACs and providing for a secretariat for ZACs.

3.6.24 Most importantly the DSP review found fundamental flaws in the political underpinning of the ZAC concept – ‘ZAC proceedings were the area of greatest concern, showing the effects of the ruling party’s domination of the ZAC, in most districts. Except for Attock district, there were no regular ZAC meetings. In Multan, Faisalabad, Hyderabad and Karachi, there were only non-regular meetings or just a single meeting. Public Hearings were not conducted anywhere despite being required by the respective provincial LGOs. Only in Attock were the Accounts and Audit reports considered.’

3.6.25 The mandate of ZACs as per Section 114 of the Local Government Ordinance, 2001 is significantly more than the PAC at provincial level. The ZACs have to hold monthly public hearings on the monthly accounts of the local government. In this way ZAC will function as a bridge between the government functionaries and the general public in the process of review of monthly accounts, variance from approved budget, and any reports from internal or/and external auditor. ZACs did not invite the press or allowed members of the general public to observe the proceedings despite Section 114(6) of the Punjab Local Government Ordinance requiring public hearings. This is a key flaw in the current working of ZACs.

3.6.26 In general it can be concluded that there is little response to audit criticisms at any level of government unless a legislative committee is involved; and even for this there is a very patchy record of success. Recent activity at least at the provincial level has developed stronger confidence about follow-up.

3.6.27 Under the rules of procedure of the Punjab Assembly, a PAC is to examine any amounts spent on any service in excess of the amount granted by the Assembly for the purpose and make any recommendations it deems fit. It therefore has no power to direct. The two current PACs are examining the validity of the audit observations and also the actions taken by departments on valid issues. The Committees have not yet issued any report but progressively issue minutes on their deliberations to the relevant officials. To date there is no summary tracking record of compliance with the earlier ad-hoc PAC recommendations but the process now applied by the Committees of assessing immediate actions taken and keeping matters pending provides greater confidence that issues will be followed up by subsequent PAC hearings. Where a department was advised of recoveries, the Committee requested audit verification before reporting on the issue.

3.7 Donor practices

D-1 Predictability of direct budget support

Overall Rating 'A'

3.7.1 Direct budget support constitutes an important source of revenue for central government in many countries. Poor predictability of inflows of budget support affects the government's fiscal management in much the same way as the impact of external shocks on domestic revenue collection. Both the shortfalls in the total amount of budget support and the delays in the in-year distribution of the in-flows can have serious implications for the government's ability to implement its budget as planned.

3.7.2 The two dimensions assessed have been rated as follows:

- Sub-Rating Element (i) - Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body) – 'A'.
- Sub-Rating Element (ii) - In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) – 'A'.

3.7.3 Discussions with GoPj indicated that budget support forecasts agreed with donors were honored and that timeliness of in-year distribution was satisfactory. Most of the donor-funded operations in the province, on annual disbursement basis, are conducted through direct budget support.

D-2 Reporting on project/ program aid

Overall Rating 'B+'

3.7.4 Predictability of disbursement of donor support for projects and programs (below referred to only as projects) affect the implementation of specific line items in the budget. Project support can be delivered in a wide range of ways, with varying degrees of government involvement in planning and management of resources.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 85% of the externally financed project estimates in the budget, with a break-down consistent with the government budget classification.
B	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 70% of the externally financed project estimates in the budget with a break-down consistent with the government budget classification.

C	<p>(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government’s coming fiscal year, at least three months prior its start. Estimates may use donor classification and not be consistent with the government’s budget classification.</p> <p>(ii) Donors provide quarterly reports within two months of end-of-quarter on the all disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not necessarily provide a break-down consistent with the government budget classification.</p>
D	<p>(i) Not all major donors provide budget estimates for disbursement of project aid at least for the government’s coming fiscal year and at least three months prior its start.</p> <p>(ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.</p>

3.7.5 The two dimensions assessed have the following ratings:

- Sub-Rating Element (i) - Completeness and timeliness of budget estimates by donors for project support – ‘A’.
- Sub-Rating Element (ii) - Frequency and coverage of reporting by donors on actual donor flows for project support – ‘B’.

3.7.6 Budget estimates are forecasted by the donors and the executing agencies at the beginning of the project for the program / project aid. The GoPj executing agencies prepare their PC-1s (project feasibility documentation) for approval by the P&D Department and other agencies as required, and the planned expenditures are included in the development budget of the province. Over 90% of all pledged and committed donor-aid are received according to schedule and factored in the government’s budget on the basis of the government’s chart of accounts. Investment projects funded by donors, however, have tended to be largely disbursed under ‘ring-fenced’ arrangements and hence do not use the government chart of accounts in terms of donor reports on disbursements. On the basis of the above, dimension (i) therefore scores an ‘A’ rating while dimension (ii) scores a rating of ‘B’. Overall, the rating is a ‘B+’.

D-3 Proportion of aid that is managed by use of national procedures

Overall Rating ‘A’

3.7.7 National systems for management of funds are those established in the general legislation (and related regulations) of the country and implemented by the mainstream line management functions of the government. The requirement that national authorities use different (donor-specific) procedures for the management of aid funds diverts capacity away from managing the national systems. This is compounded when different donors have different requirements. Conversely, the use of national systems by donors can help to focus efforts on strengthening and complying with the national procedures also for domestically funded operations.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) 90% or more of aid funds to provincial government are managed through national procedures.
B	(i) 75% or more of aid funds to provincial government are managed through national procedures.

C	(i) 50% or more of aid funds to provincial government are managed through national procedures.
D	(i) Less than 50% of aid funds to provincial government are managed through national procedures.

3.7.8 This indicator is measured by the overall proportion of aid funds to central government that are managed through national procedures.

3.7.9 As a leading donor, the World Bank has been providing direct budget support of about \$200 million annually – ten times what is disbursed under the Bank’s investment lending operations in the province per annum. Notwithstanding that a number of investment projects funded by donors are ‘ring-fenced’ (less than 10% in terms of annual disbursements against the overall annual aid flow) and these do not use government PFM systems, including its Chart of Accounts, an overall rating of ‘A’ is assigned to this indicator according to the Framework.

Chapter 4: Government Reform Process

4.1 Description of recent and on-going reform measures

4.1.1 The GoPj, through its Vision 2020, is engaging in wide-ranging reforms that together support the improvement of the governance agenda in the province. As the overarching platform for reforms in the province aimed at accelerating economic growth, alleviating poverty, and providing the enabling environment for improving the accountability processes, the Vision entails, inter alia, (a) funding of a Pensions Fund as well as the contingent liabilities arising from the Provident Fund contributions; (b) structuring the GoPj's loans to autonomous entities as a result of the fiscal space created through the refinancing of the province's high cost debt with low cost debt; (c) accelerating the pace of development by increasing development expenditures on infrastructure as well as the budget allocations on operation and maintenance, particularly for irrigation, power, water and sanitation; (d) rationalization and simplification of taxes and widening the tax net; (e) supporting local governance, as required under the LGO 2001, through the strengthening of the governance mechanisms under the ADB-financed Decentralization Support Program.

4.1.2 In terms of specifically improving PFM at the provincial level, the key thrust is the commitment of the province to implement the PIFRA project across the entire province. Already, the province is supporting the fast-track implementation of the project with a view to achieving total provincial coverage during FY 2007-08. By these means, the province will be able to realize the outcome of a 'reliable, accurate, comprehensive, and timely financial and fiscal reports on which to make more informed decisions.

4.2 Institutional factors supporting reform planning and implementation

4.2.1 The Vision 2020 provides a sound footing for continued reform attention. In the PFM area the vision provides for accountability of public expenditures to be supported by improved documentation. The first steps were taken through the publication of a medium term budgetary framework and a debt management strategy and this has been updated in July 2006 with a new debt profile review. The medium term budgetary framework is becoming more comprehensive and is published as a separate budget document to mark the commitment of the Provincial Government to medium term planning as opposed to year to year plans. The adoption of PIFRA and the New Accounting Model, by the Punjab Government will lend greater impetus to fiscal and financial accountability.

4.2.2 Various support programs are aimed at reinforcing the reforms process include the: (a) Decentralization Support Program, supported by the ADB; (b) Punjab Resource Management Program, supported by the ADB; (c) Public Sector Capacity Building Project, supported by the World Bank; Project for Improvement of Financial Reporting and Auditing, supported by the World Bank.

Annex 1: Summary of the Performance Indicators

The PFM Performance Measurement Framework provides for a four-grade rating mechanism – ‘A’ down to ‘D’ - for measuring the attributes of PFM in a government against the benchmarks provided therein. It provides a useful mechanism for charting a path towards demonstrable improved PFM. Based on that rating scheme, the review has assessed the following indicators for the GoPj at this stage:

A: PFM out-turns

1. Aggregate expenditure out-turn compared to original approved budget	B	15. Effectiveness in collection of tax payments	B
2. Composition of expenditure out-turn compared to original approved budget	C	16. Predictability in the availability of funds for commitment of expenditures	A
3. Aggregate revenue out-turn compared to original approved budget	B/D	17. Recording and management of cash balances, debt and guarantees	A
4. Stock and monitoring of expenditure payment arrears	D	18. Effectiveness of payroll controls	C+
		19. Competition, value for money and controls in procurement	C

B: Key Cross Cutting Issues

5. Classification of the budget	A	20. Effectiveness of internal controls for non-salary expenditure	C+
6. Comprehensiveness of information included in budget documentation	A	21. Effectiveness of internal audit	D
7. Extent of unreported government operations	D+	22. Timeliness and regularity of accounts reconciliation	B
8. Transparency of inter-governmental fiscal relations	A	23. Availability of information on resources received by service delivery units.	B
9. Oversight of aggregate fiscal risk from other public sector entities	C	24. Quality and timeliness of in-year budget reports.	C+
10. Public access to key fiscal information	B	25. Quality and timeliness of annual financial statements	B

C: Budget Cycle

11. Orderliness and participation in the annual budget process	A/B	26. Scope, nature and follow-up of external audit	D+
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	27. Legislative scrutiny of the annual budget law	D+/D
13. Transparency of taxpayer obligations and liabilities	C+	28. Legislative scrutiny of external audit reports	D+/D
14. Effectiveness of measures for taxpayer registration and tax assessment	C+		

D: Donor Practices

1. D-1 Predictability of direct budget support	A+
2. D-2 Reporting on project/ program aid	B+
3. D-3 Proportion of aid that is managed by use of national procedures	A

Annex 2: Sources of Information

A. *Persons involved in discussions*

- ③ Mr. Sohail Ahmad, Finance Secretary, Department of Finance, Punjab
- ③ Mr. Azmat Ali Ranjha, Former Finance Secretary, Department of Finance, Punjab
- ③ Mr. Kamran Ali Afzal, Additional Finance Secretary, Department of Finance
- ③ Mr. Muhammad Arshad, Additional Secretary (Budget), Department of Finance
- ③ Mr. Zubair, Chief Inspector of Treasuries, Department of Finance
- ③ Mr. Wazir Ahmad Qureshi, Deputy Auditor General (Revenue Receipts Auditing),
- ③ Mr. Ahmed Yar Khan, Secretary, Department of Communication and Works
- ③ Mr. Niamatullah Abid, Accountant General, Punjab
- ③ Mr. Yawar Abbas, DG, Provincial Audit, Department, of the Auditor General of Pakistan
- ③ Mr. Kazi Imranul Haq, DG, District Audit, Department of the Auditor General of Pakistan
- ③ Mr. Nasim Riaz, Chief, Foreign Aid, Department of Planning and Development
- ③ Mr. Shujauddin Zaka, Regional Director and Team, PIFRA, Punjab

B. *Major documents referenced.*

- ⌚ Outcome Assessment of PIFRA II Implementation: Baseline Report, August 2006
- ⌚ Punjab Vision 2020
- ⌚ Punjab Public Financial Management and Accountability Assessment, May 31, 2005
- ⌚ Punjab Economic Report, March 31, 2005

This page is left blank

Summary Diagnostics of Areas of Weak Performance

Appendix-1: Summary Diagnostics of Areas of Weak Performance

CONTENTS

I. A Brief \Description of Challenge

II. Assessed Ratings for 28 PFM Indicators (Province)

III. Existing Reforms Underway in the Area of Public Financial Management

IV. Matrix for the Weak Performing PFM Areas and the Way Forward.

I. A Brief Description of Challenges

1. The overall economic vision of the Government of Punjab (GoPj) is “to make quantitative and qualitative improvements in the lives of the citizens” by, inter alia, improving governance, reforming the fiscal and financial management, creating a supporting environment for private sector-led growth, and improving delivery of public services. To this end, the government of Punjab is implementing wide ranging reforms, including: (a) public finance reforms to increase public spending and its efficiency for priority sectors (particularly education and irrigation) and other pro-poor services while ensuring fiscal sustainability; (b) reforms that strengthen devolution and service delivery, and (c) reforms to improve the fiduciary and governance environment.
2. Overall reforms in public financial management (PFM) and support to devolution and governance are being supported by the Asian Development Bank (ADB) under the Punjab Resource Management Program (PRMP); the Devolution Support Program (DSP) as well as by the World Bank under the Project for Improvement of Financial Reporting and Auditing (PIFRA); Punjab Devolved Social Services Program (DSSP), and other donors under other projects. The GoPj included a self assessed performance review table on its financial management and accountability assessment framework as of May 31, 2006 in its 2006-07’s, Budget White Paper. This showed progress against a 2005 PFM Assessment conducted by the GoPj in association with the World Bank, DfID, and the EC.
3. A Public Financial Management Performance Report (PFM–PR), prepared during October - December 2006 in the form of a PFM Assessment, has provided an updated snapshot picture of the *critical dimensions* of current performance in Punjab against standards for an open and orderly PFM system as identified by the measurement framework. These following constitute the dimensions:
 - i. Credibility of the budget - The budget is realistic and is implemented as intended.
 - ii. Comprehensiveness and transparency - The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
 - iii. Policy-based budgeting - The budget is prepared with due regard to government policy.
 - iv. Predictability and control in budget execution - The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds, including transparency in procurement.
 - v. Accounting, recording and reporting – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
 - vi. External scrutiny and audit - Arrangements for scrutiny of public finances and follow up by executive are in place and operating.
 - vii. Donor use of country PFM systems.
4. The assessment for the Performance Indicators (PIs) used the June 2005 Performance Measurement Framework issued by the multi-agency partnership that has framed the Public

Expenditure and Financial Accountability program (PEFA)¹¹, and covered 31 indicators for PFM functions. The Steering Committee responsible for providing GoPj input to the study held a meeting to review the PFM-PR and discussed the appropriate grading for the PIs. Further discussions were held with individual members on particular indicators.

5. Based on the discussed and agreed PFM-PR, this diagnostic report has been prepared, focusing on the underlying causes of weaknesses in the poorly performing areas as identified by C to D ratings in the PFM-PR. The diagnostic report was prepared using a questionnaire aimed at ensuring maximum government involvement in the assessment process and in deciding on possible steps to improve weakly-rated areas. Members of the Steering Committee have been instrumental in providing the Government input to the draft diagnostic report. This activity has been supplemented by a stakeholders' workshop to review the draft reports and now paves the way for GoPj to refine its PFM Reform Strategy and develop its own Implementation Action Plan around which Development Partners can align. This workshop was driven and led by the GoPj.
6. The summary matrix highlights specific PFM recommendations for supporting the improvement of the various dimensions of poorly performing PFM areas in Punjab.
7. The report shows for each PI that rated poorly (below B rating):
 - the assessed rating and a summary description of the indicator,
 - a description of the reasons for the poor rating, and
 - a summary diagnosis of generic steps to improve performance in the indicator for each key performance dimension.

¹¹ Public Financial Management Performance Measurement Framework, June 2005, PEFA Secretariat, World Bank, Washington DC, USA - PEFA includes World Bank, IMF, European Commission, UK, France, Norway, Switzerland and SPA Strategic Partnership with Africa.

II. Assessed Ratings for 28 PFM Indicators (Province)

A: PFM out-turns

1. Aggregate expenditure out-turn compared to original approved budget	B	13. Transparency of taxpayer obligations and liabilities	C+
2. Composition of expenditure out-turn compared to original approved budget	C	14. Effectiveness of measures for taxpayer registration and tax assessment	C+
3. Aggregate revenue out-turn compared to original approved budget	B/D	15. Effectiveness in collection of tax payments	B
4. Stock and monitoring of expenditure payment arrears	D	16. Predictability in the availability of funds for commitment of expenditures	A

B: Key Cross Cutting Issues

5. Classification of the budget	A	18. Effectiveness of payroll controls	C+
6. Comprehensiveness of information included in budget documentation	A	19. Competition, value for money and controls in procurement	C
7. Extent of unreported government operations	D+	20. Effectiveness of internal controls for non-salary expenditure	C+
8. Transparency of inter-governmental fiscal relations	A	21. Effectiveness of internal audit	D
9. Oversight of aggregate fiscal risk from other public sector entities	C	22. Timeliness and regularity of accounts reconciliation	B
10. Public access to key fiscal information	B	23. Availability of information on resources received by service delivery units.	B

C: Budget Cycle

11. Orderliness and participation in the annual budget process	A/B	24. Quality and timeliness of in-year budget reports.	C+
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	25. Quality and timeliness of annual financial statements	B
		26. Scope, nature and follow-up of external audit	D+
		27. Legislative scrutiny of the annual budget law	D+/D
		28. Legislative scrutiny of external audit reports	D+/D

III. Existing Reforms Underway in the Area of Public Financial Management

8. The Vision 2020 provides a sound footing for the continued reform agenda in the province of Punjab. In the PFM area the vision provides for accountability of public expenditures to be supported by improved documentation. The first steps were taken through the publication of a medium term budgetary framework and a debt management strategy and this has been updated in July 2006 with a new debt profile review. The medium term budgetary framework is becoming more comprehensive and is published as a separate budget document to mark the commitment of the Provincial Government to medium term planning as opposed to year to year plans. The adoption of PIFRA and the New Accounting Model (prescribed by the Auditor General of Pakistan) by the Punjab Government will lend greater impetus to fiscal and financial accountability across the province. Punjab expects to complete the roll-out of PIFRA to all its 35 districts by FY 2007-08.
9. Various support programs aimed at solidifying the provincial reform process, include: *Decentralization Support Program (DSP)*, *Public Sector capacity Building Program*, *Punjab Resource Management Program (PRMP)*, and *Project for Improvement of Financial Reporting and Auditing (PIFRA)*.
10. Significant PFM reform elements and measures supported by the ADB-financed five-year PRMP include the following:
 - (a) Strengthening provincial revenues through: (i) rationalization and restructuring of provincial taxes with broader tax base, especially agricultural income tax and GST on services; (ii) enhancing non-tax revenues and user chargers by rationalizing rates and strengthening collection of *abiana* (water charges), and user charges on urban services; and (iii) improved tax and revenue administration.
 - (b) Rationalizing provincial expenditures through (i) re-profiling and reducing provincial debt through more expensive to less expensive loans; (ii) containing and reducing contingent liabilities; (iii) phasing-out untargeted subsidies; and (iv) rationalizing and improving public accountability of public spending.
 - (c) Improving effectiveness, predictability and accountability of provincial financial management through: (i) preparation of transparent and user-friendly budgets within a MTBF; (ii) establishment and implementation of transparent and formula-based systems of inter-government financial flows; (iii) transparent and efficient procurement of goods and services; and (iv) timely, reliable and publicly accessible accounts.
 - (d) Improving strategic programming of public investments through development of: (i) a medium-term, poverty-focused investment strategy; (ii) effective systems and procedures to operationalize provincial goals and priorities (with initial focus on health, education and municipal services); and (iii) improved monitoring, feedback and evaluation systems.
 - (e) Restructuring and strengthen government's administration and human resource development through: (i) reform, restructuring and capacity enhancement of province agencies responsible for policy, planning, fiscal and financial management; (ii) rationalization of provincial staffing and

enhanced skill levels; (iii) merit-based, transparent and institutionalized system of recruitment, promotions and transfers; and (iv) mainstreaming commitments on gender.

- (f) Fostering private sector development through: (i) restructuring of public regulatory and administrative agencies and promoting public-private partnership (ii) ensuring transparent security of property rights and improved utilization of land assets, through effective land registration and management system; (iii) providing effective support mechanism for facilitation of investment, public-private partnerships and employment generation; and (iv) Reducing direct public sector involvement in economic and/or commercial operations.

11. In respect of the umbrella, country-wide PFM ‘Project for Improvement of Financial Reporting and Auditing’ (PIFRA), the GoPj is also being supported towards the achievement of the following reform related objectives: (a) building capacity to improve the accuracy, comprehensiveness, reliability, and timeliness of financial and fiscal reporting at all levels of government; (b) directly supporting the government’s commitment to improved public financial management, accountability, and transparency; (c) enhancing the capacity of public sector managers to use credible financial information for better and informed decision-making; and (d) facilitating oversight of the use of public monies, and increase the national and international credibility of government’s financial statements and assurance processes. These objectives are being pursued under two key component areas: (i) computerization of Financial Accounting and Budgeting Systems (FABS) at the provincial, district and *tehsil* levels and adoption of international standards; and (ii) development and enhancement of the provincial and district audit capacities, using international standards on auditing.

IV. Matrix for the Weak Performing PFM Areas and the Way Forward

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">PI-1 to PI-3 PFM Out-turns</p>	<p>Aggregate expenditure out-turn compared to original approved budget.</p> <p><i>PI-1</i> <i>Rating: 'B'</i></p>	<p>The GoPj has been constantly aligning actual expenditures with actual resource availability during each defined budget year. Where increased resources become available during the year beyond the budgeted estimates, the province makes additional allocations for spending. This has been attributed as the key reason for a 'B' rather than an 'A' score.</p>	<p>These indicators reflect that the ultimate outturn of the PFM system is satisfactory except for composition of expenditure out-turn in comparison with the approved budget. The result of these cannot be <i>directly</i> analyzed to identify reasons of such performance. These are like symptoms whereas the root causes of these variations could be found by analyzing other indicators which are relatively closer to the shortcomings in the PFM performance leading to the respective low ratings. However, the main underlying improvement measures to be undertaken include the proper categorization of expenditures across functional classification levels in the budget document as well as on actual expenditure reporting. PIFRA, when fully rolled out would facilitate visibility of the actual cause to be managed as accounting classification errors will be minimized. Prudent resources allocation requires that resources are aligned with the changing sectoral requirements in any given year so as to maximize government interventions in sectors where absorptive capacity is strong, and the outcomes can, on reflection, be strengthened. While this practice is not consistent with the objective good performance criterion under the PEFA framework, it does affect the realism or credibility of the original budget estimates. Hence, no separate interventions are required at this stage except that the Finance Department would necessarily need to limit the in-year re-appropriations at the high functional economic classification levels much within the approved budget to ensure it maintains its budget credibility.</p> <p><i>Responsibility: (FD, PAOs, DDOs, DAOs).</i></p> <p>Maintain aggressive revenue collection effort to close the gap between budget and actuals on the province-assigned revenues.</p> <p><i>Responsibility: (FD, E&T, BoR).</i></p>
	<p>Composition of expenditure out-turn compared to the original approved budget.</p> <p><i>PI-2</i> <i>Rating: 'C'</i></p>	<p>Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points.</p> <p>Poor classification of actual expenditures across budgeted expenditure functions through accounting errors could be one cause. The other could be attributable to major virements or re-appropriations carried out during the year leading to actual expenditures over and above the original budgets in an unbalanced manner. New expenditure items agreed during the year arising from changes in government priorities cause major shifts in expenditure patterns especially where there are under-spends in sector units due largely to their absorptive capacity constraints during a budget year.</p>	
	<p>Aggregate revenue out-turn compared to the original approved budget</p> <p><i>PI-3</i> <i>Rating: 'B'/'D'</i></p>	<p>While overall revenue out-turn was quite favorable, province own actual revenues fell significantly short of budget.</p>	

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
PI-4 Stock and monitoring of expenditure payment arrears <i>Rating: 'D'</i>	<p>Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year). Prerequisite is the availability of data for monitoring the stock of expenditure payment arrears.</p> <p><i>Rating: 'D'</i></p>	<p>There is no reliable data on, or formal recording of, the stock of arrears from the last three years. In addition, the system of identifying year-end commitments has not been in place. TMAs in particular front-load some of their year-end commitments and crystallized obligations for some works, goods, and services to the following year in memorandum form due to liquidity constraints by FY close.</p>	<ul style="list-style-type: none"> - Full implementation of the NAM/SAP system, which includes commitment accounting (PIFRA) and year-end reporting of outstanding commitments that have crystallized into obligations. - The system should enable the separate identification of the payment of arrears in the subsequent fiscal year from other routine payments pertaining to current fiscal year (PIFRA). <p><i>Responsibility: (AG, DAOs, PIFRA).</i></p>
PI-7 Extent of unreported government Operations <i>Rating 'D+'</i>	<p>The level of unreported extra-budgetary expenditure, excluding donor funded projects.</p> <p><i>Rating: 'D+'</i></p>	<p>(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure.</p> <p>(ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan-financed operations.</p> <p>The prevalence of PLAs as well as the assignment accounts related to domestic funded programs undermines the level of comprehensiveness of fiscal reports as they remain unclassified. Of particular significance is the lack of information in fiscal reports relating to donor-funded investment operations since most of these are 'ring-fenced' and do not feature part of core government activities that are captured in sufficient detail.</p>	<ul style="list-style-type: none"> - All the public accounts need to be brought into the common Accountant General reporting system. - Assignment and Personal Ledger Accounts are currently (mainly) outside the AG system of scrutiny or reporting and should be mainstreamed. - Alternative expenditure tracking systems are possible but the multiplicity of such accounts does not augur for transparency and affects comprehensive and consistent reporting. Significant disbursement/reimbursements continue to be made by donors directly into assignment accounts established for the implementation of foreign-assisted projects and these would need to be brought into the regular government budgeting and accounting system. Currently, expenditures financed from assignment accounts are recorded by the public accounting system only if and when the project entities inform the Accountant General of the expenditures. Even there, there is reluctance by the public accounting office to include expenditures on projects and programs that they were not privy to. PIFRA is one vehicle to support the migration from 'ring-fenced' accounting and financial reporting arrangements to mainstream government systems. - The Chart of Accounts of TMAs is being revised for consistency, on mapping basis, with the overall government CoA. This will facilitate capturing information on a uniform basis otherwise not available. <p><i>(Responsibility: FD, AG, PAOs).</i></p>

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
PI-9 Oversight of aggregate fiscal risk <i>Rating: 'C'</i>	(i) Extent of monitoring of AGAs and PEs (other public sector entities). <i>Rating: 'C'.</i> (ii) Extent of monitoring of lower level governments' fiscal position <i>Rating 'C'.</i>	AGAs/PEs should be required to submit fiscal reports to the provincial government and/or to their governing bodies at least annually, but the practice is rare and a consolidated overview is missing. Since no Cell is established in the FD to track and monitor the performances of Autonomous Government Agencies or Public Enterprises in the province, the determination of the province's overall fiscal risk becomes impossible.	<ul style="list-style-type: none"> - Enforce a reporting regime - the Finance Department should have an adequate enterprise Monitoring Wing established for the purpose of consolidating fiscal position and related risks. - Enforce budget rules. - Implement planned interventions under Punjab Resource Management Program (PRMP) including reforms for taxation; debt management and specially expenditure tracking and institutional strengthening of finance and P&D departments. <i>Responsibility: (PRMP – P&D; FD).</i>
	PI-13 Transparency of taxpayers obligations and liabilities <i>Rating: 'C+'</i>	Clarity and comprehensiveness of tax liabilities <i>Rating: 'C'</i>	Although the procedures for major taxes are comprehensive and clear, yet the fairness of the system is questioned due to substantial discretionary powers of the government entities involved.
Taxpayer access to information on tax liabilities & administrative procedures <i>Rating: 'B'</i>			
Existence and functioning of a tax appeals mechanism <i>Rating: 'C'</i>		<ul style="list-style-type: none"> - Tax appeals system of administrative procedures has been established, but needs redesign to be fair, transparent and effective. 	<ul style="list-style-type: none"> - Review the appeal processes. Provide taxpayers with accurate knowledge of and information on their tax liabilities through transparent databases as per the AIT and UIPT computerizations and similar opportunities for other taxes. - Revise and enforce the appeals mechanism and notify as the enabling administrative procedures with defined sanctions for non compliance. <i>Responsibility: (BoR)</i>

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
PI-14 Effectiveness of measures for taxpayer registration and tax assessment <i>Rating: 'C+'</i>	(i) Controls in the taxpayer registration system <i>Rating: 'C'</i>	Taxpayers are registered in database systems for individual taxes, which are not fully and consistently linked. Linkages to other registration / licensing functions are weak or incomplete. A good system of motor vehicle registration has started and is being rolled out across the provinces. Six of the thirty-five districts are currently covered and there are plans to achieve full coverage by Dec. 2007.	<ul style="list-style-type: none"> - Computerization of properties and motor vehicle related taxes has been well conceived and is under implementation. Roll-out to the remaining districts in the province to be fast-tracked (<i>Responsibility: E&T</i>). - Computerization of land records, already being implemented under a WB-financed project, should also be fast-tracked and cover the entire province within a reasonable time span (<i>Responsibility: BoR</i>). - Appropriate surveys of tax potential should be conducted regularly. <i>Responsibility: (E&T, BoR, FD)</i>
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations <i>Rating: 'B'</i>		
	(iii) Planning and monitoring of tax audit and fraud investigation programs <i>Rating: 'C'</i>	While there is some continuous program of tax audits and fraud investigations, audit programs are not based on sufficiently clear risk assessment criteria.	<ul style="list-style-type: none"> - Automate tax bases and thus reduce manual operations to the maximum possible extent to minimize system abuse. - Introduce a comprehensive tax audit regime on modern lines following a risk-based approach, and merge the other inspections / audits or related activities into the comprehensive tax audit. <i>Responsibility: (BoR, E&T).</i>

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
<p style="text-align: center;">PI-18 Effectiveness of Payroll Controls</p> <p style="text-align: center;"><i>Rating C+</i></p>	<p>(i) - Degree of integration and reconciliation between personnel records and payroll data.</p> <p><i>Rating 'C'.</i></p> <p>ii) - Timeliness of changes to personnel records and the payroll.</p> <p><i>Rating 'A'.</i></p> <p>iii) - Internal controls over changes to personnel records and the payroll.</p> <p><i>Rating 'B'.</i></p> <p>(iv) - Existence of payroll audits to identify control weaknesses and/or ghost workers.</p> <p><i>Rating 'B'</i></p>	<p>There is no system of automated linkage between the HR records and payroll processing; no integrated HRMIS database is in existence.</p>	<ul style="list-style-type: none"> - Establish a clean HRMIS database for all personnel in the GoPj. This exercise is in progress as historical data collection on personnel profiles is contracted out to NARDA and will be uploaded on the SAP/R3 system in due course. - Processing of payrolls should be based on the data up-take from HRMIS. - The practice of accounting offices producing the payroll and inputting the HR data at the same time should be discontinued as being less consistent with good internal control practices. Payroll audits should be further strengthened as payroll constitutes over 75% of total recurrent budget expenditures. <p><i>Responsibility: (AG, DAOs, FD, PAOs).</i></p>
<p style="text-align: center;">PI-19 Competition, value for money and controls in procurement</p> <p style="text-align: center;"><i>Rating: 'C'</i></p>	<p>(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases.</p> <p><i>Rating: 'B'</i></p>		

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
	<p>(ii) Extent of justification for use of less competitive procurement methods.</p> <p><i>Rating: 'C'</i></p>	<p>Justification for use of less competitive methods is often weak or missing.</p>	<ul style="list-style-type: none"> - Undertake procurement reforms initiated under PRMP and WB auspices. By properly defining the financial limits of various methods of procurement, the number of less competitive procurements would reduce. Reform of procurement through the Procurement Authority is underway. There is a need to ensure that the new institutional arrangements include proper concern for segregation of conflicting functions as well as a separate complaints' redress mechanism. - Work has been initiated by the GoPj in the area of improving procurement management and related fiduciary controls to remove the following known weaknesses: <ul style="list-style-type: none"> (a) In-adequate bidding documents (b) Inadequate response time to bidders (Gallop tenders) (c) Tenders issued against earnest money (d) Multiple registration (restricts competition) (e) Calling tenders without technically sanctioned estimates (f) Inclusion of non-scheduled items (g) Use of discretion in imposing penalties (h) Lack of independent complaints handling process and (i) Irregularities in inspections or measurements. <p><i>Responsibility: (S&GAD, PRMP, P&D, FD)</i></p>
	<p>(iii) Existence and operation of a procurement complaints mechanism.</p> <p><i>Rating: 'D'</i></p>	<p>There is no coherent procurement complaints mechanism in place.</p>	<ul style="list-style-type: none"> - <i>Design and Implement an effective mechanism (rules, regulations) to redress complaints with respect to procurements.</i> - Improve transparency and awareness of the reformed system. <p><i>Responsibility: (S&GAD, P&D, FD).</i></p>

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
PI-20 Effectiveness of Internal Controls for Non-Salary Expenditure <i>Rating: 'C+'</i>	(i) Effectiveness of expenditure commitment controls – 'B'. (ii) Comprehensiveness, relevance and understanding of other internal control rules / procedures – 'C'. (iii) Degree of compliance with rules for processing and recording transactions – 'A'	There is no systematic assessment of the internal control rules and the applications of the rules by the pre-audit function are not risk-based, and are largely mechanistic and sometimes excessive.	<ul style="list-style-type: none"> - The internal control rules and procedures would need redefining, by way of new approved guidelines, in order to be risk-focused, relevant and easily understood by the spending units as well as by the accounting officers. - The Punjab GFRs would need to be updated for consistency with the new accounting and control paradigm as well as the emerging good policies and practices in the province. <p><i>Responsibility: (AG, FD).</i></p>
PI-21 Effectiveness of Internal Audit <i>Rating: 'D'</i>	(i) Coverage and quality of the internal audit function. <i>Rating: 'D'</i> (ii) Frequency and distribution of internal audit reports. <i>Rating: 'D'</i> (iii) Extent of management response to internal audit findings. <i>Rating 'D'</i>	(i) Internal audit, focusing on systems, is almost non-existent. In fact, internal audit is being understood erroneously as a pre-audit function. (ii) Reports are neither existent nor frequent as the function does not exist. (iii) No recommendations are made to which responses are to be made as the function of internal audit does not, technically, exist.	<ul style="list-style-type: none"> - Major issues need to be sorted out – duality of control of DAOs, chain of command, reporting arrangements, actions in response to findings, program development and policies etc. - The Controller General of Accounts issued an IA guidance manual which should be rolled-out to the province. - Duality of control of DAOs and TOs to be resolved through a policy directive. - Role of Local Fund Auditors to be redefined. - Internal audit functions to be established in all line departments and agencies and positions sanctioned. - Comprehensive training to be provided to all internal auditors. - Comprehensive training should be arranged for the internal audit staff in order to implement the internal audit manual prepared by PIFRA in case of provincial government, and LGO & Internal Audit Rules, 2003 in case of local governments. <p><i>Responsibility: (FD, AG).</i></p>

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
PI-24 Quality and Timeliness of in-year Budget reports <i>Rating: 'C+'</i>	(i) Scope of reports in terms of coverage and compatibility with budget estimates. <i>Rating: 'C'</i> (ii) Timeliness of the issue of reports. <i>Rating: 'A'</i> (iii) Quality of information. <i>Rating: 'B'</i>	No budget vs. actual comparisons are prepared except for one or two districts, thus limiting the scope, coverage and usefulness of the reports.	<ul style="list-style-type: none"> - Budget Execution Statements to be made available with comparisons of budget and actual expenditures and receipts. - Budgets to be prepared at the Expenditure DDO levels in addition to Budget DDO levels. - With SAP/R3 rolled out to all districts, in due course, and the budget loaded for payment processing at the expenditure DDO levels, the problem associated with data availability for on-line reporting will be averted. <p><i>Responsibility: (AG, DAOs,FD)</i></p>
PI-26 Scope, nature and follow-up of external audited <i>Rating: 'D+'</i>	(i) Scope/nature of audit performed (including adherence to auditing standards). <i>Rating 'B'</i> (ii) Timeliness of submission of audit reports to legislature. <i>Rating: 'D'</i>	The latest audit reports take more than 12 months after receipt of the financial statements by the auditors before they are submitted to the legislature. Further lengthy review by Quality Review Committee of AGP causes the delay.	<ul style="list-style-type: none"> - Speed up the quality control processes. - Treat each certification audit separately for reporting. - Enhance audit capacity and ensure adequately qualified senior audit staff are assigned to carry out audits. - Finalize TMA audit arrangements. - Implementation of new Financial Audit Manual which inculcates the risk-based audit approach with audit activities concurrently carried out during the reporting period (PIFRA). - Mainstream the quality assurance throughout the audit processes from early on and reduce burden of post audit Quality Review Committee. <p><i>Responsibility : (AGP, PIFRA).</i></p>

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
	<p>(iii) Evidence of follow up on audit recommendations.</p> <p><i>Rating: 'C'</i></p>	<p>The DACs particularly as relating to district governments are particularly weak in following up and acting on audit issues raised against their respective departments. The Zila Accounts Committees have not been established in the majority of districts and hence have not been performing the follow up actions required of them. Follow up by the PACs has also been quite slow, although effective.</p>	<ul style="list-style-type: none"> - Enlist internal audit to be responsible for following up deficiencies identified by external audit. - Strengthen the PAC Secretariat through enhanced staffing and training. - Establish DACs in all districts and monitor performance against specified milestones. - Establish Zila Accounts Committees in all districts and provide induction training to members. - <i>Provincial Assembly to seek periodic reports on compliance</i> <p><i>Responsibility: (Nazims, FD,PAC, LG).</i></p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">PI-27 Legislative scrutiny of the annual budget law</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);"><i>Rating: 'D+'/'D''</i></p>	<p>(i) Scope of the legislature's scrutiny.</p> <p><i>Rating: 'A'</i></p>		
	<p>(ii) Extent to which the legislature's procedures are well-established and respected.</p> <p><i>Rating: 'B'</i></p>		
	<p>(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle.</p> <p><i>Rating: 'D'</i></p>	<p>The budget is passed by the assembly in 10-14 days against the criteria of at least a month; and the legislature is not involved in reviewing the Budget Call Circular.</p>	<ul style="list-style-type: none"> - Use estimates/appropriation committees. - Increase the time available for the legislature to examine the budget in the context of estimates/appropriations committees examining government departments on their actual results and budget projections. - Capacity building of parliamentarians should be undertaken, taking advantage of the current USAID support and other donor-assistance avenues. <p><i>Responsibility: (FD, Provincial. Assembly / PAC/ Nazims).</i></p>

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Improved and Focused Interventions
	<p>(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.</p> <p><i>Rating: 'B'</i></p>		
<p>PI-28 Legislative scrutiny of external audit reports <i>Rating: 'D+/D'</i></p>	<p>(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).</p> <p><i>Rating 'D'</i></p> <p>(ii) Extent of hearings on key findings undertaken by the legislature.</p> <p><i>Rating 'A'.</i></p> <p>(iii) Issuance of recommended actions by the legislature and implementation by the executive.</p> <p><i>Rating 'D'</i></p>	<p>- PAC usually takes more than 12 months to dispose of an annual audit report after receiving it. However, they deliberate on the audit reports extensively. Punitive actions are recommended but the implementation needs to be streamlined.</p> <p>- Significant backlog of outstanding audit observations exists and is demonstrative of a lag in financial accountability.</p> <p>- Weak capacity of PAC secretariat staff to support PAC deliberations.</p>	<ul style="list-style-type: none"> - Provide technical assistance (experts) to support the deciphering of backlog of outstanding audit observations. - Institutional strengthening of PAC. - Apply the PAC timetable rules and improve timeliness of examination of audit issues. - Implement review of district audit reports by Zila Accounts Committees. - Ensure immediate review of the most recent reports and allocate older reports or older pending or conditionally settled paragraphs to DACs. - Ensure that Zila Audit Committees have assistance from DG (District Audit) or a senior representative at their meetings. - Improve audit quality through AGP's roll-out of the new Financial Audit Manual. - Improve committee guidelines - Assess scope to provide committee procedural and policy guidelines based on experience in other jurisdictions. <p><i>Responsibility : (Assembly Secretariat, Nazims, AGP).</i></p> <ul style="list-style-type: none"> - Institutional strengthening of Zila Accounts Committees. <p><i>Responsibility : (FD, DSP).</i></p>

