Report No. 84169-PK

November 2013

Pakistan Sindh Province

Public Financial Management and Accountability Assessment

Government of Sindh and Development Partners
(The World Bank, European Union, UKaid and ADB)

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FISCAL YEAR
July 1 - June 30

CURRENCY EQUIVALENTS
Currency unit = Pakistan Rupee USD 1 = PRs 106.87 (as at November 1, 2013)

Acronyms and Abbreviations

ADB	Asian Development Bank
AGP	Auditor General of Pakistan
CGA	Controller General of Accounts
CNIC	Computerized National Identity Card
COFOG	Classification of Functions of Government
CPI	Consumer Price Index
DDO	Drawing and Disbursing Officer
DFID	Department for International Development (UK)
ETD	Excise and Taxation Department
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GFS	Government Finance Statistics
HLG	Higher Level of Government
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
JICA	Japan International Cooperation Agency

MAPS	Methodology for Assessing Procurement System
MDAS	Ministries, Departments, and Agencies
MTBF	Medium-term Budgetary Framework
MTFF	Medium-term Fiscal Framework
MTMIS	Motor Transport Management Information System
NADRA	National Database and Registration Authority
NFC	National Finance Commission
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PFC	Provincial Finance Commission
PFM	Public Financial Management
PFMAA	Public Financial Management and Accountability Assessment
PI	Performance Indicator
PIFRA	Project to Improve Financial Reporting and Auditing
SBoR	Sindh Board of Revenue
SLGO	Sindh Local Government Ordinance
SNE	Statement of New Expenditure
SPPRA	Sindh Public Procurement Regulatory Authority
SRB	Sindh Revenue Board
UNICEF	United Nations Children's Fund

Table of Content

Figures and Tables

Acknowledgments

The 2013 PFMAA was a collaborative effort among the ADB, EU, and DFID, and the World Bank.[1] The Sindh Government managed the process through a high-level steering committee under the leadership of the Finance Department, and with representation from the Departments of Planning and Development; Accountant General; Audit; Excise and Taxation; along with the Sindh Board of Revenue, Sindh Revenue Board, Provincial Assembly, and Sindh Public Procurement Regulatory Authority.

The PFMAA team acknowledges and appreciates the excellent cooperation extended by the Sindh Government counterparts who facilitated the entire process and enabled a timely completion of the assessment.

The World Bank task team who contributed to this PFMAA report comprised Fily Sissoko (Chair and Assessment Manager, SARFM); Saeeda Sabah Rashid (Assessment Team Leader, Sr. FM Specialist, SARFM); Paul Welton and Hasan Saqib (Sr. FM Specialists, SARFM); Syed Waseem Abbas Kazmi (FM Specialist, SARFM); Uzma Sadaf (Sr. Procurement Specialist, SARPS); Hanid Mukhtar (Sr. Economist, SASEP); Saadia Refaqat and Muhammad Waheed (Economists, SASEP); and Nauman Rafique and Mehwish Ashraf (Consultants). Abid Khan (Program Assistant, SARFM) from the World Bank provided administrative and logistics support.

Internal World Bank peer reviewers were Winston Percy Onipede Cole and Arun Manuja (Sr. Financial Management Specialists; Africa and South Asia Regions, respectively). External peer reviewers included Oleksii Balabushko and Holy-Tiana Razafimahefa Rame (Public Finance Specialists, PEFA Secretariat); Frank Rijnders (Development Advisor, PFM, EU); Yesim Elhan-Kayalar (Principal Public Management Specialist, ADB); Gareth Rannamets (Governance Advisor, PFM, DFID); and Muhammad Imran Yusuf (Financial Analyst, Office of Financial Management, USAID). Sheldon Lippman (Consultant) served as editor of the final report.

[1] *The assessment was led by the World Bank. ADB, EU, DFID and USAID provided peer review.*

PEFA assessment report Pakistan Sindh Province, November 2013

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

PEFA Secretariat, June 25,2014

Summary Assessment

This report on the Public Financial Management and Accountability Assessment (PFMAA) for the Province of Sindh, Pakistan, aids in evaluating performance of government along six core dimensions of public financial management (PFM). The assessment was conducted in accordance with revised Public Expenditure and Financial Accountability (PEFA) PFM Performance Measurement Framework of 2011 (PEFA Framework). This 2013 PFMAA is a follow-up to the 2009 PFMAA and provides an integrated assessment of PFM performance together with an assessment of the impact of PFM weaknesses and the prospects for reform planning and implementation.

A. Integrated Assessment of PFM Performance

The PFM performance for each of 32 indicators was assessed and assigned ratings of "A" to "D" as per criteria stated in the PEFA Framework. Overall, most PFM performance indicators received ratings of "C" or "D" or were not rated. Only 8 out of the 32 indicators achieve the higher "A" and "B" ratings (Table 1).

Table 1: Distribution of PEFA Ratings

Core dimensions of performance	Ratings			Total indicators
	A / B	C / D	Not Rated	
(1) Credibility of the budget	-	3	1	4
(2) Comprehensiveness and transparency	3	3	-	6
(3) Policy-based budgeting	1	1	-	2
(4) Predictability and control in budget execution	2	6	1	9
(5) Accounting, recording and reporting	1	3	-	4
(6) External scrutiny and audit	-	3	-	3
(7) Donor Practices	1	2	-	3
(8) Higher Level of Government	-	1	-	1
T O T A L	**8**	**22**	**2**	**32**

The 32 PFM performance management indicators (28 for provincial government performance, 3 for donor practices, and 1 for higher-level government) are grouped into 6 core dimensions of performance of an open and orderly PFM system. A summary of findings for each of the six core dimensions follows.

(1) Credibility of the Budget (PI 1-4)

The credibility of the budget of the Sindh Government is severely undermined by the use of supplementary grants and re-appropriations among grants without ex ante approvals of the budget. This management of the approved budget through a "mechanism of releases" significantly reduces the overall usefulness of the budget as a tool to create fiscal discipline, economy, and transparency. There is no limitation on the Executive's power to make changes to the budget, including expansion.

Actual domestic revenue of Sindh Government remained significantly below that set out in the originally approved budget in two of the last three years. This calls into question the methods used to estimate annual revenue budgets.

The implementation of existing rules for recording of liabilities at commitment level has not been enforced. As a result, no consolidated record of expenditure payment arrears is available for better public expenditure management. The unrecorded and undisclosed stock of arrears continues to remain an issue.

(2) Comprehensiveness and Transparency (PI 5-10)

The state of comprehensiveness of the budget is generally observed to be satisfactory. The Sindh Government uses the New Accounting Model for formulating and reporting the budget. The New Accounting Model follows robust international classification standards, namely the United Nations Classification of Functions of Government (COFOG) and Government Finance Statistics (GFS).

Unreported extra-budgetary expenditures are insignificant being less than 1 percent of total budgeted expenditure. Furthermore, all payments of the Sindh Government are processed through the Government Financial Management Information System (GFMIS), which ensures no payment is executed without a budget; this eventually eliminates any chances of unreported budget or expenditure. Fiscal reports however do not present complete information relating to donor-funded public expenditure. This is often due to an absence of information available from donors.

The monitoring of aggregate fiscal risk is an area of concern as there is a lack of consolidated risk assessment and reporting for autonomous government agencies and public enterprises. Public access to key fiscal information and transparency remains limited with the public only having access to two of the six types of information set out in PEFA framework criteria.

(3) Policy-Based Budgeting (PI 11-12)

The budget calendar is well defined and adhered to, and the budget process is adequately guided through issuance of the Budget Call Circular. Budget ceilings are also issued to line departments well in advance. Furthermore, there has been timely approval of the provincial budget by the legislature in each of the last three years. There is however scope to improve the links between policy-making, planning, and budgeting.

The preparation implementation and monitoring of the development budget is an independent exercise that has little synchronization with sector strategies and the availability of development funds. This leads to the risk of suboptimal use of resources for development purposes.

The multi-term budgetary framework (MTBF) was introduced in 2009 and had been rolled out in six departments by 2012. However, MTBF only covers recurrent expenditure, which largely consists of salary-related items. Since there is no coverage of development expenditure in MTBF, the link between investment budget and forward expenditure is lacking.

Debt sustainability analysis needs to be revived as none has taken place in the last three years.

(4) Predictability and Control in Budget Execution (PI 13-21)

Taken in aggregate, the PEFA indicators in this area suggest that predictability and control in budget execution remains the biggest challenge for the Sindh Government.

The Sindh Government has successfully established the Sindh Revenue Board (SRB) to collect sales tax on services after the introduction of the 18^{th} Amendment in the Constitution. No survey of potential taxpayers has taken place in the recent past. This, coupled with the issue of discretionary powers allowed with respect to tax assessments and levy of penalties in agriculture income tax, property tax, etc., has contributed to a declining tax-to-GDP ratio in the province. The collection ratio however of assessed taxes, reconciliation between revenue and treasury records, and availability of funds to the treasury is satisfactory.

The preparation of reliable cash flow is a particular challenge for the Sindh Government as receipts from federal government cannot be predicted with accuracy.

The Sindh Government has shifted 95 percent of its employees onto a computerized payroll system, but specific payroll audits and regular reconciliation between payroll data and personnel records is not yet established. The internal control environment is generally not effective due to weak implementation of existing financial rules and procedures, coupled with weak accountability when non-compliance is observed. Internal audit is absent.

While remarkable progress in streamlining transparency, competition, and value for money in procurements was made, the lack of availability of data leads to poor scores as per the PEFA Framework. Procurement rules, procedures, and guidelines are in place, and the Sindh Public Procurement Regulatory Authority (SPPRA) is effectively playing its statutory role of regulating procurements in the province and providing dispute resolution mechanism.

(5) Accounting, Recording, and Reporting (PI 22-25)

Despite GFMIS connectivity in place for the entire province and line departments, weaknesses were observed in the Sindh Government's accounting, recording, and reporting procedures in place. The GFMIS and associated policies and procedures are consistent with the system implemented across the country. It enables easy access to information on budgetary resources available and consumed. In-year budget reports are produced on a timely basis, as are the annual financial statements that are submitted to the Auditor General for external scrutiny. The gaps in performance are largely attributable to lack of implementation of commitment accounting and poor reconciliation practices. Financial statements are quite comprehensive but lack information on asset and liability leading to poorer scores.

(6) External Scrutiny and Audit (PI 26-28)

External audit is completed expeditiously; but there is a significant delay in the review of external audit reports by the Public Accounts Committee (PAC) creating a backlog. There is an effective system in place to scrutinize the annual budget. This has a wide scope, which includes scrutiny of fiscal policies, medium-term fiscal framework, and medium-term priorities as well as details of expenditure and revenue. However, the time period given, less than a month, undermines the extent of the review.

(7) Donor Practices (DI 1-3)

The Sindh Government is receiving donor aid in three forms: foreign loan/debt, budgetary support for specific sector/program, and project-specific aid. The details of donor funds being disbursed is available from the Economic Affairs Division at the federal level, however, the same has to be synchronized with the provincial-level GFMIS. The provincial government is not receiving funding forecast information from donors on a timely basis. Furthermore, information provided is not aligned to the Sindh Government's fiscal periods or chart of accounts. There is a clear need to improve this process so that the budget can be presented on a more realistic basis.

(8) Central Government Practices (Higher Level of Government 1-)

More than 80 percent of the Sindh Government funds are comprised of federal government transfers. These transfers include the Sindh Government's share in the National Finance Commission (NFC) pool of federally collected taxes and straight transfers. The transfer of funds by the federal government is subject to the actual collection of taxes. While the variation in the amount of transfers is manageable, the unpredictability in the timing of these transfers severely impacts the Sindh Government's ability to plan and release funds to departments.

B Measuring the Trajectory of Change between 2009 and 2013

The previous PEFA Assessment for Sindh was published in 2009. Figure 1 and Tables 2, 3, and 4 compare the overall trajectory and ratings of the indicators from the 2009 PFMAA to the 2013 PFMAA. Table 2 shows that although there has been some improvement in a number of performance dimensions, there has been an overall deterioration in scores over the period between assessments. There are also a significant number of scores that have remained the same, suggesting that little progress has been made.

An overall decline was observed in the credibility of the budget dimension; as aggregate expenditure out-turns in the previous three years remain below budgeted expenditure. This is attributed to lower collection of taxes and/or over estimation of resources.

There was demonstrable improvement in the comprehensiveness and transparency of the budget dimension. Key indicators for this dimension, such as that for classification of the budget, remain highly rated while the rating for transparency of inter-governmental fiscal relations has improved due to the timeliness of subnational budget allocations. The absence of debt stock details among budget documentation led to a slight deterioration on one indicator, but otherwise performance was strong.

Performance on the policy-based budgeting dimension since the 2009 PFMAA has been mixed. Although orderliness and participation in the annual budget process has remained strong, there has been deterioration in the indicator pertaining to multi-year perspective in fiscal planning, expenditure policy, and budgeting

There has generally been a deterioration or lack of progress on the majority of indicators relating to the predictability and control in budget execution dimension. A weak internal control environment, high tax arrears, and absence of both internal audit and tax audit contribute to making this a dimension particularly in need of reform effort.

Figure 1: Performance Indicators 2009 and 2013 - Below the line i.e. Below C+

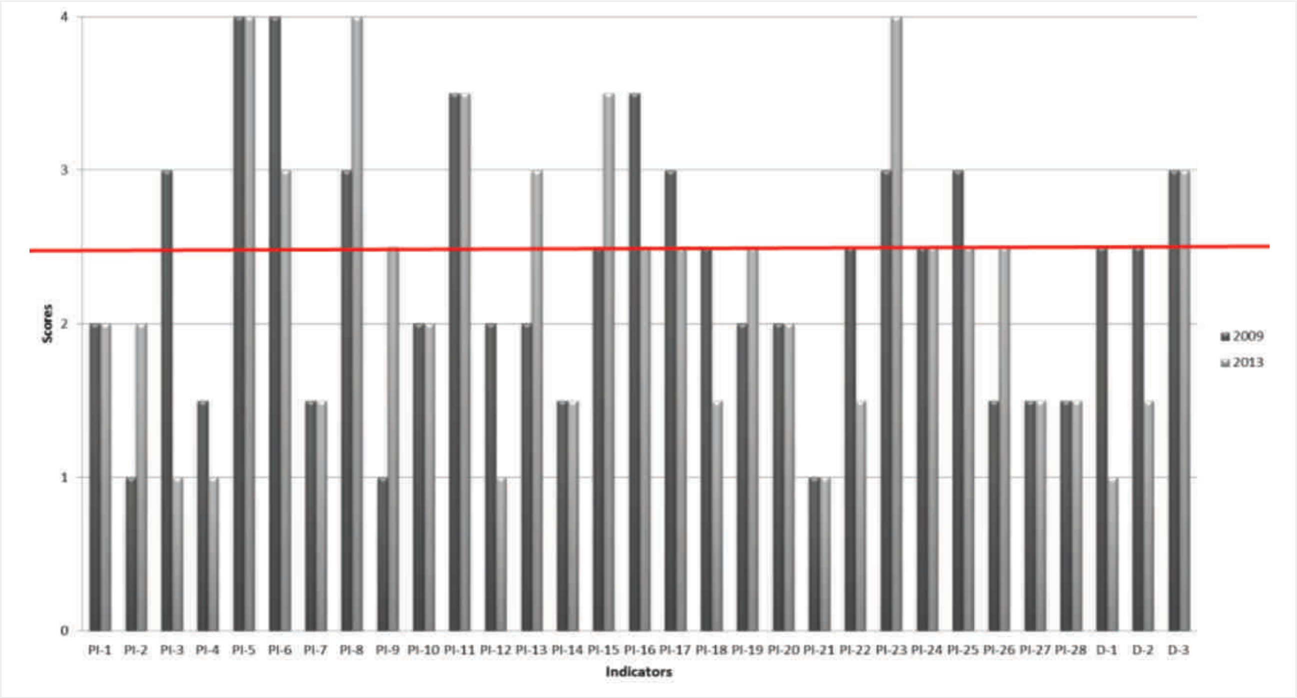

Table 2: Trajectory of Change between 2009 and 2013 - Overall

Trajectory	Overall PI scores	PI-dimension scores
No change	11	34
Improved	6	17
Deteriorated	10	19
Not comparable	3	7
Not rated	2	2
Total	32	79
"A" or "B" rating	**8**	**30**

Table 3 : Distribution of Trajectory of Change between 2009 and 2013

Core dimensions of performance	Impact on fiduciary risk			
	Lower	Equivalent	Higher	Not Rated / Comparable
Credibility of the budget	-	-	1	3
Comprehensiveness and transparency	2	3	1	-
Policy-based budgeting	-	1	1	-
Predictability and control in budget execution	2	2	3	2
Accounting, recording and reporting	1	1	2	-
External scrutiny and audit	1	2	-	-
Donor practices	-	1	2	-
Higher level of government	-	-	1	-
	6	**10**	**11**	**5**
Total	19%	31%	34%	16%

Table 4: Summary of Ratings 2009 and 2013

Summary of Performance Indicators		2009	2013
A. PFM-OUT-TURNS: Credibility of the Budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	C
PI-2	Composition of expenditure out -turn compared to original approved budget	D	C
PI-3	Aggregate revenue out -turn compared to original approved budget	B	D
PI-4	Stock & monitoring of expenditure payment arrears	D+	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	A	A
PI-6	Comprehensiveness of information included in budget documentation	A	B
PI-7	Extent of unreported government operations	D+	D+
PI-8	Transparency of inter-governmental fiscal relations	B	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D	C+
PI-10	Public access to key fiscal information	C	C
C. BUDGET CYCLE: **(i) Policy-Based Budgeting**			
PI-11	Orderliness and participation in the annual budget process	B+	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	C	D
(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations & liabilities	C	B
PI-14	Effectiveness of measures for taxpayer registration & tax assessment	D+	D+
PI-15	Effectiveness in collection of tax payments	C+	B+
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	C+
PI-17	Recording and management of cash balances, debt & guarantees	B	C+
PI-18	Effectiveness of payroll controls	C+	D+

Summary of Performance Indicators		2009	2013
PI-19	Transparency, competition and complaints mechanism in procurement	NA	C+
PI-20	Effectiveness of internal controls for non-salary Expenditure	C	C
PI-21	Effectiveness of internal audit	D	NR
(iii) Accounting, Recording and Reporting			
PI-22	Timeliness & regularity of accounts reconciliation	C+	D+
PI-23	Availability of information on resources received by service delivery unit	B	A
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality & timeliness of annual financial statements	B	C+
(iv) External Scrutiny and Audit			
PI-26	Scope, nature & follow -up of external audit	D+	C+
PI-27	Legislative scrutiny of the annual budget law	D+	D+
PI-28	Legislative scrutiny of external audit reports	D+	D+
D. Donor Practices			
D-1	Predictability of Direct Budget Support	C+	D
D-2	Financial information by donors for budgeting & reporting on project & program aid	C+	D+
D-3	Proportion of aid that is managed by use of national procedures	B	B
H. Central Government Practices			
HLG -1	Predictability of Transfers from Higher Level of Government	A	D+

There has been a slight deterioration in some aspects of the accounting and reporting dimension due to bank reconciliation and quality of reporting issues. Nevertheless, both this dimension and the external scrutiny and audit dimension (which has shown improved performance) remain relatively strong PFM areas.

A decline in the ratings with respect to the donor practices dimension is observed. In the 2009 PFMAA, scoring was largely dependent on World Bank-sourced development funds; because of volume of disbursement however in the 2013 PFMAA, the inclusion of practices of other donor agencies has led to a lower rating. It is pertinent to note that no formal monitoring mechanisms were put in place after the conduct of the 2009 PFMAA to address the weaknesses identified.

C. Assessment of the Impact of PFM Weaknesses

(1) Aggregate Fiscal Discipline

The use of supplementary grants, re-allocations, and re-appropriations by the Sindh Government together with the practice of controlling public expenditure through a mechanism of releases has an adverse impact on overall fiscal discipline. The consequence of this is that sectors may not receive the resources originally budgeted. Commitment controls, despite being officially notified, are yet to be made operational; and monitoring and oversight mechanisms in accounting are weak. Consolidated oversight of fiscal risks arising from autonomous government agencies and public enterprises is not in place. Fiscal discipline is also impacted by the inability of the Government to mobilize increases in its own revenues. This makes the Sindh Government substantially dependent on federal transfers that often deviate from the forecasted levels and over which the province has no control. Overall budget credibility remains a key challenge for the Sindh Government; and until improvements are seen on the indicator set, aggregate fiscal discipline is likely to remain at a suboptimal level.

(2) Strategic Allocation of Resources

There is limited transparency with respect to budget re-allocations; and in-year reporting lacks information on commitments, reducing its usefulness to inform cash forecasting and planning. A weak internal control environment also increases the risk of resource utilization patterns that differ from initial allocations. The Sindh Government has incorporated a multi-year perspective into the budgetary process, but further strengthening is necessary if allocative efficiency is to be improved. The absence of effective cash flow management in turn impacts on efficient resource allocation. The role of Auditor General, through performance audit reports, should be more prominent in the budget process since this will help to achieve more informed strategic allocation and increase value for money achieved from scarce resources.

(3) Efficient Service Delivery

Deficiencies in budget credibility and budget execution cast doubts on the accuracy, completeness, and credibility of information available to officials responsible for key decisions with respect to achieving efficient service delivery. The complex procedures for releasing budgetary allocations along with generally weak financial management capacity in the line agencies create delays in budget execution, which can lead to untimely service delivery. Furthermore, the lack of commitment information in in-year budget execution reports reduces the ability for effective planning and management of quality services. An absence of internal audit in the province significantly increases the risk that corrupt practices go undetected, thus leading to impaired services.

D. Prospects for Reform Planning and Implementation

On the basis of preliminary PFMAA findings as well as the day-to-day problems being encountered by the Finance Department in the performance of its functions, formal coordination mechanisms have been established with the Accountant General Office for addressing issues in cash management, expenditure reconciliations, and quality of in-year and year-end financial reporting. As a result of these efforts, the Sindh Government was able to meet the target of submission of financial statements for audit within two months of the year-end on August 31, 2013; this target was missed in the previous year.

The Finance Department has committed to the preparation of a PFM Reform Strategy for Sindh Province. Committees that include all relevant stakeholders have been notified to formulate, review, and approve PFM reform proposals. These groups are tasked with preparing the overall strategy that will include revenue mobilization, procurement reforms, debt management, increased information disclosure, and other relevant functions.

Starting with the PFMAA findings, the Government intends to exercise selectivity to prioritize areas of reform among short-, medium-, and long-term horizons. Within each of these, the PEFA scores will form the baseline against which targets will be determined leading to the formulation of an action plan for achieving these performance levels within a defined period of time. The level of detail will vary in the short- to long-term horizon.

In the short- to medium-term horizon, the reform activities will largely focus on consolidating previous reforms rather than introducing a new set of reforms such as the establishment of oversight mechanisms on compliance with rules, policies and procedures, definition of service standards, systems audit of the GFMIS for identification of weaknesses, detailed object classification of the development budget to enable monitoring, and more. Medium to long-term actions will entail policy reforms or development of new systems or procedures as required.

Given the above actions, the prospects of successful reform planning and implementation are encouraging provided that political and executive ownership of the PFM reform strategy and its implementation continues.

E. PEFA Assessment Management Organization

The Sindh Government notified a Steering Committee on December 17, 2012 with the following terms of reference:

(i). Identification of weak areas and prioritization of fiscal management interventions for reforms;

(ii). Evaluation and assessment of outcomes of the 2008-09 Sindh PFMAA;

(iii). Preparation of draft concept note for an update of the 2008-09 Sindh PFMAA to be initiated during 2012-13;

(iv). Devising a strategy to meet the timelines for the assessment update;

(v). Preparation of the working methodology to be adopted by the Sindh Government and the World Bank for the conduct of the assessment update; and

(vi). Allocation of resources for meeting the expenditures to be incurred on the assessment process and its implementation.

The Steering Committee consisted of the following officials:

(i). Secretary, Finance Department, Sindh – Chairman

(ii). Special Secretary (Budget & Expenditure), Finance Department , Sindh– Secretary

(iii). Chairman, Sindh Revenue Board

(iv). Secretary, Provincial Assembly, Sindh

(v). Member (RS & EP), Board of Revenue, Sindh

(vi). Chief Economist, Planning and Development Department, Sindh

(vii). Additional Accountant General (Accounts), Accountant General, Sindh

(viii). Director General (Audit), Sindh

(ix). Managing Director, Sindh Public Procurement Regulatory Authority (SPPRA)

(x). Director General, Excise & Taxation Department, Sindh

(xi). Additional Secretary (Resources), Finance Department, Sindh

Name and Role	Designation and Organization
Chair and Assessment Manager	
Fily Sissoko	Manager, South Asia Region Financial Management (SARFM), World Bank
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Saeeda Sabah Rashid	Senior Financial Management Specialist (SARFM), World Bank
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Hanid Mukhtar	Senior Economist (SASEP) , World Bank
Muhammad Waheed	Economist (SASEP) , World Bank
Saadia Refaqat	Economist (SASEP) , World Bank
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Frank Rijnders	Development Advisor - Public Finance Management, EU
Gareth Rannamets	Governance Advisor (PFM), DFID
Yesim Elhan-Kayalar	Principal Public Management Specialist, ADB
Muhammad Imran Yusuf	Financial Analyst - Office of Financial Management, USAID

F. Disclosure of Quality Assurance Mechanism

This PFMAA was subject to the World Bank`s standard oversight and quality assurance mechanisms whereby the draft concept note and the draft report were reviewed for quality at the first step by the Sector Manager and thereafter by peer reviewers as well as the country team. After ensuring satisfactory resolution of all comments received, including those from the Sindh Government, the assessment is signed off by the Country Director with the concurrence of the Sector Manager. The following quality assurance arrangements were established in the planning and preparation of the 2013 PFMAA for Sindh Province, Pakistan, for November 30, 2013.

- ***Review of concept note:*** Concept note was circulated for review on April 25, 2013 to all peer reviewers, except ADB, and the Pakistan country team. Written comments were received between then and June 17, 2013. The Pakistan Country Director approved the concept note through a virtual decision meeting on June 28, 2013. The minutes of the decision meeting, responses to all comments received, and the revised concept note were circulated to the reviewers and the team.

- ***Review of draft report:*** Draft report was submitted to the Sindh Government and discussed in detail in a stakeholder consultation session held in Karachi on July 3, 2013. Written comments were received from the Sindh Government on August 26, 2013. Subsequent discussions were held for missing information and responses to comments through September and October 2013. After incorporating comments from the Sindh Government, the revised draft report was submitted for editing. The edited version was submitted to the PEFA Secretariat for peer review on November 7, 2013. Comments were received on November 21, 2013.

- ***Review of final report:*** A final draft assessment was forwarded to all peer reviewers and the country team on December 2, 2013 along with a table providing responses to comments raised by the PEFA Secretariat on the earlier draft. The Pakistan Country Director approved the final draft in a decision meeting held on December 9, 2013. The minutes of the decision meeting, responses to all comments received, and the final version of the assessment was distributed to the reviewers and the team.

The approved final version of the assessment was submitted to the Sindh Government for authorization to publish on December 27, 2013 and to the Government of Pakistan on March 6, 2014. Some further comments were forwarded by the Sindh Government on April 17, 2014 which were fully responded to and necessary amendments were made in the final draft. The authorization for publication was received on June 13, 2014.

The final report provides results of the PFMAA in a concise and standardized manner, forming an updated understanding of the overall fiduciary environment of the PFM system and assisting in identifying those areas in need of further reform and development.

Chapter 1: Introduction

1.1 This report on the Public Financial Management and Accountability Assessment (PFMAA) for the Province of Sindh, Pakistan, provides the Sindh Government with an objective, indicator-based assessment of the provincial Public Financial Management (PFM) system. This report provides results of the PFMAA 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. This 2013 PFMAA is an update of the PFMAA published in May 2009 (Report No. 46323-PK).

1.2 In 2011, the 18th Amendment to the Constitution of Pakistan introduced substantial changes, particularly related to service delivery.[1] Several functions related to service delivery have been devolved from the federal to the provincial level of government, increasing demand on the capacity of provincial institutions, systems, and processes. This necessitated and prompted the Province of Sindh to advocate for the PFMAA in order to provide a record of the specific changes in performance since 2009 and identify priority PFM areas for accelerated development of reforms.

1.3 The assessment was conducted as per revised Public Expenditure and Financial Accountability (PEFA) PFM Performance Measurement Framework of 2011 (PEFA Framework).[2] Reference was made to applicable guidance issued by the PEFA Secretariat, particularly the PEFA Field-Guide for Assessment (May 2012) and Guidelines for the Application of the PEFA Framework at the Subnational Government Level (January 2013). The scope of the 2013 PFMAA was comprehensive with due consideration of the PEFA Secretariat guidance for repeat assessments. The PFMAA measured 32 PFM performance management indicators (28 for provincial government performance, 3 for donor practices, and 1 for higher-level government), which are grouped into 6 core 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 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 includes 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 received transference of 17 functions that relate to service delivery, and the Council of Common Interests (comprising federal government and the provinces) has been strengthened.

[2]The PEFA Program was established in December 2001 as a multi-donor partnership of the World Bank, European Commission, DFID, Swiss State Secretariat for Economic Affairs, French Ministry of Foreign Affairs, Royal Norwegian Ministry of Foreign Affairs, and the IMF. 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 and transfers from the federal government were captured to the extent to which these practices and the management of donor funds affect the PFM systems in the province.

1.4 The PFM performance for each of the 32 indicators was assessed and assigned ratings of “A” to “D” as per criteria stated in the PEFA Framework. 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 Province of Sindh by determining the extent to which past reforms have yielded improved performance and by increasing the ability to identify and learn from reform success. A summary of the Sindh PEFA Assessment with ratings for all 32 indicators is provided in Annex A.1. A comparative of the ratings of the performance indicators between the 2009 and 2013 PFMAAs is provided in Annex A.2.

1.5 The assessment was initiated at a launch workshop on March 6, 2013, with provincial government stakeholders. Data gathering was done in March and April 2013, culminating in an interim report that was presented to the Sindh government officials on July 3, 2013. Thereafter, comments from the Government have been addressed through incorporation in the PFMAA report or through direct discussion with Government officials during a series of strategic dialogue held during the week of October 7, 2013.

1.6 The PFMAA fieldwork 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 government stakeholders. Detailed discussions were held to review the draft report to ensure broad participation in the deliberations and the comments received were duly considered. A list of persons who were met and documents that were used in the course of the assessment are listed in Annex B and Annex C, respectively. A dissemination workshop is planned in January 2014, 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 Government of Sindh.

1.7 Scope of the assessment was the provincial government, including subprovincial entities (i.e., districts). The 23 districts in Sindh Province account for approximately 19 percent of public expenditures. Autonomous government agencies are excluded. As at June 30, 2012, there were 57 autonomous government agencies, which receive 1 percent of total public expenditures.

Chapter 2: Country Background Information

2.1.1. As the world's sixth most populous country, Pakistan has an estimated 184.3 million people.[3] It is a lower-middle-income country with a per-capita gross national income of US$1,260.[4] The country has a relatively young population with over two-fifths of the population below 15 years of age.

2.1. Description of the country economic situation

2.1.2. Pakistan has experienced a drastic slowdown in economic growth since the oil and price shocks of 2007/08. The economy, which was growing at an average rate of about 7 percent during 2000/06, has averaged a GDP growth of 3 percent over the last 6 years.[5] The underlying vulnerabilities of the Pakistan economy were significantly exposed during the global oil and price shock of 2007/08 and subsequently by floods during 2009/10 and 2010/11. In addition, weak governance and inadequate capacity of government institutions remain formidable challenges.

2.1.3. During 2012/13, the economy continued with low growth. Economic growth during the year was 3.6 percent – lower than the budget target of 4.4 percent. The bulk of growth came from the services sector. This outcome was expected given the energy shortages, falling investment, and security concerns. The fiscal deficit was another record high of 8 percent in FY13.[6] This level was similar to that of 2011/12 – and about twice higher than the budget target. This was due to continued large overrun in expenditure, mainly of electricity subsidy; discharging of energy sector “circular debt;” and a deteriorating revenue performance. Tax-to-GDP ratio declined from 9.9 percent of GDP in 2011/12 to 9.6 percent of GDP in 2012/13.

2.1.4. Although the fiscal situation deteriorated, Pakistan's current account balance improved; yet external position continued to remain under considerable stress. The external current account recorded a deficit of 1.0 percent of GDP during 2012/13. This improvement was largely due to the receipt of Coalition Support Fund flows of US$1.8 billion from the United States, a marginal improvement in the trade deficit, and robust growth in workers' remittances. However, official government inflows struggled to meet the amortization of medium- and long-term loans, including those from IMF. During 2012/13 the country repaid about US$2.5 billion of IMF debt. As capital and financial inflow amounted to only US$116 million during 2012/13, the official (net) foreign exchange reserves declined by US$4.8 billion to only US$6.05 billion[7] (equivalent to just 1.4 months of import of goods and services at end-June 2013).

2.1.5. Inflation pressures have temporarily eased. This decline has been supported by weak private sector credit, relative stability in food prices due to a good harvest, and a gas price cut. Headline inflation declined to 7.4 percent (average in 2012/13) from 11 percent (in 2011/12). Food inflation declined from 11.0 percent (average) for 2011/12 to 7.1 percent (average) in 2012/13.[8] Going forward, resurgence in inflation is possible given upward adjustment in domestic energy prices, deficit financing and exchange rate depreciation.

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[3] Pakistan Economic Survey, 2012/13.
[4] GNI per capita, Atlas method (current US$), 2012, World Development Indicators, The World Bank (http://databank.worldbank.org/data/views/reports/tableview.aspx#).
[5] National Accounts, Pakistan Bureau of Statistics (http://www.pbs.gov.pk/sites/default/files/tables/Table%201%20Macro%20Economic%20Indicators.pdf).
[6] July 2012-June 2013, Fiscal Operations, Ministry of Finance, Government of Pakistan (http://www.finance.gov.pk/fiscal_main.html)
[7] Balance of Payments, State Bank of Pakistan (http://sbp.org.pk/ecodata/Balancepayment_BPM5.pdf)
[8] Trend in Price Inflation, State Bank of Pakistan (http://sbp.org.pk/ecodata/MPM.pdf).

2.1.6. Under the base projection, the GDP growth target of 4.5 percent for 2013/14 appears optimistic. More realistic projections put this growth at par with the level achieved in FY13. The structural problems in the energy sector, financial problems of public sector enterprises, and the fiscal fragility are unlikely to be adequately addressed in the immediate run. However, since the government paid off the energy sector's "circular debt", a significant pressure on public finances emanating from the energy sector has been eased (Table 2.1). While the government hopes to achieve a fiscal deficit target of 6.3 percent of GDP, the actual deficit may range between 6–7 percent of GDP.

Table 2.1 Economic Indicators

Description	Actual			Projections
	2010/11	2011/12	2012/13	2013/14
Output and prices				
Real GDP growth at factor cost	3.0	3.7	3.6	3.5
Consumer prices (period average)	13.7	11.0	7.4	9.5
Public finance				
Overall fiscal balance (including grants)	(6.3)	(8.6)	(7.9)	(5.5)
Federal tax revenue (% of GDP)	8.9	9.7	8.9	9.9
Gross public debt GDP \a	59.4	63.7	62.9	62.5 \b
External sector				
Current account (as % of GDP)	0.1	(2.1)	(1.0)	(1.1)
Exports of goods and services (% of GDP)	14.6	13.2	13.3	12.8
Remittances (as % of GDP)	5.2	5.9	5.9	5.8
Gross official reserves (in months of imports)	3.9	2.7	0.8	1.1

Source: World Bank

\a *World Bank staff calculations.*

\b *World Bank staff preliminary estimates*

2.1.7. Pakistan's public debt at end-June 2013 stood at PRs14,418 billion, an increase of 13 percent compared to the debt stock at the end of FY12.[9] This increase of PRs1,615 billion was on account of PRs1,870 billion borrowed from domestic sources; on the other hand, PRs255 billion of foreign currency denominated debt was retired during the same time.

2.1.8. Pakistan's economy is clearly facing serious challenges. Decisive reforms in fiscal systems, public sector enterprises, and the energy sector are required to change the status quo. Restoring sound macro fundamentals, including signing an IMF program, are required to reactivate financial flows. In the medium term, reducing country risk also requires greater political and social stability, translating a potential peace dividend into perceptions of an investment-friendly country with much lower risk.

[9] As per IMF and World Bank definition.

2.2. The provincial context

2.2.1. Sindh is the most industrialized province in Pakistan, accounting for 40 percent of large-scale manufacturing output in the country. It is resource rich, holding nearly one-third of all the mineral deposits of the country. It has been the nation's most efficient cereal producer with the highest crop yields in the country. Karachi, its provincial capital, was the first city in Asia to have a full-fledged airport; its seaports are among the most developed in the region; and it is well connected by extensive road and rail networks with different parts of the country. It is endowed with a strong entrepreneurial class, a large educated labor force, relatively low wages, and home to many institutions of higher learning and skill development. The administrative structure of the Sindh provincial government is charted in Annex D.

2.2.2. Sindh should be on a fast-growth track, and Karachi should have been a flourishing metropolis. However, the province has been unable to achieve its economic potential. Several deep-seated structural problems such as (a) a stark bifurcation of the province into urban and rural economies; (b) increasing economic, social, and gender disparities; (c) adverse law and order situation, especially in Karachi; and (d) vested interest groups that provide key social and economic services, undermining the cost effectiveness and quality of these services. In addition, over the last four years Sindh has had the misfortune of being disproportionately affected by natural disasters that devastated provincial agriculture and rural economy; whereas the urban economy, like the rest of Pakistan, bore the brunt of the worst energy crises in the country's history. Consequently, Sindh has been gradually losing its position as the most reforming province as other provinces have made a strong claim for this position.

2.2.3. Compared with the mid-1990s, Sindh's fiscal position has considerably improved. This is partly due to increased fiscal transfers from the federal government and partly an outcome of fiscal reforms undertaken by the province in early 2000s. However, since this early thrust, the reform process seems to have slowed down. In addition, provincial finances have come under increased pressures because of a series of large salary increases announced by the federal government (but also adopted by the province) and a sharp enhancement in the size of development budget. These pressures were partially mitigated by the large increase in federal transfers under the 7th National Finance Commission (NFC) Award, and some prudent expenditure restraining measures announced by the provincial government following a 50 percent increase in employee salaries in 2010/11.

2.2.4. Provincial expenditures over the last three years (in nominal terms) have grown at an average rate of 40 percent while total receipts of the province have grown by 36 percent (Table 2.2). Much of the increase in expenditure is driven by provincial development expenditure that grew by over 100 percent, from PRs65.5 billion in 2010/11 to PRs143.2 billion in 2012/13, while recurrent expenditures on the other hand showed a growth of 22 percent, from PRs281 billion in 2010/11 to PRs342 billion in 2012/13.

2.2.5 Total spending of the province is predominately focused on the recurrent side. Recurrent spending share in total expenditure over the last three years averaged 73 percent,[10] while (on average) it was budgeted at 64 percent (Table 2.3).[11] This difference has emerged mainly as a result of higher expenditure on general public services-related expenditures, which over the last three years has received almost one-third of total expenditures.[12] This is followed by expenditures on public order and safety-related expenditures that have received on average around 11 percent share in total provincial spending.

[10]Average is for three-year period, including 2010/11, 2011/12, and 2012/13.
[11]Sindh Annual Budget Statements, various years.
[12]Federal budget 2010/11 announced a 50 percent increase in the salary and 15-20 percent increase in pensions of all federal government employees. This was followed by similar increase in all provinces.

Table 2.2 Province of Sindh – Budget

Description	Percentage of GDP*		
	2011/12	2012/13	2013/14
Total Revenues	**1.91**	**2.08**	**2.09**
Provincial own tax revenue	0.35	0.39	0.43
Provincial non-tax revenue (excluding grants)	0.24	0.23	0.26
Federal transfers	1.25	1.37	1.31
Grants from the federal government	0.08	0.10	0.09
Total Expenditure	**2.02**	**2.31**	**2.25**
Non-interest expenditure	1.97	2.27	2.21
Interest expenditure	0.04	0.04	0.04
Aggregate Deficit (including grants)	**0.11**	**0.23**	**0.16**
Primary Deficit	**0.06**	**0.18**	**0.11**
GDP (Prs billion)	***21,041***	***23,655***	***26,001***

* In the absence of any provincial estimates of regional GDP, nominal budgeted national GDP has been used.
Source: Sindh Annual Budget Statements and World Bankstaff calculations.

Table 2.3 Province of Sindh – Budgetary Allocations by Sectors

Description	Percentage of total expenditure						
	2010/11		2011/12		2012/13		2013/14
	BE\a	***RE***\b	***BE***	***RE***	***BE***	***RE***	***BE***
Current Expenditure	**66.51**	**81.10**	**66.74**	**66.50**	**57.70**	**70.48**	**60.76**
General public services (including interest payments)	44.71	47.29	42.39	26.88	17.72	19.98	17.65
Public order and safety affairs	8.99	11.88	9.35	9.85	8.63	10.87	9.29
Economic affairs (including subsidies)	4.61	9.11	4.90	7.39	5.67	8.91	5.87
Environment protection	0.20	0.08	0.11	0.03	0.07	0.03	0.07
Housing and community amenities	0.27	0.43	0.27	0.50	0.26	0.33	0.42
Health	2.67	3.05	3.27	5.20	6.35	7.03	6.21
Recreational, culture and religion	0.30	0.31	0.26	0.37	0.48	0.70	0.31
Education affairs and services	4.63	5.89	6.06	12.09	18.18	21.72	20.57
Social protection	0.12	3.06	0.12	4.20	0.33	0.90	0.38
Development Expenditure	**33.49**	**18.90**	**33.26**	**33.50**	**42.30**	**29.52**	**39.24**

Source: Sindh Annual Budget Statements and World Bank staff calculations
\a BE: Budget estimates.
\b RE: Revised estimates.

2.2.6. Development expenditure share in total expenditure over the last three years has averaged around 27 percent while it was budgeted at around 36 percent during the same period.[13] In addition, development spending has generally fallen drastically short of the target as revenue fell short of the budget target, and also due to limited implementation capacity of the provincial departments. In 2010/11, development expenditure share in total expenditure stood at 19 percent while it was budgeted at 33 percent. Similarly in 2012/13, development expenditure share stood at around 30 percent although budgeted at around 42 percent of total expenditures (Table 2.3). Moreover, fragmentation of development portfolio, which is littered with small schemes, remains a concern. During 2011/12 more than half of the development expenditures were made only in the last quarter of the year, which is a cause for concern.

2.2.7. Due to devolution of a goods and services tax on services, provincial revenues have shown strong growth particularly over the last two years. Provincial receipts between 2010/11 and 2012/13 grew by 36 percent while during the same time federal transfers grew by 35 percent (from PRs207 billion in 2010/11 to PRs278 billion in 2012/13) and provincial own collected taxes growing by almost 48 percent (from PRs47.6 billion in 2010/11 to PRs70.3 billion in 2012/13).[14] Despite this healthy trend, Sindh, like other provinces in Pakistan, continues to remain heavily dependent on federal transfers for meeting its expenditure needs. The federal transfers constitute almost 76 percent of total revenues of the province. Another big contributor is infrastructure development cess, which is collected on all imports through Customs. Royalty on oil and gas is the other large source of inflows for Sindh. The potential areas of revenue growth such as Urban Immoveable Property Tax, Agriculture Income Tax, and Motor Vehicle Tax seem non-buoyant due to lack of commitment from the authorities since there is political cost associated with their collection.

Table 2.4 Province of Sindh – PRSP Expenditures

Description	Percentage of total expenditure		
	2010/11	2011/12	2012/13[a/]
Roads, Highways and Bridges	6.55	6.45	2.89
Water Supply and Sanitation	1.63	1.75	0.73
Education	25.60	29.38	14.05
Health	8.12	10.10	5.72
Population Planning	0.40	0.36	0.26
Social Security and Social Welfare	4.92	5.35	2.03
Natural Calamities and Other Disasters	3.63	5.23	0.71
Agriculture	9.76	10.48	4.28
Land Reclamation	1.20	1.11	0.60
Rural Development	0.09	0.22	0.11
Food Subsidies	3.38	3.13	1.33
Law and Order	10.62	10.65	6.03
Justice Administration	1.02	1.00	0.80
Low Cost Housing	0.01	0.00	0.00

[a/]Data for PRSP expenditures for 2012/13 pertains to July 2012 to March 2013 and total expenditures are revised estimates for each year.
Source: Poverty Reduction Strategy Paper (PRSP) Secretariat, Ministry of Finance, Government of Pakistan

[13]Average is for three-year period that includes 2010/11, 2011/12, and 2012/13.
[14]Finance Accounts, Accountant General, and Government of Sindh (various years).

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.

2.3.2. Public sector bodies are well defined in rules and statutes by major types of entities, including (a) departments of the government administered directly by the federal and provincial governments, and (b) 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.

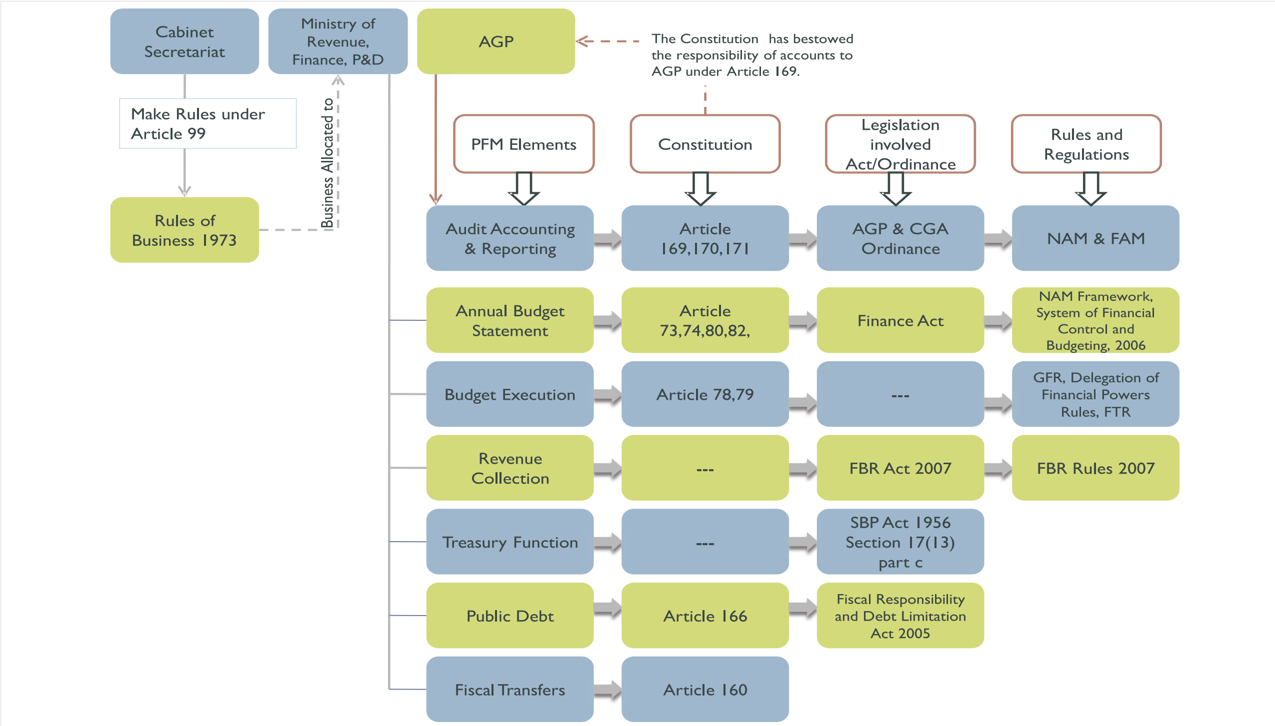
2.3.3. The 1973 Constitution adequately provides for laws on all subjects entered in the legislative list of the fourth schedule, including public finances (Figure 2.1). The procedure for laying bill and presenting law on subjects listed in the federal legislative list are defined in Article 70. The 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, established under Article 160, consists of the federal and provincial Ministers of Finance and such other persons who may be appointed by the President after consultation with the Governors. At intervals not exceeding 5 years, the National Finance Commission 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 matters 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 FY2010/11. 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 percent in 2010 to 56 percent in 2011 and to 57.5 percent for the next four years with consequential reduction in the share of the federal government. General Sales Tax on services is also recognized as a right of provincial governments from 2011 onwards.

2.3.5. The promulgation of the Controller General of Accounts (CGA) Ordinance 2001 and the Auditor General Ordinance 2001 separated the accounting and auditing roles and responsibilities, respectively.[15] However, as per Article 170 of the Constitution, the Auditor General of Pakistan 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 Auditor General of Pakistan. The provincial Accountant Generals report to the Controller General of Accounts at the federal level. The Controller General of Accounts carries out policy formulation, coordination, and administration responsibilities.

[15]For information on Controller General Accounts, go to http://www.cga.gov.pk/; for information on Auditor General of Pakistan, go to http://www.agp.gov.pk/.

Figure 2.1: Legal Framework for PFM in Pakistan

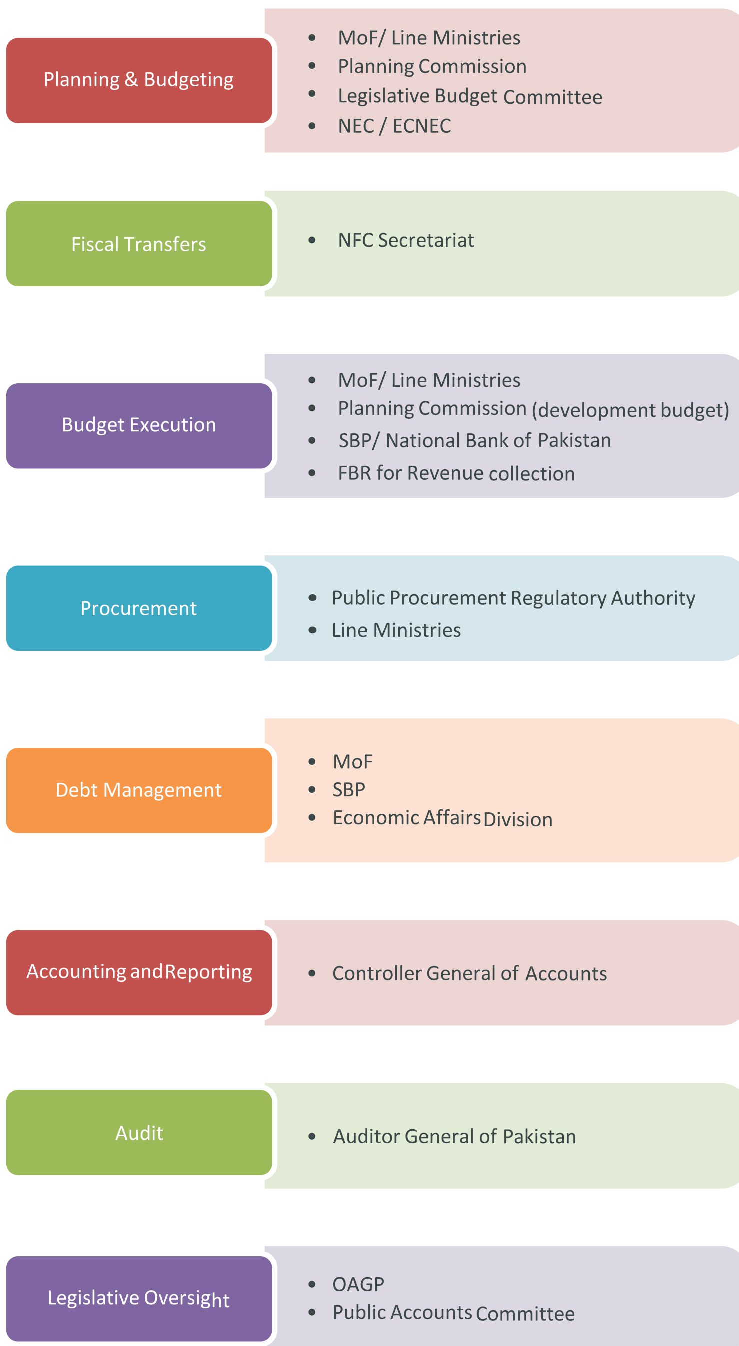


2.3.6 The PFM process at the provincial level starts with budget preparation (Figure 2.2). The Finance Department has a dominant role in this process and compiles the budget in accordance with well-defined timetables and after detailed discussions with line departments. The Planning and Development Department is responsible for the annual development program and its monitoring. The 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 district- and provincial-level accounts offices process payment claims while exercising budgetary controls and compliance checks. As per the legal framework, the Controller General of Accounts, through the provincial Accountant General maintains the accounts of financial transactions and prepares financial reports – both in-year and the annual financial statements for the Sindh Province. The Auditor General of Pakistan conducts the external audit of the accounts, and the audited accounts and related management letter are submitted to the provincial Governor who then lays these before the provincial legislature for scrutiny.

2.3.7. Substantial changes to the Constitution of Pakistan were made through the 18th amendment. Most importantly, several functions related to service delivery have been devolved from federal to provincial level of government, increasing the demand on the capacity of the provincial institutions, systems, and processes. The 18th Amendment and the 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 that went into effect 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

2.3.8. The 18th Amendment also stipulates 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 has far-reaching implications in promoting transparency, accountability, and good governance; 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.

Figure 2.2: Institutional Mapping for PFM in Pakistan



Chapter 3: Assessment of PFM Systems, Processes, and Institutions in Pakistan

3.1 The PFM performance for each of the 32 performance indicators (PI) was assessed and assigned ratings of "A" to "D" as per criteria stated in the PEFA Framework, which may broadly be interpreted as follows:

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.

Following is a discussion with the ratings of the respective performance indicators from the assessment of the PFM systems, processes, and institutions in the Sindh Province, with comparisons between the 2009 and 2013 assessments.

A. Dimension of Performance: Credibility of the Budget

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

3.2. 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
	2009	2013	
Difference between actual primary expenditure and the originally budgeted primary expenditure, excluding debt-service charges and externally financed project expenditure.	C	**C**	In two of the last three years the actual expenditure deviated from original budget by an amount more than 10%. (2009/10: 7.59%, 2010/11: 13.55% and 2011/12: 13.48%).

3.3 Primary expenditure, consistent with the PEFA Framework, is defined as total expenditure less debt-service payments and donor-funded projects. Both categories are excluded as they are beyond the control of the government. Out-turns for debt-service payments may differ due to changes in interest and exchange rates. Out-turns for donor-funded projects may differ due to management decisions, which are typically under the control of the donor agencies.

3.4. The fiscal years that are considered for calculation are 2009/10, 2010/11, and 20011/12. The format of the budget documentation of the Government of Sindh distinguishes two categories of expenditure — revenue expenditure and development expenditure — while districts (lower level of governments) are allocated a single-line budget.

3.5. The Finance Department prepares an annual budget based on information provided by the administrative departments in response to the Budget Call Circular. During the year the Executive has unlimited powers for re-appropriation among budget lines and to issue supplementary grants, thereby expanding the total budget outlay. The approved budget is analyzed in the month of April and based on actual expenditure data for nine months; then the budget is amended according to revised estimates for the coming three months. For the purposes of the PEFA rating, the original budget is considered for comparison. Large variations are observed.

3.6. Expenditures from donor funds and debt servicing for fiscal years 2009/10, 2010/11, and 2011/12, obtained from audited financial statements and annual budget statements, which have been deducted in accordance with PEFA methodology, are shown in Table 3.1

Table 3.1 Donor-funded Project Expenditures and Debt-service Payments

Description	PRs millions					
	2009/10		2010/11		2011/12	
	Budget	Actual	Budget	Actual	Budget	Actual
Donor/foreign loans	5,551	6,282	6,111	5,125	6,415	5,886
Local debt, including interest	3,281	3,305	3,182	3,192	3,501	5,970
Total	**8,833**	**9,587**	**9,293**	**8,317**	**9,917**	**11,856**

Source: Audited financial statements and annual budget statements for FY2009/10, FY2010/11, and FY2011/12.

3.7. Table 3.2, based on annual budget statements and the audited financial statements for the Government of Sindh, shows the results for rating purposes.

Table 3.2 Aggregate Expenditure

Description	PRs millions		
	2009/10	2010/11	2011/12
Budget for revenue expenditure	239,737	289,445	304,699
Budget for capital expenditure	125,250	180,335	187,348
Budget for districts	71,913	96,179	109,550
Less debt servicing and donor-funded projects	(8,833)	(9,293)	(9,917)
Total budget expenditure	***428,067***	***556,666***	***591,680***
Actual revenue expenditure	204,588	267,377	327,357
Actual capital expenditure	128,451	131,378	165,336
Actual expenditure for districts	72,114	90,788	31,073
Less debt servicing and donor-funded projects	(9,587)	(8,317)	(11,856)
Total actual expenditure	***395,566***	***481,226***	***511,910***
Difference between budget and actual	32,501	75,440	79,770
Percentage difference between budget and actual	**7.59%**	**13.55%**	**13.48%**

Source: Financial statements for Government of Sindh for FY2009/10,FY 2010/11, and FY2001/12.

PI-2 Composition of expenditure out-turn compared to original approved budget (revised 2011)

3.8. 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
	2009	2013	
Overall	**D**	**C**	
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	D	C	Variance in expenditure composition exceeded 15% in only one year i.e. 2011/12. Not comparable to previous score due to change in assessment methodology.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	-	NR	There is no expenditure with the nomenclature of contingency budget.

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

3.9. Tables 3.3, 3.4, and 3.5 show the budgeted and actual expenditure as stated in the annual audited financial statements of the Province, prepared by the Accountant General Sindh, and audited by the Auditor General of Pakistan for years 2009/10, 2010/11 and 2011/12, respectively. Absolute variances are calculated to measure the extent of reallocation between budget heads during execution that have contributed to variance in expenditure composition. In addition to excluding debt service and donor-funded project expenditure, contingency items are not included in the calculation. Table 3.6 shows the average annual variance using the guidance spreadsheets from the PEFA Secretariat.

Table 3.3 Average Weighted Variance for FY2009/10

Administrative / functional head	Budget	Actual	Adjusted budget	Absolute deviation	Percent
	PRs millions				
1. General public services	180,714	156,144	166,993	10,849	6.50
2. Economic affairs (net of debt service)	67,911	82,789	62,755	20,034	31.92
3. Public order and safety affairs	29,447	28,163	27,121	952	3.50
4. Education affairs and services	26,628	15,387	24,606	9,219	37.47
5. Health affairs and services	14,787	12,550	13,664	1,114	8.15
6. Housing and community amenities	4,121	4,368	3,808	560	14.71
7. Recreation, culture and religion	1,195	1,436	1,104	332	30.07
8. Social protection	28,418	20,565	26,260	5,695	21.69
9. Environment protection	2,933	2,050	2,710	660	24.35
10. Transfers to districts	71,913	72,114	66,453	5,661	8.52
Allocated expenditure	428,067	395,566	395,564	55,076	13.92
Contingency	-	-	-	-	-
Total expenditure	428,067	395,566			
Composition (PI-2) variance					***13·9***

Table 3.4 Average Weighted Variance for FY 2010/11

Administrative / functional head	Budget	Actual	Adjusted budget	Absolute deviation	Percent
	PRs millions				
1. General public services	234,597	208,345	202,804	5,541	2.73
2. Economic affairs (net of debt service)	76,136	84,306	65,818	18,488	28.09
3. Public order and safety affairs	36,620	35,220	31,657	3,563	11.26
4. Education affairs and services	29,484	19,463	25,488	6,025	23.64
5. Health affairs and services	17,115	13,321	14,796	1,475	9.97
6. Housing and community amenities	2,421	2,552	2,093	459	21.93
7. Recreation, culture and religion	1,770	1,320	1,530	210	13.73
8. Social protection	60,147	24,575	51,996	27,421	52.74
9. Environment protection	2,197	1,336	1,899	563	29.65
10. Transfers to districts	96,179	90,788	83,145	7,643	9.19
Allocated expenditure	556,666	481,226	481,226	71,388	14.83
Contingency	-	-	-	-	-
Total Expenditure	**556,666**	**481,226**			
Composition (PI-2) variance					**14.8**

Table 3.5 Average Weighted Variance for FY 2011/12

Administrative / functional head	Budget	Actual	Adjusted budget	Absolute deviation	Percent
	PRs millions				
1. General public services	247,046	186,491	213,566	27,075	12.68
2. Economic affairs (net of debt service)	74,309	91,125	64,239	26,886	41.85
3. Public order and safety affairs	39,656	45,681	34,282	11,399	33.25
4. Education affairs and services	33,445	69,682	28,912	40,770	141.01
5. Health affairs and services	20,871	31,570	18,043	13,527	74.97
6. Housing and community amenities	2,104	6,216	1,819	4,397	241.73
7. Recreation, culture and religion	1,700	2,963	1,470	1,493	101.56
8. Social protection	61,520	44,416	53,183	8,767	16.48
9. Environment protection	1,479	2,693	1,279	1,414	110.56
10. Transfers to districts	109,550	31,073	94,704	63,631	67.19
Allocated expenditure	591,680	511,910	511,497	199,359	38.98
Contingency	-	-	-	-	-
Total Expenditure	**591,680**	**511,910**			
Composition (PI-2) variance					***39.0***

Table 3.6 Expenditure Composition Variance Results Matrix

Financial year	PI-2 (i)	PI-2 (ii)
	Composition variance	Contingency share
2009/10	**13.9 %**	**0.0%**
2010/11	**14.8 %**	
2011/12	**39.0 %**	

3.10. 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's budget. The very high percentage of the supplementary budget 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 3.7 lists the supplementary budgets for the three years. Negative figures indicate an expansion while positive difference indicates reduction in budgeted expenditure. The scoring criterion for this indicator was revised in January 2011 and it is not comparable to the 2009 PEFA rating, which was awarded a "D" rating.

Table 3.7 Changes in Budgets

Description	2009/10			2010/11			2011/12		
	PRs millions			PRs millions			PRs millions		
	Original budget*	Revised budget	Supple-mentary	Original budget*	Revised budget	Supple-mentary	Original budget*	Revised budget	Supple-mentary
Revenue expenditure	239,737	236,835	2,902	289,445	288,861	584	304,699	327,529	(22,830)
Capital	125,250	142,924	(17,674)	180,335	146,741	33,594	187,348	212,990	(25,642)
Districts	71,913	76,840	(4,927)	96,179	109,068	(12,889)	109,550	109,550	
	436,900	456,599	**(19,699)**	565,959	544,670	**21,289**	601,597	650,069	**(48,472)**

** Original budget excludes debt servicing and donor-funded projects as detailed in Table 3.1.*

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

3.11. 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, this expenditure is not charged directly to the contingency vote. The Sindh Government does not provide for contingency or unexpected events in the budget as a separate head. To meet contingencies or any emerging need, the Executive (provincial government) is empowered under Article 124 of the Constitution to approve a supplementary grant of any amount for which ex post approval will be sought from the Provincial Assembly. In accordance with PEFA Framework clarifications, this dimension is "Not Rated" as there is no information on a contingency budget.

3.12. The Sindh Government provided lump sum provisions (block allocations) aggregating PRs12 billion for FY2011/12 to meet expenditures that were not certain at the time of presenting the budget to the legislature. These include provisions for increase in salary, electricity arrears, repair of roads and schools, emergent needs, and others. The lump sum budgetary provision is re-allocated to respective cost center in the budget by issuance of a supplementary grant by the Finance Department. The Executive approves these under Article 124 of the Constitution, and obtains a post facto approval from the legislature. Actual expenditure is not charged to these lump sums and therefore, these do not qualify as a contingency budget. Apart from the lump-sum provisions, there are block grants for development packages such as the Larkana Package and Karachi Package. Development funds are allocated to these packages without specifying nature and description of schemes to be undertaken as part of these packages; therefore, the allocated budget cannot be properly classified under education, health, or law and order, for example; and despite the use of a detailed classification system, the possible extent of analysis and monitoring of actual performance is reduced.

PI-3 Aggregate revenue out-turn compared to original approved budget (revised 2011)

3.13. 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
	2009	2013	
Actual domestic revenue compared to domestic revenue in the originally approved budget.	B	D	Actual domestic revenue was below 92% in two of the last thr ee years, i.e., 2009/10 (91.51%) and 2010/11 (77.15%). Not comparable to previous score due to change in assessment methodology.

3.14. A major chunk of the provincial revenue budget (80-82 percent) consists of receipts from federal government as share of Sindh Province in centrally collected taxes, which are divided among provinces according to agreed formula (i.e., 7th NFC Award applicable since FY2010/11). Budgeted revenue for the province from taxation and non-taxation sources have been obtained from annual budget statements of the relevant years. These are tabulated against the actual receipts as reported in the civil accounts of Sindh Province. Deviations of the revenue estimates and actual results for domestic revenue receipts are provided in Table 3.8.

Table 3.8 Revenue Out-turns for Government of Sindh

Budget heads	2009/10		2010/2011		2011/12	
	Budget estimates[/a]	Actual[/b]	Budget estimates	Actual	Budget estimates	Actual
	PRs millions		PRs millions		PRs millions	
Provincial tax revenue	23,751	21,562	31,500	27,456	35,044	36,421
Provincial non-tax revenue	15,350	14,220	19,000	11,506	19,862	16,287
Total	**39,101**	**35,782**	**50,500**	**38,962**	**54,906**	**52,708**
Percent of actual to budget estimates		**91.51%**		**77.15%**		**96.00%**

Source: Finance Department, Province of Sindh.
[/a]Budget estimates have been derived from annual budget statement for FY2009/10,FY2010/11,and FY 2011/12
[/b]Civil accounts for FY2009/10, FY2010/11, and FY 2011/12 is source document for actual revenue collections.

3.15. Institutional arrangements for revenue forecasting received approval recently by the Sindh Government. Now all revenue-collecting officers are given separate revenue center codes, against which they will be given revenue targets to be estimated and monitored on individual basis. Revenue forecasting is still not based on reliable economic and financial data of taxable activities/properties in the province. Absence of such mechanism causes a high degree of fluctuation in the revenue out-turns, which indicates weak capacity of the provincial government to predict the revenue from own sources. Additionally, the collections depicted a lower trend during the assessment period due to the impacts of super flood and unprecedented heavy rains in Sindh during 2010 and 2011 respectively. According to the PEFA Framework, a "D" rating is awarded for this indicator. The scoring criteria for this indicator was revised in January 2011 and it is not comparable to the 2009 PEFA assessment, which was awarded a "B" score for own revenue.

PI-4 Stock and monitoring of expenditure payment arrears

3.16. 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
	2009	2013	
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.	A	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. Commitment accounting and reporting is being introduced, but is not fully operational.

(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.

3.17. The Sindh Government's system of recording and reporting accounting data is designed to capture cash transactions; therefore, consolidated stock of expenditure payment arrears is not being prepared. However, some interviewed officials believe that there are many unpaid arrears of the government such as electricity bills and outstanding dues of the contractors of development works. HESCO and SEPCO have raised claims of PRs29.964 billion and PRs21.896 billion respectively for the period July 2010 to March 2013 against which the Sindh Government has paid PRs8.402 billion and PRs6.92 billion respectively while the rest of the amount is disputed for which reconciliation is required. Arrears are mainly caused by over commitments and shortfall in revenue. The Sindh Government's share in National Finance Commission from federal government fell short by PRs19 billion as of June 30, 2012.

3.18 During the 2009 PFMAA, this dimension was rated “A” considering the fact that all bills of the administrative departments are either rejected or paid by the Accountant General Office at year-end. However, the Accountant General Office can only process payments if the Finance Department has authorized the “release of funds”. In many occasions, releases are not available, resulting in arrears. Due to the fact that consolidated data for those amounts, which have become due legally from the Sindh Government and not paid, are not maintained, this dimension (i) is therefore “Not Rated”.

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

3.19. Since cash-basis accounting is followed, liabilities are not recorded and reported for any unpaid, valid invoices. Though the Government Financial Management Information System (GFMIS) provides for commitment accounting, the applicable procedures are yet to be made operational. The administrative departments that incur commitments are required to submit these for recording to the accounts offices if the total amount exceeds PRs500,000. In reality, the commitment is recorded at the time of presentation of the first invoice for payment.

3.20. In the absence of any consolidated stock of arrears data, it is not possible to ascertain the extent of entire payment arrears of the Government of Sindh. The need to consolidate information such as at the end of each financial year is essential to facilitate budgeting and cash planning. Accordingly, this dimension (ii) again receives a "D" rating in 2013 just as in the 2009 PFMAA.

B. Dimension of Performance: Comprehensiveness and Transparency

PI-5 Classification of the budget

3.21. 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 the Government Finance Statistics (GFS) format and track poverty reducing and other selected groups of expenditure.

Dimension	Score		Brief explanation of status
	2009	2013	
The classification system used for formulation, execution, and reporting of the provincial government's budget.	A	A	Budget formulation and execution is based on administrative, economic, and sub-functional classifi-cation, using GFS/COFOG standards. The New Accounting Model prescribes the chart of accounts for civil accounts for budgeting and recording of expenditure giving robust budgetary classification on functional and object basis. Consistent documentation in accordance with GFS standards is produced.

3.22. No change has occurred in government procedure for classification of budget since the 2009 PFMAA. The Government of Sindh is using the chart of accounts under the new accounting model for the formulation and reporting of the budget, and recording of the current and development expenditure and revenue. Books of accounts are maintained on the GFMIS 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, which is now fully operational throughout the province.[16]

3.23. The provincial budget is prepared with detailed functional and object classification. The chart of accounts is in accordance with the GFS standards and sub-functional classifications are in use. Data for 5 dimensions is captured for each transaction recorded in the FMIS – Entity, Object, Fund, Function, and Project. Within each, sub-classification is provided for and in use. Spending can be tracked through use of GFMIS, which records data of actual transactions (revenue and expenditure) on the same chart of accounts that is used to prepare the budget. The budget as approved by the Parliament is fed into the GFMIS. The GFMIS produces reports for comparison of budget and actual expenditure on real-time basis. Several instances of misclassification were noted during the assessment. The Finance Department is cognizant of the issue and has recently formed a committee consisting of officials of the Accountant General Office and Finance Department to look into all those cost centers that are currently misclassified in the GFMIS and hinder the proper preparation of budget.

3.24. Some gaps were identified in the IMF Article IV Consultations Staff Report, which stated that the concepts and definitions used in compiling government finance statistics are broadly based on the Government Financial Statistics Manual (GFSM) 1986, except that privatization proceeds are included below the line.[17] 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

[16] Pakistan has implemented a SAP-based financial management information system (FMIS), referred to as the Financial Accounting and Budgeting System (FABS). FABS is discussed in Annex F.

[17] Pakistan: Staff Report for the 2011, Article IV Consultations and Proposal for Post-Program Monitoring, IMF Country Report No. 12/35, access at http://www.imf.org/external/pubs/cat/longres.aspx?sk=25714.0.

mixed in reporting, particularly with defense and government administration expenditures not clearly identified according to economic classification. The basis of recording government finance statistics 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 data are regularly reported for publication in the GFS Yearbook, and use the GFSM 2001 framework.

3.25. As stated above, despite gaps in implementation, consistent documentation is produced in accordance with the United Nations Classification of Functions of Government (COFOG) and GFS standards. The overall "A" rating for 2013, as in the 2009 PFMAA, is therefore maintained. The functional heads of expenditure in accordance with COFOG and GFS standards are listed as follows:

- General Public Service
- 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

3.26. 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
	2009	2013	
Share of the listed information in the budget documentation most rec ently issued by the provincial government.	A	B	The budget documentation meets 6 of the 9 information benchmarks.

3.27 This indicator requires that the annual budget documentation should include information on the following nine elements. The status of compliance is also noted for each element:

(a) Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate - *Compliance, No.*

(b) Fiscal deficit, defined according to GFS or other internationally recognized standard - *Compliance, Yes.*

(c) Deficit financing, describing anticipated composition - *Compliance, Yes*.

(d) Debt stock, including details at least for the beginning of the current year - *Compliance, No.*

(e) Financial assets, including details at least for the beginning of the current year - *Compliance, Yes.*

(f) Prior year's budget out-turn, presented in the same format as the budget proposal - *Compliance, No.*

(g) Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposal - *Compliance, Yes.*

(h) 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 - *Compliance, Yes.*

(i) 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- *Compliance, Yes.*

3.28. Budget documents consists of budget speech, budget at a glance; annual budget statement (a summary of budget); and detailed budget document for development and non-development expenditure, which presents fiscal deficit/surplus on chart of accounts prescribed under New Accounting Model and are GFS compliant. Previous year budget out-turn is not available from the Finance Department at the time of preparation of budget documents; accordingly, accounts data for the year succeeding to the year preceding is tabulated in the budget document.

3.29. Debt stock, both foreign and domestic, is not reported as part of the annual Sindh Government budget documentation that is submitted to the Provincial Assembly for approval.[18] While domestic debt mainly consists of cash development loans, which are in their repayment mode,[19] aggregate disbursements (actual for prior year, budget estimates and revised estimates for current year, and budget estimates for the budget year) in cases of foreign loans, budget support/program/project aid on-lent by the federal government to the province are included in the annual budget statement.[20] Additionally, disbursement data for foreign debt on disaggregated level is available for the current and the budget year (revised estimates and budget estimates).[21] Similarly, repayment of principal for maturing foreign and domestic loan portfolio is recorded in the annual budget statement (actual for prior year, budget estimates and revised estimates for current year, and budget estimates for the budget year).[22]

3.30. With 6 of the recommended 9 elements adequately addressed in the budget documents, PI-6 has dropped to a "B" rating. In the 2009 PFMAA, an additional element of debt stock was included in a "budget analysis" published by the Finance Department and included a dedicated chapter on debt management highlighting the provincial debt activity (flows and stocks).[23]

3.31. While much information is included in the budget documents, user-friendly budget information 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

3.32. 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.

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[18] Access official Finance Department website - http://www.fdsindh.gov.pk/site/cms.php?page=Budget_Volumes - for additional budget information.

[19] The last cash development loan was issued in 2007/08. However, a cash development loan was issued to the Sindh Government by the federal government in FY2010/11 and was repaid in full the next fiscal year (2011/12).

[20] This information is disclosed under the General Capital Receipts head of the Annual Budget Statement-Volume I, Government of Sindh, Finance Department.

[21] Estimates of Receipts-Volume II, Government of Sindh, Finance Department.

[22] This information is reported under the Current Capital Expenditure head of the Annual Budget Statement-Volume I, Government of Sindh, Finance Department and at a detailed level in Estimates of Current Expenditure-Volume III, Government of Sindh, Finance Department.

[23] Such information was previously published in 2008/09. The Sindh Government had plans to publish a budget analysis in FY2012/13.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	D+	D+	
(I) The level of extra-budgetary expenditure (other than donor- funded projects) that is unreported (i.e., not included) in fiscal reports.	A	A	The unreported, extra-budgetary expenditures (other than donor-funded projects) are insignificant (less than 1% of total budgeted expenditure).
(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.	D	D	Receipts of grants/loans, in-kind or through direct payments, are not completely covered in fiscal reports. Fiscal reports as generated by Accountant General Sindh on income and expenditure lack inclusion of all information, even loan finance projects.

3.33. 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 a normal financial accounting system. These funds are not essentially outside the budget but are accounted for in the budget in aggregate terms. Unreported government operations include expenditure as well as revenue.

3.34. The government transacts expenditure through the consolidated fund after the budget is approved by the legislature. The expenditure is classified under either current expenditure, which consists of recurrent cost and debt repayments, or development expenditure, which 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) that is unreported.

3.35. Other than assignment accounts, the Accountant General Sindh executes all payments. No payment can be processed unless the approved budget and release is available in GFMIS for head of account to be charged. Thus there is no known unreported expenditure that is met out of the budget. Assignment accounts are authorized by the Finance Department. These authorizations are given to autonomous government agencies or managers of development projects to execute a specific head of budget. Payments from these assignment accounts are subject to post-audit and complete details of expenditures incurred are required to be reported by the account holders to the District Treasury Offices on monthly basis for recording in the GFMIS. As a result, no spending out of the approved budget remains unreported.

3.36. The development budget, from own source, was previously handled through personal ledger accounts. Personal ledger accounts involved cash transfers to the bank account of project authorities. These funds were non-lapsable other than being budgeted at aggregate level and booked as expenditure at transferred amount without proper classification. Now under the new arrangement of assignment accounts, there is no cash transfer. It is a financing limit assigned by the Finance Department 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. Dimension (i) retains an "A" rating.

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

3.37. Estimates of foreign assistance are budgeted and provided in the budget documents as approved by the legislature, but these do not however completely cover all grants. Donor fund flows are recorded as inflows in budget documents and corresponding expenditure as use of resources. The donor funds are either disbursed using provincial account (Account I of the province) or through assignment/revolving fund account (designated account for project) to ensure financial autonomy and efficient fund flow. In case of revolving fund account, a circular released by the federal government (subsequently revised most recently in January 2013) and adopted by the Government of Sindh clearly defines the procedure for budgeting, accounting, and reporting of expenditure on foreign-aided projects.[24]

3.38. The financial reports prepared by the Accountant General Sindh or Finance Department only capture and report expenditure against a budget allocation. Since these reports are generated through GFMIS, any expenditure for which the source of funding or the accounting occurs outside GFMIS is not included. For assignment accounts, the expenditure is recorded since the Treasury/District Accounts Office endorses all checks. In case of donor-funded expenditures, the pre-requisite for inclusion in the GFMIS is timely information and donor use of the country PFM system. Projects usually have two accounts – an assignment account for the funds received from Sindh Government (counterpart funding) and a foreign-funded revolving fund account for the donor funding. Endorsement of checks is only required for the former. Few donors, for instance the World Bank and ADB, provide proper information to enable the Finance Department to forecast the sources of funds and accordingly record expenditure. However, there are many donors (e.g., UNICEF) that are either managing their projects directly or through nongovernmental organizations. In such cases the information of donor projects are not covered in the fiscal reports.

3.39. Proceeds from program loans for Sindh Education Reform Program (SERP) and Sindh Growth and Rural Vitalization Program are directly received in Account I of the Sindh Government as budgetary support. Financial reports cover the expenditure out of these two program loans. However, in case of all other project loans where donor agencies directly pay to the project authorities (project management units) to finance the project's activities, expenditures are not recorded and reported by Accountant General Sindh.

3.40. Donor-funded projects usually include a component of financing from the Sindh Government. Project management units of all such projects send their checks for assignments accounts to Treasury for its endorsement and recording expenditure out of the government budget. This procedure is only carried out for the Sindh Government's part of funding and not for the donor portion, which remains unrecorded.

3.41. Since the financial reports do not completely cover even the loan-financed projects, the rating for this dimension (ii) retains a "D" rating.

PI-8 Transparency of inter-governmental fiscal relations

3.42. Assessment under this indicator examines the transparency of inter-governmental fiscal relations. For this indicator, fiscal transfers to immediate sub-level (i.e., district governments) are taken into account, as per the PEFA Framework. A summary assessment in each dimension and the overall rating by M2 methodology is given in the following summary table.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	B	A	
(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 (more than 90%) funds is based on PFC award 2007, which is a transparent and rule-based mechanism.
(ii) Timeliness of reliable information to subnational governments on their allocations.	C	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.	C	A	Expenditure information of district government is collected and reported according to same classification as that of provincial government within 10 months from the end of fiscal year.

[24] Revised Accounting Procedure for Revolving Fund Accounts (Foreign-Aided Assignment Account), Government of Sindh, January 17, 2011.

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

3.43. Constituted in 2001, the Sindh Provincial Finance Commission (PFC) is empowered to devise a formula for the distribution of resources among the districts. The formula covers both development transfers and current transfers. The purposes of the current transfers are to maintain the supply of existing services at the district level and of the development grants to minimize the intra-district poverty and inter-districts income differential. The last PFC award was announced in 2007,[25] where in the formula for distribution of allocable amount among district government, after protecting salaries, was allocated as follows: population (40 percent), service infrastructure (35 percent), development needs (10 percent), area (5 percent), and performance (10 percent).[26]

3.44. The district governments, which were formed under Sindh Local Government Ordinance (SLGO) 2001, had their own political representation. The SLGO also empowers the district governments to prepare their own budget and manage their funds on education, healthcare, and other subjects under their purview. The 2001 SLGO was repealed in 2011, and the 1979 commissioner system of district governments was revived. This has resulted in an eventual non-devolved structure of district governments. Budget allocation for districts is still determined through the last PFC award formula.

3.45. Allocation to district governments is transparent and rule based, therefore an "A" rating is applicable.

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

3.46. District governments (subnational governments) follow the Budget Call Circular (same budget calendar as the provincial governments) that is issued in November/December each year, and budgets are finalized in May/June. An indicative amount is provided at the start of the budget-making process, and the provincial government communicates the final allocations to the district governments in early June once the provincial budget is prepared. Allocation to each district is reflected in the Sindh Government budget documents, which are approved before finalization of district budgets.

3.47. District governments are knowledgeable of the formula for resources distribution. The final budget allocated to districts is approved by Sindh Government by the end of June and before district budgets are finalized. District governments therefore have reliable information on the allocation to be transferred to them ahead of completing their budget proposals.

3.48. After repealing SLGO, the district administration is directly under provincial control and therefore is more closely connected to the Finance Department of Sindh Government since separate district budgets are not prepared by district governments. The allocations for each district are included in the provincial budget. These now appear as cost centers in the GFMIS as opposed to separate entities in the previous system. This has also improved the timeliness of information of budget allocation to district governments. This dimension (ii) has improved to "B" rating.

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

3.49. The chart of accounts as prescribed by the New Accounting Model is also applicable to district governments. The district governments were given operational and financial autonomy in SLGO 2001, under which the district governments prepared their own budgets and financial statements as per the New Accounting Model. In the post-SLGO era, the District Accounts Office and District Commissioner prepare the accounts on the same chart of accounts on GFMIS, which is functional in all districts. GFMIS captures, records,

[25]PFC Award, notification of Finance Department, Government of Sindh, No. FD.SO(PFC)/6(39)/2004-05(part-I).
[26]Performance benchmark is based on 5% for revenue generation and 5% for primary school enrollment.

and consolidates all the transactions executed by district governments. The provincial civil accounts and budget execution reports contain data of district government on the same classification. The financial statements of Sindh are reporting data of district budgetary allocations and expenditure as a single line item, which should be improved since the district fiscal data is available with the Accountant General Office on the same chart of accounts.

3.50. The dimension (iii) receives an improved "A" rating since fiscal information using classification consistent with the provincial government is available in a timely manner and consolidated in annual reports.

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

3.51. Assessment under this indicator examines the extent of provincial government monitoring of fiscal risks.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	D	C+	
(i) Extent of central government monitoring of autonomous government agencies and public enterprises.	D	C	Autonomous government agencies and public enterprises are audited and their annual fiscal reports are submitted to departments with which these are attached, but Sindh Government does not consolidate fiscal risk into a report.
(ii) Extent of central government monitoring of subnational governments' fiscal position.	D	A	District governments cannot generate fiscal liabilities for the provincial government.

(i) Extent of monitoring of autonomous government agencies and public enterprises.

3.52. Autonomous government bodies or authorities, corporations, and self-accounting entities play a significant role in public sector provision of social, economic, community, and regulatory services. Detailed expenditures and revenues are not captured by the Sindh government accounting system since these are self-accounting entities attached with various departments. Some departments, namely Forest Department, Food Department, and Public Works Department, are also self-accounting entities. Other entities include banking (Sindh Bank), trading companies engaged in buying and selling agricultural products, regulatory authorities, universities, libraries, healthcare organizations, development authorities, water and sanitation agencies, industrial estate management companies, arts councils, and companies incorporated for managing projects with special arrangements with the private sector under Sindh Government Public–Private Partnerships.

3.53. Some of these bodies raise financing from commercial banks on guarantees provided by the Sindh Government. As part of the governing bodies for these entities, the Finance Department receives regular financial reporting. A consolidated overview is missing to monitor performance against financial targets, evaluate fiscal risk of debt-service default (often with implicit/explicit guarantee by the Sindh Government), operational losses, expenditure payment arrears, and unfunded pension obligations. The assigned "C" rating is an improvement from the 2009 PFMAA since annual reports are at least now received.

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

3.54. The Constitution of Pakistan, 1973, authorizes only the federal government to borrow under Article 166, or a provincial government (subnational) to borrow with certain restrictions as per Article 167; whereas, the district governments are not authorized by the Constitution to borrow or issue guarantees in their individual capacity. The Sindh Local Government Ordinance 2001 prohibited district governments from preparing a deficit budget. They are not independently allowed to borrow or generate fiscal liabilities for Sindh Government. The annual financial statements of the Sindh Government include the consolidated fiscal information with respect to the district governments (i.e., budget, expenditure, and cash balance). The local governments do not have significant own source revenues. After repeal of SLGO 2001, the district governments are no longer independent entities that can generate fiscal liabilities. An "A" rating applies to this dimension. In the 2009 PFMAA the scoring criterion was misinterpreted leading to a "D" score since there is no formal monitoring of fiscal position of districts whereas an "A" score was applicable even then as subnational governments could not generate fiscal liabilities for the provincial government.

PI-10 Public access to key fiscal information

3.55. 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
	2009	2013	
Number of listed elements of public access to information that is fulfilled.	C	C	2 of the 6 types of information are publicly accessible.

3.56. Table 3.9 lists elements of information to which public access is essential. This list shows that only two of the six criteria are met; the "C" rating is maintained.

Table 3.9 Elements of Information

Type of Information	Compliance
(i) ***Annual budget documentation***. The public can obtain a complete set of documents through appropriate means when it is submitted to the legislature.	Yes. The budget is posted on the website on the same day when it is tabled in Provincial Assembly.
(ii) ***In-year budget execution reports.*** The reports are routinely made available to the public through appropriate means within one month of their completion.	No.[\a]
(iii) ***Year-end financial statements.*** The statements are made available to the public through appropriate means within six months of completed audit.	No.[\b] The CGA website has not been updated for Sindh Government financial statements.
(iv) ***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.	No. External audit reports are laid before the Provincial Assembly through Governor Sindh and can be accessed through request to the assembly.[\c]
(v) ***Contract awards.*** Awards of all contracts with value equivalent above approx imately US$100,000 are published at least quarterly through appropriate means.	No. List of awarded contracts is not available to public.
(vi) ***Resources available to primary service units.*** Information is publicized through appropriate means at least annually, or available upon request, for primary service units with province -wide coverage in at least two sectors (such as elementary schools or primary health clinics).	Yes. The budget document is prepared at DDO level giving details of all primary service units in the province. School specific budget is also prepared and posted at Finance Department website.[\d]

\a Finance Department, Government of Sindh, www.fdsindh.gov.pk.
\b Not available on CGA website: http://www.cga.gov.pk/ or Sindh Government website.
\c As per INTOSAI Lima Declaration Section 16 - Reporting to Parliament and the General Public: The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body; this report shall be published. This will ensure extensive distribution and discussion, and enhance opportunities for enforcing the findings of the Supreme Audit Institution. (http://www.intosai.org/documents/intosai/general/declarations-of-lima-and-mexico/lima-declaration/vi-reporting.html).
\d Finance Department, Government of Sindh, www.fdsindh.gov.pk.

C. Dimension of Performance: Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

3.56. 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, 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
	2009	2013	
Overall	B+	B+	
(i) Existence of and adherence to a fixed budget calendar.	A	A	A clear annual budget calendar exists, is a dhered to and allows departments a reasonable period to complete their detailed estimates on time.
(ii) Clarity and comprehensiveness of and political involvement in the guidance on preparation of budget submissions.	C	C	Comprehensive and clear Budget Cal l Circular is issued. Ceilings for departments are not approved by the Cabinet.
(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.

3.57. A clear annual budget calendar exists, is adhered to, and allows the departments well over six weeks to complete their detailed estimates. The time schedule is followed, and the final budget has regularly been presented to the Provincial Assembly, after approval from the Cabinet, in the beginning of June.

3.58. The Finance Department starts the annual budget-making process with issuance of the Budget Call Circular. The Budget Call Circular is issued on September 15 every year for budget proposal for the next year. For instance, the Budget Call Circular for year 2012/13 was issued on September 15, 2011. The budget calendar specified in the Budget Call Circular 2012/13 is presented in Table 3.10.

Table 3.10 Budget Calendar 2012/13

September 15, 2011	Distribution of Budget Call Circular by Finance Department.
November 15, 2011	Submission of statement of new expenditure (SNE).
November 15, 2011	Submission of budget for 2012/13 by all administrative departments.
January 15, 2012	Submission of proposals for transfer of development schemes to non-development/DDO wise.
January 15, 2012	SNE meetings between Finance Departmentand administrative departments.
February 15, 2012	New taxation proposals and review of existing taxes through meetings with administrative departments.
March 15, 2012	I) Review of receipts and recovery of arrears through meetings with administrative departments. ii) SNE finalization by Finance Department.
March 31, 2012	Finalization of revised estimates 2011/12 and budget estimates 2012/13 by Finance Department.
April 30, 2012	I) Finalization of new taxation proposals and review of existing taxes and fees. II) Surrender of savings to Finance Department. (Where supplementary grant is involved).
May 15, 2012	Finalization of Public Sector Development Program (PSDP)2012/13.
June 15, 2012	Surrender of savings to Finance Department (where supplementary grant is not involved).
July 15, 2012	Communication of budget estimates 2012/13 by Finance Department to all administrative departments.
July 15, 2012	All administrative departments to distribute budget among their subordinate offices and lower formations.

3.59. The Budget Call Circular issued by the Finance Department is accompanied by budget preparation forms, instructions, and procedures for guidance of Sindh Government administrative departments. The calendar is strictly adhered to. The budget calendar identifies each stage of the budget submission and approval process. The budget is presented to the provincial legislature in June and approved by the end of the month. For these reasons, an "A" rating is given to this indicator (i).

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

3.60. Budget preparation is guided initially by the Budget Call Circular and subsequently through detailed negotiations between line departments and the Finance Department. The Budget Call Circular is followed by indicative ceilings for non-development and development expenditures to all departments. The Cabinet or Committee of the House does not approve ceilings, which are issued to departments, in the absence of any requirement of law or rules.

3.61. Before tabling the budget in the House, the Minister of Finance discusses the budget with a standing committee of the Provincial Assembly. This is limited to a briefing to parliamentarians at a stage where any substantive changes are not possible. The involvement of budget committees in setting departmental ceilings and reviewing budget proposals is not institutionalized. Political involvement in budget preparation process is mainly at the time of approval of the Annual Development Plan. The Plan is prepared by the Planning and Development Department and approved by the legislature. However, the Chief Minister has the power to sanction any development expenditure even if it is not included in the Annual Development Plan. In FY 2011/12 alone, nearly 800 directives from the Chief Minister were issued for changes in the Annual Development Plan.

3.62. The rating for this indicator (ii) remains at "C" since the ceilings issued to departments are not approved by the Cabinet.

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

3.63. The provincial budget is approved by the legislature before commencement of the fiscal year. This has been consistently followed in the past five fiscal years; FY2009/10 (approved June 25, 2009); FY2010/11 (approved June 22, 2010); FY2011/12 (approved June 25, 2011); FY2012/13 (approved June 25, 2012); and FY 2013/14 (approved June 24, 2013). An "A" rating is still applicable.

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

3.64. 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
	2009	2013	
Overall	C	D	
(i) Preparation of multi -year fiscal forecasts and functional allocations.	C	D	The MTBF was piloted in 2009 and has been rolled out in 6 departments till June 2012 covering 55% (approximately) of recurring budgeted expenditure. Fiscal estimates at aggregate level are not available.
(ii) Scope and frequency of debt sustainability analysis.	A	D	No debt sustainability analysis has been undertaken in the last 3 years.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	D	D	Sector strategies with substantially complete costing of investments and recurrent expenditures are not in place.
(iv) Linkages between investment budgets and forward expenditure estimates.	D	D	Forward budget of development schemes and their consequential increase in recurring budget estimates is not properly integrated.

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

3.65. With the help of the World Bank, the Finance Department prepared the first medium-term fiscal framework (MTFF) in 2006-07. The MTFF provided projections for three years (2006/07 to 2009/10) for revenues and expenditures of the provincial government. The MTFF was revised after the 7th NFC Award. The most recent MTFF was approved for years 2011-2014 covering only non-development expenditure of six departments. The medium-term budgetary framework (MTBF) was introduced in 2009 and had been rolled out by June 30, 2012, in 6 departments of the Sindh Government: education and literacy, irrigation, agriculture, livestock, energy, and health and social welfare.

3.66. The aggregate budgeted recurrent expenditure of these six departments represents almost 55 percent of the total budgeted recurrent expenditure of the Sindh Government for FY 2011/12. There is currently no practice in place for documentation of reasons for deviations between the forecast and the budget ceiling of the next years, and the links between multi-year estimates and subsequent setting of annual budget ceilings are not strong, meaning no differences are explained in the budget document. The budget forecasts are made for development and non-development expenditure of the Sindh Government. Non-development expenditures mainly consist of staff and other recurring costs. The MTBF is currently not being used as a tool for effective planning of the development expenditure. The Sindh Government has committed development expenditure, which is more than 10 times the available annual development budget. As a result, the development resources are far below the required amounts for the development work, causing delayed or non-payments to contractors for development schemes on many occasions. For these reasons, because the fiscal forecast at aggregate level is unavailable, a "D" rating is applicable.

(ii) Scope and frequency of debt sustainability analysis.

3.67. In the 2009 PFMAA, an "A" rating was given due to debt sustainability analysis conducted as part of the World Bank-funded Structural Adjustment Credit Reform Program. Detailed debt sustainability analysis was included only in the budget analysis for FY 2007/08. No debt sustainability analysis has been undertaken in the last three years; therefore a "D" rating is assigned to this dimension.[27]

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

3.68. Sector strategies with complete costing of investments and recurrent expenditures are not in place. Sector studies were conducted in 2008 for four departments — irrigation, agriculture, education, and livestock

[27] The Budget Analysis 2008-09, as part of the Debt Management chapter, considered only two ratios encompassing debt service (primarily interest payments on domestic and foreign debt) w.r.t. current revenue expenditure and total revenue presented for prior years, current year (B.E. and R.E.) and budget year (B.E.). As such, the analysis does not take into account the stock indicators as well as fails to incorporate any sensitivity analysis or shock scenarios. (http://www.fdsindh.gov.pk/site/userfiles/Budget%20Analysis%202008-09.pdf).

and fisheries. These sector strategies are now irrelevant after abolishment of SLGO 2001. However, these were not developed into fully costed strategies. This indicator (iii) retains its “D” rating.

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

3.69. The investment budget, as stated above, is far below the required amount for approved development schemes. Financing requirement of current development schemes approved as of June 2012 is 10 times the current development budget. Recurrent cost implications of investments are not formally linked with MTBF. In practice, once a scheme is completed under investment (development) budget, consequential increase in recurring expenditure is estimated in the statement of new expenditure and submitted for approval after which it is accounted for in the budget.

3.70. Budgeting for investment carried at the Planning and Development Department and for recurrent cost at the Finance Department are currently done in parallel and would benefit greatly from a higher level of integration. The process since the 2009 PFMAA has not changed, and the “D” rating is maintained.

D. Dimension of Performance: Predictability and Control in Budget Execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

3.71. Effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system but is also dependent on the direct involvement and co-operation of taxpayers from the individual to the corporate private sector. Contribution to the overall level of compliance is encouraged and facilitated by a high degree of transparency of tax liabilities, including clarity of legislation and administrative procedures, access to information in this regard, and the ability to contest administrative rulings on tax liability.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	C	B	
(i) Clarity and comprehensiveness of tax liabilities.	C	C	Major taxes have well- defined legislative basis, and tax procedures and regularity mechanisms are clearly mentioned in respective laws. High discretion exists for the assessing officer in property tax and land revenue and imposition of penalties.
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	C	B	Information on major taxes, applicability and assessment procedures is available to taxpayers, which are further facilitated through media campaigns in some cases.
(iii) Existence and functioning of a tax appeals mechanism.	C	B	There is no independent in stitutional arrangement for appeal process, raising concerns on fairness and transparency.

(i) Clarity and comprehensiveness of tax liabilities.

3.72. The provincial receipt from own source consists of tax and non-tax receipts, which together account for 18-20 percent of the total provincial annual inflow. The remaining is received from the federal government on account of the divisible tax pool (NFC Award), direct transfers, and federal grants. The provincial tax receipts account for 70 percent of own-sourced revenue. There are three authorities in Sindh that collect various taxes: Excise and Taxation Department (ETD), Sindh Board of Revenue (SBoR), and Sindh Revenue Board (SRB). Details of the respective jurisdictions for the three authorities are shown in Table 3.11. The position with respect to each of the three entities responsible for revenue mobilization and collection in the Sindh Government is described in more detail in Annex E.

Table 3.11 Composition of Provincial Tax Receipts

Department/ Taxes	FY 2011/12 PRs million
Excise and Taxation Department	
Motor Vehicle Tax	3,188
Provincial Excise Enactment	2,586
Infrastructure Cess	20,468
Cotton Fee	99
Professional Tax	267
Hotel Tax	160
Property Tax	1,484
Entertainment Duty	30
Subtotal, Excise and Taxation	**28,282**
Sindh Board of Revenue	
Taxes from Agriculture	123
Transfer of Property Tax (Registration)	995
Land Revenue	207
Capital Value Tax	2,368
Stamp Duties	4,764
Subtotal, Board of Revenue	**8,458**
Sindh Revenue Board	
Sales Tax on Services (Provincial)	**25,010**
Total tax revenue	***61,750***

Source: Excise and Tax Department, Civil Accounts, Sindh Revenue Board.

3.73. Due to existing discretionary powers for assessment of tax liability in Dhall,[28] property tax, and hotel tax; and lack of comprehensiveness in taxing statute of sales tax, a "C" rating remains the same as in 2009 since this dimension (i) has shown no improvement.

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

3.74. 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, sales tax, registration fee, and stamp duty, rates are usually updated annually.[29]

3.76. Duties and taxes collected by the Excise and Taxation Department are available on its website, which comprehensively gives information in understandable format to the taxpayer for duties payable and mode of assessment, relevant forms and procedures, and mode of filing appeals. In addition to information available on the website, the Excise and Taxation Department runs taxpayer education campaigns — for duties and taxes payable under various legislations and consequences of default by taxpayers — in newspapers and on radio and television.

3.77. The Sindh Revenue Board website is also updated and gives user-friendly information on applicability of sales tax on services. Taxable services are given in section 3 of the Sindh Sales Tax on Services Act 2011. The scope of tax is defined under section 8 of the statute. For taxpayer facilitation, all returns are made available on

[28] Local term for tax on agriculture.
[29] Sindh Revenue Board website, www.srb.gos.pk; Excise and Taxation Department website, www.excise.gos.pk.

the website and filing has been facilitated through e-filing at the SRB web-portal. However, the Sindh Board of Revenue has not introduced any taxpayer education programs, which falls short of compliance with taxes governed by the Land Revenue Act.

3.78. Since availability of taxpayer information has been improved in the collection of major taxes by the Excise and Taxation Department and Sindh Revenue Board, the "B" rating shows an improvement from the 2009 PFMAA rating of "C".

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

3.79. Any tax imposed by the excise and taxation officer is appealable with the Director of Excise and Taxation; a second appeal may be filed with the Director General, Excise and Taxation; and the Director General's excise appellate order can be challenged in High Court under constitutional jurisdiction (i.e., under Article 199 of the Constitution). The data for filed appeals suggest that the taxpayer is rarely aggrieved by any action of excise and taxation officer. For instance, less than 25 appeals were filed in Karachi during FY2011/12, whereas there were only 4 cases that rose to the second appeal level.

3.80. On sales tax side, an appeal (under section 57 of the Sindh Sales Tax on Services Act 2011) can be filed within 30 days from order of the SRB Assistant Commissioner with the SRB Commissioner (appeals). To ensure transparency the SRB Commissioner (appeals) is subordinate to the Revenue Board of Sindh and not to any specific member. The SRB Commissioner (appeals) decides the appeal within 90 days. There were 41 appeals filed during FY2011/12 while 11 were disposed of, out of which 5 were in favor of the department and 5 in favor of taxpayers and 1 case was remanded back for another assessment.

3.81. On land revenue side, there appears to have been no appeal filed by any taxpayer. This could be attributed to low enforcement of the taxing statutes. Relevant statute provides for appellate mechanism (for instance, an appeal can be filed with Chief Board of Revenue under section 57 of Stamp Act 1899). Similarly an appeal against assessment of Agriculture Income Tax can be filed within 15 days from the date of receipt of provisional demand with Tehsildar (i.e., officer at the sub-district level).

3.82. The appeal process is inter-departmental with no independent forum at first stage of appeal. Independent institutional arrangement is not available in any of the three revenue administration authorities; however, appeals mechanisms do exist with some concern over its fairness; therefore, this dimension (iii) earns an improved "B" rating over the 2009 PFMAA rating of "C" largely due to the establishment of Sindh Revenue Board.

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

3.83. 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 offense.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	D+	D+	
(i) Controls in taxpayer registration system.	D	D	Some computerized databases of taxpayers exist with weak links among them. No survey of potential taxpayers has been conducted during past three years.
(ii) Effectiveness of penalties for non -compliance with registration and declaration obligations.	D	C	Penalties exist in all taxes 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.

(i) Controls in taxpayer registration system.

3.84. Of all the provincial taxes, taxpayer registration is only required for motor vehicle tax, property tax, sales tax on services, and agriculture income tax. The process to record and manage taxpayer database for different taxes is summarized as follows:

- ***Sales tax on services.*** A list of all taxable activities is appended to Sales Tax on Services Act 2011. The Sindh Revenue Board registers all taxpayers on a computerized database by issuing a unique tax number, which is the same sales tax number as used by the Federal Board of Revenue with the addition of a suffix 'S'.
- ***Property tax.*** The ETD inspectors enroll all properties within their jurisdiction in a property register. Entry of each property is supported by a registration file.
- ***Motor vehicle tax.*** Registration of motor vehicles is mandatory with the ETD Motor Registry Authority. An ETD officer is designated as Motor Registration Authority. Each car after being imported into Pakistan or manufactured in Pakistan is required to be registered with the Authority, which then issues a unique computerized plate number for the vehicle.
- ***Hotel tax.*** Each hotel is registered according to its accommodation capacity by the Excise and Taxation Department based on physical inspection by the ETD inspectors.
- ***Provincial excise tax.*** An ETD officer is designated as Licensing Authority for levy of provincial excise payable on liquor among other items.
- ***Stamp duty.*** Stamp papers for all denominations can be procured directly from the Treasury office or authorized dealers. The issuing officer/dealer maintains a register of stamp paper issued, wherein names and a computerized national identity card (CNIC) number of requesting issuers are recorded.

3.85. Due to the nature of taxes and separate administration entities, a single Tax Identification Number has not been established. Current registration data is collected as follows:

- ***Motor vehicle tax.*** The Excise and Taxation Department has plate numbers of all vehicles registered in a computerized database with chassis number, engine number, and CNIC number of the owner. Proper controls exist to ensure accurate tax liability of any vehicle.

- ***Property tax.*** Urban properties are registered by Excise and Taxation Department based on a survey conducted by the ETD inspector. Property records are not computerized. There is no integration of property records with district governments and municipal corporations that approve construction drawings and issue completion certificate of constructed buildings.

- ***Infrastructure cess.*** Through connection with Pakistan Revenue Automation Ltd. (PRAL), any consignment arriving by sea or air is assessed along with the goods declaration note filled by the importer for Customs clearance purposes. Customs authorities collect infrastructure cess along with duties; therefore the control environment is strong. However, no registration is required due to the nature of tax.

- ***Sales tax on services.*** The Sindh Revenue Board has issued provincial sales tax numbers to those taxpayers existing on Federal Board of Revenue database with one alphanumeric code 'S' being added for taxpayers facilitation, and better control. Collection and compliance is being supported and ensured by e-filing system for all tax returns.

3.86. Overall compliance and control environment in taxes by the Sindh Board of Revenue is weak. There is no computerized record of agricultural land, nor is there any connection for value of crop with any other statistical agency (for instance, Pakistan Statistical Bureau) to determine value of crops and thereby correctly calculate taxes due on agricultural income. All record of demands raised, taxes collected, and arrears outstanding are handled manually in the form of registers. No controls exist over exercise of discretion in determining tax liability and any linkage with other systems. For example, when an individual having total income of PRs1.0 million or more per annum declares their landownership, including agricultural yield, under section 116 of the Income Tax Ordinance 2001, there is no control to establish link with the agriculture income declared in the federally administered Income Tax Ordinance.

3.87. A tax survey is immensely needed for all taxes of the Sindh Government to ensure completeness of the assessment for various taxes, especially property taxes and agriculture income tax. There has been no survey of properties and income since a survey of urban properties in 2001; there have been substantial changes in taxable properties in the past decade.

3.88. In absence of linked databases for major taxes and no survey of potential taxpayers, this dimension continues to earn a “D” rating.

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

3.89. Penalties are tools to encourage taxpayers to comply with their tax obligation for registration, declaration, and payments. Penalties are imposed in cases of willful default (principle of Mensrea). The amount of penalties should vary depending upon the severity of default. Penalties for breach of property tax up to a maximum of 100 percent of tax liability can be assessed by the ETD officer in accordance with Section 16 of Sindh Urban Immovable Property Tax Act 1958. Motor vehicle owners not paying taxes in time are subjected to penalty in a transparent manner, up to a maximum of PRs50,000, assessed by the ETD officer in accordance with the Schedule of Penalties Motor Vehicle Registration Act 1958. In cases of infrastructure cess, there is low probability of willful default. The SBoR officers have broad authority for imposing and recovering penalties under the Land Revenue Act. However, SBoR officers have never used this authority for imposing penalties and recovery of defaulted/arrears of taxes assessed under the Land Revenue Act. With the inconsistent and insufficient application of penalties, there is a need for restructuring the mode of application of penalties to make the system more transparent.

3.90. The Sindh Revenue Board has successfully implemented the sales tax on services over the last two years. The application of penalties for non-compliance is rule-based and stated in detailed in Section 43 of the Sales Tax Act 2011. To promote transparency, the officials detecting the defaulted taxpayers are different from those who are empowered to impose penalties. Because of the performance of the SRB-administered penalties, this dimension has been assigned an improved "C" rating.

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

3.91. Tax audit can form an effective feedback loop for management. Currently audit plans are not formulated on risk-based audit methodology. In the Excise and Taxation Department, there is no regular survey of properties, with which they might identify any tax leakage or fraud.

3.92. In case of sales tax on services, Sections 28 and 29 of the Sales Tax on Services Act 2011 describe the procedure for selection and execution of audit. The Sindh Revenue Board selects an audit based on return filed by the taxpayer, which under certain criterion is categorized as high risk. However, since the department is new, there are no schematic selection processes for audit nor is there any documented risk identification criteria of taxpayers for detailed scrutiny. Moreover, audits conducted are not compiled into any type of report. In case of the Sindh Board of Revenue, taxpayer audit and fraud investigation programs are completely missing.

3.93. Based on the above status of taxpayer audit, this dimension (iii) is downgraded to "D" rating.

PI-15 Effectiveness in collection of tax payments

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

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	C+	B+	
(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).	C	B	Though collection ratio cannot be ascertained accurately due to nature of taxes and collection on self-assessment basis, the collection ratio is well above 75%.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	A	A	Taxes are paid directly in Treasury account through banking system; and in case of motor vehicle taxes collected in cash are deposited daily in National Bank of Pakistan to the credit of provincial consolidated fund.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury.	C	B	The reconciliation process is carried out monthly, but it takes more than one month time.

(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).

3.95. Arrears of sales tax revenue in the Sindh Revenue Board are negligible since the self-assessed tax is payable on monthly basis. Major arrears are in taxes to be collected by the Excise and Taxation Department and Sindh Board of Revenue, which do have major arrears in taxes to collect as illustrated in Table 3.12.

Table 3.12. Arrears

Year	Excise and Taxation Department	Sindh Board of Revenue	Total	Percentage as total revenue (%)
	PRs million			
2010/11	1,261	19	1,280	3
2011/12	2,868	76	2,944	5

Source: Excise and Taxation Department and Sindh Board of Revenue.

3.96 Data giving age analysis of arrears is not available. Infrastructure cess is the major constituent of arrears (41 percent). The amount in arrears in infrastructure cess is in dispute and sub judice. As discussed in PI-13, there are a number of taxes collected by the Sindh Board of Revenue, but the whole system of assessment, recording, and collection of tax is manual and involves discretionary powers to waive/reduce taxes; therefore consolidated debt collection ratio cannot be ascertained with accuracy. However, the available data confirms the fact that significant tax arrears arise in taxes enforced by the Excise and Taxation Department where the collection ratio remained well above 75 percent. This leads to an improvement in this dimension to a "B" rating.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.

3.97. Taxes are directly deposited by the taxpayer into the National Bank of Pakistan, which acts as agent of the State Bank of Pakistan and Treasury of provincial government. Ninety-five percent of taxes are collected via electronic banking through the National Bank branches that are equipped with online banking. These electronically collected funds become available to provincial government Treasury within 24 hours.

3.98. The Sindh Revenue Board is further strengthening the system by allowing taxpayers to deposit tax in six major banks of the country through online payment facility. The funds so transferred will be consolidated with the National Bank of Pakistan on a daily basis. Based on the strength of the tax collection process, this dimension remains at an "A" rating.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

3.99. Reconciliation between taxes collected by all three tax-collecting agencies and Accountant General Sindh is made on a monthly basis. The reconciliation statements are prepared and signed by tax collectors and Accountant General Sindh staff; the differences between two records are nil or negligible.

3.100. Taxes are paid on a self-assessment scheme under Sales Tax on Services Act 2011, and there is no difference between assessment and payment of duties. The return of sales tax on services can only be filed in the system if amount payable as per return has duly been paid in the National Bank of Pakistan and the respective cash payment receipt number is given on the online performa of the sales tax return. The Excise and Taxation Department has introduced a computerized tax payment challan (deposit voucher) to credit the tax assessed directly into the National Bank of Pakistan. This step has significantly improved the reconciliation process. Infrastructure cess collection and recording has also been improved by using specialized software, Weboc, which enables the infrastructure cess collected at the time of clearance of goods by Customs to be directly credited to provincial government by the federally managed treasuries.

3.101. The reconciliation between Accountant General Sindh, Sindh Board of Revenue, and Excise and Taxation Department takes place monthly; however, the process takes more than one month to complete. Introduction of computerized challans; integration with Weboc system; and web-based filing, assessment, and collection system in sales tax has improved the reconciliation processes during the past three years. According to PEFA methodology, the dimension has thus improved to a "B" rating.

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

3.102. Effective execution of the budget, in accordance with work plans, requires that the ministries, departments, and agencies receive reliable information with regard to availability of funds within which they can commit expenditure for recurrent and capital inputs.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	B+	C +	
(I) Extent to which cash flows are forecast and monitored.	B	B	Cash flow forecast is prepared and updated monthly based on actual data for loans, tax, and non-tax, Government of Pakistan receipts, and expenditure position as reported by Accountant General Sindh.
(ii) Reliability and horizon of periodic in-year information to ministries, departments, and agencies on ceilings for expenditure commitment.	A	C	Departments are provided reliable information on ceilings for commitment at least quarterly in advance for non-development expenditure; however, for development expenditure information for commitment is not provided.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of ministries, departments, and agencies.	B	C	There are frequent in-year budgetary adjustments, some are affected on request of ministries, departments, and agencies and some are above the level of ministries, departments, and agencies. The adjustments are undertaken with some transparency.

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

3.103. Receipt and expenditure estimates are prepared and monitored by the Finance Department during the fiscal year on a monthly basis. The Finance Department manages cash flow requirements based on information received from the State Bank of Pakistan, Sindh Revenue Board, Sindh Board of Revenue, Excise and Taxation Departments, and Accountant General Sindh. The State Bank of Pakistan provides cash balance of both food and non-food accounts in the Consolidated Fund of the Sindh Government on a daily basis. The tax-collecting agencies provide information on actual tax collection, and the Accountant General Office provides information on actual cash expenses. Data on receipt and payment of loans and transfers from federal government is being maintained by the Finance Department. Based on the aforementioned data, the Finance Department prepares monthly cash flows. This cash flow forms the basis for authorization of budget releases for expenditure by the Finance Department to Accountant General Sindh.

3.104. The forecasts have generally been based on the high-quality data from all quarters; but despite the stated process, the Sindh Government has been in overdraft since June 2012. Due to a combination of lower-than-anticipated receipts from the federation and weak controls on outflows related to the development expenditure, the Sindh Government unknowingly burst its overdraft limit with the State Bank of Pakistan in June 2012. An unusually high outflow of PRs80 billion occurred in one month alone. Several steps have since been taken by the Finance Department for monitoring cash flows and the Sindh Government has not been in overdraft since August 2013.

3.105. While this described process is quite comprehensive, the documentation is not as extensive. The cash position received daily from the State Bank of Pakistan forms the basis of the update to cash forecast, which is maintained digitally. Various documents and verbal communications with different sources inform the preparation of the forecast; a complete set of underlying documents is not available. The “B” rating is maintained since cash flow is prepared and updated frequently for actual flows. Timeliness of data related to assignment accounts varies.

(ii) Reliability and horizon of periodic in-year information to ministries, departments, and agencies on ceilings for expenditure commitment.

3.106. Schedule of authorized expenditure is provided by the Finance Department through mechanisms of “releases” of the budgeted allocations to Accountant General Sindh and departments. Accountant General Sindh cannot process any payment unless there is an authorization by the Finance Department under a specific head. The authorizations, as and when made by Finance Department during the fiscal year, are entered into the GFMIS. While applying the budget check before processing any payment, the GFMIS also checks whether release has been authorized by the Finance Department in the specific head.

3.107. The Finance Department releases non-development expenditure except for statement of new expenditure on a quarterly basis. The first quarter is released in July, the second in September, while third and fourth quarters are released in December. Release for development expenditure is at the discretion of the Planning and Development Department, which releases funds for any scheme based on many variables on case-by-case bases. For a statement of new expenditure, the line department has to justify the authorization of expenditure to the Finance Department.

3.108. The most important determinant of release is receipt of the NFC share that is dependent upon actual collection of revenue by the federal government. In the previous two financial years, the revenue targets of the Government of Pakistan were revised downwards and even the revised targets were not met. As a consequence, the Finance Department has to withhold releases on ex ante approved budget on various expenditures — largely development expenditure.

3.109. The departments have reliable information on releases of recurrent expenditure for commitments to be incurred. On the development side (discussed in detail in PI-20), the departments have no reliable information for committing expenditure; in most cases, the commitments are much more than available funds. Once the Annual Development Program is approved, the department does not have discretion regarding prioritization. This indicator is assigned a “C” rating, down from its “A” in 2009 PFMAA. The rating has deteriorated because of over-committed development expenditure due to non-availability of information for commitment of expenditure at least 4 months in advance.

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

3.110. Adjustments to budget allocations take place during the year through numerous supplementary grants and re-appropriations. The re-appropriations are done at the level of departmental management. The Principal

Accounting Officer of each department has the authority to re-appropriate among different lines in the budget grant. The Executive, as empowered under the Constitution of Pakistan, can approve any number and size of supplementary grants (discussed in PI-27). Supplementary grants are given by the Finance Department without ex ante approval of legislature.

3.111. The Finance Department at completion of the first nine months of any financial year reviews the data and trend of actual expenditure by the departments. Based on the actual trend, the Finance Department reduces any budgetary allocation for the remaining 3 months of the financial year (i.e., April-June). Reductions in budget allocation may also take place from department requests of surrenders of any part of their allocated budget that is unlikely to be utilized during the year.

3.112. As opposed to the 2009 PFMAA where this dimension was rated "B", in-year supplementary budgets and re-appropriations for the period under review for the 2013 PFMAA are frequent with some level of transparency, leading to a lower "C" rating.

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

3.113. 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
	2009	2013	
Overall	B	C+	
(i) Quality of debt data recording and reporting.			Domestic and closed foreign debt records are complete, updated, and reconciled at least annually by Finance Department with Economic Affairs Division. Ongoing foreign debt is recorded by Planning and Development Department. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Statistics on debt stocks of domestic and closed foreign loans and reconciled debt servicing are published only occasionally.
(ii) Extent of consolidation of government's cash balances.	B	B	Cash balance report is received daily from State Bank of Pakistan but reconciliation remains a weekly task. Extra budgetary receipts are not consolidated.
(iii) Systems for contracting loans and issuance of guarantees.	C	C	Provincial government's contracting of loans is approved by multiple governme nt entities: Planning and Development Department in case of foreign loans and Finance Department in case of domestic loans ; and are not decided on the basis of clear guidelines, criteria, or overall ceilings.

(i) Quality of debt data recording and reporting

3.114. The maintenance of a debt data system and regular reporting on the main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt-service budgeting, timely service payments, and well-planned debt rollover.

3.115. Sindh debt portfolio comprises foreign loans; budget support, program, and project aid from the federal government to the province; and domestic loans in the form of cash development loans. The Foreign Aid Section of the Planning and Development Department tracks the disbursements in case of foreign loans while the Resource Wing of the Finance Department maintains domestic and foreign debt-service records. On the basis of these debt-service records, the Finance Department maintains debt stock of all closed foreign and domestic loans.[30] These debt-service and debt-stock numbers pertaining to closed foreign loans are reconciled annually with the Economic Affairs Division with a lag of 19 months. Data is considered of fairly high standard, though minor reconciliation problems remain outstanding.[31]

3.116. The Finance Department website provides information on the debt portfolio of the provincial government, including the reconciled debt service and stock of closed loans (foreign and domestic), and the applicable foreign exchange rates. However, the available data is outdated. For instance, in June 2013 the website shows the debt snapshot for June 30, 2011, a lag of 24 months.[32]

3.117. Based on the evidence available, this dimension receives a "C" rating mainly due to deterioration in timeliness of reconciliation practices. A higher rating would require at least a quarterly reconciliation, which is not being done.

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

3.118. The government's cash balances are reported by the State Bank of Pakistan on a daily basis, and reconciliation is done by the Accountant General on a weekly and monthly basis. Some funds remain outside the consolidation of cash balances (i.e., receipts of hospitals). The "B" rating is maintained for this dimension (ii); a higher rating would have required daily consolidation.

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

3.119. The Sindh Government cannot borrow on its own from international donors or the domestic market without approval of the federal government as per the Constitution of Pakistan.[33] The Sindh Government can have an overdraft facility for its Account I operations from the State Bank of Pakistan up to a maximum of six weeks of payroll expenditure, currently around PRs15 billion. All foreign loans of Sindh are under an on-lending arrangement through federal government. No specific law at the provincial level is in effect to impose a limit on provincial borrowing/extending loan guarantees.[34] Although the 18th Amendment to the Constitution gives additional autonomy to the provinces, it is subject to the limit set by the National Economic Council.[35] The Sindh Government Rules of Business 1986 nonetheless define the distribution of business among government departments.[36] These Rules legally hold the Finance Department responsible for "floatation and administration of provincial loans" and managing public debt, while the Planning and Development Department is responsible for "coordination of technical assistance from abroad, evaluation of the progress of development schemes and writing their critical appraisal, and foreign aid". The Rules do not cover issuance of guarantees.

3.120. 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 Sindh Government had a domestic debt of PRs15.77 billion and a foreign debt of PRs176.2 billion on June 30, 2012.[37]

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[30] Closed loans imply those loans that have been disbursed and are now in their repayment cycles. Foreign loans are always composed of closed (repayment mode) and ongoing (disbursement mode) loans. However, foreign debt stock is only made up of closed loans. As far as domestic debt is concerned, these are all cash development loans, which are in their repayment stage; therefore, the domestic debt stock is fairly accurate.

[31] This relates especially with respect to umbrella and third party foreign loans. Umbrella project loan is project aid benefitting more than one province and multiple institutions at a time. It can have multiple executing agencies and beneficiaries. Third party loans are disbursed to project authorities whose bank accounts are not linked to the provincial consolidated fund and, hence, are not routed via Sindh's Account-I maintained with the State Bank of Pakistan.

[32] Finance Department, Government of Sindh, website: www.fdsindh.gov.pk.

[33] A province must obtain permission to borrow from the federal government if it is indebted to the federal government or has a loan guarantee by the federal government (Part VI, Article 167, Clause 3 of the Constitution of Pakistan).

[34] The provincial government borrowing and issuance of loan guarantee should be subject to the limits fixed by the Act of Provincial Assembly if any (Part VI, Article 167, Clause 1 of the Constitution of Pakistan).

[35] The National Economic Council is a constitutional body with oversight responsibility on national economic policies. It is chaired by the Prime Minister and its membership includes two members, including the chief ministers, from each province and four federal members appointed by the Prime Minister. The Council must meet at least once every six months. Approval of the Annual Plan and the size of the Public Sector Development Program (PSDP), both federal and provincial, remains the responsibility of the National Economic Council.

[36] Rule 3(ii) Schedule-II, amended up to August 31, 2006.

[37] World Bank staff estimates.

3.121. This dimension maintains its "C" rating from the 2009 PFMAA. The Planning and Development Department is the responsible entity for contracting foreign loans at the provincial level and Finance Department for domestic loans, but the borrowing limits/ceilings have not been established.[38]

PI-18 Effectiveness of payroll controls

3.122. Wages are one of the biggest items of government expenditure; they constitute 28 percent of total expenditure of the Sindh Government.[39] 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).

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	B	C+	
(I) Degree of integration and reconciliation between personnel records and payroll data.	C	D	More than 95% of the payroll is now computerized. Process for regular reconciliation between payroll data and personnel records is not established.
(ii) Timeliness of changes to personnel records and the payroll.	B	A	Changes impacting the payroll are effected within a month by the Accountant General Sindh.
(iii) Internal controls over changes to personnel records and the payroll.	C	A	Changes to records are documented with audit trail available. Changes can be made in the system only by authorized persons having login names. Edit list of changes made in the master table is cross checked on daily basis.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	C	C	Auditor General of Pakistan conducts audit of payroll as part of audit of expenditures of Sindh Government. There is no practice of specific payroll audits. System to identify ghost employees is not comprehensive.

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

3.123. The Accountant General Sindh is tasked with running the payroll for Sindh Government employees. Payroll is centralized and automated using GFMIS developed under the Project to Improve Financial Reporting and Auditing (PIFRA). The payroll for more than 95 percent (450,000 employees) of the Sindh Government staff is currently being processed through this system, which was installed in 2009. Salary payments to employees are issued directly to bank accounts through GFMIS generation. In case of arrears of salaries or payments (other than monthly regular salary), manual checks are also prepared. Subsequent to this assessment, this practice has been stopped with effect from January 1, 2014 and any payment of arrears is also disbursed through supplementary-/-off-cycle payroll run.

3.124. The original personnel records are maintained manually, and data necessary for payroll processing through GFMIS is supported by the personnel files. Time lag between changes to both records is usually within a month. Personnel records of the entire government workforce were entered into the system from the original personnel records in the past four years. Subsequently neither data validation nor a quality assurance exercise has been conducted. Concerns have been raised regarding the poor quality of data. Several instances of invalid or duplicate records were noted in the GFMIS payroll data for the education sector employees in a cursory review conducted in 2011, raising questions on the integrity of data. A few initiatives to make improvements were undertaken, but a comprehensive review for reconciliation of the records is still required.

3.125. This dimension receives a "D" rating since a higher rating requires a regular process of reconciliation between personnel records and payroll at least every six months. In the 2009 PFMAA, the GFMIS was still being established and some level of reconciliation was being conducted.

[38] Even though all development projects (and the resulting loans) must be aligned with the provinces' development priorities.
[39] Audited Financial Statements FY 2011/12, Government of Sindh.

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

3.126. Changes to personnel data, arising out of recruitment, promotion, transfer, and increment in salary are submitted by the Drawing and Disbursing Officers to the payroll processing units of the Accountant General Sindh. When the Accountant General Office receives authorized changes by the 10th of any month, then these are incorporated in the same month while those received after the 10th 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. Such changes are very few and applicable in individual cases and are certainly below 3 percent of the payroll. This dimension receives a higher rating of "A" due to improvement in timeliness of changes.

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

3.127. Procedure for changes in the master table in GFMIS is centralized, transparent, and rule based.[40] Proper log for changes made in the system is maintained for both new recruitment and existing employees. No change in personnel records can be made without complete documented approval of competent authorities. An audit trail is available for changes made in GFMIS. Several compliance-related observations are raised in the audit reports for changes in personnel records, which are maintained manually in many different locations depending on type and grade of employee. Due to improvements in the process related to full implementation of GFMIS, the rating for this dimension is improved to "A".

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

3.128. After salary disbursement, the Accountant General Office sends pay slips to the Drawing and Disbursing Officers for employees mapped to them to ensure that only eligible employees continue to remain active in payroll. However this control only functions on a no-objection basis. In recent years several instances of "ghost employees" have surfaced in Sindh Province; and despite some attempts, no exercise for confirming list of employees has been conducted. Payroll is subject to external audit by the Auditor General of Pakistan, wherein payroll is part of the scope of the audit. As per audit procedure in vogue, the Auditor General of Pakistan audits each entity of provincial government at least once in three years. No internal audit function exists, nor is there any practice of specific payroll audit. Since no specific payroll audit has been conducted in the last three years, this dimension retains its "C" rating.

PI-19 Transparency, competition, and complaints mechanisms in procurement (revised 2011)

3.129. The assessment criteria for this indicator have been substantially changed since the 2009 PFMAA. 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). The 2009 PFMAA was supported with a Baseline Indicator Survey (BIS), which elaborated upon PI-19. As part of the current assessment, the BIS has also been updated so as to provide a succinct picture of the procurement environment.

3.130. To ensure that public money is used effectively for delivery of program and services, the Sindh Government passed Public Procurement Act 2009 followed by Public Procurement Rules 2010. These rules are applicable on all entities whether autonomous or otherwise under the Sindh Government for procurements of goods, works, and services, including consultancy services and public-private partnership projects.

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[40] For a new recruitment, the Drawing and Disbursing Officers prepare a specific form and attach therewith appointment order, notification of selection by Principal Accounting Officer, medical certificate, copy of computerized national identity card (CNIC), joining report, bank account number, CV, etc. The form is received by Accountant General Office and sent to the pre-audit section for examining whether all documentation and authorization are in order. If yes, the personnel file of newly recruited person is sent to Deputy Accountant General (Computer), which authorizes action by the Data Control Cell. The Data Control Cell checks for classification and proper codification and then sends the file to the Data Processing Unit. Data Processing is the only authorized office to make changes in the master table of GFMIS; after making the required changes, Data Processing sends the file along with edit list generated from GFMIS. The edit list is sent to the Data Control Cell for verification and signing.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	NA	C+	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	NA	A	The legal framework meets all of the six listed requirements.
(ii) Use of competitive procurement methods.	NA	D	Consolidated reliable data for contracts awarded by method other than open competition is not available.
(iii) Public access to complete, reliable and timely procurement information.	NA	D	Bidding opportunities information is generally publicized through electronic and print media. For the remaining three requirements (procurement plan, contract award, and complaint resolution) there is however no evidence or data available.
(iv) Existence of an independent administrative procurement complaints system.	NA	B	An overall set up of independent complaint redress is provided, with time frame and disclosure requirements but access is not free of cost. Five out of the seven criteria are met, including criterion i and ii.

3.131. The Sindh Public Procurement Regulatory Authority (SPPRA) Board is chaired by the Provincial Minister for Law and comprises the secretaries for Finance, Planning and Development, Health, Information Technology, Irrigation, and Works and Services; President of the Chamber of Commerce; representatives of Pakistan Engineering Council, Office of the Auditor General, and Transparency International Pakistan; Members of the Provincial Assembly nominated by the Sindh Government; and the SPPRA Managing Director.

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

3.132. This dimension is scored according to whether the requirements listed in Table 3.13 are met. The Requirements (a), (b), (c), (d) and (f) of this dimension are generally met.

Table 3.13 Compliance with Requirements for Procurement Legal and Regulatory Framework

The legal and regulatory framework for procurement should:	Status of compliance
(a) Be organized hierarchically and precedence is clearly established.	Requirement met.
(b) Be freely and easily accessible to the public through appropriate means.	Requirement met.
(c) Apply to all procurement undertaken using government funds.	Requirement met.
(d) 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.
(e) 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 met; the rules provide for public disclosure of all of these documents.
(f) Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Requirement met.

3.133 The Public Procurement Act 2009 provides for setting up of SPPRA, the rules are notified and these refer to the regulations as well as standard bidding documents and standard Request for Proposals. The SPPRA website posts the rules, relevant notifications, and standard bidding documents. The Public Procurement Rules are applicable to all procurements using public funds of the Sindh Government, and competitive method is the default procurement method (Rule 15). Rule 31 stipulates that a complaints redressal committee shall be set up at the departmental level and an independent review panel shall be set up as a second tier of appeals. Disclosure of complaint resolution data is also stipulated. Although the rules require for pre-award disclosure (Rule 45) and publication of contract award (Rule 50), such disclosures are not made. Likewise Rules 11 and 12 require for the procurement plans to be prepared and posted on the websites.

3.134 Since all of six requirements have been met, this dimension receives an “A” rating.

(ii) Use of competitive procurement method

3.135. In general it is understood that if methods other than competitive methods are adopted for procurement, a separate set of approvals are required from the concerned competent authority. There is no data available on such instances where competitive methods were not used in procurement. Recent audit reports were also reviewed, but the pattern of the information is such that it is not possible to come to a number or percentage of contracts awarded through other than competitive method with proper justification. For that matter a total universe of contracts awarded is also not readily available. The requirement for scoring this dimension however is the availability of consolidated data showing the number of procurements done by non-competitive methods. Hence this dimension receives a “D” rating.

3.136. The SPPRA is working toward developing a procurement performance management information system that should facilitate monitoring and evaluation through adequate database management of all procurements.

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

3.137. Information regarding bidding opportunities is generally available to the public through electronic and print media. Other required information (i.e., procurement plan, contract awards, and resolution of procurement complaints) is not published on websites although it is stipulated under the rules.

3.138. This dimension is scored in accordance with public availability of key procurement information through appropriate means. The current status assessed is as follows: (a) government procurement plans (requirement not met); (b) bidding opportunities (requirement met); (c) contract awards (requirement not met); and (c) data on resolution of procurement complaints (requirement not met). Since the Sindh Government currently lacks a system to generate substantial and reliable coverage of key procurement information, the dimension receives a “D” rating.

(iv) Existence of an independent administrative procurement complaints system.

3.139. Complaint redress mechanism is addressed under Rules 31 and 32 of the Public Procurement Rules. There is two-tier appeals mechanism, one at the departmental level and the second independent review panel. Dimension (iv) is scored according to how the criteria (1)-(7) are fulfilled (Table 3.14) and are met by the body reviewing procurement complaints. Criteria (1) and (2) are met as Rule 32 stipulates that the review panel would comprise a long list of technical and legal experts, out of which a panel of at least three shall be drawn to review a particular complaint. A complaint registration fee (ranging from PRs30,000 to PRs200,000) is levied for redress of grievances. A subsequent amendment in the relevant rule has annulled this registration fee. The said rules define the procedure with timelines. The review panel is authorized to annul any act of the procuring agency found to be in contravention with the rules. The decision is required to be given within 30 days of lodging the complaint, but there is no evidence that this review mechanism has done any review. The decision is binding on parties and there is nothing in the rules that precludes the parties to go to the court of law.

3.140. The complaints system under this dimension meets five of the seven criteria, including criteria (1) and (2), which gives it a "B" rating

Table 3.14. Criteria for Independent Procurement Complaints System

(1) Comprises 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 met.
(2) Not involved in any capacity in procurement transactions or in the process leading to contract award decisions.	Requirement met.
(3) Does not charge fees that prohibit access by concerned parties.	Requirement not met. Complaint registration fee being levied as per Para 31 sub -para 10© and appendix A of Sindh Public Procurement Rules 2010.
(4) Follows processes for submission and resolution of complaints that are clearly defined and publicly available.	Requirement met.
(5) Exercises authority to suspend the procurement process.	Requirement met.
(6) Issues decisions within the timeframe specified in the rules/regulations.	Requirement not met.The rules do give a time frame of issuing decision, however no data is available that could show performance of the review panel.
(7) Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Requirement met. The rules stipulate that the consolidated and reliable data not available or maintained to substantiate that decision taken are binding on concerned parties.

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

3.141. 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 that 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
	2009	2013	
Overall	C	C	
(I) Effectiveness of expenditure commitment controls.	C	C	Limiting expenditure to actual availability of cash is controlled at payment stage instead of commitment stage. Expenditure commitment controls are partially effective and are occasionally violated.
(ii) Comprehensiveness, relevance and understanding of other internal control rules and procedures.	C	C	Other controls exist for basic areas that 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.	C	C	Compliance is observed in significant majority of transactions but simplified procedures adopted in assignment accounts is a concern.

(i) Effectiveness of expenditure commitment controls.

3.142. The Sindh Government has established control for expenditure at commitment level separately for development and non-development expenditure. Under the financial rules the authority to commit development expenditure is given to the Principal Accounting Officers. Commitment recording and reporting, while officially functional, is yet to be made operational which makes the control of non-salary expenditure weak. Budgetary check applies at the payment stage, and it is not uncommon for line departments to enter into agreements while no funds are available, resulting in stoppage of work on account of non-payment.

3.143. On the development side, no expenditure can be committed unless the development scheme has been approved by the competent forum. The rules further require feasibility reports for any project over PRs300 million as pre-requisite for inclusion of a scheme in the Annual Development Plan. Moreover, no development scheme is to be approved unless proper and timely financing is available. These controls, although comprehensive, are often not strictly adhered to or exceptional procedures are invoked. Documentary evidence of the fulfillment of all these requirements is not always available. As a result of all these factors, the current Annual Development Plan is 10 times the development budget of FY2012/13.

3.144. The cash availability is monitored by the Finance Department and controlled through a release mechanism. 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 expenditure to actual approved budget releases.

3.145. Since the controls are applied at the payment stage instead of at commitment stage-checks at commitment stage for development expenditure are occasionally violated-a "C" rating remains applicable for this dimension.

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

3.146. Internal controls are the process by which an organization governs its activities to effectively and efficiently accomplish its mission.[41] This includes whole system of controls, financial or otherwise, including procurement, assets management, records management, debt management, and payroll controls. The Sindh Government internal control system for expenditure is based on a series of regulations, including the New Accounting Model, General Financial Rules, Treasury Orders 1922, Sindh Fiscal Transfer Rules 2004, Sindh Civil

[41]Definition provided by INTOSAI – Internal controls providing a foundation for accountability in Government.

Servants Rules 1976, Sindh Government Rules of Business 1986, Delegation of Financial Powers, and the Secretariat Instructions 1994. Most of these regulations were enacted a few decades back but have undergone several revisions from time to time. A review and revision is required to ensure consistency internally as well as with the existing organizational and institutional structures of 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. The rules and procedures are well understood by those directly involved in their application such as the Accountant General Sindh, but not by those in the spending units.

3.147. Budgetary controls are exercised through GFMIS at payment stage for non-salary expenditure. The GFMIS is updated for revised budgets and supplementary budgets. The cash management is done by the Finance Department through mechanism of releases. No payment can be issued unless release of funds for it has been authorized by the Finance Department.

3.148. Previous audit reports have noted that often the management of departments failed to comply with the established procedures. Lack of attention on part of management indicates improper watch and absence of systemic internal controls. It has been highlighted in the audit reports that control consciousness within departments is insufficient and capacity building of financial managers of the departments is required. The situation remains unchanged from the 2009 PFMAA; therefore a “C” rating is assessed for this dimension.

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

3.149. Compliance with rules is the primary responsibility of the Principal Accounting Officer; the Accountant General Sindh ensures this in their pre-audit function before executing any payment. Rules for recording and reporting transactions are complied within the government in a majority of transactions. The audit reports for years 2009/10, 2010/11, and 2011/12 contain numerous audit observations of non-compliance of rules and regulations without adequate justifications, although the amounts involved are not always significant. Weak implementation of internal controls, absence of internal process for timely identification of lapses, and nonexistence of internal audit are cited in the audit reports as the main reason for non-compliance.

3.150. As of May 2013, there were 122 assignment accounts authorized by the Finance Department. The assignment accounts follow simplified procedure for payments of expenses. Payments through assignment accounts bypass the pre-audit check applied by the Accountant General Sindh and operate under relevant policy and rules issued by the Finance Department. Funds are transferred to assignment accounts under identified account head and cost center. Such simplified procedure gives rise to weak internal control and high risk of non-compliance with rules and regulations. The Auditor General of Pakistan has reported several instances of irregularities and non-availability of underlying records related to expenditures incurred from assignment accounts. The Finance Department is in the process of reviewing all existing assignment accounts for the purpose of identifying any which may be considered as unjustified. To date, no assignment account has been delisted despite concerns being raised on accounts being used for expenditures for which established procedures exist such as hiring of employees. Budget for Sindh Revenue Board was shifted from assignment account to regular budget for FY2012-13 but then moved to a one-line budget executed through assignment account during the year even though complete payroll data for all SRB employees is available in the GFMIS. This dimension therefore retains its “C” rating.

PI-21 Effectiveness of internal audit

3.151. 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
	2009	2013	
Overall	D	NR	
(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	D	As a consequence of (i) no reports are issued.
(iii) Extent of management response to internal audit findings.	D	NR	As a consequence of (i) and (ii) there is no information available to score this dimension.

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

3.152. The Accountant General Sindh applies certain pre-audit checks before processing any payment. In pre-audit function, the Accountant General Office checks whether budgeted funds are available, the payment is supported by appropriate documentary evidence, the payment has been approved by the competent authority, and other rules and regulation are complied with. However, these processes cannot be termed as an alternative of internal audit function. The internal audit as an institutional arrangement continues to remain absent in the Sindh Government. Therefore this dimension (i) maintains a "D" rating.

(ii) Frequency and distribution of reports

3.153. In view of the previous dimension (i), no reports are generated. Therefore this dimension maintains a score of "D".

(iii) Extent of management response to internal audit findings

3.154. In absence of an operational internal audit function and the related reporting there is no information available for scoring this dimension and therefore it receives "NR", not rated.

E. Dimension of Performance: Accounting, recording, and reporting

PI-22 Timeliness and regularity of accounts reconciliation

3.155. 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
	2009	2013	
Overall	C+	D+	
(I) Regularity of bank reconciliations.	B	D	Reconciliation of district cash balances are not reconciled and reported. Auditor General of Pakistan has pointed out an un- reconciled difference in the provincial consolidated account of PRs955 million.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	C	C	Monthly clearinghouse meetings are scheduled for all accounting offices and Drawing and Disbursing Officers. Printouts for expenditure against each Drawing and Disbursing Officer are issued; however, many Drawing and Disbursing Officers do not reconcile their balance with Accountant General Office.

(i) Regularity of bank reconciliations.

3.156. State Bank of Pakistan and National Bank of Pakistan (as agent of State Bank of Pakistan) act as bankers of the Sindh Government. The State Bank of Pakistan clears all payments in Karachi; the National Bank of Pakistan clears all other districts of Sindh. Daily payments and receipts of the Sindh Government from all over the province are compiled and consolidated by the State Bank and reported to the Finance Department and Accountant General Sindh. The Accountant General Office on daily basis receives original checks as cleared by the State Bank along with the bank scroll. The identifying number on the cleared checks is entered into the GFMIS check register. At any point in time, the GFMIS can generate complete list of checks that have been issued but not presented. Bank scroll and cleared checks are also verified for authenticity.

3.157. Errors identified by Accountant General Office are corrected with the State Bank of Pakistan. Errors usually occur when the National Bank of Pakistan must account for any federal receipt or payment in provincial accounts or vice versa. After adjustment of such errors the State Bank of Pakistan confirms the revised cash balance situation. However, the process takes place with an average delay of six months.

3.158. Timeliness of reconciliation of civil accounts and public accounts is a serious issue. Any aggregate difference in bank balances as reported by State Bank of Pakistan and Accountant General Office is not explained and reconciled through any report or exercise. The Auditor General of Pakistan has raised this issue in its report addressed to the Sindh Government: the net un-reconciled difference in provincial account for FY2011/12 was PRs955 million, comprising opening balance PRs538 million and the current year amount of PRs417 million — both in debit.

3.159. The Auditor General of Pakistan has further stated that monthly bank reconciliations of Provincial Accounts I and II are carried out by the Accountant General Sindh, therefore such differences should not arise. However, in the district cash balance cell, neither Bank reconciliations are performed nor bank positions maintained. In the 2009 PFMAA, the districts were considered separately and rated poorly, giving this dimension a "B" rating due to the regular reconciliation of treasury-managed bank accounts and mechanism of fiscal monitoring committee. Since no reconciliation is currently taking place at aggregate level with concerns over district bank reconciliation, this dimension (i) receives a "D" rating.

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

3.160. In addition to the bank reconciliation procedures, all Drawing and Disbursing Officers are issued monthly printouts of account statements from the Accountant General Office for reconciliation and confirmation of entries appearing against their cost centers. As per policy, monthly reconciliation of receipt and expenditure is to be carried out between the administrative departments and the accounting offices on the basis of records kept by the Accountant General Office and administrative department. There are many instances where the Drawing and Disbursing Officers have not signed off their accounts with the Accountant General Office. To ensure compliance with the monthly reconciliation policy the Accountant General Office has requested the Finance Department to issue instructions for blocking payments where reconciliation is pending for more than nine months. However, this request remains pending.

3.161. The public account had a suspense account balance of PRs14.37 billion, the District Account Office suspense balance was PRs46 million (annual Budget Statement 2012), and the State Bank of Pakistan suspense balance was PRs444 million. The State Bank suspense as at June 30, 2012 was cleared by January 2013, but other suspense accounts remained uncleared until October 2013. Problems arise when expenditures are recorded against the consolidated fund when authority to spend is transferred to a suspense or assignment account. Actual expenditure is recorded only when funds are spent from the relevant public or donor-funded project account. Age analysis of suspense accounts reveals that some transactions are several years old.

3.162. Although there is a policy of monthly reconciliation, implementation is varied. There are significant balances in the suspense account, which is brought forward as discussed above; the facts earn a "C" rating for this dimension, unchanged from the 2009 PFMAA.

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

3.163. Front-line service delivery units supplying community-level institutions such as schools and health clinics often face problems obtaining resources, whether in terms of cash transfers, distribution of material in kind, or centrally recruited and paid personnel. The indicator is measured by collecting and processing information to demonstrate the resources that were actually received (in cash and in kind) by the most common, front-line service, delivery units (with 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
	2009	2013	
Collection and processing of information to demonstrate that resources were actually received (in cash and in kind) by the most common fron t-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 and Finance Department website 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.

3.164. Since the 2009 PFMAA, 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 department now has access to the GFMIS to monitor spending against budget. The service delivery units in health and education sectors can also get their up-to-date budget reports from the district account office in the corresponding districts.

3.165. The Sindh Government now prepares schools' specific budget. Each Drawing and Disbursing Officer responsible for either school or health care facility can access information on the budgeted revenue or capital expenditure allocation from the Finance Department website.[42] All Drawing and Disbursing Officers have direct information on actual spending, original allocation, and revised budgetary estimate.

3.166. Considering the improvements made in making information available, particularly the connectivity to all line departments and schools' specific budgets, this indicator receives an improved "A" rating.

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

3.167. Ability to effectively execute the budget requires the availability of timely and regular information on actual budget performance. Availability of this information is required by both the Finance Department and Cabinet in order to monitor performance and, if necessary, to identify new actions to get the budget back on track, and also by the departments 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.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	C+	C+	
(I) Scope of reports in terms of coverage and compatibility with budget estimates.	C	C	Government fiscal reports are generated from GFMIS every month giving high- quality information; however, expenditure is recorded at payment stage. Non-recording of expenditure at commitment level continues to be a major deficiency to improve score.
(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.	C	C	Regular reconciliations occur for expenditure data recorded against each Drawing and Disbursing Officers and Accountant General Office. Several misclassifications in budgetary allocations as of June 30, 2012, have been noted. There are instances where Drawing and Disbursing Officers have not signed off on accounts with Accountant General; however, these do not fundamentally undermine usefulness of the reports.

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

3.168. The usage of the GFMIS, application of the New Accounting Model, and capacity building of accounting staff have strengthened the financial reporting mechanism. The usage of a uniform chart of accounts for budget formulation and execution at provincial and district levels enables uniform classification of data and direct comparison with the original budget estimates. Commitment and liability accounting, provided for in the New Accounting Model, is still not operational. Expenditure is fully captured only at the payment stage.

3.169. In-year budget reports are generated through GFMIS. The GFMIS produces reports for budgeted expenditure at the lowest level (Drawing and Disbursing Officers) for capital as well as revenue expenditure, giving a comparison of original budget, revised budget, cost during the month, and cost from start of the fiscal year to date of report.

3.170. Payments through assignment accounts are captured only to the extent of expenditure endorsed by the Treasury. At the year-end, all un-presented checks and related expenditure are reversed and any liabilities not

[42] Finance Department website, www.fdsindh.gov.pk.

fully met are carried to the next fiscal year. As expenditure is not fully covered at both commitment and payment stage, a "C" rating continues to be assessed for this dimension.

(ii) Timeliness of the issue of reports.

3.171. Users of GFMIS can obtain in-year budget reports any time 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. Viewing access to the GFMIS is available to line departments that can generate financial reports at any time to facilitate analysis and decision-making. This dimension maintains an "A" rating.

(iii) Quality of information.

3.172. Since May 2012, the Accountant General Office closes and reconciles accounts with each Drawing and Disbursing Officers on monthly basis. In some cases when the Drawing and Disbursing Officer is not reconciling the expenditure data, they are compelled to try and reconcile by blocking further transactions. However, from interviews by the assessment team it was learned that there are still many Drawing and Disbursing Officers, as of June 2012, whose accounts have not received sign-off. In many cases, expenditure pertains to salary and allowances, which cannot be blocked. Moreover, there were 122 assignments that were approved by the Finance Department as of June 30, 2012, for which data input and reconciliation is a concern. There are errors pertaining to misclassification of cost centers within allocated budgets to various Drawing and Disbursing Officers (as noted in PI-5). Some errors pertain to mistakes at data-entry level. Therefore, this dimension continues to receive a "C" rating.

PI-25 Quality and timeliness of annual financial statements

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	B	C+	
(i) Completeness of financial statements.	B	C	Financial statements lack disclosure of third party payments, do not capture some grants/loans received, and do not give information of assets and liabilities. Such shortcomings were not considered during assessment in 2009.
(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	Financial statements are being prepared under cash basis of accounting and are aligned with the format given by the cash basis IPSAS, but are fully compliant only in terms of format. The Controller General of Accounts and Auditor General of Pakistan are working together to make sure full compliance with cash basis IPSAS.

(i) Completeness of financial statements.

3.173. A consolidated set of annual financial statements is prepared by the Accountant General Sindh in accordance with the New Accounting Model. Information pertaining to receipts and expenditures is complete except for expenditure met out of foreign-funded projects, wherein the project authorities are not required to endorse their payments of assignment accounts with Treasury/District Accounts Office for capturing of this expenditure into GFMIS.

3.174. As stated in Note 3 to Annual Financial Statements FY2011/12 of the Government of Sindh, "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 New Accounting Model." With regard to bank balances, there are un-reconciled balances as described in PI-22. Moreover, funds maintained by the Fund Management Unit (within Finance Department) have Sindh Government ownership; therefore the closing balance of these funds should be added in the closing balance of financial statements of the Sindh Government, which is not the case.

3.175. There are many entities like the Forest and Public Works Departments and hospitals that are financing part of their expenditure from own-source income. It is not possible to fully ascertain this amount but to the extent the assessment team reviewed particular examples, the amount was not significant (e.g., income of Forest and Works departments for FY 2011-12 was PRs101 million. In such cases, expenditure and income is not consolidated in the financial statements. A "C" rating is therefore given to this dimension. The deficiencies noted above were not considered in the 2009 PFMAA.

(i) Timeliness of submission of the financial statements.

3.176. The annual financial statements are prepared and submitted for external audit within six months of the fiscal year-end. The Controller General of Accounts has given a deadline of August 31 of every year for preparation of financial statement for fiscal year ending on June 30th. During the last three years the deadline has been met by the Accountant General Sindh, except for year 2010/11 due to reversal of devolution of district government. However for that year, the financial statement was submitted well before the end of 6 month. In reality, the timelines are unrealistic. Although the financial statements are submitted in time, the accounts of the departments are not finalized; adjustments are made even after lapse of six months, allowing lesser time for the Auditor General of Pakistan to audit final figures. An "A" rating is given for this dimension since accounts are submitted within six months of year-end.

(ii) Accounting standards used.

3.177. The Sindh Government financial statements 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 cash-basis IPSAS is restricted to only using the format of financial statements. Gaps remain in the full implementation of the accounting procedures as stated in the New Accounting Model, which requires stand-alone reporting of assets and liabilities as a note to the financial statements. Cash-basis IPSAS also requires disclosure of third party payments. However, the Auditor General of Pakistan has issued a modified opinion on the financial statements of the three preceding years for non-compliance of disclosure procedure of cash-basis IPSAS. A "C" rating is therefore given for this dimension. These aspects of non-compliance were not considered in the 2009 PFMAA.

F. Dimension of Performance: External scrutiny and audit

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

3.178. A high-quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of an actual external audit comprise the scope and 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
	2009	2013	
Overall	D+	C+	
(I) Scope and 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.	D	C	In many cases, the Departmental Accounts Committee is not convened. However, the formal response to audit observations is made during PAC hearings.

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

3.179. Article 169 and 170 of the Constitution provide for the external audit of the provincial governments to be carried out by the Auditor General of Pakistan. The Director General (Audit) Sindh, a sub-office of the Auditor General of Pakistan, carries out the audit of provincial departments and entities. The constitutional mandate is elaborated through the Auditor General Ordinance 2001. The 18th Amendment to the Constitution has increased the Auditor General's independence from the Executive by protecting the tenure of the Auditor General, bringing all public sector entities within this position's audit jurisdiction, and empowering the Auditor General to independently determine the nature and extent of audits.

3.180. Adopted in 2005, a Financial Audit Manual was commissioned in June 2006 by the Auditor General of Pakistan for use in field audit offices for conducting certification and compliance with authority audits. The Manual is based on the INTOSAI Auditing Standards and guidelines and other international good practice and is generally compliant with International Standards on Auditing. It covers the entire audit cycle and provides guidance with regard to the methods and approaches that can be applied by auditors for conducting the audit of government entities in Pakistan. While transaction audits are undertaken, a risk-based approach has been adopted and is required to be properly documented. It provides for systemic analysis, including review of internal control structures. The audit personnel are trained on a continuing basis in the use of the risk-based and systemic approaches. However, the implementation of the Financial Audit Manual is still not fully successful due to lack of capacity to use computer-assisted audit techniques, risk-based audit samplings, and non-documentation of audit work planned and performed. As a result, audit reports merely consist of exception reporting without backing of sufficient audit evidence to conclude that the Sindh Government accounts are free from material error.

3.181. The Auditor General of Pakistan carries out an array of audit activities in accordance with the INTOSAI Auditing Standards, and international good practice. These include financial attest, regularity and compliance audits, performance audits as well as special audits and studies on areas of public interest. In many cases, records are not produced for audit, but the Auditor General of Pakistan issues no disclaimer. Table 3.15 provides examples of such instances from the FY2011/12 audit reports of various departments.

Table 3.15 Audit Reports FY 2012/11

Department	PRs millions	Remarks
Health	225.125	Record not produced on 8 different offices.
Home Police	121.906	Non-production of records for Prs121 million byCCPO Karachi office and PRs0.906 million by SSP.
Irrigation & Power	560.075	Detail is not provided.
Local Government.	117.058	Director General, Sehwan Development Authority, Jamshoro, did not provide the auditable record.
Mines and Minerals Development	548.009	Chief Inspector of Mines did not provide the requisitioned record.
Minorities Affairs	100.000	Secretary, Minorities Affairs Department, made an allocation of PRs100 million under head of "Poor Peoples and Religious Places of Minorities" during the FY 2009/10 but the record of disbursement of above grant was not provided to audit.
Organs of state	47.500	Principal Secretary to Governor Sindh paid an amount of Prs47.5 million to various organization/authorities on account of grant in aid during the FY 2010/ 11, but the adjustment record was not provided.
Planning and Development	1,040.432	Secretary, Planning and Development Department, Karachi, did not provide the auditable record of PRs1,040.432 million to audit.
Sports and Youth Affairs	24.84	The offices of Sports and Youth Affairs Department incurred expenditure of PRs 24.840 million, but the auditable record of expenditure was not provided to audit.
Tourism	77.063	Director General, Gorakh Hills Development Authority, did not produce auditable record of PRs77.063 million to audit.
Agriculture	131.357	Non-production of record was pointed out to the Agriculture Department in the months of August, October, and December 2011, but no reply was received until finalization of audit report.
Board of Revenue	561.171	Detail is not provided.
Culture	161.707	Detail is not provided.

3.182. The Sindh Government prepares financial statements on cash-basis IPSAS. Data contained in financial statements for assets and liabilities is not complete and therefore is not subjected to audit by the Auditor General of Pakistan. The rating has improved because of the amendment in the Constitution of Pakistan and improvement in audit approach and methodology as stated above. The "B" rating is relevant in this dimension (i).

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

3.183. Significant improvements have been made in timing of the external audit during the past three years. The Auditor General of Pakistan has given a deadline of February 28th every year for submission of audit reports of previous financial year (ending June 30th). The Accountant General Sindh through Controller General of Accounts submits its financial statements on August 31st for any financial year-end. The Auditor General of Pakistan submits its audit report to the Governor of Sindh who causes it to be laid before the Provincial Assembly. As evident from Table 3.16, the time of submission of an audit report to provincial legislature is within 8 months from the date of submission of financial statement to the Auditor General for audit. This dimension (ii) has therefore earned an improved "B" rating.

Table 3.16 Timetable for External Audit of Provincial Accounts

Financial year ending June 30	Date sent to governor for causing it to be laid before Parliament	Period between submission of financial statements and submission of audit report
2010	March 2, 2011	Less than 8 months
2011	March 13, 2012	Less than 8 months
2012	March 7, 2013	Less than 8 months

(iii) Evidence of follow up on audit recommendations

3.184. The Audit Code and Manual of Standing Orders requires audit observations to be communicated to the audited departments; a formal response is requested within a defined time period. The departments are required to hold meetings of a Departmental Accounts Committee, which is led by the head of department. In many cases the Departmental Accounts Committee is not convened; however, formal responses to audit observations have been made during the last three years during hearings of the Public Accounts Committee. The Departmental Accounts Committee is one of the major internal controls established within government rules to give effectiveness to the audit of the Auditor General of Pakistan, wherein the head of department seeks within their own sub-ordinates their response on audit observations. This dimension receives a "C" rating because the Departmental Accounts Committee is not convened in many cases, but processes have improved since 2009 PFMAA where evidence of formal response was largely non-existent.

PI-27 Legislative scrutiny of the annual budget law

3.185. 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
	2009	2013	
Overall	D+	D+	
(I) Scope of the legislature's scrutiny.	B	C	The legislature's review covers detail of expenditure and revenue at a stage when detailed proposals have been finalized.
(ii) Extent to which the legislature's procedures are well established and respected.	B	B	The procedure for legislature's budget reviewis simple, well established, and respected.
(iii) Adequacy of time for the legislature to provide response to budget proposals, both detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	D	D	The budget proposal is presented to and adopted by the legislature within the month of June every year, thereby allowing less than one month.
(iv) Rules for in-year amendments to the budget without exante approval by the legislature.	B	C	The rules are clear and respected. These allow both extensive reallocation and expansion of exante-approved budget by the legislature.

(i) Scope of the legislature's scrutiny.

3.186. Under the parliamentary system of democracy present in Pakistan, the Executive is given a dominant role to adopt fiscal policies as per its own vision. The legislative role in budget formulation is limited to an extent that it can only bring in a cut motion. Practically, the budget is presented and approved by the legislature according to discretion of the Executive. The fiscal policies, MTFF, and medium-term priorities do not receive approval by the Parliament or even by the Cabinet. As stated in PI-6, detailed budget documents are submitted for legislative approval along with the supplementary budget of previous year for ex post approval. Evidence shows that the budget from the last three years has been approved as tabled. The Executive submits the details of estimated revenue and expenditure as a finance bill at a stage when detailed proposals have been finalized. The situation is the same as for the 2009 PFMAA but earned a higher rating due to approval of MTFF by Cabinet. Due to absence of that step in the last three years this dimension (i) is assessed at "C" rating.

(ii) Legislative procedure for budget review.

3.187. The annual budget statement, revised budget estimate (supplementary budget) of previous year, and the Sindh Finance Bill are presented to the legislature usually in the second week of June each year by the provincial Minister for Finance. For the budget proposal FY2012/13, the finance minister gave a briefing of the budget-making process to members of the Provincial Assembly from all parliamentary parties for their inclusion in the budget-making process. This was unprecedented, and there are no institutional arrangements to support this process.

3.188. The simple and respected procedure for legislature's budget review 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. The "B" rating is therefore maintained.

(iii) Time for review of budget proposals.

3.189. The budget for the following year along with supplementary budget of current year for ex post approval is tabled and adopted within 2 to 3 weeks. For instance, for FY 2012/13 the budget was presented on June 12, 2012, and was approved by the legislature on June 25, 2012. In all previous three years, the budget was presented and approved within June allowing less than one month for the legislative review. Accordingly, the "D" rating is maintained.

(iv) In-year budget amendments by Executive.

3.190. The Executive is empowered under Article 124 of the Constitution of Islamic Republic of Pakistan to approve supplementary grant of any amount:

The provincial government shall have the powers to authorize expenditure from the consolidated fund, whether the expenditure is charged by the constitution upon that fund or not, and shall cause to be laid down before the Provincial Assembly a Supplementary Budget Statement, or as the case may be, an excess budget statement, setting out amount of that expenditure.

Thus the Executive is required to get ex post approval of the supplementary grant from the Provincial Assembly along with the next year's budget.

3.191. The rules are clear and respected. The procedure is the same as at the time of the 2009 PFMAA but this dimension was erroneously rated as "B". Due to the powers with the Executive allowing expansion of total expenditure in addition to re-appropriation, a "C" rating is assigned.

PI-28 Legislative scrutiny of external audit reports

3.192. 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 of the Sindh Provincial Assembly, which examines the external audit reports and questions responsible officials about the findings of the reports. The operation of the committee depends on adequate financial and technical resources, and on adequate time being allocated to keep up to date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the Executive, in addition to adopting the recommendations made by the external auditors.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	D+	D+	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	D	D	Though there has been commendable improvement during last few years but due to huge backlog, the Public Accounts Committee of the Sindh Provincial Assembly is currently reviewing the audit reports of 2008/09. Audit reports received within the last 3 years have not been discussed.
(ii) Extent of hearings on key findings undertaken by the legislature.	B	A	Public Accounts Committee conducted hearings regularly with head of departments and concerned officials and discussed all material audit observations with them.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	B	B	Public Accounts Committee issues directives for implementation by the Executive. However, follow-up reports of Auditor General of Pakistan suggest that Executive implemented some of the directives.

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

3.193. Public financing is controlled by the Parliament through a process, exercised by the public representatives in two stages: proposal stage and the result stage. At the proposal stage the government presents budget proposals for the Provincial Assembly's approval, which is imperative to give effect to its policies and programs. The result stage relates to the control over the expenditure of public money. This is the stage where the Public Accounts Committee plays its role by examining the appropriation accounts of the provincial government. Under Article 171 of the Constitution, the Auditor General of Pakistan submits annual audit reports to the Governor of Sindh who causes these reports to be laid before the Sindh Provincial Assembly for detailed scrutiny. These reports are referred to the Public Accounts Committee in order to examine whether the public money shown in the accounts, as having been disbursed, was legally available for and applicable to the services or purpose to which they have been applied or charged.

3.194. The Public Accounts Committee was constituted on February 12, 2008, under Rule 157(1) of Rules of Procedures of the Sindh Provincial Assembly. The Public Accounts Committee examined reports for the audit years 2006/07, 2007/08, and 2008/09 until its dissolution in March 2013 after the Provincial Assembly completed its tenure.[43] A formal report of the Public Accounts Committee has been released giving detail of audit observations discussed and directions issued. Since audit reports of 2009/10, 2010/11, and 2011/12 were not examined, this dimension (i) maintains a "D" rating.

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

3.195. The last constituted Public Accounts Committee held various in-depth meetings with the principal accounting officers and other concerned officers to discuss the audit observations submitted to the Public Accounts Committee since its inception in 2008. The Public Accounts Committee gave directives to various principal accounting officers resulting in recovery of PRs519 million.

3.196. The Public Accounts Committee met regularly and examined 569 audit paragraphs relating to audit reports for years 2006/7, 2007/8, and 2008/9. Out of 569 audit paragraphs, 213 reached settlement by the Public Accounts Committee after compliance by the respective departments. The other 356 paragraphs remained unsettled, for which the Public Accounts Committee issued directives such as recovery of outstanding amount, inquiry against responsible employees, issuance of show cause notices, and order to bring the irregularity into the notice of chief minister and chief secretary for taking appropriate action.

[43] Sindh Assembly report on working of Public Accounts Committee for audit reports from 2006-07 to 2008-09.

3.197. Due to improvements in workings of the Public Accounts Committee, hearings on the key PAC audit findings are exhaustive with the responsible officers of all audited departments and representatives of the Auditor General of Pakistan, Accountant General, and Finance Department in attendance. Thus, this dimension (ii) earns an improved "A" rating.

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

3.198. The Public Accounts Committee examines the audit reports in detail. The representatives of the Auditor General are present during the hearings and brief the participants about the context and documentation on which any issue is raised. The Public Accounts Committee either settles the para or issue directives for the Principal Accounting Officer or other offices involved in the issues raised by the Auditor General of Pakistan.

3.199. The Auditor General keeps records of the PAC hearings and directives as issued. During the next year's audit, the Auditor General staff checks whether the directives of the Public Accounts Committee have been complied with or not. Accordingly a summary is reported in the next year's audit. For instance, audit reports for the years 2006/07, 2007/08, and 2008/09 were discussed in the PAC meetings for Health Department, Education Department, and Sindh Board of Revenue for year 2011/12. These reports provide the information shown in Table 3.17 on implementation of PAC directives.

Table 3.17 Implementation of Public Accounts Committee Directives, 2011/12

Department	No. of paragraphs discussed	No. of paragraphs for which compliance made	No. of paragraphs, for which compliance not made	% of compliance made
Education	39	09	21	30
Health	35	5	30	14
Sindh Board of Revenue	30	0	30	0
Agriculture	23	2	21	9
Forest	34	28	6	82
Irrigation and Power	75	-	75	0
Livestock and fisheries	14	03	11	21
Sports	05	0	05	0

3.200. There is no mechanism available within the Public Accounts Committee whereby it can examine compliance of self-issued directives. In view of the above, this dimension continues to earn a "B" rating.

G. Donor Practices

D-1 Predictability of Direct Budget Support

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

3.202. The Government of Sindh is receiving foreign budget support for specific sector programs. In this case, disbursement is linked with certain benchmarks or performance indicators and funds are received in Provincial Consolidated Fund (Account-I). The Economic Affairs Division signs the loans or credits on behalf of the federal government, which provides the sovereign guarantee. These loans are re-lent to provinces under the same terms and condition, with exchange risk cover borne by the province. All budgetary support loans are booked as capital receipts under the heading "Permanent Debt (Foreign)-Direct (E03301)" and are transferred to Provincial Consolidated Fund (Account-I) while funds meant for project assistance are transferred to revolving fund accounts maintained in the National Bank of Pakistan.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall	C+	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.	C	D	In the last three years the budget out -turns have consistently fallen short of the forecast by more than 15% (23% in 2009/ 10 51% in , 2010/11, and 52% in 2011/12).
(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.

3.203. In the last three years the Sindh Government has received major budget support loans from the World Bank for Education Sector Reforms and from ADB for Growth and Rural Revitalization Program. The European Union has provided grant funding for Education Sector Reforms. There is a shortfall of more than 15 percent in all these years (Table 3.18) resulting in a "D" rating. Shortfall in projected inflow of funds is mainly due to time lag in execution of projects and delays in fulfilment of related international obligations.

Table 3.18 Budget Support Profile of Sindh Government

Description	2009/10		2010/11		2011/12	
	Budget	Actual	Budget	Actual	Budget	Actual
Total budget support program/loan (PRs million)	16,961	13,060	19,398	9,529	20,122	9,743
Variance amount (PRs million)	- 3,901		- 9,869		- 10,378	
Variance percentage (%)	23		51		52	

Source: Annual Budget Statement Volume-I and Estimates of Receipts Volume-II, Government of Sindh, various years.

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

3.204. Budget support generally comes in tranches linked with achievement of certain targets set at the time of loan signing. The Sindh Government does not have a formal time schedule for quarterly disbursement. In such cases the disbursement is dependent upon meeting pre-determined indicators. Under such arrangement the designated officer submits a progress report along with withdrawal application. For the purpose of forecasting disbursement, the Planning and Development 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 with the donor. During the assessed period of 2009 PFMAA, the direct budget support received by Sindh Government was related to single tranche operations by the World Bank and ADB, which were received in full during the year, leading to an "A" rating. In the absence of any disbursement schedule per quarter as required by PEFA framework under the 2013 PFMAA, a "D" rating is assigned to this dimension.

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

3.205. Predictability of disbursement of donor support for projects and programs (below referred to only as projects) affect the implementation of specific line items in the budget. While the government through its spending units should be able to budget and report on aid transferred in cash (often as extra-budgetary funding or through separate bank accounts), the government is dependent on donors for budget estimates and reporting on implementation for aid in-kind. Donor reports on cash disbursements are also important for reconciliation between donor disbursement records and government project accounts.

3.206. The budget estimates are forecast by project-executing authorities and are agreed upon with donors. The foreign aid section of the Planning and Development Department then consolidates the input for inclusion in the Annual Development Plan. The executing agencies prepare the project feasibility documentation (PC-1s) for approval by the Planning and Development 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
	2009	2013	
Overall	C+	D+	
(I) Completeness and timeliness of budget estimates by the donor for project support.	A	D	Most donors provide complete budget estimates, but few donors provide three months prior to government's fiscal year.
(ii) Frequency and coverage of aid flow by donors.	C	C	Donors provide disbursement details to Economic Affairs Division at federal level. Sindh Government does not receive any direct report from donors.

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

3.207. Major donors, including the ADB and World Bank, provide budget estimates to the government. Foreign project aid is disbursed under revolving fund account arrangements and does not use government chart of accounts. Each donor prepares financial projections and sets disbursement targets according to its own financial year-end (Table 3.19). This dimension (i) is given a "D" rating since the disbursement estimates are not communicated by donors three months prior to the start of the Sindh Government's fiscal year. Similar situation existed in the period assessed by the 2009 PFMAA which rated this dimension as "A" on the premise that budget estimates using the government's classification are prepared by the government itself (Planning & Development Department or project implementing unit) in line with the government budget preparation calendar.

Table 3.19 Donor's Financial Year-End

Donor	Financial Year-End
European Union	March 31
World Bank	June 30
USAID	September 30
JICA	September 30
Asian Development Bank	December 31

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

3.208. Donors provide progress and disbursement reports to the Economic Affairs Division at the federal level. The major donors provide budget estimates for disbursement aid. Only the ADB and the World Bank provide estimates for disbursements at stages consistent with the Sindh Government's budget calendar but not in a format consistent with the Government's budget classification. These constitute more than 75 percent of the foreign aid received by the province. During the year, the federal-level Economic Affairs Division receives quarterly disbursement reports from major donors, usually within a month of the period-end but again these are not prepared as per the Government's budget classification. The quarterly reports are not routinely passed on to the province. In case of the ADB and World Bank, the project authorities can check the status of disbursements in real time through web-based portals. This dimension (ii) maintains a "C" rating due to no change in procedure.

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

3.209. The requirement that national authorities use different (donor-specific) procedures for the management of aid funds diverts capacity away from managing the national systems. 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. The use of national procedures mean that the banking, authorization, procurement, accounting, audit, disbursement, and reporting arrangements for donor funds are the same as those used for government funds.

Dimension	Score		Brief explanation of status
	2009	2013	
Overall proportion of aid funds to government that are managed through national procedures.	B	B	More than 75% of aid funds are managed through national procedures.

Overall proportion of aid funds to government that are managed through national procedures.

3.210. More than 75 percent of the aid funds to the Sindh Government are managed through national procedures.[44] The aid funds received by the provincial government through budget support are managed through national procedures, and foreign-funded projects are managed on a "ring-fenced" basis through donor-preferred management systems. Since annual disbursements on donor-funded projects constitute less than 25 percent of all donor aid to the government, much of the donor assistance is integrated into the government-owned budget management system. As a policy, the Sindh Government concurs to make the national procurement procedures subservient to the donor-preferred procedures for externally aided projects.[45] Based on this assessment, the indicator receives a "B" rating. In the 2009 PFMAA, the rating was the same since the bulk of foreign aid was in the form of budget support completely using national procedures.

H. Central Government Practices

HLG-1 Predictability of Transfers from Higher Level of Government

3.211. Transfers from higher level of government (HLG), federal government in this case, and shared revenues constitute major sources of revenue for the Sindh Government. Poor predictability of inflows of these transfers

[44] Simple average share of actual budget support/program loans (managed through national procedures) calculated for the last three fiscal years 2009/10, 2010/11, and 2011/12.

[45] Government of Sindh Planning and Development Department's notification P&D/F.AID/PROC-1/1995 dated 27 November 1995 directs that "for implementation of foreign donor assisted projects, the procurement procedures prescribed in the project's legal documents and donor agency's procurement guidelines will apply to all contracts for goods and works financed in whole or in part by the respective donor agency/agencies, and take precedence over any other conflicting procurement rules and procedures."

affects the provincial government's fiscal management and its ability to deliver services. This indicator has been assessed in accordance with "Supplementary Guidelines for the application of the PEFA Framework to Sub-national Governments" issued January 2013. These have replaced the Exposure Draft issued in March 2008, which was used in 2009 PFMAA.

Dimension	**Score**		**Brief explanation of status**
	2009	**2013**	
Overall	A	D+	
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the subnational entity for inclusion in the latter's budget.	A	B	The difference between forecast and actual receipt from Government of Pakistan has been less than 10% in all three years.
(ii) Annual variance between actual and estimated transfers of earmarked grants.	A	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 subnational fiscal year).	A	D	Actual disbursements delays (weighted) have exceeded 25% in two of the last three years

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

3.212. The annual deviation between the budgeted and the actual transfers from the federal government is shown in Table 3.20:

Table 3.20 Annual Deviation between Budgeted and Actual Transfers

Description	**2009/10**	**2010/11**	**2011/12**
Budgeted Transfers *(PRs in millions)*	202,942	264,056	312,077
Actual Transfers *(PRs in millions)*	186,930	279,025	290,470
Deviation *(PRs in millions)*	**(16,012)**	**14,969**	**(21,607)**
Deviation Percentage (%)	**(7.89)**	**5.67**	**(6.92)**

Source: Ministry of Finance, Government of Pakistan, and Finance Department, Sindh Government.

3.213. The amount to be transferred by the federal government to the provinces is subject to actual revenue collection. Thus the Government of Sindh is heavily dependent on success of the federal government in collection of targeted tax revenue. During the past three years, the federal government remained unsuccessful in collecting targeted revenues due to weak economic conditions emerging from volatile law and order situation and energy crises. This adversely affected the revenue from transfers forecasted. As the annual deviation has been less than 10 percent in the preceding 3 years, this dimension (i) receives a "B" rating. Score in the 2009 PFMAA was "A" since deviation was even less.

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

3.214. Transfers from federal government consist of amounts due under the NFC Award and straight transfers.

Straight transfers consist of such duties and taxes (collected by the federal government on behalf of the provincial governments) that include royalty on crude oil, surcharge on gas, etc. A small of portion of transfers consists of earmarked grants for projects financed at federal level, which is 5-7 percent of total transfers (Table 3.21).

Table 3.21 Annual Variance between Actual and Budgeted Transfers for Earmarked Grants

Description	2009/10		2010/11		2011/12	
	Budget	Actual	Budget	Actual	Budget	Actual
Development earmarked *(PRs million)*	16,605.73	10,131.83	14,431.9	7,969.4	9,761.23	7,683.3
Percentage difference	39%		45%		21%	

Source: Civil Accounts, Finance Department, Sindh Government.

3.215. Classification of earmarked transfers according to COFOG or any other standard method of classification is not available. At the aggregate level, the overall deviation exceeds 10 percentage points in all of the last three financial years. This dimension (ii) therefore receives a "D" rating as opposed to "A" in the 2009 PFMAA in which the variation for conditional grants was less than 5 percent of budgeted amount.

(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).

3.216. The budget documents do not state the timetable of the distribution of the disbursements. At the federal level, the established practice is release of payments for the subnational government on biweekly basis in equal instalments. The data of funds received by the Sindh Government during last three fiscal years are shown in Tables 3.22, 3.23, 3.24, and 3.25. Due to the high level of deviation across the year in the transfers, the rating is assessed as "D". As stated in paragraph 3.213 this is largely due to unpredictability of tax collection by the federal government.

Table 3.22 Federal Transfers for FY 2009/10

FY quarter	Forecast	Actual disbursement	Planned for quarter	Actual delay in each period	Delayed amount as share of total	Cumulative delayed amount as share
	PRs in millions				Percent	
Quarter 1	50,736	33,096	50,736	17,640	9.4	9.4
Quarter 2	50,736	50,605	50,736	131	0.1	9.5
Quarter 3	50,736	46,137	50,736	4,599	2.5	12.0
Quarter 4	50,736	57,093	50,736	(6,357)	(3.4)	
Year total	**202,942.47**	**186,930.30**	**202,944**	**16,014**	**8.6**	**30.9**

Table 3.23 Federal Transfers for FY 2010/11

FY quarter	Forecast	Actual disbursement	Planned for quarter	Actual delay in each period	Delayed amount as share of total	Cumulative delayed amount as share
	PRs in millions				Percent	
Quarter 1	66,014	49,136	66,014	16,878	6.0	6.0
Quarter 2	66,014	66,058	66,014	(44)	0.0	6.0
Quarter 3	66,014	64,884	66,014	1,130	0.4	6.4
Quarter 4	66,014	98,948	66,014	(32,934)	(11.8)	
Year total	**264,056**	**279,026**	**264,056**	**(14,970)**	**(5.4)**	**18.5**

Table 3.24 Federal Transfers for FY 2011/12

FY quarter	Forecast	Actual disbursement	Planned for quarter	Actual delay in each period	Delayed amount as share of total	Cumulative delayed amount as share
	PRs in millions				Percent	
Quarter 1	78,019	56,385	78,019	21,634	7.4	7.4
Quarter 2	78,019	69,482	78,019	8,537	2.9	10.4
Quarter 3	78,019	82,830	78,019	(4,811)	(1.7)	8.7
Quarter 4	78,019	81,773	78,019	(3,754)	(1.3)	
Year total	**312,076**	**290,470**	**312,076**	**21,606**	**7.4**	**26.6**

Table 3.25 Summary of HLG Transfers

FY	HLG-1 Dimension (I) Rating B	HLG-1 Dimension (iii) Rating D
	Deviation of actual budget support from forecast (%)	In-year disbursement delays for budget support (%)
2009/10	7.9	30.9
2010/11	(5.7)	18.5
2011/12	6.9	26.6

Chapter 4: Government Reform Process

4.1. The Government of Sindh has remained involved with multiple reforms in fiscal and financial management in recent years with the objective of accelerating the pace of economic activity in the province and to reduce poverty. Activities include an emphasis on improving public service delivery in the critical sectors of education and health; rationalization and restructuring of tax and non-tax revenue systems for revenue mobilization; broadening of revenue bases and improved taxpayer compliance; and a revamping of the budgetary systems through a shift from input-based annual incremental budgeting to medium-term, outcome-based budgeting and improved public financial management. The reform effort is ongoing, and the provincial PFM reform strategy is currently under preparation.

4.2. The Finance Department has initiated reforms in various sectors with the support of the World Bank and European Union (EU). The Bank team has held a series of workshops with the provincial revenue-collecting agencies for rationalizing and restructuring of tax/non-tax administration aimed at revenue mobilization, which culminated in the holding of a Provincial Taxation Forum on February 25, 2014. The EU team supported the preparation of a concept paper on PFM reforms that includes areas of medium-term budgetary framework, output-based budgeting, integration between current and development budgets, participative budgeting, credible budget execution and reporting, payroll and pension audit, procurement, and accountability. The concept paper is being shared with all stakeholders for comments.

A. Economic Reform Unit

4.3. The Economic Reform Unit within the Finance Department has been leading the coordination of reforms. The Economic Reform Unit includes the following:

(a) MTBF Cell is responsible for preparation and implementation of a medium-term budgetary framework. The MTBF is prepared for a three-year horizon on a rolling basis to introduce the multi-year perspective into budgetary planning. By setting medium-term targets, the departments are provided the flexibility to formulate and implement policy decisions that impact outcomes over several years instead of focusing entirely on annual targets. Public policy decisions can take well over a year to implement, and visible results cannot be reasonably anticipated before the passage of consistent policy over a period of a couple of years. Introducing the medium-term perspective in resource allocation decisions will improve expenditure effectiveness and service delivery to the public.

In 2009/10, a pilot was started in the departments of Irrigation and Power, Education and Literacy, Livestock and Fisheries, and Agriculture. For 2013/14, the Finance Department plans to expand MTBF to a total of 8 departments. Out of a total of 7,281 cost centers in line departments, 4,984 are currently covered by MTBF. The Economic Reform Unit has finalized output indicators and baseline budgets for 3 years on the basis of indicative budget ceilings and budget evaluation policy.

(b) Public-Private Partnership (PPP) Cell was established within the Economic Reform Unit with the support of the ADB. The PPP Policy Board, constituted in pursuance of Sindh Public-Private Partnership Act 2010, is responsible for framing and approving PPP policies as well as specific PPP projects in the province. The PPP Cell acts as a secretariat to the PPP Policy Board and provides technical assistance and advice to the concerned agencies and line departments throughout the project preparation cycle. Several development projects have been undertaken with the inclusion of the private sector such as the construction of the 58.7-kilometer Hyderabad-Mirpurkhas Road, costing PRs6.05 billion.

(c) Fund Management Unit manages the investments and financial recording/reporting for various special purpose funds created by the Sindh Government. Currently its activities comprise management of the following funds:

- Sindh Province Pension Fund
- Sindh Social Relief Fund
- Sindh General Provident Investment Fund
- Viability Gap Fund
- People's Housing Cell Fund
- Provincial Disaster Management Fund
- SASO Pensioner's Fund
- Sindh Coal Development Fund
- Sindh Project Development Facility
- Sindh Flood Relief Fund
- Endowment Fund for PPHI
- Sindh Government Employees Group Insurance Fund
- Education City Fund
- SPPRA Investment Fund

B. Monitoring Wing

4.4. In July 2013, the Secretary Finance notified the establishment of a Monitoring Wing in the Finance Department as well as the establishment of the Office of Inspector General of Treasuries and Accounts. The Inspector General heads the Monitoring Wing. The terms of reference of this newly established office are extensive but mainly relate to the monitoring of treasuries and accounts offices to enhance transparency, efficiency, and effectiveness in utilization of funds. To this end, systems will be established and necessary guidance issued for ensuring compliance with applicable laws and regulations.

C. Revenue Mobilization

4.5. The provincial government is highly dependent on federal transfers for funding its expenditures. Federal transfers have been unpredictable in recent years restricting the Sindh Government's ability to effectively execute its budget. Realizing the need for enhancing own-source revenues, the Sindh Government has taken several steps toward revenue mobilization.

4.6. One of the recent steps taken include introduction of the Policy of Revenue Collecting Officer (RCO) code; all State Bank and National Bank branches in Sindh are receiving challans (deposit vouchers) with the RCO codes. Other steps in this regard include reconciliation of receipt accounts, rationalization of tax rates, austerity measures, capacity workshops of MTBF departments, and framing of the Sindh Financial Management and Accountability Act 2011. The departments, attached departments, subordinate offices, and institutions have grown and changed over time. These changes have necessitated re-grouping of officer categories (i.e., “authorities”) for delegation of financial powers, holding meetings with revenue-generating departments periodically to increase revenue targets and broaden tax net, and monitoring of receipts of each department with budget estimates on monthly basis.

4.7. In 2010, the Government established the Sindh Revenue Board (SRB), which has been tasked with the implementation of sales tax on services in the Province. Imposition and collection of this tax is a provincial subject under the Constitution of Pakistan, but until now the potential had remained untapped. The Sindh Revenue Board during the two years of its existence has been successful in achieving its revenue targets, which forms 40 percent of the total tax revenue for the Sindh Government. Plans are currently underway for broadening the tax net through inclusion of further service providers such as contractors and builders and also individual service providers like lawyers.

4.8. To strengthen tax administration and address weaknesses in the tax collection system, databases are being set up for each of the three tax agencies: Excise and Taxation Department, Sindh Board of Revenue, and Sindh Revenue Board. These will be linked with the National Bank of Pakistan where all collections are deposited. Currently the manually collected records lead to errors and delays in data availability. This reform is already implemented in the Sindh Revenue Board. The Excise and Taxation Department is at an advanced stage, but major work still remains for establishing an online payment system for property tax, vehicle registration, and other taxes under its purview. The Sindh Board of Revenue however is just starting to formulate plans in this area. Most systems are manual, and comprehensive records of taxpayers and taxes paid are not readily available. Although substantial progress has been made in the program for Computerization of Land Records by the Sindh Board of Revenue, the Stamps and Registration wing of the Board of Revenue requires a comprehensive modernized and technology-based system that is linked with Land Records and provides an effective and public-friendly management model. Thus an integrated approach, linking all the segments of the Sindh Board of Revenue onto a technology-based platform, is to be adopted in the future.

D. Sindh Financial Management and Accountability Act

4.9. In pursuance of Article 119 of the Constitution of Pakistan, the Sindh Government enacted the Sindh Financial Management and Accountability Act 2011 for regulating custody, payment, and withdrawal of public money from the Provincial Consolidated Fund. This Act empowers the Sindh Government to promulgate financial rules applicable to the Province of Sindh, thereby replacing the General Financial Rules. Effectively all previously existing guidance related to financial management was repealed. Under Section 5, the Act identifies the following, which shall remain in force until "adapted, altered, amended or repealed by rules made under this Act": the Financial Rules, West Pakistan Delegation of Powers under Financial Rules, and Powers of Re-appropriation Rules, 1902; and all amendments, schedules, manuals, notifications, forms, appendices, orders, circulars, codes, instructions, directives, guidelines, clarifications and any other supplementary legal instruments relating to any of those rules.

4.10. Section 3 (1) of the Sindh Financial Management and Accountability Act 2011 provides "A public servant who commits a breach of any provision of this Act or rules shall be guilty of an offence and shall on conviction by a court of competent jurisdiction be punished with imprisonment of either description for a term which may extend to three years or with fine which may extend to rupees one million or with both". Complaint may be made by an authorized person on behalf of the Finance Secretary. Complaints against the Finance Secretary may be made by a person authorized in their behalf by the Chief Minister. Section 3 (4) of the Act provides "No court inferior to that of the Session Judge shall have jurisdiction to try cases under this Act."

4.11. Sindh Financial Control and Delegation of Financial Powers Rules 2012 were issued pursuant to powers conferred to the Sindh Government. All existing rules prior to the Act have been adopted till the issuance of new instructions.

E. Procurement Reforms

4.12. The Sindh Government enacted the Public Procurement Act in 2009, under which a Sindh Public Procurement Regulatory Authority (SPPRA) was established. The SPPRA proceeded to issue rules for procurement of goods, services, works, and services applicable to all government departments and autonomous bodies and procurement guidelines and procurement manual for different agencies. A set of implementing regulations has been prepared and is being finalized.

4.13. The SPPRA is an autonomous body with an independent board headed by the provincial Minister for Law as its chairman. The Governing Board comprises the secretaries for Departments of Finance, Planning and Development, Health, Information Technology, Irrigation, Works, and Services; president of the Chamber of Commerce; representatives of the Pakistan Engineering Council, Office of the Auditor General of Pakistan, and Transparency International Pakistan; nominated members of the Provincial Assembly; and the managing director of SPPRA. A mechanism for receipt and redress of complaints regarding deviations from rules is in place. The independent character of the SPPRA Board is a significant improvement viz-á-viz the boards of other public procurement regulatory authorities in the country. The composition of the SPPRA Governing Board is a testimony to the Government's commitment to provide an enabling environment to the Authority to achieve its objective of fair and transparent procurements.

4.14. The functional responsibility of SPPRA is sufficiently broad. It includes monitoring of procurement practices and overall performance of more than 800 procuring agencies, assisting procuring agencies in strengthening their institutional capacity for procurements, recommending improvements in procurement laws and regulations, and collecting procurement data. Sindh Public Procurement Rules provide the detailed procedures and guidelines for undertaking procurements. These Rules are a significant improvement on related rules in the federal and the Punjab Government. The Sindh Public Procurement Rules make electronic hoisting of procurement-related information mandatory for the procuring agencies. It is also obligatory upon the procuring agencies to communicate the reasons of rejection of bids to the participating bidders. Flexibility and efficiency have been built into the system by allowing different methods of procurement. The procurement regime also prescribes a clear accountability mechanism in case of non-compliance of mandatory provisions.

4.15. An online facility of lodging a complaint is available and is being improved upon. SPPRA is the only procurement authority to have provided for a second-tier, independent grievance redressal mechanism. Similarly, Sindh is the only province that has an elaborate and step-by-step procedure for procurement of consultancy services and public-private partnerships. The enabling legal framework for PPP procurements has attracted significant interest of the private sector in public infrastructure projects.

4.16. The SPPRA has a dedicated capacity-building directorate, which has so far trained over 3,000 officials. To facilitate procuring agencies, the Sindh Public Procurement Rules have been translated into Sindhi and Urdu while efforts are underway to create linkages with the GFMIS regarding controls on commitments and payments. SPPRA is also in the process of standardizing/certifying procurement-related training modules. The Authority plans to launch certified training courses in the field of procurement thus aiming to provide the critical mass of procurement professionals at different tiers of management in the provincial government.

4.17. The SPPRA monitors the quality of procurement by examining the documents furnished by agencies for hoisting on its website as a part of compliance to the relevant Sindh Public Procurement Rules. The SPPRA examines Notices for Invitation Tender and bid evaluation reports to see if these fulfill the requisite standards of transparency and fairness and provides guidance to the procuring agencies to take corrective actions. To facilitate uniformity, consistency, and predictability in the procurement process, SPPRA has prepared its own standard bidding documents for prequalification of contractors and suppliers, and procurement of works, services, and consultancy services. These standard bidding documents incorporate internationally recognized regulations of contract administration.

F. Pension Liabilities

4.18. Over the past decade the Sindh Government has witnessed a steep increase in pension liabilities due to retirements of many employees inducted in the 1970s and 1980s, coupled with a series of pension increases.

Until now, there had not been a clear policy to address the financing of these liabilities, the quantum of which was assessed by actuarial experts at PRs518.273 billion as at June 30, 2010. The actual details of pensioners available in the records are incomplete resulting in a shortfall at the end of every financial year. There is a need to address the record gaps in this area so that appropriate financial planning may be done. In FY2012/13, funds allocated for pension amounted to PRs23.045 billion, but these were increased to PRs29.645 billion through revised estimates. With technical assistance from ADB, the Sindh Government is working toward introducing a defined contribution pension scheme for new appointments. The State Life Insurance Corporation provides group life insurance to Sindh Government employees; this benefit has been doubled. In addition, measures are being taken to simplify the procedures for disbursing financial assistance to the families of deceased employees.

G. Accounting and Payroll Reforms

4.19. Through the World Bank-funded Project for Improvement of Financial Reporting and Auditing (PIFRA), an FMIS has been implemented throughout the province (see Annex F). Except for expenditure related to pay and allowances, budget checks are applied to all payment requests raised by the various departments, and checks are issued through the system. The budget is entered and managed by the Finance Department thereby enforcing segregation of duties between the Finance Department and the Accountant General Office. From January 1, 2014, the practice of issuing manual checks for arrears has been discontinued by imposing a validation check in the GFMIS. Any arrears of salary are also now disbursed through the running of supplementary / off-cycle payroll. Efforts are being made to introduce further controls for payroll as well.

4.20. Timeliness of both in-year and year-end financial reporting has substantially improved, making monthly budget execution reports available within 10 days of the close of a month. The annual financial statements are prepared and submitted for audit within 2 months of the close of the year.

4.21. A Monitoring, Evaluation and Internal Control Cell was established in the Accountant General Office in May 2012 for defining the major criteria of "exception reports" which are to be generated and submitted to the Accountant General on a monthly basis. This cell has broad responsibilities for regular monitoring for improving the compliance with rules and procedures and also suggesting improvements in the existing processes and rules.

4.22. Efforts are being made on various parallel tracks to address poor reconciliation levels. Line departments have been provided connectivity to the GFMIS for viewing data related to their budget allocations, releases, and expenditures. Training has also been provided to staff for generating the required reports. A planned interface with the National Bank of Pakistan and the State Bank of Pakistan will allow online reconciliation of pre-audit checks issued. Great strides have been made in automation of the entire payroll for the Sindh Government. Pensioner facilitation centers are being established, and a direct credit scheme has also been introduced to facilitate the pensioners by direct transfer to bank accounts. This will also reduce the transaction load at accounting offices and reduce the risk of errors due to manual punching. Currently more than 95 percent of the payroll is on the GFMIS. Collaboration is underway with the National Database and Registration Authority (NADRA) for verification of employee records.

H. Increasing Legislative Participation in Budget-making

4.23. For FY2011/12, the Finance Minister arranged a briefing for members of the Sindh Provincial Assembly representing all political parties regarding the budget procedures and proposals. It is planned that this process will be further strengthened in coming years to involve the parliamentary committees in the process of setting budgetary ceilings for line departments as well as the monitoring allocated budgets in line with performance of each department.

Annexure

Annex A.1: Sindh PFMAA Performance Indicators Summary			Dimension Ratings				Overall Score	Dimension Ratings				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	C				C	C				C
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D				D	C	NR			C
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				B	D				D
PI-4	Stock & monitoring of expenditure payment arrears	M1	A	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	B				B
PI-7	Extent of unreported government operations	M1	A	D			D+	A	D			D+
PI-8	Transparency of inter-governmental fiscal relations	M1	A	C	C		B	A	B	A		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	D			D	C	A			C+
PI-10	Public access to key fiscal information	M1	C				C	C				C
C. BUDGET CYCLE: Policy-Based Budgeting												
PI-11	Orderliness and participation in the annual budget process	M2	A	C	A		B+	A	C	A		B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	M2	C	A	D	D	C	D	D	D	D	D
D. Predictability and Control in Budget Execution												
PI-13	Transparency of taxpayer obligations & liabilities	M2	C	C	C		C	C	B	B		B
PI-14	Effectiveness of measures for taxpayer registration & tax assessment	M2	D	D	C		D+	D	C	D		D+
PI-15	Effectiveness in collection of tax payments	M1	C	A	C		C+	B	A	B		B+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B	A	B		B+	B	C	C		C+
PI-17	Recording and management of cash balances, debt & guarantees	M2	B	B	C		B	C	B	C		C+
PI-18	Effectiveness of payroll controls	M1	C	B	C	C	C+	D	A	A	C	D+
PI-19	Transparency, competition & complaints mechanism in procurement	M2	NA	NA	NA		NA	A	D	D	B	C+
PI-20	Effectiveness of internal controls for non-salary Expenditure	M1	C	C	C		C	C	C	C		C
PI-21	Effectiveness of internal audit	M1	D	D	D		D	D	D	NR		NR

Annex A.1: Sindh PFMAA Performance Indicators Summary			Dimension Ratings				Overall Score	Dimension Ratings				Overall Score
			i	ii	iii	iv		i	ii	iii	iv	
E. Accounting, Recording and Reporting												
PI-22	Timeliness & regularity of accounts reconciliation	M2	B	C			C+	D	C			D+
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	C		C+	C	A	C		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	D		D+	B	B	C		C+
PI-27	Legislative scrutiny of the annual budget law	M1	B	B	D	B	D+	C	B	D	C	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	B	B		D+	D	A	B		D+
G. Donor Practices												
D-1	Predictability of Direct Budget Support	M1	C	A			C+	D	D			D
D-2	Financial information provided by donors for budgeting & reporting on project & program aid	M1	A	C			C+	D	C			D+
D-3	Proportion of aid that is managed by use of national procedures	M1	B				B	B				B
H. Central Government Practices												
HLG-1	Predictability of Transfers from Higher Level of Government	M1	A	A	A		A	B	D	D		D+

Annex A.2: Summary of Sindh PFMAA Performance Indicators		Scoring Method	2009	2013
A. PFM-OUT-TURNS: Credibility of the Budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C	C
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	C
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B	D
PI-4	Stock & monitoring of expenditure payment arrears	M1	D+	NR
PI-5	Classification of the budget	M1	A	A
PI-6	Comprehensiveness of information included in budget documentation	M1	A	B
PI-7	Extent of unreported government operations	M1	D+	D+
PI-8	Transparency of inter-governmental fiscal relations	M1	B	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	C+
PI-10	Public access to key fiscal information	M1	C	C
C BUDGET CYCLE: Policy Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	M2	B+	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	M2	C	D
D. Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations & liabilities	M2	C	B
PI-14	Effectiveness of measures for taxpayer registration & tax assessment	M2	D+	D+
PI-15	Effectiveness in collection of tax payments	M1	C+	B+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B+	C+
PI-17	Recording and management of cash balances, debt & guarantees	M2	B	C+
PI-18	Effectiveness of payroll controls	M1	C+	D+
PI-19	Transparency, competition and complaints mechanism in procurement	M2	NA	C+
PI-20	Effectiveness of internal controls for non-salary Expenditure	M1	C	C
PI-21	Effectiveness of internal audit	M1	D	NR
E. Accounting, Recording and Reporting				
PI-22	Timeliness & regularity of accounts reconciliation	M2	C+	D+
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+	C+
PI-27	Legislative scrutiny of the annual budget law	M1	D+	D+
PI-28	Legislative scrutiny of external audit reports	M1	D+	D+
G. Donor Practices				
D-1	Predictability of Direct Budget Support	M1	C+	D
D-2	Financial information by donors for budgeting & reporting on project & program aid	M1	C+	D+
D-3	Proportion of aid that is managed by use of national procedures	M1	B	B
H. Central Government Practices				
HLG-1	Predictability of Transfers from Higher Level of Government	M1	A	D+

Annex A.3: Summary of Sindh PFMAA Performance Indicators		2009	2013	Brief Explanation of Status and Trajectory
A. PFM-OUT-TURNS: Credibility of the Budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	C	In two of the last three years the actual expenditure deviated from original budget by an amount more than 10%. (2009/10: 7.59% 2010/11: 13.55% and 2011/12: 13.48%)
PI-2	Composition of expenditure out-turn compared to original approved budget	D	C	Not comparable due to change in methodology. Variance in expenditure composition from budget exceeded 15% in one of the last three years – 2011/12. No expenditure with the nomenclature of contingency budget.
PI-3	Aggregate revenue out-turn compared to original approved budget	B	D	Not comparable due to change in methodology. Actual domestic revenue was below 92% of budget in two of the last three years. (2009/10: 91.51%; 2010/11: 77.15% and 2011/12: 96.00%)
PI-4	Stock & monitoring of expenditure payment arrears	D+	NR	Consolidated stock of expenditure payment arrears not maintained. Commitment accounting yet to be made operational and no reliable data on stock of arrears available.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	A	A	Budget formulation and execution based on administrative, economic and sub-functional classification using GFS/COFOG standards. Robust budget classification on functional and object basis built into the chart of accounts used for reporting. Consistent documentation in accordance with GFS standards is produced.
PI-6	Comprehensiveness of information included in budget documentation	A	B	Budget documentation meets 6 of 9 recommended information benchmarks. Debt stock available in 2008/09 budget analysis no longer provided. Macroeconomic assumptions and prior year's out-turns in the same format as the current budget proposals are not included.
PI-7	Extent of unreported government operations	D+	D+	Inclusion of income and expenditure data related to donor-funded projects incomplete – both for loan and grants.
PI-8	Transparency of inter -governmental fiscal relations	B	A	Horizontal allocation of more than 90% funds based on transparent and rules-based mechanism (PFC award 2007) and data available prior to completion of budget preparation. Fiscal information of districts using classification consistent with the provincial government available timely and consolidated.
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D	C+	No consolidated oversight of fiscal risk arising from autonomous government agencies and public sector enterprises. Districts cannot independently generate fiscal liabilities for the provincial government.
PI-10	Public access to key fiscal information	C	C	Only two of the six recommended types of information available in the public domain. Access to in-year budget execution reports, year-end financial statements, external audit reports and contract awards is limited.
C. BUDGET CYCLE: Policy-Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	B+	B+	A detailed budget calendar exists and budget has been approved prior to start of the fiscal year in all three years. Budget ceilings for departments are not approved by the Cabinet.
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	C	D	The MTBF piloted in 2009 covers approximately 55% of recurring budgeted expenditures till June 2012 but fiscal estimates at aggregate level and sector strategies with substantially complete costing of investments and recurrent expenditures are not available. Forward budget of development schemes and the resultant increase in recurring budget estimates are not properly integrated into the budget. No debt sustainability analysis conducted in last 3 years.

Annex A.3: Summary of Sindh PFMAA Performance Indicators		2009	2013	Brief Explanation of Status and Trajectory
D. BUDGET CYCLE: Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations & liabilities	C	B	Legislative basis for major taxes is well defined. Information on applicability and procedures is available to tax payers and further facilitated through media campaigns. High discretion exists for assessing officer in property tax, land revenue and imposition of penalties. Appeal process lacks an independent institutional arrangement raising concerns on transparency and fairness. Improvement is attributable to the newly instituted SRB.
PI-14	Effectiveness of measures for taxpayer registration & tax assessment	D+	D+	Linkage among taxpayer databases is weak. No survey of potential taxpayers conducted in last three years. Tax audit carried out on ad-hoc basis with no structured audit programs being followed. Penalties are largely ineffective as a tool for enforcement and compliance.
PI-15	Effectiveness in collection of tax payments	C+	B+	Taxes are deposited directly in the Treasury for most taxes and collection ratio for gross tax arrears, on the basis of data available is above 75%. Consolidated debt collection ratio cannot be determined with accuracy. Complete reconciliation between assessments, collections, arrear records and receipts takes more than a month but is still improved since 2009.
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	C+	Cash flow forecast is prepared and updated monthly. Reliable information is available to departments, in advance, on ceilings for commitment only for recurrent expenditure. In-year adjustments to the budget are frequent.
PI-17	Recording and management of cash balances, debt & guarantees	B	C+	Domestic and closed foreign debt records are complete, updated and reconciled annually by Finance Department with the Economic Affairs Division. Quality of data for on-going foreign debt is fair, with some gaps and reconciliation problems. Statistics on debt stock and debt servicing are only published occasionally. Reconciliation of cash balances is done weekly and in some cases monthly and some extra budgetary receipts are not consolidated. Responsibility for contracting domestic and foreign loans is defined but these are not based on clear guidelines, criteria or overall ceilings.
PI-18	Effectiveness of payroll controls	C+	D+	Substantial improvements made to payroll procedures but process for regular reconciliation between payroll data and personnel records is not established. Payroll audits or alternate mechanisms for identifying “ghost workers” are not in place.
PI-19	Transparency, competition and complaints mechanism in procurement	NA	C+	Not comparable due to change in methodology. All six requirements for legal framework are met. Five of the seven requirements for an independent complaints system are met. Extent of use of non-competitive methods cannot be determined due to non-availability of consolidated reliable data for procurements conducted. Information on procurement plans, contract awards and complaint resolution not publicly available.
PI-20	Effectiveness of internal controls for non-salary Expenditure	C	C	Expenditure commitment controls are only partially effective. Other controls are clearly understood by persons involved and compliance is observed in a majority of transactions. Control consciousness within line departments is weak and capacity of financial managers needs strengthening.
PI-21	Effectiveness of internal audit	D	NR	Internal audit as an institutional arrangement continues to remain absent.

Annex A.3: Summary of Sindh PFMAA Performance Indicators		2009	2013	Brief Explanation of Status and Trajectory
E. Accounting, Recording and Reporting				
PI-22	Timeliness & regularity of accounts reconciliation	C+	D+	Timeliness of reconciliation of civil accounts and public account is poor. Especially reconciliation practices for district cash balances are weak.
PI-23	Availability of information on resources received by service delivery unit	B	A	Complete and reliable information on resources received by service delivery units is available through the GFMIS.
PI-24	Quality and timeliness of in-year budget reports	C+	C+	High quality fiscal reports are prepared regularly on a timely basis. Lack of information on commitments and weaknesses in the reconciliation practices remain a serious issue.
PI-25	Quality & timeliness of annual financial statements	B	C+	Financial statements are prepared in accordance with acceptable standards on a timely basis. Gaps remain in commitment, asset and liability accounting practices and maintenance of a memorandum register for assets.
F. External Scrutiny and Audit				
PI-26	Scope, nature & follow-up of external audit	D+	C+	The 18th Constitutional amendment has increased the independence of the Auditor General and audit approach and methodology has also improved resulting in timely submission of audit reports. Evidence of follow-up on audit recommendations remains weak.
PI-27	Legislative scrutiny of the annual budget law	D+	D+	The scope of review is detailed and procedures are well-established but legislature is informed at the stage when detailed proposals have been finalized. Budget proposals are presented less than a month before the start of the fiscal year. Rules for in-year budget amendments are clear and allow both extensive reallocation and expansion by the Executive without ex ante legislative approval.
PI-28	Legislative scrutiny of external audit reports	D+	D+	Hearings by the Public Accounts Committee are exhaustive and the Executive has complied with some of the directives issued but due to the large backlog of unexamined audit reports, audit reports received within the last three years are yet to be discussed.
G. Donor Practices				
D-1	Predictability of Direct Budget Support	C+	D	Budget out-turns have consistently fallen short of forecast by more than 15% in the last three years due to the inability of the province to meet conditions related to the disbursement. Quarterly disbursement schedules not available.
D-2	Financial information by donors for budgeting & reporting on project & program aid	C+	D+	Most donors provide information on budget estimates but not in line with the budget calendar of the province. Further, the information on budget estimates and actual aid flows is not provided in a format consistent with the budget classification used by the government.
D-3	Proportion of aid that is managed by use of national procedures	B	B	More than 75% of aid funds received by the province are managed through national procedures.
H. Central Government Practices				
HLG-1	Predictability of Transfers from Higher Level of Government	A	D+	While the difference between budgeted and actual transfers from the federal government has been less than 10% in all three years, the variance in earmarked grants is higher. High levels of deviation also occurred in the in-year timeliness of transfers from the federal government largely due to unpredictability of tax collection by the federal government.

Annex B: List of Persons Met

Finance Department Sindh

- Mr. Muhammad Sohail Rajput, Secretary
- Mr. Naveed Kamran Baloch, Secretary
- Mr. Abid Qureshi, Additional Secretary
- Mr. Khalil-ur-Rehman, Additional Secretary (Resources)
- Dr. Noor Alam, Chief Economist
- Dr. Khalil-ur-Rehman Shaikh, Additional Secretary (Resource)
- Mr. Shahmir Bhutto, Director, Economic Reform Unit
- Ms. Shadia Jaffar, Deputy Secretary
- Mr. Riaz Gill, Deputy Secretary
- Mr. Asif Jameel, Deputy Secretary
- Mr. Afzal Zaidi, Deputy Secretary (B&E – I)
- Mr. Syed Shahnawaz Nadir Ali Shah, Chief Investment Specialist
- Mr. Amin Bux, Staff Officer
- Ms. Ayesha Abro, Deputy Secretary
- Mr. Moazzam Ali, Deputy Secretary
- Mr. Nisar A. Shaikh, Deputy Secretary
- Mr. M. Pathan Abro, Senior Programmer
- Mr. Zulfiqar Ali Mirza, Consultant
- Mr. Shahnawaz Nadir, Chief Investment Officer

Controller General of Accounts

- Mr. Asif Usman Khan, Controller General of Accounts
- Mr. Siraj Mustafa, Director General (Pakistan Revenues)

Auditor General, Sindh

- Mr. Ghulam Akbar Soho, Director General Audit
- Mr. Siraj Mustafa Jokhio, Director General, Auditor General of Pakistan, Islamabad
- Mr. Ziaul Haq Shamim, Audit Expert

SPPRA

- Mr. Fazal-ur-Rehman, Managing Director
- Mr. Shakeel Ahmed Mangnejo, Managing Director
- Mr. Rafique Mustafa Shaikh, Director (Capacity Building)
- Syed Asif Hyder Shah, Managing Director

Planning & Development Department

- Mr. Arif Ahmad Khan, Additional Chief Secretary
- Ms. Rehana Ghulam Ali Memon, Secretary
- Mr. Zubair Channa, Chief Foreign Aid
- Mr. Abbas Ali, Assistant Chief (Foreign Aid)
- Mr. Iqbal Memon, Chief Economist

Sindh Revenue Board

- Mr. Shakaib Ahmed Qureshi, Chairman
- Mr. Tashfeen K Niaz, Member
- Mr. Tariq Hussain Tonio, Deputy Commissioner
- Mr. Amir Ali, Deputy Commissioner Audit
- Mr. Muhammad Sharif Malik, Assistant Commissioner

Accountant General Sindh

- Mr. Shaikh Muhammad Ashraf, Accountant General
- Mr. Muhammad Shoaib Ahmad Siddiqui, Accountant General
- Mr. Sajid Ali Khan, Additional Accountant General
- Mr. Saqib Bashir, Additional Accountant General
- Mr. Kamran Mughal, Deputy Accountant General
- Mr. Qadir Baksh, Deputy Accountant General
- Mr. Jamshed Alam, Accounts Officer

Excise and Taxation Department

- Mr. Muhammad Shoaib Siddiqui, Director General
- Mr. Shahabudin Khatri, Deputy Director (HQ)

Sindh Board of Revenue

- Mr. Tariq Anwar Khokhar, Additional Secretary
- Mr. Ali Muhammad Babar, Deputy Director
- Mr. Syed Ghulam Abbas, Deputy Chief Inspector
- Mr. Shahid Gulzar Sheikh, Member (Registration, Stamps & Evacuee Properties)

PIFRA

- Mr. Rana Asif, FI Consultant.

Sindh Assembly

- Mr. Muhammad Munawar, Public Accounts Committee
- Mr. Syed Muhammad Abbas, Director Finance
- Mr. G.M. Farooq, Secretary

Chief Minister Office

- Mr. Rafique Ahmed Burrio, Special Secretary to Chief Minister, Sindh

Ministry of Finance

- Mr. Abdul Malik Balghari, Deputy Secretary, Federal Ministry of Finance

European Union

- Mr. Berend de Groot, Head of Cooperation
- Mr. Frank Rinjders, Development Advisor

Annex C: Documents and Websites Used in Assessment

Main documents:

Budget Documents 2009/10 to 2011/12

Financial Statements 2009/10 to 2011/12

Management letter of Auditor General of Pakistan to Government of Sindh Province, 2009/10 to 2011/12

Budget Call Circulars and budget guide lines 2011/12

Annual Development Plan 2009/10 to 2011/12

Government of Sindh Budget Analysis 2008/09

Budget Speech 2009/10 to 2011/12

7th National Finance Commission Award

Provincial Finance Commission Award

PAC Reports 2009/10 to 2011/12

Civil Accounts and Finance Accounts 2009/10 to 2011/12

Sindh Motor Vehicle Taxation Act, 1958 and Motor Vehicle Rules, 1959

Sindh Finance Act, 1977

Sindh Land Revenue Act, 1967 and Rules of 1968

Sindh Local Government Ordinance 2001

Sindh Sales Tax on Services Act 2010

Sindh Sales Tax on Services Rules 2011

Constitution of Islamic Republic of Pakistan 1973

Sindh Public Procurement Rules

Estimates of Foreign Assistance FY 2009/10, 2010/11, 2011/12

General Financial Rules

New Accounting Model

Financial Audit Manual

Report of Public Accounts Committee - published by Provincial Assembly of Sindh

Sindh Financial Management and Accountability Act 2011

Notifications for establishment of various funds e.g. Pension Fund, Sindh Bank Fund, Sindh GP Investment Fund, etc.

Fiscal Decentralization in Pakistan (published by Pakistan Institute of Development Economics)

Aide Memoir No. 10 for implementation support mission of PIFRA II (World Bank)

Websites:

Finance Department, Government of Sindh: www.fdsindh.gov.pk

Planning and Development Department: www.sindhpnd.gov.pk

Auditor General of Pakistan: www.agp.gov.pk

Controller General of Accounts: www.cga.gov.pk

Sindh Revenue Board: www.srb.gos.pk

Board of Revenue Sindh: www.borsindh.gov.pk

Excise and Taxation Department: www.excise.gos.pk

Sindh Public Procurement Rules Amendments: www.pprasindh.gov.pk

Provincial Assembly of Sindh: www.pas.gov.pk

Annex D: Administrative Structure of Sindh Government

THE GOVERNOR

THE CHIEF MINISTER

MINISTERS

DEPARTMENTS

Agriculture, Supply & Prices Department
Auqaf, Religious Affairs, Zakat & Ushr Department
Board of Revenue
Chief Minister's Secretariat
Coal Energy Department
Cooperation Department
Culture, Tourism & Antiquities Department
Energy Department
Excise, Taxation & Narcotics Department
Finance Department
Food Department
Forest, Environment & Wildlife Department
Governor's Secretariat
Higher, Technical Education & Research Department
Home Department
Information & Archives Department
Information, Science & Technology Department
Industries & Commerce Department
Irrigation Department
Katchi Abadies Department

Labor & Human Resources Department
Law, Parliamentary Affairs & Human Rights Department
Livestock & Fisheries Department
Local government, Rural development, Public Health Engineering & Housing and Town Planning Department
Mines & Minerals Development Department
Minorities Affairs Department
Planning, Development & Special Initiatives Department
Population Welfare Department
Primary Health Department
Rehabilitation Department
Secondary Health Department
School Education Department
Services, General Administration & Coordination Department
Social Welfare Department
Special Education Department
Sports & Youth Affairs Department
Transport & Mass Transit Department
Women Development Department
Works & Services Department

ATTACHED DEPARTMENTS | AUTONOMOUS BODIES | SPECIAL INSTITUTIONS

Source: Government of Sindh Website, September 2013 - http://www.sindh.gov.pk

Annex E: Sindh Government Tax Receipts

There are three main authorities in Sindh that collect various taxes: Excise and Taxation Department (ETD), Sindh Board of Revenue (SBoR), and Sindh Revenue Board (SRB). The position with respect to each of the three entities responsible for revenue mobilization and collection in the Sindh Government is described below.

Excise and Taxation Department

Legislation and procedures related to major taxes managed by Excise and Taxation Department are comprehensive.

- **Motor vehicle tax** is collected and regulated by the Sindh Motor Vehicle Taxation Act 1958 and Sindh Motor Vehicle Ordinance 1965. The revenue comprises annual vehicle taxes levied on different categories of vehicles registered in the province; motor registration fee, which is charged at the time of registration of a new vehicle; motor vehicle fitness certificate; route permit; annual fee; among others as per schedule of taxes according to vehicle seating capacity and engine size.

- **Provincial excise duty:** The main sources of income under the provincial excise are duties on medicinal and toilet preparation materials, including beer and liquor sold to non-Muslims and fee on sale of commercial spirits, including denatured spirits. The provincial excise is regulated by the Prohibition (Enforcement of Hudd) Order 1979 and Sindh Abkari Act 1878 and Rules made thereunder.

- **Infrastructure cess** a tax of 0.85 percent on Cost & Freight value of a consignment of goods entering the province from outside the country through air or sea, is levied and collected directly by Customs authorities under the Sindh Finance Ordinance 2001. The cess at present is charged only on the imported goods entering the province from outside the country. The cess is collected directly by the federally administered Customs authorities along with Custom duty. Although law provides levy of cess on exports as well, these have remained exempt in order to provide incentive to exports. The rate of the cess on imports into Sindh was raised from 0.80 percent to 0.85 percent in 2008. This cess was levied for facilitating adequate maintenance of the infrastructure, which is likely to depreciate and be adversely affected on account of trade traffic and related activities. Infrastructure in this instance refers to social and economic services, and a wide range of physical infrastructure as well overall environment and health hazards, which are created by a constant flow of trade-related movement from all over the country in and out of port.

- **Cotton fee** is levied on the quantity of cotton brought to the factories for ginning. It is regulated through the Sindh Cotton Control Ordinance 1966 and rules made thereunder. The overall revenue under this levy is dependent on cotton production in the country.

- **Professional tax:** The tax on trade, profession, calling, and employment was levied under section 11 of the West Pakistan Finance Act 1964. This Act was adopted by the Government of Sindh as the Sindh Finance Act 1964 whereby all income taxpayers were liable to pay professional tax in accordance with the specified rates. Presently, the tax is being charged on (a) all persons assessed to income tax; (b) all limited companies as per their paid-up capital; (c) all establishments other than limited companies based on their annual turnover; and (d) all petrol pumps and compressed natural gas stations on a flat rate of PRs2,500.

- Hotel tax is levied and collected under Sindh Finance Act 1977. Hotel tax is collected on ad valorem basis at 7.5 percent of room rent per lodging unit per day at the occupancy ratio of 60 percent.

- Property tax is collected under the Sindh Urban Immovable Property Tax Act 1958. A uniform rate of tax is levied on all categories of properties at 20 percent of annual rental value.

- Entertainment duty is levied and collected under the provisions of the Sindh Entertainment Duty Act 1958 and Rules framed thereunder. It is collected at certain percentage of admission rate to places of entertainment with the exception of cinemas but including sports events, amusement parks, and theatres. The Government has notified a fixed rate for cinemas to provide incentive and relief to the film industry.

Sindh Board of Revenue

- Agriculture income tax, along with abiana, is levied and collected under the Land Revenue Act 1967 and rules framed thereunder, and the Sindh Land Tax and Agricultural Income Tax Ordinance 2000. The laws require landowners to file returns on a self-assessment basis when they have net agriculture income exceeding PRs80,000 or own cultivated land up to 50 acres irrigated and 100 acres un-irrigated. Exempt from this tax are landowners with up to 4 acres irrigated and 8 acres un-irrigated agriculture land. The tax is assessed in each cultivation season. Every growing season, the Office of Assistant Commissioner issues a provisional demand note based on assessment of crop yield in each district. There are three seasons: Kharif, Rabi and Adhawa. Provisional demand is based on assessment (partal) by tapedar. The landowner can file an appeal before the Deputy Commissioner of the district within 15 days. If no appeal is submitted, the provisional demand attains finality and is recoverable under the Land Revenue Act 1967 by the revenue authorities. The authorities have powers to sell property or even arrest the taxpayer in case of default of payment.

- Local cess and drainage cess is assessed on the basis of cultivated land. Rates for local cess per acre are fixed and vary for perennial, non-perennial and rain-fed (barani) area. This cess is assessed and recovered along with agriculture income tax under the Land Revenue Act 1967. Drainage cess is applicable on the beneficiary of saline water drains. The cess is charged for de-silting the drains to avoid water-logging issue in the province. The cess is also charged along with the agricultural income tax based on land fed by the drainage system.

- Stamp duties on registration and transfer of property. On sale of immoveable property, the provincial governments are empowered to levy and collect tax under the Constitution of Pakistan. This tax is collected through stamp duties. Stamp duty legalizes transfer of property and various other transactions. It confirms an act as lawful, legal, and with full force of the law. It also confirms the rights of both the parties involved in the said transaction. The stamp duty is regulated through the Stamp Act 1899; it is recovered through sale of judicial and non-judicial stamped papers. The non-judicial stamps are used for revenue recovery from bill of exchange, commercial documents, sale of property, etc. The stamp duty is payable according to value of sold immoveable property. The minimum sale value of land is prescribed in each district to discourage under valuation of the property value. However, the schedule of valuation is very old and needs revision.

- Mutation fee is collected at the time of mutation of property as per schedule of rates in each district.

- Land revenue or dhall is assessed on cultivated land and owned land. Assessment and recovery of dhall is made in accordance with the Sindh Land Revenue Act 1967 and Rules of 1968. The Sindh Board of Revenue issues instructions to the Deputy Commissioners for display of Dhall rates in each season for information to the general public.

- Capital Value Tax (CVT) on immovable property became a provincial subject after the 18th Amendment in the Constitution. The capital value tax is collected by the Inspector of Stamps, Board of Revenue. The CVT rates were rationalized through the Finance Act 2010. The capital value tax is applicable on immoveable property in Sindh at 2-3 percent of the recorded value of property according to size of flats, houses, and commercial buildings. Collection under this head has been insignificant due to implementation issues during the last three years.

Sindh Revenue Board

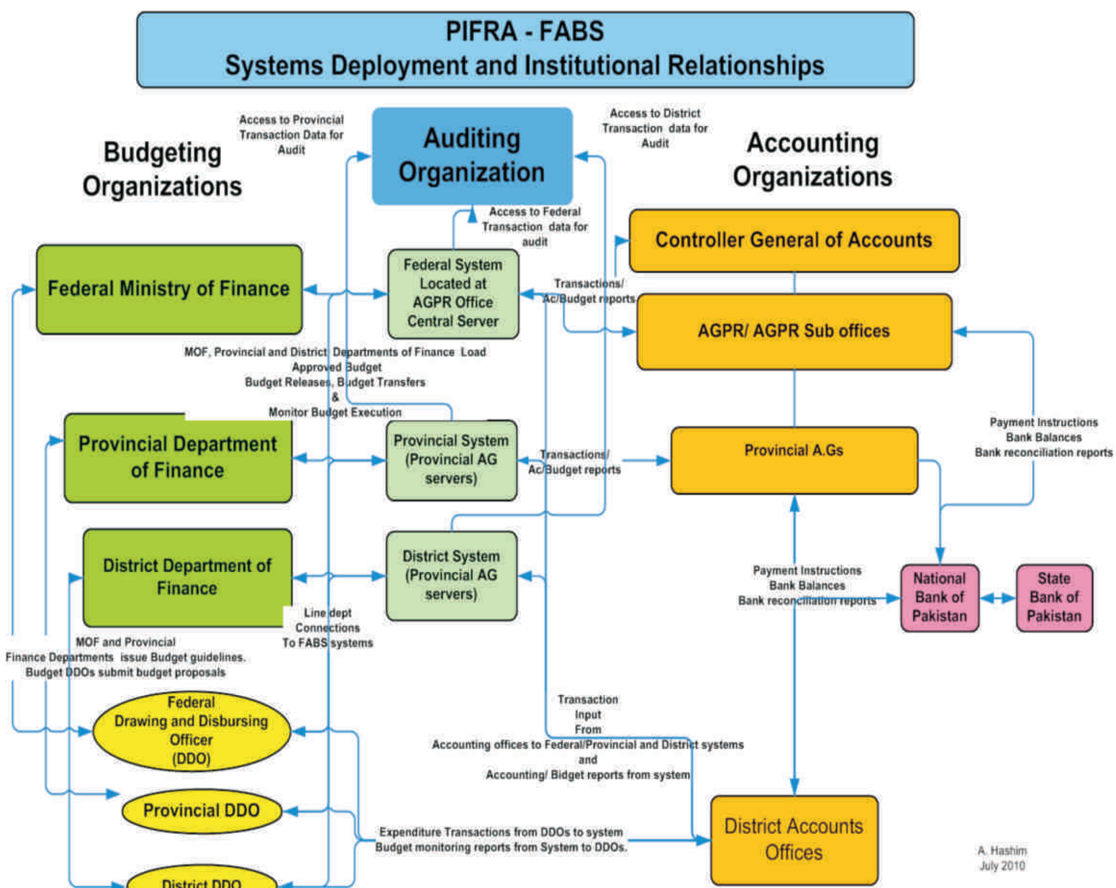
Sales tax on services accounts for 41 percent of all taxes collected by the Sindh Government. The sales tax on services is a provincial levy through the Sindh Sales Tax Ordinance 2000, promulgated with effect from July 2000. The sales tax on services is charged at 17 percent of value of taxable services, which include services rendered by hotels; marriage halls; lawns; clubs; caterers; insurance and banking companies; advertisements; and services rendered by Custom agents, stevedores, courier services, etc. The procedure adopted for collection of tax is the same as prescribed in the Sales Tax Act 1990. The Sindh Board of Revenue was constituted under the Sindh Revenue Board Act 2010. Under the Constitution of Pakistan, sales tax on services is a provincial subject, but until 2010 the Sindh Government did not have any infrastructure for administering this tax. It was collected by the federal government under Federal Excise Duty mode. Legislation for sales tax on services is contained in the Sindh Sales Tax on Services Act 2010 and Sindh Sales Tax on Services Rules 2011. The sales tax being collected by the Sindh Revenue Board, sales tax authorities of other provinces, and the federal government must be harmonized for incidence of taxation and geographical jurisdiction of the Sindh Revenue Board. This is important since all five taxation statutes (4 provinces and one federal) have impact on each other by way of giving effect for input adjustment. The issue is being discussed among provinces and federal government, which should result in a nationwide policy for incidence of taxation.

Annex F: Financial Accounting and Budgeting System

Pakistan has implemented a SAP-based Financial Management Information System (FMIS) under the World Bank-funded Project for Improvement in Financial Reporting and Auditing (PIFRA). The FMIS is referred to as the Financial Accounting and Budgeting System (FABS). FABS is used for managing budgets and making payments (including salaries and pensions). It produces financial reports for economic and fiscal management. With the implementation of FABS, a repository of all Government expenditure and receipt transactions throughout the country is now readily available for decision-making at three levels of government – federal, provincial, and district.

All key stakeholders in government budgeting, accounting, and auditing processes have transitioned to and are critically dependent on these systems for their day-to-day operations and functioning. Figure F.1 illustrates the systems deployment of FABS and the associated institutional relationships.

Figure F.1: Systems Deployment and Institutional Relationships



FABS has geographical coverage across the country down to District Account Office (DAO) and Executive District Office (EDO) levels. Six self-accounting entities have also transitioned to FABS. Table F.1 below shows coverage to date:

Table F.1: FABS Sites as of September 30, 2013

Area or Province	Total sites	DAO/AG/FD*		EDO*		Line Dept./Ministries	
		Nov. 2012	Sept. 2013	Nov. 2012	Sept. 2013	Nov. 2012	Sept. 2013
Federal	53	4	4	Nil	Nil	42	47
Punjab	112	39	39	36	36	37	37
Sindh	89	27	27	23	23	39	39
KP	87	28	28	25	25	34	34
Baluchistan	74	23	31	Nil	Nil	41	41
Gilgit/Baltistan	9	8	9	Nil	Nil	Nil	Nil
FATA	7	6	7	Nil	Nil	Nil	Nil
AJK	11	11	11	Nil	Nil	Nil	Nil
Others	28					28	28
Total	**470**	**146**	**156**	**84**	**84**	**221**	**226**

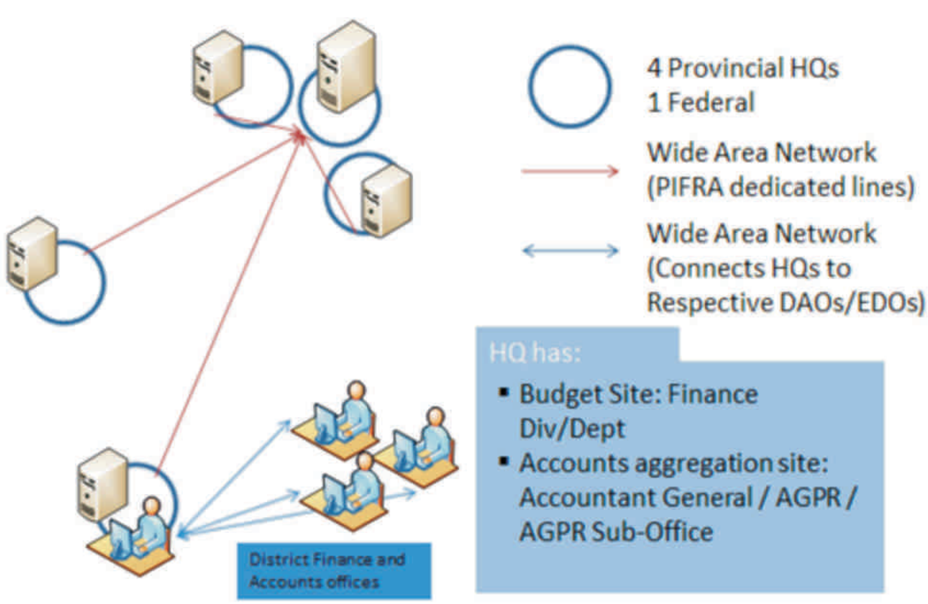
** DAO: District Accounts Office; AG: Accountant General; FD: Finance Department; EDO: Executive District Office*

Note:

- Implemented as of September 25, 2013: 156+84+226=466.
- Remaining: (a) 2 sites in Balochistan, and (b) 2 newly created ministries at Islamabad
- The number of line ministries/departments keeps on changing as new ones are created and/or old ones are either merged or abolished.
- The 6 self-accounting entities that have been provided the system linkages are in addition to the above list

Connectivity to all ministries and departments has been completed (Figure F.2) and hardware and servers rolled out to Accountant General Pakistan Revenues (AGPR) and provincial Accountant Generals.

Figure F.2: Connectivity Architecture



Federal government budgeting and accounting transactions are carried out on a central server in Islamabad. Provincial government budgeting and accounting transactions are carried out on servers located in each of the provincial capitals (e.g., Karachi in Sindh). Federal government transactions related to spending units, located in the provinces, are processed on a central server in Islamabad. This enables direct on-line access for all federal transactions and eliminates the necessity of periodically downloading these transactions from provincial servers to get the national picture. District government budgeting and accounting transactions are carried out on the respective provincial servers. This connectivity and coverage enables expenditure to largely be recorded in real-time or, where access issues exist, processed in batches from alternate sites. Revenue is recorded with minor delay on the basis of State Bank of Pakistan collection records.

Progress continues in improving the functional coverage and deepening of the functionality of FABS by addition of elements such as pension payroll, cash forecasting, and e-reconciliation. Budget books functionality has also recently been developed. Pink, White Book and Supplementary books for 2013/14 were generated from SAP at federal level for the first time. Functionality has also been established in FABS to handle foreign-financed projects, and 17 Bank-funded (IDA MTDF) projects are currently using the system.

Capacity-building support has been provided for staff to enable FABS to become fully functional. Extensive training has been undertaken with over 33,000 staff trained on various aspects of FABS (as of March 2013), including extensive training at District Account Office and Executive District Office levels.

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