Report No. 69184-PK

Pakistan
Punjab Province

Public Financial Management and Accountability Assessment

June 2012

Government of the Punjab and Development Partners

Government of the Punjab

The World Bank Group

UKaid from the Department for International Development

Asian Development Bank

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FISCAL YEAR
July 1 - June 30

CURRENCY EQUIVALENTS
Currency Unit = Pakistan Rupee
US$ 1 = 93.67 as at June 1, 2012

Acronyms and Abbreviations

ADB	Asian Development Bank
ADP	Annual Development Program
AG	Accountant General
AGAs	Autonomous Government Agencies
AGP	Auditor General of Pakistan
BCC	Budget Call Circular
C&W	Communication and Works
CGA	Controller General of Accounts
CIDA	Canadian International Development Agency
CoA	Chart of Accounts
COFOG	Classification of Functions of Government
CPI	Consumer Price Index
DAO	District Accounts Offices
DDO	Drawing and Disbursing Officer
DFID	Department for International Development (UK)
DSA	Debt Sustainability Analysis
EAD	Economic Affairs Division
ECOSAI	Economic Co-operation Organization Supreme Audit Institutions
ERC	Exchange Risk Cover
ETO	Excise and Taxation Officer
E&T	Excise and Taxation
FAM	Financial Audit Manual
FBR	Federal Board of Revenue
FD	Finance Department
FY	Fiscal Year
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GFS	Government Finance Statistics
GoPb	Government of the Punjab
GST	General Sales Tax
HLG	Higher Level of Government
IBRD	International Bank of Reconstruction and Development

IDA	International Development Association
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
JICA	Japan International Cooperation Agency
MAPS	Methodology for Assessing Procurement System
MDAs	Ministries, Departments and Agencies
MoF	Ministry of Finance
MTBF	Medium Term Budget Framework
MTFF	Medium-Term Fiscal Framework
MTMIS	Motor Transport Management Information System
MVT	Motor Vehicle Tax
NADRA	National Database and Registration Authority
NAM	New Accounting Model
NFC Award	National Finance Commission Award
P&D	Planning and Development
PAC	Public Accounts Committee
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PFC Award	Punjab Finance Commission Award
PFM	Public Financial Management
PFMAA	Public Financial Management and Accountability Assessment
PGEIP	Punjab Government Efficiency Improvement Program
PI	Performance Indicator
PIFRA	Project to Improve Financial Reporting and Auditing
PLA	Personal Ledger Accounts
PPR	Punjab Procurement Rules
PPRA	Punjab Procurement Regulatory Authority
PRMP	Punjab Resource Management Program
SBP	State Bank of Pakistan
SDA	Special Drawing Account
SNG	Sub-national Government
TMA	Tehsil Municipal Administration
UNICEF	United Nations Children's Fund
WASAs	Water and Sanitation Agencies

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Summary Assessment

The Public Expenditure and Financial Accountability (PEFA) Assessment aids in evaluating the performance of the government in the six key areas of public financial management. The summary findings for Punjab Government are presented below in each of these categories.

1. Integrated Assessment of PFM Performance

a. PFM out-turns: Credibility of the Budget (PI 1-4)

The budgetary credibility of the Government of Punjab, as reflected by PI 1-4 presents a mixed scenario. The government's situation has improved regarding the extent of deviation on the aggregate level for revenue and expenditure out-turns. There were higher deviations between budgeted and actual expenditures on the individual expenditure-heads level. This reflects poorly on the budgetary credibility and the resource allocation process. The higher deviation at the sub-aggregate level shows that resources are re-allocated as opposed to the approved budget. The 2010 floods resulting in funds being diverted for relief efforts and economic turmoil in the country were the main factors responsible for the deviation.

The PFM performance regarding revenue forecast is sound as the main revenue is attributable to federal transfers in lieu of the National Finance Commission (NFC) Award. The performance when evaluated only for own - source revenue is strong. It is imperative to mention that no progress has been observed on the introduction of measures to prepare and record consolidated expenditure payment arrears which provide an outlook of unsettled expenditure obligations of the government.

b. Comprehensiveness and Transparency (PI 5-10)

The state of comprehensiveness and transparency in the budget is generally observed to be satisfactory for the Government of Punjab, though there are a few areas of concern that need to be addressed. The budget as presented to the Provincial Assembly for the approval is comprehensive and includes aspects of the economy, underlying assumptions, issues, development plans, outstanding and contingent liabilities. The Government of Punjab uses the New Accounting Model (NAM) for formulating and reporting the budget, and recording the current and development expenditure and revenue this significantly discourages any chances of extra-budgetary expenditure, however donor funding directly to the projects and program is not reported into the provincial budget to the full extent. A one-line budget is included in the approved budget for the donor-funded projects, and federal transfers for vertical programs remain off-budget. The budget follows the international classification standards, namely the United Nations Classification of Functions of Government (COFOG) and GFS which is embodied in the NAM. The same is used for recording and reporting budget execution. Budget is accessible to the public, available on the provincial government website, and is also widely reported/discussed on the media when presented to the legislature.

There is concern regarding the monitoring of aggregate financial risk as there is a lack of consolidated risk assessment and reporting for the AGAs and PEs, which provide individual financial reports, annually. There is a deficiency of timely information sharing with the district governments regarding funds allocation for budget preparation which impacts the timely budget preparation ability of the districts.

c. *Policy-Based Budgeting (PI 11-12)*

At the aggregate level, the ratings of indicators show a well-defined budgeting process in place, and effective utilization of Medium-Term Fiscal Framework (MTFF). The budget cycle is well defined (according to the Budget Manual 2008) and the call circular issues clear guidelines that provide a sound context for the budget process. The budget process encompasses policy input both at the beginning, through cabinet approved departmental ceilings (for the MTFF participating five departments), as well as at the end, resulting from a debate in the Provincial Assembly before the commencement of the fiscal year.

The multi-year budgetary framework is a relatively a new concept for the province. The MTFF issued by the Punjab Government clearly states the medium term policy objectives and forecasts fiscal aggregates on three-year rolling basis. However, currently only five provincial departments are implementing MTFF. Separate sector strategies have been developed for education and health sectors, while for other sectors, the strategies provide foundation for the MTFF but lack extensive costing for investment and recurring expenses. Debt sustainability analysis is regularly undertaken for both domestic and foreign debts, however foreign exchange gains/losses are not accounted. The vulnerabilities in the debt structures have been identified and contingent liabilities are also recognized.

d. *Predictability and Control in Budget Execution (PI 13-21)*

Apart from the competent management of the treasury functions (namely payroll and internal controls, cash flow and debt management), procurement, tax system and internal audit are clearly the areas of weakness in the Punjab Government's PFM system. The procurement system (as defined under PPRA Rules 2009) at the provincial level lacks regulations, procedures and detailed guidelines.

Effectiveness of tax administration, a necessary condition for predictable availability of funds, is limited by the technical complexity and lack of clarity of taxpayer obligations and liabilities and weak controls of the taxpayer registration system and tax audit. Tax collection seems to suffer from weak enforcement of the rules. The recorded tax arrears are substantial during the three previous fiscal years, with issues identified over carry forward of arrears to subsequent fiscal years. There was no comprehensive system of internal audit observed in the province which may impair the ability to monitor financial controls.

e. *Accounting, Recording and Reporting (PI 22-25)*

Overall, no major change is observed in the accounting and reporting procedures employed by the provincial government, as indicated by the assigned ratings. It was observed that the Punjab Government has sound accounting, recording and reporting procedures in place. Regular reconciliation of accounts is carried out on weekly/monthly basis, but efforts are required for timely resolution of reconciliation differences. Areas of emphasis include non-tax revenue and development expenditure. In-year budget reports are observed to be accurate and timely but commitments are not completely captured. Similarly, audited financial statements are comprehensive and submitted to Auditor General for external scrutiny in a timely manner. The GFMIS connectivity has been provided to all line departments, which allows easy access to information on budgetary resources available and consumed.

f. *External Scrutiny and Audit (PI 26-28)*

The external audit of the majority of provincial entities is completed expeditiously, but the same is not subject to timely legislative scrutiny. There is a significant delay in the review of the external audit reports by the Public Accounts Committee (PAC) and a backlog remains on compliance with instructions. There is an effective system in place to scrutinize the annual budget with wide scope including fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue. However, the time period given - 14 days, undermines the extent of the review.

g. *Donor Practices (DI 1-3)*

Punjab Government is receiving donor aid in three forms; foreign loan/debt, budgetary support for specific sector/program and project-specific aid. Due to poor performance on macro-economic level, budgetary support for the country has been affected. The provincial government is facing problems in receiving funding forecast information from donors on time (as per its budget calendar year) due to different fiscal year-end from donors. There is a clear need to improve this process so that the budget can be presented on a more realistic basis. It is also observed that provincial government does not receive consolidated funds disbursement reports on regular basis directly from donors, although the same are sent to EAD at the federal level.

h. *Central Government Practices (HLG-1)*

The major source of funds for Punjab Government is the Federal Government, which distributes its funds to the provinces through pre-agreed NFC Award. The difficulties for the Federal Government in financial management have direct impact on the resource availability for Punjab Government. There was no major issue observed for the funds transfer, which were timely and according to the allocations. However, in the last year end-loading of funds from Federal Government was observed, with last quarter receiving the major portion of funds. If such practice becomes habitual on part of the Federal Government, it will have direct impact on the expenditure out-turns.

2. Measuring the trajectory of change between 2007 and 2012

The last PEFA Assessment for Punjab was published in May 2007. The table below compares the overall trajectory of the indicators from 2007 PEFA Assessment to current Assessment. Overall, the maximum number of indicators (9 indicators) showed a decline. There was no change in 14 indicators and only 8 indicators showed positive progress over the period between assessments.

Table 1 Trajectory of Change since 2007

(Number of indicators)

Indicator Group	**Impact on Fiduciary Risk**		
	Lower	Equivalent	Higher
Credibility of the budget	2	2	-
Comprehensiveness and transparency	2	3	1
Policy-based budgeting	1	1	-
Predictability and control in budget execution	1	3	5
Accounting, recording and reporting	1	2	1
External scrutiny and audit	1	2	-
Donor practices	-	1	2
Total	**8**	**14**	**9**
	26%	45%	29%

On the higher level, Credibility of the Budget showed positive progress. The main decline was observed at sub-aggregate expenditure out-turns in the previous three years, which may be attributed to the re-allocation of the resources in the aftermath of the floods in the province during last two years. Some progress was observed for Comprehensive and Transparency of the budget, where transparency of information remains strong. The fiscal information is readily released on the website of the provincial government for the benefit of all. Also, over the period Punjab Government had started to provide consolidated financial statements which include fiscal information of the lower governments as well. This is a major step toward monitoring the aggregate fiscal risk but a consolidated over view is still lacking.

Slight improvement in the Policy-based budgeting area is observed with the introduction of costed strategies for health and education which constitute more than 30% of primary expenditures. A well-planned budgeting process is in place, with efficient budget calendar to provide sufficient time for departments and service delivery units to incorporate opinion and feedback in the provincial budget. Predictability and Control in budget execution demonstrated a decline. The ratings of seven out of the total nine indicators under the key area are below satisfactory. High tax arrears and lack of tax audit are the main areas of concern in the current provincial tax collection system. Although, there are several reforms undergoing in the tax sector several challenges remain and there is a need for introduction of tax audits on regular basis to ensure transparency and efficiency in the tax collection. In case of procurement indicator PI-19, the PEFA secretariat has modified the assessment criteria and it is not possible to track performance over time.

The accounting and reporting of the fiscal information by the Punjab Government has shown some minor improvements with timely presentation of financial statements to the legislature. Also, an improvement is observed in the accounting standards employed. Overall, positive impacts are observed in the external scrutiny and audit of the financial statements of the Punjab Government. The reforms introduced in the AGP have improved the timeliness of submission of the audit reports of the entities representing expenditure up to 75% (2007 PEFA: 50%) are completed in the required time period.

A considerable decline in the ratings for the donor practices is observed. The decline in macro-economic performance at the country level led to lower levels of direct budget support in the period under consideration. These were the largest proportion of donor funding in the previous assessment. On the other hand, the various reforms initiated at the federal and provincial level has resulted in higher reliance of donors on national procedures.

3. Assessment of the impact of PFM weaknesses

a. Aggregate fiscal discipline

The performance in the domain of budget credibility demonstrates that the GoPb is capable of maintaining the aggregate fiscal discipline. This capability is supported by the sound budget preparation process and adequate monitoring of the cash balances. However, the weak links of investments decisions with recurrent cost continue to affect and weaken the ability to match revenue with expenditure. In addition, uncertain procurement practices and lower priority for effective internal audit deters the ability of government to exercise full control over fiscal discipline. Also, high dependency on the federal transfers may impede GoPb's own ability to ensure resource availability for expenditures and spend in accordance to the budget.

b. Strategic allocation of resources

There is limited transparency with respect to budget re-allocations and the in-year reporting lacks information on commitments, increasing the risk of misallocation without public scrutiny. The lack of internal audit and weak internal controls increases the risk of resource utilization patterns that differ from initial allocations. The Government of Punjab has incorporated a multi-year perspective in the budgetary process but needs further strengthening, which is essential for allocative efficiency. The role of the Auditor General, through performance audit reports, should be more prominent in the budgeting process as it will help in informed decision making on strategic allocation.

c. Efficient service delivery

The complex procedures for releasing budgetary allocations along with the generally weak financial management capacity in the line agencies, remain as the likely sources of delays in budget execution. The assessment has observed deficiency in the timeliness of the financial accountability process for poor delivery of services. The lack of commitment information in in-year budget execution reports reduces the ability for planning and management of quality service delivery. The report also observes the weak procurement practices, due to the absence of detailed procedures and guidelines for new procurement paradigm, which may provide opportunities for corrupt practices, thus, impaired services.

4. Prospects for reform planning and implementation

Punjab Government has introduced comprehensive reforms across the public financial system in the province. It is imperative to note here that there is a 2-tier reform process impacting the Punjab Government; reforms at federal level and provincial level. The tax reforms were initiated by the Federal Government in 2003 to enhance the tax-to-GDP ratio and increase the tax revenue to finance the government expenditure. These reforms included restructuring of tax collection authority, Federal Board of Revenue (FBR), consolidating and reducing overlaps, and revamping of tax legislation. These reforms initially produced successful results, with significant increase in the tax revenue, but tax-to-GDP ratio has been declining in recent years. Tax revenues are transferred to provinces by the Federal Government, and the funds at the disposal of the Punjab Government have increased with the successful implementation of the reforms. Also, there were several capacity building programs being executed by the Federal Government, like the Public Sector Capacity Building Project by the Finance Division, aiming to increase the capacity of the officials via training and foreign education.

The successful implementation of the Project for Improvement of Financial Reporting and Auditing (PIFRA) for accounting, recording and reporting of the government expenditure is a major step toward transparency and efficient use of resources at federal and provincial levels. The reform program at the Auditor General of Pakistan (AGP) has been initiated to increase the efficiency and quality of external audits. These reforms are producing results as demonstrated by the improved timeliness in submission of audit reports for both provincial and district governments. Audit reports for the Government of the Punjab and all 36 district governments in the province for the fiscal year ended June 30, 2011 were submitted to the Governor by February 28, 2012.

Also, major reforms are being undertaken through the Medium Term Budgetary Framework (MTBF). The MTBF reforms are focusing on introduction of multi-year planning perspectives in the annual budget formulation and to help the provincial government in prioritizing its expenditures. The on-going implementation of the PPRA Rules 2009 by the provincial government is another step toward increasing transparency in procurement. The procurement is delegated to the departments with Procurement Board supervising the procurement activities. Procurement has been a major concern in the PFM system of the whole country, and the implementation of these reforms is expected to strengthen the PFM.

Other reform programs introduced by the Punjab Government with the aid of various International Finance Institutions include Punjab Resource Management Program (PRMP), automation of land revenue and vehicle registration and improving fiscal management. The main aim of PRMP is to strengthen the provincial government through improved public financial management, institutional strengthening and capacity building of civil servants. The on-going tax reforms are intended to expand the tax base and explore the potential of tax revenue in the Punjab.

Punjab Government is implementing an online payroll system, budget check, commitment accounting, direct credit of pensions and fixed asset register. These initiatives aim to streamline the bill processing system and strengthen fiscal control.

Chapter 1: Introduction

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1.1 This document reports on a Public Financial Management and Accountability Assessment (PFMAA) for the Government of the Punjab. The assessment was conducted with the particular objective of updating the PFMAA published in May 2007 (Report No. 39761-PK) to provide the Punjab Government with an objective, indicator-led assessment of the provincial public financial management (PFM) system in a concise and standardized manner, to form an updated understanding of the overall fiduciary environment of the PFM system and to assist in identifying those areas in need of further reform and development.

1.2 Substantial changes to the Constitution of Pakistan were made through the 18th amendment[1]. Most importantly, several functions related to service delivery have been devolved from the federal to provincial level of government increasing the demand on the capacity of the provincial institutions, systems and processes. This necessitated and prompted the province of Punjab to advocate for this assessment to enable recording of the specific changes in performance since 2007 and identify priority PFM areas for accelerated development of reforms.

1.3 The study was collaborated[2] by the World Bank, The Asian Development Bank (ADB) and The UK Department for International Development (DFID). The Government of Punjab managed the process through a high level steering committee under the Chairpersonship of the Finance Department; and having representation from the Offices of the Planning and Development Board, Accountant General, Provincial and District Audit Departments, Excise and Taxation Department, Board of Revenue and Procurement Regulatory Authority.

1.4 The assessment was conducted as per the revised PEFA PFM Performance Measurement Framework of 2011[3] (PEFA Framework). The scope of the current assessment was comprehensive with due consideration of the PEFA Secretariat guidance for repeat assessments. The PFMAA was conducted against 31 PFM performance management indicators (28 for government performance and 3 for donor practices) which are grouped into the following critical dimensions of performance of an open and orderly PFM system:

a) Credibility of the Budget - realism; and its implementation as intended;
b) Comprehensiveness and Transparency - comprehensiveness of the budget and fiscal risk oversight; and accessibility of the fiscal and budget information to the public;
c) Policy-based Budgeting - preparation of the budget with due regard to government policy;
d) Predictability and Control in Budget Execution - implementation of budget in an orderly and predictable manner; and arrangements for the exercise of control and stewardship in the use of public funds;
e) Accounting, Recording and Reporting - maintenance of adequate records and information; and their dissemination and use for reporting and management decisions; and
f) External Scrutiny and Audit - arrangements for scrutiny of public finances and follow up by executives.

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[1] The 18th Amendment to the Constitution included several amendments. Abolishment of the Concurrent List containing the subjects on which both the Parliament and the Provincial Assemblies can legislate was the most significant and became effective from July 1, 2011. Thereafter, most of these subjects will become provincial subjects except those which have been transferred to the Federal List. Provinces have been transferred 17 functions that relate to service delivery and the Council of Common Interests (comprising Federal Government and the Provinces) has been strengthened.

[2] ADB was part of task team led by World Bank. Both DFID and ADB provided peer review. Substantial data gathering was done by DFID as part of their Fiduciary Risk Assessment. The data and a draft PEFA update was provided as contribution from DFID towards the assessment.

[3] Public Expenditure and Financial Accountability (PEFA). The PEFA Program was established in December 2001 as a multi-donor partnership between the World Bank, the European Commission, the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, and the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary Fund. PEFA PFM Performance Measurement Framework January 2011. The PEFA PFM Performance Measurement Framework was issued in June 2005. Based on experience in more than 120 countries, the Framework was updated in 2011 by revising the content of three of the performance indicators.

In addition, the dimension of donor practices was captured to the extent to which these practices and the management of donor funds affect the PFM systems in the province.

1.5 PFM performance was assessed against each of the indicators by assigning ratings of A to D as per criteria stated in the PEFA Framework which may broadly be interpreted as follows:

Table 1.1 Interpreting PEFA Scores

A	Represents performance that meets good international practice – the criteria for the indicator are met in a complete, orderly, accurate, timely and coordinated way.
B	Typically represents a level of performance ranging from good to medium by international standards.
C	Represents a level of performance ranging from medium to poor.
D	Indicates either that a process or procedure does not exist at all, or that it is not functioning effectively.

1.6 The PEFA Framework focuses on operational performance of the key elements of the PFM system based on evidence rather than on the inputs that enable the PFM system to reach a certain level of performance. The PFMAA assesses the extent to which the PFM system is an enabling factor for achieving budgetary outcomes at the three levels of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. The information provided by the PFMAA would therefore contribute to the reform process of the GoPb by determining the extent to which past reforms have yielded improved performance and by increasing the ability to identify and learn from reform success.

1.7 The task team from the World Bank comprised Saeeda Sabah Rashid (Task Team Leader); Hasan Saqib, Leslie Isao Kojima, Suraiya Zanath, Arun Manuja (Sr. Financial Management Specialists); Syed Waseem Abbas Kazmi (Financial Management Specialist); Uzma Sadaf (Sr. Procurement Specialist); Jose R. Lopez Calix (Lead Economist); Hanid Mukhtar (Sr. Economist), Saadia Rafaqat (Economist); Naseer A. Rana (Governance Adviser); Khwaja Mujahid Eshai, Salman Iqbal and Hammad Yunus (Consultants). Dawn E. Rehm, Senior Economist and Gareth Rannamets, Governance Advisor (PFM), joined the team from the ADB and DFID respectively. Abid Khan and Vinaya Vittal Vemuri, Program Assistants from the World Bank provided administrative and logistics support. Ms. Sheela Bajaj (Consultant) edited the first draft of the report.

1.8 Peer review within the World Bank was conducted by David Shand (Consultant); Lewis Raymond Hawke, Furqan Ahmad Saleem, Pierre Prosper Messali (Senior Financial Management Specialists). Externally, peer review was conducted by the PEFA Secretariat, ADB and DFID.

1.9 The assessment was initiated by DFID with a launch workshop in August 2011 with provincial government stakeholders. Data gathering was done in August and September 2011 by a team of three financial management advisors culminating in an interim report that was presented to the GoPb officials on November 21, 2011. Thereafter, the work was taken over by a team led by the World Bank comprising of persons listed in the preceding paragraphs. A Steering Committee was notified by the GoPb comprising representatives of all stakeholders. It was chaired by the Secretary Finance and the Additional Secretary (Budget) served as lead focal person. Further data-gathering was completed by the consultants and a draft on the pattern of the Performance Report (PFM-PR) as recommended by the PEFA Framework issued in January 2011 was prepared. The resources consumed included approximately 12 staff weeks and 28 consultant weeks, the budget for which was provided by the World Bank.

1.10 The field-work was carried out through a combination of field study and interviews, review of existing studies and related reports and extensive discussion and dialogue with concerned stakeholders in the government. The team acknowledges and appreciates the excellent cooperation extended by the government counterparts who facilitated the entire process and enabled a timely completion of the assessment. Detailed discussions were held to review the entire report on April 2 and 9, 2012 to ensure broad participation in the deliberations and the comments received were duly considered. A dissemination workshop is planned in July 2012 which will focus on the findings of the assessment and the recommendations for addressing weak performing areas, leading to the preparation of a PFM Reform Strategy by the GoPb.

1.11 The PFM-PR focuses on the performance of the provincial government. The scope is summarized below:

Table 1.2 The Scope of Assessment as provided by the PFM-PR:

Institutions	Number of entities	% of total public expenditures
Central government*	45	54.05%
Autonomous government agencies	130	4.05%
Sub-national governments	36	41.90%

** Includes departments and de-concentrated entities.*

Chapter 2: Background Information

2.1. Description of economic situation

2.1.1 Pakistan is the world's sixth most populous country with an estimated 175.3 million people in 2010-11[4]. It is a lower-middle income country with a per-capita gross national income of US$1,050 in 2010. The country has a relatively young population with over two-fifths of the population below 15 years of age.

2.1.2 After a period of strong economic growth and poverty reduction,[5] the pace of progress slowed down. The effects of global economic crisis, rising oil prices, political and security concerns and the flood have taken a toll on Pakistan's economy. In addition, weak governance and inadequate capacity of government institutions remain a formidable challenge. As Pakistan recovered from the 2008-09 global crises, its GDP grew 3.8 percent in 2009-10, (Table 2) and it was expected to increase to 4 percent in 2010-11. Inflation was also expected to return to single-digits. Instead, economic activity slowed down due to the devastating 2010 floods, exacerbated by a hike in food and fuel prices related to global trends that increased inflation rates to above 14 percent between August 2010 and February 2011. As a result, the real Gross Domestic Product (GDP) growth rate in 2010-11 was 2.4 percent and inflation (consumer price index CPI) remained stubbornly high in the double digits (13.7 percent) for the fourth year in a row. Translated to per-capita terms, the GDP growth rate was close to nil.

2.1.3 The fiscal situation has deteriorated but the current account has improved. Fiscal space for priority public investment in key sectors remains constrained. Instead of gradually moving down to less than 4 percent, fiscal deficits have risen to 6.3 percent of GDP. This was due to lower economic activity, less than expected performance of revenue mobilization (the federal tax revenue ratio dropped to 9.4 percent of GDP in 2010/11), continuing untargeted subsidies particularly in the power sector, and losses of state-owned enterprises. Notwithstanding a fall in Foreign Domestic Investment (FDI) equivalent to 0.7 percent of GDP, high international commodity prices and strong workers' remittances inflows led to the first surplus in the external current account in six years ($0.5 billion or 0.2 percent of GDP). The overall result allowed gross international reserves to increase to a record-high of US$15.7 billion (close to four months of imports) in June 2011. An improved external position allowed the State Bank of Pakistan (SBP) to maintain exchange rate stability. At the end of FY10/11, exports were also up by about 30 percent and gross public debt remained stable at about 59.7 percent of GDP.

[4] Pakistan Economic Survey

[5] The economy grew at an average of 7.3% between fiscal years 2004 and 2007 and the poverty rate fell by half from 34.5% in 2001-02 to 17.2% in 2007-08.

Table 2 Economic Indicators

(In percentages, unless otherwise indicated)

	Actual		Projections		
	2009-10	2010-11	2011-12	2012-13	2013-14
Output and Prices					
Real GDP growth at factor cost	3.8	2.4	3.9	4.2	4.4
Consumer prices (period average)	10.1	13.7	11.5	12.0	11.5
Public Finance					
Overall fiscal balance (inc. grants)	-6.0	-6.3	-5.6	-5.5	-5.4
Federal tax revenue (% of GDP)	9.7	9.4	9.9	10.0	10.0
Gross public debt (% of GDP)1/	60.8	59.7	57.0	56.4	55.4
External Sector					
Current account (as % of GDP)	-2.2	-0.2	-0.8	-1.3	-1.8
Exports of goods and services (% of GDP)	14.1	14.6	13.9	14.1	14.0
Remittances (as % of GDP)	6.8	7.4	6.9	7.0	7.1
Gross official reserves (in months of imports) 2/	3.6	3.9	3.5	3.2	3.0

Source: World Bank
1/ World Bank Staff estimates.
2/ In months of next year's imports of goods and service. Excludes gold and foreign currency deposits with SBP (cash reserve requirements).

2.1.4 Under the base projection, Pakistan may see a gradual recovery of growth rates. Given the continuing difficult environment (floods, global slowdown, security etc), growth is expected to only gradually recover to moderate rates in the near term. Real GDP is projected to expand by 3.9 percent in 2011/12 and by 4.2 percent in 2012/13. This forecast takes into account the 2011 flood impact and projected moderation in external demand. The fiscal balance is expected to make marginal improvements in the next two years and the current account may run small deficits despite expected robust exports and remittances. Inflation has demonstrated a declining trend during the first three months of FY12. The combination of a projected current account deficit, low financial inflows and significant debt repayments (including to the IMF) may result in a drawdown of gross reserves. Thus, overall macroeconomic risks continue to be significant.

2.1.5 As per 2011-12 debt policy statement issued by Ministry of Finance, the total public debt of the government of Pakistan stood at Pak Rs.10, 709 billion as at June 30, 2011, an increase of 20 percent than the debt stock at the end of last fiscal year. Government borrowed Pak Rs.1, 086 billion from domestic sources and Pak Rs.62 billion from external sources to finance the fiscal operations.

2.1.6 Punjab is the largest province in Pakistan accounting for roughly three-fifths of the country's population and income; and therefore its economy has a major influence on national economic and social indicators. The province has an area of 205,345 sq. kilometers and as per the recent estimates; its population may be about 100 million, more than any European country. The economy of Punjab mainly rests on agriculture, manufacturing services, and mineral and natural resources. The province plays a leading role in agriculture production by contributing about 68% to annual food grain production in the country.

2.1.7 Given the enormity of problems facing the economy of Pakistan including acute energy shortages, heightened security challenges, persistent inflationary trends and limited capital inflows, a general slowdown in the economic activity of province of Punjab has been inevitable. There have been large shortfalls in revenues and large increases in expenditures, leading to heavy domestic borrowing to finance growing fiscal deficits. Servicing the debt has imposed a significant burden on the government. The problem was exacerbated by floods in 2010 resulting in an extensive loss of life and property. Floods inflicted a substantial loss of Pak Rs. 219 billion in Punjab. As many as 20 million people were rendered homeless throughout the country, over 6 million of which were in Punjab's eleven affected districts. In FY2010/11, the government managed to produce a fiscal surplus, partly as a result of the latest

(7th) National Finance Commission award which increased the provincial shares of the divisible pool of tax receipts and a strong, sustained effort by the GoPb to reduce expenditures to low-priority initiatives. Controlling expenditure growth and improving the effectiveness and efficiency of existing expenditures will remain a key priority for the government for the foreseeable

2.2. Description of budgetary outcomes

2.2.1 The recent economic situation has necessitated a re-alignment of provincial finances and diversion of the allocations of some part of development budget towards more pressing needs relating to relief, rehabilitation and reconstruction. The emphasis of the budget 2011-12[6] was to promote growth and enhance productivity through targeted employment schemes, provide basic amenities for general public, create new physical infrastructure, develop agriculture with a special focus on small farmers, launch skill development schemes, expand and improve the coverage and quality of health services; and promote education through a special emphasis on technical education. The indicated aim of the budget was to ensure efficiency in the usage of allocations besides targeted reduction in the current expenditure, which would allow the government to increase its social sector and pro-poor budgetary outlays in the medium term which are essential for growth and socioeconomic development.

2.2.2 The annual development program (ADP) in Punjab is primarily financed through surpluses accruing from the revenue and capital accounts of the provincial government described above. Development Budget of the province was Pak Rs. 220,000.000 million for 2011-12 in comparison with the Pak Rs. 193,500.000 million for 2010-11 depicting an increase of 13.7%. The main expenditure for Government of Punjab is under the head of general administration, which averaged 55% of the total expenditure in the last three years. Spending on Law and Order has also increased considerably over the period (15% of the total expenditure), mainly due to the deteriorating security condition in the country.

2.2.3 As indicated in the Medium Term Fiscal Framework 2010-11 to 2012-13, the province's economy is forecast to grow by 2.7% in 2010-11, 4.7% in 2011-12 and 5.6% in 2012-13. Punjab's gross provincial product would need a sustained growth rate of 7-7.5 percent to generate one million new jobs every year; and thereby achieve the objectives of the 2020 vision for Punjab[7].

2.2.4 Long term challenges for the GoPb include expanding more investment in education, healthcare and electricity production; and reducing dependence on foreign donors.

Table 2.1 Province of Punjab – Budget (in percentage of GDP*)

	2008-09	2009-10	2010-11
Total Revenues	**3.2**	**2.9**	**3.3**
Provincial Own Tax Revenue	0.3	0.3	0.5
Provincial Non-Tax Revenue (Excluding Grants)	0.3	0.2	0.2
Federal Transfers	2.4	2.2	2.5
Grants from the Federal Government	0.2	0.1	0.0
Total Expenditure	**3.4**	**3.4**	**3.4**
Non-Interest Expenditure	3.3	3.3	3.3
Interest Expenditure	0.1	0.1	0.1
Aggregate Deficit (including Grants)	**(0.3)**	**(0.5)**	**(0.1)**
Primary Deficit	(0.2)	(0.4)	0.1

* In the absence of any provincial estimates of regional GDP, nominal budgeted national GDP has been used.
Source: Punjab Annual Budget Statements and World Bank Staff Calculations

[6] Province of Punjab, Finance department, Budget 2011-12 White Paper
[7] Punjab's vision 2020 pre-budget policy address of Ch. Pervaiz Elahi, Chief Minister, June 15, 2004

Table 2.2 Province of Punjab – PRSP expenditures

(as a percentage of total expenditure)

	2008-09	2009-10	2010-11
Roads, Highways and Bridges	13.37	10.96	8.12
Water Supply and Sanitation	2.74	2.47	2.62
Education	24.62	21.33	24.62
Health	8.31	7.43	7.27
Population Planning	0.33	0.32	0.30
Social Security and Social Welfare	0.39	0.31	0.19
Natural Calamities and Other Disasters	0.73	0.54	1.94
Irrigation	6.74	6.38	5.41
Land Reclamation	0.04	0.04	0.05
Rural Development	1.31	1.29	0.93
Food Subsidies	0.46	0.09	1.66
Law and Order	9.04	9.45	8.78
Justice Administration	0.99	0.91	1.07
Low Cost Housing	0.14	0.15	0.06

Source: Government of Pakistan PRSP II Progress report: http://www.finance.gov.pk/poverty/PRSP_II_ProgressReport_2008_09_2010_11.pdf

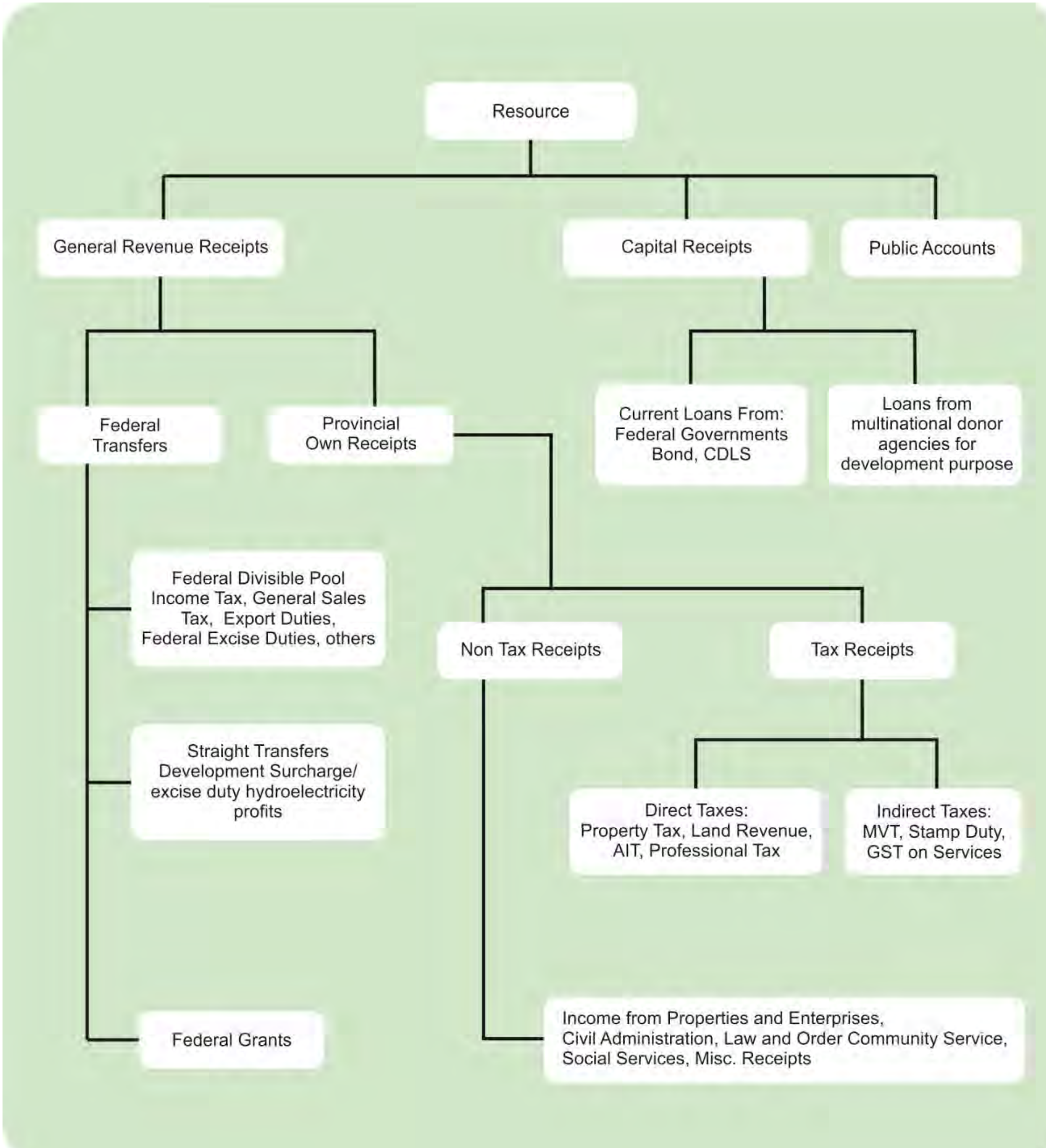
Table 2.3 Province of Punjab – Budgetary Allocations by Sectors

(as a percentage of total expenditure)

	2008-09	2009-10	2010-11
Current expenditure	**60.8**	**62.6**	**66.4**
General Public Services (including Interest Payments)	33.2	31.8	38.1
Public Order And Safety Affairs	8.8	10.8	10.8
Economic Affairs (including Subsidies)	9.1	10.3	7.7
Environment protection	0.0	0.0	0.0
Housing and community amenities	0.6	0.5	0.6
Health	2.6	4.3	3.8
Recreational, culture and religion	0.2	0.1	0.2
Education affairs and services	6.0	4.4	5.0
Social protection	0.3	0.3	0.2
Development Expenditure	**39.2**	**37.4**	**33.6**

Source: Punjab Annual Budget Statements and World Bank Staff Calculations

Table 2.4 Province of Punjab – Financing Sources



Source: Government of Punjab Medium Term Fiscal Framework 2010-11 to 2012-13

2.3. Description of the legal and institutional framework for PFM

2.3.1 The 1973 Constitution of Pakistan provides for a parliamentary system of government. The Constitution authorizes Federal and Provincial Assemblies to budget expenditure for services to the people through annual fiscal year votes. 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 provides for charged or obligatory expenditure on constitutional positions like President, Chief Election Commissioner and Auditor General as well as for debt servicing. For the district governments, the respective Zila Councils are the district equivalents of the provincial assemblies, and generally perform the same oversight functions.

2.3.2 Public sector bodies are well defined in rules and statues by major types of entities including (i) departments of the government administered directly by the federal / provincial governments, and (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 divided into two categories; statutory bodies established for nonprofit objectives and public sector enterprises.

2.3.3 The 1973 Constitution adequately provides for laws on all subjects listed in the legislative list of the fourth schedule including public finances. The procedure for laying bills and presenting law on subjects listed in the federal legislative list are defined in Article 70. The Constitution provides adequate enabling legal frameworks with respect to public finance, public debt management and public sector audit through Articles 79 and 160-171.

2.3.4 The basic framework for assignment of fiscal powers and distribution of revenues between the federation and provinces is laid down in the Constitution. The National Finance Commission (NFC) is established under Article 160 consisting of the Federal and Provincial Ministers of Finance and such other persons as may be appointed by the President after consultation with the Governors. At intervals not exceeding 5 years, the NFC makes recommendations regarding the distribution of the net proceeds of defined taxes; the making of grants-in-aid by the Federal Government to the provincial governments; the exercise by the Federal Government and the provincial governments of the borrowing powers conferred by the Constitution; and any other matter relating to finance referred to the Commission by the President. The 7th NFC Award was signed in December 2009 and has been in force since FY 2010-11. This emanated from a consensus of elected federal and provincial governments and is widely regarded to be a product of the democratic process and a positive step for improving service delivery in social services and the economic progress of Pakistan. As a result the provincial share in vertical distributions increased from 46.5 % in 2010 to 56 % in 2011 and to 57.5 % for the next four years with consequential reduction in the share of the Federal Government. General Sales Tax on services is also recognized as right of provincial governments from 2011 onwards.

2.3.5 Under the Local Governance 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 share in the divisible pools.

2.3.6 The promulgation of the Controller General Accounts (CGA)[8] Ordinance 2001 and the Auditor General Ordinance 2001 separated the roles and responsibilities of the offices of CGA and the Auditor General of Pakistan (AGP)[9] regarding accounting and auditing respectively. However, as per Article 170 of the Constitution, the AGP still retains the authority to prescribe the form of the accounts of the Federation and the Provinces and the methods and the principles underlying their maintenance. Further, the officers responsible for accounting and auditing belong to the same cadre i.e. the Pakistan Audit and Accounts Service which is under the administrative control of the AGP.

[8] http://www.cga.gov.pk/
[9] http://www.agp.gov.pk/

2.3.7 The provincial Accountant Generals (AG) report to the CGA at the Federal level. The CGA carries out policy formulation, coordination and administration responsibilities. The PFM process at the provincial level starts with the budget preparation. The Finance Department compiles the budget in accordance with well-defined timetables and after detailed discussions with line departments. This budget is laid before the provincial legislature for review and approval. Drawing and Disbursing Officers (DDO), nominated officers in the spending departments, submit expenditure bills to the accounts offices for payment. The accounts offices at the district and provincial level process payment claims while exercising budgetary controls and compliance checks. As per the legal framework, CGA, through the provincial AG maintains the accounts of financial transactions and prepares financial reports – both in-year and the annual financial statements for the Province of Punjab. The external audit of the accounts is conducted by the AGP and the audited accounts and related management letter are submitted to the Governor of the province who then lays these before the provincial legislature for scrutiny.

2.3.8 A significant change to the institutional and legal framework of Pakistan has been the 18th amendment to the Constitution. The concurrent list containing the subjects on which both the federal and provincial assemblies can legislate has been omitted with effect from July 1, 2011. Therefore most of these subjects have become provincial subjects except those that have been transferred to the federal list.

2.3.9 The 18th amendment to the Constitution of Pakistan and 7th NFC Award has changed the manner of interaction between the Federal and provincial governments. Provinces have now increased responsibility for service delivery, development of new budgetary frameworks; and mechanisms to enhance implementation capacity. Each province is to develop its own system of local government that will replace the suspended system introduced in 2001. Until local elections are held, the administration of local government including administration of funds for local development and basic services is a function of provincial administration. The 18th amendment has also stipulated that all bodies and authorities established or controlled by the federation or provinces shall be subject to audit by the Auditor General who shall determine the extent and nature of such audits. This will have far reaching implications in promoting transparency, accountability and good governance as this clause not only removes all existing exemptions claimed by various organizations and delinks audit from financial allocations made by the federations and provinces; but also abolishes the executive power to grant any audit exemptions.

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

A – Credibility of the Budget

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

3.1 The ability to implement the budgeted expenditure is an important 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.

Dimension	Score		Brief explanation of status
	2007	2012	
Difference between actual primary expenditure and the originally budgeted primary expenditure excluding debt service charges and externally financed project expenditure.	B	B	In no more than one out of the last three years the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure (2008-9: 3.45%, 2009-10: -8.14% and 2010-11: -12.52%)

3.2 The data in Table 3 below shows the budget and the actual expenditure as stated in the annual audited financial statements of the Province prepared by the Accountant General Punjab and Audited by the Auditor General of Pakistan for the FY 2008-09, 2009-10 and 2010-11. The budgeted and actual figures for each of the years do not include Capital Receipts or Current Capital Expenditure as well as Development Capital Expenditure. Current Capital Expenditure incorporates expenditure on State trading in Food Grains and Sugar, Medical stores and Coal, loans to Government servants, repayment of principal amounts of Permanent and Floating Debt, repayment of loans received from the Federal Government and loans to municipalities. Interest paid on Debts is excluded from the Revenue Expenditure head for the purpose of calculations in Table 3.1. Development Capital Expenditure pertains to expenditure of a capital nature in relation to existing Government infrastructure. Annual and regular upkeep and repairs and maintenance of existing infrastructure is a part of Development Revenue Expenditure.

Table 3 Aggregate expenditure (excluding Current Capital and Development Capital Expenditure) - budget and actual figures

	2008-09	2009-10	2010-11
Budgeted *(Pak Rs. In millions)*	324,281	387,294	465,601
Actual *(Pak Rs. In millions)*	335,484	355,771	407,302
Difference between budget and actual	3.45%	-8.14%	-12.52%

3.3 Applying the assessment criteria, on the basis of Table 3, the actual expenditure deviated from the budgeted expenditure by an amount equal to or more than 10% of budgeted expenditure in only one out of the three last years. FY 2008-09 was the first full year of the current government and the economy was still struggling under the effects of the external (commodity price) and internal shocks (elections and change of government). Further FY 2010-11 saw the worst ever floods hitting the country and the province which required exceptional fiscal measures to meet this natural disaster. The contingencies arising in 2008-09 and 2010-11, giving rise to deviations in aggregate expenditure reflected in Table 3.2, could not have been foreseen at the time of budget preparation. Accordingly the indicator is rated 'B'.

3.4 Table 3.1 reflects the total budget inclusive of Development Capital Expenditure and Current Capital Expenditure as per the Schedule of Authorized Expenditure duly signed off by the Chief Minister of the Province compared to the actual expenditure as stated in the annual audited financial statements of the Province.

Table 3.1 Aggregate expenditure (including Current Capital Expenditure) -budget and actual figures

	2008-09	2009-10	2010-11
Budgeted *(Pak Rs. In millions)*	543,319	689,167	805,180
Actual *(Pak Rs. In millions)*	646,101	624,190	718,719
Difference between budget and actual	18.9%	-9.43%	-10.74%

PI-2 Composition of expenditure out-turn compared to original budget approved budget – Revised 2011

3.5. 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).

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**N/A**	**D**	
(i) Extent of the variance in expenditure composition during the last three years excluding contingency items.	N/A	D	Variance in expenditure composition exceeded 15% in at least two of the last three years (2008-9: 17.6%, 2009-10: -26.9% and 2010-11: 14.9%).
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	N/A	NS	GoPb does not provide for contingency in the budget as a separate head.

(i) Extent of the variance in expenditure composition during the last three years excluding contingency items.

3.6. The average weighted variance calculated on the basis of the PEFA PFM Framework shows that the compositional variance exceeded 15% in two of the three years as regards this dimension. Tables below (Table 3.2, 3.3, 3.4 and 3.5) show the calculations based on expenditure excluding Current Capital Expenditure and Development Capital Expenditure, as well as debt servicing and donor funded projects. The payments of District Governments are only consolidated as a line item and as such are not included in the expenditure reflected below. Social Services include Recreation, Culture and Religion, Social Protection and Environment Protection.

Table 3.2 Average Weighted Variance for FY 2008-09

Administrative / Functional Head	Budget	Actual	Adjusted budget	Deviation	Absolute Deviation	Percent
	- Pak Rs. In millions -					
1. General Administration	160,495	186,109	165,639	20,470	20,470	12.4%
2. Law and Order	37,608	47,780	38,814	8,967	8,967	23.1%
3. Housing and Community Services	24,629	20,950	25,418	-4,468	4,468	17.6%
4. Social Services	2,774	3,660	2,863	797	797	27.8%
5. Economic Affairs	47,548	38,352	49,072	-10,720	10,720	21.8%
6. Education	45,093	31,075	46,538	-15,463	15,463	33.2%
7. Health Affairs	19,976	21,035	20,616	419	419	2.0%
Allocated expenditure	338,123	348,961	348,961	-	61,304	-
Contingency	-	-	-	-	-	-
Total Expenditure	338,123	348,961				
Composition (PI-2) variance						**17.6%**

Table 3.3 Average Weighted Variance for FY 2009-10

Administrative / Functional Head	Budget	Actual	Adjusted budget	Deviation	Absolute Deviation	Percent
	- Pak Rs. In millions -					
1. General Administration	180,931	211,935	169,591	42,344	42,344	25.0%
2. Law and Order	56,336	60,943	52,805	8,138	8,138	15.4%
3. Housing and Community Services	27,972	23,468	26,219	-2,751	2,751	10.5%
4. Social Services	4,904	3,170	4,597	-1,427	1,427	31.0%
5. Economic Affairs	58,903	28,733	55,211	-26,478	26,478	48.0%
6. Education	41,700	26,087	39,086	-12,999	12,999	33.2%
7. Health Affairs	30,348	21,619	28,446	-6,827	6,827	24.0%
Allocated expenditure	401,094	375,955	375,955	-	100,964	-
Contingency	-	-	-	-	-	-
Total Expenditure	401,094	375,955				
Composition (PI-2) variance						**26.9%**

Table 3.4 Average Weighted Variance for FY 2010-11

Administrative / Functional Head	Budget	Actual	Adjusted budget	Deviation	Absolute Deviation	Percent
	- Pak Rs. In millions -					
1. General Administration	242,590	230,883	213,698	17,185	17,185	8.0%
2. Law and Order	66,421	65,274	58,510	6,764	6,764	11.6%
3. Housing and Community Services	26,212	21,225	23,090	-1,865	1,865	8.1%
4. Social Services	4,879	12,224	4,298	7,926	7,926	184.4%
5. Economic Affairs	59,912	42,496	52,777	-10,281	10,281	19.5%
6. Education	49,564	32,485	43,661	-11,176	11,176	25.6%
7. Health Affairs	37,308	24,312	32,865	-8,553	8,553	26.0%
Allocated expenditure	486,886	428,899	428,899	-	63,749	-
Contingency	-	-	-	-	-	-
Total Expenditure	486,886	428,899				
Composition (PI-2) variance						**14.9%**

Table 3.5 Expenditure Composition Variance Results Matrix

Financial Year	PI-2 (i)	PI-2 (ii)
	Composition Variance	Contingency Share
2008-09	**17.6%**	
2009-10	**26.9%**	**0.0%**
2010-11	**14.9%**	

3.7. Supplementary Expenditure Budgets for previous year are presented for post facto approval of the legislature at the time of the presentation of the following year budget. Details of these are given below. The very high percentage of the Supplementary as a percentage of the years' budget reflects a continuing weakness in the budget preparation system and also impacts the Expenditure Composition of the Budget.

Table 3.6 Supplementary Expenditure

(Pak Rs. in millions)

	2008-09	2009-10	2010-11
Voted	182,390	51,034	25,613
Charged	147,609	102,643	61,822
Total	329,999	153,667	87,435
% of Original Budget	97.60%	38.31%	17.96%

(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

3.8. The second dimension recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency reserve (although this should not be so large as to undermine the credibility of the overall budget), accepted "good practice" requires that these amounts be vired to those votes against which the unforeseen expenditure is recorded. In other words, that expenditure is not charged directly to the contingency vote. GoPb does not provide for contingency or unexpected events in the budget as a separate head.

PI-3 Aggregate revenue out-turn compared to original approved budget – Revised 2011

3.9. An accurate revenue forecast is a key input to the preparation of a credible budget. Both optimistic and pessimistic revenue forecasts can lead to substantial impacts on expenditure allocations and incurrence. Since revenue out-turn can deviate from the originally approved budget for reasons unrelated to the underlying quality of forecast such as a major macroeconomic shock, the calibration allows for one unusual year to be excluded. This indicator was revised in January 2011.

Dimension	Score		Brief explanation of status
	2007	2012	
Actual domestic revenue compared to domestic revenue in the originally approved budget.	N/A	A	Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three years (2008-9: 106%, 2009-10: 103% and 2010-11: 105%).

3.10. Details of the revenue estimates and actual results for domestic revenue receipts as provided by the Accountant General are provided in the Table below.

Table 3.7 Revenue Out-turns for Government of Punjab

(Pak Rs .in Millions)

Budget Heads	Budget Estimates	Actual	Budget Estimates	Actual	Budget Estimates	Revised Estimates
	2008-2009		2009-2010		2010-2011	
Provincial Tax Revenue	37,180	25,069	40,888	29,908	40,424	39,034
Provincial Non-Tax Revenue	36,614	52,997	53,510	66,888	43,569	49,332
Total	**73,794**	**78,066**	**94,398**	**96,796**	**83,993**	**88,366**
		105.7%		**102.5%**		**105.2%**

3.11. Details of the revenue estimates and actual results for revenue collection (not including capital receipts) reflected in the table are obtained from the annual audited Financial Statements. For the purpose of the calculation of the domestic revenue out-turns, only those revenue streams are included which are under-control of GoPb or it exercises strong impact over the respective revenue. The federal transfers are excluded as those are collected by the federal government and distributed to the provinces under pre-agreed formula. Similarly, foreign assistance either in form of loan/debt or grants are not included for the calculation. Further, the GST on services, while constitutionally a provincial subject, is currently levied and collected by the Federal Government and transferred to the province as per agreed formula. The revenue streams included are provincial own tax and non-tax revenues and recoveries of loans/advances and investment by the GoPb.

3.12. The lower fluctuation in the revenue out-turns indicates the strong capacity of the provincial government to predict the revenue from own sources. According to PEFA Framework, a rating of 'A' is awarded for this indicator. However, it is important to note that these revenues constitute less than 15% of the total revenues. The scoring criteria for this indicator was revised in January 2011 and it is not comparable to the 2007 PEFA rating which awarded 'D' for the own revenue and overall 'B' rating.

PI-4 Stock and monitoring of expenditure payment arrears

3.13. 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.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**D**	**NR**	
(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.	NS	NR	Consolidated stock of expenditure payment arrears not maintained.
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	D	D	There is no reliable data on the stock of arrears from the last two years.

(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.

3.14. The Consolidated stock of expenditure payment arrears is still not being prepared and the situation largely remains the same as found during the 2007 PEFA assessment. Hence, this dimension is 'Not Rated' as per PEFA Framework,

(ii) Availability of data for monitoring the stock of expenditure payment arrears.

3.15. Departments of GoPb operate via annually lapsable assignment accounts, hence expenditures which may have been booked by the departments or districts but for which cheques are either not written out or not presented by June 30 are reversed from expenditure for the year as per the Accountant General's office. These expenditures are charged from the funds in the succeeding fiscal year. Under Section 17.17 (A) of the Punjab Financial Rules (Vol.1) a Register of Liabilities (Form No.27) is required to be maintained by the Disbursing Officers. It has been stated that expenditure unless recorded in the Register is not processed for payment. The incidence of such expenditure arrears occurs largely at TMA level which falls under the district governments whose budget is integrated into the provincial Budget only as a line item. The details of arrears at provincial level are thus mot available.

3.16. Since GoPb prepares the accounts on cash basis, liabilities are not recorded in the system, unless the same is specifically included in the proposed budgeted expenditure of the following year. In the Current Capital Budget for the financial year 2011-12 a loan provision by the provincial government was incorporated for payment of electricity arrears by WASAs/TMAs (White Paper Budget 2011-12). This is an improvement but no record of the entire stock of payment arrears is either prepared nor data available for monitoring. It has been stated that the current expenditure outstanding, details unavailable, may either be paid out of next years' budget and the next years' outstanding rolled into the year after.

3.17. Currently, in the absence of any consolidated stock of arrears data, it is not possible to ascertain the extent of entire payment arrears of the GoPb. The need to consolidate such information as at the end of each financial year still remains. Accordingly this dimension is rated 'D' as it was in the 2007 PEFA assessment.

B – Comprehensiveness and Transparency

PI-5 Classification of the budget

3.18. 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.

Dimension	Score		Brief explanation of status
	2009	2012	
The classification system used for formulation, execution and reporting of the provincial government's budget.	A	A	The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards with some gaps, but consistent documentation in accordance with GFS standards is produced.

3.19. No change has occurred in government procedure for classification of budget since the last PEFA assessment. The GoP is using the Chart of Accounts (CoA) under the New Accounting Model (NAM) for the formulation and reporting of the budget, recording of the current and development expenditure and revenue. Books of accounts are maintained on the GFMIS system from which trial balances are produced. Monthly accounts and annual financial statements based thereupon are generated in a timely fashion. Debt servicing for principal and interest are budgeted and recorded as financing items in the GFMIS.

3.20. The provincial budget is prepared with detailed functional and object classification. Spending can be tracked through use of GFMIS which records data of actual transactions (revenue and expenditure) on the same CoA which is used to prepare the budget. The budget as approved by the parliament is fed into the GFMIS which is now fully operational throughout the province. GFMIS produces reports for comparison of budget and actual expenditure on real time basis.

3.21. Some gaps were identified in the IMF Article IV Consultations Staff Report [10] which stated that the concepts and definitions used in compiling government finance statistics are broadly based on the GFSM 1986, except that privatization proceeds are included below the line. The scope of central government data is limited because it does not cover the activity of extra budgetary funds. Classification and sectorization in source data follow GFSM 1986 standards to a limited extent. The classification of expenditure deviates from GFSM 1986 methodology because the economic and functional classifications are mixed in reporting, in particular, with defense and government administration expenditures not clearly identified according to economic classification. The basis of recording GFS is on, or close to, a cash basis. Transactions are recorded on a gross basis. Corrective transactions are not necessarily made in the original period, as required by GFSM 1986. Budgetary central government operations

[10] http://www.imf.org/external/pubs/cat/longres.aspx?sk=25714.0

data are regularly reported for publication in the GFS Yearbook, and use the GFSM 2001 framework.

3.22. The functional heads of expenditure, given below, are in accordance with the United Nations Classification of Functions of Government (COFOG) and GFS standards. As stated above, despite gaps in implementation, consistent documentation in accordance with these standards is produced. The overall rating as in the 2007 PEFA Assessment is therefore maintained at 'A'.

- General Public Service
- Defense Services
- Public Order and Safety
- Economic Affairs
- Education
- Housing and Community Services
- Health
- Recreational, Culture and Religion
- Environment Protection
- Social Protection

PI-6 Comprehensiveness of information included in budget documentation

3.23. Annual budget documentation (the annual budget and budget supporting documentation) as submitted to the legislature for scrutiny and approval should allow a complete picture of the provincial government fiscal forecasts, budget proposals and out-turn of previous years.

Dimension	**Score**		**Brief explanation of status**
	2007	**2012**	
Share of the listed information in the budget documentation most recently issued by the provincial government.	A	A	The budget documentation meets 8 of the 9 information benchmarks.

3.24. This indicator requires that the annual budget documentation should include information on the following nine elements. Status of compliance is noted against each:

1	Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	Yes
2	Fiscal deficit, defined according to GFS or other internationally recognized standard	Yes
3	Deficit financing, describing anticipated composition	Yes
4	Debt stock, including details at least for the beginning of the current year	Yes
5	Financial Assets, including details at least for the beginning of the current year	Yes
6	Prior year's budget out-turn, presented in the same format as the budget proposal	No
7	Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposal	Yes
8	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	Yes
9	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	Yes

3.25. The annual budget documents include the Budget White Paper, Budget Strategy Paper and the Budget Statement as well as Medium Term Fiscal Framework (MTFF) and the Medium Term Budget Framework (MTBF). The information contained in the budget documents is comprehensive and covers all aspects of the economy, underlying assumptions, issues and development plans. The budget proposal document whilst providing the actual results of the previous financial year does not compare the same with that years' original budget. This comparison is, however, presented in the audited annual financial statements of the year.

3.26. The White Paper on Budget 2011-12 and 2010-11 includes details of debt outstanding and Pension and General Provident Fund contingent liabilities. MTBF, fiscal reforms and the implications and challenges resulting from the 18th Constitutional amendment are also discussed therein. Provincial resources provided to the local governments' under Section 120 (F) (5) of Punjab Local Government Ordinance 2001 are also provided.

3.27. As eight of the recommended nine elements are adequately addressed in the budget documents, a rating of 'A' has been assigned. While a large body of information is included in the budget documents, user-friendly information on the budget for particular sectors for example poverty reducing expenditures is not readily available for analysis and has to be compiled from different documents.

PI-7 Extent of unreported government operations

3.28. The 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 to allow a complete picture of revenue, expenditures across all categories and financing. Activities included in the budget but managed outside the government budget management and accounting system (mainly donor funding) should also be included in government fiscal reporting unless insignificant.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**D+**	**C+**	
(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.	A	A	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	D	C	Complete income and expenditure information, for loan financed projects is included in fiscal reports.

3.29. The extra budgetary expenditure refers to certain transactions that do not pass through the budgetary mechanism and thus, are not subject to same level of legislative oversight, monitoring and accountability. The term also refers to certain funds that are earmarked for specific purpose and are spent through special arrangements other than normal financial accounting system. These funds are not essentially outside the budget but are accounted for in the budget in aggregate terms.

3.30. All revenue received by the Government of the Punjab and its departments is credited to the provincial consolidated fund. The provincial receipts are divided into revenue or capital. Revenue receipts are provincial taxes, non- tax provincial receipts, and federal and foreign grants, on the other hand capital receipts consist of inflows on account of permanent (domestic and foreign) and floating debts, recoveries of loan advances and funds borrowed for specific foreign-assisted project.

3.31. The government transacts expenditure through the consolidated fund once the budget is approved by the legislature. The expenditure is classified under current and development where current expenditure consists of recurrent cost and debt repayments. The development expenditure is incurred to achieve growth specific targets including infrastructure projects and social sector programs.

(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported

3.32. The level of extra budgetary activities, which are not reported, is insignificant. This includes funds received and spent on account of special trust funds operated in government owned institutions (consultant fee fund in hospitals, sport fund in schools etc.). These funds are created for specific purposes and are operated with the approval of Finance Department. Nevertheless, the overall amount involved under un-reported expenditure is relatively very small and remains well below 1% of total provincial expenditure.

3.33. The development budget, from own source, was previously handled through Personal Ledger Accounts (PLA). However, in September 2007 Government of Punjab has issued notification[11] for revised procedure for the operation of PLAs and changed its name to Special Drawing Account (SDA). PLA involved cash transfers to the bank account of project authorities. These funds were non-lapsable besides being budgeted at aggregate level and booked as expenditure at transferred amount without proper classification. Now under the new arrangement, SDA does not involve any cash transfer. It is a financing limit assigned to the project authorities with proper budget classification. These funds are lapsable and have to be re-authorized at the beginning of each financial year. This arrangement enables the government to expense the budget on the actual occurrence of expenditure rather than on transfer ensuring proper classification of expenditure in GFMIS. The rating awarded for dimension (i) is 'A'.

(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports

3.34. Donor funds flows are recorded as inflows in budget documents and corresponding expenditure as use of resources. The donor funds are either disbursed using central account (Account-1 of the province) or through revolving fund account (designated account for project) to ensure financial autonomy and efficient fund flow. The mode of disbursement affects the level of details available in fiscal reports (budget documents and financial statements). In the case of revolving fund accounts, a circular[12] released by the Federal Government (subsequently revised, most recently in January 2012) and adopted by the Government of Punjab clearly defines the procedure for budgeting, accounting and reporting of expenditure on foreign aided projects. Detailed expenditures are to be recorded on the basis of monthly reports to be submitted by project directors. The direct entry of expenditures by the projects in the GFMIS is also being piloted on World Bank funded projects. Although the position has improved in the area of internal control and reporting of detailed expenditure, major project authorities still need capacity building and training in conforming to the new arrangements. The funds disbursed, through revolving fund account are not material in single year when compared with resources transacted using the government's own system [13](17% of all donor funding in 2010-11; 0.05% of total development budget-2010-11). In 2010-11 funds disbursed through revolving fund account were for grants such as [14]JICA and DFID projects as well as for loan financed [15]projects like ADB (projects in progress). The direct payments are part of the budget, although it is not possible to identify at the time of preparation of budget that how much amount would be disbursed through direct payments.

3.35. An important donor funded (grant) project; [16]UNICEF country program amounting to Pak Rs. 2.8 billion to provide support for social and economic development of communities with focus on children in general and girl child and women in particular, remains outside the provincial financial management system.

3.36. The complete income and expenditure relating to donor funded loan financed projects during the FY 2010-11 is included in the fiscal report, which indicates improvement from the previous assessments. Information for grants is incomplete. The 'C' rating is awarded for dimension (ii). Under the principles of the PEFA framework M1 rating methodology, an overall rating of 'C+' is assigned to the indicator.

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[11] Revised Procedure for Operation of PLA. No SO(TT)6-1/2007
[12] Revised Accounting Procedure for Revolving fund Accounts (Foreign Aided Assignment Account) dated 17 January,2011
[13] Annual Budget Statement (ABS) 2011-12, Government of Punjab
[14] Punjab economic Opportunity Program, DFID and Retrieval of drainage and sewerage for Lahore city, JICA
[15] Sustainable Livelihood in Barani Areas and Punjab Efficiency Improvement Program
[16] Working Paper, Punjab Provincial review 'Way Forward for Next Country Program 2013-17'

PI-8 Transparency of inter-governmental fiscal relations

3.37. Assessment under this indicator examines the transparency of inter- governmental fiscal relations. It is to be mentioned here that for this indicator, fiscal transfers to immediate sub-level i.e. district governments are taken into account, as per PEFA Framework. A summary Assessment in each dimension and the overall rating by M2 methodology is given in the table below:

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**A**	**B+**	
(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	A	The horizontal allocation of almost all transfers (90% by value) from the provincial government is being determined by the PFC Award 2006.
(ii) Timeliness of reliable information to SN governments on their allocations	A	B	The reliable information on allocations to be transferred is provided to District Governments in May/June when the Provincial budget is approved, hence before completion of their budget process.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	B	B	Fiscal information of District government (80-85 % APPROX) is presented in the Provincial annual report as single-line items without any further classifications.

(i) Transparent and rules-based systems in the horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations)

3.38. The allocation of all transfers from the provincial government to the local governments is determined through a consultative process by the Provincial Finance Commission (PFC), a body of 10-members representing Government of the Punjab, District Governments and private sector. Currently resource distribution is based on the Punjab PFC award 2006 until a new award is announced (in accordance with Punjab Local Government Ordinance). The PFC Award 2006 defines a formula to ensure equitable and transparent allocation to the local government and is based on various economic and social indicators like population, under development, backwardness, etc. The amount to be allocated to local governments is 41.9% of the net proceeds of the provincial consolidated fund in every financial year. Further division within each of the tiers is based on formulas which are linked to grant types, population and relevant indices. Grant types include general purpose grants, equalization grants, development grants and tied grants. Division amongst various tiers of local governments is as follows:

City District/ District Governments	83.81%
Tehsil/ Town municipal administrations	12.50%
Union Administration	3.69%

(ii) Timeliness of reliable information to SN governments on their allocations

3.39. District governments follow the same budgeting calendar as the provincial governments i.e. Budget Call Circular (BCC) issued in November/December each year and budgets are to be finalized in May/June. An indicative amount is given at the start of the budget making process and the final allocations are communicated to the district governments in early June by the provincial government once the provincial budget is prepared. More than 80% of the district budgets comprise salary. Considering the simple nature and content of the district government budgets, the districts are able to finalize their budget proposals within two to three weeks of receipt of final allocation numbers. During the last financial year most of the districts prepared their final budgets before year end. In view of the foregoing, the lower levels of government are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals and thus the rating is assigned as 'B'. The team is unable to identify the reasons for higher rating in the previous assessment but probably a different schedule for budget preparation was followed.

(iii) Extent of consolidation of fiscal data for general government according to sectoral categories

3.40. Fiscal information of the district governments is consolidated and presented in GoPb's annual reports within eight months of the end of the fiscal year which comprises more than 82% of the overall allocations made to the local governments i.e. District, TMAs and union administration/council. Fiscal information is reported at aggregate level as single-line items in the financial reports with no further classifications provided. The information with regards to further lower tiers (TMAs and union administration/ councils) is not consolidated. The GFMIS provides necessary data since the CoA for the districts is the same. This is compiled by the statistical office.

PI-9 Oversight of aggregate fiscal risk from other public sector entities

3.41. Assessment under this indicator examines the extent of central government monitoring of fiscal risks. A summary Assessment in each dimension and the overall rating by M1 methodology is given in the table below:

Indicator	Score		Brief explanation of status as at the reporting period
	2007	2012	
Overall	**C**	**C+**	
(i) Extent of central government monitoring of autonomous government agencies (AGAs) and Public Enterprises (PEs).	C	C	Representation of the finance department on Boards of AGAs and PEs signifies that fiscal reports are submitted and monitored however no single wing has been setup for consolidation of the fiscal risk into one report.
(ii) Extent of central government monitoring of SN governments' fiscal position.	C	A	District governments cannot generate fiscal liabilities for the Provincial government.

(i) Extent of monitoring of AGAs and PEs.

3.42. Autonomous bodies play a very significant role in public sector provision of social, economic, community and regulatory services. Expenditures and receipts are not captured by the GoPb accounting system as these are self-accounting entities attached with various departments of the Government of Punjab. These include a range of entities such as banks, universities, libraries, tertiary healthcare hospitals, development authorities, water and sanitation agencies, industrial estate management companies, arts councils etc.

3.43. The Finance Department is a member of the governing bodies of these entities. Annual fiscal reports are provided by each, but these are not consolidated into a report summarizing the overall fiscal risks issues. A rating of 'C' is applicable. The GoPb noted that controls over fiscal risks are applied through relevant statutes, financial management framework and constitution of boards governing such entities.

(ii) Extent of monitoring of lower level governments' fiscal position

3.44. As per the Local Government Ordinance, 2001, the district governments cannot prepare a deficit budget. They are not independently allowed to borrow or generate fiscal liabilities. The annual financial statements of the Government of Punjab include the consolidated fiscal information in respect of the district governments i.e. budget, expenditure and cash balance. The local governments do not have significant own source revenues. A rating of 'A' applies to dimension (ii).

PI-10 Public access to key fiscal information

3.45. 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.

Dimension	Score		Brief explanation of status
	2007	2012	
Number of listed elements of public access to information that is fulfilled.	B	B	5 of the 7 types of information are publicly accessible.

3.46. For sub-rating elements 1 and 2 - budgets and monthly civil accounts are made available on the website of the FD in a timely manner. The year-end financial statements (sub-rating 3) are now made available on the CGA website within the time frame required. As for sub-rating element 4 the external audit reports after being laid before the legislature are provided to the press and electronic media. Tender notices for award of contracts by donor-funded projects and some government departments, in particular Communication and Works (C&W) department, and hospitals are published in the daily newspapers and made available on the website of respective department or sub-unit well before the due date although not on a quarterly basis as required (Sub-rating 5). Sub-rating element 6 - primary service unit information, even at expenditure DDO levels, are readily available particularly for the health and education primary service units. Sub-rating element 7- fees and charges for only a few services, for example the motor registration section of the Excise and Taxation Department, are available on the web site of the concerned department.

3.47. Elements of information to which public access is essential are the following:

Type of Information	*Compliance*
1. Annual budget documentation: A complete[17] set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes
2. In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Yes[18]
3. Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Yes [19]
4. External audit reports: All reports on provincial government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes. External audit reports once laid before the Parliament by the Governor can be requested by the public and are also provided to the media when brought up for discussion in PAC. In all of the past three years, this was done well within 6 months of completed audit.
5. Contract awards: Awards of all contracts with value equivalent above approx. US$100,000 are published at least quarterly through appropriate means.	No
6. Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with province-wide coverage in at least two sectors (such as elementary schools or primary health clinics).	Yes
7. **Fees and Charges for major services** are posted at the service delivery site and in other appropriate locations/media.	Limited to a few departments.

[17] 'Complete' means that the documents made publicly available contain all or most of the information listed under indicator PI-6, to the extent this information exists.
[18] http://pportal.punjab.gov.pk/portal/
[19] Available on the website for CGA: http://www.cga.gov.pk/

3.48. Since five out of the seven listed elements are satisfied under the framework, a rating of 'B' is maintained for the indicator.

C - Policy Based Budgeting

PI-11 Orderliness and participation in the annual budget process

3.49. The Finance Department 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.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**A**	**A**	
(i) Existence of and adherence to a fixed budget calendar.	A	A	The Budget Manual 2008 lays down clearly the calendar to be followed and allows sufficient time for budget preparation and finalization.
(ii) Clarity / comprehensiveness of and political involvement in the guidance on the preparation of budget submissions.	B	B	Comprehensive and clear budget circular is issued. Ceilings for 5 departments are included in the circular and these are approved by Cabinet prior to issuance.
(iii) Timely budget approval by the legislature (within the last three years).	A	A	The provincial budget has been approved by the legislature before the start of the fiscal year in each of the last 3 years.

(i) Existence of and adherence to a fixed budget calendar.

3.50. The Budget Manual 2008 lays down clearly the calendar to be followed for budget preparation and finalization. This is strictly adhered to. The budget calendar identifies each stage of the budget submission and approval process. The MDAs commence the budget preparation process in August each year on the basis of prior year allocations. The Budget Manual requires that the process of budget preparation at the unit level must be completed by January and submitted to Finance Department. Thereafter the review and examination of the same commences by the Finance Department in consultation with the Disbursing Officers, in case of expenditure, Collecting Officers, in case of receipts, Planning and Development, in case of development expenditure, Controlling Officers, heads of departments and regional heads. The finalized revenue estimates after due discussions are required to be submitted by April. The budget call circular is generally issued well in time, at least eight weeks prior to submission date, unless delayed in any year as in the current year, when it was issued in December. The Budget Manual requires the first abstract of Receipts and Expenditure to be prepared by April 1st and the second by April 30th each year. Thereafter it is presented to the Cabinet for review and approval. The budget is presented to the Provincial Legislature in June and approved by the end of the month. A rating of 'A' is thus given.

(ii) *Clarity / comprehensiveness of and political involvement in the guidance on the preparation of budget submissions.*

3.51. The Budget Manual 2008 provides comprehensive guidance on how to prepare the budget. The budget circulars do not provide indicative ceilings of sectoral current and development expenditures to all departments. Only 5 departments which are part of the MTBF are informed of the respective ceilings and that too in January 2011 for the preparation of their respective Budget Estimates for FY 2011-12. It is proposed to include a further two in the future. The ceilings in the Strategy Paper are approved by the Cabinet before being issued. Since 2008 pre-budget discussions are held, at the call of the Provincial Finance Minister, of the Assembly to discuss the expenditure priorities for the following financial year. The views expressed by the members on Development and other Economic Priorities are moved in the form of a resolution voted upon by the members and subsequently recommendations incorporated into the budget. The pre-budget discussions for FY 2012-13 are about to commence. A rating of 'B' is assigned.

(iii) *Timely budget approval by the legislature (within the last three years).*

3.52. The provincial budget is approved by the legislature before commencement of a fiscal year. This has been consistently followed in the past three years and a rating of 'A' is assigned. Although the local governments are deemed to be "parallel partners" in the budget making exercise, as per the Budget Manual, their budgets do not form part of the line by line consolidated budgets nor approved by the provincial legislature. Approval thereof lies with the respective local governments.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

3.53. Expenditure policy decisions have multi-year implications, and must be aligned with the availability of resources in the medium-term perspective. Expenditure policy decisions or options should be described in sector strategy documents, which are fully costed in terms of estimates of forward expenditures to determine whether current and new policies are affordable within aggregate fiscal targets.

Dimension	**Score**		**Brief explanation of status**
	2007	**2012**	
Overall	**B**	**B+**	
(i) Preparation of multi-year fiscal forecasts and functional allocations.	A	A	The MTFF has a clear statement of objectives and includes forecasts of fiscal aggregates on the basis of main categories of economic and functional/sector classification prepared for at least three years on a rolling basis.
(ii) Scope and frequency of debt sustainability analysis (DSA).	B	A	Basic DSA for both external and domestic debt is undertaken annually in the White Paper forming part of budget documents.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	C	B	Separate costed sector strategies have been prepared for sectors which constitute more than 35% of the prime budget while for the rest MTFF includes mid-term strategy.
(iv) Linkages between investment budgets and forward expenditure estimates.	B	B	The majority of development projects are selected on the basis of relevant sector strategies and recurrent cost implications are included in forward budget estimates.

(i) Preparation of multi-year fiscal forecasts and functional allocations.

3.54. The first Medium Term Fiscal Framework (MTFF) was presented in FY2009-10 for three years up to FY2011-12. It was revised for the years 2010-13 due to expansion in federal transfers following the 7th NFC Award, major changes in service delivery mandate of provincial governments as a result of the18th Constitutional amendment and the floods in 2010. The revised MTFF was approved by the Cabinet on March 26, 2011. The Cabinet also approved a Budget Strategy Paper based on the revised MTFF with indicative expenditure ceilings for the departments required to prepare medium term budgets. The revised MTFF was used to develop the fiscal parameters for the annual budget FY 2011-12.

3.55. The MTFF has a clear statement of objectives and includes forecasts of fiscal aggregates on the basis of main categories of economic and functional/sector classification prepared for at least three years on a rolling basis. Along with the MTFF a Medium Term Budgetary Framework (MTBF) was implemented initially covering two departments Health and Irrigation and Power, but now extended to Higher Education, Excise and Taxation and Livestock and Dairy Development, Public Health and Communication and Works Departments. The latter three Departments were added to the list from FY 2011-12. A rating of 'A' is maintained.

(ii) Scope and frequency of debt sustainability analysis.

3.56. The rating is improved to 'A' as a basic debt sustainability analysis is included in the White Paper which forms part of the budget documents each year. This is considered sufficient for supporting the MTFF. The White Paper issued as part of the budget documents for 2012-13 includes complete list of loans and a debt sustainability analysis. This is done not only of the foreign debt (even though exchange gains/losses are not accounted for as at year end) but also in respect of Pension and General Provident Fund Liabilities. The process of reconciliation of the foreign debt figure with the Federal Government is done, but certain reconciling items remain unresolved. The vulnerabilities in the debt structures have been identified and contingent liabilities are also recognized. An exhaustive debt sustainability analysis for the province has recently been completed by the World Bank.

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.

3.57. A rating of 'B' is applied as various sectoral strategies are prepared and have cost implication but it is at an aggregate level in some cases. The sector strategy has been developed as a separate document in health and education sectors, which are the two of the most significant social sector budgets. For the rest of government functions, it is incorporated in the MTFF document for the respective department in the form of proposed goals, objectives and vision for the MTFF document to achieve[20].

(iv) Linkages between investment budgets and forward expenditure estimates.

3.58. A study on the sustainability of the development budget and integration with the recurrent budget was recently completed by P&D Department. The majority of development projects are selected on the basis of relevant sector strategies and recurrent cost implications are included in forward budget estimates. The dimension is rated 'B' and as per M2 methodology, the overall rating of the indicator is 'A'.

D - Predictability and Control in Budget Execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

3.59. 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 co-operation of taxpayers from the individual and the corporate private sector. Contribution to the overall level of compliance is encouraged and

[20] For example view the Annex 4-A of MTBF 2010-13 for Punjab Government or Volume-III of MTBF-Irrigation and Power Department (2009-12).

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.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**C+**	**C+**	
(i) Clarity and comprehensiveness of tax liabilities.	C	C	All major taxes have well defined legislative basis and tax procedures, laws and regularity mechanism are clearly mentioned in respective laws. However, high level of discretion for the assessing officer in property tax and Land revenue, which are two major taxes.
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	B	B	Though the information is available for the taxpayer on all major taxes but no structured education programs for taxpayers.
(iii) Existence and functioning of a tax appeals mechanism.	C	C	The appeal process is not independent and lack fairness and transparency.

3.60. The provincial receipt from own source consists of tax and non-tax receipts, which together account for 20% of the total provincial annual inflow. The remaining 80% is received from Federal Government on account of divisible tax pool (NFC Award) and federal grants. The provincial tax receipts accounts for 70% of own sourced revenue with following composition:

Table 3.8 Composition of Provincial Tax Receipts

DIRECT TAXES	**23%**	***Pak Rs (in Million)***
Property Tax		5,879
Taxes on Income (Agriculture)		773
Mutation Fee		8,307
Professional Tax		425
Capital Value Tax on immovable property		2,300
Total		**17,684**
INDIRECT TAXES	**77%**	
GST on services (Provincial)		36,281
Provincial Excise		1,200
Stamp Duty		8,623
Motor Vehicle		6,468
Sale of Opium		13
Other Indirect Taxes		5,045
Total		**57,630**

Source: Revised Estimates 2010-11, Annual Budget Statement 2011-12

3.61. The General Sales Tax on services, which accounts for 63% of indirect taxes, is collected by Federal Government. The non-tax revenue i.e. 30% of own source mainly accrues on account of regularity functions performed by the provincial government and rate and fee charged for the provision of social and economic services. The provincial taxes are collected by the Excise and Taxation Department and Board of Revenue according to the following mandate:

Excise and Taxation Department	Board of Revenue
Motor Vehicle Tax	Income Tax (Agriculture)
Professional Tax	Land Revenue
Property Tax	Stamp Duty
Provincial Excise	Registration Fee *(property Tax)*
Entertainment Duty *(other indirect taxes)*	CVT on immovable property
Hotel tax *(other indirect taxes)*	Mutation Fee
Cotton Fee *(other indirect taxes)*	
Tobacco Vend Fee *(other indirect taxes)*	

(i) Clarity and comprehensiveness of tax liabilities.

3.62. Legislation[21] and procedure related to major taxes (in terms of revenue) are comprehensive and clear but level of discretion available to the government official varies among different taxes. In case of property tax and mutation fee, which are considered to be major taxes, the rules providing assessment parameters are flexible and give discretionary powers to assessment officer. Within these laws there is room for case to case negotiation between tax payer and assessing officer that leads to frequent contact between the two. In addition, all major taxes contain very generous exemptions and reductions. This often results into less transparency and more discretion. Therefore, the rating remains the same as in 2007. For this dimension ‘C’ score applies.

(ii) Taxpayer access to information on tax liabilities and administrative procedures.

3.63. The availability of information with regard to registration, declaration, calculation of tax liability and payment procedures is important for efficient tax administration. In case of property tax, motor vehicle tax, mutation fee, registration fee and stamp duty, rates are [22]updated annually and exemption schedules are issued. Calculating the tax liability following the complex provisions remains the challenge. The Stamp Act 1889 provides for stamp duty on 65 different categories of documents at a prescribed rate. The updated acts and rules are available for all major taxes. Motor Vehicle Tax and Board of Revenue have shown improvement in making public more information regarding respective tax laws, rules and guidelines. In fact Board of Revenue now has a complete functional [23]website which details rules and regulations and updated rate schedules for stamp duty, mutation fee and agriculture income tax. On the contrary, no taxpayer education programs have been structured or being carried out, which adds to the compliance cost. The sub-rating of ‘B’ was assigned in 2007 PEFA assessment and same has been retained for this assessment.

(iii) Existence and functioning of a tax appeals mechanism.

3.64. The law does provide for appeal procedure but in its existing form it cannot ensure the fairness, transparency and effectiveness of the appeal system. The appeal process is inter-department with no independent forum. The Excise Taxation Officer, who also involves in assessment and collection, is the appellate forum for the assessment made by the Assistant Excise Taxation Officer. Thus, the collecting authority is also the appellate authority. The sub-rating element (iii) scores ‘C’ as it was in 2007.

[21] Property Tax act 1958, Motor vehicle Taxation Act 1958, land Revenue 1967 and Stamp Duty Act 1889
[22] Finance Act 2011
[23] ‘www.punjab-zameen.gov.pk’

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

3.65. Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers. Ensuring that taxpayers comply with their procedural obligations of registration and declaration is usually encouraged by penalties that vary with the seriousness of the offence.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**C+**	**D+**	
(i) Controls in the Tax payer Registration system.	C	C	MVT registration is computerized but no linkage with other databases.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	B	C	Penalties exist but do not serve as effective tool for compliance and enforcement.
(iii) Planning and monitoring of tax audit and fraud investigation programs.	C	D	Tax audit are carried out on ad-hoc basis with no structured audit programs being followed.

3.66. Of all the provincial taxes, the taxpayer registration is only required for Motor Vehicle Tax. The process to record and manage taxpayer database for different taxes is given below:

Table 3.9 Registration Process for Major Provincial Taxes

Major Provincial Taxes	*Registration Process*
Property Tax	Survey conducted by respective Excise and Taxation Officer (ETO) of E&T department to enroll all properties within his/her jurisdiction in a property register (PT-1). All taxable properties are then transfer to PT-8 register.
Motor Vehicle Tax	Registration of Motor Vehicle is **mandatory** with Motor Registry Authority. An ETO of Excise and Taxation Department is designated as Motor Registration Authority.
Professional Tax	Professional Tax is paid by all Income Taxpayer mentioned in column 2 of second schedule of Finance Act 1977.
Mutation Fee	Sub-registrar is required to record sale or purchase transaction of land. Either District Magistrate or Tehsildar is notified as registrar to register the transaction.
Provincial Excise	ETO is designated as Licensing Authority for levy of provincial excise.
Stamp duty	Stamp Papers for all denomination can be procured directly from Treasury office or authorized dealers.

(i) Controls in the Tax payer Registration system.

3.67. Motor Vehicle Tax, which is [24]third in terms of revenue generation in overall provincial tax receipts, has been computerized and all new registration is done through the[25]computerized system. The complete data is in electronic form except for some legacy data, which is still being uploaded. All other taxes have manual processing system. Under section 9 of Property Tax Act 1958, a survey must be carried out after every six months to update the property register. The survey has often been delayed and there is no standard frequency to it. There is no watch or control over completion of construction and alteration in property. The linkages with other registration authorities have not been established, which is a challenge in the absence of computerized systems. There can be a linkage between City Development Authorities in big cities who generally have computerized databases, with Excise and Taxation department. The overall performance, save for MVT, has shown no improvement since 2007. Thus, score of 'C' remains as it was in 2007.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.

3.68. The penalties are tools to encourage taxes payers to comply with their tax obligation for registration, declaration and payments. The amount of penalties varies depending upon the severity of default. In case of Property tax, penalties are well defined and if transparently levied, can be an effective tool to increase collection. The administration of penalties is not consistent and the current procedure for penalties allows flexibility to Excise and Taxation officer. The score has been assigned 'C' rating. The table below indicates the discretion that the assessing officer has in imposing penalties.

Table 3.10 Powers of Imposing Penalties with Assessing Officers

Taxation	Section	Penalty
Property Tax	Sections 15 and 16 of Property Tax act 1958	Up to maximum of 100% of tax liability.
Motor Vehicle Tax	Section 9-11 of Motor Vehicle Taxation Act 1958	Up to maximum of twice the tax liability.

(iii) Planning and monitoring of tax audit and fraud investigation programs.

3.69. Tax audit can form an effective feedback loop for the management. Currently audit plans are not formulated on risk-based audit methodology. The Internal Audit wing of E&T works on complaints and informal leads but there is no systematic analysis and preparation of audit programs to identify high risk activities and area that are most vulnerable to leakages. The audit wing of E&T requires strengthening to be able to serve as a management for timely identification of fraud and instances of tax evasion. The score for this sub rating element is 'D' since tax audit remains at the lower rung of the priority ladder.

PI-15 Effectiveness in collection of tax payments

3.70. Accumulation of tax arrears can be a critical factor undermining high budget outturns, while ability to collect tax debt lends credibility to the tax assessment a process and reflects equal treatment of all tax payers, whether they pay voluntarily or need close follow up. Aggregate reporting on tax assessment, collection, arrears and transfer to treasury should take place regularly in order to ensure that tax collection system works as intended, that tax arrears are monitored and the revenue float is minimized.

[24] Annual Budget Statement 2011-12, Government of Punjab.
[25] Motor Transport Management Information System (MTMIS). Website: www.mtmis.gov.pk

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**B**	**D+**	
(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	D	Arrear collection is 30% to 43% and they are significant.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	A	Taxes are paid directly in treasury account through banking system and incase of MVT it is collected by Post office and deposited daily into treasury account
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	B	A	The reconciliation process is carried out monthly

3.71. Among the various tax regimes in Punjab, property tax has the most significant part in arrears. The arrears for property tax have been [26] increasing over the period of time and are not properly recorded in the arrear register. The auditors have pointed out the [27] instances of suppression of arrears and highlight the importance of control over the carrying forward of the arrears. The overall collection against the assessed tax during the year is greater than 80% as per the record provided by the Excise and Taxation. On the other hand the arrears collection is not satisfactory. At the start of any given financial year, the arrears are around 40% to 45% of annual [28]tax assessed which is a material proportion. In case of property tax the debt collection ratio as a percentage of opening arrears is given below:

Table 3.11 Debt Collection

(Pak Rs. in Millions)

Year	Debt Collection Percentage
2006-07	43.3%
2007-08	42.86%
2010-11	32.2%

Source: E&T department arrears' record

3.72. Since the debt collection ratio is low and arrears are significant dimension (i) has been assigned the score of 'D.' This ratio has deteriorated further since last PEFA assessment. Dimension (ii) has the score of 'A' as revenue is directly paid into the treasury through National Bank of Pakistan except for MVT, which is collected by post office and then deposited daily into treasury. Monthly reconciliations are made with Accountant General for tax assessments, collections, arrears and receipts, and any difference is resolved and thus, this dimension (iii) has also rating of 'A'. It is to be noted that the only provincial taxes involving assessment are the Property tax and MVT.

[26] Last two years arrears trend at the beginning of year from E&T department
[27] Audit reports for the year 2006-07 and 2007 - 08
[28] annual average property tax demand/assessed is around Pak Rs.4 billion

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

3.73. Effective execution of the budget, in accordance with work plans, requires that the MDAs receive reliable information in availability of funds within which they can commit expenditure for recurrent and capital inputs.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**A**	**B+**	
(i) Extent to which cash flows are forecast and monitored	A	A	Cash flow forecast is prepared and updated monthly based on actual position as reported in daily bank balances reports provided by the State Bank.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	B	Departments are provided reliable information on ceilings for commitment at least quarterly in advance.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	A	B	There are several in-year adjustments to budget allocation but these are done in a fairly transparent way either at the MDA management level or with their consultation.

(i) Extent to which cash flows are forecast and monitored

3.74. Receipt and Expenditure estimates are prepared and consolidated by the Finance Department during the budget preparation process. On the basis of these estimates, monthly forecasts for inflows and outflows are prepared at the beginning of the year. Subsequently the Finance department monitors the cash position on the basis of daily bank balances report provided by the State Bank. The forecasts have generally been updated on monthly basis during the past financial year. There have been instances where it was not done in one month but more than once in another month. This is done keeping in view the status of actual receipts, payments and balances. Rating is thus 'A' as per PEFA Framework.

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.

3.75. Ceilings for expenditure commitments are provided by the Finance Department through releases of the budget allocations. In 2010-11, releases of the development budget were made quarterly in advance. There were instances where certain MDAs did not require 25% in the first quarter as they had not been able to process the requisite documents for releases in 2010-11. Therefore their releases were adjusted accordingly in the second and the third quarters. In FY 2011-12, releases were made half yearly in advance – 40% in the first half and 60% in the second.

3.76. In case of recurrent budget, the same pattern of release of funds i.e. 40% followed by 60 % in the first and second half of the year is followed for the non-salary recurrent budget. Salary is obligatory payment.

3.77. It is important to note that other than salary, the amount of funds released may vary from the budgetary allocations due to variations in revenue collection, mainly federal transfers. The rating is assigned as 'B' since release schedule is adhered to and the amounts are communicated at least quarterly in advance.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

3.78. Adjustments to budget allocations take place during the year through supplementary grants and re-appropriations which are numerous. The re-appropriations are done at the level of management of MDAs. The Principal Accounting Officer (PAO) of each MDA has the authority to re-appropriate among different lines in the budget grant. Supplementary grants are given by the Finance department on the request of MDAs. Reductions in budget allocation take place either as a result of surrenders by the MDAs or on the application of cost reducing measures which are applied uniformly in a fairly transparent manner. All these changes are incorporated in the budget in May through second statement of surrenders and excesses.

3.79. As in-year supplementary budgets/re-appropriations occur more than once but are done in a fairly transparent manner with the involvement of MDAs, the rating of this dimension is assessed as 'B'. It is mentionable that the amounts involved are significant. During the year 2010-11, the supplementary grants amounted to Pak Rs. 25.6 billion (Voted) and Pak Rs. 61.8 billion (Charged). The most significant pertained to Pension, Relief Irrigation and Police in case of demand voted and Floating debt discharged in case of demand charged.

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

3.80. 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 guarantee can create unnecessarily high debt service costs and can create significant fiscal risks.

Dimension	**Score**		**Brief explanation of status**
	2007	**2012**	
Overall	**A**	**B**	
(i) Quality of debt data recording and reporting.	A	C	Debt flows are reconciled regularly. Foreign debt records are reconciled with EAD annually.
(ii) Extent of consolidation of the government's cash balances	B	B	Cash balance report is received daily from SBP but reconciliation remains a weekly task. Extra budgetary receipts are not consolidated.
(iii) Systems for contracting loans and issuance of guarantees.	A	A	Government's contracting of loans is made against fiscal targets and always approved by single responsible government entity.

(i) Quality of debt data recording and reporting

3.81. In case of domestic debt, there are no reconciliation issues. A classification letter is issued by the Finance Department to the AG regarding all payments against domestic debt and balances are reconciled quarterly. For cash development loans from the Federal Government, payments due are deducted from the federal transfers under NFC award. Other domestic debt balances and flows are reported by the SBP on monthly basis to both the Finance department and AG. A direct stock reconciliation process does not currently occur, but this is being supplemented through other reporting channels.

3.82. Primary custodian of foreign debt data is the Economic Affairs Division (EAD) at the federal level. Payments are made by EAD and the amount is adjusted against federal transfers to the province. Foreign debt stock records are being maintained by EAD and the Finance Department but reconciliation gaps remain. EAD reconciles numbers with the donors and then in turn provides information to provinces annually.

3.83. The debt stock balances are reported in the finance accounts on six monthly and annual bases. The historical rates are applied in case of foreign currency loans in the annual financial statements. Finance department reports the debt stock and repayments through White Paper on annual basis in detail.

3.84. The rating for this dimension is downgraded to 'C' primarily since the reports covering debt stocks are published on annual basis instead of quarterly basis which is required for 'A' rating in this dimension and reconciliation gaps for foreign debt stock records.

(ii) Extent of consolidation of the government's cash balances

3.85. The cash balances of the government are reported by the SBP on daily basis and reconciliation is done by the AG on weekly and monthly basis. Some funds remain outside the consolidation of cash balances i.e. receipts of hospitals etc. The rating for this dimension is maintained at 'B' since the consolidation does not take place daily which is the requirement for a higher rating.

(iii) Systems for contracting loans and issuance of guarantees.

3.86. The Government of Punjab had a domestic debt of Pak Rs. 76.2 billion and a foreign debt of Pak Rs. 416.06 billion on June 30, 2011. The overall ceiling of foreign debt is monitored by the Federal Government. There is a Fiscal Responsibility and Debt Limitation Act at the federal level. There is no such legislation at the provincial level. The Government of Punjab has prepared MTFF (2010-13) which outlines the Government's priorities and estimates of capital receipts for the next three years.

3.87. The provincial government conveys its requirements for foreign debt to EAD. The Federal Government through EAD negotiates the loan in foreign currency alongside the provincial government represented by Planning and Development Department (P&D) and representatives of the provincial Finance Department and the relevant administrative department. The role of each entity regarding the negotiating, contracting, receipt and payment processes is clearly defined. The final approving authority is the EAD. Rating is maintained at 'A' as in the previous PEFA assessment.

PI-18 Effectiveness of payroll controls

3.88. 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).

(i) Degree of integration and reconciliation between personnel records and payroll data

3.89. Payroll is now automated with a GFMIS functional in the entire province. The payroll for more than 95% of the GoPb staff is currently being processed through this system. The detailed personnel records are maintained manually and information necessary for payroll processing is entered into the GFMIS. Changes are fully supported by the personnel record and sufficient controls exist to ensure consistency. Time lag between changes to both records is usually a month. Standard controls include review of change details for comparison with previous payroll data, linkage with payroll structure of applicable category of employee e.g. taxable income, pay and allowances entitlements. The criteria for a rating of 'B' is considered fully met. Rating has improved due to substantial as opposed to only partial coverage of the GFMIS in previous assessment.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**C+**	**C+**	
(i) Degree of integration and reconciliation between personnel records and payroll data	C	B	Changes to payroll information in the GFMIS are fully supported by relevant documentation from the manual personnel records.
(ii) Timeliness of changes to personnel records and the payroll	A	A	Changes impacting the payroll are recorded on a timely manner.
(iii) Internal controls over changes to personnel records and the payroll	B	A	Changes to records are documented with audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	B	C	Auditors usually identify weaknesses in payroll system. Payroll is not subject to specific payroll audits.

(ii) Timeliness of changes to personnel records and the payroll.

3.90. Changes to personnel data impacting the payroll are required to be supplied to the payroll processing units without delay. All changes received by the 10th of the month are incorporated in the same month while those received thereafter are processed in the following month's payroll. Retroactive changes are very rare and made only where arrears of allowances or salary increments are made effective from a previous date as per authorization or orders of court or establishment. Though data is not available but such changes are very few and applicable in individual cases and are certainly below 3% of the payroll. Rating is therefore maintained at 'A'.

(iii) Internal controls over changes to personnel records and the payroll.

3.91. Changes in the master data of payroll system in GFMIS are made only on written authorization of concerned competent authorities. Profiles for making such changes in the GFMIS are restricted. Detailed pre-audit and validation of the change forms is done to ensure that authorization is in place. The change authorization documents are signed by pre-audit officer and entered by the computer operators. Each change made is logged in the system. All changes made in the system are re-checked and verified by the accounts officer in charge on a daily basis. No change in personnel records can be made without complete documented approval of competent authorities. Audit trail is available for changes made and the rating is thus improved to 'A'.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.

3.92. The DDOs are responsible for ensuring that only eligible employees continue to remain active in processed payrolls. Payroll is subject to external audit by AGP, wherein payroll is part of the scope of the audit. As per audit procedure of AGP audit of each entity of provincial government is conducted at least once in three years. However, no effective internal audit function exists. Monthly list of employees, with their remunerations are sent to the PAO who should certify accuracy on monthly basis. Since no specific payroll audit has been conducted in the last three years, the rating is assigned as 'C'.

PI-19 Transparency, competition and complaints mechanisms in procurement – Revised 2011

3.93. The assessment criteria for this Performance Indicator has been completely revised since last PEFA assessment in 2007 and results of the current assessment following new guidance cannot be directly compared with the previous assessment. The new PI 19 is based on the OECD-DAC Methodology for Assessing Procurement System (MAPS).

Dimension	**Score**		**Brief explanation of status**
	2007	**2012**	
Overall	NA	**D**	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	NA	C	The legal framework meets three of the six listed requirements.
(ii) Use of competitive procurement methods.	NA	D	No consistent and reliable data is available to make a detailed scoring of this dimension. Audit observations highlight use of other than competitive method of bidding without proper justification.
(iii) Public access to complete, reliable and timely procurement information.	NA	D	Complete and reliable data is not available for 3 out of 4 key information sets.
(iv) Existence of an independent administrative procurement complaints system.	NA	D	An independent administrative procurement complaint mechanism is not available

3.94. The Punjab Procurement Regulatory Authority Ordinance, 2007 (Ordinance) established the Punjab Procurement Regulatory Authority (PPRA). The Punjab Procurement Rules (PPR) were notified under this Ordinance on October 2, 2009. The Punjab Procurement Regularity Authority Act was promulgated in November 2009 which repealed the Ordinance. The PPRA Board is headed by the Chief Secretary and comprises of the secretaries for Finance, P&D, Health, Information Technology, and Irrigation and Power; three members of the provincial assembly; the Managing Director PPRA and three members from Lahore Chamber of Commerce and Industry. PPR is applicable to all government entities whether autonomous or otherwise. It defines standard procurement process and guides contracting authorities in applying the assessment and in completing and processing tender documents.

3.95. While the PPRA has been provided an administrative structure with 36 officers, the functional capacity of PPRA is rather skeletal. For a long time the authority comprised only a Managing Director, and quite recently two officers have been posted at the Director and Deputy Director level. The first meeting of the PPRA Board was held on May 17, 2012.

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.

3.96. The Punjab Procurement Rules (PPR), 2009 refer to implementing regulations and Standard Bidding Documents but these are yet to be developed. A draft of the documents has been prepared but was not notified until June 2012.

3.97 Regarding public access to procurement information, PPRA rule (section 47) stipulates disclosure of evaluation and award after contract award. This neither specifies the actual documents required to be disclosed, nor does it cover procurement plan and complaints data.

3.98 The dimension is scored according to how the requirements listed in the table are met. Three out of six requirements have been met which gives a 'C' score.

Table 3.12 Status of Compliance with Requirements for Procurement Legal and Regulatory Framework

The legal and regulatory framework for procurement should:	Status
(i) be organized hierarchically and precedence is clearly established;	Requirement not met
(ii) be freely and easily accessible to the public through appropriate means;	Requirement met
(iii) apply to all procurement undertaken using government funds;	Requirement met
(iv) make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	Requirement met
(v) provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	Requirement not met
(vi) provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Requirement not met

(ii) Use of competitive procurement method

3.99. Since PPR was issued in October 2009, the assessment team reviewed the latest regularity audit reports of Government of Punjab for scoring under this sub-element. The audit observations relating to procurement were considered. The auditors have identified instances of procurement following non-competitive method amounting to Pak Rs. 135 million from overall sample selected for regularity audit of FY 2009-10. The scope of the audit is extensive and not focused particularly on procurement. It is therefore not possible to extrapolate this figure. Due to lack of reliable data, it is not possible to assign specific percentage for contracts awarded on other than competitive method with proper justification. For the sub-rating element (ii) a score of 'D' is assigned.

3.100. Almost all audit observations highlight inability of government departments to follow PPRA rules on following counts of non-compliance with PPR:

1. Procurement mode other than competitive process (Rule 42 of PPR) without providing any justification.
2. Lack of detail specification to allow widest possible competition as per Rule -10.
3. Instances of splitting to avoid higher approval authorities according to Rule -9.
4. No practice of preparation of procurement plans by the departments under Rule-8.

(iii) Public access to complete, reliable and timely procurement information.

3.101. The GoPb is still in the process of developing a system that can ensure the public disclosure of all or substantial procurement information. Although, the avenue of PPRA website is provided to increase public accessibility to the information, however it is currently not being optimally utilized for the said purpose. Currently it is limited to the extent of bidding opportunities/advertisement.

3.102 The dimension is scored in accordance with public availability of the key procurement information listed below through appropriate means. Since the government currently lacks a system to generate substantial and reliable coverage of key procurement information, the dimension is rated 'D'.

1	Government procurement plans.	Requirement not met
2	Bidding opportunities.	Requirement met
3	Contract awards.	Requirement not met
4	Data on resolution of procurement complaints.	Requirement not met

iv) Existence of an independent administrative procurement complaints system.

3.103. A legal framework provides for the establishment of a complaint cell but fails to highlight the independence of the system. Section 48 of PPRA Rules provide for establishing a committee for grievance redress by the procuring agency but does not provide for an independent review process for handling procurement complaints. Currently the procurement review bodies/committees are ad-hoc and appointed by the head of department of the procuring agency. A clear procedure and processes for independent grievance redress system are lacking.

3.104. This dimension is scored according to how the following requirements are fulfilled by the body reviewing procurement complaints. The complaints system only meets one criterion and does not meet criteria 1 and 2 which gives a scoring of 'D'.

1	Comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;	Requirement not met
2	Not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Requirement not met
3	Does not charge fees that prohibit access by concerned parties;	Requirement met
4	Follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Requirement not met
5	Exercises the authority to suspend the procurement process;	Requirement not met. Clause 48 of PPR that relates to complaints management does not mention the authority to suspend the procurement process.
6	Issues decisions within the timeframe specified in the rules/regulations; and	As per Section 48 sub clause 3 of PPR, within 15 days from the lodge of complaint. No evidence available to verify.
7	Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Requirement not met.

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

3.105. 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.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**C+**	**C+**	
(i) Effectiveness of expenditure commitment controls	B	B	Expenditure commitment controls are in place and effectively limit commitments to actual cash availability.
(ii) Comprehensiveness, relevance and understanding of other internal control rules / procedures	C	C	Other controls exist for basic areas which are clearly understood by the persons involved. Some overlaps and gaps exist due to lack of regular review and update of the applicable controls.
(iii) Degree of compliance with rules for processing and recording transactions	A	C	Compliance is observed in significant majority of transactions but audit reports note several instances of use of simplified procedures without adequate justification.

(i) Effectiveness of expenditure commitment controls.

3.106. Expenditure commitment controls are exercised through pre-audit of all transactions. The availability of budget allocations for commitment is limited to expenditure ceilings determined through releases by the Finance Department which are done in accordance with cash forecasts. No bill is accepted for payment processing without sufficient budget allocation in place. Budget check is applied at the first step in bill processing to all non-salary payments. Any claim with insufficient budget release is rejected at the first instance without exception and is not accepted by the GFMIS. This works effectively to limit commitments to actual approved budget releases. Therefore a rating of 'B' is applicable.

(ii) Comprehensiveness, relevance and understanding of other internal control rules / procedures.

3.107. The Government's internal control system for expenditure is based on a series of regulations including the New Accounting Model (NAM), Punjab Financial Rules, Treasury Rules, Delegation of Financial Powers and Rules of Business. Most of these regulations had been enacted a few decades back but have undergone several revisions from time to time. These need to be reviewed and aligned to ensure consistency internally as well as with the existing organizational and institutional structures in government. There are duplications of approvals and multiple reporting leading to inefficiency in staff usage since new instructions are often issued without revoking previous guidance. Some rules being excessive are also poorly understood as the capacity in the line departments is weak. Currently Finance department is in the process of updating certain rules in line with generally accepted best practices.

3.108. The audit reports of previous years note that the rules and procedures are understood well by those directly involved in their application but not by those in the spending units. It has been highlighted in the audit reports that control consciousness within departments is insufficient and capacity building of financial managers is required. Therefore a rating of ‘C’ is assessed for dimension (ii).

(iii) Degree of compliance with rules for processing and recording transactions

3.109. Compliance with rules is fairly high. Rules for recording and reporting transactions are complied with the government in a significant majority of transactions. The Audit Year Reports 2008-09, 2009-10 and 2010-11 contain numerous audit observations of non-compliance of rules and regulations without adequate justifications, though the amounts involved are not always significant. The audit reports have stated weak internal controls, the absence of an internal process to report deficiencies in internal controls to the management on timely basis and nonexistence of internal audit function as the main reasons for the non-compliance reported. Therefore a rating of ‘C’ is assessed.

PI-21 Effectiveness of internal audit

3.110. Regular and adequate feedback to management is required on the performance of the internal control systems. This can ideally be done through an internal audit function which, to be effective, should meet international standards regarding independence and methods used.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**D**	**D**	
(i) Coverage and quality of the internal audit function	D	D	Internal audit function focusing on systems monitoring and generating related reports not in place.
(ii) Frequency and distribution of reports	D	NA	As a consequence of (i) no reports are issued.
(iii) Extent of management response to internal audit findings	D	NA	As a consequence of (i) and (ii) this dimension becomes irrelevant.

(i) Coverage and quality of the internal audit function.

3.111. The internal audit function exists in certain AGAs and PEs operating under corporate legislation. These are not effectively functional in core provincial government entities. An internal audit manual, in accordance with the professional standards remains in draft and is yet to be issued. At the district level, Punjab Local Government Ordinance has authorized district Nazims to appoint internal auditors. In the absence of Nazims most of the posts are vacant and the envisaged internal audit function could not be established. The score is thus ‘D’.

(ii) Frequency and distribution of reports

3.112. In view of the dimension (i) above, there is no evidence of reports being generated.

(iii) Extent of management response to internal audit findings

3.113. In absence of an operational internal audit function and the related reporting this dimension becomes irrelevant.

E- Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

3.114. 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.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**B**	**B**	
(i) Regularity of bank reconciliations	B	B	Reconciliation of all government's central bank accounts is undertaken regularly (weekly and monthly) between accounts office and the Banks.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B	B	Monthly clearing house meetings are scheduled for all the accounting offices for reconciliation across the provincial governments and district governments.

(i) Regularity of bank reconciliations.

3.115. Since 2009-10, most cheques issued by the accounts offices are being generated through the GFMIS. These paid cheques are received back from the bank along with the bank scroll on daily basis. The reconciliation procedures between book balance and the bank balance takes place on a weekly basis. This is supplemented by month-end reconciliation procedures for tracking overall outstanding cheques.

3.116. Cheque books for special accounts such as Special Drawing Accounts (SDA) are issued manually by the treasury offices. These cheques are submitted to accounts offices for endorsement. The expenditure and cheque is booked by the treasury at the time of endorsement and the payee presents the cheque to the bank for the payment. Subsequently the paid cheques are received back daily with the bank scroll and entered into the GFMIS for reconciliation by accounts offices on a weekly basis.

3.117. Reconciliation is also being done on monthly basis for receipt and payment between accounts offices and the Banks. Holders of SDAs are required to reconcile expenditure with accounts office every month and receipts are also being reconciled with the relevant departments.

3.118. Reconciliation items are pursued during the subsequent period and cheques outstanding for more than three months are reversed in the GFMIS. Further cheques not encashed by June 30th are reversed on the basis of bank statement received.

3.119. Despite the regular reconciliation procedures, differences remain for which complete age analysis is not available. As at June 30, 2011, cumulative difference of AG books and the Bank statement for Provincial Government accounts (1,2 and 3) amounted to Pak Rs. 15.39 billion (excess in books) and for the District Government's account IV, the difference stood at Pak Rs. 18.27 billion (excess in bank). Upon consolidation both the accounts depict a net difference of Pak Rs. 2.88 billion (excess in bank). However, the differences on annual basis have recently reduced to around Pak Rs. 1 billion. This difference has reduced to Pak Rs.675 Million in 2010-11 for that particular year. Further improvement is expected going forward as the GFMIS generated cheques are now being used for all payments except those through SDA. This will improve the reconciliation process through availability of the audit trail and accurate identification of reconciliation items.

3.120. Despite the regular reconciliation procedures, the rating is assessed as ‘B’ pending clearance of historical reconciliation differences. Further, the accounts maintained by certain government entities in scheduled banks are not reported at the provincial level.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances.

3.121. In addition to the bank reconciliation procedures, there are monthly clearing house meetings of all the accounting offices for reconciliation across the provincial governments and district governments. Monthly reconciliation of receipt and expenditure is carried out between the administrative departments and the accounting offices on the basis of monthly civil accounts. Suspense account balances relate to central procurement of items (bitumen), inter government expenditures, employee related balances/expenditure booked upon transfer, advances provided etc. As per the AG report there are no material suspense accounts balances remaining in the books and suspense items are cleared regularly on monthly basis. The monthly reconciliation of the suspense accounts merits a ‘B’ rating for (ii) dimension.

3.122. Referring to the reconciliation between accounts offices and the administrative departments, no major change has been observed over the last three years. In 2010-11 the overall reconciliation of expenditure and receipts reached 95% level. Fiscal Monitoring Committee (FMC) chaired by the Minister for Finance has been meeting intermittently to consider the status of reconciliations. However there are two areas which require particular attention for reconciliation improvement i.e. non-tax revenue (provincial receipts 56%) and development expenditure (82%).

PI- 23: Availability of information on resources received by service delivery units

3.123. The indicator is measured by collecting 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 (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.

Dimension	Score		Brief Explanation of status
	2007	2012	
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 (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	B	A	Accounting system provides complete and reliable information about resources received by the health care and primary education units. Annual reporting is available on resources received by the service delivery units in GFMIS.

3.124. Since last assessment in 2007 the GFMIS connectivity has been provided to all line departments. This has ensured that all budgetary resources available and consumed are captured within the government financial system. Each government department now enters its budget into the system, performs re-appropriation after obtaining necessary approvals and monitors spending against budget. The service delivery units for health and education sectors can also get their up to date budget reports from the district account office in the corresponding districts. The Department of Health has two separate GFMIS units for both development and non-development budget with dedicated individuals. Each service delivery unit can check its budgetary resource position through reports generated from GFMIS.

3.125. In the health sector there are federally and provincially funded vertical programs through which federal and provincial governments intervene in social sectors like health and education through specially designed programs. These programs may involve release of resources directly to provincial department or to district government vis-à-vis service delivery units. These financial resources are provided through tied grants and are traceable in GFMIS down to the service delivery units.

3.126. In the case of education, contribution in kind from the province mainly constitutes the following for which monitoring and reporting systems are in place:

- Text books;
- Teaching staff of grade 17 and above which is recruited and paid at the provincial level;
- Cash transfers -
    - Grants to School Management Committees
    - Stipends to girl students in selected districts

3.127. In addition the School Education Department with the Finance Department is starting a decentralized resource management initiative which will be piloted in FY2012-13 for increasing the delegation of financial powers and moving towards school-specific budgets.

3.128. Using PEFA scoring methodology the rating for this indicator has been upgraded to 'A' as compared to 'B' in 2007. The main reason for this improvement is the province-wide implementation of GFMIS which has enhanced the ability of the government to track the resources destined for service delivery units.

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

3.129. Ability to "bring in" the budget requires timely and regular information on actual budget performance to be available both to the Finance Department 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.

Dimension	**Score**		**Brief explanation of status**
	2007	**2012**	
Overall	**C+**	**C+**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Same chart of accounts is used for both budget formulation and recording execution. Recording of commitment information is being rolled out, but currently expenditure is fully captured at only the payment stage.
(ii) Timeliness of the issue of reports	A	A	During the year budget execution reports are prepared on monthly basis and made available within three weeks after the end of the month.
(iii) Quality of information	B	B	Data is generally accurate with some errors highlighted in reports.

(i) Scope of reports in terms of coverage and compatibility with budget estimates.

3.130. The usage of the GFMIS, application of NAM and capacity building of accounting staff has strengthened the financial reporting mechanism. The usage of a uniform chart of accounts for budget formulation and execution at provincial and district level enables uniform classification of data and direct comparison with the original budget estimates. Commitment and liability accounting, provided for in NAM, is still not fully enforced. Expenditure is fully captured only at the payment stage. At the year-end all un-presented cheques and related expenditure is reversed and any liabilities not fully provided for in the next budget cannot be honored. As expenditure is not fully covered at both commitment and payment stage, a rating of 'C' is given for dimension (i).

(ii) Timeliness of the issue of reports.

3.131. During the year budget execution reports are prepared on monthly basis and made available within three weeks of the month-end. Monthly civil accounts are prepared on the basis of these reports and posted on the Finance Department website. Viewing access to the GFMIS is available to line departments who can generate financial reports at any time to facilitate analysis and decision-making. A rating of 'A' is given for dimension (ii).

(iii) Quality of information.

3.132. The data fed into the GFMIS is generally accepted as accurate and credible. Sometimes classification or input errors occur, but these are not common and do not compromise the overall usefulness. A rating of 'B' is maintained for this dimension (iii).

PI-25 Quality and timeliness of annual financial statements

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**B**	**C+**	
(i) Completeness of financial statements	B	C	Annual Financial statements include complete information on revenue and expenditure but financial assets and liabilities are not fully covered.
(ii) Timeliness of submission of the financial statements	B	A	Annual Financial Statements are submitted well within 6 months from the end of the financial year.
(iii) Accounting standards used	B	C	So far, GoPb has adopted the format of Cash basis IPSAS for presentation of financial statements however other aspects of IPSAS have not been implemented yet.

(i) Completeness of financial statements

3.133. A consolidated set of annual financial statements is prepared by the AG for GoPb in accordance with the guidance in NAM. Information pertaining to receipts and expenditures is complete but as stated in Note 3 of the Financial Statements " Commitment, asset and liability accounting practices have not yet been implemented and memorandum register for assets and commitments do not exist and accounting for liabilities is not done in accordance with NAM." As regards bank balances there are un-reconciled balances as described in PI-22. Information in respect of donor-funded special projects is only received partially and that too as single line items without details. A rating of 'C' is therefore given to this dimension.

(ii) Timeliness of submission of the financial statements

3.134. The annual financial statements are prepared and submitted for external audit within six months of the end of the fiscal year. The CGA issued time bound detailed instructions[29] for the closing of Accounts and compilation of Annual Financial Statements, finance accounts and appropriation accounts for the year 2010-11. This was subsequently followed by a review of the status as on September 29, 2011. The AG submitted the FY 2010-11 financial statements and accounts to audit by end of August 2011. A rating of 'A' is therefore given for dimension (ii).

[29] Office of CGA letter No.: 130-comp-1/4-1/2011 dated March 26, 2011.

(iii) Accounting standards used

3.135. The financial statements of GoPb are prepared, compiled and presented in a format that is in accordance with the Cash basis IPSAS. The financial statements are presented in a consistent format and relevant financial regulations are being followed. However, adoption of IPSAS is so far restricted to the format of financial statements. Gaps remain in the full implementation of the accounting procedures. A rating of 'C' is therefore given for this dimension.

F - External scrutiny and audit

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

3.136. 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, 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 would also be expected of a high quality audit function.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**D+**	**B**	
(i) Scope/nature of audit performed (including adherence to auditing standards)	C	B	Provincial entities representing more than 75% of the expenditure are annually audited. INTOSAI auditing standards are adopted but some aspects are only partially implemented.
(ii) Timeliness of submission of audit reports to legislature.	D	B	Audit reports are submitted within 8 months from the end of financial year.
(iii) Evidence of follow up on audit recommendations	B	B	Response is timely but systematic follow up remains weak.

(i) Scope/nature of audit performed (including adherence to auditing standards)

3.137. Article 169 and 170 of the Constitution provide for the external audit of the provincial governments to be carried out by the AGP. The constitutional mandate is elaborated through the Auditor General Ordinance 2001. A Financial Audit Manual (FAM) adopted in 2005 was commissioned in June 2006 by the Auditor-General of Pakistan for use in Field Audit Offices (FAOs) for conducting Certification and Compliance with Authority audits. The said Manual was revised in March 2010. Sectoral Guidelines for audit were also developed and are implemented.

3.138. FAM is based on the INTOSAI Auditing Standards and international best practices and is generally compliant with International Auditing Standards. It covers the entire audit cycle and provides guidance with regard to the methods and approaches to audit that can be applied by auditors for conducting the audit of government entities in Pakistan. Whilst transaction audits are undertaken, a risk-based approach has been adopted and is required to be properly documented. Systemic analysis including internal control issues are required to be looked at. The audit personnel are trained on a continuing basis in the use of the risk-based and systemic approaches to audit. Desk-audit exercise was carried out to identify high risk entities and specific transactions.

3.139. The audit of Provincial Departments and entities is carried out by the Director General (Civil Audit), while the Director General Audit (Works) is responsible for the audit of the Irrigation and Power, Communication and Works, Housing, Urban Development and Public Health Engineering, Local Government and Community Development and Planning and Development (P&D) Departments. Furthermore, audit of construction and works portion of Health and Education Institutions is also conducted by this Directorate. The Director General District Audit is responsible for District Governments and, since 2010, the Tehsil Municipal Administration Audits. The applicability of the FMA is still to be fully rolled out at the Tehsil level. A rating of 'B' is maintained.

(ii) Timeliness of submission of audit reports to legislature.

3.140. External audit is being conducted in a timely manner as is evident from the table below. A rating of 'B' is therefore maintained for this dimension.

Table 3.13 Timetable for External Audit of Provincial Accounts

Financial Year ending	Audit Year	Date Sent to Governor for causing it to be laid before Parliament	Period between Financial year end and Submission
June 30, 2009	2009-10	25 February 2010	Less than 08 months
June 30, 2010	2010-11	27 February 2011	Less than 08 months
June 30, 2011	2011-12	18 February 2012	Less than 08 months

(iii) Evidence of follow up on audit recommendations

3.141. Commitment from the AGP for timely submission of audit report and effective operations of the Public Accounts Committee (PAC) during past years have been a driving force in substantially improving formal response from the executive. Audit observations are communicated to auditee and a formal response is requested within a defined time period. There is evidence to support that formal response to audit observations has been made during the last three years. Audit observations which remain unresolved are sent to the PAC for its scrutiny and directions. A rating of 'C' is therefore given for dimension (iii).

PI-27 Legislative scrutiny of the annual budget law

3.142. 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 effectively exercised and will undermine the accountability of the government to the electorate.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**D+**	**D+**	
(i) Scope of the legislature's scrutiny	A	A	The legislature's review covers fiscal policies, MTFF and medium term priorities as well as details of expenditure and revenue.
(ii) Extent to which the legislature's procedures are well-established and respected	B	B	The procedure for legislature's budget review is simple, well-established and respected.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro - fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	The budget proposal is presented to and adopted by the legislature within the month of June thereby allowing less than one month.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	C	The rules are clear and respected. These allow both extensive reallocation and expansion of total expenditure.

(i) Scope of the legislature's scrutiny

3.143. The legislature's review covers fiscal policies, MTFF and medium term priorities as well as details of expenditure and revenue; The legislature receives comprehensive budget documentation including a comprehensive White Paper on budget and other reform matters. The legislature is also involved in pre-budget discussions to determine current expenditure and development priorities in the light of the MTFF. Therefore rating of 'A' is maintained.

(ii) Legislative Procedure for Budget Review

3.144. The Annual Budget statement for the next fiscal year, revised budget statement together with the Supplementary budget for the previous year and the Punjab Finance Bill, if any, are presented to the legislature on the appointed day in June each year by the provincial Minister for Finance. The procedure for legislature's budget review is simple and respected, and involves a general discussion, moving of cut motions and proposals from members only and voting thereupon but without being referred to any specialized committees for the purpose. The cut motions and proposals are responded to on the floor of the House and also voted upon. A rating of 'B' is therefore maintained.

(iii) Time for review of Budget Proposals

3.145. The budget is both presented and adopted within the month of June thereby allowing less than a month for the general discussion. For FY 2012-13, the budget was presented on June 9, 2012. In all previous three years, the budget is adopted prior to the start of the fiscal year. Accordingly, the rating is maintained at 'D'.

(iv) In-Year Budget Amendments by Executive

3.146. The Punjab Budget Manual 2008 describes the authority of the Provincial Government in the matter. It states "The Provincial Government shall have power to authorize expenditure from the Provincial Consolidated Fund whether the expenditure is charged by the Constitution upon that Fund or not and shall cause to be laid before the Provincial Assembly, a Supplementary Budget Statement." Chapter 15 of the Budget Manual lays down the rules under which re-appropriations may be made and defines the competent authority. The powers lie with Executive but the approval from the legislature is sought ex post facto near the end of the particular year along with the budget for the oncoming year. The rules are clear and respected. But as the approvals are sought post facto and allow expansion of total expenditure in addition to re-appropriation, a rating of 'C' is assigned.

PI-28 Legislative scrutiny of external audit reports

3.147. 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; in this case the Public Accounts Committee (PAC) 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 PAC may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors.

Dimension	**Score**		**Brief explanation of status**
	2007	**2012**	
Overall	**D+**	**D+**	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years);	D	D	The PAC of the Punjab Legislature is currently reviewing the audit reports of 2009-10 and 2003-04 (latest and earliest). Review of reports received within the last 3 years has not been completed within 12 months of receipt.
(ii) Extent of hearings on key findings undertaken by the legislature	A	A	Exhaustive hearings are held with the responsible officials on the key audit findings.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	D	B	Some compliance of directives issued by the PAC occurs but there is still a large volume of outstanding directives.

(i) Timeliness of examination of audit reports by the legislature

3.148. The Auditor General of Pakistan, as independent external auditor, audits provincial and district governments in the province and submits audit reports to the Governor who then lays these before the provincial assembly for legislative scrutiny. The Public Accounts Committee (PAC) is currently reviewing the audit reports of 2009-10 and 2003-04 (latest and earliest). The legislature has set up two PACs which in turn have also formed sub-committees to deal with the back log and the current reports. PAC-1 is currently deliberating audit report for 2009-10 while PAC–II is dealing with the 2006-07 audit report. A sub-committee of PAC –II is currently examining the audit reports of 2003-04 and 2005-06 and the Appropriation Accounts of 2004-05. The back log is still more than six years, having been brought down from over 11 years as reported in 2007 PEFA assessment. No formal report of the Public Accounts Committee has, as yet, been released. The rating for this dimension is therefore maintained at 'D'.

(ii) Extent of hearings on key findings undertaken by the legislature

3.149. The hearings on the key audit findings in the PAC are exhaustive with the responsible officers of all audited departments and representatives of the AGP, AG and Finance Department in attendance. The hearings are also open to the media. The meetings are held regularly. Rating of 'A' is therefore maintained.

(iii) Issuance of recommended actions by the legislature and implementation by the executive.

3.150. The compliance of the directives of the PAC, by the executive, still needs to be made more effective as indicated by the outstanding observations awaiting compliance. A Statement of Compliance on Directives of Provincial Public Accounts Committee is included in the beginning of audit reports which reports status of progress. The status as per the 2009-10 report reflects a 43.75% compliance of all directives since 1985-86. The percentage of compliance with the directives of the PAC in the three years to 2009-10 is under 20%. Whilst a Committee headed by the Additional Chief Secretary has been formed to ensure implementation, the effectiveness thereof remains to be seen. The compliance is not deemed complete until verification by the audit department occurs. In view of the efforts being made to ensure compliance a rating of 'B' is assessed.

G – Donor Practices

D-1 Predictability of Direct Budget Support

3.151. The Government of Punjab receives foreign aid either as budget support for a specific sector programme or as project specific aid. In the former case, disbursement is linked with certain benchmarks or performance indicators and funds are received in Provincial Consolidated Fund Account I. All bilateral or multi-lateral loans/credits are signed by the Economic Affair Division (EAD) on behalf of the Federal Government which provides the sovereign guarantee for each debt instrument. These loans are re-lent to provinces on the same terms and condition with Exchange Risk Cover (ERC) borne by the province. All budgetary support loans are booked as capital receipts under the head, permanent foreign debt.

Dimension	**Score**		**Brief explanation of status**
	2007	**2012**	
Overall	**A**	**D**	
(i) Annual deviation of actual budget support from the forecast provided by donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	A	D	In two of the last three years the budget outturns fall short of the forecast by more than 15% (2008-9: 55%, 2009-10: -2% and 2010-11: 67%).
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	A	D	No disbursement schedule is available by quarter.

(i) Annual deviation of actual budget support from the forecast provided by donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.

3.152. In the last three years GoPb has received major budget support loan/special investment loan from the World Bank for Punjab Education Sector Project and from Asian Development Bank for Punjab Government Efficiency Improvement Program and Punjab Millennium Development Goal. As shown in the following table (Table 3.14), there is a short fall of more than 15% in two of the last three years resulting in a 'D' rating. In 2008-09 shortfall is due to prolonged loan negotiations and delay in implementation that resulted in actual disbursement spilling over to the next financial year. During 2010-11 the inflow from ADB was severely affected due to non-issuance of letter of comfort by IMF. During that period the only funding received by government of Punjab was against the Punjab Education Sector Reform Program funded by the World Bank, DFID and CIDA. Discussions with GoPb indicated that budget support forecast have not materialized due to weak macroeconomic performance at the country level.

Table 3.14 Budget Support Profile of GoPb

(Pak Rs. In Millions)

Budget Support Program / Loan	**2008-09**		**2009-10**		**2010-11**	
	Budget	Actual	Budget	Actual	Budget	Actual
Large Cities Development Policy Loan	-	-	5,600	-	4,325	-
Punjab MDG Attainment Program	7,000	7,611	8,800	12,950	12,975	-
Punjab Education Sector Reform Program	-	-	8,640	9,856	9,429	13,050
Punjab Government Efficiency Improvement Project	10,000	-	11,600	12,480	12,975	-
Total	**17,000**	**7,611**	**34,640**	**35,286**	**39,704**	**13,050**
Variance amount	- 9,389		646		- 26,654	
Variance %	55 %		2 %		67 %	

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

3.153. Budget support generally comes in tranches linked with achievement of certain targets set at the time of loan signing. Government of Punjab does not have formal time schedule for disbursement by quarter. In such cases the disbursement is dependent upon meeting pre-determined indicators. Under such arrangement progress report is submitted by the designated officer along with withdrawal application. For the purpose of forecasting disbursement, the Planning and Development (P&D) Department usually consults with the program/sector coordinator to ascertain the implementation status and projected progress. The process can further be delayed due to lengthy approval process at donors. In the absence of any disbursement schedule by quarter as required by PEFA framework the score of 'D' is assigned.

D-2 Financial information provided by donors for budgeting and reporting on project and programme aid

3.154. The budget estimates are forecast by project executing authorities, and are agreed with donors. The Foreign Aid section of the P&D Department then consolidates the input for inclusion in the Annual Development Plan (ADP). The executing agencies prepare the 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.

Dimension	**Score**		**Brief explanation of status**
	2007	**2012**	
Overall	**B+**	**D+**	
(i) Completeness and timeliness of budget estimates by the donor for project support	A	D	At least half of the donors provide complete budget estimates but very few donors provide three months prior to government fiscal year.

(ii) Frequency and coverage of aid flow by donors	B	C	Donors provide disbursement details to EAD at federal level. GoPb does not receive any direct report from donors.

(i) Completeness and timeliness of budget estimates by donors for project support

3.155. Major donors including Asian Development Bank, the World Bank, JICA and DFID provide budget estimates to the government. Foreign aided projects are disbursed under revolving fund account arrangements and do not necessarily use government CoA. Each donor prepares financial projections and sets disbursement targets according to its' own financial year-end (Table 3.15). The score for this sub element is 'D' since the disbursement estimates are not communicated by all major donors 3 months prior to the start of the GoPb fiscal year.

Table 3.15 Donor's Financial Year End

Donor	Financial Year End
DFID	March 31
World Bank	June 30
JICA	September 30
Asian Development Bank	December 31

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

3.156. Donors provide progress and disbursement reports to the Economic Affairs Division at the federal level. These reports are not regularly passed on to the province. The funding information is usually made available through quarterly/semi-annual project review missions conducted by donors. In case of Asian Development Bank and the World Bank, the project authorities can check the status of disbursements in real time through web based portals. However, the information is not consistent with government budget classification. This dimension is given the rating of 'C'.

Table 3.16 Summary of Donor Reporting Practices

1	The donor provides complete budget estimates for disbursement of aid.	Yes
2	These estimates for disbursements for projects that are provided are made at stages consistent with the government's budget calendar.	Yes for at least half of the donors
3	These estimates for disbursements for projects that are provided are made with a breakdown consistent with the government's budget classification.	No
4	The donor presents quarterly reports on disbursements within one month of end-of quarter.	Yes, to EAD at federal level
5	The quarterly reports presented have a classification consistent with the government's budget classification.	No

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

3.157. 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 i.e. 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.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall proportion of aid funds to government that are managed through national procedures	A	A	90% or more of aid funds managed through national procedures.

(i) Overall proportion of aid funds to government that are managed through national procedures

3.158. As the foreign assistance portfolio of the province is comprised of projects/programs aid, the likelihood of national procedures use is rather elective in the areas specified by the PEFA framework namely banking, authorization, procurement, accounting, audit, and disbursement and reporting arrangements. Donors are able to negotiate to some extent over the disbursements and reporting arrangements, procurement and audit. However, with the introduction of Project to Improve Financial Reporting and Auditing (PIFRA) at federal and provincial government level, the trust of development partners is shifting towards the use of national procedures. An increasing trend of adoption of Punjab PPRA Rules for procurement is also observed, as stressed by the GoPb to increase transparency in procurements, which are keenly followed and reported on by the Transparency International Pakistan as well. Budgetary support being the main funding mechanism employed by the foreign donors and financial institutions, the reliance on national/provincial procedures has increased over the past few years. In 2010-11, foreign funds were solely disbursed for programs using national procedures.

H – Central Government Practices

HLG-1 Predictability of Transfers from Higher Level of Government

3.159. Transfers from higher level of government (HLG), federal government in this case, and shared revenues constitute major sources of revenue for GoPb. Poor predictability of inflows of these transfers affects the provincial government's fiscal management and its ability to deliver services. Shortfalls in the total amount of transfers from higher level of government and the delays in the in-year distribution of the in-flows can have serious implications for the provincial government's ability to implement its budget as planned. Shortfalls in earmarked grants such as sector or project grants can have an additional effect on particular sectors as it has a direct impact on the service delivery units.

3.160. Draft guidelines for application of the PEFA Framework at the sub-national (SN) government level were issued in March 2008. These guidelines provide for an additional indicator – HLG-1 where the sub-national government is highly dependent upon transfers from the higher level of government. This indicator was therefore not scored in the 2007 PEFA assessment. In the current assessment the scoring has been done in accordance with the criteria in the 2008 draft guidelines the final version of which is yet to be issued.

Dimension	Score		Brief explanation of status
	2007	2012	
Overall	**NS**	**D+**	
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	NS	B	The annual deviation falls short by more than 10% once in last three years.
(ii) Annual variance between actual and estimated transfers of earmarked grants.	NS	D	The annual variance exceeded the overall deviation in transfers by more than 10 percentage points in the last three years.
(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year).	NS	A	The actual weighted disbursement delays have not exceeded 25% in more than one of the last three years.

(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.

3.161. The annual deviation between the budgeted and the actual transfers from the Federal Government is calculated to be – 10.61 % in FY 2008-09, 3.76 % in FY 2009-10 and -5.71 % in FY 2010-11 (see Table 3.17 below). As the annual deviation has fallen short by more than 10% only once in the last three years, this dimension is scored 'B'. The lower deviation in the budgeted and actual figures shows that GoPb is able to acquire funding information timely and accurately, which aids in budget formulation and effective execution.

Table 3.17 Annual HLG Transfers

(Pak Rs. in millions)

Budget Revenue Heads	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Revised
Taxes on Income	112,521	95,760	130,107	128,308	177,942	167,724
Sales Tax	93,590	90,808	102,344	105,617	165,814	161,704
Federal Excise	25,072	25,930	32,076	28,495	41,549	38,115
Customs Duties	39,754	34,629	40,287	40,050	50,199	51,041
Wealth Tax	-	-	-	4	-	6
Capital Value Tax	1,550	606	1,768	1,023	1,335	290
GST on Services (Fed.CED)	12,152	9,954	14,440	14,592	-	30,130
Royalty on Crude Oil	2,597	2,566	1,429	1,863	2,792	3,848
Surcharge on Gas	1,018	584	1,631	1,187	1,178	2,151
Excise Duty on Gas	367	283	351	292	407	543
Royalty on Gas	956	1,076	1,214	949	1,886	1,394
GST on services (Provincial)	3,182	3,010	8,759	2,683	51,155	3,858
Other (Electricity profit on hydel projects)	-	-	-	13,000	5,166	5,166
Federal Grants (Aggregate)	27,879	21,407	11,123	20,457	110	5,019
Total	**320,638**	**286,613**	**345,529**	**358,521**	**499,533**	**470,989**
Variance	**- 10.61 %**		**3.76 %**		**- 5.71 %**	

(ii) Annual variance between actual and estimated transfers of earmarked grants.

3.162. The annual variance between the budgeted and actual transfers from Federal Government for the earmarked funds only, exceeded the overall deviation by more than 10 percentage points in all of the last three financial years. This dimension is scored 'D' as per PEFA Framework (see Table 3.18 below).

Table 3.18 Annual Variance for HLG Earmarked Transfers

(Pak Rs. in millions)

Earmarked Transfers	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Actual
Special Grant (Grant in Aid) Subvention (Non-Development)						
	4,536	4,143	4,659	4,779	-	-
Other Development Grants from Federal Government						
	12,197	6,562	3,120	10,850	-	3,897
Other Non-Development Grants from Federal Government						
	11,146	10,702	3,344	4,828	110	1,122
Total	**27,879**	**21,407**	**11,123**	**20,457**	**110**	**5,019**
Variance	**23 %**		**84 %**		**4463 %**	

(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the fiscal year).

3.163. The budget documents do not state the timetable of the distribution of the disbursements. Payments are due on the end of each month and the forecast is thus calculated as aggregate budgeted transfers divided by 12 to calculate monthly forecasts. The records maintained by the Finance Department show that the Federal Government had made the payments in a timely manner, with funds released as a single transfer or in series of funds transfers in a single month. However, there are few incidents when payments due were not transferred to the GoPb in full, and in-year arrears were adjusted through additional transfers near the year-end.

3.164. For the FY 2009-10, an almost even spread in the distribution of funds across the quarters is observed. However, in FY 2010-11, 36 percent of the disbursed funds were transferred to the GoPb in the last quarter – 18% of the total annual transfers were made in the month of June alone. This was done to adjust the shortfall in transfers in the first quarter.

3.165. The weighted actual disbursement delay (as per PEFA guidelines) was calculated to be 17.6% in FY 2009-10 and 22% in FY 2010-11 (FY 2008-09 was not scored due to lack of data). As per PEFA guidelines, dimension (iii) merits ‘A’ rating (see Table 3.19 below).

Table 3.19 Weighted in-year disbursement delays for HLG transfers

(Pak Rs. in millions)

Quarter	2009-10			2010-11		
	Actual	Forecast	Cumulative delayed amount as % of Total	Actual	Forecast	Cumulative delayed amount as % of Total
1	63,581	80,129	5.4%	84,741	110,775	5.7%
2	78,558	80,129	5.9%	100,779	110,775	7.9%
3	78,637	80,129	6.4%	108,284	110,775	8.4%
4	87,059	80,129		163,141	110,775	
Total	**307,836**	**320,514**	**17.6%**	**456,946**	**443,102**	**22.0%**

Chapter 4: Government Reform Process

4.1. Description of Federal Government reforms impacting Punjab

4.1.1. The Government of Pakistan approved a comprehensive policy for medium and long-term tax reforms in 2003, mainly to increase the tax to GDP ratio. A Tax Reform Program was initiated by the Government of Pakistan with the assistance of the World Bank and DFID in 2004. The Central Board of Revenue (CBR) was restructured to increase efficiency of tax collection and improve tax to GDP ratio. Accordingly the CBR was restructured on functional lines and re-established as the Federal Board of Revenue (FBR) with the aim of providing taxpayers with a single point of contact with the tax authorities, for reducing overlaps, enhancement of economies of scale, and to ensure a fair application of tax legislation. A standard and unified business processes across all tax types including on audit, enforcement, collection and registration was applied.

4.1.2. A new Inland Revenue Service was introduced by the Government after the FBR was established in 2009. After some initial teething problems, the officials from different occupation groups of FBR (formerly CBR) settled into new and existing services. Tax collection has improved over time considering the very difficult economic conditions, power problems, the global recession and law and order situation.

4.1.3. A Public Sector Capacity Building Program was launched by the Ministry of Finance with the assistance of the World Bank. The program aimed to build the capacity of officials, revamp recruitment and testing mechanisms at Federal Public Service Commission and revise books of rules used by the federal government. A Civil Service Reforms Unit was established under this program at the Establishment division. The unit worked to collaborate with international universities and centres of excellence for education and training of civil servants of Pakistan in Public Policy. A number of officers benefited from this collaboration.

4.2. Description of Punjab Government PFM and other reforms

Punjab Resource Management Programme (PRMP)

4.2.1. The Punjab Government initiated PRMP to bring comprehensive reforms to strengthen the provincial government through improved public financial management, institutional strengthening and capacity building of civil servants. Through the PRMP the Punjab Government has initiated a Punjab Government Efficiency Improvement Program (PGEIP) with the assistance of the ADB. Civil Service Reforms were initiated and a dedicated change management unit was established. A civil service reform policy comprising of career planning, trainings / human resource development, human resource management and promotions was prepared under the auspices of PRMP.

Medium Term Budget Framework (MTBF)

4.2.2. The GoPb is carrying out MTBF reform, with the assistance of ADB, to strengthen the existing budgetary system. The MTBF reform is directed towards introducing multi-year planning perspectives in the annual budget formulation. It also aims to link the resources to the Medium Term Fiscal Framework (MTFF) and help the government to prioritise its expenditures. The MTBF has been successfully implemented in Health, Irrigation and Power, Livestock and Dairy Development, Higher Education and Excise and Taxation Departments. MTBF has also been rolled out to other key infrastructure departments i.e. the Public Health Engineering Department and Communication and Works Department from FY 2011-12.

4.2.3. Various other reforms are being introduced to support the MTBF implementation. These include:

- A comprehensive monitoring and evaluation framework which would assist in measuring the performance against the planned targets for the year;
- Upgrading and improving existing rules and regulations relating to financial management, accounting, budgeting etc. (Budget Manual, Punjab Financial Rules);
- Automating budget preparation process by introducing Financial Management Application; and
- Improved cash planning and fiscal forecasting. This has led to formulation of MTFF.

Procurement Reforms

4.2.4. The Punjab Government enacted a Public Procurement Regulatory Act followed by notification of rules for Goods, Works and Services (adopting the legal and regulatory framework of the Federal Government – PPRA and PP Rules 2004). A set of implementing regulations have been prepared and these are being finalised. A Managing Director has been appointed and deployment of further staff is still awaited. A capacity building programme is also being designed. This has been an area of concern in previous assessments so the implementation of these reforms suggests a positive trajectory of change.

Accounting Reforms

4.2.5. Since October 8, 2009 a budget check cell has been introduced by the Accountant General Punjab as a one window operation. This has been done to streamline the bill processing system and strengthen fiscal control.

4.2.6. A facility of direct credit for pensioners has been created and standard operating procedures for direct credit of pension in the pensioners' accounts have been prepared and adopted. The Office of the Accountant General prepared list of officials to retire in 2011, for the GoPb for timely action.

4.2.7. The quality of financial statements has improved. The appropriation accounts for the FY 2009-10 received an unqualified certification from the Office of Director General Civil Audit Punjab.

4.2.8. A major initiative underway is to bring pay slips online for provincial and district employees of the Government of Punjab. These pay slips can be viewed by the employees and the concerned DDOs.

4.2.9. Commitment accounting has been started in AG Punjab since December 2009. For all purchases over 5 million, a purchase order has to be generated prior to any payment. Complete implementation remains a challenge.

4.2.10. In terms of procurement controls an asset accounting module is being rolled out on pilot basis to Finance, Irrigation and Police departments. All of these departments will duly fill out the fixed asset register (form 13A) for all purchases of physical / fixed assets and would send the claim for payment to the accounting offices on form 13 B. Training on Asset Accounting has been conducted for senior officials of the Finance Department, Irrigation Department and Police Department. Hands-on Training to DDOs/concerned staff in these three departments on the filing of 13 A and 13 B forms has also been provided.

Tax Reforms

4.2.11. The Government of Punjab has initiated a number of reforms to broaden the tax base and exploring the potentials of tax revenue in the Province is a priority. A Motor Transport Management Information System[30] was

[30] Excise and Taxation Department, Government of Punjab

piloted until 2008. The project aimed at automating various key functions of the E&T department including Motor Vehicle Registrations, Motor Vehicle Examination, Issuance of Route Permits and Fitness Certificates, issuance of driving licenses, enforcement of traffic Rules and Regulations, Automation of Motor Vehicle records and Automation of Criminal Records with the overall aim to educate the taxpayers (tax calculator also available), increase transparency and efficiency in tax revenue collection for Motor Transport, properly regulate registration of on-road motor vehicles, build central repository and to ultimately enhance Revenue.

4.2.12. After completion of the first phase piloted in Lahore, the project scope was expanded to all districts at a cost of Pak Rs.439 million to be completed in 2010. A Central Facility (MTMIS) was setup to serve as the central hub of information connected with District Excise offices of Punjab, through a wide area network. Moreover, Excise and Taxation Department, Transport Department, Driving Licensing Authority, Environment Protection Department and Criminal Record Offices of the Lahore district have been connected through wireless connections. The Central Facility also provides online connectivity with the Pakistan Customs (FBR) for the verification of imported vehicles. Excise Department attributes increase in annual revenue and in collection of other taxes, to this reform initiative.

4.2.13. The reform initiative is now targeted to achieve future plans of online token tax collection (also through credit / debit cards and mobile kiosks), SMS / MMS based verification of Registered Vehicles, integration with NADRA and other provincial governments and online Registration.

4.2.14. The Government of the Punjab initiated land revenue automation with the objectives to improve service delivery and to enhance the perceived level of tenure security. A Project was started with the support of The World Bank. Recently the World Bank has agreed to finance the roll out to 18 Districts of Punjab, within the next five years. The first automated Service Centre was established at District Kasur in May 2011 at Mozan Kalain. The first fully automated mutations took place in June 2011. Land Revenue Rules 1968 were revisited to provide for automated land records and provision of mutation through the automated process.

Non-Tax Revenue Reforms: Punjab Privatisation

4.2.15. A Punjab Privatisation Board was established through the Punjab Privatisation Board Act 2010. The Board comprises Senior Member, Board of Revenue, Chairman P&D Board, Member (Colonies) Board of Revenue and Secretaries of Finance and Industries. The Board has been established to (a) recommend privatisation policy guidelines to the Government; (b) prepare for the approval of the Government a comprehensive privatisation programme; (c) plan, manage, coordinate, implement, and control the privatisation programme approved by the Government; (d) provide overall directions for the implementation of the privatisation related activities including restructuring, deregulation, and post-privatisation matters in the sectors designated by the Government; (e) take operational decisions on matters pertaining to the privatisation; (f) issue directions and instructions for the management of a business, commercial or industrial undertaking falling within the purview of the privatisation programme approved by the Government; (g) publicize the activities of the privatisation programme; (h) approve the reserve and base price of the assets and properties to be privatised; (i) determine, with the prior approval of the Government, the final price of the property; (j) envisage, approve and take decisions and perform all acts to implement the pre-privatisation restructuring, labour rehabilitation, and severance schemes, and all other related matters as approved by the Government.

4.2.16. The Board is expected to generate financial resources for the Province. Various modes of privatisation such as sale of properties or shares through public auction or tender; public offering of shares through a stock exchange; or transfer of management or employee buyouts by management or employees of a Government owned enterprise have been laid down in section 28 of the Act. For 2011-12, Pak Rs. 12,000 million have been set as the target for privatisation proceeds through privatisation board.

External Audit

4.2.17. The mandate of the AGP is extensive. Achievements and reforms related to the external audit function performed by the Auditor General of Pakistan over the past few years include:

a) A reform programme is being implemented, based upon the core business values of integrity, quality and partnership. This includes a strategy for embedding core ethics at all levels;

b) For the first time in Pakistan history, the certified accounts and the audit reports for all 3 tiers of government, federation, province and districts, were submitted by the AGP within 8 months of the end of the fiscal year for FY 2009-10 and again for FY 2010-11;

c) A quality management framework consistent with international standards was designed in late 2010 and implemented in the audit reports in 2010-11. Quality assurance is overseen by specialists who review the process and outcome from the beginning of the audit cycle (the Corporate Audit Plan) to the end product, the report itself. The quality assurance and control process is over-seen by a Quality Control Committee headed by a Deputy Auditor General. Another tier in the form of peer review by an independent DAG has recently been added to assure quality;

d) Recoveries at the instance of audit have increased sharply, from an average of Pak Rs. 4-5 billion per annum to Pak Rs. 70.6 billion, verified as recovered during the FY 2010-11. For every Rupee spent upon the AGP Pak Rs. 44 were recovered;

e) Pakistan is the current chair of the Asian Association of Supreme Audit Institutions, Secretary General of the ECOSAI and on the Board of the Governors of INTOSAI.

Annex 1-A: Summary of Punjab PEFA Performance Indicators

Summary of Punjab PEFA Performance Indicators		Scoring Method	2007 Dimension Ratings				2007 Overall Score	2012 Dimension Ratings				2012 Overall Score
			i	ii	iii	iv		i	ii	iii	iv	
A. PFM-OUT-TURNS: Credibility of the budget												
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	**B**				**B**	**B**				**B**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	**NA**				**NA**	**D**	**NS**			**D**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	**NA**				**NA**	**A**				**A**
PI-4	Stock & monitoring of expenditure payment arrears	M1	**NS**	**D**			**D**	**NR**	**D**			**NR**
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency												
PI-5	Classification of the budget	M1	**A**				**A**	**A**				**A**
PI-6	Comprehensiveness of information included in budget documentation	M1	**A**				**A**	**A**				**A**
PI-7	Extent of unreported government operations	M1	**A**	**D**			**D+**	**A**	**C**			**C+**
PI-8	Transparency of inter-governmental fiscal relations	M1	**A**	**A**	**B**		**A**	**A**	**B**	**B**		**B+**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	C			C	C	A			C+
PI-10	Public access to key fiscal information	M1	B				B	B				B
C. BUDGET CYCLE: Policy-Based Budgeting												
PI-11	Orderliness and participation in the annual budget process	M2	A	B	A		A	A	B	A		A
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	M2	A	B	C	B	B	A	A	B	B	B+
D. Predictability and Control in Budget Execution												
PI-13	Transparency of taxpayer obligations & liabilities	M2	C	B	C		C+	C	B	C		C+
PI-14	Effectiveness of measures for taxpayer registration & tax assessment	M2	C	B	C		C+	C	C	D		D+
PI-15	Effectiveness in collection of tax payments	M1	B	B	B		B	D	A	A		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	A	A		A	A	B	B		B+
PI-17	Recording and management of cash balances, debt & guarantees	M2	A	B	A		A	C	B	A		B
PI-18	Effectiveness of payroll controls	M1	C	A	B	B	C+	B	A	A	C	C+

Summary of Punjab PEFA Performance Indicators		Scoring Method	2007					2012				
			Dimension Ratings				Overall Score	Dimension Ratings				Overall Score
			i	ii	iii	iv		i	ii	iii	iv	
PI-19	Transparency, competition & complaints mechanism in procurement	M2	NA	NA	NA		NA	C	D	D	D	D
PI-20	Effectiveness of internal controls for non-salary Expenditure	M1	B	C	A		C+	B	C	C		C+
PI-21	Effectiveness of internal audit	M1	D	D	D		D	D	NA	NA		D
E. Accounting, Recording and Reporting												
PI-22	Timeliness & regularity of accounts reconciliation	M2	B	B			B	B	B			B
PI-23	Availability of information on resources received by service delivery units	M1	B				B	A				A
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	B		C+	C	A	B		C+
PI-25	Quality & timeliness of annual financial statements	M1	B	B	B		B	C	A	C		C+
F. External Scrutiny and Audit												
PI-26	Scope, nature & follow-up of external audit	M1	C	D	B		D+	B	B	B		B
PI-27	Legislative scrutiny of the annual budget law	M1	A	B	D	B	D+	A	B	D	C	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	A	D		D+	D	A	B		D+
G. Donor Practices												
D-1	Predictability of Direct Budget Support	M1	A	A			A	D	D			D
D-2	Financial information provided by donors for budgeting & reporting on project & program aid	M1	A	B			B+	D	C			D+
D-3	Proportion of aid that is managed by use of national procedures	M1	A				A	A				A
H. High Level Central Government Practices												
HLG-1	Predictability of Transfers from Higher Level of Government	M1	NS	NS	NS		NS	B	D	A		D+

Annex 1-B: Summary of Punjab PEFA Performance Indicators

Annex 1-B: Summary of Punjab PEFA Performance Indicators		Scoring Method	2007	2012
A. PFM-OUT-TURNS: Credibility of the Budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B	B
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	NA	D
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	NA	A
PI-4	Stock & monitoring of expenditure payment arrears	M1	D	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	M1	A	A
PI-6	Comprehensiveness of information included in budget documentation	M1	A	A
PI-7	Extent of unreported government operations	M1	D+	C+
PI-8	Transparency of inter-governmental fiscal relations	M1	A	B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	C+
PI-10	Public access to key fiscal information	M1	B	B
C BUDGET CYCLE: Policy-Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	M2	A	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	M2	B	B+
D. Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations & liabilities	M2	C+	C+
PI-14	Effectiveness of measures for taxpayer registration & tax assessment	M2	C+	D+
PI-15	Effectiveness in collection of tax payments	M1	B	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	B+
PI-17	Recording and management of cash balances, debt & guarantees	M2	A	B
PI-18	Effectiveness of payroll controls	M1	C+	C+
PI-19	Transparency, competition and complaints mechanism in procurement	M2	NA	D
PI-20	Effectiveness of internal controls for non-salary Expenditure	M1	C+	C+
PI-21	Effectiveness of internal audit	M1	D	D
E. Accounting, Recording and Reporting				
PI-22	Timeliness & regularity of accounts reconciliation	M2	B	B
PI-23	Availability of information on resources received by service delivery unit	M1	B	A
PI-24	Quality and timeliness of in-year budget reports	M1	C+	C+
PI-25	Quality & timeliness of annual financial statements	M1	B	C+
F. External Scrutiny and Audit				
PI-26	Scope, nature & follow-up of external audit	M1	D+	B
PI-27	Legislative scrutiny of the annual budget law	M1	D+	D+
PI-28	Legislative scrutiny of external audit reports	M1	D+	D+
D-1	Predictability of Direct Budget Support	M1	A	D
D-2	Financial information by donors for budgeting & reporting on project & program aid	M1	B+	D+
D-3	Proportion of aid that is managed by use of national procedures	M1	A	A
HLG-1	Predictability of Transfers from Higher Level of Government	M1	NS	D+

Annex 2: List of References

Main Documents:

- ✓ Outcome Assessment of PIFRA II Implementation Mission October 2011
- ✓ Punjab Vision 2020
- ✓ Punjab Public Financial Management and Accountability Assessment, May 2007
- ✓ Punjab Economic Report
- ✓ Budget Documents 2008-09 to 2012-13

Documents provided by DFID:

- Audit Report of Revenue Receipts Government of Punjab for the FY 2009-10
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- ✓ www.mtmis.gov.pk

Annex 3: List of Persons Met

1. Mr. Tariq Bajwa, Secretary Finance, Punjab
2. Mr. Farid Tarrar, Additional Finance Secretary Budget, Punjab
3. Mr. M. Arshad, Additional Finance Secretary / Director Budget Finance, Punjab
4. Chaudhry Muhammad Aslam, Accountant General, Punjab
5. Mr. Fawad Hassan, Secretary Excise and Taxation, Punjab
6. Chaudhry Safdar Hussain, Member Taxes, Punjab
7. Mr. Ali Tahir, Secretary Planning & Development, Punjab
8. Mr. Muhammad Rafique, Director Monitoring, Punjab
9. Dr. Nasir Ahmed, Director General Provincial Audit, Punjab
10. Mr. Imdad Ali, Director General District Audit, Punjab
11. Mr. Shahid Hussain, Managing Director, PPRA, Punjab
12. Mr. Hafiz Islam, DG –DAOs, Accountant General, Punjab
13. Mr. Muhammad Ali Gheba, Deputy Accountant General, Punjab
14. Mr. Naseer Ahmad, DG Civil Audit, Punjab
15. Mr. Iftikhar Ahmad, DG Audit, Works, Punjab
16. Director General Audit Revenue, Punjab
17. Additional Director, General Excise and Taxation, Punjab
18. Director Enforcement and Audit, Excise and Taxation Department, Punjab
19. Deputy Secretary Health, Development, Punjab
20. Deputy Secretary Health, Non-Development, Punjab
21. Mr. Mohsin Atta, Regional Director - PIFRA, Punjab
22. Supervisor PIFRA, Revenue Receipt, Audit, Punjab
23. Mr. Khawar Shahzad, FR Specialist, PIFRA
24. Mr. Bilal Bajwa, Module Specialist - SAP ERP HCM, PIFRA
25. Mr. Waseem Anwar, SAP ERP module specialist FI/CO, PIFRA
26. Mr. Faisal Rasheed, Deputy Secretary Resources, Finance, Punjab

Annex 4: Administrative Structure of Punjab Government

THE GOVERNOR

THE CHIEF MINISTER

MINISTERS

DEPARTMENTS

- Agriculture
- Auqaf and Religious Affairs
- Board of Revenue
    - Colonies
    - Consolidation of Holdings
    - Disaster Management (PDMA)
- Chief Minister's Inspection Team
- Communications and Works
- Cooperatives
- Energy
- Environment Protection
- Excise and Taxation
- Finance
- Food
- Forestry, Wildlife and Fisheries
- Health
- Higher Education
- Home
- Housing, Urban Development & Public Health Engineering
- Human Rights and Minorities Affairs
- Industries, Commerce and Investment
- Information and Culture
- Irrigation
- Labour and Human Resource
- Law and Parliamentary Affairs
- Literacy & Non Formal Basic Education
- Livestock and Dairy Development
- Local Government & Community Development
- Management & Professional Development
- Mines and Minerals
- Planning and Development
- Population Welfare
- Public Prosecution
- School Education
- Services and General Administration
- Social Welfare and Bait-ul-Maal
- Special Education
- Transport
- Women Development
- Youth Affairs, Sports, Archeology & Tourism
- Zakat and Ushr

ATTACHED DEPARTMENTS | **AUTONOMOUS BODIES** | **SPECIAL INSTITUTIONS**

Source: Government of Punjab Website - http://www.punjab.gov.pk (as of June 20, 2012)

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