



PAKISTAN: SINDH PROVINCE

Public Expenditure and Financial Accountability (PEFA) Assessment Report

April 13, 2020

Country's currency and indicative exchange rates (July 1, 2018)¹

Currency Unit = Pakistan Rupee

US \$ 1 = Rs. 121.6

Fiscal Year

July 1 - June 30

¹ This is the Interbank rate for US \$ as on 1st July 2018. Refer to website <http://www.forex.pk/inter-rates.php>

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Acronyms

ADP	Annual Development Program
AG	Accountant General
AGP	Auditor General of Pakistan
AGPR	Accountant General of Pakistan Revenue
APPM	Accounting Policies and Procedures Manual
BCC	Budgetary Call Circular
BPG	Budgetary Provincial Government
CAO	Chart of Accounts
CFAO	Chief finance and Accounts Officer
CGA	Controller General of Accounts
COFOG	Classification of Functions of Government
DAO	District Accounts Officers
DDO	Drawing and Disbursement Officer
DFID	U.K. Department for International Development
DG	Directorate General
DMFAS	Debt Management and Financial Analysis System
DPCO	Debt Policy Coordination Office
EAC	Economic Advisory Council
EU	European Union
FABS	Financial Accounting and Budgeting System
FD	Finance Department of Sindh
FRDLA	Fiscal Responsibility and Debt Limitations Act
FY	Fiscal Year
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GFR	General Financial Rules
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
HLG	Higher Level Government
HR	Human Resources
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards for Supreme Audit Institutions
PPRA	Public Procurement Regulatory Authority
MTBF	Medium-term Budgetary Framework
MTFF	Medium-term Fiscal Framework
NAM	New Accounting Model
NFC	National Finance Commission
O&M	Operations and Maintenance
P&D	Planning and Development
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PC	Planning Commission
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Financial Management Act

PI	Performance Indicator
PIFRA	Project to Improve Financial Reporting and Auditing
PIM	Public Investment Management
PKR	Pakistan Rupee
PSDP	Public Sector Development Plan
SAI	Supreme Audit Institution
SNG	Subnational Government
SOEs	State Owned Enterprises
SOPs	Standard Operating Procedures
SRB	Sindh Revenue Board
TSA	Treasury Single Account



Pakistan: Sindh Province

Public Expenditure and Financial Accountability (PEFA) Assessment 2019

Final report

April 13, 2020

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat

April 13, 2020

Executive summary

Purpose and management of the assessment

1. The purpose of the 2019 PEFA assessment is to provide to the government of Sindh and the development partners with an objective and up-to-date analysis of the performance of the PFM system in Sindh using the latest internationally recognized PEFA methodology (2016 PEFA). The PEFA assessment provides an update on progress on PFM in Sindh since the last PEFA assessment, which was conducted in 2013, and establishes a new PEFA baseline using the 2016 PEFA methodology. This methodology identifies seven pillars of performance that are essential for an open and orderly PFM system. These include budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit.

2. The PEFA assessment also seeks to build a shared understanding of PFM performance and those dimensions that require attention and improvement. The results of the assessment are expected to assist the government in monitoring the implementation of Sindh's Public Financial Management Reform Strategy to achieve long-term sustainability.

3. This PEFA assessment has been completed as a collaborative exercise led by the GoS in partnership with the participating DPs. The team administering the review included European Union, the World Bank staff, and PEFA experts (Consultant). PEFA Steering Committee, chaired by the Secretary Finance and comprising of the heads of the key stakeholders in GoS, provided oversight. The Economic Reforms Unit coordinated the activity on behalf of GoS. A broad quality assurance mechanism was put in place comprising of the sector specialists at the World Bank and the external peer reviewers, including PEFA Secretariat and EU.

Assessment coverage and timing

4. The assessment covers expenditures by the Sindh government, budgetary units and revenues collected by the different provincial entities, including but not limited to, Sindh Revenue Board and Excise, Taxation and Narcotics Control Department (ETNCD). The assessment also examines operations outside the Sindh government, mainly State-Owned enterprises, Autonomous Bodies (AB), and Self Accounting Entities (SAE), but only to the extent that they have an impact on the fiscal performance of the Sindh government, including fiscal risk reporting. Activities of subnational governments have been examined only in terms of transfers to the local government, while foreign financing is contracted by the Federal government on behalf of the provincial governments through Economic Affairs Division (EAD) which is then passed on to the provinces, with the foreign financing for provincial governments records being maintained by the federal government. The 18th Constitutional Amendment has allowed the provinces to raise domestic or international debt or provide guarantees against the security of the Provincial Consolidated Fund within limits and subject to conditions as may be specified by the National Economic Council. In August 2017, the provinces agreed on a framework for debt creation and debt management by the province whereby the domestic borrowing limit for provinces was increased from 0.5% to 0.85% of GDP.

5. The PEFA assessment started in December 2018 following the formal launch workshop attended by an inter-agency working group comprising of key ministries, departments and agencies covered by the assessment. The main fieldwork mission took place during the period February 25 – March 12, 2019 during which data for most of the indicators was collected. Assessment of the indicators continued during

the period of March - April 2019, enabling the drafting of report that was completed during the month of August 2019. The assessment covered the financial years 2015-16, 2016-17 and 2017-18.

Impact of PFM Systems on the three main budgetary outcomes

6. At the policy level, Sindh Provincial Assembly has a key role in authorizing revenues, expenditures, and debt. The Finance Department plays a pivotal role in budget preparation and expenditure control. Departments and SOEs have well-defined roles in implementing budgets and submitting accounts for incurred expenditures. The Controller General of Accounts, with an extensive network of offices including the Accountant General Sindh, makes payments, maintains accounts, and prepares annual financial statements. The Auditor General of Pakistan has an extensive organization to conduct financial compliance audits, and through DG Audit Sindh, undertakes various audits of Sindh Government. State Bank of Pakistan (SBP) acts as banker for the government, and the government-owned National Bank of Pakistan acts as agent of the SBP in areas where SBP does not have a branch.

A. Aggregate fiscal discipline

7. This PEFA assessment highlighted the inadequacies in aggregate fiscal discipline as evidenced in the expenditure and revenue outturns. The Government of Sindh does have a budget law, namely *Sindh Financial Management and Accountability Act 2011*², and the budgetary process is supported by *Sindh Budget Manual*. However, its implementation of the budget law remains an issue as evidenced by the many budget adjustments. These adjustments, though legally provided for, are without limits on the number of adjustments; lack adequate legislative oversight and does not fully comply with the guidelines of the Finance Department and Planning and Development Department which has impacted the fiscal discipline of the GoS resulting in significant revenue and expenditure outturns.

8. Pakistan's PFM system is regulated and guided by different sets of regulations and procedures, including General Financial Rules (GFR), Treasury Rules, New Accounting Model, Fundamental Rules and Supplementary Rules (FR & SR), Account Code, Audit Code, Drawing and Disbursing Officers Handbook, etc., which contain contradictions and gaps. Also, there is no clear requirement for budget funds to be held in a Treasury Single Account (TSA) nor any limit on in-year re-appropriations. In addition, there are no fiscal transparency requirements and no provision of recording new commitments. While there is an internal audit function established and housed within the Finance Department, its coverage remains limited to a few departments. Some of the low scores under pillars (II-VII) weigh in on the overall performance of Pillar I (Budget reliability).

9. Deficiencies in revenue administration range from risk management, arrears monitoring and revenue audits. Estimates for expenditures are based on inflated revenue targets, rendering the development budget formulation unrealistic, as is evident from the repeated budget cuts and revisions. Disintegrated budgeting overshadows the impact of development budget on recurrent and, as a result, a holistic view of the budget is not available.

10. An effective internal control framework/charter has led to strengthening of internal controls in some departments. However, the coverage of internal audit functions is limited in scope and focus and thus does not improve the weak internal controls. The Public Accounts Committee (PAC) has repeatedly observed the lack of interest of the Executive to comply with its directions.

² <http://www.pas.gov.pk/uploads/acts/Sindh%20Act%20No.XVIII%20of%202011.pdf>

11. The cash management regime is not sufficiently developed in Sindh. The absence of an effective cash management system in the form of a Treasury Single Account (TSA) has resulted in various government entities having separate bank accounts in commercial banks. Two major factors incentivize government departments to keep cash outside the TSA. First, given the highly centralized payment authorization system and absence of a legal framework, the departments tend to keep unspent balances in private commercial bank accounts and second is the lack of sufficient IT infrastructure makes it difficult to set up a seamless system of e-payment. As a result of above, the balances in these accounts are not shown in any fiscal reports, although they do appear in the State Bank of Pakistan's data³ on the banking sector. This practice has a significant negative impact as it artificially understates government cash positions leading to overestimate short-term borrowing needs.

B. Strategic allocation of resources

12. During the assessment, vulnerabilities relating to project planning, costing, prioritization and screening were highlighted in terms of strategic allocation of resources. Additionally, the incremental increases in the Annual Development Program (ADP), conveyed in the Finance Department as well as Planning and Development Department's guidelines, undermine the utility of the medium-term and output-based budgeting. The decision-making in the PFM realm is characterized by a one-year vision owing to the lack of a medium-term perspective in budgeting. The situation is aggravated when the impact of the current year's capital investment decisions on the recurrent budget are unknown constraining strategic budget management practices. The graduation of output-based medium-term budgetary framework to the whole of the government has not taken place and limits the linking of policy planning to budget. The Budget Strategy Paper (BSP) that provides the fiscal aggregates and the status of the overall budget position in the projected years facilitated strategic allocation of resources. However, under the current practice, BSP is not required to be approved by the Provincial Assembly. BSP is approved by the Provincial Cabinet and is submitted to the Standing Committee on Finance.

13. The existing development budget practices do not support effective public investment management (PIM). Although the guidelines on the ADP formulation recommends that line departments align with the investment decisions with the Sindh Vision 2025, the lack of 'costed sectoral strategies' undermines the value for money perspective in capital investments. While the vulnerabilities in project planning, costing, appraisal and massive budget adjustments impacted the public sector portfolio management, rationalization of the development budget has not been afforded a priority. There are no criteria for the ADP to include only those schemes that are highly complex and capital intensive and those projects that have externalities for other districts. Thus, the ADP is neither realistic nor manageable which impedes overall public investment management.

C. Efficient use of resources for service delivery

14. An effective PFM framework provides an enabling environment for better service delivery within the available resources. There have been initiatives to improve service delivery that have not materialized because the details of the PFM system were not delivering directly. In addition, the lack of timely availability of the indicative budget ceilings have undermined proper planning by the service delivery units, and the lack of budget codes for lower tiers of the service delivery units in GFMIS has emasculated expenditure tracking.

15. Effective internal controls promote innovations in service delivery and excessive controls stifle it. The introduction of the grants to service delivery units in the education sector was meant to promote

³ http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2018/Nov/BankingSystem.pdf

creativity but excessive controls have overshadowed it. The procedural complexities, lack of integrated systems as well as capacity are constraining innovations in the service delivery. While the output-based and medium-term budgeting are essential elements in service delivery, the fundamentals are not applied to realize these objectives. Fragmented budgeting, uninformed resource allocations, manual processes parallel to automated systems, and poor incentive regime are all features of the system and impact on effective delivery.

16. The existence of large expenditure arrears points to the deficiencies in the budget allocations vis-à-vis cash availability to the spending units. The absence of the commitment accounting practices has concealed the under swell created by expenditure arrears. What appears to be efficient budget utilization is illusive. Inadequate cash releases in a milieu of sizeable arrears have fostered moral hazard. The wage bill consumes the largest share of resources leaving limited finances for non-salary budget – essential to innovate and improve service delivery. With over a million government servants, the periodic payroll audit becomes critical to ensure a potential ghost workers phenomenon is kept at bay.

Performance changes since PEFA assessment 2013

17. Sindh Government's previous PEFA assessment was conducted in 2013 using the PEFA 2011 framework. Annex 4 provides a comparison in terms of the performance trajectory based on the PEFA undertaken in 2013 using 2011 framework and the current PEFA assessment using the same methodology

18. On a comparable basis, performance improved in 9 dimensions, declined in 10 indicators while it remained the same under 10 dimensions. Prima facie, performance deteriorated on a quite a few indicators, however, it was not entirely due to the government's performance but rather the change in indicator scoring may also have contributed to some of the low scores as previous scores may have been too optimistic.

19. The comparison shows that the budget credibility improved as the composition variance expenditure declined while the aggregate level performed the same. The overall budgeting process remained somewhat organized with continued adherence to budget calendar by the line departments, but a declined-on guidance provided to line departments. The budget approval by the legislature continued to be timely. The multiyear perspective in fiscal planning, expenditure policy, and budgeting showed improvement as compared to the previous assessment undertaken in 2013. The comprehensive rollout of the GFMS enhanced the quality of information in the budget execution reports.

20. Deficiencies were noted in oversight of fiscal policy and tax collection. The institutional mechanism for fiscal reporting did not improve in capturing the extra-budgetary operations and information on off-budget donor-funded projects. Neither was improvement noted in the oversight of aggregate fiscal risk from public sector entities/autonomous entities. There has been some improvement in taxpayer registration but collection of taxes which remain an issue has deteriorated.

21. Performance regarding the effectiveness of the payroll improved since the previous assessment as did effectiveness of internal controls on non-salary expenditure due improved compliance with rules for processing and recording transactions. While limited, the coverage of the internal audit function has shown improvement. The internal audit function has been made operational through Internal Audit Charter and internal audits have been initiated in some departments, the focus of internal audit work is still on financial compliance and not on strengthening the internal controls. Finally, the lack of management response continues to undermine the deepening of fiduciary controls.

22. In summary, aggregate fiscal discipline improved due to better payroll, procurement, and internal control and audit. However, neither the strategic allocation of resources nor service delivery outcomes exhibited the same degree of improvement in relevant indicators and deteriorated in some instances such as availability of information on resources received by services delivery units. However, the existence of sector strategies with multiyear costing of recurrent and investment expenditure did improve marginally.

Prospects for reform planning and implementation

23. The 18th Amendment to Pakistan's Constitution reasserted the federalist character of Pakistani state. Among others, the amendment transferred hitherto federal functions, including responsibility for education, health, environment, and agriculture, to provinces and expanded the mandate of the Council of Common Interests (CCI) to coordinate intergovernmental relations; assigned taxing authority for sales taxes on services to the provinces; and provided the provinces with borrowing authority. Taxes on agricultural income, immovable property, estate and inheritance, and zakat and usher (religious taxes) were returned to the provinces for levy and collection. These recent efforts set the stage for provincial governments to improve local-level participation in governments and gave them a mandate to further decentralize to locally elected representatives.

24. These reforms were also an opportune moment for the provincial government to take a fresh look at their roles and mandates. For instance, the amendment not only changed the composition of the CCI but also entrusted the CCI with decision-making, monitoring, supervision, and control over matters included in the Federal Legislative List Part II⁹ and related institutions. It also made the National Economic Council (NEC) more responsive to provincial needs. The NEC is expected, under the Constitution, to meet twice a year with the mandate to formulate plans on financial, commercial, social and economic policies.

25. Needless to state, policy orientations and structural transformation must be practiced in a political economy where varied interests tend to slow down the progress or otherwise, if inadequately incentivized. What may look initially as a failure to reform may provide the necessary impetus for a subsequent major policy change. And what looks like a successful reform may eventually be reversed. In Pakistan, albeit on a wider spectrum, the introduction of the autonomous local government system (2001) and the Government Financial Management Information System (GFMIS) (1998) provides evidence to the latter and the former.

26. The literature on governance reforms acknowledges the long gestation period of the reforms to gain traction. Sindh Government has demonstrated stewardship and perseverance, evident from the continuity of reform efforts, however the focus has primarily been on the establishment of the institutions, introduction of advanced tools (such as MTFF, Debt Policy Unit, output-based budgeting, and policy and strategy formulations). Continued collaboration is now needed to coordinate these efforts among the stakeholders (Line Departments, Audit, and Legislature) to ensure its application by all, which could be accomplished with a capacity development response reaching out to a broader group for wider knowledge transfer. With the introduction of modern tools, the Sindh Government needs to focus on building analytical capacity of the individuals to help appreciate the utility of these tools and its implementation. Continuous efforts are required through advocacy and dialogue for attitudinal change, and it is imperative that the practices (manual processing, annual budgeting approach, and so on) prevailing before the introduction of modern methods are discontinued to realize the potential of the modern tools and the automated systems.

27. The Table below provides the summary ratings of the current assessment conducted based on the PEFA Framework 2016. Details of the assessment and the narrative are available in Section 3.

Table 1: Overview of the scores of PEFA indicators							
PFM performance indicator		Method	1	2	3	4	Score
A. Higher level government (HLG)							
HLG	A. Transfers from HLG	M1	C	D	C		D+
I. Budget reliability							
PI_1	1. Aggregate expenditure outturn		C				C
PI_2	2. Expenditure composition outturn	M1	C	C	A		C+
PI_3	3. Revenue outturn	M2	C	B			C+
II. Transparency of public finances							
PI_4	4. Budget classification		A				A
PI_5	5. Budget documentation		B				B
PI_6	6. Government operations outside financial reports	M2	D*	D*	D		D
PI_7	7. Transfers to subnational governments	M2	A	C			B
PI_8	8. Performance information for service delivery	M2	D	D	D	D	D
PI_9	9. Public access to fiscal information		B				B
III. Management of assets and liabilities							
PI_10	10. Fiscal risk reporting	M2	D	D	D		D
PI_11	11. Public investment management	M2	C	A	C	B	B
PI_12	12. Public asset management	M2	C	C	D		D+
PI_13	13. Debt management	M2	C	C	D		D+
IV. Policy-based fiscal strategy and budgeting							
PI_14	14. Macroeconomic and fiscal forecasting	M2	NA	C	NA		C
PI_15	15. Fiscal strategy	M2	D	C	C		D+
PI_16	16. Medium term perspective in expenditure budgeting	M2	D	D	C	NA	D+
PI_17	17. Budget preparation process	M2	A	D	D		C
PI_18	18. Legislative scrutiny of budgets	M1	C	C	A	B	C+
V. Predictability and control in budget execution							
PI_19	19. Revenue administration	M2	B	B	C	D*	C+
PI_20	20. Accounting for revenue	M1	A	A	C		C+
PI_21	21. Predictability of in year resource allocation	M2	C	C	B	C	C+
PI_22	22. Expenditure arrears	M1	D*	D			D
PI_23	23. Payroll controls	M1	A	A	A	B	B+
PI_24	24. Procurement management	M2	A	B	B	B	B+
PI_25	25. Internal controls on non-salary expenditure	M2	A	C	B		B
PI_26	26. Internal audit	M1	B	B	D*	D*	D+
VI. Accounting and reporting							
PI_27	27. Financial data integrity	M2	D	D	C	B	D+
PI_28	28. In year budget reports	M1	C	C	C		C
PI_29	29. Annual financial reports	M1	C	B	B		C+
VII. External scrutiny and audit							
PI_30	30. External audit	M1	C	D	C	C	D+
PI_31	31. Legislative scrutiny of audit reports	M2	D	NA	NA	NA	D

1. Introduction

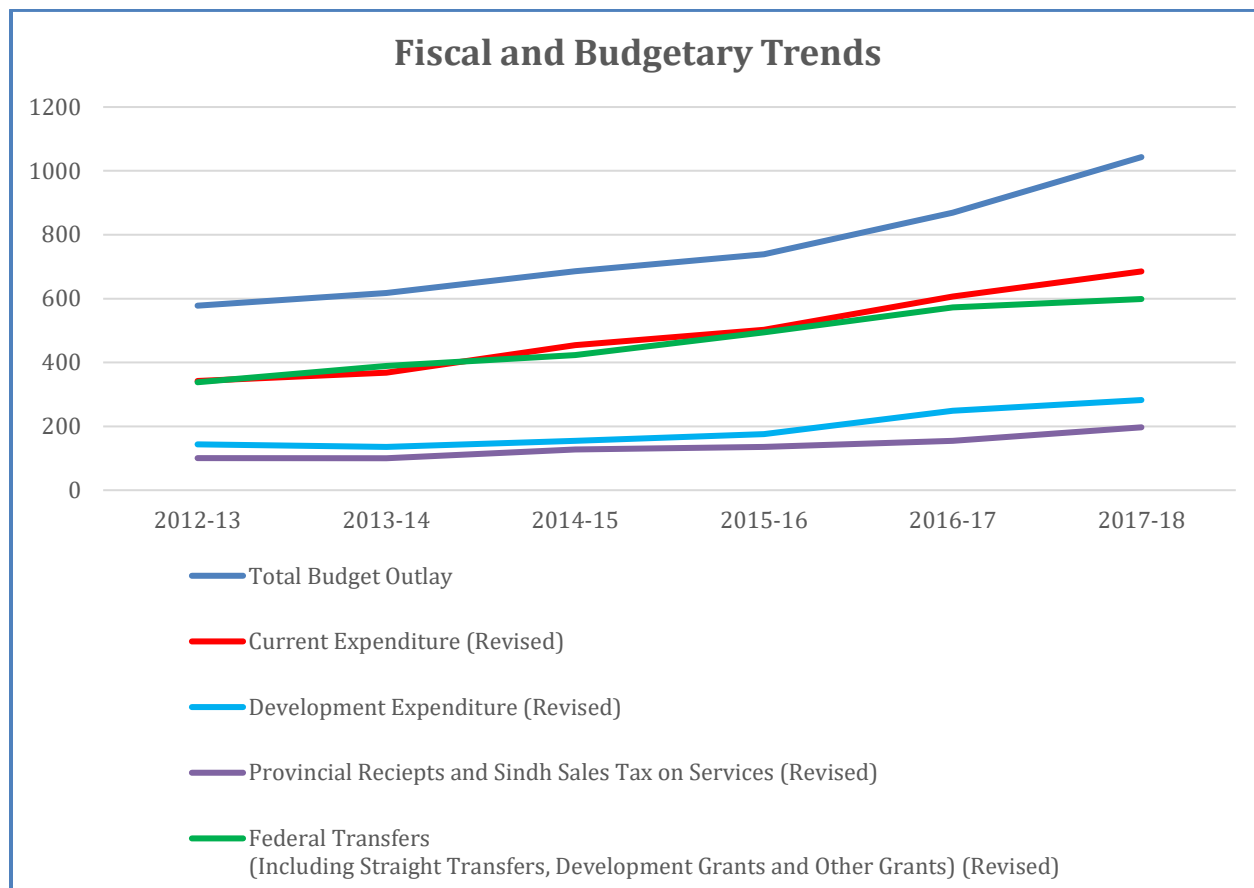
1.1 Rationale and purpose

28. The objective of the Public Expenditure and Financial Accountability assessment is to assess the current Public Financial Management performance of the Sindh Government of Pakistan and measure progress since the last PEFA assessment in 2013.

29. The findings from the assessment will feed into government and development partners dialogue on PFM reform and provide decision makers with information to improve the enabling elements needed for the desirable fiscal and budgetary outcomes: (i) aggregate fiscal discipline requires effective control of the total budget and management of fiscal risks; (ii) strategic allocation of resources involves planning and executing the budget in line with government priorities aimed at achieving policy objectives; and (iii) efficient service delivery requires using budgeted revenues to achieve the best levels of public services within available resources.

30. The 18th Amendment (2010) to the Constitution (1973) redefined the fiscal federalism in Pakistan, expanding the provinces' responsibilities of service delivery functions. To meet the fiscal requirements, the National Finance Commission (NFC)⁴ increased the share of the provinces in the 7th NFC award. The vertical share from the divisible pool grew from 47.5% to 56% (2010-11, first year of the NFC Award), and to 57.5% in the remaining years for all the provinces together. Within the provincial share of 47.5%, Sindh's share was 24.55%. This share has become the minimum benchmark protected by Article 160 (3a) of the Constitution. The increase in the resource envelope manifested the need for robust PFM system for efficient and effective use of public resources.

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



Source: Budget Analysis 2013-14 to 2018-19, Sindh Finance Department

31. The GoS’ own source revenue increased from Rs. 133,092 million to Rs. 190,730 million during the period under review (2015-16 to 2017-18), a rise of 43.30%. The key contributor to this increase was the General Sales Tax (GST) on services that was devolved to the provinces in the year 2012. By 2017-18, GST on services contributed Rs. 99,082 million, almost 49.60% of the total provincial tax revenue of Rs. 190,730 million. During the PEFA review period, other provincial revenues recorded an increase from 18% to 23% out of the total revenues of the province, while the GST on services grew by 62%.

32. The Sindh Vision 2030 translates its strategic vision into a definite public investment management plan. It is developed as part of the National Vision 2025 exercise carried out in 2014. It is organized according to the thematic areas of poverty, health, education, employment, effective governance, land, water, and infrastructure. However, due to cuts on development expenditure (such as the cut of Rs. 24 billion during the year 2017-18)⁵ due to the shortfall in federal transfers has impacted the overall development spending. In addition, there are systemic and transitional inefficiencies in the system’s capacity to adequately plan, program, execute and monitor. These have not improved in line with the large increase in the development portfolio.

33. While there are developmental challenges, there are opportunities as well. The benefits of achieving success in using public funds to help turn Sindh into a regional economic powerhouse that can offer employment and support to all its citizens are huge. Sindh is the most urbanized province in Pakistan and is a hub of economic activity. In order to achieve its full potential, resource mobilization and enhanced efficiency of expenditures is critical. A comprehensive review of performance and factors inhibiting these

⁵ Budget Analysis 2018-19 page 60

is the logical first step toward strengthening PFM and creating circumstances conducive to better service delivery. GoS has partnered with the development partners agencies to take stock of the overall performance of the PFM systems and practices. The GoS has drafted a PFM reform strategy and the findings from this PEFA assessment will also inform the finalization of the strategy and establish baselines and performance trajectories for key indicators that measure progress.

34. The PEFA assessment provides an analysis of the overall performance of the PFM system based on 31 indicators under the seven PFM dimensions of the 2016 PEFA Framework: budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. There is an additional indicator in the context of the province which assesses how Federal transfers operate. The use of the PEFA 2016 Framework meets the twin objectives of (a) measuring progress since the last PEFA assessment of 2013 and (b) setting baselines for future reforms using the upgraded set of indicators. The new and revised indicators since the 2011 PEFA framework: Public Investment Management (PIM), credible fiscal strategy and forecasting, and public asset management would particularly benefit the GoS. The report captures: a score of the indicators from the PEFA 2016 Framework; an annex that will assess the performance changes against the previous assessments that used 2011 framework; a detailed rationale for each score supported by quantitative data and/or references to relevant documentation and information; and an overall assessment of strengths and weaknesses in PFM performance as related to the pillars of the PFM system. The assessment relied on the guidance that can be found under www.pefa.org.

1.2 Assessment management and quality assurance

35. The PEFA launch took place at the Finance Department in December 2018 with full participation from the government team, the PEFA team from the World Bank and the European Union (EU). The launch outlined and discussed the PEFA methodology and provided an overview of the processes.

36. The assessment used a participatory approach to facilitate and ensure a joint assessment of the PFM system performance by a PEFA Task Force that was setup for the Sindh government. The integrated approach helped reduce burden on the client and provided a pool of critical information to connect the technical macro-economic and PFM/procurement issues and its contribution to service delivery.

Table 1.1: Timelines	
Date	Activity
May 2017	Concept Note reviewed and approved by the World Bank Team and PEFA secretariat.
Nov 2018	Concurrence of the Concept Note and go ahead for the launch of the PEFA assessment received from Sindh Government
Dec 2018	PEFA launch at the PEFA Steering Committee meeting chaired by
Jan 2018- Mar 2019	Field Work- Interviews, data collection, screening and validation

Apr - Jun 2019	Write up of draft report
Aug 2019	Steering Committee meeting for feedback on the preliminary results and validation
Sep 2019	Draft report submitted for peer review
Oct 2019 - Apr 2020	Report revision, review (3 rounds), and finalization of report (PEFA Check)

37. The Finance Department managed the process with a high-level Steering Committee (Box 1) headed by the Finance Secretary with representation from the relevant sections of the Finance Department, Auditor General of Pakistan, Accountant General Sindh, Sindh Public Procurement Regulatory Authority, Sindh Board of Revenue, Sindh Excise, Taxation and Narcotics Control Department. Table 1.1 above presents the timeline of the PEFA assessment. Government officials were continuously engaged during the assessment process. Funding of staff/consultant in support of the preparation of this PEFA report was provided by each respective organization (i.e., Govt of Sindh, WB, and EU). Four field missions were conducted for data collection and results validation, while three meetings were held with the Government of Sindh to keep the participating representatives informed of the assessment process and outcomes.

Box 1: Assessment and Quality Assurance arrangement	
PEFA assessment Management & Organization	
Oversight Team	<ol style="list-style-type: none"> 1. Senior Member, Board of Revenue, Sindh 2. Chairman, Planning and Development Board Sindh, Government of Sindh. 3. Secretary, Excise, Taxation and Narcotics Control 4. Accountant General Sindh 5. Director General Audit Sindh 6. Chairman Sindh Revenue Board 7. Managing Director, Sindh Public Procurement Regulatory Authority 8. Special Finance Secretary (B&E), Finance Department 9. Additional Finance Secretary (Res)(B&E)(Dev), Finance Department 10. Deputy Secretary (B&E-I), Finance Department 11. Debt Management Specialist, Debt Management Unit, Finance Department 12. Chief Investment Specialist, Fund Management House, Finance Department 13. Director, Economic Reform Unit, Finance Department 14. Program Officer (MTBF), Finance Department
Assessment Manager	Mr. Ismaila Ceesay, Practice Manager, World Bank
Assessment Team	<ol style="list-style-type: none"> 1. Mr. John Ogallo – Senior Financial Management Specialist and Task Team Leader, WB

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Review of the Assessment Report	
Date of Reviewed Draft Received	<p>1st Review: September 12, 2019</p> <p>2nd Review: March 25, 2020</p> <p>3rd Review: April 1, 2020</p>
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Reviewers who provided comments	<ol style="list-style-type: none"> 1. Mr. Jens Kromann Kristensen, Head of PEFA Secretariat 2. Mr. Guillaume Brule, Senior Public Sector Specialist, PEFA Secretariat 3. Ms. Clelia Rontoyanni, Lead Public Sector Specialist, WB
Date of Final Report	April 13, 2020

38. The Finance Department as the main recipient of the report. The PEFA report is to be published in the Finance Department's own and other official websites. Pakistan expressed intent to become a member of Open Government Partnership in November 2016. This demonstrates the government's commitment to make government business more open to its citizens in the interest of improving public service delivery, government responsiveness, as well as to combat corruption and build greater trust.

1.3 Assessment methodology

39. This PEFA assessment covers the institutions, systems and processes for the Sindh Government budget including the transfers to local governments and the transparency of inter-governmental relations. The assessment uses the 2016 PEFA Framework to assess the PFM performance against the PEFA 2013 ratings. The fiscal years covered are 2015-16, 2016-17 and 2017-18 as these are the most recent completed fiscal years. In addition, this assessment covers the status of operations outside Sindh Government in context of public sector enterprises in PI-10 as well as extrabudgetary units that are not captured in the Government's accounts (PI-6).

40. The assessment was conducted against 31 PFM performance management indicators grouped in 7 pillars of an open and orderly PFM system: (a) budget reliability; (b) transparency of public finances; (c) management of assets and liabilities; (d) policy-based fiscal strategy and budgeting; (e) predictability and control in budget execution; (f) accounting and reporting; and (g) external scrutiny and audit. The dimensions related to macroeconomic functions are not applicable to the sub-national governments, therefore, they are not rated.

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

2. Country background information

2.1 Country economic situation

42. From FY 2015-16 to FY 2017-18, economic growth in Pakistan was on a rising trend, peaking at 5.8% in FY 2017/18, its highest level in 11 years. This growth came at the cost of macroeconomic imbalances as both the fiscal and current account deficits increased rapidly during this period. Growth was driven by strong performance in the services sector in FY 2015-16 and FY 2016-17, while in FY 2017-18, agriculture and industrial growth picked up. However, growth in the services showed a marginal decline.⁶

43. The period also coincided with the conclusion of the EFF IMF Program in Pakistan (2013-2016), after which the shocks to the macroeconomic balances were accentuated. Foreign reserves immediately after the IMF Program came under pressure and declined almost 10% from USD19.4 billion (4 months of import cover) in FY 2015/16 to USD17.5 billion (3.1 months of import cover) in FY 2016-17, and further declining by 35% to USD11.3 billion (2.1 months of import cover) in FY 2017-18. While exports increased rapidly in FY 2016-17 and FY 2017-18, the growth in imports remained stronger, putting a downward pressure on the current account balance, eventually leading to a loosening of the exchange rate.

44. Debt continued to accumulate as the government ran persistently high fiscal deficits. The total debt level remained above the 60% of GDP limit set by the FRDLA. Total debt was dominated by the high volume of domestic debt, while external debt also continued to increase. The devaluation in the rupee continues to exert pressure on fiscal deficits, as external debt financing grew proportionally faster.

2.2 Subnational (Province) economic situation

45. Sindh has the potential to become a high middle-income province. It is the most urbanized of Pakistan's four provinces, with a population of about 48 million of which approximately 25 million resides in urban locations. As the province with the largest city, and the industrial and commercial capital of the country, Karachi, Sindh attracts considerable economic activity, but also has considerable socio-economic disparity. As the Household Income and Economic Survey (2015/16) shows, Sindh ranks third among the four provinces in terms of average household income, despite being the second largest province. In the absence of official provincial GDP statistics, *World Bank staff estimates of provincial economic growth have shown that Sindh provincial GDP in FY14 and FY15 was 4.9% and 3.2%, respectively compared to the national growth rate of 3.91% and 4.0% in these years. In addition, Gross Provincial Value-added FY 2014-15 in Sindh was Rs. 7,229,752 million while Pakistan it was Rs. 25,647,906 million. Sindh's contribution was approximately 28%⁷.*

46. Sindh Government's debt portfolio consists of Internal/Domestic and External debt. The current position of debt portfolio as of June 30, 2018 is Rs. 415.759 billion⁸. This includes external debt of Rs. 281.333 billion⁹ (which is 67.67% of the total debt portfolio and includes loans under disbursement) and Rs 134.426 billion (which is 32.33% and includes Cash Development Loans amounting to Rs. 14.132 billion

⁶ *Services sector continued to be the largest contributor the GDP at around 60.2 percent in FY2017/18, while industry maintained its share of 20.9 percent. Share of agriculture in GDP declined by almost 1 percent in between FY 2015/17 and FY 2017/18 (Pakistan Economic Survey)*

⁷ *Sindh Public Expenditure Review (page 132), World Bank (2017)*

⁸ *Budget Strategy Paper 2019-22 page 38*

⁹ *Budget Strategy Paper 2019-22 page 38*

and accumulated GPF Liability Rs. 120.294 billion). The external funding mostly comprises of loans obtained from World Bank and Asian Development Bank, amounting to Rs. 169.841 billion (60.4%) and Rs.99.296 billion (35.3%), respectively of the total foreign debt portfolio. The third major source of debt is from the Japan International Cooperation Agency (JICA) amounting to Rs. 11.229 billion (4.0%). The foreign loans have been obtained on both concessional and commercial rates. IDA (World Bank) loans were taken on concessional lending rates while ADB loans are based on mixed (concessional and commercial rates) but with majority being on concessional terms. The difference between these two kinds of loans are the rate of interest and the length of maturity. Usually in concessional lending, the maturity period has a longer span of time for the repayments of loan as compared to commercial lending. On the other hand, the commercial lending is usually based on London Inter Bank Offered Rates (LIBOR) with shorter maturity period. All foreign loans in the Sindh External Debt portfolio comprises of only 3 foreign currencies (USD, SDR and JPY). IDA loans are denominated in Special Drawing Rights (SDR). The major exposure of exchange rate risk comes from USD denominated loans with 95.70%, Japanese Yen 4.0% followed by SDR 1.54% respectively. Depreciation of Pakistan Rupee on account of USD, JPY and SDR denominated loans would affect both the stock of Sindh government debt as well as debt servicing flows.

2.3 Fiscal and budgetary trends

47. Sindh's revenue has been increasing on an accelerating trend, primarily due to rising trend in provincial tax revenues. From 2015-16 to 2017-18, the increase has been 42.15%. Provincial non-tax revenues spiked during 2016-17. However, it dropped to a level lower than 2015-16 for the FY 2017-18. Government of Sindh is dependent on the Federal fiscal transfers (66.56% (FY 2015-16), 63.78% (FY 2016-17) and 65.55% (FY 2017-18) of the General Revenue Receipts). While Sindh Government's Provincial Taxes have showed buoyancy especially the Sales Tax on Services, the Non-Tax Revenues showed a downward trend during the period under review. Despite the boost in General Revenue Receipts and with an expanded level of provincial consolidated fund, Sindh still posted negative fiscal balances in both FY17 and FY18.

	FY2015-16	FY2016-17	FY2017-18
PROVINCIAL CONSOLIDATED FUND			
RECEIPTS			
General Revenue Receipts			
Federal Transfers (Direct and Indirect Taxes)	433,232	444,938	515,516
Provincial Tax Receipts (Own Collection)	122,715	144,338	174,437
Non-tax Revenue	65,835	81,367	62,445
Other Grants from the Federal Government	29,371	26,920	33,984
TOTAL GENERAL REVENUE RECEIPTS (A)	651,153	697,563	786,382
Borrowings			
Foreign Debt	13,011	6,164	5,836
Domestic Debt	33,396	28,160	20,000
TOTAL BORROWINGS (B)	46,407	34,324	25,836
Recovery of Loans/Advances (C)	15	13	13
Trading Activities (D)	37,233	33,445	26,299

TOTAL PROVINCIAL CONSOLIDATED FUND (A+B+C+D)	734,808	765,345	838,530
EXPENDITURES			
Revenue Expenditure	474,612	567,619	639,712
Capital Expenditure	220,747	295,744	296,615
TOTAL EXPENDITURE	695,359	863,363	936,327

Source: Figures provided by Finance Department (Resource Wing), Government of Sindh as well as Annual Financial Statements (2015-16 to 2017-18), Finance Department, Government of Sindh.

48. In terms of expenditures under Functional Classification, major spending is concentrated in General Public Service followed by Economic Affairs, Education and Health for all the three years.

Functional Classification	FY2015-16 Actual	%	FY2016-17 Actual	%	FY2017-18 Actual	(%)
General Public Service	215,892	31%	162,038	19%	233,726	25%
Defense affairs and services	-	0%	66	0%	72	0%
Economic Affairs	148,625	21%	278,774	32%	199,785	21%
Public order and safety affairs	69,876	10%	80,402	9%	97,776	10%
Education affairs and services	131,898	19%	145,901	17%	165,446	18%
Health	63,753	9%	64,053	7%	97,967	10%
Housing and community amenities	4,455	1%	16,775	2%	10,378	1%
Recreational, culture and religion	5,888	1%	13,634	2%	14,494	2%
Social Protection	52,289	8%	101,272	12%	116,194	12%
Environment Protection	2,683	0%	448	0%	489	0%
Grand Total	695,359	100%	863,363	100%	936,327	100%

Source: Figures provided by Finance Department, Government of Sindh as well as Annual Financial Statements (2015-16 to 2017-18), Finance Department, Government of Sindh.

49. Under Economic Classification, major spending is concentrated in Employee Related Expenses, Civil Works, Grants/Subsidies/Write off Loans and Employees Retirement Benefits for all the three years. There has been a significant increase in government employee-related expenditure on salaries, allowances, and pensions. The rapid increase in pension liabilities of the Sindh government for the period under assessment has meant that spending on pensions has increased by 75% in absolute terms. It also has increased as a ratio of total recurrent expenditures to 10%.

Economic Classification	FY2015-16 Actual	%)	FY2016-17 Actual	%	FY2017-18 Actual	%
Civil Works	117,349	17%	189,592	22%	211,647	23%
Employee Related Expenses	219,807	32%	238,088	28%	275,282	29%
Employees Retirement Benefits	52,810	8%	70,019	8%	92,614	10%
Expenditure on Acquiring of Physical Assets	47,932	7%	63,613	7%	66,105	7%
Grants, Subsidies and Write-offs of Loans/Advances/Others	90,942	13%	112,352	13%	129,037	14%
Interest Payment	19,794	3%	19,930	2%	23,559	3%
Investments	2,510	0%	12,950	1%	10,460	1%
Loans and Advances	1,730	0%	0	0%	0	0%
Operating Expenses	65,577	9%	92,905	11%	76,641	8%
Principal Repayments of Loans	41,440	6%	36,540	4%	18,033	2%
Project Pre-investment Analysis	0	0%	0	0%	0	0%
Repairs and Maintenance	14,123	2%	19,377	2%	22,993	2%
Transfers	21,345	3%	7,997	1%	9,956	1%
Grand Total	695,359	100%	863,363	100%	936,327	100%

Source: Figures provided by Finance Department, Government of Sindh as well as Annual Financial Statements (2015-16 to 2017-18), Finance Department, Government of Sindh.

2.4 Legal and regulatory arrangements for PFM

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

51. The Constitution provides for a parliamentary system of government and authorizes national (upper and lower houses) and the provincial assemblies to approve budgets through annual fiscal year votes. The Constitution stipulates authority to enact by the respective tiers on subjects defined in the legislative list of the fourth schedule of the Constitution, including public finances. The procedure for tabling bills on subjects listed in the federal legislative list are defined in Article 70 and Article 99 and 160-171 providing an overarching legal framework with respect to public finance, public debt management, and public sector audit. The legislative scrutiny of budget proposals and expenditure are further delineated in the Provincial Assembly Rules of Procedure and Conduct of Business.

52. The Constitution provides for an independent Auditor General of Pakistan (AGP) (supreme audit institution). According to Article 170 of the Constitution, the AGP is the authority to prescribe the form of

the accounts of the federal and the provinces governments and the methods and the principles underlying their maintenance. The Auditor General's appointment as well as budget is made through the Executive. The value of independent audit lies both in the fact that the auditor is, and is seen to be, independent of the audited entity and hence can carry out the audit free of any constraints.

53. In Sindh, Internal Audit function has been established under a Charter. The function is housed within the Finance Department, whereas in Home, Health and School Education, the activity has been outsourced to an independent chartered accountancy firm. The activities of the chartered accountancy firm are supervised by Internal Audit staff assigned for these Departments.

54. In the PEFA context, the assignment of fiscal powers and distribution of revenues for HLG transfers between the federation and provinces is laid out in Article 160 of the Constitution. The Sindh Public Procurement (SPP) Act (2009) provides for the legal and regulatory framework for public sector procurement supported by the Procurement Rules and Notifications.

55. State Owned Enterprises (SOEs) are defined by major types of entities including (a) departments of the government administered directly by the Sindh provincial government and (b) autonomous entities that are indirectly administered by the provincial government. Government departments are further divided into centralized accounting entities, self-accounting entities, and exempt entities. SOEs¹⁰ are defined as:

- *Government business enterprises, including public limited companies or companies registered with the Registrar of Companies under the Companies Act; or*
- *Autonomous entities, which includes all public entities that are not government business enterprises, and which have been established to provide regulatory, research, development and training, or are producing goods or services on a non-commercial basis.*

Public Sector Companies registered under Companies Ordinance 1984 (now after amendments its Companies Act 2017) have also been defined in the Public Sector Corporate Governance Rules¹¹ 2013. The New Accounting Model (NAM) adopted in 2000 embodies the Classification of Functions of Government (COFOG) and Government Finance Statistics (GFS). The latter complies with GFS 1986 with certain modifications (International Monetary Fund [IMF] Article IV Report, 2015). The Chart of Accounts notified with the NAM provides for uniform classification on the following elements: Entity, Function, Object, Fund, and Project. The country-wide unified Scheme of Classification (Chart of Accounts) along with an automated online/real-time interface provides the required IT backing to the control framework. The principles for the ethical and integrity framework are grounded in the General Financial Rules (standards

¹⁰ As defined under the draft Sindh Public Finance and Administration Act 2019

¹¹ "Public Sector Company" "Means a company, whether public or private, which is directly or indirectly controlled, beneficially owned or not less than fifty percent of the voting power of which are held by the Government or a statutory body, or in respect of which the Government or any instrumentality or agency of the Government or a statutory body, has otherwise power to elect, nominate or appoint majority of its directors, includes a public sector association not for profit, licensed under relevant section of the Companies Ordinance 1984 (now Companies Act 2017). Explanation Public Sector Company means

1. A company which is controlled by the government
2. Controlled by any Statutory body
3. Controlled by any agency of the Government
4. A company registered under section 42 of Companies Ordinance 1984 (now Companies Act 2017) as Not for Profit Organization (NPO)

of financial propriety), Cabinet division notifications (gifts by public servants and deposit in Toshakhana¹²) and Procurement Law (code of ethics and integrity pact).

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

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

2.5 Institutional arrangements for PFM

58. The provincial government functions under the provisions of the Constitution and enactments of the Provincial Assembly (legislature), which comprises 168 members (130 general seats, 29 seats reserved for women, and 9 seats for non-Muslims). The Provincial Assembly elects the leader of the House and he/she serves as the Chief Executive of the Province (Chief Minister), assisted by a Cabinet of Ministers heading the administrative departments. Some of the departments have autonomous or semiautonomous bodies to look after various functions.

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

60. The Finance Department of Sindh compiles the budget in accordance with the defined timetables (issued with the Budget Call Circular) with input from the line departments and Planning and Development Department (responsible for preparation of development budget). The budget proposals are laid before the Provincial Assembly (legislature) for review and approval. Each Departmental Secretary/Principal Accounting Officer is responsible for the expenditure undertaken by his/her department. The Drawing and

¹² *Toshakhana refers to a vault or a place to keep valuable items or gifts received by a monarch. In modern times the reference is to gifts received by a public office holder of a certain value and must be deposited with the Government in a Toshakhana.*

Disbursing officers (DDOs), nominated officers in the spending departments, submit expenditure bills to the Accounts Office (AG Sindh at Karachi and to District Accounts Offices in all the Districts for Provincial and District level Departments working at the district level) for payment. The AG processes payment claims while exercising budgetary controls and compliance checks. As per the legal framework, the AG, maintains the accounts of financial transactions and prepares financial reports, both in-year and the annual financial statements for Government of Sindh.

61. The Controller General of Accounts (CGA) is then tasked with the production of timely and accurate financial statements according to the form and method prescribed by the AGP. Controller General of Accounts is the apex Public Sector Accounting body which reviews the accounts prepared for the Federal Government as well as for the provinces and then presents the accounts for certification to the AGP. The promulgation of the Controller General of Accounts Ordinance 2001 and the Auditor General Ordinance 2001 separated the roles and responsibilities of the offices of CGA and the AGP regarding accounting and auditing, respectively.

62. The DG Audit Sindh conducts external audit of the Sindh provincial accounts on behalf of the office of the AGP and the audited accounts and audit reports are submitted to the Governor of Sindh Province for tabling them at the Provincial Assembly for legislative scrutiny. The DG Commercial Audit audits public sector entities at the Federal as well as provincial level. The PAC of Provincial Assembly conducts the legislative oversight of the provincial financial operations. The PAC is headed by a Chairperson and comprises members of the Provincial Assembly (legislators) with dedicated staff from the Provincial Assembly providing the secretarial support.

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

64. In line with the constitutional stipulations (Article 30 and 140-A), each province must establish a local government system (LG) devolving political, administrative, and financial responsibility and authority to the elected representatives of the LGs. In Sindh, the Local Government Ordinance (2001) was replaced with the Sindh Local Government Act (2013) which was later amended in 2015. Under this Act, a three tier Local area has been categorized as District (Urban or Rural), Metropolitan Committees (MC), Town Committee (TC), Union Committee (U. Com), District Council, Union Council. The local bodies are directly accountable to Provincial Local Government Department. The provincial finance commission notifies the vertical and horizontal resource distribution mechanism.

65. The tables below show the structure of government based on the number of entities:

Table 2.4: Structure of Public sector (Number of entities)					
Year (2017-18)	Government subsector		Extra-budgetary Funds (Rs. In billions)	Public corporation subsector	
	Budgetary units	Extra budgetary units ¹³		Non-financial public corporations ¹⁴	Financial public corporations ¹⁵
Provincial	45	366 (approx.)	82.2 ¹⁶	361 ¹⁷	
Local Councils	1,744	0	66.00		

66. In terms of Revenue and Expenditure of Provincial Budget as well as Extra Budgetary Units, the following information was gathered by the assessment team. It is clarified that Extra Budgetary Units above have commercial and non-commercial public-sector enterprises, DFIs, and authorities that are majority-owned by the provincial government (at least 51%). Most of the authorities, DFIs and public sector enterprises in Sindh have Government of Sindh as a major shareholder. It is for this reason that in majority of Public Entities, Sindh Government's representative is on Board of Directors. The entities also include commercially oriented services undertakings such as transport, banking and insurance. The SOEs are supported by the Government through various financial instruments such as domestic and foreign loans, budgeted government subsidies and guarantees.

¹³ As per Government Finance Statistics Manual of IMF (2014) **Extrabudgetary transactions** are the broadest concept and include all revenues, expenditures, and financing that are **excluded** from the budget. **Extrabudgetary accounts** are the bank arrangements into which extrabudgetary revenues and expenditures are paid in and disbursed. **Extrabudgetary entities (or units)** are institutions that are engaged in extrabudgetary transactions, may use extrabudgetary accounts, may have their own governance structures and, often, a legal status that is independent of government ministries and departments.

¹⁴ **Nonfinancial corporations** are corporations whose principal activity is the production of market goods or nonfinancial services. Typical examples of public non-financial corporations are national airlines, national electricity companies, and national railways, if those entities charge economically significant prices. This category could also include public non-profit institutions engaging in market production (such as hospitals, schools, or colleges) if they are separate institutional units and charge economically significant prices. However, entities that receive financial aid from government but are not controlled by government are not public corporations

¹⁵ **Financial corporations** are corporations that are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units.

¹⁶ 4th Quarter report of 2017-18 may be seen at www.f.d.sindh.gov.pk

¹⁷ This figure is based on working of assessment team.

Table 2.5: Financial Structure of Sindh Government			
Year - 2018	Sindh Provincial Government		
	Budgetary unit (Rs. In Billion)	Extra budgetary units (Rs. In Billion)	Social Security funds¹⁸
Revenue	838.53	Not Available	0
Expenditure	936.33	140	0

67. With respect to Assets and Liabilities, Table 2.6 indicates the status as on 30th June 2018 for Sindh province.

Table 2.6: Assets and Liabilities for FY-2017-18¹⁹ (Rs. in Millions)	
ASSETS	
Long Term Assets	1,448,741
Investments	201,527
Loans and Advances	2,173
Current Assets	1,962
Cash at Bank	10,854
TOTAL ASSETS	1,665,257
LIABILITIES AND EQUITY	
Public Debt	52,89
Special Deposits and Trust Accounts	152,056
Deferred Liabilities	129,903
Capital Receipts	1,418
Residual Equity	1,328,991
TOTAL LIABILITIES AND EQUITY	1,665,257

Annual Financial Statements (2015-16 to 2017-18), Finance Department, Government of Sindh.

2.6 Other key features of PFM and its operating environment

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

69. The audit and accounts function has been separated and allocated to the Auditor General and Controller General of Accounts Ordinances (2001); however, administrative separation has not taken place as the officers responsible for accounting and auditing functions belong to the same cadre (i.e., the Pakistan Audit and Accounts Service, which is under the administrative control of the AGP). The Provincial government follows disintegrated budgeting where the current (recurrent) budget is the responsibility of the Finance Department. The Planning and Development Department administers the development budget.

¹⁸ A social security fund is a particular kind of government unit that is devoted to the operation of one or more social security schemes. A social security fund is recognized if it meets the criteria to be an institutional unit and if it:

- Is organized and managed separately from the other activities of government units
- Holds its assets and liabilities separately from other government units
- Engages in financial transactions on its own account.

¹⁹ As per the Audited Financial Statements 2017-18

70. The AGP derives its existence from the Constitution. As per constitutional stipulations, the AGP — in case of Sindh province, the DG Audit submits annual audit reports to the Governor, who then submits them to the Provincial Assembly (legislature).

3. Assessment of PFM performance

74. This chapter details the assessment of the key elements of the PFM system based on 31 Performance Indicators (PI) clubbed under 7 pillars and, where applicable, reports on the progress made in improving the key elements. Sindh being a provincial entity (sub-national), the assessment also takes into consideration the supplementary guidelines issued by the PEFA Secretariat for the sub-national PEFA assessment which include an additional indicator relating to transfers from a higher level of government.

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

A. Transfers from Higher Level Government (HLG)

76. The constitutional provisions and related sub-legislation govern the intergovernmental fiscal transfer system in Pakistan. Article 160 of the Constitution provides for the NFC the responsibility to draw up recommendations for the President of Pakistan on revenue distribution. Where NFC is not constituted or it does not reach a consensus decision, the Constitution provides for interim awards through the Presidential Order.

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

Indicator/Dimension	2019	Brief justification for score
Transfers from HLG	D+	Scoring Method M1
HLG 1.1 Outturn of transfers from HLG	C	Transfers were 94.3%, 86.3% and 82.3% of the original budget in the FY 2015-16, 2016-17 and 2017-18, respectively, which is at least 85% of the original budget in two of the previous three years
HLG 1.2 Earmarked grants outturn	D	The difference between original budget estimate and actual earmarked grants was greater than 10 percent in all the three years being 38.4% in 2015/16, 50.4% in 2016/17 and 59.9% in 2017/18.
HLG 1.3 Timeliness of transfers from HLG	C	A disbursement timetable is part of the agreement between Federal government and Provincial

		government. The disbursement timetable is agreed on by all stakeholders at the beginning of the fiscal year. <i>Fifty percent of actual disbursements have been on time in two of the last three years.</i>
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HLG 1.1 Outturn of transfers from higher-level government

78. The functions and responsibilities as well as taxation powers of the federal and provincial governments are defined in the Constitution. The fiscal transfers from HLG constitute a major source in the overall provincial resource envelope. In case of Sindh, the reliance on transfers is 66 percent of total general receipts. The federal transfers under the divisible pool taxes are primarily dependent on the collection by the Federal Board of Revenue (central government). For this dimension, the calculation was based on the following data:

- Development Grants (PSDP and Foreign)
- Other Grants (Octroi and Zila Tax)
- Foreign Projects Assistance (Loans)
- General Capital Receipts
- Revenue Assignment
- Straight Transfers

79. Table 3.1 provides the data for aggregate transfers and variation. (See Annex 5 for calculation sheets). Actual transfers outturns have been at least 85 percent in 2 of the 3 years assessed. Therefore, this dimension is rated 'C'.

Table 3.1: HLG Transfers Trend (Rs. in million)						
Particulars	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Aggregate transfers (PKR, millions)	563,167	530,794	638,215	550,610	755,107	621,462
Transfers as % of original Budget estimates	94.3%		86.3%		82.3%	

Source: Budget Documents, Finance Department, Government of Sindh

Dimension rating = C

HLG 1.2 Earmarked grants outturn

80. The earmarked grants for this dimension are:
- i. Development Grants (PSDP & Foreign)
 - ii. Other Grants (OZT)
 - iii. Foreign Projects Assistance (Loans)

81. Table 3.2 shows the variation in actual transfers vis-à-vis the original budget estimates (See Annex 5). The difference between the original budget estimate and actual earmarked transfers was greater than 10 percent in all the 3 years reviewed. The dimension is rated D.

Table 3.2: Results matrix for Earmarked transfers	
2015-16	38.4%
2016-17	50.4%
2017-18	59.9%

Note: Calculation based on the weighted average method.

Source: Budget Documents, Finance Department, Government of Sindh

Dimension rating = D

HLG 3 Timeliness of transfers from higher-level government

82. The budget and revised estimates for fiscal transfers for the next budget year and ongoing year are conveyed by the central government (MOF) between end of May to mid-June each year. The transfers from the divisible pool, straight transfers and Octroi and Zila Tax to the Government of Sindh takes place on a fortnightly basis (16-17 and 30-31 of the month). However, the volume of transfer varies considerably and is subject to the collection by the federal agencies of divisible pool taxes and straight transfers.

83. The Government of Sindh has raised the issue of inadequacy of transfers and its impact on the budget execution with the Ministry of Finance (federal government). The transfer modality is according to a federal government decision. Finally, an at source deduction available for use at the discretion of the federal government is also applied, for example, pending bills of the utility companies. This practice has been continuously contested by the Sindh Government owing to the disagreements over billing by utility companies.

84. The notification from the Ministry of Finance conveying information on the shares indicates that the actual transfers are subject to the actual receipts reported by the revenue collecting agencies, so the releases through the year are subject to tax and non-tax realization performance. This led to deviation between the budgeted and actual transfers.

85. The disbursement timetable is part of the agreement between the Federal Government and Government of Sindh by all stakeholders at the beginning of the fiscal year. However, a weighted disbursement was used, calculated as a percentage of funds delayed multiplied by the extent of delay. Based on the data provided by Sindh Government only fifty percent of the disbursements have been on time in two of the last three years. Therefore, this indicator's dimension is rated 'C'.

Table 3.3: Monthly Transfer trend 2017-18 (Rs. in million)					
Month	Revenue Assignment (NFC Share) ²⁰	Monthly trend in Straight transfers (Actual) ²¹	Monthly trend in grants to offset abolition of Octroi and Zila tax (Actual) ²²	Total Transfers (Actual)	Budgeted Transfers (Monthly Share)
Jul-17	25294	1766	850	27911	49896
Aug-17	27360	7944	736	36040	49896
Sep-17	35776	1738	962	38475	49896
Oct-17	40087	4491	1078	45655	49896
Nov-17	39380	4593	1059	45031	49896
Dec-17	42150	2974	1133	46256	49896
Jan-18	56652	4394	1523	62569	49896
Feb-18	34393	2836	925	38153	49896
Mar-18	35149	4145	945	40239	49896
Apr-18	39208	3273	1054	43535	49896
May-18	50043	5283	1345	56670	49896
Jun-18	41753	4610	1122	47485	49896

Source: Budget Analysis 2018-19, Finance Department, Government of Sindh.

²⁰ This includes Tax on Income, Sales Tax, Central Excise, Custom Duties, Capital Value Tax

²¹ This includes Royalty on Crude oil, Surcharge on Gas, Excise Duty on Natural Gas, Royalty on Natural Gas

²² NFC share 0.66% shortfall of 2.5% Octroi and Zila Tax.



PILLAR ONE: Budget reliability

86. Pillar I assess whether the government budget is realistic and implemented as intended. It reflects the quality of forecasting and preparation of estimates for revenue and expenditure components. Lower variations underpin good fiscal management which is essential for long term fiscal sustainability.

87. The results of the three years under review were not influenced by any natural or major man-made disasters or other unexpected macroeconomic shocks; however, the last fiscal year in the review was an election year.

PI-1. Aggregate expenditure outturn

88. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in the government budget documentation and fiscal reports. There is one dimension for this indicator – dimension 1.1 Aggregate expenditure outturn. Coverage: Budgetary Provincial Government (BPG) and covers the three years from 2015/16 to 2017/18.

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-1 Aggregate expenditure outturn	C	Scoring Method M1
1.1 Aggregate expenditure outturn	C	Aggregate expenditure outturn was 87.1% in 2015/16, 93.5% in 2016/17 and 88.3% in 2017/18 of the approved aggregate budgeted expenditure.

89. The aggregate expenditure outturn was between 85% and 115% of the approved aggregated budgeted expenditure in two out of three years, therefore, this indicator is rated as C. GoS noted that the expenditure outturn is also dependent on the estimation of receipts of provincial share and actual amounts received from the Federal Government. Detailed data tables are included in Annex 5.

	2015/16	2016/17	2017/18
Budget	798,646	923,322	1,060,950
Actual	695,359	863,363	936,327
Aggregate Outturn	87.1%	93.5%	88.3%

Source: Audited Financial Statements, Finance Department, Government of Sindh

PI-2. Expenditure composition outturn

90. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Coverage: Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-2 Expenditure composition outturn	C+	Scoring Method M1
2.1 Aggregate composition outturn by function	C	Variance in expenditure composition by functional classification was 9.1% in 2015/16, 22.6% in 2016/17 and 10.2 % in 2017 being <i>less than 15 percent</i> in two out of the last three fiscal years.
2.2 Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was 14.4% in 2015/16, 12.1% in 2016/17 and 16. 2% in 2017/18 being <i>less than 15 percent</i> in two out of the last three fiscal years.
2.3 Expenditure from contingency reserves	A	There is no expenditure charged to contingency vote as GoS does not use contingency as a budget code

91. Financial regulations allow for the reallocation of funds between budget lines and increases in an administrative unit's budget via the legislative approval of a supplemental budget. This results in significant differences between the original budget and final expenditure by both function and economic categories, resulting in large variances and a lower PEFA score in this category.

2.1. Expenditure composition outturn by function

92. Dimension 2.1 measures the variance between the original, approved budget, and end-of-year outturn in expenditure composition by functional classification during the three fiscal years (2015/16, 2016/2017, and 2017/18), excluding contingency items and interest on debt.

93. The New Accounting Model (NAM) with a new Chart of Accounts that provides classification based on the following 5 elements:

- Entity
- Function
- Object
- Fund
- Project

94. Sindh Finance Department provided the audited financial statements which provide expenditure information as per functional as well as economic classification. Table 3.5 provides the results matrix for expenditure outturns using the average weighted variance method after excluding contingency items and interest on debt. The variance in expenditure composition outturn by function was less than 15 percent for 2015/16 and 2017/18. Therefore, the score for dimension 2.1 is C. GoS noted out that the expenditure outturn is also dependent on the estimation of receipts of provincial share and actual amounts received from the Federal Government. Detailed data tables are provided in Annex 5.

Year	
2015/16	9.1%
2016/17	22.6%
2017/18	10.2%

Source: Budget Documents, Finance Department, Government of Sindh

Dimension rating = C

2.2. Expenditure composition outturn by economic type

95. This dimension measures the difference between the original, approved budget, and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items²³. Table 3.6 shows the variance in expenditure composition by economic classification was less than 15% in two out of three years i.e., 2015/16 and 2016/17. Therefore, the score for dimension 2.2 is C. Detailed data tables are provided in Annex 5.

Year	Composition Variance
2015/16	14.4%
2016/17	12.1%
2017/18	16.2%

Source: Budget Documents, Finance Department, Government of Sindh

Dimension rating = C

2.3. Expenditure from contingency reserves

96. This dimension measures the average amount of expenditure charged to a contingency vote over the last three years. The GoS may provide reserves for unforeseen events in the form of a contingency vote. The statements provided included allocation for contingent paid staff (daily wagers); however, the category has not been considered under this dimension as it does not meet the qualifying criteria. Since there is no expenditure charged to contingency vote, this dimension is rated as A.

Dimension rating = A

PI-3. Revenue outturn

97. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. Coverage: Budgetary Provincial Government (BPG) and covers the three years from 2015/16 to 2017/18.

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-3 Revenue outturn	C+	Scoring Method M2
3.1 Aggregate revenue outturn	C	Actual revenue was 93.0% in 2015/16, 92.2% in 2016/17 and 95.6% in 2017/18 being more than 92% and less than 94% of the budgeted revenue during two of the last three financial years.
3.2 Revenue composition outturn	B	Variance in revenue composition was less than 10% in two of the last three years being 11.5% in 2015/16, 8.7% in 2016/17 and 6.1% in 2017/18

²³ The expenditure on contingent staff in government accounts does not fall in the contingency definition used in PEFA framework

3.1. Aggregate revenue outturn

98. This dimension measures the extent to which revenue outturns deviate from the originally approved budget. It is pointed out that External financing through borrowing has not been included in the assessment of this dimension. Revenue collection in all the three years remained low as compared to the budgeted revenue. Since actual revenue was more than 92% but less than 94% of the budgeted revenue in two of the three years, therefore, this dimension is rated as 'C'. GoS noted that the revenue transfers from Federal Government constitute a sizeable proportion of total revenues. The low score shows that there was significant variance in the projections/estimates made by Provincial Government vis-à-vis the Federal transfers in terms of revenue outturn. Table 3.7 below shows the aggregate revenue outturn for the three years.

Year	Total Budgeted Revenue	Total Actual Revenue	Total Revenue variance
2015/16	143,138,886,800	133,111,625,954	93.0%
2016/17	166,032,870,000	153,130,554,895	92.2%
2017/18	199,626,922,115	190,770,264,517	95.6%

Source: Budget Document, Finance Department, Government of Sindh

Dimension rating = C

3.2. Revenue composition outturn

99. This dimension measures the variance in revenue composition during the last three years. It includes actual revenue by category compared to the originally approved budget. For the Subnational governments in Pakistan, the external financing component, in the form of foreign project assistance, program loan or budgetary support with specific policy actions, is routed through the federal government. All such financing has been considered under HLG transfers. For dimension 3.2, the following revenue types were considered for scoring this dimension:

The following categories of revenue were considered for scoring this dimension:

- Non-Tax Revenue
- Other Tax Receipts
- Sales Tax on Services
- Others

100. During two of three years being assessed, the variance has been less than 10 percent and is rated B. Detailed tables are provided in annex 5. Major variance has primarily been in the Non-Tax Revenues. Non-Tax Revenue mainly include income from property and enterprises. Due to poor estimation and capacity in the Excise, Taxation and Narcotics Control department, the variance under Non-Tax Revenue has been high as compared to other categories particularly in 2015-16 (42.8%) due to poor estimation and forecasts.

Table 3.8: Revenue Composition Variance	
Year	
2015/16	11.5%
2016/17	8.7%
2017/18	6.1%

Source: Budget Document, Finance Department, Government of Sindh

Dimension rating = B



PILLAR TWO: Transparency of public finances

101. Enhanced levels of transparency support the achievement of required budgetary outcomes. Pillar two assesses the comprehensiveness, uniformity and accessibility of budget related information. This can be ensured through comprehensive budget classification, the transparency of all government revenue and expenditure, including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation. Enhanced transparency of information on public finances helps to ensure that government operations are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements.

PI-4. Budget classification

102. This indicator assesses the extent to which the government is using a classification system for the budget formulation, execution and reporting consistent with international standards or comparable standards. The assessment is based on the classification system used and introduced in Year 2000 with the adoption of the New Accounting Manual by the AGP. Coverage: Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-4 Budget classification	A	Scoring Method M1
4.1 Budget classification	A	Budget formulation, execution, and reporting use a classification system that can produce consistent documentation comparable with GFS/COFOG 1986, however with certain modifications. Development budget is presented as a single line item therefore does not include sub functional classification.

4.1. Budget classification

103. The GFS classification provides a recognized international framework for the economic and functional classification of revenues and expenditures, broken down into four and three classification levels, respectively.

104. In December 2000, the new Chart of Accounts (CoA) (2000) replaced the Chart of Classification (CoC) (1981). The CoA provided for a five-tier accounting and reporting framework (shown in Table 3.9 below). The IMF in its Article IV consultation report (2009) notes that the CoA (2000) is aligned with IMF GFSM (1986) though with certain modifications. Current classification system tracks expenditure according

to the 5 elements (entity, object, fund, function and project). It is noted that the Development budget at the formulation stage is a single-line item and is not mapped out as per the CoA. However, the budget execution can only take place after it is mapped out per the object head classification, which allows for budget execution monitoring at detailed level. However, comparison with budget allocations can take place at aggregate level. The indicator is rated ‘A’.

1. Entity	The entity element enables reporting of transactions by the organizational structure creating the transaction.	The structure of the element is further divided in Government, that is, Federal or Provincial; The ministry or department; the location district wise; and the DDO (the lowest level at which the budgetary controls occur).
2. Object	The object element enables the collection and classification of transactions into expenditure and receipts and to facilitate recording of financial information about assets, liabilities, and equity. The use of the object element is mandatory for all accounting transactions	<p>The object element consists of two sub-elements:</p> <p>1. Accounting element is a single alpha character sub-element and defines the accounting element to which a transaction is classified:</p> <ul style="list-style-type: none"> • A0000 Expenditure • B0000 Tax receipts • C0000 Non-tax receipts • E0000 Capital receipts • F0000 Assets • G0000 Liabilities • H0000 Equity. <p>2. Account Number is five-character numeric sub-elements. This sub-element defines the detailed “natural” accounts to which transactions will be classified (for example, salaries, utilities, and so on). The account number contains a further internal structure:</p> <ul style="list-style-type: none"> • Major object • Minor object • Detailed object <p><i>Example:</i> Accounting Element A Expenditure Major Object A2 Employee Related Expenses Minor Object A 21 Basic Pay Detailed Object A 01101 Officers</p>
3. Fund	The fund sub-element is a one alpha character and identifies the fund as being the Consolidated Fund or Public Account	The sub-fund sub-element is two numeric characters, which divides the Consolidated Fund between the development, current, and charged expenditure. It also divides the Public Account between trust accounts and special deposit accounts. The sub-fund element also shows the source of funding.
4. Function	The function element provides reporting of transactions by economic function and program. The function code is mandatory for transactions relating to expenditure and revenue.	<p>The function element provides reporting of transactions by economic function and program. The function code is mandatory for transactions relating to expenditure and revenue.</p> <p>It consists of 3 sub-elements:</p> <ol style="list-style-type: none"> 1. Major function is identified by two numeric characters per GFSM 2. Minor function is identified by a single numeric character providing the lowest level of economic function to which a transaction will be classified per GFSM but modified where necessary 3. Detailed function is identified by two numeric characters providing an additional level of detail and analysis and will be uniquely applied to each major/minor function combination. Also, the system has the capacity for program accounting, which is being prepared on pilot basis.
5. Project	The project element enables transactions to be aggregated and reported at a project level (generally equivalent to “sub grant” level in the project development budget).	The project code is used for all development projects and the use of this code for all such projects will be mandatory. The project element consists of the project number, which is identified by four numeric characters

Dimension rating = A

PI-5. Budget documentation

105. This indicator assesses the comprehensiveness of the information provided in the annual budget document as measured against a list of data regarded as critical to effective PFM, of which, the first 4 are basic elements and the 8 following elements are additional. Coverage is Budgetary Provincial Government (BPG) while period covered is the last budget submitted to the legislature.

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-5 Budget documentation	B	Scoring method (M1)
5.1 Budget documentation	B	Sindh Government provides 3 basic elements and 2 additional elements in its budget documents. Elements 5 and 6 are not applicable to Sindh being a SNG.

5.1. Budget documentation

106. A critical requirement for an efficient budget review process at the legislature stage is for the documentation to be complete in terms of fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years. This is required both at the stage of scrutiny and approval of budget proposals as well as after its implementation.

107. Sindh Government provides 3 basic elements and 2 additional elements in its budget documents. Elements 5 and 6 are not applicable to Sindh being a SNG.

Basic Elements	Status	Provided in
1. Forecast of the fiscal deficit or surplus or accrual operating result.	NO	This is true partially. Gross deficit is financed through different sources. However, even after financing, Net Deficit remains. Fiscal deficit partially considers the rearrangement of assets and liabilities and its adjustment with net borrowing.
2. Previous year's budget outturn, presented in the same format as the budget proposal.	YES	The budget documents including Annual Budget Statement Vol-I.
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn	YES	Annual Budget Statement Vol-I and proposals follow the same format
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	YES	Presented in the Annual Budget Statement Vol-I and the demand for grants in the Pink Book
Additional Elements	Status	Provided in
5. Deficit financing, describing its anticipated composition	NA	
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	NA	A Budget Strategy Paper (BSP), prepared by the finance department, provides a three-year rolling plan that sets policies and priorities of the government in the medium

		term. The BSP projects estimates of provincial receipts and estimates of development and non-development expenditures over the next three years. It also sets out strategic resource allocations and lays down the underlying sub-national macro-economic assumptions and fiscal projections. However, since macroeconomic indicators are related to the Federal Government, there are no regional statistics on these parameters. As such, the macroeconomic assumptions on these parameters are not part of the BSP.
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	YES	Information on debt stock is reported in Sindh Government budget documentation, showing aggregate data, namely balance at beginning of the fiscal year, estimates of repayment, and balance at year-end, as well as evolution of debt portfolio over the last 3 years (VOL I and Budget Analysis books); Foreign Loans book presents a detailed disaggregated view but only for foreign loans with budget estimates and revised budget estimates for the previous year and a budget estimate for the current year. In addition, Debt Bulletin also gives detailed information about Debt stock.
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard	NO	Budget documents present limited information on financial assets, showing current year budgeted amounts as well as original and revised estimates of previous year mainly for loans and investments.
9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	NO	Analysis on contingent obligations is provided in the debt, however, it is limited namely in relation to fiscal risks resulting from financing instruments associated with PPP's. The budget documents also do not provide information on the potential legal claims from pending court cases.
10 Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	YES	Budget Analysis and Budget Memorandum Vol-VII provide explanation for variation in the Budget as compared to Budget and Revised Estimates of last fiscal year. These documents provide explanations of budget implications of new policy initiatives and major new public investments. In addition, they also provide estimates of the budgetary impact of major revenue policy changes as well as changes to the expenditure programs. Furthermore, BSP and Budget Speech provide details of new initiatives of the Sindh Government.
11. Documentation on the medium-term fiscal forecasts	NO	The Budget Strategy Paper provides information regarding medium terms forecasts but without the necessary underlying assumptions and data to adequately support the forecasts.
12. Quantification of tax expenditures	NO	Information on tax expenditures is provided in the budget document (budget speech) but quantification of tax expenditures (i.e., information on revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc.) is limited.

Dimension rating = B

PI-6. Provincial government operations outside provincial government financial reports

108. This indicator measures the extent to which government revenue and expenditure are reported outside provincial government financial reports. The assessment of this indicator is based on the information and reports available for fiscal year 2017/18 (i.e., the last fiscal year). The coverage is Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-6 Provincial government operations outside financial reports	D	Scoring method (M2)
6.1 Expenditure outside financial reports	D*	Finance Department lacks a central mechanism to determine the exact size of expenditure and revenue data outside government financial reports.
6.2 Revenue outside financial reports	D*	
6.3 Financial reports of extra budgetary units	D	SOEs are requested by the Corporate Finance Wing to submit their annual reports. However, compliance remains an issue and often repeated follow ups are required by the CF wing.

109. The implementation of a comprehensive and GFS-compliant chart of accounts (CoA) as an integral part of the GFMIS allows PFM data to be analyzed and presented in a variety of ways that support economic decision-making—though this functionality needs to be more fully utilized. GFMIS has not yet been fully extended to quite a few extra budgetary units in Sindh government that constitute a significant part of the government non-salary and development spending. In addition, revenue earned by these EBUs, as well as off-budget donor funds are not reflected in the reports. While Finance Department follows up with some extra-budgetary units on their financial reports, the regulatory framework to ensure submission is weak and a law is being drafted to cater for timely submission of their financial reports to the Provincial Government. Table 2.7 indicates an estimated 366 EBUs as part of the Sindh government structure.

6.1. Expenditure outside financial reports

110. The Finance Department and Planning and Development Department lack a mechanism to determine the exact size of the expenditure outside financial reports and does not have a mechanism to consolidate the expenditure data for the extra-budgetary units/authorities. P&DD lacks a mechanism to consolidate the expenditure data of the off-budget foreign assistance.

Dimension rating = D*

6.2. Revenue outside financial reports

111. The exact size of the revenue outside government financial reports could not be ascertained owing to lack of a robust reporting framework. Since the financial statement do not fully capture the revenues

generated by EBUs and Donor funded projects that are not in the accounts, a rating of “D*” is given for this dimension.

Dimension rating = D*

6.3. Financial reports of extrabudgetary units

112. The financial reporting of extra-budgetary units to FD takes place randomly. During the assessment review it was noted that FD does not have a formal system for consolidating the overall financial performance for those extra budgetary units that are partially funded by the provincial budget/or have received provincial government funding in the past and have been authorized by the provincial government to generate revenues as well.

113. The off-budget projects financed by donor agencies are audited by Chartered Accountancy firms duly appointed by the donors themselves. Their finances are not captured in the government accounts and the audited financial reports are not submitted to the Government of Sindh.

114. In the absence of a methodical system of financial monitoring of autonomous bodies and public sector companies this dimension is rated ‘D’.

Dimension rating = D

PI-7. Transfers to subnational governments (SNG)

115. This indicator assesses the transparency and timeliness of transfers from provincial government to subnational governments with direct financial relationships to it. It considers the basis for transfers from provincial government and whether subnational governments receive information on their allocations in time to facilitate budget planning. Coverage is Provincial Government (PG) and the subnational governments with direct financial relationships with PG, and the period covered is FY2017/18 (i.e., the last fiscal year).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-7 Transfers to subnational governments	B	Scoring method (M2)
7.1 System for allocating transfers	A	The resource allocation for all transfers takes place based on the formula prescribed under the PFC Award of 2007-8.
7.2 Timeliness of information on transfers	C	The Local Governments receive budget ceilings after passage of the provincial budget (end June). The local government budget calendar is also from July to June. Due to delay in issuance of ceilings, budget planning and timelines at the local level are also impacted

7.1. System for allocating transfers

116. As per Sindh Local Government Act (SLGA) (2013), further amended in 2015, Section 8(2), a three tier Local area has been categorized as District (Urban or Rural), Metropolitan Corporation, District

Municipal Corporation (DMC), Corporation (Corp), Municipal Committees (MC), Town Committee (TC), Union Committee (U.Com), District Council, Union Council. In terms of section 15(1) SLGA (2013) the previous Local Government System (2001) was succeeded by 1744 local councils. These are shown below:

Division	Metropolitan Corporation	District Municipal Corp	Corp	MC	TC	U.Com	DC	UC	Total
Karachi	01	06				209	01	38	255
Hyderabad			01	13	45	96	09	345	509
Mirpur Khas				03	20		03	161	187
Shaheed Benazirabad				06	29		03	201	239
Sukkur			01	06	28	26	03	191	255
Larkana			01	08	26	20	05	239	299
Total	01	06	03	36	148	351	24	1175	1744

117. The SLG Act (2013) has given revenue and expenditure responsibilities for each tier. The current formula of allocating transfers is from 2007-8 under the Local Government Ordinance 2001. The term of the elected representatives in the local assemblies ended in 2010 and subsequently elections were not held. The elections for Local Governments were held in 2016, however, in the interim period, administrative set up continued to function at the local level and fiscal arrangements continued through the administrative set up. In absence of the local assemblies, legal cover for expenditure was provided in the budget enacted by the Provincial Legislature. Due to absence of local elected representatives, the PFC award of 2007-8 became the interim Provincial Finance Commission (PFC) award. While the formula for the allocable amount remained the same, the distribution of Octroi Zila Tax share for 2016-17 changed for Local Councils established under Sindh Local Government Act 2013. Under the revised distribution, share of Urban Councils (Municipal Committees and Town Committees) has been worked out based on the number of wards and amounting to Rs. 0.5 and 0.4m per ward per month respectively. Under the SLG, the TMA tier of LG System (2001) has been abolished.

118. Provincial Divisible Pool (PDP) of the province consists of federal transfers and provincial tax receipts. After setting aside the priority expenditure of the province from the PDP, the remaining amount is the “Net Divisible Pool” (net PDP), which is then divided into two major portions:

Provincial Retained Amount (45%)

Provincial Allocable Amount (55%)

119. The arrangement for intergovernmental fiscal transfers and the respective jurisdiction’s share allocation continued on the formula approved by PFC constituted under LG system (2001). PFC award of 2007-8 is posted on the Finance Department’s website. Since 2007-8, no new PFC award arrangement has been made by the Sindh Government. The formula used for horizontal distribution resources/Provincial Allocable Amount amongst the District Governments (after protecting the salaries) with the objective of fiscal equalization which has continued during the interim period till fiscal year 2018-19 is as follows.

Population 40%

<i>Service Infrastructure</i>	35%
<i>Development Needs</i>	10%
<i>Area</i>	5%
<i>Performance</i>	10%

120. The funds under Performance Benchmark (10%) are awarded based on following two sub indicators:

Revenue Generation (5%)
Primary School Enrolment (5%)

121. The evaluation of 10% Performance Benchmark is evaluated by a PFC committee headed by Additional Chief Secretary (ACS) (Development), Planning and Development Department.

122. The Provincial Allocable Amount was provided through Local Government Department and respective line Department's budget enacted by the Provincial Assembly. The amounts were disbursed (releases) through Provincial Account I. The resource allocation for all transfers takes place based on the formula prescribed under the PFC Award of 2007-8. The table below shows the details of the Budget allocated and released to the Local Governments in Sindh.

Budget allocated and released to the Local Governments			
(Rs. in million)			
Financial Years	Budget Allocated to Local Bodies	Budget Released	Actual Expenditure
2015-16	47,300.146	46,046.938	45,486.725
2016-17	61,000.000	60,984.842	59,859.893
2017-18	66,000.000	57,212.927	56,966.368

Source: Finance Department, Government of Sindh

Dimension rating = A

7.2. Timeliness of information on transfers

123. District Development initiatives were channeled centrally through the respective line departments and local government department. The budget calendar and the budget process relevant to the provincial government was also applicable to the district level service delivery units.

S. No	Activity	Deadline
1	Submission of proposals for SNE 2017-18	November 15, 2016
2	Issuance of draft Budget Strategy Paper and Indicative Budget Ceilings for Recurrent and Development budgets	January 18, 2017
3a	Submission of Regular Receipts Estimates 2017-18	February 20, 2017
3b	Submission of "MTBF" Receipts Forecast 2018-19 to 2019-2020	
4	Identification of potential sectors for taxation and review of existing taxes/fees	
5a.	Submission of Regular Expenditure Estimates 2017-18	
5b	Submission of "MTBF" Expenditure Forecast 2018-19 to 2019-2020	
6	Submission of Revised Estimates/Final list of Excesses and Surrenders 2016-17	

7	Submission of 1st edition of ADP 2017-18 along with soft copy is made available by FD to ADB	February 19, 2017
8	Printed copies of the 1st edition of ADP 2018-19 along with the soft copy to be made available by FD to P&DD.	February 26, 2017
9	Inter Departmental Priority Committee (IDPC) meetings for clearance of tentative Development Program	March 5 to 16, 2017
10	Review collection of Receipts and Recoveries, in consultation with ADs.	March 30, 2017
11	Communication of ADP 2018-19 by P&DD to the FD for printing 2nd edition of ADP	April 2, 2017
12	Supply of printed tentative ADP 2018-19 (2nd edition) by the FD to the P&DD.	April 9, 2017
13	Last date for incorporation of any modification in the ADP 2018-19 for Annual Plan Coordination Committee.	April 16, 2017
14	Finalization of RE 2017-18, and BE 2018-19, SNE 2018-19 for Recurrent Budget	April 20, 2017
15	finalization of 'MTBF' 2019-20 to 2020-21.	April 20, 2017
16	Annual Plan Coordination Committee (APCC) meeting.	April 22 to 30, 2017
17	Finalization of new Taxation proposals and review existing Taxes/Fees.	April 30, 2017
18	National Economic Council (NEC) meeting	May 1 to 7 2017
19	Finalization of Annual Development Program (ADP) 2018-19.	May 16, 2017
20	Completion of all budget documents, schedules, and summaries.	May 28, 2017
21	Presentation of the budget to the Cabinet and Provincial Assembly.	1st or 2nd Week of June 2017
22	Submission of Surrender of Savings.	June 15 2017

124. In 2013, with the promulgation of new local government system, the budget planning process for the subsequent fiscal year (2014-15) was established. This was the first fiscal year for the new local government system. However, on every occasion, transfers to local governments (on quarterly basis) were undertaken after the Provincial Budget had been passed through Provincial legislature in June. Since both Provincial Governments and Local Governments have the same budget calendar from 1st July to 30th June for any given year, this impacted the overall timelines of budget preparation for local governments. As per indicator scoring requirement, the budget ceilings need to be sent to local governments so that they have at least six weeks (score A) or at least four weeks (score B) to complete their budget planning on time. For 2017-18 the indicative budget ceilings regarding preparation of recurrent/non-development budget were shared on 18th January 2017. However, there was no evidence that the ceilings are further shared with respective Local Governments to give them ample time to them for preparation of budget. As a result, score of "C" is given for this indicator.

Dimension rating = C

PI-8. Performance information for service delivery

125. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation and in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded.

126. The coverage is Provincial Government (PG). Services managed and financed by other tiers of government are included if the provincial government significantly finances such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents.

127. Period covered: Dimension 8.1: performance indicators and planned outputs and outcomes for the next fiscal year; Dimension 8.2: outputs and outcomes of the last completed fiscal year; Dimensions 8.3 and 8.4: last three completed fiscal years.

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-8 Performance information service delivery	D	Scoring method (M2)
8.1 Performance plans for service delivery	D	MTBF captures key performance indicators by cost centre, and these are collated by line departments. However, there is no information on activities and related outcomes and outputs. Since the MTBF documents are not legally binding on the Government, the MTBF documents are not published or available on the Finance Department website. The documents may even not be prepared in time for the presentation of the budget and may be produced a few weeks later.
8.2 Performance achieved for service delivery	D	There is no mechanism of monitoring the output and outcomes achieved in line with the performance targets identified under the MTBF exercise. Neither is there any information published annually on the activities performed for the Departments.
8.3 Resources received by service delivery units	D	Where service delivery units and cost centers align, reports can be easily generated and published. However, while tracking budgets and expenditure to service delivery level is possible but limited in coverage, the exercise is not carried out and the information is not published.
8.4 Resources evaluation for services delivery	D	No performance evaluation especially for service delivery has been conducted in the last three fiscal years.

128. One of the key objectives of a well-functioning PFM system is to ensure that Government can deliver quality services in an efficient and effective manner. For that, it is important to be able to measure service delivery and to link service delivery to planning, budgeting, and expenditure.

129. This indicator measures how well service delivery of the key government departments is measured and considered when conducting the basic PFM functions of planning and budgeting.

130. In Sindh, performance information was introduced as a part of the Medium-Term Budget Framework (MTBF) in 2009 and formed a key component of the World Bank-funded Sindh Education Reform Project from 2011 to 2016. At present, nine-line departments (out of a total of 46 Government departments) are part of the MTBF, and performance information is collected from these line departments in terms of targets of service delivery over the medium term. The nine departments are: (i) School Education and Literacy, (ii) College Education Department, (iii) Health, (iv) Irrigation, (v) Energy, (vi) Agriculture Supply and Prices, (vii) Livestock and Fisheries, (viii) Social Welfare, and (ix) Empowerment of Persons with Disabilities. These comprise 69% of the total cost centers of the Sindh Government, and approximately 50% of the total budget.

131. However, the MTBF in Sindh uses a top-down approach with the MTBF Unit in the Finance Department, helping the line departments prepare cost center level budgets. Performance indicators are also collected by cost center level but are collated at the department level. Since the MTBF documents are not legally binding on the Government, the MTBF documents are not published or available on the Finance Department website. The documents may even not be prepared in time for the presentation of the budget and may be produced a few weeks later.

8.1. Performance plans for service delivery

132. Formal performance plans are not available for the line departments in Sindh. Some plans have existed, usually compiled through donor collaboration, but are not used after a year or so. The performance information collected as part of MTBF exercise is done at cost center level and is just limited to some key output indicators. Outcome indicators are defined but are often not in measurable terms.

Score	Programme Objectives	Key Performance Indicators		Planned outputs (quantity)	Planned outcomes (Measurable)	Activities	Materiality (number of ministries)
		Output Indicators	Outcome Indicators				
D	N	Y	Y	N	N	N	9

133. The output indicators and the outcomes indicators are relevant to the line department and the targets are set over the medium term (following three years). However, the outcome indicators that have been specified are not measurable, and it is difficult to ascertain whether the link between output and outcome indicators are being maintained. For example, the School Education and Literacy department MTBF document (FY 2018-21) has outputs related to primary and secondary enrolment, against an outcome of “Providing free compulsory education for all”, which does not have related measurable outcome indicators. Similarly, the MTBF document for Health Department (FY 2018-21) has output indicators on average bed occupancy rate, against an outcome of “Increased utilization of healthcare facilities” which again does not have related measurable indicators.

134. Apart from the MTBF documents, there are no additional public measurement of performance of line departments of the Sindh Government. Most of the line departments selected are those that have a significant service delivery element. However, it is difficult to quantify the percentage of the budget and expenditure that is explicitly allocated to service delivery.

Dimension rating = D

8.2. Performance achieved for service delivery

135. While the output targets are collected as part of the MTBF exercise, there is no information collected on the performance achieved. There is no monitoring mechanism for the targets identified for each of the cost centers of the line departments. In addition, no information is published annually on the activities performed for the Departments. The score is therefore ‘D’.

Score	Outputs produced (quantity)	Outcomes achieved (measurable)	Activities	Materiality (Number of ministries)
D	N	N	N/A	N/A

Dimension rating = D

8.3. Resources received by service delivery units

136. For this indicator, the Education Department and the Energy Department were selected as samples. Neither of the departments has own source revenue and all funds are received through the provincial budget.

137. For the Education Department, it is possible to identify the budget allocations and expenditure by service delivery units, i.e., schools. However, while each secondary school is a DDO, primary schools may be clustered under a single DDO, and the allocations for each primary school may not be available in the GFMIS system. However, the Tehsil/Taluka Education Officers can track budget allocations down to the school level. However, GFMIS is not applied at the Tehsil/Taluka level. Similarly, for the Energy Department, it is possible to map resources down to the service delivery unit and many cost centers in the Energy Department are linked to the service delivery units.

138. However, the budget allocations available by service delivery units are not published or reported against even internally. While some reporting is available in forms of standard budget reports where cost centers align perfectly with service delivery units, there is no attempt to track service delivery level resources.

139. No data on resources on particular service delivery units is published. Where service delivery units align with cost centers, this data can be traced through budget documents, GFMIS, and budget reports but even this is not comprehensive when applicable. For instance, in Sindh there are 43,000 schools which are linked to approximately 4,500 cost centers. For large number of service delivery units, tracking becomes very difficult.

Dimension rating = D

8.4. Performance evaluation for service delivery

140. Performance evaluation is almost non-existent in the Government of Sindh. While PC-5s are meant to capture evaluation of a Program or project after its completion on the development side, there are no PC-5s completed to date. Performance audits are completed and are usually focused on individual projects, not entire departments or sub-departments. The performance is audited against the PC-1s and other approved plans and budgets. Some performance audits are completed on special directives.

Dimension rating = D

PI-9. Public access to fiscal information

141. This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. There is one dimension for this indicator – dimension 9.1. Public access to information. The period covered is the last completed fiscal year and the coverage is Budgetary Provincial Government (BPG).

Indicator/Dimension	Brief justification for score	
	2019	
PI-9 Public access to fiscal information	B	Scoring method (M1)
9.1 Public access to fiscal information	B	Government makes available to the public six elements, including all five basic elements and one additional element, within the specified timeframe.

142. At the provincial level, information on government fiscal plans, positions, and performance are available. The documents, which are available on the GoS' websites, are written in such a manner that support understanding and engagement of general public on fiscal matters. Since five of the basic and one of the additional elements are met for this indicator, this indicator is rated as B.

9.1. Public access to fiscal information

143. The table below shows the information for the completed fiscal year 2017/18 against the five basic and four additional elements required. In summary, fiscal information provided timely to the public comprises all five of the basic elements.

No.	Element/Requirements	Met (Y/N)	Evidence used/Comments
Basic elements			
1	Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of them to the legislature.	YES	All budget documents are published on the website of the Finance Department and are available within one week of the executive's submission to the legislature.
2	Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	YES	All budget documents are published on the website of Finance Department within two weeks of enactment of budget by the parliament. https://fd.sindh.gov.pk/budget-at-a-glance
3	In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27.	YES	In-year budget execution reports are published every quarter for the Provincial Assembly and available to the public within one month of their issuance. The budget execution report presents the progressive actual revenue and expenditure for the quarter and compares it with the budget. Moreover, the report presents the developments in the public account and food account, as well as utilization of the

			financing instruments. At the end of the year, an annual budget execution is produced. https://fd.sindh.gov.pk/elfinder/connector?_token=&cmd=file&target=fls2_UVRSLzIwMTgtMTktUTMucGRm
4	Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.	YES	Annual Budget execution report is produced and is available to the public within six months of the fiscal year's end.
5	Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end.	YES	Audited annual financial statements are available on the provincial AG and CGA websites within 12 months of the fiscal years end.
Additional elements			
6	Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	NO	Pre-budget statement is not published and made available to the public at least four months before the start of the fiscal year.
7	Other external audit reports. All nonconfidential reports on provincial government consolidated operations are made available to the public within six months of submission.	NO	Annual Audit Report is not published on the website of the AGP within six months of its submission
8	Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	YES	GoS publishes Citizen Budget with the name of Salient Features after one month of the budget's enactment. Citizen's Budget is available in English and published in the Finance Department's website. Most Sindh citizens understands English so most official communication are in English. Also, Citizen's Budget Book includes diagrams for ease of understanding the overall budget picture. As such, English is sufficient in this context.
9	Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	NO	Micro-economic forecasts are not available within one week of their endorsement.

Dimension rating = B



PILLAR THREE: Management of assets and liabilities

PI-10. Fiscal risk reporting

144. This indicator measures the extent to which fiscal risks to provincial government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the provincial government's own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters.

145. Assessment is based on the information available for the most recent fiscal year (2017/18). Coverage for dimension 10.1 is Provincial Government-controlled public corporations. Coverage for Dimension 10.2 is subnational government entities that have direct fiscal relations with the provincial government; while coverage for Dimension 10.3 is Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-10 Fiscal risk reporting	D	Scoring method (M2)
10.1 Monitoring of public corporations	D	There is no formal mechanism for monitoring public corporations, especially regarding submission of their annual accounts (audited/unaudited) within a given period.
10.2 Monitoring of subnational governments	D	Audited or unaudited financial reports of the sub-national governments are not published within 9 months of the close of FY.
10.3 Contingent liabilities and other fiscal risks	D	Systematic and methodical contingent liability and fiscal risk monitoring does not take place at the FD; as a result, contingent liabilities and other fiscal risks are not quantified and reported in financial reports.

146. In Sindh, for the purposes of this indicator and as stated earlier, the State-Owned Enterprises are defined as:

- *Government Business Enterprises, including Public Limited Companies or companies registered with the Registrar of Companies under the Companies Act*

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

148. There are frequent and large volume of changes in the budget that occur during the year to account for fiscal risks. As a result, there is a need for better management of fiscal risks. Considerable fiscal risk emanates from the liabilities of the SOEs and other explicit contingent liabilities. These fiscal risks are often not reflected adequately in the budget, and contribute towards variances in expenditure from the budget, undermining the credibility of the budget.

10.1. Monitoring of public corporations

149. Currently, there is no formal mechanism to monitor the SOEs which charge economically significant prices in Finance Department nor compiling expenditure and revenue and consolidation of the fiscal risks to present a holistic view of the government's financial position. Table 2.7 indicates that there some 361 SOEs that function under the ownership of the provincial government.

150. Publishing of annual performance report such as the one produced at Federal²⁴ level regarding SOEs which also includes those charging economically significant prices is not produced by Sindh Finance Department. Given that there is no formal mechanism in place for monitoring of public corporations charging economically significant prices, especially regarding submission of their annual accounts (audited or unaudited) within a certain period (6 or 9 months), therefore, this indicator is scored as "D".

Dimension rating = D

10.2. Monitoring of subnational governments

151. Chapters XI and XII of the Sindh Local Government Act (2013) prescribes the principles and responsibility for accounting and auditing function. Owing to multiple tiers and creation of specialized entities multiple authorities have responsibilities for accounting, pre-audit and post audit.

152. The post audit of the local government is the responsibility of the Auditor General Pakistan (AGP). DG (Audit Council Sindh) represents the AGP in the province. Operational targets for 2018-19 (FY 2017-18) include 5 Performance Audits, 600 Compliance Audits and 7 Special Studies²⁵.

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

Dimension rating = D

²⁴ Federal Footprint – SOE Annual Report www.finance.gov.pk/publications/SOE_Report_FY17.pdf

²⁵ Auditor General of Pakistan's Annual Report 2017-18

10.3. Contingent liabilities and other fiscal risks

154. This dimension assesses the ‘explicit’ contingent liabilities of Government of Sindh. There are three key sources of fiscal risks: Contingent Liabilities, Unbudgeted liabilities (including but not limited to pensions, arrears, unpaid bills), and in-year policy changes. In terms of contingent liabilities arising out of public-private partnerships (PPP) projects undertaken by Government of Sindh, there is no periodic assessment of these Contingent Liabilities. In addition, Local Governments often approach Finance Department during budget implementation phase with expenditure over and above their allocated grants for payment of unbudgeted liabilities, especially unpaid bills. Finally, there are pending legal cases which adds to the value of the contingent liabilities. There is no consolidated annual report on the performance of SOEs, developing register of legal cases pending against the GoS (along with an assessment of risk), developing and implementing a PPP project management framework, with realistic risk assessment and compiling a comprehensive register of guarantees issued by GoS.

155. The notes to the audited annual financial statements of the Government of Sindh confirm that the asset and liability accounting practices, including commitment accounting, have not been implemented (AFS, 2017-18) therefore the Government of Sindh financial statements are prepared on cash basis only. As a result, the materiality of all significant liabilities could not be established. Although the budget documents include information on the pension liability and the funds created for General provident fund and pension fund, the relative size could not be determined.

156. In addition, the Government of Sindh has more than 90%²⁶ shareholding in the Sindh Bank (SB) and banking business creates fiscal risks from issuance of guarantees. The Government of Sindh may only be legally obliged to a certain extent for the Government of Sindh liabilities, however, from the political economy perspective it may have to intervene in the event of a crisis. This is not an extraordinary phenomenon and has happened in Pakistan before when other financial institutions went bankrupt. The Sindh Bank submits its annual report to the Sindh Government and Secretary Finance Government of Sindh (by virtue of designation) represents Sindh Government on the Board as Non-Executive Director.

157. Since systematic and methodical contingent liability and fiscal risk monitoring does not take place at the FD; as a result, contingent liabilities and other fiscal risks are not quantified and reported in financial reports. This dimension, therefore, is rated as “D”.

Dimension rating = D

PI-11. Public investment management

158. This indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The assessment is based on the last complete fiscal year, i.e., 2017/18, and covers Provincial Government (PG).

²⁶ Note 1.4 “Going Concern” - The Government of Sindh, the Bank’s major shareholder holds 99.9 percent of the Bank’s equity. (Notes to Unconsolidated Financial Statements – For the Year ended 31st December 2018)

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-11 Public investment management	B	Scoring method (M2)
11.1 Economic analysis of investment projects	C	Economic analysis is conducted for major investment projects, reviewed by P&D, however, the analysis is not published.
11.2 Investment project selection	A	Guidelines/criteria for selection of the project in the budget are published on Finance Department website as Budget Call Circular. In addition, there are screening forums at the Provincial level who have a clear mandate regarding project proposals. Provincial Development Working Party has the mandate to prioritize the projects in line with the resource envelope.
11.3 Investment project costing	C	Volume V of the Budget documents provide budget estimate of the Current Financial Year as well as Financial Projection of next two Financial Years. However, recurrent costs are not recorded.
11.4 Investment project monitoring	B	Total costs and physical progress are monitored, procedures for project implementation are in place, and information is published annually

159. At the Provincial level, the Planning and Development Department is the apex body in the province steering the provincial planning mandate that also includes the annual development program (ADP) formulation and monitoring. The Provincial Development Working Party (PDWP) is the project approval body in the province for approval of projects up to Rs. 10.0 billion, provided the project is 100% funded by provincial resources, while the departmental development working party (DDWP) is responsible for the project approval within the given ceilings, which is currently up to Rs. 100.0 million. Projects costing more than Rs. 10.0 billion, have cost sharing arrangements with federal government or funded by international development partners/donors, are sent to the federal government bodies for review and approval.

160. At the Federal level, Planning Commission, which is located within the Ministry of Planning, Development, and Reform (MPD&R) issues the Manual for Development Projects, which is used by the Federal government and each of the provinces for project development. The Manual is available on the Ministry of Planning Website. Included in the guidelines are the project templates, known as PC proformas (I – V). The purpose of each PC is as follows:

- *PC-I Planning Commission Proforma I (PC-I) is used for preparing project proposals and contains detail information on project description, objectives, costing, physical and financial phasing, appraisal and economic analysis.*
- *PC-II is required for large projects costing Rs. 500.0 million and above and which are unique in nature. Project sponsoring agencies are expected to produce a PC-II (before PC-I), which is used for conducting a survey and detailed feasibility study to provide full justification for undertaking the project before any funding is used.*

• PC-III represents the template to be used for monitoring the physical and financial progress of the projects on a monthly basis through which the executing/implementing agencies are required to furnish the progress of ongoing projects. PC-III is expected to cover physical and financial progress and report on any implementation issue for implementation adjustments.

• PC-IV is prepared upon completion of the projects. This form is used to document the overall performance of the project's physical and financial results and serves as the instrument for transferring of the projects between the agency responsible for project execution and the parent department.

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

161. A sampling approach was adopted for the assessment of PI-11. Most of the major investment projects, largest in terms of project cost wise, are donor funded that require compliance with a detailed appraisal process. Selection of only the largest projects would have presented a skewed analysis and not reflect on the government's systems and processes. Therefore, the approach adopted was to select projects that were not only donor funded but largest among those that is financed from government's own sources as well. Moreover, to reflect on the government wide performance the largest projects (cost wise) of different departments were selected. Based on these points, the following eight major investment projects were selected.

Project ID (ADP Number)	Project Title	Implementing Department	Location	Cost (PKR Million)
303	Sindh Basic Education Program (SBEP)	Education	Multiple Districts	870
1097	Sindh Water Sector Improvement Project Phase-I (WSIP-1)	Irrigation	Sindh	2,398
1220	Sindh Barrages Improvement Project (Phase-I) Rehabilitation and Modernization of Guddu Barrage -	Irrigation	Kashmore	1,970
1268	Sindh Resilience Project	Irrigation	Sindh	1,664
1884	Greater Karachi Water Supply Scheme (K-IV) Phase-I	Water and Sewer Board	Karachi	12,775
2438	Construction of Water Carrier from LBOD Spinal Drain RD-362 to Nabisar for Thar Coal Power Generation Units (Revised)	Thar Coal Infrastructure	Tharparkar	12,472
2439	Water Carrier from Nabisar Reservoir to Thar Coalfield	Thar Coal Infrastructure	Tharparkar	15,652

2966	Sindh Provincial Road Improvement Project	Communication and Works	Sindh	2,079
Total				49,880

11.1. Economic analysis of investment projects

162. The Manual for Development Projects provides detailed guidance on the type of techniques to be used and information to be included in the financial and economic appraisals. The resulting consistency and quality of the analysis conducted by the province varies greatly, depending the project sponsor. Only three (ADP numbers 1097, 2439, and 2966) of the selected eight projects reviewed included an economic analysis which is 40% of the sample. However, there are no requirements within the Manual for Development Projects to publish the financial and economic analysis of the proposed or implemented projects. The P&D department told the PEFA team that the results of the analysis are available to the public upon request and are communicated time to time through press release and media.

163. The Sindh ADP, which is published, does provide a full listing of most projects included in the budget. It includes provincially implemented projects but may not include all projects implemented through a public private partnership (PPP). Information on PPPs is publicly available through the Sindh PPP unit website which is part of the Finance Department. The ADP includes both approved and unapproved projects; unapproved projects are included but have not gone through the same scrutiny and approval process as the approved projects.

164. The Sindh ADP also includes several items that are more closely aligned with the recurrent budget, such as ongoing maintenance or minor repairs. Additionally, many of the projects listed are not one project but a grouping of smaller projects, which increases the difficulty in planning, implementing and reviewing their performance. Given that 40% of the sample has an economic analysis the score is C

Dimension rating = C

11.2. Investment project selection

165. Project selection is a multi-step process that includes multiple agencies and committees. Sponsoring agencies develop and screen projects for financial and sectoral fit while the Planning and Development Department receives the projects and screens for economic fit as well as strategic alignment with national priorities. Project size determines the agency that approves a project after project appraisal process. Projects costing up to Rs. 10.0 billion and with 100% funding from provincial resources are approved by the PDWP. Projects costing more than Rs. 10.0 billion, have cost sharing arrangements with the federal government or funded by international development partners/donors, are sent to the federal government bodies for review and approval. These projects are then processed through the Central Development Working Party (CDWP) and the Executive Committee of the National Economic Council (ECNEC), for final review and approval.

166. Project sponsors or implementing agencies determine which projects will be submitted for consideration to be included into the ADP. The finance department sets a resource envelope for each agency and they then choose which projects to include or exclude based on the available resources. Agencies are required to ensure their project proposals fit within the resource envelope and overall sector strategies. All projects are subjected to this process to select those that meet these requirements.

167. None of the project appraisals reviewed included alternative options to implementing the project. This includes a comparison of the cost of project implementation versus doing nothing or by using different

options to implement including coordination with other sectors. The lack of alternative options limits the usefulness of assessments and studies that are provided to help determine if a project should be selected and implemented. However, given that all major investment projects are processed by PDWP and by DDWP based on a standard criterion for selection of project, the dimension is rated as A.

Dimension rating = A

11.3. Investment project costing

168. The costing of the projects is performed by the line departments based on existing scheduled rates or market rates if the listed item is not included in the scheduled rates. Planning and Development Department is responsible for the formulation of the development budget in consultation with line departments. The Finance Department is responsible for the recurrent budget. Paragraph 8 of standard PC-I form provides the recurrent cost estimate/annual operational and maintenance cost of any development project after the completion of the construction. Based on the size and scope of the project, development costs are required, on average, for a three-year period and recurrent costs are to be identified for a five-year period. The financing of costs, both capital and recurrent, are contingent on the project sponsor including these costs in the budget submission consistent with the availability of funds, as determined by the Finance Department. However, there is no mechanism in place which ensures that recurrent cost estimates provided in the PC-I are included or funded in the recurrent budget. . The executing agencies furnish project completion report in PC-IV which must also include the required annual operation and maintenance costs of the completed projects. In the review of project documents and respective PC-I and PC-IV, it was observed that few projects provided detailed recurrent cost projections for project operation.

169. Although project documentation did include multi-year cost breakdowns, this information is not published in either the budget or ADP documentation. The published budget and ADP do provide high-level summary of the cost of the current year capital projects and a lump sum figure for the future-years forward costs.

Dimension rating = C

11.4. Investment project monitoring

170. Financial and physical project progress is monitored through the PC-III and field visits. These monitoring reports are published on a quarterly and yearly basis. The PC-IIIs are collected and overseen by the monitoring wing of P&D department with individual executing agencies carrying out their own ongoing M&E on the projects and reporting the progress to P&D department. The Government of Sindh has established a monitoring and evaluation mechanism for which a Monitoring and Evaluation Cell (MEC) has been established in P&D department, which also conducts monitoring on randomly selected projects. The M&E cell has its field formation for conducting field visits and it has an online platform to track and report on progress of development projects. Most of the information on the site is restricted (password protected). However, the MEC does provide an annual report with project specific information. The P&D department has stated additional project data is available to the public upon request.

Dimension rating = B

PI-12. Public asset management

171. This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. The assessment is based on the last completed fiscal year, i.e., 2017/18. Coverage for dimension 12.1 is Provincial Government (PG), for dimension 12.2 it is Budgetary Provincial Government (BPG) and for dimension 12.3 it is PG for financial assets and BPG for nonfinancial assets.

Summary of scores and performance table

Indicator/Dimension	Brief Justification for Score	
	2019	
PI-12 Public asset management	D+	Scoring method (M2)
12.1 Financial asset monitoring	C	The government maintains a record of its holdings in <i>major</i> categories of financial assets, but this is not published.
12.2 Nonfinancial asset monitoring	C	The government maintains a record of its non-financial assets however this is not consolidated nor depreciated. Partial information on usage and age is available.
12.3 Transparency of asset disposal	D	Information on sale of nonfinancial assets is not included in the budget documents or any other financial report.

12.1. Financial asset monitoring

172. The Government of Sindh owns securities of companies incorporated under Companies Ordinance 1984 (now Companies Act 2017). Special purpose authorities/ organizations and all the Government owned corporations/companies which are required to prepare their financial statements under their specific statute or Companies Ordinance, 1984 are classified as exempt entities. Financial statements of these entities are not consolidated in the financial statements of the Provincial Government.

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

174. As per Audited Financial Statements, there is information relating to Government's holdings under major categories of financial assets. Generally, any new investment²⁷ in Government owned entities (i.e.,

²⁷ Note 7.5 to the Audited Financial Statement 2016-17: All investments made by the Government are initially measured at cost being the fair value of consideration given plus the transaction costs that are directly attributable to their acquisition. Subsequent to initial recognition, investments are carried at historical cost. Any dividend received against the investments are recognized when received in the Provincial Consolidated Fund.

Companies incorporated under the Companies ordinance 1984/now Companies Act 2017) is capitalized to the year in which the investment is made and is shown on the Audited Financial Statement under Investments. Grants given to these companies are expensed. Dividends paid to the Government by these companies or interest on bonds issued by them come under the Non-Tax Revenue for the Government²⁸. Given that Government maintains a record of its holdings of major categories under the Financial Assets, therefore, this dimension is rated as C.

Dimension rating = C

12.2. Nonfinancial asset monitoring

175. As per Government Rules, the non-financial assets are categorized as:

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

176. Each line department is required to maintain a record of their nonfinancial assets. However, there is no standard practice or template used for this purpose throughout the province, nor is there a mechanism in place to centrally consolidate assets. In addition, nonfinancial assets are not depreciated, and their values are maintained at cost until disposed of or sold. Public Sector companies are responsible for formulating their own asset registry policy.

177. Since Government maintains a record of its non-financial assets, though it is not consolidated nor depreciated and partial information on usage and age of the asset is available, therefore, the dimension is rated as C.

Dimension rating = C

12.3. Transparency of asset disposal

178. Assets are disposed of through public auction, which are rule-based and held in a transparent manner. However, there is no information that is compiled in the budget documents or other reports consolidating all the asset disposals. Financial reports only show total receipts of the government from the auction and nowhere is there a list of all assets disposed of during the particular year.

Dimension rating = D

PI-13. Debt management

179. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. Dimension 13.1 is evaluated at time of assessment, while Dimension 13.2 is based on the last completed fiscal year, i.e., 2017/18. Dimension 13.3 is at time of assessment with reference to the last three completed fiscal years, i.e., 2015/16, 2016/17, 2017/18.

²⁸ *Government of Sindh Financial Statement 2016-17*

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-13 Debt management	D+	Scoring method (M2)
13.1 Recording and reporting of debt and guarantees	C	Domestic and foreign debt and guaranteed debt records are updated annually, and reconciliations are performed annually as well as areas where reconciliation requires additional information to be complete are acknowledged in debt sensitivity analysis.
13.2 Approval of debt and guarantees	C	Currently there are no concise guidelines, criteria or risk categories at the provincial level for approval of external debt
13.3 Debt management strategy	D	Debt Management Strategy is only now being prepared; therefore, this indicator could not be assessed/marked

180. The 18th Constitutional Amendment 2010 authorized Provinces to raise domestic or international debt or give guarantees against the security of the Provincial Consolidated Fund within limits and subject to such conditions as may be specified by the National Economic Council. GoS and the National Economic Council in August 2017 agreed on a framework for debt creation and debt management by the province for foreign debt contracting whereby the domestic borrowing limit for provinces was enhanced from 0.5% to 0.85% of GDP. Based on estimated GDP of 2017-18, i.e., Rs. 35,919 billion, the gross borrowing limit was calculated at Rs. 305.31 billion. This amount was distributed among the provinces according to the prevailing formula of NFC award. It is pointed out that Article 167(3) imposes further restriction on debt creation by the provinces and limits the province in raising loan if there is still outstanding any part of a loan made to the province by the Federal Government or in respect of which guarantee has been given by the Federal Government. Although Federal Government can extend consent as it seems fit.

	Punjab	Sindh	KP	Balochistan	Total
Share in NFC Award (in %age)	51.74	24.55	14.62	9.09	100.00
Gross Limit (Rs. In Billion)	157.97	74.95	44.64	27.75	305.31
Domestic Provincial Debt as of 30-June-2017 (Rs. In Billion)	15.30	14.14	-	-	-
Net Available Limit (Rs. In Billion)	142.67	60.81	44.64	27.75	275.97

13.1. Recording and reporting of debt and guarantees

181. Institutional arrangement relating to recording and reporting of debt and guarantees is spread over different departments. These include Finance Department [Section II (Resource Wing) deals with Debt Servicing, Section III (Resource Wing) deals with Disbursements, IT Section of Resource Wing, Debt Management Unit (Resource Wing)], State Bank of Pakistan, Treasury Office Karachi, Economic Affairs Division, Accountant General Sindh and Planning and Development Department. The disbursement and debt repayment are checked and reconciled by Debt Management Unit with Economic Affairs Division (EAD)'s sheet on quarterly basis (at the end of each quarter). In addition, there are bi-annual debt bulletins which are publicly available on Finance Department's website. Debt and Contingent Liability (Budget Analysis document) is also prepared on annual basis by Finance Department which also includes sensitivity

analysis with respect to debt servicing. Most of the information pertaining to Sindh Government's contingent liability could not be ascertained. While Finance Department reconciles debt servicing on quarterly basis with EAD and Finance Division, Federal Government is responsible for payment of external debt repayments on timely basis to the lenders. The amount paid by Federal Government is then deducted from monthly Federal transfer receipts under National Finance Commission award.

182. While the PIFRA introduced the GFMIS, linkages through a dedicated and specialized module for debt management between EAD, Ministry of Finance/Finance Department, and State Bank of Pakistan has not yet been operationalized. Therefore, the legacy system essentially comprising of an excel-based general-purpose filing system solution is used to capture and report provincial debt and guarantees related information. This includes foreign loans. The sheet for foreign loans shows the Outstanding amount at the beginning of the year, amount paid by the government during the year and the balance outstanding at the end of the year. The sheet is signed by representative of Finance Department and EAD for record purposes. The debt information is maintained by Finance Department with a lag of one month on an excel sheet after verification from lender, EAD monthly disbursement sheet and Project Directors. The lag takes place due to the DMFAS system installed at EAD. The lag is due to FD Sindh having no access to DMFAS and it solely relies on information received from EAD after the end of the month. The reconciled information is documented and published on the Finance Department's website through a Debt Bulletin on bi-annual basis, the Debt related part in the Budget Strategy Paper as well as the Budget Analysis document.

183. Since domestic and foreign debt and guaranteed debt records are updated annually and reconciliations are performed annually as well as areas where reconciliation requires additional information to be completed are acknowledged in the debt sensitivity analysis, this dimension is rated as C.

Dimension rating = C

13.2. Approval of debt and guarantees

184. The Constitution's Article 167 (Clauses 1-4) grants authorization to borrow for provinces. In addition, Sindh Business Rules 1986 determines the responsibility of the Planning and Development department. This covers coordination of technical assistance from abroad, evaluation of the progress of development schemes and writing their critical appraisal and foreign aid. For the Finance Department this covers the floatation and administration of provincial loans and public debt regarding debt management. At provincial level, front office functions (loan negotiations and contracting) are led by P&DD in consultation with FD whereas the middle office (analytical examination including risk management and advisory services) and back office (follow up phase including debt data recording debt servicing including forecasting, debt reporting and accounting) roles are performed by FD. EAD contracts the foreign debt for provinces. After 18th amendment to the Constitution, the provinces were authorized to incur debt against its consolidated fund with a provision that a framework for debt management shall be agreed with the National Economic Council. An arrangement has been made between the National Economic Council and the provinces whereby a limit for domestic debt creation has been put in place for provinces based on the respective provincial share under the NFC award.

185. An External Debt Management Manual has also been approved by Cabinet for contracting the foreign loans. The Debt Management Manual covers all the policies that are adopted by relevant departments. *As per the approved External Debt Management Manual Section 3.4, an External Debt Management Committee (EDMC) will be constituted which will be headed by Chairman Planning and Development Board to oversee and manage all the debt related activities and recommends to the Provincial Cabinet for approval of contracting any foreign debt, however, formal notification of the EDMC is still pending.* The EDMC is supposed to meet every quarter as well as on a as need basis. Currently, Debt Management Unit of Finance Department (Resource Wing) as well as other sections of Resource Wing

monitor the disbursements made to GoS during the grace period (when the Disbursements take place) and later deals with the amortization period whereby Principal and Interest payments start which are middle and back-office functions of Debt Management. Foreign loans also need approval from Federal Government before initiating the negotiation of any foreign loan.

186. For other debt instruments like the overdraft from SBP and for Food Provincial Account II (Procurement of Wheat), the responsibilities and procedures are clearly laid out. Under Supplemental agreement between the Government of Sindh and State Bank of Pakistan, Government of Sindh's Ways and Means limit (overdraft limit) is Rs. 15 billion. Provincial Account II, the Provincial Government contracts running finance for procurement of wheat, which is regulated with a separate framework notified by the AGP office and the Ministry of Finance regarding accounting procedure and account maintenance respectively. The recording of loan procured from the banks for running finance regarding wheat is undertaken by Food Department. The annual limit for both running finance and overdraft is approved by the provincial legislature.

187. As there are no concise guidelines, criteria or risk categories at the provincial level for approval of external debt this dimension is scored C.

Dimension rating = C

13.3. Debt management strategy

188. Currently, the Finance Department is preparing a Sindh Medium Term Debt Strategy in collaboration with the World Bank. The strategy was expected to be finalized at the end of current FY 2018-19; however, it has not been drafted yet. Consultations have also commenced with the CGA Office for creation of a dashboard and system within SAP to support the existing debt sustainability analysis. The strategy will be approved by the Cabinet and it will be for a period of 3 years. Presently, for budget preparation, Debt Sensitivity Analysis document and Sindh Debt Bulletin are main documents for debt management purposes. As there is no current full debt management strategy the score is D.

Dimension rating = D



PILLAR FOUR: Policy based fiscal strategy and budgeting

PI-14. Macroeconomic and fiscal forecasting

190. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The period covered is the last three completed fiscal years. The coverage is for Dimension 14.1: Whole Economy and for Dimensions 14.2 and 14.3: Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-14 Macroeconomic and fiscal forecasting	C	Scoring method (M2)
14.1 Macroeconomic forecasts	NA	Not Applicable. Macroeconomic functions rests with the central government.
14.2 Fiscal forecasts	C	Government prepared BSP (including MTFF report) with qualitative analysis. It is submitted to the Finance Committee of the Legislature after approval by the Provincial Cabinet. BSP provides no underlying assumptions or fiscal indicators on which the projections are made. The projections are largely made based on historical trends and then projected forward through time series analysis.
14.3 Macro-fiscal sensitivity analysis	NA	Not Applicable.

191. Sindh's budget is presented to the parliament²⁹ after the presentation of the Federal budget, usually around the first or second week of June, which is two weeks before the close of the fiscal year end on 30th

²⁹ Sindh does not have an upper house

of June. Prior to the presentation of the budget, the Budget Strategy Paper is also scrutinized by the Standing Committee on Finance of the Parliament and then shared with the wider parliament for information.

14.1. Macroeconomic forecasts

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

Dimension rating = NA

14.2. Fiscal forecast

193. GoS prepared the Budget Strategy Paper (BSP- 2018-2021), including MTFF, with the support of Public Financial Management Support Program for Pakistan (European Union) and Sindh Public Sector Management Reform Program (World Bank). The paper offers insight into the fiscal performance of the government over the last two financial years and of current financial year (2017-18). It provides projections of revenue and expenditures over the next three years (estimates for the budget year and two outer years) through time series analysis. It is a top-down fiscal policy statement to project GoS' revenue and expenditure estimates and the overall budget position. While BSP is prepared, it provides no underlying assumptions or fiscal indicators on which the projections are made. As stated, most of the projections are made based on historical trends and then projected forward through time series analysis. There is brief explanation of the variances. The BSP is submitted to the legislature's Finance Committee after it has been approved by the Provincial Cabinet. Therefore, the dimension is rated as 'C'.

Dimension rating = C

14.3. Macro-fiscal sensitivity analysis

194. Given the presentation in PI-14.1, this dimension is also 'not applicable' because the provincial governments cannot take measures to adjust to macroeconomic contingencies. The Economic Affairs Division (Federal government) is the authority to enter into debt-related agreements while the MoF (Federal Government) is the authority for creation and approval of debt instruments. Other than the limit accorded for creation of debt up to 0.85 percent of the GDP, any action requiring approval for changes to existing debt (even the authority for premature retirement of existing debt) or creation of a new instrument rests with the Federal government. Therefore, this dimension is 'Not Applicable'.

Dimension rating = NA

PI-15. Fiscal strategy

195. This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. Time period for Dimension 15.1

is the last three completed fiscal years (2015/16 – 2017/18), and for Dimensions 15.2 and 15.3: the last completed fiscal year (2017/18). Coverage is Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-15 Fiscal strategy	D+	Scoring method (M2)
15.1 Fiscal impact of policy proposals	D	Fiscal impacts for revenue and expenditure proposals are not prepared by the Government.
15.2 Fiscal strategy adoption	C	Government of Sindh prepares Budget Strategy Paper which is presented to Finance Committee of Legislature after approval by Provincial Cabinet. The BSP is for internal use which includes qualitative objectives of fiscal policy. In addition, execution of budget is often not in line with the strategy defined in the BSP and there are several in-year changes to the budget.
15.3 Reporting on fiscal outcomes	C	While reporting on fiscal outcomes is often done through the next year's budget documents (especially the Budget Speech and the Budget in Brief document), as well as through the Supplementary Demands document, and the Performance Monitoring Report (internal Finance Division document) with brief explanations, reporting against fiscal strategy is not done. It is done through internal reports/presentations for Finance Minister and Cabinet. Also, corrective measures are not identified clearly.

15.1. Fiscal impact of policy proposals

196. Key revenue and expenditure policies are quantified and included as part of the MTFP and the budget. However, the fiscal impact of the revenue and expenditure proposals for any fiscal year cannot be isolated from the whole budget that is presented for the year. While there is a qualitative discussion of the policy proposals stated in the Budget Strategy Paper (BSP), there is no explicit quantification of these measures in these documents. The expenditure policy proposals are more difficult to clearly identify from the budget documents. There are also significant in-year policy changes which have fiscal impact during the fiscal year and these policy changes are not often quantified in the ex-ante proposals that are prepared. GoS does not publish the fiscal impact of the proposed revenue and expenditure policies for the legislature. There are significant in-year policy changes. Therefore, the dimension is rated 'D'.

Dimension rating = D

15.2. Fiscal strategy adoption

197. Sindh government prepares a Budget Strategy Paper (BSP) with analytical report that is shared with Finance Committee of the legislature after approval by Provincial Cabinet. There are no underlying fiscal assumptions, including numerical objectives, targets or policy parameters (such as the level of fiscal balance), aggregate provincial government expenditures or revenues, and changes in the stock of financial assets and liabilities. The BSP provides information on the primary budget balance based on the revenue and expenditure position. It also sets targets over medium term based on historical trends. In addition, the GoS prepares annually the proposal for revenue mobilization measures for submission to the Cabinet and the Assembly, but this does not have a medium-term perspective. Given that execution of budget is often not in line with the BSP and there are several in-year changes to the budget as well as the Budget Strategy Paper is prepared with qualitative objectives of fiscal policy, the dimension is rated ‘C’.

Dimension rating = C

15.3. Reporting on fiscal outcomes

198. Reporting on fiscal outcomes is often done through the Annual Financial Statements which are published after they are audited (around 9 months after the close of the fiscal year). Reports against the broader fiscal outcomes, such as the fiscal deficit, are also reported as revised estimates in the next year’s budget documents, especially the Budget Speech by the Finance Minister and the Budget in Brief document. The deviations from the fiscal outcomes are also presented in the Supplementary Demands for Grants and Appropriations. These are presented with the following year’s budget as they do have a legal or regulatory requirement for ex-ante approval for in-year budget changes by the Parliament during the fiscal year to which they relate. Some explanation is provided to justify the supplementary demands. While the Budget Strategy Paper is prepared by the Government, no public reports are made on the outcome against the fiscal strategy where there is discussion on the underlying quantitative economic assumptions. There is some commentary on the underlying assumptions but that is mostly on the qualitative items. The annual budget documents (especially the budget speech) and the Supplementary Demands for Grants and Appropriations sets out the performance of the previous year’s fiscal strategy. However, the explanations are not very detailed and corrective measures are not stated.

199. No public reports are made on the outcome against fiscal strategy and reports/presentations regarding fiscal targets and actual revenue collection are prepared for the Finance Minister and the Cabinet in the shape of Budget Strategy Paper, therefore, this dimension score is “C”.

Dimension rating = C

PI-16. Medium-term perspective in expenditure budgeting

200. This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. For Dimensions 16.1, 16.2 and 16.3 the assessment is based on last budget submitted to the legislature (2017/18), while for Dimension 16.4, it is the last medium-term budget and the current medium-term budget. The coverage is Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-16 Medium-term perspective in expenditure budgeting	D+	Scoring Method (M2)
16.1 Medium-term expenditure estimates	D	Only Budget Strategy Paper has a medium-term perspective. All documents, which are part of the Budget proposal, do not have a medium-term perspective
16.2 Medium-term expenditure ceilings	D	Aggregate and or department level medium term expenditure ceilings were not provided to the Line departments prior to the issuance of budget call circular.
16.3 Alignment of strategic plans and medium-term budgets	C	Medium-term sector strategies are prepared for some of the sectors - Agriculture, Education, Health and some of the expenditure policy proposals align with the strategic plans.
16.4 Consistency of budgets with previous year's estimates	NA	Medium term budget has not been adopted in all the budget documents. The Budget Strategy Paper cannot provide the variance analysis with a medium-term perspective given its absence

201. The Sindh Government prepares medium-term estimates in the budget and these are reflected in the Medium-Term Estimates for Service Delivery book (Green Book) that reflects the output-based budgets which is part of the budget documents presented in the parliament. However, there are some concerns relating to the process used to develop the medium-term estimates, with respect to whether the estimates are realistic, and whether they are used by the line ministries for preparing the subsequent years budgets.

16.1. Medium-term expenditure estimates

202. Annual Budget Statement and other budget documents do not include medium-term budget estimates. There is no legal requirement to submit medium term estimates to the parliament which calls into question the sustainability of the current exercise by Finance Department. There are on-going efforts by the Finance Department to pass a PFM law under which preparing, publishing, and presenting medium term estimates will become legally binding. Following documents are part of the Budget proposal:

- Budget Speech
- Annual Budget Statement (Vol I)
- Estimates of Receipt (Vol II – Part A, B, C)
- General Abstract of Disbursements (Vol III)
- Development Expenditure (Vol IV – Part A, B, C)
- Annual Development Program (Vol V)
- Schedule of New Expenditure (Vol VI)
- Budget Memorandum (Vol VII)
- Budget Analysis

203. Government of Sindh has prepared Budget Strategy Paper during the FY 2017-18 covering the period from FY 2018-19 to 2020-21, with the budget year and two subsequent years' estimates. However,

the rest of the budget documents do not have a medium-term perspective. Therefore, the dimension is rated 'D'.

Dimension rating = D

16.2. Medium-term expenditure ceilings

204. The fiscal year of the government runs from 1st July to 30th June. The Finance Department issues one budget call circular (BCC) each year. During the review period, the BCCs (2015-16/2016-17/2017-18) were issued in the months of November. The indicative expenditure ceilings were provided after the issuance of the budget call circular and therefore the dimension is rated 'D'.

Dimension rating = D

16.3. Alignment of strategic plans and medium-term budgets

205. For the period under assessment, Government of Sindh did not prepare a government wide output-based budget with a medium-term perspective. Medium-term sector strategies and plans are prepared for majority of the sectors - agriculture, education, health, however, summary information of fiscal needs is provided at aggregate level only without detailed costings. From annex 5 it is shown that health expenditure by function is 10.7% of total expenditure and education is 18.1%. The expenditure proposals in the annual budget do not explain the financing shortfall in the fiscal needs and the actual budget allocations. Based on the above, Medium-term strategy is prepared for at least 25% of the Department. In addition, 25% of the expenditure policy proposals in the annual budget align with the strategic plans, therefore, this dimension is rated 'C'.

Dimension rating = C

16.4. Consistency of budgets with previous year's estimates

206. Even though BSP is prepared, the budget preparation exercise for majority of the line ministries is incremental and the budget estimates for the next fiscal year are based on revised budget estimates of the previous fiscal year. Changes between the budget estimates and the revised budget estimates are explained in the Supplementary Demands for Grants and Appropriations which are presented with the next year's budget. Explanations for the supplementary budget is provided by grant. Most of the explanations refer to policy decisions which resulted in additional expenditure. While the Budget Strategy Paper is prepared by Sindh Government, the main documents pertaining to budget proposal do not have a medium-term perspective (See 16.1), therefore, the budget documents can not include the variance analysis of budget years between two medium term frameworks, given its absence. The dimension is rated NA'.

Dimension rating = NA

PI-17. Budget preparation process

207. This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. Time period for Dimensions 17.1 and 17.2 is last budget submitted to the legislature and for Dimension 17.3 it is the last three completed fiscal years. Coverage is Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-17 Budget preparation process	C	Scoring Method (M2)
17.1 Budget calendar	A	A clear BCC exists and is generally adhered to. FD issued BCC in Nov 2016 (for budget year 2017-18) and were allowed at least 6 weeks to prepare the budget estimates
17.2 Guidance on budget preparation	D	The BCC for the budget year 2017-18 included detailed guidelines and forms but indicative budget ceilings were not included for administrative or functional areas
17.3 Budget submission to the legislature	D	Government of Sindh submitted budget proposals to the legislature less than one month before the start of fiscal year.

208. The Finance Department has the primary responsibility for the annual budget preparation process for Sindh Government. BCC requires effective participation by the Planning Department (for development budget), spending/budgetary units and Cabinet to prepare a budget processed through a top-down and bottom-up processes. Top-down aspects include BCC, Budget Strategy Paper, Indicative Budget Ceilings. Bottom-up aspects include compliance of guidance provided in BCC by the budgetary units while preparing their budget proposals.

17.1. Budget calendar

209. The Budget calendar is issued along with the budget call circular (BCC) each year indicating the timeline for the key budget preparation steps. The fiscal year ends on 30th June by which time the budget bill must be enacted by the Provincial Assembly. Given the late start of the budget process (Table 3.17) the budget must be presented to the legislature before 30th June, per the prevailing convention. Therefore, the indicative timeline must be complied with by all agencies. In the table below, steps were completed before the deadline given to the Departments. Budget Call Circular was issued by 15th November 2016. In addition, under step 2 in the table below, indicative Budget ceilings were issued to all Departments in the month of January 2017 (18th January 2017). Therefore, more than 6 weeks were allowed to the LDs for the preparation of the budget estimates, therefore this dimension is rated ‘A’.

S.No.	Activity	Responsible Entity	Form Ref. No.	Deadline
1.	Submission of proposals for SNE 2017-18.	ADs	Form BCC-IV	November 15, 2016
2.	Issuance of draft Budget Strategy Paper and Indicative Budget Ceilings for Recurrent and Development budgets.	FD, P&DD	By January 18, 2017	

3a.	Submission of Regular Receipts Estimates 2017-18.	ADs	Form BCC-I	By February 20, 2017
3b.	Submission of MTBF Receipts Forecast 2017-18 to 2019-20.	MTBF Pilot ADs	Form BCC-I	By February 20, 2017
4	Identification of potential sectors for taxation and review of existing taxes/fees.	ADs	By February 20, 2017	
5a.	Submission of Regular Expenditure Estimates 2017-18	ADs	Form BCC-II Form BCC-III	By February 20, 2017
5b.	Submission of MTBF Expenditure Forecast 2017-18 to 2019-20.	MTBF Pilot ADs	Form BCC-II Form BCC-III Form BCC-IX	By February 20, 2017
6.	Submission of Revised Estimates /Final List of Excesses & Surrenders 2016-17.	ADs	Form BCC-VII	By February 20, 2017
7.	Submission of 1st edition of proposed ADP 2017-18 by the AD to P&DD and FD (<i>IN TRIPLICATE Soft & Hard copy</i>)	ADS	Form BCC-X	By February 19, 2017
8.	Printed copies of the 1st edition of ADP 2017-18 along with the soft copy to be made available by FD to P&DD.	FD	By February 26, 2017	
9.	Inter Departmental Priority Committee (IDPC) meetings for clearance of tentative Development Program.	P&DD	By March 5 to 16, 2017	
10.	Review collection of Receipts and Recoveries, in consultation with ADs.	FD, ADs	By March 30, 2017	
11.	Communication of ADP 2017-18 by P&DD to FD for printing 2nd edition of ADP	P&DD	By April 2, 2017	

Source: Finance Department, Government of Sindh

Dimension rating = A

17.2. Guidance on budget preparation

210. In order to commence the budget preparation process, the Finance Department issues the Budget call circular subsequent to which the P&D Department issues the Guidelines for ADP formulation. The circular and guidelines also include the budget calendar, forms, and format that provide elaborate guidance to the line departments/spending units for preparing the budget proposals. However, the indicative expenditure ceilings are not included in the BCC and are only provided after the issuance of BCC (*step 2 in table 3.17*), therefore, this dimension is rated ‘D’.

Dimension rating = D

17.3. Budget submission to the legislature

211. The Government submitted the budget proposals to the legislature in the month of June in each of the three years under review. This allowed less than a month for review by the legislature and therefore this dimension is rated ‘D’.

Fiscal Year	Date of submission	Fiscal Year begins
2017-18	05-June-2017	01 July 2017
2016-17	11-June-2016	01 July 2016
2015-16	13-June-2015	01 July 2015

Source: Sindh Provincial Assembly

Dimension rating = D

PI-18. Legislative scrutiny of budgets

212. This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature’s procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. Time period: Last completed fiscal year (2017/18) for Dimensions 18.1, 18.2 and 18.4, and last three completed fiscal years (2015/16, 2016/17 and 2017/18) for Dimension 18.3. Coverage is Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-18 Legislative scrutiny of budgets	C+	Scoring Method (M1)
18.1 Scope of budget scrutiny	C	Provincial Assembly discusses the revenue and expenditure for the next fiscal year. There is extensive discussion on budget priorities but no discussion on

		medium term fiscal projections or underlying assumptions.
18.2 Legislative procedures for budget scrutiny	C	Legislative procedures are well defined in the Rules of Procedures for the Sindh Assembly, including internal organizations of the Assembly. The legislature’s procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. However, there are no provisions for internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures.
18.3 Timing of budget approval	A	Budget for the last three completed fiscal years have been approved prior to the start of the fiscal year.
18.4 Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget adjustments. However, the rules do not account for ex-ante approval for the adjustments by the Provincial Assembly and there are excessive adjustments by the executive during the year.

213. Sindh’s budget is presented to the Provincial Assembly³⁰ a week after the presentation of the Federal budget, usually around the first or second week of June, two weeks before the close of the fiscal year on 30th June. Prior to the presentation of the budget, the Budget Strategy Paper is also scrutinized by the Provincial Cabinet and then shared with the public on the government website .

18.1. Scope of budget scrutiny

214. The Provincial Assembly discusses the key budget documents in detail. The Budget Strategy Paper (BSP) is shared with Finance Committee of the legislature after approval by Provincial Cabinet. The provincial assembly does discuss the revenue and allocations for the next fiscal year in detail and the discussion is recorded by the Secretariat of the Sindh Assembly in its minutes. Motions to alter the proposed allocations are suggested by the provincial assembly but usually by the opposition, and therefore, are rarely passed as they do not carry majority of the votes. Many such motions are also proposed as “disagreement on principles” (for example, a “cut” motion of a notional Rs 100 against the budget demand of Chief Minister’s House and Secretariat). Each motion is responded to in detail by Finance Department and very few of these motions are incorporated into the budget.

215. The Provincial Assembly’s review covers the details of expenditure and revenue projections for the coming year. While the BSP is submitted to Finance Committee of the legislature after approval by Provincial Cabinet, the documentation does not include any fiscal policies as well as any underlying assumptions. The rating for this dimension is C.

Dimension rating = C

³⁰ Sindh does not have an upper house

18.2. Legislative procedures for budget scrutiny

216. The rules for legislative budget scrutiny are defined in the Constitution and the Rules of Procedures for the Sindh Assembly³¹. Chapter 19, clauses 145-160, sets out the procedures for the Assembly relating to the presentation and discussion on the budget. The rules are comprehensive and cover the establishment of Standing Committees and the internal organization of the Assembly. The rules were amended in 2013 and are followed. Provisions in the procedures now include pre- and post- consultations with the Provincial Assembly. The Provincial Assembly Secretary and the Speaker of the House ensures that the rules are followed in their entirety. Post budget consultations are anchored around quarterly budget execution reports which are formally submitted to the legislature.

217. However, there is no provision in the rules for public consultations, especially on financial matters, including the budget.

218. The budget proposals are approved by the legislature in advance of budget hearings and are adhered to and the fact that procedures do not include internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures, therefore, this dimension is rated as C.

Dimension rating = C

18.3. Timing of budget approval

219. Protocol ensures that the budget discussion does not continue beyond the start of the fiscal year. Over the past three fiscal years, the budget has been approved before 1st July, which ensures an 'A' score.

220. The table below summarizes the dates for the presentation and approval of the budget over the past three fiscal years. However, there is limited time given to the Provincial Assembly for the scrutiny of the budget and the budget is usually approved within 10 days of the presentation.

Fiscal year	Date of budget presentation	Date of budget approval
2015-16	13-June-2015	25-June-2015
2016-17	11-June-2016	26-June-2016
2017-18	05-June-2017	16-June-2017

Dimension rating = A

18.4. Rules for budget adjustments by the executive

221. There are several rules and regulations that define the scope of the adjustment of the original budget. The re-appropriation and supplementary grant procedures are notified in the *Sindh Delegation of Financial Powers and Financial Control Rules (SDFPF)* and the powers of re-appropriation by administrative departments are provided in *SDFPF Third Schedule (Sindh Financial Control)*. While the budget call circular requires the submission of the supplementary budget, the Budget Manual explains the budget adjustments in more details.

³¹ <http://www.pas.gov.pk/index.php/rop/rlist/en>

222. The rules are unambiguous regarding the justification for budget adjustment and are strictly followed; however, the limit in terms of number and financial limit of adjustments is not imposed. Since clear rules exist for in-year budget adjustments by the Executive and are adhered to in most instances but extensive administrative reallocations are permitted, therefore, this dimension is rated 'B'.

Dimension rating = B



PILLAR FIVE: Predictability and control in budget execution

PI-19. Revenue administration

223. This indicator assesses the procedures used to collect and monitor government revenues. A government's ability to collect revenue is an essential component of any PFM system. It is also an area where there is direct interaction between individuals and enterprises on the one hand and the state on the other. The government must provide those responsible for providing revenues with a clear understanding of their rights and obligations as well as the procedures to be followed in seeking redress, while ensuring that mechanisms are in place to enforce compliance.

224. Taxes and other revenue measures provide the funds to allow governments to achieve reallocation and expenditure policy objectives. They achieve their maximum contribution to better budgetary outcomes when they are collected efficiently and to the extent authorized by laws and regulations. Revenue payers need to know their obligations so that they can comply with laws and regulations and are discouraged from evading or delaying revenue contributions that apply to them. If revenue measures are not administered well, collections can be lower than intended, which results in fewer resources for reallocation and less capacity for the provision of services.

Summary of scores and performance table

Indicator/Dimension	2019	Brief justification for score
PI-19. Revenue administration	C+	Scoring Method (M2)
19.1 Rights and obligations for revenue measures	B	The entity collecting majority of the revenues provides payers with access to information on the main revenue obligation areas and on rights including redress processes and procedures.
19.2 Revenue risk management	B	The entity collecting the majority of revenues uses structured and systematic approaches for assessing and prioritizing compliance risks.
19.3 Revenue audit and investigation	C	The entity that collecting the majority of revenues undertakes audits following the guidance of a 2016 compliance program and is working on cases selected by the risk parameters. So far, it has completed the majority of planned audits for FY2017-18.
19.4 Revenue arrears monitoring	D*	Sufficient information is not available. Information available on the stock of revenue arrears at the end of the last completed fiscal and on revenue arrears older than 12 months is not sufficient to calculate this indicator/dimension.

225. In Sindh Province, there are three revenue authorities that collect and administer various taxes: (i) the Excise, Taxation and Narcotics Control Department (ETNCD), responsible for collecting property tax, professional tax, infrastructure development cess³², motor vehicle tax, excise duty, cotton fee and entertainment duty; (ii) the Sindh Board of Revenue (SBoR), responsible for collecting registration fee, stamp duty, capital value tax, agricultural income tax and land revenue; and (iii) the Sindh Revenue Board (SRB) responsible for collecting General Sales Tax on services. The Province is part of the Federal Social Security Scheme that covers all of Pakistan. During the fiscal year 2017-2018, the three revenue authorities collected approximately Rs. 177.011 billion³³ distributed as follows:

Revenue department	Financial year 2017-2018 (July 1st, 2017 – June 30th, 2018)	Percentage (%)	Accumulated (%)
Sindh Revenue Board	Rs. 100.290 billion	56%	56%
Excise, Taxation and Narcotics Control Department	Rs. 61.218 billion	35%	91%
Sindh Board of Revenue	Rs. 15.502 billion	9%	100%
TOTAL	Rs. 177.011 billion	100%	

19.1. Rights and obligations for revenue measures

226. The availability and dissemination of information is key to facilitate taxpayers to comply with their tax obligations. Such information should include taxpayer rights and obligations as well as advice on administrative procedures and processes to be followed in seeking redress.

227. For ETNCD, taxpayer information is publicly available on online through its website (<http://www.excise.gos.pk>). This information covers the description, rates and fees of all taxes collected by the department, tax calculator and forms for motor vehicle, property and professional tax, a helpline, contact information, advertisements, notices, and latest news. It also includes information on minimum redress procedure for payers to appeal on property tax decisions. Although taxpayer information is available, it falls short on providing documented procedures and guidance to facilitate taxpayer obligations to file declarations and pay their liabilities.

228. SRB has all taxpayer's information publicly available, up-to-date and with easy access on SRB's official website (<http://www.srb.gos.pk/home/index.jsp>). The information available is comprehensive, covering obligations and rights in respect to the main revenue obligation areas such as registration, filing of declarations and payment of liabilities for all taxpayers which are segmented by different sectors. SRB allows you to e-enroll in their eSRB portal, e-register as taxpayer and to e-file a return. There are step-by-step and user guides available. SRB's website also includes acts, rules, notifications and circulars, taxpayer online verification system, helpdesk and support, and tax calendar. There is also a section called SRB Appellate Tribunal Law with information on redress procedure for payers to appeal revenue administrator's decisions such as relevant provisions of Sindh Sales Tax on Services Act 2011 relating to filing of appeals, appeal form, regulations and procedures.

³² The Cess is a tax levied and collected @ 1.10% to 1.15% on total value of Goods (as assessed by the Custom Authorities) of a consignment of goods entering the province of Sindh from outside the country through Air or Sea and on its movement as per schedule

³³ Excise & Taxation Department, Sindh Board of Revenue and Sindh Revenue Board sources.

229. Considering that the SRB is the entity that collects majority of revenues and provides taxpayers with access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures, the dimension is rated as B.

Dimension rating = B

19.2. Revenue risk management

230. Modern revenue administration relies increasingly on self-assessment and uses risk-based processes to ensure compliance. Resource constraints are likely to dictate that revenue administration processes are focused on identifying payers and transactions with the largest potential risk of noncompliance. An efficient and effective risk management process contributes to minimizing evasion and irregularities in revenue administration as well as lowering the cost of collection for revenue collecting agencies and cost of compliance for payers.

231. The ETNCD assesses revenue compliance risk on Property Tax, Professional Tax and self-assessment data and prioritizes taxpayers' compliance risk in terms of payment due. ETNCD exchanges Motor Vehicle Registration information with other entities, including the Federal Board of Revenue. However, a comprehensive, structured and systematic revenue risk management approach for assessing and prioritizing compliance risks is not yet in place.

232. SRB has intensified its efforts towards an efficient and effective risk management process. In 2016, SRB developed a compliance plan and program. The related document delineates the identification of risks per sectors, describes the importance of the assessment and prioritization of risks, provides information on the determination of treatment strategies and some risk mitigation measures such as notices, audits and prosecution. SRB keeps working on improving its revenue risk management and operationalizing its compliance plan.

233. The revenue risk management within the SRB is currently divided into clusters (comprising one or more operational units). Each unit/cluster-head is responsible for the assessment and evaluation of compliance risk of the service sectors in its jurisdiction. The prioritization and approach used to assess revenue compliance risk are based on: (i) taxpayer's sales tax returns data available to SRB, (ii) information and records requested from the taxpayers, (iii) third party information, and (iv) economic data published by the Government. The exchange of revenue information is based on specific requests of other government entities such the Federal Board of Revenue, the Punjab Revenue Authority, etc. The taxpayer's sales tax returns data are available from a web portal Sales Tax Invoice Management System (STIMS). The STIMS database contains all data on taxpayer's sales tax profiles and generates various types of analytical reports indicating data trends.

234. Given that SRB and ETNCD both use a structured and systematic approach for assessing and prioritizing compliance risk for some categories of revenue and, as a minimum, for its large revenue payers, the dimension is rated as B.

Dimension rating = B

19.3. Revenue audit and investigation

235. Ideally, revenue administrations should have controls in place to deter evasion and ensure that instances of noncompliance are revealed. Sound audit and investigation systems, reported in according to a documented compliance improvement plan, must be in place to ensure that once risks have been identified, there is follow-up to minimize revenue leakage. The ability of the revenue administration to identify, investigate, successfully prosecute, and impose penalties in major evasion and fraud cases on a regular basis is essential for ensuring that payers comply with their obligations.

236. Neither the ETNCD nor the SBoR have a compliance improvement plan. However, SRB has a compliance program document that was developed in 2016. The document describes some of the strategies SRB aims to pursue to achieve and optimize compliance. It also describes some risk mitigation measures such as notices, criteria and techniques that signify the importance of tax audits and prosecution.

237. SRB established an Audit Wing in 2017. The Audit Wing undertakes audits based on analysis of taxpayer's sales tax returns as well as on third party information. There is no up-to-date audit plan, but audits cases are selected based on pre-defined risk-based criteria developed in the 2016 compliance program. The analysis is done using the taxpayer returns database, available in excel format with help from the SRB IT Wing, while other IT tools are being developed. The completion cycle of audit cases is one year but it typically takes longer which is monitored in monthly targets. This usually happens because taxpayers tend to appeal the outcomes and most cases are not finalized during this period while pending court decision on appeals.

238. Fraud investigations or technical criminal audits are not conducted in the same way as fraud investigations, which are typically initiated when evidence of potential criminal activity comes to light and are conducted by special units or even by police-led teams. Verification of fraud typically results in criminal sanctions being imposed on taxpayers by the judicial system³⁴. In SRB, when undeclared sales taxes are discovered and adjusted, taxpayer are reached out through email, letters, calls and/or pamphlets. Penalties are applied without any consideration for imprisonment.

239. In FY2017-18, SRB selected 102 cases for audit, and it has completed 79 by 31st May 2019. The cases selected mostly comprised of 12-month audited period of July 1st, 2016 to June 30th, 2017. For FY2018-19, SRB selected 92³⁵ cases and it has completed 66 through 31st May 2019. The cases selected for FY2018-19 comprises of varying audited periods. During these two fiscal years, out of the 194 cases selected, 145 have been completed, and out of the Rs. 7,198 million detected to have been unpaid, so far Rs. 243 million has been recovered.³⁶

	FY 2017-18 (As of May 31, 2019)	FY 2018-19 (As of May 31, 2019)	Total/Average (As of May 31, 2019)
Units (cases) selected	102	92*	194
Units (cases) completed	79	66	145

³⁴ Tax Perception and Compliance Cost Surveys: A Tool for Tax Reform, IFC, 2011

³⁵ In 12 audit cases Sindh High Court granted stay order against audit proceedings

³⁶ Sindh Revenue Board Source

Completion rate	77%	71%	74%
Amount detected	Rs. 4,555 million	Rs. 2,643 million	Rs. 7,198 million
Amount recovered	Rs. 203.123 million	Rs. 39.605 million	Rs. 242.728 million

240. SRB currently undertakes audits following the guidance of its 2016 compliance program and are working on cases selected based on risk parameters. Being the entity that collects majority of the Sindh government revenues and given that so far it has completed the majority of planned audits, the rate for this dimension is C.

Dimension rating = C

19.4. Revenue arrears monitoring

241. Revenue administrations need to have a critical focus on the management of arrears to ensure that debts owed to the government are actively managed and that appropriate processes are adopted focusing on expediting the payment of collectable debt. This will ensure that revenue administrations maximize the collection of arrears before they become uncollectable and do not send a signal that not paying taxes is acceptable.

242. The management of arrears at the ETNCD is done manually and these are monitored by the responsible Excise and Taxation officers. The collectable debt is recovered through the normal tax payment channel under the supervision of the relevant ETNCD Director.

243. At the SRB, the arrears are recorded after an audit or an assessment from the day a recovery order has been sent to the taxpayer. The stock of arrears will include the principal defaulted amount, the penalty and the default surcharge (calculated at the time of payment). The arrears are managed manually, and these are monitored and recovered by the relevant operational sector units and supervised by the commissioner and member for operations. The management of revenue arrears is not classified on the level and age and reports are produced on a case-by-case basis. The collectable debt is recovered through the normal tax-payment channels.

Table 3.22 shows the stock of arrears of SRB for FY2017-18.

Additional Tax/Surcharge/Others	Arrears	Penalty / Fine	Sales Tax on Services	Grand Total
1,410,325,330	5,218,790,804	94,446,102	51,732,753,699	58,456,315,935

244. The other two revenue authorities have no information available on the stock of revenue arrears at the end of the last completed fiscal and none of the revenue authorities have information on revenue arrears older than 12 months. Given that information available is not sufficient, this dimension is rated D*.

Dimension rating = D*

PI-20. Accounting for revenue

245. This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the provincial government. The central agency is Finance Department Government of Sindh. Time period: at the time of assessment; Coverage – PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-20 Accounting for revenue	C+	Scoring method (M1)
20.1 Information on revenue collections	A	FD website provides monthly information on revenue collection
20.2 Transfer of revenue collections	A	Entities collecting most of the provincial government revenues use the Treasury account for the revenue collection. The amount of collection outside the treasury as identified by the Revenue receipts audit was relatively small as compared to total revenue collection
20.3 Revenue accounts reconciliation	C	Monthly reconciliation of tax and non-tax collection and transfer takes place but not of the assessments and the arrears.

20.1. Information on revenue collections

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

Dimension rating = A

20.2. Transfer of revenue collections

247. Sindh government’s own source revenues include tax and non-tax receipts which are collected under the following standing arrangements:

- a. Deposits made against challans (receipts) in the banks nominated by Government and/or State Bank of Pakistan
- b. Collection at departmental level and its onward deposit into the nominated banks and the Provincial Non-Food Account-I
- c. Revenues resulting from deduction at source from employees/vendors.

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

249. Revenue paid at departmental level is required to be deposited the next day. At source deductions by the District Treasury Officer/District Accounts Officer (DTO/DAO) against the payment claims from employees/vendors are realized by charging it to the relevant budget and to respective revenue head in the GFMIS.

250. The audit reports provided by the DG receipts do not cover the mechanism of revenue collection outsourced to the private sector, though the size of revenue collection is relatively small. Audit reports identified the inefficiencies in the tax collection, but these did not include findings on the delay of the transfer of those revenues not collected through the Treasury Accounts. The State Bank of Pakistan submits a daily cash position to the Finance Department, providing the cash balances in the accounts to facilitate decision-making with regard to cash releases. The dimension is rated 'A'.

Dimension rating = A

20.3. Revenue accounts reconciliation

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

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

Dimension rating = C

PI-21. Predictability of in-year resource allocation

253. This indicator assesses the extent to which the central MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. Time period: at time of assessment for PI-21.1, and for PI-21.2 to 4 it is the last completed fiscal year. Coverage: Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-21 Predictability of in-year resource allocation	C+	Scoring method (M2)
21.1 Consolidation of cash balances	C	Account reconciliations are only done once a month, and some funds may remain outside the Government Account and are not reconciled.
21.2 Cash forecasting and monitoring	C	The cash forecast is provided for the full year but only 25% of total revenue is updated on a monthly basis.
21.3 Information on commitment ceilings	B	Budgetary units are provided information on commitment ceilings <i>at least quarterly</i> in advance.
21.4 Significance of in-year budget adjustments	C	There are significant in-year budget adjustments to budget allocations which are frequent as well as partially transparent.

254. The Sindh Government primarily relies on Federal Government transfers for revenue. During FY 2017-18, out of total revenue Rs. 783,252 million, Federal transfers were Rs. 592,482 million (75.64%), while the provincial revenues were Rs. 190,770 million (24.36%). Federal tax revenues are often over-projected and the actual tax collections fall short of the targets year on year³⁷. Therefore, predictability of majority of their resources is difficult for the provincial governments.

255. The provincial government uses Account I for provincial taxes, while systems of cash forecasts have been developed by the Resources Wing in the Finance Department. However, some systems are lagging, resulting in considerable in-year adjustments to the budget.

21.1. Consolidation of cash balances

256. The Provincial Consolidated Fund of the Government includes Account I (Non-Food), which is the main budgetary account for the government and all revenues are recorded in and expenditures for the Government are made from that account. All project accounts including foreign and local (Assignment accounts) are part of the Account I.

257. Account II is to capture the financing for the commodity operations carried out by the government, usually the purchase of wheat. Account III is for the funds collected through Zakat (compulsory religious contribution to the poor). All government accounts are maintained at the State Bank of Pakistan.

258. The accounts are linked in the GFMIS and maintained by the District Accounts, District Treasury and the Provincial AG office. Daily cash balance position is prepared based on the inflows and outflows reported by the State Bank taking into account the intergovernmental adjustments. The net flows are accounted for against the opening balance to arrive at the daily cash balance.

259. Some accounts for autonomous entities are maintained separately. A legal provision is granted by the Parliament for autonomous entities or a local government entity (e.g., Talukas) to maintain a separate

³⁷ PEFA indicators on revenue outturns

account, either in NBP or a commercial bank duly notified by the Government. These accounts are not part of the Provincial Account I and not reconciled at the end of the year. The transfers from Account I to these accounts are booked as expenditure on the system – detailed expenditure is not known. Given that all accounts (other than the ones for autonomous entities) are part of Account I, consolidation of cash balance takes place on daily basis while accounting reconciliation happens once a month.

260. While Assignment Accounts are part of the Account No. I, they are separately maintained in the authorized Branch of the National Bank of Pakistan and the operations are managed by the respective Project Offices. Although most projects are not integrated with GFMIS for system-based consolidation, a variety of measures have been adopted to integrate in-country project expenditure in the government’s fiscal operations. MoF amended the procedures and has designated a special Sub-Fund Identification Number upon establishment of the account. The individual sub account together constitutes a single but separate account (sub account) under the Account No. I (Non-Food) held with the State Bank of Pakistan (SBP). The transactions against individual assignment accounts are recorded and reported along with the other Government balances to SBP on daily basis. The balances of such accounts are reported in SBP’s daily report of the consolidated balances of the Provincial Government Account along with other Government balances to the Provincial Government (Finance Department/Provincial AG).

261. The government does not have a Treasury Single Account³⁸ (SBP, 2019). Some of the extra-budgetary units are not linked to the government accounts and the SBP cash position does not include deposits of government entities in the scheduled banks. However, since most of the cash balances are consolidated on monthly basis, this dimension is rated ‘C’.

Dimension rating = C

21.2. Cash forecasting and monitoring

262. The Resources Wing of the Finance Department prepares cash forecasts on a pro-rata basis. This typically includes taking the annual projection (of both Federal transfers and provincial revenue) and dividing it by the number of months. The Federal Government only provides the total budgeted transfer for the year for the provincial government which the provincial government expects in bi-monthly instalments. The transfers in the shape of share of HLG by the Federal Government accounts for almost 75% of the revenues, therefore, the forecasting mainly focuses on Federal transfers. For provincial revenue, the cash forecast is updated monthly based on annual forecast updates provided by the Excise and Taxation Department (ET&D), Board of Revenue, and the Sindh Revenue Board. This is obtained through monthly accounts. As the cash forecast is provided for the full year but only 25% of total revenue, which in this case is the province’s own source revenue, the score is ‘C’.

263. There is a reform currently in progress that is to use the three-year historical trend to predict cash availability, including forecasting Federal transfers (since the actual transfers vary from the budgeted transfers). However, this system has not yet been operationalized within the government.

Dimension rating = C

³⁸ State Bank of Pakistan press release on TSA <http://www.sbp.org.pk/press/2019/Pr-17-Apr-19.pdf>

21.3. Information on commitment ceilings

264. The Finance Department uses a mechanism of releases for different type of expenditure. All salary expenditure is released *at the beginning of the fiscal year for the entire year*. Other recurrent expenditure, except acquisition of physical assets and some other procurement related items, *are released quarterly by the Finance Department*, allowing line departments and other government entities to incur recurrent expenditure up to the limit of the release. For development projects and some one-off or acquisition expenditure under the current budget, releases are authorized on a need basis. These line departments and spending entities prepare release requests that are submitted to the Planning and Development Department (for development projects) and to Finance Department for clearance to incur the expenditure. Most project releases *are made by quarter*, and releases for specific current line items (e.g., purchase of physical asset) are made for that specific item.

265. The release system is not very transparent for development projects. During periods of cash constraints, there is no explicit prioritization communicated to the departments and which releases are issued and which are delayed is at the discretion of the Finance Department.

266. Since Budgetary units are provided information on commitment ceilings *at least quarterly* in advance, therefore, this dimension is rated ‘B’.

Dimension rating = B

21.4. Significance of in-year budget adjustments

267. Rules and regulations for in-year budget adjustments are specified in the General Financial Rules and the Systems of Budgetary Control. There are frequent in-year changes to the budget approved by the parliament and there are no set intervals of time during the year in which the budget adjustments are entertained by the Finance Department. Usually requests for changes to the original budget by the line departments are frequent and during the year, reflecting either constantly changing political priorities or lack of adherence to the budget preparation process. These changes are validated by a supplementary budget that is tabled for approval alongside the annual budget for the subsequent year. The amounts under the Supplementary budgets for years 2016-17 and 2017-18 are in Table 3.23.

Year	Supplementary Budget (PKR Million)	% of original budget
2017-18	110,653	12.95%
2016-17	126,082	17.05%

Source: Budget 2018-19 (for Supplementary 2017-18) and Budget 2017-18 (for Supplementary 2016-17)

268. The in-year changes to the budget are recorded in the GFMIS system after being approved by the Finance Department. However, while the rules specify that the changes to the budget should be done only in extenuating circumstances, the frequency and the volume of in-year budget changes indicates that the challenge function at the Finance Department is lacking, as is the ability of the line departments to correctly develop their budgets.

269. Since there are significant in-year budget adjustments to budget allocations which are frequent as well as partially transparent, therefore, this dimension is rated as C.

Dimension rating = C

PI-22. Expenditure arrears

270. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. For 22.1 the time period is the last three completed fiscal years (2015/16, 2016/17 and 2017/18) and for 22.2 at the time of assessment. Coverage is Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-22 Expenditure arrears	D	Scoring method (M1)
22.1 Stock of expenditure arrears	D*	The Government currently does not have a practice of commitment accounting. As a result, Sindh Government does not have a mechanism to centrally record and monitor expenditure arrears.
22.2 Expenditure arrears monitoring	D	

271. Arrears are overdue debts, liabilities, or obligations. They constitute a form of nontransparent financing. Expenditure payment arrears are expenditure obligations that have been incurred by government, for which payment to the employee, retiree, supplier, contractor or loan creditor is overdue (PEFA Framework, 2016).

272. There is no mechanism to centrally record expenditure arrears at the end of the year. Some line departments may have a stock of their expenditure arrears at the end of the fiscal year, but there is no requirement by the Finance Department or the Accountant General's office to record this stock of arrears. While in-year arrears are incurred, as payment delays to contractors may be experienced, these are not recorded at the end of the year, and line departments need to budget for it in the next budget, or request for it through supplementary grants.

22.1. Stock of Expenditure arrears

273. There is no centralized mechanism in the Sindh Government for maintaining a stock of arrears. It is therefore not possible to ascertain what is the total stock of expenditure arrears.

Dimension rating = D*

22.2. Expenditure arrears monitoring

274. Limited monitoring may be conducted by line departments on an individual basis for their specific expenditure arrears, but no formal reports are maintained or published. As no reports are published on arrears by the Government, this dimension is scored 'D'.

Dimension rating = D

PI-23. Payroll controls

275. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. It does not consider wages for casual labor and discretionary allowances that do not form part of the payroll system, which are included in the assessment of non-salary internal controls (PI-25). The time period for Dimensions 23.1, 23.2 and 23.3 is at the time of assessment and for Dimension 23.4 it is for the last three completed fiscal year (2015/16, 2016/17 and 2017/18). Coverage is Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-23 Payroll controls	B+	Scoring method (M1)
23.1 Integration of payroll and personnel records	A	The system of payroll and personnel records is integrated and reconciled monthly.
23.2 Management of payroll changes	A	Robust internal processes guide the management of internal payroll changes.
23.3 Internal control of payroll	A	There are several internal control mechanisms on the payroll, including pre-audit of any changes, and limited access to the system. In addition, authorization and basis of changes in personnel record has been specified in General Financial Rules and APPM.
23.4 Payroll audit	B	Payroll is audited annually as part of certification audit but in-depth audits on the payroll are conducted through compliance audits, which are conducted for only a few departments annually. AG Office also has a monitoring unit which reviews the expenditure on annual basis.

276. In Sindh, compensation of employees and related expenditure comprise 14% (Rs. 237,341.64 million out of a total expenditure of Rs. 862,367.21 million during FY 2017-18)³⁹ of the total expenditure of the government on average over the past three fiscal years. The payroll for Sindh Government covers more than 500,000 employees. Mechanisms are available to manage and monitor payroll and ensure that it is up to date and ensure that there are no financial irregularities.

³⁹ Audited Financial Statements (2017-18), Government of Sindh

23.1. Integration of payroll and personnel records

277. Sindh Services and General Administration Department creates and maintains the personnel records. In addition, respective administrative departments also maintain a copy of their personnel records. In the case of a staff position created during the year, the positions are adjusted in the supplementary budget.

278. The payroll maintained by the Accountant General (AG) Sindh is the de facto personnel record. The personnel records are maintained in HR MIS module of the GFMIS. For any new appointment, the line department provides the information to the AG office through the FO-1 form which has the fields that match the GFMIS. When related payroll data is entered into GFMIS, a unique personal number is created, through which all information regarding the employee can be tracked. The rules for management of personnel and payroll are identified in the Accounting Policies and Procedures Manual (APPM) (section 4.6).

279. Checks of the payroll data is done under the monthly reconciliation process are performed by the DDOs and AG Sindh to produce reconciliation statements. The reconciliation must be completed before the 15th of the following month (before the start of the preparation of next month's accounts) and reconfirmation of the payroll are within the checks performed as part of the reconciliation.

280. Most of the checks on personnel and payroll are through the GFMIS (including pay scale revisions, and age checks for retirement). However, the checks on whether a new hire or an update to the personnel records has been done correctly is done manually by the AG office when the FO forms are submitted. As the system of payroll and personnel records is integrated and reconciled monthly the score is 'A'.

Dimension rating = A

23.2. Management of payroll changes

281. Changes to the payroll are made through FO-2-6 forms that are submitted to the AG office. The relevant section in AG office carries out the pre-audit checks, by reviewing the relevant documents and evidence. Usually updates to the payroll are made within the day and the payments as per the updated payroll are made in the next pay run. Some cases may be stuck in legal battles and therefore once the clearance is received from the line department through the FO form, the updates are made to the payroll and retroactive payments may be made. However, such cases are rare as table 3.24 shows.

Year	Total Payroll Expense (In PKR)	Retroactive Adjustments (In PKR)	% of Adjustments
2017-18	367,895,753,745	9,565,289,597	2.6

282. Since retroactive adjustments are less than 3% percent of the total salary payments and payroll changes are updated on a monthly basis, this dimension is rated as A.

Dimension rating = A

23.3. Internal control of payroll

283. There are well-defined processes for updating the payroll. These processes are specified in the Accounting Policies and Procedures Manual (APPM) and are outlined in the Standard Operating Procedures (SOPs). The approval for FO-1s go up to the Deputy Accountant General and there is a paper-based and system-level audit trail. The GFMS system captures all the changes to the payroll through its logs. The paper submissions and approvals are also scanned and saved electronically. In addition, General Financial Rules and APPM clearly define the basis for changes in personnel record as well as payroll.

284. There are designated staff that only have access to the system to update the payroll. These are Assistant Accounts Officers and Key Punch Officers (KPOs). At the district level, district accounts officers (DAOs) and Assistant District Account Officers (ADAOs) can make the changes as well. Further checks to the payroll are provided through the Monitoring and Evaluation Cell in the AG office. As the authority to make changes is restricted and results in an audit trail the score is 'A'.

Dimension rating = A

23.4. Payroll audit

285. The Auditor General of Pakistan (AGP) office carries out certification audit every year and payroll checks are conducted as part of the certification audits. These audits are usually completed by 15th October, and by 31st December the AGP's report is submitted. The coverage of the certification audits is comprehensive, encompassing all provincial government entities. Some government entities are selected for compliance audit and a more in-depth audit of their finances and procedures are carried out. These entities are identified every year through the Audit Plans. In addition, Sindh AG also conducts system-based checks. The design and methodology of this audit ensures objectivity and independence during audit.

286. Given the rigorous checks and automation of the payroll, there are few audit findings on the payroll. Some cases of ghost workers and data gaps may be identified, primarily through compliance audits. However, errors on the payroll are diminishing. Audit findings on the payroll are shared with the relevant department and the AG office and AGP officers follow up to ensure that the errors or gaps are addressed. Compliance is recorded in the system. Usually, the errors are solved through the Departmental Accounts Committees (DAC), otherwise they are raised in the parliament to the Provincial Accounts Committee (PAC).

287. Since payroll audit of all provincial government entities has been conducted once during the last three years, the scoring for this dimension is B.

Dimension rating = B

PI-24. Procurement

288. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, with an emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. Time period is last completed fiscal year (2017/18), and coverage is Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-24 Procurement	B+	Scoring method (M2)
24.1 Procurement monitoring	A	Spending units have all relevant procurement records available. These records were independently verified by assessors
24.2 Procurement methods	B	Majority (70%) of the procurements followed competitive process.
24.3 Public access to procurement information	B	Five of the six listed requirements are met for majority of the procurements.
24.4 Procurement complaints management	B	Complaint mechanism meets five out of six requirements including criterion 1.

289. In accordance with the measurement guidance, five (5) PG departments namely: (i) Education; (ii) Works and Services; (iii) Irrigation; (iv) Public Health Engineering and (v) Health Departments were selected as they had the largest gross annual expenditure commenced in the FY 2016-17. To further streamline assessment, 10 large procurements of various natures like purchase of Goods, Civil Works and hiring of Consultant in each of selected 5 PG departments were identified and examined against the indicators of PEFA as per Checklist.

290. Sindh Public Procurement Regulatory Authority (SPPRA) is an autonomous body established under Act of Provincial Assembly of Sindh. Since its inception, SPPRA has been striving to establish procurement function across the Province and policy, procedure, accountability and controls for addressing all kind of procurements are in place. SPPRA is also focused on revitalizing its website with recording and following up complaints on a real-time basis.

24.1. Procurement monitoring

291. With each government department, procurement is undertaken at a spending/budgetary unit level that maintains all procurement records. Database of procurements over Rs. 100,000 is maintained in Sindh

Public Procurement Regulatory Authority – Procurement Performance Management System (SPPRA-PPMS) (<https://ppms.pprasindh.gov.pk/>). However, for procurements through alternative procurement methods, comments or technical inputs on use of alternative procurement methods, may be elicited from the concerned Administrative Department.

292. Databases or records are maintained by all Procurement Entities (PE) for these selected activities and all departments have the information available on what was procured, value of procurement and who was awarded the contract. These line departments are bound under GFR 17 to retain all records for audit by the Auditor General of Pakistan. SPP Rule 9 also bounds the Departments to maintain all procurement related documentation for at least five years. As the data available was checked and verified and was found accurate and complete for most of the Procurements of Goods, Works and Consultancy services, the score is ‘A’.

Dimension rating: A

24.2 Procurement methods

293. Sindh Public Procurement Rules, 2010 (SPPR-2010) stipulates open bidding competition as the default method of procurement and offer various methods of Procurement for Goods, Services and Works keeping in view sensitivities and peculiarities attached with the Procuring Entity and with the nature of procurements. Section 4 of SPPR-2010 mentions that all procurement shall be conducted in a fair and transparent manner and the objective to achieve value for money. Rules 15(1) and 46 SPPR-2010 also declares competitive bidding as a default method. SPPR-2010 also gives provision of exemptions from adherence to full or some clauses of SPPR-2010 rules under its Section 16 which have to be provided in written form by the Procuring Entity.

294. With the examination of various forms of procurements occurring in the sample 5 PG departments, 10 large procurements selected in each of them were done through open competitive bidding. Procurement Entities have followed all the prerequisites for competitive bidding: public advertisement, notifying procurement committees, evaluation of bids, award of contract, contract management, work completion certificate etc. and have maintained all relevant transactional record with them for Audit consumption.

295. Exemptions to competitive bidding process are only provided through the competent authority and such record is maintained in the relevant files on a case-by-case basis. Similarly, AG/DAO can be consulted to get an idea of procurements by Procuring Entities by examining payment vouchers received. but that would require examination and verification sections as this information would not be readily available on the system.

296. Authority when consulted said that 80% of procurements are conducted through open competition. This percentage was based on publication of bidding opportunities in newspapers; which it tracks on daily basis, with almost 100% coverage. However, no absolute information on absence of exceptions was provided. The sample, representing procurements completed through Rule 15 and 16 (a through e) for Goods and Works and 72 (4) for Consultants, meets the 70% criteria and may be rated accordingly and therefore, the score is being rated a ‘B’.

Dimension rating = B

24.3. Public access to procurement information

297. The requirements for assessing this dimension are presented in Table 3.25. Legal and regulatory framework exists in the form of SPPR-2010 with the full-fledged Authority ensuring compliance to its various provisions and rules.

298. Field assessment of 5 selected PG Units has confirmed the availability of procurement plans in their respective sections. Some of units have also posted their Annual Procurement Plans on the Authority's and their own websites. In PPMS, it is mandatory to create annual procurement plan first, otherwise procuring agencies would not be able to advertise NITs, BERs and Contract Award information, as these have been interlinked in the system.

Element/ Requirements	Met (Y/N)
Legal and regulatory framework for procurement	Y
Government procurement plans	Y
Bidding opportunities	Y
Contract awards (purpose, contractor and value)	Y
Data on resolution of procurement complaints	Y
Annual procurement statistics	N

299. According to Section 17 (2) of SPPR-2010 Rules, all the PEs are legally bound to advertise their bids in the print media, appearing in at least three widely circulated leading dailies of English, Urdu and Sindhi. The PEs are also bound to post bids on PE's and SPPR's website in accordance with Section 17 (4) and Section 17 (1), respectively. Similar practice of compliance has been observed in sample 5 PGs, where bids have been publicly disseminated in local newspapers, PE's website, and SPPR's website.

300. The PGs selected are maintaining the procurement records pertaining to nature/purpose of procurement, value of procurement and details of contractor. Information on the websites of SPPRA and PE, which is compulsory as per Section 45 of SPPR-2010 rules, is being uploaded. All procuring entities have systematically maintained procurement record. Sindh Transparency and Right to Information Law 2016 fully assists any interested party to access the relevant information once a contract is awarded. The SPP Rules 10 and 50 requires procuring agencies to upload the contract documents on the Authority's website and that of the procuring agency within seven days of award of contract.

301. SPPR-2010 addresses the queries forward by the PE or bidder pertaining to ongoing procurement and keep a record of such addressed queries in its files. A Review Committee has been constituted under Section 32 of SPPR-2010 rules. Decision of Committee are available on the SPPRA's website and are also published in the SPPRA's newsletter. As 5 of the 6 criteria have been met, the score is 'B'.

Dimension rating = B

24.4. Procurement complaints management

302. The requirements for assessing this dimension are presented in Table 3.26. The decisions pertaining to procurement are made by the Procurement Committee instituted for the purpose by the PE; though they can seek guidance from Authority in the form of advice through formal official correspondence. However, SPPRA is not a party to any procurement transactions.

Table 3.26: Requirements for assessment of Dimension 24.4 and evidence used	
Element/ Requirements	Met (Y/N)
Complaints are reviewed by a body which:	
1. Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Y
2. Does not charge fees that prohibit access by concerned parties	Y
3. Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Y
4. Exercises the authority to suspend the procurement process	Y
5. Issue decisions within the timeframe specified in the rules/regulations, and issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	N
6. Issue decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Y

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

304. Rule 31 of SPPR-2010 gives detailed procedure of Grievances Redressal Mechanism with the following highlights:

- a) Two tier grievances mechanism is established where complaint is filed with PE and filing of appeal against the decision of the PE in accordance with the prescribed procedure; and
- b) The decision of the Authority on Appeal shall be final.

305. So far, procedure prescribed for the Complaint Resolution is not commonly known to all the PE's; however, complaints lodged by bidders to Authority are responded to accordingly. As procedure for Grievance Redressal Review (GRR) are not notified; therefore, views of Authority are considered as 'Advice', which are not binding unless actions of PE are in total violation of SPPR-2010 Rules. The Authority is of view that advices are fully complied by PE's. The evidence for adherence to timelines for complaint resolutions could not be obtained.

306. Authority's decisions on appeals are final however it does not preclude PA's rights to access other higher legal authorities. As the procurement complaint system meets criterion 1 and 4 others the score is 'B'.

Dimension rating = B

PI-25. Internal controls on non-salary expenditure

307. This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. Time period is at time of assessment, and coverage is Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-25 Internal controls on non-salary expenditure	B	Scoring method (M2)
25.1 Segregation of duties	A	Appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down albeit slightly outdated.
25.2 Effectiveness of expenditure commitment controls	C	Budgetary checks and releases are the primary tools of commitments controls. Releases help with cash management, but at times are used at the discretion of the Finance Department without any adequate communication to the line departments. Line departments also use releases for payment management and do not restrict commitments as per the releases.
25.3 Compliance with payment rules and procedures	B	Payment rules and procedures are clearly outlined, and the AG office has its own SOPs and checklist to follow the rules. Compliance is also strong against these rules and is checked regularly through audits and inspection visits by the CGA.

308. In the Government, elaborate internal control mechanisms exist covered by extensive financial, treasury, and budgeting rules. No expenditure can be incurred from the provincial consolidated fund without approved budgetary allocation. Budget allocation serves as the first key control ensured through pre-audit and the budget check feature in GFMS for non-salary expenditure. Indication of the source of appropriation in the sanction to expenditure is mandatory. The Government has a definite bureaucratic structure in place with regards to financial management, which plays its part in internal controls. However, at times, the rules and procedures may be outdated, elongating processes unnecessarily in the age of technology and faster communications, causing delays and blurring of responsibilities between different tiers of government, and different individuals.

25.1. Segregation of duties

309. There are eight key steps required to be followed in all expenditure transactions, under the APPM: (a) sanction of expenditure, (b) preparation of claim voucher (bill) for payment (except for salaries and

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

310. The APPM also presents a comprehensive process flow model in respect of major categories of expenditures. In order to exercise effective control over expenditure, the roles and responsibilities are assigned as follows:

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

311. Segregation of financial powers are defined under Sindh Delegation of Financial Powers and Financial Control Rules⁴⁰ as well with clear demarcation for authorizing payments up to different amounts.

312. The non-salaried expenditure for centralized accounting entities entail double-checks (i.e., a process for preparation and approval of payment bills at departmental level) as well as an extensive pre-audit at the AG/DAOs. In both streams, payments are processed under a well-defined and segregated scheme of assignments. Additionally, the delegation of financial power rules delineates the categories of officers and expenditure-sanctioning competencies. These policies and procedures and other rules have detailed provisions on segregation of duties for the core business processes related to authorization, recording, custody of assets, reconciliation, and/or audit. At the AG/DAOs, the segregation of duties prior to issuance of checks includes data entry level (Level 0) and 3 levels of pre-audit.

313. Other segregation of duties, to avoid conflict of interest and minimize possibilities of rent-seeking, are defined in the General Financial Rules, Sindh Financial Rules, Procurement rules, and Treasury Rules.

314. Pre-audit checks and compliance audits verify whether the systems laid down are being followed.

315. Since appropriate segregation of duties is prescribed throughout the expenditure process and responsibilities are clearly laid down, therefore, this dimension is rated as A.

Dimension rating = A

25.2 Effectiveness of expenditure commitment controls

316. Expenditure commitments are identified through the budget allocations and through the releases. Releases are issued quarterly for most current and development expenditure, and for some withheld expenditure items and projects, as per requests by the line departments or the spending entities. Payroll is released for the entire year at the beginning of the fiscal year.

317. Releases are issued in order maintain a check over expenditure but primarily as a cash management tool. However, at times release may not be completely effective as a cash management tool and sometimes releases are issued despite not having adequate cash, through the overdraft facility of PKR 20 billion given to the Sindh Government by the State Bank. Prioritization of release in face of a cash shortage is not

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https://fd.sindh.gov.pk/elfinder/connector?_token=&cmd=file&target=fls2_TWlZyY5JbmZvcm1hdGlvbi9TREZQMjAxOS5wZGY

transparent and it is at the discretion of the Finance Department. Line Departments also do not limit commitments by the budget allocation and rely on supplementary budgets.

318. GFMIS also has a budget check that will not allow expenditure to be recorded higher than the allocated amount. There is also some piloting of commitment accounting in one Divisional Accounts Office, but that is in its nascent stages.

Dimension rating = C

25.3. Compliance with payment rules and procedures

319. There are defined procedures for payments, which are outlined in GFR, SFR, APPM, and Treasury Rules. SOPs are also available for issuing payments at the AG Office. The AG office has also developed comprehensive checklist against which pre-audit is conducted before payments are made.

320. Compliance with payments rules and procedures is followed thoroughly and is often verified through certification and compliance audits by the AGP, as well as through the pre-audit processes at the AG Sindh office. CGA office also does spot checks in the provincial AG offices and an internal inspection once a year to ensure that rules and procedures are being followed. Assignment accounts are not entirely compliant with the payment rules and procedures, identified in the Treasury Rules and notifications of revised procedures (2013, 2018).

321. For assignment accounts, bank reconciliation with ADO is done by project. However, monthly statements (vouchers) to be submitted to AG by project directors for pre-audit purposes is not done. Post audit is mandatory and is usually conducted but not for all payments. In many cases vouchers are not presented or too many vouchers are presented by the project directors, making it difficult for the audit to be conducted adequately or in time.

322. As per the 2018 revisions to the procedures, dormant assignment accounts have been reported by AG office to FD to be closed.

323. Charter for internal audit has been developed for the Sindh Government, but it has yet to be rolled out for all the Departments in Sindh Government. Lack of a fully operational internal audit function throughout Sindh Government is raised as an audit observation every year by the AGP.

324. In the Annual Report of the Auditor General of Pakistan (2017-18), out of the total audited expenditure (Rs. 748,786 m), auditors recommended recovery of Rs. 71,456 m and Rs. 7,750 m against violation of rules and regulations as well as weaknesses of internal control. The statistics indicate non-compliance with the payment procedures. This anomaly subsists besides the existence of the pre audit function. Given the volume of the noncompliance in relation to the audited expenditure is 10.5 percent, the dimension is rated as 'B'.

Dimension rating = B

PI-26. Internal audit

325. This indicator assesses the standards and procedures applied in internal audit. The time period for Dimensions 26.1 and 26.2 is at time of assessment; for Dimension 26.3 it is the last completed fiscal year

and for Dimension 26.4 audit reports used for the assessment should have been issued in the last 3 fiscal years. Coverage is Provincial Government (PG).

Summary of scores and performance table.

Indicator/Dimension	Brief justification for score	
	2019	
PI-26 Internal audit	D+	Scoring method (M1)
26.1 Coverage of internal audit	B	Within Sindh Government, Internal audit function has been established. The internal audit coverage has been extended to entities representing majority of the expenditure and revenue in Sindh Government.
26.2 Nature of audits and standards applied	B	Internal Audit function is following International Internal Audit Standards Board (IIASB) as well as the provisions of Internal Audit Charter.
26.3 Implementation of internal audits and reporting	D*	Some audits have been undertaken by Internal Audit function through Chartered Accountancy firms, however, the reporting and implementation of internal audit recommendations were not available.
26.4 Response to internal audits	D*	Management's response and action on the internal audit recommendations could not be ascertained.

326. An internal audit function has a critical role in a Government's efforts for effective public service delivery. The shift from process to innovative value-addition is as needed in the public sector as it is in other spheres. Effective public sector governance requires heads of ministries/departments and accounting officers to discharge their responsibilities of stewardship of public resources by being open, accountable, and prudent in decision-making, and in managing and delivering results. The internal Audit function in Government is uniquely positioned to shape a risk-aware culture through innovative techniques and influence the behaviors of those around it. The scope of internal audit function should be to cover the systematic review and appraising and reporting on assurance that managerial, financial, operational and budgetary controls are adequate as per the requirements of the Government and operating satisfactorily.

26.1 Coverage of Internal Audit

327. The internal Audit function has been established under a Charter duly approved by the Sindh Government. The function is housed in the Finance Department However, in the Home, Health and School Education Departments, the function has been outsourced to Chartered Accountancy firms selected after due process. In addition, an Internal Audit Manual and Plan have been approved by the Departmental Internal Audit Committee (DIAC). The Internal Audit function has covered Expenditure amounting to Rs.

709,850 m (approx. 76% of total expenditures of Rs. 936,327 m for FY 2017-18). These include expenditures under Finance, Health, Home and School Education Departments including “Transfers to Local Finance” and “Annual Development Program” which are covered in Internal Audit plan for Finance Department. In terms of revenue, Internal Audit coverage was 70.66% (Rs. 592,500 m) of the total revenue amounting to Rs. 838,530 m. Review and reconciliation of Federal transfer was covered under the Internal Audit plan for the Resource Wing of the Finance Department. In terms of documentation for undertaking the Internal Audit activity, all the relevant documentation, including audit schedule, programs, reports, follow up letters and its presentation in DIAC was prepared by Internal Audit function for the areas in which it has conducted the audits to-date. As far as staffing is concerned, existing staff working in Home, Health and School Education Departments have been assigned to supervise the Internal Audit activity undertaken by Chartered Accountant firms on behalf of Internal Audit function. Recruitment is underway to have permanent staff carry out the Internal Audit function in these three departments. As most of revenue and expenditure is covered by the internal audit function the score is ‘B’.

Dimension rating = B

26.2 Nature of audits and standards applied

328. Internal Audit function follow the Standards for the professional practice of internal auditing issued by International Internal Audit Standards Board (IIASB) as well as the provisions of the province’s Internal Audit Charter. In addition, the impact of controls is analyzed and checked during follow up by IA regarding actions taken up by management in response to the observations raised by IA. In terms of whether those controls are sufficient and suitable to meet the intended objectives, IA first undertakes an analysis of the recommendations made in terms of its practical implementation and what results will be achieved before they are presented before the Management. Based on the Internal Audit reports produced by the chartered accountancy firm, the internal audit assessed the adequacy and effectiveness of systems of financial, operational and management controls and their operations in practice especially in relation to the risks ascertained by internal audit. For example, in case of Home Department, the Internal Audit function developed a risk based internal audit plan which was presented to DIAC for approval. The plan focused on the impact of controls instituted for the risks identified and whether their impact was consistent with the policy and operational objectives of the Home Department. Based on the responses given by the management, the Internal Audit function has a mechanism for constantly updating controls based on the results achieved.

329. Since the Internal audit activities follow IIASB standards and are focused on evaluations of the adequacy and effectiveness of internal controls based on a risk-based audit plan, this dimension is rated as B.

Dimension rating = B

26.3. Implementation of internal audits and reporting

330. Annual audit plans are formally approved by the DIAC, presenting the audit space and stating the areas to be audited selected using risk assessment based on established risk criteria. An audit calendar is also in the plan. IA has so far produced six reports, five reports were developed jointly by the outsourced firm, and IA while one report was exclusively developed by IA. Out the six reports, three have been discussed by DIAC. They are first discussed with the respective area head and then submitted to Secretary/Principal Accounting Office of the relevant Department, who reviews them, before being presented in DIAC and for discussion of the recommendation by IA and approval of requisite actions in light of the recommendations. However, the number of program audits as per the plan and their

reporting/implementation were not available for proper assessment by the PEFA team, therefore, a rating of “D*” is awarded for this dimension.

Dimension rating = D*

26.4. Response to internal audits

331. After the meeting of DIAC, follow up letters are circulated, and evidence is kept for future reference. The status of follow up action is presented before DIAC. Initial draft of the report is sent to the relevant department staff (through a noting sheet), who reviews it and provides comments, which are the discussed in a meeting with the Chief Internal Auditor (CIA), before finalization. If there is any disagreement by management regarding the internal audit observations, then, evidence is taken. Whereas, in follow up of the reports, evidence for corrective measure is taken for all the outstanding observations that were previously unresolved. However, management’s response and the actions based on the internal audit observations could not be ascertained. As a result, the D* score has been assigned to the dimension.

Dimension rating = D*



PILLAR SIX: Accounting and reporting

PI-27. Financial data integrity

332. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. The time period for Dimensions 27.1, 27.2 and 27.3 is at time of assessment covering the preceding fiscal year, and for Dimension 27.4 it is at time of assessment. Coverage for 27.1 is Provincial Government (CG) and for 27.2, 27.3 and 27.4 it is Budgetary Provincial Government (BCG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-27 Financial data integrity	D+	Scoring Method (M2)
27.1 Bank account reconciliation	D	The reconciliation process takes place monthly, however, all reconciliation statements include sizeable unidentified amounts.
27.2 Suspense accounts	D	The suspense account is reconciled monthly, however, there are un-reconciled balances in the DO Suspense Account for two months even after the close of Financial Year.
27.3 Advance accounts	C	Most advances are cleared in a month. The TA advances are cleared within a quarter after the close of the month (based on TA bill submission)
27.4 Financial data integrity processes	B	Detailed processes for ensuring integrity of the financial data are well-defined and a thorough audit trail is maintained. There is however no dedicated unit that oversees financial data integrity.

333. In Sindh, account reconciliations are frequent, between different stakeholders, including the State Bank of Pakistan, the District Accounts Officers, and the Cash Balance cell in the AGP office. Reconciliations at different levels of the government happen at different times.

27.1. Bank account reconciliation

334. A key accounting control mechanism is the reconciliation of the books of accounts. As stipulated in the Treasury rules and APPM, the National Bank of Pakistan (NBP) issues a daily return including the scroll and supporting evidence to the DAOs. For the DAO, the APPM stipulates daily checking of the bank scroll/return and monthly reconciliation of accounts.

335. In practice, the National Bank of Pakistan submits daily returns to the DAO and AG Sindh which includes the bank scroll. The scroll is checked by the relevant officer at the DAO and AG offices. The aggregate balances are reconciled, and misclassifications are addressed in the monthly reconciliation. NBP prepares a monthly designated branch statement and submits it to the DAO and AG offices on the 2nd working day after the close of the month. The DAO responds within 2 working days. Upon verification the balances are reported to the State Bank on the 6th working day. SBP consolidates the information received from various NBP branches and report to the provincial AG on the 8th working day after the close of the month. In case of any differences in the consolidated report of the SBP, the DAO/AG prepares the balance 'exception list' and report the differences within 2 working days. The entire process involves balance reconciliation.

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

Dimension rating = D

27.2 Suspense accounts

337. The APPM prescribes the practice and treatment/settlement of suspense accounts. Accordingly, the suspense accounts are to be cleared on monthly basis. However, transactions that relate to accounting for losses and recovery have a separate procedure. "In cases where the circumstances and ultimate amount of a loss is uncertain and the account for the financial year is still open, the amount shall be transferred to a suspense loss account pending the investigation" (APPM: 8.3.4.1).

338. The process of the suspense accounts reconciliation takes place monthly, however the outstanding balances are not cleared on timely basis. The data obtained from the Sindh AG office showed outstanding balances throughout the year in the suspense amount and unsettled for more than 2 months after the end of the year (2017-18).

339. Some of the transactions are reversed when recoveries are made during the fiscal year. However, the outstanding balance in the suspense loss account at the end of the year is charged to unrecovered losses (expense). The nature of transactions is such that settlement of account is contingent to recoveries. Though the nature of transactions does not create a risk for the government, as these relate to payments or receipts on behalf of other DAOs, this shows inefficiency in the practices adopted by AG office and DAOs.

340. Given that reconciliation of suspense account as a process takes place on monthly basis, and the 'DO Suspense account' record shows un-reconciled balances for more than two months after the close of financial year (2017-18), this dimension is rated as D.

Dimension rating = D

27.3. Advance accounts

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

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

343. The delay in reconciliation takes place in the interest free advance for traveling (TA) and instances were reported where the advance was not settled within the stipulated time (within 30 days after return). However, most advances are cleared within a month.

344. Given that reconciliation of advance accounts takes place annually, within two months from the end of the year and advance accounts are generally cleared with delay this dimension is rated as C.

Dimension rating = C

27.4. Financial data integrity processes

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

346. All changes in the background data for salary and non-salary transactions are made after written authorization of competent authorities and access on the GFMIS is restricted subject to the authority levels and changes made in the data leaves a trail for audit. Access on the GFMIS is by authorization and based on the level and nature of authorization. The CGA Office has notified three levels for data entry and authorization at Level 0, 1, and 2. Multiple levels of checks and balances are available within the AG Office and counter checked by the Director General Provincial Audit.

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

348. The paper trail of the transfer entries and the approvals is maintained, while SAP logs capture any electronic changes on the GFMIS system. Monitoring and Evaluation cell (MEC) of the AG office also

samples some entries to check any irregularities and errors, prior to the audit. However, there is no dedicated unit that oversees data integrity.

349. Given that access and changes to records are restricted and recorded, and results in an audit trail, this dimension is rated as B as there is no operational unit in charge of the process.

Dimension rating = B

PI-28. In-year budget reports

350. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. Time period is last completed fiscal year, and coverage is Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-28 In-year budget report	C	Scoring method (M1)
28.1 Coverage and comparability of reports	C	BERs (in-year budget reports) can be compared to the budget documentation at some level of aggregation, usually by departmental/grant level.
28.2 Timing of in-year budget reports	C	Budget execution reports are prepared quarterly and issued within 8 weeks from the end of each quarter. However, none of the above reports provide any quantitative analysis. They only provide outturn data
28.3 Accuracy of in-year budget reports	C	Data inconsistencies persist between the BERs and the monthly accounts, especially comparisons are difficult given the different levels of aggregation of the reports. Budget analysis is only published annually.

351. In-year budget reports (Budget Execution Reports (BERs)) are prepared by the Finance Department while the AG Sindh office issues monthly accounts. Both are used to measure the performance against the budget. The classifications of the BERs and the monthly accounts are often not fully aligned with the budget documentation but cover the same required information. Both Finance and AG Sindh publish their reports in different time intervals during the year, and the reports are not reconciled, till the end of the year.

28.1. Coverage and comparability of reports

352. Budget Execution Reports (BERs) are prepared by the Finance Department and are published quarterly and by Object and Functional classification. The AG office publishes monthly accounts within two weeks of the end of the month. Neither of reports has a breakdown of the expenditure transferred to autonomous units. BERs prepared by Finance Department can be compared to the budget documents at Departmental/Grant level and at major object classification. For the monthly accounts prepared by the AG office, comparisons can be made at cost center level. The monthly accounts prepared by the AG office are available to the different line departments. The aggregation in the monthly accounts by functional classification may differ during the year but are reconciled by year-end. As the coverage and classification of data is at the main administrative headings the score is C.

Dimension rating = C

28.2 Timing of in-year budget reports

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

354. Line departments have been provided with a GFMIS terminal and web-based access is available. However, owing to weak capacity at the Line Departments, the majority of the departments seek assistance from the staff of the FD and P&D Department for generating budget execution reports from the system available on the FD web portal. The Sindh Works and Services department submits monthly progress reports for review by the P&D Department, but it covers only the development budget.

355. The monthly civil accounts prepared by the AG Office are usually issued by the 15th of the next month. These monthly reports however are not published. The monthly accounts by the AG office are only shared with the Finance Department, CGA, and DG Audit Sindh. Monthly accounts provide the budget execution status along with the variance and are available online within four weeks after the end of the month.

356. The BERs of the Finance Department are produced quarterly, usually within 2 months from the end of the quarter. There is no legal or regulatory defined timeline for their production. While the reports produced by the Finance Department do not match the classifications used by the AG office reports, the total expenditure matches. Finance Department BERs are usually published by Object classification, while the AG office reports use functional classification. The Finance Department BERs are shared on the website and hard copies are submitted to the Parliament.

357. However, none of the above reports provide any quantitative analysis (commentary). They only provide outturn data; therefore, the dimension is rated as C.

Dimension rating = C

28.3. Accuracy of in-year budget reports

358. There are two issues regarding accuracy of in-year budget reports. The first relates to the deficiencies in commitment accounting and second is related to financial reporting of foreign-funded projects. For projects that have counterpart funding, object-wise data is available; however, for the foreign component, the project expenditure heads are not mapped out per the Chart of Accounts, undermining the expenditure reporting. Additionally, third party payments are not captured in their entirety owing to delays and at times non-submission of expenditure reports on formats issued by the CGA or Provincial AG Office. For some projects (umbrella schemes) a direct match with the budget execution is not possible because the umbrella schemes must be broken down at the DDO level when the project execution commences while the budget data in the ADP is provided at aggregate level. In addition, some inconsistencies remain in the BERs, as reconciliation with the monthly accounts issued by the AG office is not carried out. Different classifications for monthly civil accounts and BERs make it difficult to have a complete and thorough examination of the differences in the data.

359. Budget analysis reports are prepared and published annually, and no in-year analysis is published. There are issues regarding accuracy of in-year budget reports, but data is useful for analysis of budget execution. As expenditure is captured at least at payment stage, this dimension is rated as C.

Dimension rating = C

PI-29. Annual financial reports

360. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. The time period is last completed fiscal year (2017/18). Coverage is Budgetary Provincial Government (BPG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-29 Annual financial reports	C+	Scoring Method (M1)
29.1 Completeness of annual financial reports	C	Detailed information on revenues, expenditures and cash flows are presented, however, information on long-term commitments is severely deficient. Information on asset and liabilities is available on historical cost basis as method of accounting is modified cash basis of accounting.
29.2 Submission of reports for external audit	B	Submission of error free financial reports takes place within 6 months after the end of fiscal year.
29.3 Accounting standards	B	IPSAS cash basis accounting formats are used for compilation of financial statements and cover majority of the mandatory disclosures. Variations between international and national reporting standards are disclosed in the reports.

361. The AG office Sindh prepares the Annual Financial Reports/Accounts following a set timeline. The accounts are reconciled against the State Bank data and are audited annually by the AGP, through DG Audit Sindh. Annual financial statements are prepared using the IPSAS cash-basis format for financial reporting.

29.1. Completeness of annual financial reports

362. The financial reports for provincial government, the Annual Financial Statements (AFS), are prepared by the provincial AG. In addition, provincial AG also prepares the annual civil and appropriation accounts. The AFS are submitted to Auditor General for certification and opinion. With the adoption of NAM, modified cash basis of accounting is followed. However, accounting in practice is based on cash basis only. Therefore, commitment, asset and liability accounting practices are not yet implemented, and the financial statements do not include accrued receipts and liabilities. As the AFS does not include information on assets, liabilities, guarantees and obligations the dimension is rated 'C'.

Dimension rating = C

29.2 Submission of reports for external audit

363. The DG Provincial Audit issues a calendar of activities for certification of accounts that establishes a timeline for submission of annual financial statement. The calendar stipulates submission of draft annual financial statement by August 30 each year for a fiscal year that ends on 30th June. The Controller General of Accounts and the Accountant General Sindh must compile annual financial statements and submit them to the AGP within two months of the close of fiscal year⁴¹. First draft for finalization of accounts is submitted in August after the closure of financial year and the statements are finalized by DG Sindh Audit by the first week of December. Scrutiny of the process shows iterative submissions, and the error free annual financial statements are submitted within six months of the end of last fiscal year within 6 months of the end of the last fiscal year (2017-18) therefore this dimension is rated 'B'.

Financial Year	Date of Submission to AGP
2015-16 (Financial Year close on 30-Jun-2016)	16-Jan-2017 (submission after more than 6 months)
2016-17 (Financial Year close on 30-Jun-2017)	29-Dec-2017 (submission after 5 months and 29 days)
2017-18 (Financial Year close on 30-Jun-2018)	29-Dec-2018 (submission after 5 months and 29 days)

Source: Auditor General of Pakistan

Dimension rating = B

29.3. Accounting standards

364. The financial statements are prepared by the AG Sindh under the NAM and comply with the format of IPSAS cash-basis financial reporting. Majority of the international standards have been incorporated. The mandatory requirements for IPSAS Cash basis financial reporting are adopted for the preparation of

⁴¹ 3.2. Summary Financial Statements - Financial Reporting Manual

the statement of receipts and payment and the variance analysis. The Government of Sindh in its annual financial statement includes the following:

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

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

366. The commitment, asset and liability accounting practices are not yet implemented, and the reports do not include accrued receipts and liabilities. The standards not incorporated relate to the ‘Restrictions on Cash Balances and Access to Borrowings and the exchange rate differences for the opening and closing cash balances. As accounting standards follow the national standards which are related to international standards with appropriate disclosure, the score is ‘B’.

Dimension rating = B



PILLAR SEVEN: External scrutiny and audit

PI-30. External audit

367. This indicator examines the characteristics of external audit. Time period is the last three completed fiscal years. Coverage is Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	Brief justification for score	
	2019	
PI-30 External audit	D+	Scoring method (M1)
30.1 Audit coverage and standards	C	Financial reports of provincial government entities representing <i>majority</i> of total expenditures and revenues have been audited, using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant significant issues.
30.2 Submission of audit reports to the legislature	D	Audit reports were submitted to the legislature <i>after more than nine months</i> from receipt of the financial reports by the audit office for the last three completed fiscal years.
30.3 External audit follow-up	C	PAC follows up on the recommendations however a system to track formal responses by the Executive does not exist.
30.4 Supreme Audit Institution independence	C	The AGP's Directorates in Sindh operate independently from the executive with respect to procedures for appointment and removal of the AGP. They are also independent in terms of planning of audit engagements, and execution of the AGP's budget but not its approval. The AGP has unrestricted and timely access to records, documentation, and information for <i>most of the audited entities</i> .

368. The SAI is the primary institution in the country for supporting accountability, transparency, and good governance in public sector through its reports to the legislatures. It provides assurance on the fair presentation of financial statements of government and its entities by expressing independent audit opinions on them.

369. The Constitution provides for the position of the Auditor-General of Pakistan (AGP), the head of the SAI-Pakistan, to prescribe the forms in which government entities shall maintain accounts and to conduct external audits of government spending. The Auditor-General of Pakistan (AGP) is appointed under Article 168 of the Constitution of Pakistan for a fixed term of four (4) years. The role and responsibilities of the AGP are further elaborated in the AGP Act 2001. The Auditor-General is charged with the responsibility of auditing the accounts of the three tiers of government (Federal, Provincial and District) and the accounts of three types of organizations; those on the central accounting network, self-accounting entities budgeted by the government and public sector entities. The budget of the Auditor-General is classified as “charged” expenditure.

30.1. Audit coverage and standards

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

371. Under Article 170 (2) of the Constitution, the SAI has a mandate to conduct financial audit of the Federal and provincial governments and the accounts of any authority or body established under the control of the Federal and provincial governments. Following is the status of external audit for the audited accounts of FY 2016-17 (Audit year 2017-18)⁴².

⁴² *Annual Report 2017-18, Auditor General of Pakistan*

Table 330 .Summary showing the Number of PAOs, Cost Centers (Government of Sindh)

Audit Year	Financial Year	Government	Total No. of PAOs ⁴³	Total Cost Centers	Total Accounts Certified	Total Expenditure (Rs. in Billion)
2018-19	2017-18	Provincial Government of Sindh	40	10,634	03	936.327

372. Regarding Compliance/Regulatory Audit, following is the status of audit undertaken by DG Audit Sindh Provincial and DG Audit Local Councils Sindh:

Table 3.31: Compliance/Regulatory Audit coverage for Audit Year (2017-18)/Financial Year (2016-17)⁴⁴

Description	DG Audit Sindh Provincial (Covering Expenditure and Revenue)		DG Audit Local Councils Sindh	DG Public Sector Enterprises
	% of Expenditure Audited	% of Revenue Audited	% of Expenditure Audited	% of Expenditure Audited
Total Amount Audited (Audit Year 2018-19)	81%	44%	72%	76%

373. Financial Statements of the Sindh government are prepared by the Accountant General Sindh and after review by Controller General Accounts on the format of IPSAS Cash basis, they are presented to the Auditor General as part of Certification Audit process. The SAI developed and adopted a Financial Audit Manual (2006) which is based on International Standards for Auditing (ISA) 200. The SAI has also adopted policies and procedures in the form of working papers and specialized guidelines to support implementation of the FAM. After it adopted the ISSAIs as standards for public sector auditing, the SAI revised FAM to make it consistent with ISSAIs 1000-1810. FAM is, however, not consistently applied, for example, a) Working Paper are not properly maintained; b) the permanent files are not updated annually; c) compliance audit is not well integrated with the financial audit; d) Quality Assurance is not done at planning and execution stage of audit; and lastly while audited financial statements are published on the website, the detailed annual audit report is not.

374. AGP has issued instructions to all field audit offices to enhance the audit coverage by collecting data on the funds parked in commercial bank accounts by the entities.

375. Since Financial reports of provincial government entities representing majority of total expenditures and revenues have been audited, using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted relevant significant issues. Therefore, this dimension is rated as C.

Dimension rating = C

⁴³ Principal Accounting Officers in Government of Sindh

⁴⁴ Information taken from "Audit Report on the Accounts of Government of Sindh for the Audit Year 2018-19" and "Annual Report 2017-18, Auditor General of Pakistan"

30.2 Submission of audit reports to the legislature

376. The trend of Provincial Accounts and Audit Reports submission to the Sindh Provincial Assembly is presented in the following tables.

Fiscal Year ending 30th June	Manuscript of Accounts ⁴⁵ submitted by AG Sindh to DG Audit Sindh (I)	Accounts Submitted by CGA to AGP (II)	Accounts signed by AGP (III)	Certified Accounts submitted to the Sindh Governor (IV)	Certified Accounts received at the Sindh Provincial Assembly (V)	Time Taken from step II to V
2015-16	31-Aug-2016	16-Jan-2017	02-Feb-2017	10-Mar-2017	12-Mar-2018	1 Year and 2 months (approx.)
2016-17	31-Aug-2017	29-Dec-2017	29-Dec-2017	01-Mar-2018	18-April-2019	1 Year 3 months and 18 days
2017-18	31-Aug-2018	28-Dec-2018	29-Dec-2018	27-Feb-2019	Yet to be laid	Yet to be laid

Source: Auditor General of Pakistan

Audit Year	Fiscal Year ending 30th June	Compliance Audit Report submitted to the Sindh Governor	Compliance Audit Report received at the Sindh Provincial Assembly
2016-17	2015-16	10-Mar-2017	12-March-2018
2017-18	2016-17	01-Mar-2018	18-April-2019
2018-19	2017-18	27-Feb-2019	Yet to be laid

Source: Auditor General of Pakistan

377. For the purposes of this indicator the time taken for certification audit is when CGA submits the unaudited accounts to the AGP and then AGP submits the certified accounts to Governor Sindh and then Provincial Assembly. As per Clause 129 (1) of the Constitution of Pakistan, “the executive authority of the province shall be exercised in the name of the Governor by the Provincial Government, consisting of the Chief Minister and Provincial Ministers, which shall act through the Minister”.

378. The fiscal year closes on 30th June each year. Final accounts are prepared by 31st August each year. The statements are then submitted to the respective Director General Audit (in this case DG Audit Sindh) so that error free certificates on Appropriation Accounts from AG Sindh as well as DG Audit Sindh are submitted to the CGA. CGA then submits 6 copies of printed books of Appropriation Accounts and Financial Statements to AGP for certification. Upon receipt of financial statements from the CGA, the AGP signs off to Certify the Accounts of Sindh. It takes on average 9 months (starting from 1st September after the Accounts are submitted to respective DG for audit) for the SAI to complete the certification audit and submit the Certified Accounts to the Sindh Governor. Sindh Governor then sends the Certified Accounts to the Sindh Provincial Assembly ranging from 7 months to 1 year.

379. Two types of audit reports are submitted to the legislature- Compliance audit is the audit of the spending agencies with irregularities reported, while the certification audit is the audit of the annual appropriations accounts. The compliance audit is not subject to the finalization of accounts rather the audit

⁴⁵ Includes Manuscript of Appropriation Accounts, Finance Accounts and Financial Statements

of the spending agencies commences after the end of FY according to the audit plan of respective audit offices.

380. The PEFA Framework (2016) refers to financial reports in the criteria. For this dimension the certification audit is considered. The first draft of the financial accounts is submitted to DG Audit Sindh on 31st August each year, based on which the Certified Annual Accounts are submitted to the Sind Governor within 2 months after the receipt of accounts from CGA for FY 2017-18. However, certified accounts were submitted to Provincial Assembly after more than 9 months which provides a D score.

Dimension rating = D

30.3. External audit follow-up

381. The reporting cycle of compliance audit as per the Financial Audit Manual (FAM):

1. Development of Draft Audit Report (DAR)
2. Departmental Accounts Committee (DAC) meeting
3. Quality assurance review at DAGP
4. Audit report issued to President
5. Pre-PAC meeting with the AGP or Additional Auditor-General
7. Public Accounts Committee (PAC) Meeting

382. Upon completion of compliance audit, the audit recommendations are formally communicated to the concerned Drawing and Disbursing Officer (DDO) for response. The DDO is required to furnish replies to the audit recommendations. In case these responses are not accepted by the Audit authorities, then the responses become part of the Audit Inspection Report (AIR) and the report is submitted to the Principal Accounting Officer (PAO) for his/her consideration. The replies include Audit observations, Department's response and Departmental Accounts Committee (DAC) directive. The DAC is chaired by the PAO and concerned Director General Audit is also member of the DAC. In case of audit observations, in which evidence of compliance is provided, these are settled at the DAC level. The findings which do not form part of the audit report are issued as Memorandum for DAC (MfDAC). The audit observations, which are not settled or where audit is not satisfied with Executive's response, are included in the final audit report and submitted to the parliament. There is no systematic method of evaluating the implementation of recommendations. It is noted that the same types of audit observations identifying gaps in internal control are repeated each year. There is no audit management information system to track and highlight such cases. Therefore, this dimension is rated 'C'.

Dimension rating = C

30.4. Supreme Audit Institution independence

383. The Auditor General Pakistan (AGP) is a Constitutional position appointed by the President of Pakistan and enjoys complete independence during its tenure and autonomy in operational matters (Box 3.5). Article 161 and 162 in describing the functions and powers of the AGP authorizes it to audit federal and provincial government accounts or accounts of any entity established or under control of the federal or provincial governments.⁴⁶

Box 3.5: Constitution of Pakistan (1973)

Article: 168 Auditor-General of Pakistan

1) There shall be an Auditor-General of Pakistan, who shall be appointed by the President.

(2) Before entering upon office, the Auditor-General shall make before the Chief Justice of Pakistan oath in the form set out in the Third Schedule.

[(3) The Auditor-General shall, unless he sooner resigns or is removed from office in accordance with clause (5), hold office for a term of four years from the date on which he assumes such office or attains the age of sixty-five years, whichever is earlier.]

[(3A) The other terms and conditions of service of the Auditor-General shall be determined by Act of Majlis-e-Shoora (Parliament); and, until so determined, by Order of the President.]

(4) A person who has held office as Auditor-General shall not be eligible for further appointment in the service of Pakistan before the expiration of two years after he has ceased to hold that office.

(5) The Auditor-General shall not be removed from office except in the like manner and on the like grounds as a Judge of the Supreme Court.

(6) At any time, when the office of the Auditor-General is vacant or the Auditor-General is absent or is unable to perform the functions of his office due to any cause, **[the President may appoint the most senior officer in the Office of the Auditor-General to]** act as Auditor-General and perform the functions of that office

384. The budget of the AGP's Department is charged upon the Federal Consolidated Fund and is not required to be voted in the Parliament. The process entails the Ministry of Finance to convey indicative budget ceilings for all state institutions, based on which the office of the Auditor General Pakistan prepares its own budget. This process as stated in the Auditor General's Strategic Plan⁴⁷ does not fully comply with INTOSAI standards with respect to financial independence. The Strategic Plan states that "efforts would be made to secure approval of Federal Government for the appropriate changes in the Rules of Business 1973 to upgrade the status of the DAGP and enhanced financial/ administrative powers for AGP, to meet the INTOSAI recommendations on organizational and financial independence".

385. The DG Audits (Revenue, Works, Commercial, Water resources, Power sector, Petroleum, Provincial, District and so on) represent the Auditor General in the province and exercises complete autonomy from the Executive in its appointment, removal, budget availability, and operations. By virtue of the constitutional position and the Auditor General Ordinance (2001), the AGP office and its representatives have unrestricted and complete access to the Government records for all offices of the

⁴⁶ The annual report of the Auditor General 2017-18 provides detailed description of the constitutional independence <http://www.agp.gov.pk/userfiles1/file/DAGP-AR-17-18.pdf>

⁴⁷ www.agp.gov.pk/userfiles1/file/Strategic-Plan-2015-19.pdf

provincial governments, extra-budgetary units, and those corporations that receive either full or partial funding from the Government.

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

PI-31. Legislative scrutiny of audit reports

387. This indicator focuses on legislative scrutiny of the audited financial reports of provincial government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and act on their behalf. Time period is the last three completed fiscal years (2015/16, 2016/17, 2017/18). Coverage is Provincial Government (PG).

Summary of scores and performance table

Indicator/Dimension	2019 Score	Brief justification for score
PI-31 Legislative scrutiny of audit reports	D	Scoring method (M2)
31.1 Timing of audit report scrutiny	D	Scrutiny of audit reports takes 12 months or more
31.2 Hearings on audit findings	NA	In-depth hearings on key findings of audit reports take place regularly with responsible officers from <i>all</i> audited entities which received a qualified or adverse audit opinion or a disclaimer. However, as none of the most recent audit reports have been securitized, this is scored Not Applicable.
31.3 Recommendations on audit by legislature	NA	PAC issues directives for compliance and follows up, however a proper follow up system supported with a monitoring and reporting framework is not available. However, as none of the most recent audit reports have been securitized, this is scored Not Applicable.
31.4 Transparency of legislative scrutiny of audit reports	NA	Legislative scrutiny is not open to public, but summary press releases are issued to the state media network. However, as none of the most recent audit reports have been securitized, this is scored Not Applicable.

31.1. Timing of audit report scrutiny

388. The scrutiny of audit reports in the Public Accounts Committee (PAC) is conducted through hearings attended by the relevant parties and upon completion of scrutiny of the audit report the PAC report is compiled and laid before the House (Provincial Assembly).

389. In the past three years, the scrutiny process and submission of the PAC report to the House has been completed with a time lag of over 12 months. Indeed, none of the audit reports that have been sent to the House have yet to be tabled. There are number of causes for the delay in completion of audit report hearing including delays in nomination of PAC, clearing of backlog of audit reports and limitation on holding of PAC meeting to when the House in not in session. Since audit reports are reviewed by the PAC more than 12 months after their receipt, this indicator is rated as D.

Audit year	Fiscal Year ending 30th June	Date of Audit report submission/receipt of audit report at the Sindh Assembly Secretariat from Governor Sindh Secretariat	PAC report submitted to the House
2016-17	2015-16	12-March-2018	Not tabled
2017-18	2016-17	18-April-2019	Not tabled
2018-19	2017-18	Yet to be laid	Not tabled

Dimension rating = D

31.2 Hearings on audit findings

390. The Chairman of PAC in Sindh is from Treasury benches and consists of six members from treasury and benches. The process of PAC hearings commences with the preparation of working paper on the audit findings by the Executive for submission to the PAC. Owing to the large number of observations, the hearings are scheduled to ensure the participation of the Principal Accounting Officers/Executive (department relevant to audit findings) and the Director General Sindh Audit or its representatives at the PAC hearings.

391. All those Executive Departments who receive a qualified or adverse opinion in the shape of audit observations are included in the schedule of hearings and are required to participate as per the schedule. The press communications and the PAC reports offer evidence to the detailed hearings taking place at the PAC meetings. However, as none of the most recent audit reports have been securitized, this is scored Not Applicable.

Dimension rating = NA

31.3. Recommendations on audit by legislature

392. The PAC issues directives (recommendations) on audit findings. The directives can be categorized under three main groups. If the PAC is satisfied with the information provided, the finding is dropped, or further investigation is suggested or recommends to the Executive an action according to the Service and Disciplinary Rules or under other anti-corruption framework. Owing to the lack of a comprehensive and robust MIS, the PAC lacks a robust system and capacity for systematically following up on its directives. During the interviews it was observed that the PAC's work is carried out manually. The PAC hearing and directives (recommendations) are documented for the annual report that constitutes the audit finding, response from the executive and the PAC recommendation. However, the PAC does not have a system or support to systematically monitor the compliance or aging of compliance of its directives by the Executive. However, as none of the most recent audit reports have been securitized, this is scored as Not Applicable.

Dimension rating = NA

31.4. Transparency of legislative scrutiny of audit reports

393. Audit reports are available to the media, once these are laid before the Provincial Assembly. There is wide reporting on audit reports, but there is no formal media briefing of the audit report which may lead to misreporting of the audit findings. Media may attend the proceedings of the Public Accounts Committee. These proceedings are not aired live on the television channels. Reports are published on the website when review of audit report is completed by the PAC. Since there is a backlog of review of audit reports by the PAC, therefore publishing of audit reports on the website may take more than a decade. There are no audit reports available on the website of Provincial Assembly. However, as none of the most recent audit reports have been securitized, this is scored as Not Applicable.

Dimension rating = NA

4. Conclusions of the analysis of PFM systems

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

4.1 Integrated assessment of PFM performance

Transfers from Higher-Level Government (HLG)

395. Government of Sindh is dependent on the Federal fiscal transfers. While Sindh Government's Provincial Taxes have showed buoyancy especially the Sales Tax on Services, the Non-Tax Revenues showed a downward trend during the period under review. With limited options for alternate sources of resource mobilization, the HLG transfers can impact the fiscal discipline in the province with a corresponding influence on the service delivery. The variation in fiscal transfers has led to the traditional practices of budget adjustments. Simultaneously, the Government has expanded its revenue base through Sales Tax on Services which has contributed to an expansion in its revenue base to allow greater predictability and spending autonomy.

Pillar I. Budget reliability

396. The aggregate expenditure outrun scored C while performance in terms of functional classification also scored C as did the expenditure composition by economic classification. These high outturns can be mainly attributed to unrealistic estimates, leading to inaccurate evaluations, resulting in higher supplemental budgets, lack of a regulatory framework such as an effective budget law to manage expenditure, weak oversight of legislature and inefficient as well as ineffective portfolio management of public investment in the shape of development budget. In addition, there are weak linkages between plans and budget, unapproved development projects are included in the budget without enough resources to fund the development schemes, complicated controls over non-salary expenditure resulting in delays and delays in budget releases. Biases in ex-ante information relating to budget allocation and lack of supporting documentation without considering the delays in technical and administrative approvals results in either under-utilization or non-utilization of funds. The result has been the need for the executive to undertake re-appropriations. In addition, with weak regulatory framework for supplemental budgets has led to the large variances in both economic and functional categories. Ineffective cash management has also impeded budget reliability

397. The setting of unrealistic revenue collection targets has also undermined robust macroeconomic and fiscal forecasts and emphasizes the perception that revenue mobilization capacity is weak. The variance in the composition of revenue reveals unrealistic "revenue targets" budgeted across all major taxes and lower actual collection. Systemic over-estimation of revenue forecasts or unreliable forecasting models have a double-negative impact, as they justify the budget adjustment but also emphasize the challenge of revenue mobilization and low revenue collection performance even though tax revenues consistently registered a rising trend in terms of collection compared to previous year with major contribution coming from Sales Tax on Services.

Pillar II. Transparency of public finances

398. Public disclosure of information on PFM is necessary to ensure that government operations are undertaken within the agreed government policy framework and according to adequate implementation and reporting arrangements. Transparency is also a critical feature of any government's willingness to facilitate scrutiny of its policies and programs by citizens.

399. Current classification system provides uniform information in terms of budgetary disclosures. The Chart of Accounts (COA) embedded in GFMIS is aligned with GFS 1986 allowing timely and comparable reporting. While the Development Budget, at the formulation stage, is a single-line item and is not mapped out as per the CoA, budget execution can only take place after it is mapped out using the object head classification, which allows for budget execution monitoring at detailed level. While quantitative information generated through CoA provides the basis for effective and real time decision making, qualitative analysis is yet to be produced through usage of Chart of Accounts and inhibits current fiscal disclosures and transparency.

400. Although the Finance Department is making effort to enhance their oversight of the fiscal operations outside the government financial reports, there is no consistent approach to achieve the desired results. There is no holistic picture of how the PSEs are performing. A unit or section created specifically for analysis of the financial portfolio of different types of SOEs is absent and this is critical given that a large number of SOEs funded by the Government may have remained under the monitoring radar, particularly viewed in context of the deposits held in the scheduled banks by the SOEs. In addition, there is no mechanism for reporting off-budget donor funded projects so that they are reflected on the accounts of Provincial Government.

401. There are significant downstream fiscal risks for the government emanating from large scale increase in employee-related expenditure and servicing liabilities of provincial debt. The significant increase in government employee-related expenditure on salaries, allowances, and pensions, has also increased rigidities and fiscal risk. The rapid increase in pension liabilities of the Sindh government for the period under assessment has meant that spending on pensions almost doubled in absolute terms. Also, it has increased as a ratio of total recurrent expenditures.

402. Performance information on service delivery is not standardization at output level and is not harmonization to promote informed policy decisions and to drive a proper accountability process on the outcome of financial execution through delivery of public service. This has impacted on the quality of the strategic plans and medium-term projections, which in turn hampers the alignment of budget allocations to sector strategies. The available internal and external reporting on department's performance and execution at the subnational level is not accessible and monthly budget execution reports are ineffective unpublished and do not help to serve legislative scrutiny.

403. Transfers to the Local Governments/SNG are formula based and transparent but the timeliness on the information of the resource availability to the primary service delivery units inhibits informed budget making process at the Local level. In addition, the Provincial Finance Commission has been using interim award since 2007-8. While medium term output-based budgeting has been introduced as part of Medium-Term Budgetary Framework, the Departments have yet to shift completely from an incremental approach to this new form of budgeting. This has undermined performance evaluation and rendered the budget allocation mechanism random and arbitrary.

404. While the Sindh Government has enacted The Sindh Transparency and Right to Information Act, 2016 (notified on 12-April-2017), information on government fiscal plans, positions and performance are not easily available. The documents available on websites are written in such a manner that does not support understanding and engagement of general public in fiscal matters. Transparency and Citizen Participation is the hall mark of the current government and the Chief Minister's office has established a CM Complaint Cell which caters for grievance redressal of citizens. In addition, several steps have been taken to establish open government and enhance the access of citizens to information. There is still a lack of consensus on scope and extent of Open Government. For instance, in year budget execution reports are prepared but not published on the website within one month of their issuance, Annual Budget Execution report is not available to the public within six months of the close of fiscal year, Pre-budget statement and citizen budget are not prepared, and audit reports are not available to the public within six months of its submission.

Pillar III. Management of assets and liabilities

405. This pillar was introduced for the first time in the PEFA framework 2016. Effective management of assets and liabilities ensures that: (i) fiscal risks are adequately identified, monitored and mitigated in a timely and appropriate manner; (ii) public investments respond to infrastructure needs, including maintenance costs, and provide value for money; (iii) financial investments offer appropriate returns, assets are recorded consistently, and rules for asset transfers and disposal are followed; and (iv) the debt portfolio is managed based on a sustainable debt strategy minimizing service costs.

406. Contingent liabilities resulting from operations as well as those arising from SOEs can lead to fiscal risks for the Government. Lack of information and comprehensive monitoring relating to can lead to considerable fiscal risks especially in context of getting prudent estimation of Value at Risk (VaR) with a given probability. By having a mechanism for determining VaR, Government can undertake comparative analysis across its different portfolios (functions), ministries and departments. Given the Sindh Government's internal and external liabilities, especially relating to issuance of debt, there is a potential for creation of fiscal risks as the existing regulatory mechanism is weak and there is no estimate of minimum amount of loss due to any eventuality. Considerable fiscal risk emanates in terms of Guarantees claimed by line departments and autonomous entities against their loans, liabilities in terms of arrears, legal cases pending in the courts, liabilities pertaining to SOEs since GoS does not compile any consolidated report on SOEs, reports on contingent liabilities arising out of PPP projects as there is no periodic assessment of these liabilities as well as other explicit contingent liabilities. These risks are often not reflected adequately in the budget. These risks contribute towards variances in expenditure from the budget, eventually undermining the credibility of the budget.

407. Fiscal monitoring of subnational governments is the weakest area under this pillar. Delay in timely availability of annual financial statements of provincial governments as well as the quarterly Fiscal Operations Report both contribute towards lack of a robust fiscal monitoring framework.

408. In terms of monitoring of financial assets, complete inventory of assets of SOEs is not available and is a major issue regarding reconciliation of bank accounts. The record of non-financial assets is uneven. Almost all key departments own non-financial assets – such as land and buildings. Government does not have a robust asset management system and record keeping that inputs into a comprehensive balance sheet that reflects the actual position of these non-financial assets. There is currently no policy on asset recognition or depreciation. The public investments while treated as expenditure, ultimately convert into an asset, however, is not accounted for towards the government's net assets (equity). There is commendable work done by Finance Department regarding reconciliation of debt, however, there is no consolidated system for recording and reporting of debt. The Sindh Public Finance Administration Act, 2019's Sections 25, 26 and 27 provides the legal framework and the foundation for sustainable measures to mitigate fiscal risks especially those arising from debt and contingent liabilities.

Pillar IV - Policy-based fiscal strategy and budgeting

409. The MTFP provides a medium-term approach with forward estimates and fiscal outcomes for the past period and follows the fiscal rules on the total annual budget deficit. GoS, with the support of EU funded PFM-SPP has prepared a Budget Strategy Paper (2018-2021). It is a top-down fiscal policy statement to project Sindh Government's revenue and expenditure estimates and the overall budgetary position. However, the possible scenarios used for fiscal projections in fiscal planning and budgeting are not published. The budget preparation process is clearly defined and planned, however, there are issues in terms of its timeliness as well as whether it is participatory. As a result, the medium-term ceilings defined for the subsequent years may only be for reference purposes and could be subject to changes in the fiscal or sectoral policies, or adjustment of the calculation parameters. All the proposed changes in expenditure policies are not costed for their fiscal impact on the budget. As a result, forecasts fail to describe the linkage with previous years' estimates.

410. In addition, analysis of expenditure from the functional and economic classification perspective clearly eroded the effectiveness of macroeconomic and fiscal forecasts as well as sensitivity analysis. The traditional budgeting and massive re-appropriations as well as supplemental budgets showed the weaknesses in terms of the MTFP implementation. The lack of an output based and medium-term perspective in the budget poses serious challenges for Sindh Government in efficient strategic allocation of its resources.

411. Budget preparation in terms of processes is elaborate with a clearly defined calendar for different steps that has ensured approval of budget before the start of the new fiscal year, however, late start of the budget preparation process in shape of delays on issuance of Budget Call Circular takes the submission of the budget to the legislature to the last fortnight of the budget year, leaving little time for budget scrutiny by the legislature. Secondly, the strategic perspective of the budget-making is ineffective as the indicative budgetary ceilings are provided to the budgetary units too late in the calendar. Finally, the scope and depth of the legislative scrutiny of budget is weak. Currently, the scrutiny process does not provide for specialized committee within the legislature to review the budget and the review largely focuses on the ADP rather than a holistic scrutiny from an improvement in the service delivery perspective.

Pillar V-Predictability and control in budget execution

412. Weak revenue effort remains at the heart of revenue expenditure gap. Uncertainties and unpredictability in revenue administration particularly revenue risk management, audit and investigations as well as the arrears management has taken a toll on the budget reliability evidenced in the revenue outturns. The revenue collection (direct and indirect taxes) is clearly defined and mostly conducted through the treasury and the daily reporting by the State Bank of Pakistan informs the cash management practices. However, the revenue reconciliation process only focuses on the adjustments of misclassifications rather than reconciliation of assessments and arrears.

413. The key constraining factors in the predictability of funds and fiduciary controls is the lack of Treasury Single Account (TSA), effective cash management and commitment accounting. By end of 2018, there was an estimated Rs. 1.4 trillion parked in the SOE accounts outside the Government Accounts. This reflects lack of oversight of public finances. The lack of its practice by the Line Departments undermines the determination of the expenditure arrears, consequently influencing the cash forecasting and monitoring by the Finance Ministry. The creation of large volume of arrears and limited cash releases creates a mirage

of efficient budget execution and obfuscates project execution inefficiencies. Limited cash releases against large expenditure arrears allow discretions at the payment stage that can create moral hazard.

414. While procurement monitoring has improved, the grievance redress mechanism, quality of procurement plans and use of competitive methods are relatively weak. The non-availability of data for procurements using non-competitive methods has particularly undermined the transparency of procurement operations. On a positive note, SPPRA has prioritized preparation of Standard Bidding Documents to cover the Goods, Consulting Services, Contracts for Specialized Procurements.

415. While, the overall controls framework, particularly the segregation of duties meets the requirements, its effectiveness is dependent upon availability of relevant staff. The system-based budget check is applied for non-salary expenditure negating payments in the event of non-availability of budget. However, the same is not applied on salary expenditure on the pretext of protected expenditure. The sanctioned strength information is not on the system and are checked manually at AG Sindh. The lack of a robust internal audit charter coupled with the issues identified by AGP in the payroll audit as well as a number of permanent employees still not on SAP including some cases of ghost workers and data gaps questions the effectiveness of the actual practice of fiduciary controls. In addition, contractual and temporary staff remain outside the SAP system. Assignment accounts are not entirely compliant with payment rules and procedures in terms of Revised Procedures (2018). In most cases, monthly statements (vouchers) to be submitted to AG Sindh by project directors for pre-audit purposes is not being done. Post audit is mandatory and usually conducted but not for all payments. In many cases vouchers are not presented or too many vouchers are presented by the project directors, making it difficult for the audit to be conducted adequately or in time.

416. Financial data integrity and accounts reconciliation are aligned to the international standards, facilitated by the modified cash basis of accounting, supported by GFMIS, facilitated by a consistent CoA aligned to the IPSAS. Although accounting standards are consistent with the international IPSAS to the extent that formats are followed, no disclosure of alignment and variations is available.

Pillar VI-Accounting and reporting

417. The timely production of the accounts and financial statements has improved tremendously. Advances are rarely used and mostly cleared within a reasonable amount of time. The outstanding advances mainly pertain to staff travel advances. The bank reconciliation process takes place monthly but includes unidentified amounts as well as accounts of quite a few SOEs. These are maintained as outside the ambit of Government Accounts and may undermine the data integrity. Detailed processes for ensuring integrity of the financial data are well-defined and a thorough audit trail is maintained.

Pillar VII-External scrutiny and audit

418. The audit coverage during the assessment phase was not sufficient. For example, according to SBP, Rs. 1.538 trillion of government funds are parked outside in Commercial Banks by end of 2018. The follow up of audit findings by the Executive is not up to the mark, as long outstanding audit findings continue to be part of the audit reports. There is no systematic method of evaluating the implementation of recommendations.

419. The existing systems and capacity do not provide an enabling environment for effective legislative oversight. Public Accounts Committee lacks a robust and automated compliance monitoring mechanism to ascertain the status of compliance in terms of its efficiency and aging of compliance by the Executive. Given

the lack of comprehensive, transparent and effective follow-up on external audit and budget reports, parliamentary scrutiny cannot be deemed effective or conducive to transparent accountability.

4.2 Effectiveness of the internal control framework

420. The effectiveness of an internal control framework plays a vital role in addressing risks and providing reasonable assurance that the spending entities meet the four objectives of internal control: (i) executing orderly, ethical, economical, efficient and effective operations; (ii) fulfilling accountability obligations; (iii) complying with applicable laws and regulations; and (iv) safeguarding public resources against loss, misuse and damage. The international standard (ISSAI GOV 9100, Guidelines for Internal Control for the Public Sector, issued by the International Organization of Supreme Audit Institutions) defines the internal control framework around five control components, whose characteristics will be described in the context of Pakistan’s public sector to assess the effectiveness of the internal control framework in line with Annex 2.

Control environment: Legal framework

421. The Constitution defines the primary system of Public Financial Management. Based on this, an extensive system of rules and regulations exists covering planning, budgeting, implementation, accounting and reporting, auditing and parliamentary oversight procedures. Despite the available existing legal and regulatory system there are certain gaps that result in weaknesses in management of public finances. Apart from the above, there are sub legislations, rules and manuals which complement the control environment. The rules, procedures, and processes for the control environment (PI-10-13, PI-18 and PI-22-27) being exercised through the following statutes and manuals:

Table 4.1: System of rules and regulations regarding Public Financial Management	
General Financial Rules	Pension Rules
Treasury and Supplementary Rules	Statutory Regulatory Orders/Notifications
Delegation of Financial Powers	Assignment Account procedures
Pakistan Public Works Departmental and Account Codes	Civil Service Act and the Rules of Business
Manual of Accounting Practices and APPM	Auditor General Pakistan and Controller General of Accounts Ordinance
Public Procurement Law and Rules	National Assembly Rules of Procedure
Relevant tax and non-tax laws	Companies Act

Control environment: Operational framework

422. Sindh Government’s Finance Department especially the Internal Audit housed in Finance Department, Controller General of Accounts, Accountant General Sindh and Auditor General of Pakistan/DG Audit Sindh have the primary responsibility regarding the mandate and coverage of Internal Controls at the Provincial level. As per the draft PFM law, Finance Department will ensure that an internal audit function, in conformity with internationally recognized standards in respect of its status and procedures, is established in every Government department, and public entities required to produce accounts under section 41 of the PFM Law. The law further lays down that within a period not exceeding five years from the date of enactment of this Act, a position of the Internal Audit Officer shall be created in some or all departments. The Internal Audit Officer will be an officer located in a department, is a member of Departmental Accounts Committee, and reports to the PAO of the Department. In addition, there would also be Chief Finance Officers (CFOs) appointed in each Department. Based on the above, both CFO and IAO will be responsible for implementation of the Internal Control framework within the Departments and

SOEs. Both these positions will report to the Principal Accounting Officer of the respective Department. Finally, AG Sindh undertakes pre-audit functions, and its effectiveness is inspected by DG Sindh Audit. However, pre-audit function is only a part of the overall internal control framework. Some of SOEs are also exercising internal controls through their respective policies and procedures.

423. The New Accounting Model (NAM) adopted in 2000 include the Chart of Accounts providing for uniform classification on the following elements: Entity, Function, Object, Fund, and Project. The country-wide unified Scheme of Classification (Chart of Accounts) along with an automated online/real-time interface provides the required IT backing to the control framework.

424. The standards followed in the Government are mostly relate to processes than value addition focusing mainly on financial compliance and following the procedures written in Account Codes (Vol. I to IV), Fundamental and Supplementary (FR & SR) Rules, Drawing and Disbursing Officers Handbook, Audit Codes, General Financial Rules, Manual of Accounting Practices complemented with guidelines, Treasury Rules etc.

425. The rules and manuals prescribe the systems and procedures and processes to be in place for the control environment, which is supported by the authorization requirements in the GFMIS. Different levels of authority are granted to access and use the GFMIS to ensure the data integrity.

426. On a positive note, Sindh Government has established Internal Audit function under duly approved charter. Currently the function has been outsourced to Chartered Accountancy firms and is being undertaken in selected Departments such as Home, Health and School Education Departments. In addition, Internal Audit Manual and Plan has been approved by Departmental Internal Audit Committee. Government needs to focus on building the capacity of its Internal Audit staff so that overall internal audit landscape can be captured holistically ranging from financial compliance to assessment and strengthening of internal control systems. A proactive model of promoting disclosures within the entity and incentivizing entrenchment of ethical behavior and integrity needs to be inculcated. All government departments have an organizational structure representing the hierarchy and the administrative and functional reporting requirements. The HR policies and procedures are provided in the establishment code (Federal and provincial), Civil Servants Act (appointment, promotion and transfer rules), efficiency and discipline rules, and other related rules and policies issued from time to time.

Risk assessment

427. The risk assessment component refers to risk-based approaches and the use of risk management methods to improve the effectiveness of internal control, such as for example in the definition and implementation of audits in Tax and Internal Audit Planning (PI-19, PI-26). The concept of risk assessment is integrated into the standards used for the implementation of audit functions, and formally aligned to international standards. Scores relating to audit standards for the internal audit (PI-26) and external audit (PI-30) imply that the potential for the internal audit function to support effectively internal control over budget execution is high, however, the function itself requires a capacity-building and certification effort.

428. The key shortcoming in the internal control framework is the absence of a robust risk assessment function which for example determines the Value at Risk given a certain amount of probability of an event taking place (PI-10, 13, and 19). The internal audit function (PI-26) has been operationalized, however, its role in terms of reviewing and strengthening internal controls needs to be enhanced. The Management's response ranges from non-existent to minimal. The deficiencies in commitment accounting (PI-21 and 25), debt management (PI-13), and oversight of public sector enterprises (PI-6 and 10) have constrained risk management.

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

Control activities

430. The scores of PI-25 reflect the effective assignment of clear roles and responsibilities to employees and that segregation of duties is prescribed throughout the expenditure process. However, at times, the internal control function can be characterized as vertically centralized and highly regulated, to the point of leading to legalistic complexity. The PAO/Head of Department, Internal Audit staff in selected Departments and DDOs play a major role in the internal control over the systems, procedures and transactions. The GFMIS also guarantees that payments are issued when there is clear assurance of the legality of payments, and exceptions are properly authorized in advance and justified.

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

432. The expenditure bill processing entails double-checks (a due process for preparation and approval of payment bills at departmental level) as well as an extensive pre-audit at AG Sindh and it's through the District Account Offices at the local level. The policies, procedures, and rules have sufficient provisions on segregation of duties for data entry, pre-audit, and payments. Delegation of financial powers (PI-25 and -27) outlines the categories of officers, powers common to all departments, and special powers to certain departments vis-à-vis their expenditure-sanctioning competency.

433. The revised estimates of expenditure for a financial year are used as the best possible forecast of the actual expenditure for that year and serves as expenditure control mechanism. The Finance Department in consultation with the line Department heads finalize around third quarter of the fiscal year the revised estimates of expenditure. General Financial Rules, APPM, and annual Budget Call Circular stipulate provisions on the preparation, scrutiny, review, and authentication of revised estimates.

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

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

436. The financial and compliance checks performed through the external audit are also supposed to cover systemic weaknesses of the internal control systems and procedures. Compliance and lawfulness of financial transactions ex-post are checked by the external audit, but there is a lack of capacity to introduce a systematic risk management approach, while the follow-up of recommendations by the line Departments is also an issue (PI-26).

Gaps in control activities

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

- Weak internal controls result in non-adherence to rules and procedures
- Assignment accounts are not entirely compliant with the payment rules and procedures under the revised procedures (2013 and 2018). In most cases, Monthly statements (vouchers) to be submitted to AG Sindh by project directors for pre-audit purposes is not being done. As a result, the expenditure remains outside the purview of pre-audit function.
- The manual procedures and automation have continued even though accounting function needs to be fully automated. This results in a dichotomy where certain processes are being followed on the SAP system whereas others are being implemented manually.

Information and communication

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

Monitoring

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

4.3 PFM strengths and weaknesses

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

Aggregate fiscal discipline

441. Credible budget in which variations between the budget approved by the Legislature and expenditure are reduced to minimum (at both aggregate and sectoral level) is seen as a representation of

improved policy planning and implementation. It is also the foundation of effective delivery of public services. The weaknesses exhibited in processes and procedures have impacted on aggregate fiscal discipline. On the aggregate expenditure side, there are significant divergences at the level of grants to Departments. These divergences are the result of frequent changes made in the budget during the year through supplementary budget and re-appropriations. Even though government tried to manage the expenditure variation through cash releases and budget cuts, it still led to accumulation of expenditure arrears. Less attention has been paid to ensuring that public expenditures are well conceived and delivered in an effective and efficient manner to achieve value for money. This problem relates to an insufficiently comprehensive system of planning, and to the absence of management systems in the Departments tailored to ensure efficient service delivery. Due to this, incrementalism has remained dominant system for preparation of the budgets, and it has been difficult to achieve alignment with the development budgets (which are means to improved public services).

442. The lack of a robust fiscal strategy and the absence of determination of the fiscal impact of expenditure and revenue policy proposals are also contributing to revenue outturns. The deficiencies in the revenue administration (risk management, arrears monitoring, and revenue audits) have resulted in large variances in terms of revenue overruns.

443. On the expenditure management side, estimation is based on optimistic revenue forecasts that ultimately results in budget cuts and revisions. An internal audit function that is ineffective has weakened internal controls and in turn has weakened fiscal discipline.

Strategic allocation of resources

444. An effective strategic allocation of resources is led by the existence of budget rules that assign predictable budget ceilings for annual budget formulation: ensuring the submission is timely, complete and relevant information is available in the draft budget submission for consideration by Legislature; ensuring the regular and timely approval of the annual budget before the effective date of the corresponding fiscal year; implementing a bottom-up and top-down budget formulation process and adopting a Medium Term Budgetary Framework defining priorities in the allocation of public funds among sectors and institutions; and regularly monitoring and assessing performance information of the line ministries.

445. However, the PEFA assessment indicates that these outcomes are being undermined by poor budget reliability, and a weak linkage between medium-term planning and annual budgeting processes. The issue of budget credibility remains a concern. This is for three main reasons: (i) the significant adjustments to the ambitious revenue forecasts; (ii) poor compliance performance with regard to major taxes and targeted large taxpayers; and (iii) significant revisions to the approved budget and subsequent budget cuts that undermine the credibility of the original budget process. The weakness in all of these has seriously affected the strategic allocation of resources and created large deviations in budget plans and actual outturns.

446. There is weak linkage between medium-term planning and the annual budgeting process that are reflected in a silo approach between annual budgeting and medium-term planning, and a lack of quality assurance on monitoring and consistency in reporting at the aggregate level.

447. Revenue forecasting is inhibited by the absence of mixed econometrically based and administrative-record-based forecasting techniques. Reliable revenue forecasts are possible if there is an effective and predictable allocation mechanism of resources for strategic policy priorities. Revenue outturns show the unreliability of forecasts.

448. The Budget Strategy Paper (BSP) provides the fiscal aggregates and the status of the budget (balance/imbalance) in the projected years facilitated strategic allocation of resources. The absence of

regular preparation of the BSP, its submission to the legislature and linking it with the sector plans has ensure allocative efficiency and fiscal discipline in not as strong as it needs to be for effectiveness.

Efficient use of resources for service delivery

449. While PFM may not directly improve service delivery, research has proven that deficient PFM is directly proportional to poor service delivery. The current PFM practices in Sindh Government lacks a performance element. The budget lacks any performance information subverting accountability in the use of resources. The lack of availability of the indicative budget ceilings undermines proper planning by the service delivery units. The lack of budget codes for the primary and some secondary service delivery units in GFMS dilutes expenditure tracking below a certain level.

450. Effective internal controls promote innovations in service delivery but can stifle them if excessive. Existing procedural complexities, lack of integrated systems, and capacity are constraining innovations in the service delivery. The output-based and medium-term budgeting is essential, but the fundamentals are not as yet developed.

451. The existence of large expenditure arrears offers evidence to the deficiencies in the budget allocations. The absence of the commitment accounting clouds the underswell created due to payment arrears and what appears to be an efficient budget utilization could be misleading. A large share of resources are consumed by wage bill, leaving little resources for innovations in service delivery. The weakened internal audit framework and periodic payroll audit to ensure ghost workers phenomenon is kept in check are not sufficiently regular. Finally, the legislative oversight is currently focused on the infrastructure development. A scrutiny from the perspective of improving the service delivery is absent that inhibits debate and elicit questions on the outputs and outcomes of the public investments.

4.4 Performance changes since the previous assessment

452. The previous PEFA assessment for Sindh Government was undertaken in 2013 and was based on the 2011 PEFA framework. As the PEFA framework and methodology were upgraded in 2016, the structure and calibration of the indicators and dimensions have changed significantly, and direct comparison between indicators and scores in the two reports is not possible. Measuring the real changes in progress over time since 2013 requires assessing the performance indicators using the same 2011 framework.

453. This subsection presents the key changes from 2013 to 2019 based on the comparison performed in Annex 4, highlighting the main improvements and their impact on the three main budgetary outcomes. Note that data was not collected for the current PEFA assessment on the Donor Practices indicators (D 1-3), previously assessed in 2013 using the 2011 PEFA framework, as the cost-benefit analysis would not justify it. As such, comparison of these related donor practices indicators is not included.

454. On a comparable basis, performance improved in 9 dimensions, declined in 10 indicators while it remained the same under 10 dimensions. Prima facie, performance deteriorated on a quite a few indicators, however, it was not entirely due to the government’s performance but rather the change in indicator scoring may also have contributed to some of the low scores as previous scores may have been too optimistic.

Table 4.2 Change in Indicator Performance		
Increase	No Change	Decline
PI-2 Composition of expenditure	HLG-1 Higher level transfers	PI-7 Unreported operations

PI-3 Aggregate Revenue out-turn	PI-1 Aggregate expenditure Out-turn	PI-8 Transparency of intergovernmental relations
PI-10 Public access	PI-4 Expenditure arrears	PI-9 Oversight of fiscal risk
PI-12 Multi-year perspective	PI-5 Classification of budget	PI-11 Orderliness in budget preparation
PI-14 Taxpayer registration	PI-6 Comprehensive budget	PI-15 Collection of tax
PI-18 Effectiveness of payroll	PI-13 Taxpayer obligations	PI-17 Management of cash balances
PI-19 Procurement	PI-16 Availability of funds	PI-22 Account reconciliation
PI-20 Internal controls	PI-25 Annual financial statements	PI-23 Resources received by service delivery units
PI-21 Internal audit	PI-27 Budget scrutiny	PI-24 in-year budget reports
	PI-28 Audit report scrutiny	PI-26 External audit

455. The comparison shows that the budget credibility improved as the composition variance expenditure declined while the aggregate level performed the same. The overall budgeting process remained somewhat organized with continued adherence to budget calendar by the line departments, but a declined-on guidance provided to line departments. The budget approval by the legislature continued to be timely. The multiyear perspective in fiscal planning, expenditure policy, and budgeting showed improvement as compared to the previous assessment undertaken in 2013. The comprehensive rollout of the GFMIS enhanced the quality of information in the budget execution reports.

456. Deficiencies were noted in oversight of fiscal policy and tax collection. The institutional mechanism for fiscal reporting did not improve in capturing the extra-budgetary operations and information on off-budget donor-funded projects. Neither was improvement noted in the oversight of aggregate fiscal risk from public sector entities/autonomous entities. There has been some improvement in taxpayer registration but collection of taxes which remain an issue has deteriorated.

457. Performance regarding the effectiveness of the payroll improved since the previous assessment as did effectiveness of internal controls on non-salary expenditure due improved compliance with rules for processing and recording transactions. While limited, the coverage of the internal audit function has shown improvement. The internal audit function has been made operational through Internal Audit Charter and internal audits have been initiated in some departments, the focus of internal audit work is still on financial compliance and not on strengthening the internal controls. Finally, the lack of management response continues to undermine the deepening of fiduciary controls.

458. In summary, aggregate fiscal discipline improved due to better payroll, procurement, and internal control and audit. However, neither the strategic allocation of resources nor service delivery outcomes exhibited the same degree of improvement in relevant indicators and deteriorated in some instances such as availability of information on resources received by services delivery units. However, the existence of sector strategies with multiyear costing of recurrent and investment expenditure did improve marginally.

5. Government PFM reform process

5.1 Approach to PFM reforms

459. Over the past ten years the Sindh Government has implemented and embarked upon a series of very important PFM reforms which have already fundamentally changed the way the Sindh Government conducts its business. These reforms include establishment of a Tax Reform Unit (TRU) in Finance Department to mobilize revenues, a functional Debt Management Office in the shape of Debt Management

Unit within the Finance Department structured along functional lines: Back, Middle and Front Office, where the operational, analytical and execution functions are no longer segregated, developing a procedures, manual for borrowing, consolidating Debt Database, Formulating a Debt Management Strategy and undertaking Debt Sustainability Analysis, designing an Operational Risk Management Plan.

460. Important progress has been made towards improving the planning and budgeting through formulation of Budget Strategy Paper as a policy document which assists public understanding of the fiscal situation and proposed budget strategies of the Government. The third BSP was developed for the period 2018-2021. It contains the principles that guides the whole budget cycle and broad fiscal parameters, key government strategies, priorities and policies for the management of public revenues and expenditures. It gives a brief Analysis about transition of Budget Strategy Paper with Medium Term Fiscal Framework, Medium Term Development Framework and risk to the budget parameters. BSP is a concrete framework for the preparation of departmental budget forward estimates and the development of detail budget policies.

5.2 Recent and on-going reform actions

461. **PFM Law:** The government is working on increasing the efficiency of public expenditure. In this regard, a comprehensive Public Financial Management Administration Act (SPFAA) has been drafted, which after necessary reviews has been approved by Sindh Cabinet. The Act aims to fill the gaps in the present PFM system, update the outdated PFM-related legal provisions and eliminate most of the distortionary features in the present PFM system. In addition, by making a deviation from the established norms of best budgetary practices a breach of law (as against the present system of infringement of rules and procedures), the law will help in more prudent expenditure and financial management within the Sindh government. Some of major initiatives under the law include empowering the parliament to ex-ante approve supplementary budget; provisions for a TSA; shifting to Medium Term Budgetary Framework and Output Based Budget; clearly outlining the responsibilities of Finance Department as well as Planning and Development Department, introducing a CFO function in each Department, Introducing a function of Internal Audit in the line ministries; provisions relating to Cash Management and Debt Management, integrating recurrent and development budget through MTBF. Implementing the provisions of the law in letter and spirit will remain a challenge and Finance Department would need to expeditiously work on subsidiary laws and implementation arrangements.

462. **The Sindh Government's Public Financial Management Reform Strategy (2014/15 – 2019/20)** was approved by the Provincial Cabinet of Sindh in October 2014 and was shared with all relevant stakeholders for implementation. The objective of the PFM Reform Strategy is to ensure a public finance system that is based on the principles of transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development. PFM Reform Strategy was implemented under PFM Reform Action Plan which focuses on four thematic areas. These include (i) Resource Mobilization (ii) Planning and Budgeting (iii) Budget Execution, Reporting, Accountability & Transparency (iv) Budget Control, Auditing and Oversight (v) Institutional Framework and Support systems. The Strategy is under the process for revision/updating for further period of five years.

463. **Treasury Single Account:** Quite a few SOEs park unspent monies outside the Treasury Single Account (TSA). By end 2018 there was an estimated Rs 1.4 trillion in these accounts. This reflects a clear case of lack of oversight of public finances. These accounts of the SOEs are not linked to the Treasury Single Account (TSA) and while these amounts are reflected in SBP reports, they remain outside the fiscal reporting framework of the government. Some of the monies are due to “leakages” from the fiscal management system and are reported as expenditure in the past fiscal reports. Thus, showing a larger than actual fiscal deficit. Moreover, these accounts adversely impact government's cash management and audits

of public expenditure. The government has introduced an enabling provision for Treasury Single Account (TSA) regime for Government cash management system which has been incorporated in the draft Public Finance Management Act. This provision gives a rule-based regime of cash management through the TSA. State Bank has been instructed to design administrative procedures, and an IT system, for rolling back public monies from commercial banks to TSA.

The TSA implementation shall be done in phases. In the first phase, those accounts shall be identified, which are either illegal or opened by the entities, which receive the government budget. In the second stage, those entities, which are empowered by their respective laws to retain the revenue shall be brought under the TSA, through changes in the respective laws. There are substantial benefits of introducing systematic cash management, including reducing the Government's reliance on short-term domestic debt to finance budget expenditure. The registration of commitments in the GFMIS will enable better-informed decisions on issuance of short-term debt and investment of idle cash balances.

464. **Standardized expenditure control procedure for online bill submission:** The Sindh government is empowering the Principal Accounting Officer by transferring budgeting and payment functions to the Chief Finance Officer and establishing internal audit function in the line departments. These changes will have positive impact on budget execution. The standardized expenditure control procedures, prepared by the CGA, need further updating to cater for seamless implementation of e-procurement and e-payment systems as well as establishment of CFOs.

465. **Standardized Bidding Document:** SPPRA is preparing Standard Bidding Documents to cover the Goods, Consulting Services, Contracts for Specialized Procurements. This will lead to further transparency in bidding of public contracts.

466. **Audit Management Information System:** Auditor General is taking a transformative step to develop an Audit Management Information System. In this regard, a Competency Wing has been established, and audit and PAC staff have been trained. With the establishment and operationalization of AMIS, an important step towards IT based audit has been taken.

467. **Reforming state-owned enterprises:** To address structural weaknesses of SOEs, improve their efficiency and functioning and thereby reduce the drain on the budget, the government through SPFAA has classified the public entities. In addition, Sindh Government will be establishing policy and guidelines for regulation of self-generated revenues. There are provisions relating to preparation of accounts/reporting and audit as well as resources of dissolved and wound-up entities.

5.3 Institutional Considerations

Government leadership and ownership

468. Sindh Government's PFM reform agenda is driven and owned at the Senior most level in the Government, with the Finance Department taking a leading role. Development partners have supported the agenda from the start and have remained engaged at both the Federal and Provincial levels through a broad mix of policy-based operations, projects and technical assistance activities. The leadership appreciated the significance of the PFM reforms and has been active participants. A road map in the shape of PFM Reform Strategy (2014-15 to 2019-20) was drafted for strengthening PFM and the reform agenda entailed fiscal sustainability, revenue mobilization, service delivery and results-based management, public investment management and public private partnership, transparency/oversight and accountability and vertical coordination between Provincial and Local Levels of Government.

469. For effective coordination with the donors, Government of Sindh has been closely coordinating with different donors including World Bank and European Union for implementation of various projects supporting the PFM reform strategy. The agreed upon management structure comprises three levels and as much as possible they use existing institutional relationships and hierarchies to support the creation of

workable arrangements which facilitate dialogue in support of reform as well as providing timely decisions. The structures consist of the following units:

- The Strategic Reforms Group (SRG)
- The Core Reforms Group (CRG)
- The Operational Reform Groups (ORG)

470. The SRG is a high-level Steering Committee, chaired by the Chief Minister Sindh which oversees the implementation of the STRMP with meetings held on a quarterly basis. The CRG is chaired by the Secretary Finance and it has been given the responsibility to coordinate and to take the necessary measures to streamline and speed up implementation. These committees set performance targets and receive reports against them to promote results-oriented implementation. Separate ORGs have been established at the department and agency level comprising unit heads and functional managers with strong understanding of the operations of their respective units.

471. After elections, new government has been sworn in. Although improving governance is inherent to the new government's vision, continuity of provision of stewardship to PFM reforms would be required to ensure the reforms gain traction.

A sustainable reform process

472. PFM reforms, like other reforms, cannot be sustained unless appropriate capacity building efforts is accompanied with reforms. An overarching capacity building strategy is vital to ensure staged capacity building of the government officials to facilitate knowledge transfer from consultants to civil servants.

473. It remains to be seen whether Sindh Government can continue to do analyses like MTFF or Budget strategy paper without technical support. Sizeable resources have been allocated for the provision of technical support by the development partners in the form of programs such as EU funded Support for Pakistan Program (SPP). Government may like to plan for the fiscal space required for TA support in the event the government has to assume fiscal responsibility.

Transparency of the PFM program

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

475. Operationally the Sindh Government has demonstrated its commitment to making the budget more transparent as well as notifying five Operational Reform Groups (ORGs) under the institutional framework. These include Planning, Budgeting, Accounting, GFMIS and improving Internal Financial Management Capacity have been notified. However, the lack of public availability of the PFM reforms strategy undermines the transparency of the PFM reform process. The commitment towards adoption of the medium-term budgetary framework has been given by the Sindh Government, however, it has still not been adopted government wide. Transparency is important for setting expectations and soliciting contributions and collaboration from various stakeholders, while the program's financing needs i.e., to spread it across Sindh Government needs to be fully reflected in the government's budget documentation ex-ante and ex-post.

Annex 1: Performance indicator summary

Indicator/Dimension	Score	Justification
A – Transfers from HLG	D+	M1
HLG 1- Outturn of transfers from HLG	C	Transfers were 94.25%, 86.27% and 82.31% of the original budget in the FY 2015-16, 2016-17 and 2017-18, respectively, which is at least 85% of the original budget in two of the previous three years
HLG 2 – Earmarked grants outturn	D	The difference between original budget estimate and actual earmarked grants was greater than 10 percent in all the three years being 61.6% in 2015/16, 49.6% in 2016/17 and 40.1% in 2017/18.
HLG 3. Timeliness of transfers from HLG	C	A disbursement timetable is part of the agreement between Federal government and Provincial government. The disbursement timetable is agreed on by all stakeholders at the beginning of the fiscal year. Fifty percent of actual disbursements have been on time in two of the last three years.
PI-1 Aggregate expenditure outturn	C	
1.1 Aggregate expenditure outturn	C	Aggregate expenditure outturn was between 87.1% in 2015/16, 93.5% in 2016/17 and 88.3% in 2017/18 of the approved aggregate budgeted expenditure.
PI-2 Expenditure composition outturn	C+	M1
2.1 Aggregate composition outturn by function	C	Variance in expenditure composition by functional classification was 9.1% in 2015/16, 22.6% in 2016/17 and 10.2% in 2017/18.
2.2 Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was 14.4% in 2015/16, 12.1% in 2016/17 and 16.2% in 2017/18
2.3 Expenditure from contingency reserves	A	There is no expenditure charged to contingency vote as GoS does not use contingency as a budget code
PI-3 Revenue outturn	C+	M2

3.1 Aggregate revenue outturn	C	Actual revenue was 93.0% in 2015/16, 92.5% in 2016/17 and 95.6% in 2017/18 being more than 92% and less than 94% of the budgeted revenue during two of the last three financial years.
3.1 Revenue composition outturn	B	Variance in revenue composition was less than 10% in two of the last three years being 11.4% in 2015/16, 8.5% in 2016/17 and 5.8% in 2017/18
PI-4 Budget classification	A	M1
4.1 Budget classification	A	Budget formulation, execution, and reporting use a classification system that can produce consistent documentation comparable with GFS/COFOG 1986, however with certain modifications. Development budget is presented as a single line item therefore does not include sub functional classification.
PI-5 Budget documentation	B	M1
5.1 Budget documentation	B	Sindh Government provides three basic elements and two additional elements in its budget documents. Elements 5 and 6 are not applicable to Sindh being a SNG.
PI-6 Provincial government operations outside financial reports	D	
6.1 Expenditure outside financial reports	D*	Finance Department lacks a central mechanism to determine the exact size of expenditure and revenue data outside government financial reports.
6.2 Revenue outside financial reports	D*	
6.3 Financial reports of extra budgetary units	D	SOEs are requested by the Corporate Finance Wing to submit their annual reports. However, compliance remains an issue and often repeated follow ups are required by the CF wing.
PI-7 Transfers to subnational governments	B	M2

7.1 System for allocating transfers	A	The resource allocation for all transfers takes place based on the formula prescribed under the PFC Award of 2007-8.
7.2 Timeliness of information on transfers	C	The Local Governments receive budget ceilings after passage of the provincial budget (end June). The local government budget calendar is also from July to June. Due to delay in issuance of ceilings, budget planning and timelines at Local level are also impacted
PI-8 Performance information service delivery	D	M2
8.1 Performance plans for service delivery	D	MTBF captures key performance indicators by cost center, and these are collated by line departments. However, there is no information on activities and related outcomes and outputs. Since the MTBF documents are not legally binding on the Government, the MTBF documents are not published or available on the Finance Department website. The documents may even not be prepared in time for the presentation of the budget and may be produced a few weeks later.
8.2 Performance achieved for service delivery	D	There is no mechanism of monitoring the output and outcomes achieved in line with the performance targets identified under the MTBF exercise. Neither is there any information published annually on the activities performed for the Departments.
8.3 Resources received by service delivery units	D	Where service delivery units and cost centers align, reports can be easily generated and published. However, while tracking budgets and expenditure to service delivery level is possible but limited in coverage, the exercise is not carried out and the information is not published.
8.4 Resources evaluation for services delivery	D	No performance evaluation especially for service delivery has been conducted in the last three fiscal years.
PI-9 Public access to fiscal information	C	M1

9.1 Public access to fiscal information	B	Government makes available to the public six elements, including all five basic elements and one additional element, within the timeframe specified.
PI-10 Fiscal risk reporting	D	M2
10.1 Monitoring of public corporations	D	There is no formal mechanism for monitoring public corporations, especially regarding submission of their annual accounts (audited/unaudited) within a given period.
10.2 Monitoring of subnational governments	D	Audited or unaudited financial reports of the sub-national governments are not published within 9 months of the close of FY.
10.3 Contingent liabilities and other fiscal risks	D	Systematic and methodical contingent liability and fiscal risk monitoring does not take place at the FD; as a result, contingent liabilities and other fiscal risks are not quantified and reported in financial reports.
PI-11 Public Investment Management	B	M2
11.1 Economic analysis of investment projects	C	Economic analysis is conducted for some major investment projects, reviewed by P&D, however, the analysis is not published.
11.2 Investment project selection	A	Guidelines/criteria for selection of the project in the budget are published on Finance Department website as Budget Call Circular. In addition, there are screening forums at the Provincial level who have a clear mandate regarding project proposals. Provincial Development Working Party has the mandate to prioritize the projects within the resource envelope
11.3 Investment project costing	C	Volume V of the Budget documents provide budget estimate of the Current Financial Year as well as Financial Projection of next two Financial Years. However, recurrent costs are not recorded.
11.4 Investment project monitoring	B	Total costs and physical progress are monitored, procedures for project implementation are in place, and information is published annually
PI-12 Public asset management	D+	M2

12.1 Financial asset monitoring	C	The government maintains a record of its holdings in <i>major</i> categories of financial assets but is not published.
12.2 Nonfinancial asset monitoring	C	The Government maintains a record of its non-financial assets however is not consolidated nor depreciated. Partial information on usage and age is available.
12.3 Transparency of asset disposal	D	Information on sale of nonfinancial assets is not included in the budget documents or any other financial report.
PI-13 Debt management	D+	M2
13.1 Recording and reporting of debt and guarantees	C	Domestic and foreign debt and guaranteed debt records are updated annually, and reconciliations are performed annually as well as areas where reconciliation requires additional information to be complete are acknowledged in debt sensitivity analysis.
13.2 Approval of debt and guarantees	C	Currently there are no concise guidelines, criteria or risk categories at the provincial level for approval of external debt.
13.3 Debt management strategy	D	Debt Management Strategy is only now being prepared; therefore, this indicator could not be assessed/marked
PI-14 Macroeconomic and fiscal forecasting	C	M2
14.1 Macroeconomic forecasts	NA	Not Applicable. Macroeconomic functions rests with the central government.
14.2 Fiscal forecasts	C	Government prepared BSP (including MTFE report) with qualitative analysis. It is submitted to the Finance Committee of the legislature after approval by the Provincial Cabinet. However, BSP provides no underlying assumptions or fiscal indicators on which the projections are made.
14.3 Macro fiscal sensitivity analysis	NA	Not Applicable.
PI-15 Fiscal strategy	D+	M2

15.1 Fiscal impact of policy proposals	D	Fiscal impacts for revenue and expenditure proposals are calculated but are not explicitly published for the legislature. Revenue proposals are explicitly presented to the Finance Minister and Cabinet only. There are significant in-year policy changes.
15.2 Fiscal strategy adoption	C	Government of Sindh prepares BSP which is presented to the Finance Committee of legislature after approval by Provincial Cabinet. The BSP is for internal use which includes qualitative objectives of fiscal policy. In addition, execution of budget is often not in line with the strategy defined in BSP and there are several in-year changes to the budget.
15.3 Reporting on fiscal outcomes	C	While reporting on fiscal outcomes is often done through the next year's budget documents (especially the Budget Speech and the Budget in Brief document), as well as through the Supplementary Demands document, and the Performance Monitoring Report (internal Finance Division document) with brief explanations, reporting against fiscal strategy is not done. It is done through internal reports/presentations for Finance Minister and Cabinet. Also, corrective measures are not identified clearly.
PI-16 Medium-term perspective in expenditure budgeting	D+	M2
16.1. Medium-term expenditure estimates	D	Only Budget Strategy Paper has a medium-term perspective. All documents, which are part of the Budget proposal, do not have a medium-term perspective
16.2 Medium-term expenditure ceilings	D	Aggregate and or department level medium term expenditure ceilings were not provided to the Line departments prior to the issuance of budget call circular.
16.3 Alignment of strategic plans and medium-term budgets	C	Medium-term sector strategies are prepared for some of the sectors - Agriculture, Education, Health and some of the expenditure policy proposals align with the strategic plans.

16.4 Consistency of budgets with previous year's estimates	NA	Medium term budget has not been adopted in all the budget documents. The Budget Strategy Paper cannot provide the variance analysis with a medium-term perspective
PI-17 Budget preparation process	C	M2
17.1 Budget calendar	A	A clear BCC exists and is generally adhered to. FD issued BCC in Nov 2016 (for budget year 2017-18) and were allowed at least 6 weeks to prepare the budget estimates
17.2 Guidance on budget preparation	D	The BCC for the budget year 2017-18 included detailed guidelines and forms but indicative budget ceilings were not included for administrative or functional areas
17.3 Budget submission to the legislature	D	Government of Sindh submitted budget proposals to the legislature less than one month before the start of fiscal year.
PI-18 Legislative scrutiny of budgets	C+	M1
18.1 Scope of budget scrutiny	C	Parliament discusses the revenue and expenditure for the next fiscal year. There is extensive discussion on budget priorities but no discussion on medium term fiscal projections or underlying assumptions.
18.2 Legislative procedures for budget scrutiny	C	Legislative procedures are well defined in the Rules of Procedures for the Sindh Assembly, including internal organizations of the Assembly. The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. However, there are no provisions for internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures.
18.3 Timing of budget approval	A	Budget for the last three completed fiscal years have been approved prior to the start of the fiscal year.
18.4 Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget adjustments. However, the rules do not account for ex-ante approval for the adjustments by the parliament and

		there are excessive adjustments by the executive during the year.
PI-19 Revenue administration	C+	M2
19.1 Rights and obligations for revenue measures	B	The entity collecting majority of the revenues provides payers with access to information on the main revenue obligation areas and on rights including redress processes and procedures.
19.2 Revenue risk management	B	The entity collecting the majority of revenues uses structured and systematic approaches for assessing and prioritizing compliance risks.
19.3 Revenue audit and investigation	C	The entity that collecting the majority of revenues undertakes audits following the guidance of a 2016 compliance program and is working on cases selected by the risk parameters. So far, it has completed the majority of planned audits for FY2017-18.
19.4 Revenue arrears monitoring	D*	Sufficient information is not available. Information available on the stock of revenue arrears at the end of the last completed fiscal and on revenue arrears older than 12 months is not sufficient to calculate this indicator/dimension.
PI-20 Accounting for revenue	C+	M1
20.1 Information on revenue collections	A	FD website provides monthly information on revenue collection
20.2 Transfer of revenue collections	A	Entities collecting most of the provincial government revenues use the Treasury account for the revenue collection. The amount of collection outside the treasury as identified by the Revenue receipts audit was relatively small as compared to total revenue collection
20.3 Revenue accounts reconciliation	C	Monthly reconciliation of tax and non-tax collection and transfer takes place but not of the assessments and the arrears.
PI-21 Predictability of in-year resource allocation	C+	M2

21.1. Consolidation of cash balances	C	Account reconciliations are only done once a month, and some funds may remain outside the Government Account and are not reconciled.
21.2 Cash forecasting and monitoring	C	The cash forecast is provided for the full year but only 25% of total revenue is updated monthly.
21.3 Information on commitment ceilings	B	Budgetary units are provided information on commitment ceilings <i>at least quarterly</i> in advance.
21.4 Significance of in-year budget adjustments	C	There are significant in-year budget adjustments to budget allocations which are frequent as well as partially transparent.
PI-22 Expenditure arrears	D	M1
22.1. Stock of expenditure arrears	D*	The Government currently does not have a practice of commitment accounting. As a result, Sindh Government does not have a mechanism to centrally record and monitor expenditure arrears.
22.2 Expenditure arrears monitoring	D	
PI-23 Payroll controls	B+	M1
23.1 Integration of payroll and personnel records	A	The system of payroll and personnel records is integrated and reconciled monthly.
23.2 Management of payroll changes	A	Robust internal processes guide the management of internal payroll changes.
23.3 Internal control of payroll	A	There are several internal control mechanisms on the payroll, including pre-audit of any changes, and limited access to the system. In addition, authorization and basis of changes in personnel record has been specified in General Financial Rules and APPM.
23.4 Payroll audit	B	Payroll is audited annually as part of certification audit but in-depth audits on the payroll are conducted through compliance audits, which are conducted for only a few departments annually. AG Office also has a monitoring unit which reviews the expenditure on annual basis.
PI-24 Procurement	B+	M2

24.1 Procurement monitoring	A	Spending units have all relevant procurement records available. These records were independently verified by assessors
24.2 Procurement methods	B	Majority (70%) of the procurements followed competitive process.
24.3 Public access to procurement information	B	Five of the six listed requirements are met for majority of the procurements.
24.4 Procurement complaints management	B	Complaints mechanism meets five out of six requirements including criterion 1.
PI-25 Internal controls on non-salary expenditure	B	M2
25.1 Segregation of duties	A	Appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down albeit slightly outdated.
25.2 Effectiveness of expenditure commitment controls	C	Budgetary checks and releases are the primary tools of commitments controls. Releases help with cash management, but at times are used at the discretion of the Finance Department without any adequate communication to the line departments. Line departments also use releases for payment management and do not restrict commitments as per the releases.
25.3 Compliance with payment rules and procedures	B	Payment rules and procedures are clearly outlined, and the AG office has its own SOPs and checklist to follow the rules. Compliance is also strong against these rules and is checked regularly through audits and inspection visits by the CGA.
PI-26 Internal audit	D+	M1
26.1 Coverage of internal audit	B	Within Sindh Government, Internal audit function has been established. The internal audit coverage has been extended to entities representing majority of the expenditure and revenue in Sindh Government.
26.2 Nature of audits and standards applied	B	Internal Audit function is following International Internal Audit Standards Board (IIASB) as well as the provisions of Internal Audit Charter.

26.3 Implementation of internal audits and reporting	D*	Some audits have been undertaken by Internal Audit function through Chartered Accountancy firms, however, the reporting and implementation of internal audit recommendations were not available.
26.4 Response to internal audits	D*	Management's response and action on the internal audit recommendations could not be ascertained.
PI-27 Financial data integrity	D+	M2
27.1 Bank account reconciliation	D	The reconciliation process takes place monthly, however, all reconciliation statements include sizeable unidentified amounts.
27.2 Suspense accounts	D	The suspense account is reconciled monthly, however, there are un-reconciled balances in the DO Suspense Account for two months even after the close of Financial Year.
27.3 Advance accounts	C	Most advances are cleared in a month. The TA advances are cleared within a quarter after the close of the month (based on TA bill submission)
27.4 Financial data integrity processes	B	Detailed processes for ensuring integrity of the financial data are well-defined and a thorough audit trail is maintained. There is however no dedicated unit that oversees financial data integrity.
PI-28 In-year budget report	C	M1
28.1 Coverage and comparability of reports	C	BERs (in-year budget reports) can be compared to the budget documentation at some level of aggregation, usually by departmental/grant level.
28.2 Timing of in-year budget reports	C	Budget execution reports are prepared quarterly and issued within 8 weeks from the end of each quarter. However, none of the above reports provide any quantitative analysis. They only provide outturn data
28.3 Accuracy of in-year budget reports	C	Data inconsistencies persist between the BERs and the monthly accounts, especially comparisons are difficult given the different levels of aggregation of the reports. Budget analysis is only published annually.

PI-29 Annual financial reports	C+	M1
29.1 Completeness of annual financial reports	C	Detailed information on revenues, expenditures and cash flows are presented, however, information on long-term commitments is severely deficient. Information on asset and liabilities is available on historical cost basis as method of accounting is modified cash basis of accounting.
29.2 Submission of reports for external audit	B	Submission of error free financial reports takes place within 6 months after the end of fiscal year.
29.3 Accounting standards	B	IPSAS cash basis accounting formats are used for compilation of financial statements and cover majority of the mandatory disclosures. Variations between international and national reporting standards are disclosed in the reports.
PI-30 External audit	D+	M1
30.1 Audit coverage and standards	C	Financial reports of provincial government entities representing majority of total expenditures and revenues have been audited, using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant significant issues.
30.2 Submission of audit reports to the legislature	D	Audit reports were submitted to the legislature after more than nine months from receipt of the financial reports by the audit office for the last three completed fiscal years.
30.3 External audit follow-up	C	PAC follows up on the recommendations however a system to track formal responses by the Executive does not exist.
30.4 Supreme Audit Institution independence	C	The AGP's Directorates in Sindh operate independently from the executive with respect to procedures for appointment and removal of the AGP. They are also independent in terms of planning of audit engagements, and execution of the AGP's budget but not its approval. The AGP has unrestricted and timely access to records, documentation, and

		information for <i>most of the audited entities</i> .
PI-31 Legislative scrutiny of audit reports	D	M2
31.1 Timing of audit report scrutiny	D	Scrutiny of audit reports takes 12 months or more
31.2 Hearings on audit findings	NA	In-depth hearings on key findings of audit reports take place regularly with responsible officers from <i>all</i> audited entities which received a qualified or adverse audit opinion or a disclaimer. However, as none of the most recent audit reports have been securitized this is scored Not Applicable.
31.3 Recommendations on audit by legislature	NA	PAC issues directives for compliance and follows up, however a proper follow up system supported with a monitoring and reporting framework is not available. However, as none of the most recent audit reports have been securitized this is scored Not Applicable.
31.4 Transparency of legislative scrutiny of audit reports	NA	Legislative scrutiny is not open to public, but summary press releases are issued to the state media network. However, as none of the most recent audit reports have been securitized this is scored Not Applicable.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
<p>1. Control environment</p>	<p>Control environment is the foundation on which an effective system of internal control is built and operated in an organization that strives to (1) achieve its strategic objectives, (2) provide reliable financial reporting to internal and external stakeholders, (3) operate its business efficiently and effectively, (4) comply with all applicable laws and regulations, and (5) safeguard its assets⁴⁸. The over-arching framework for control environment has been defined in the primary document i.e., Constitution of Pakistan. The relevant provisions can be found in Part VI of the Constitution (Finance, Property, Contracts and Suits). The secondary documentation which takes its legal coverage from the Part VI are in the form of Legislations, Codes (including but not limited to Esta Code, GFR, Account as well as Audit codes etc.), Rules and notifications. Overall, a robust framework for the control environment is provided for in the statutes. However, missing elements to make it further effective include an Internal Audit Charter which clearly specifies the Control environment and consolidates the overall framework under one document. On a positive note, Sindh Government has established an Internal Audit function with a Charter. While there is pending issue of separation of Audit and Accounts administratively (since the Auditor General still exercises control over the administrative function of Pakistan Audit and Accounts Service), functional separation has taken place by placing the Controller General of Accounts (apex body for consolidation and maintenance of accounts for Federal and Provincial Governments) under the Ministry of Finance. In addition, independence of the Auditor General in terms of appointment as well as budget may need further reform for the Supreme Audit Institution to contribute towards effective PFM and without any constraints. Furthermore, the SPFAA 2019 includes the positions of Chief Finance Officer (CFOs) and Internal Audit Officers (IAO) at the Departmental level which will contribute towards the overall PFM framework in Sindh.</p>
<p>1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization</p>	<p>The primary documents for Civil Servants which outline the principles for the ethical and integrity framework are provided in the Esta Code as well as General Financial Rules (Standards of financial propriety), Cabinet division notifications (gifts by public servants and deposit in Toshakhana) and Procurement law (Code of ethics and integrity pact).</p>

⁴⁸ As defined by Institute of Internal Auditors, US

1.2 Commitment to competence	As stated above, the competency framework and commitment are defined in the civil service structure notified in the relevant codes (ESTA Code) and procedures of the Sindh Government. However, in practice inconsistencies occur where individuals from different service groups are posted to positions where the requirements are different from the trainings received by the individuals
1.3 The “tone at the top” (i.e., management’s philosophy and operating style)	On various occasions, PAC reports have identified poor compliance with PAC directives by the Executive and the Auditor General has identified repeatedly the lack of focus on strengthening internal controls in the Line Departments. The introduction of CFO and IAO will further strengthen the internal control framework, however, the law stipulates that the positions will be filled up within 5 years from the enactment of the act. In addition, based on the recommendations given by PAC and the PAOs need to further streamline the internal control mechanisms in their respective Departments.
1.4 Organizational structure	An organizational structure is present in all Government Departments, representing the hierarchy and the administrative and functional reporting requirements.
1.5 Human resource policies and practices	HR policies and procedures are provided for in the Esta code, civil servants act (appointment, promotion and transfer rules), efficiency and discipline rules and other related rules and policies issued from time to time.
2. Risk assessment	Establishment of Debt Management Unit (DMU) has strengthened the risk assessment framework at Provincial level; however, risk assessment is the key weaknesses found in the government operations. A rudimentary level revenue risk assessment is not carried. Internal audit though at pilot stage however focuses on the financial compliance. The absence of a debt management strategy indicates lack of risk assessment. Similarly, fiscal risk reporting is weak owing to lack of monitoring of corporations and weaknesses in monitoring the SNGs.
2.1 Risk identification	While DMU is the primary body for risk identification, inputs are given by the different wings of Finance Department regarding risk identification and assessment.
2.2 Risk assessment (significance and likelihood)	As stated above, primary body responsible for risk assessment, evaluation and risk appetite functions is DMU, however, inputs are given by different wings of the Finance Department.
2.3 Risk evaluation	
2.4 Risk appetite assessment	
2.5 Responses to risk (transfer, tolerance, treatment or termination)	Not available

3. Control activities	Control activities tend to get compromised owing to disintegrated budgeting, Manual procedures parallel to automated system and gaps in practice in Segregation of duties
3.1 Authorization and approval procedure	Procedurally, eight key steps (PI 25) are required to be followed in all expenditure transactions, as stipulated in the Accounting Policies and Procedure Manual (APPM) that includes sanction of expenditure; preparation of claim voucher (bill) for payment (except for salaries and wages); approval of expenditure; registration of purchase order/claim voucher; certification (pre-audit) of claims; authorization of payment; issue of payment; recording of expenditure in the accounting records. A comprehensive process flow model in respect of major categories of expenditures is provided in APPM. ⁴⁹
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is comprehensively provided for in the APPM and related documents. The CGA notified a three-tier segregation for data entry, pre-audit and cheque issuance. However, in practice these tend to get compromised in the event of shortage of staff.
3.3 Controls over access to resources and records	Financial data integrity is ensured with a comprehensive mechanism of access and changes to records with an audit trail.
3.4 Verifications	Multiple levels of checks are in place at the AG Sindh Office and counter checked by the DG Sindh Audit.
3.5 Reconciliations	The reconciliation of bank accounts and advances are conducted on monthly basis.
3.6 Reviews of operating performance	The reviews of operating performance are generally undertaken by DG Sindh Audit.
3.7 Reviews of operations, processes and activities	
3.8 Supervision (assigning, reviewing and approving, guidance and training)	Authorizations are defined in the delegation of financial powers rules and the APPM.
4. Information and communication	Monthly civil accounts are available online to facilitate the management decision support system. The framework in terms of rules of business and complementary rules and manuals is available and defines the flow of information inter and intra-departmental.
5. Monitoring	The function exists however weaknesses were found in the institutional arrangement, timeliness and quality of reporting.
5.1 Ongoing monitoring	Planning and Development Department and Finance Department monitor development and current budget of budgetary and Extra-

⁴⁹ Taken from APPM

	<p>budgetary units (PI 6, 11, 8, 26 and 28). DG Sindh audit conducts inspections for the adequacy of internal controls. Internal audit is weak. External mechanism (PI 18, 30 and 31) in terms of audit and legislative oversight of the budget (Ex ante) and fiscal operations (Ex post) is provided for in the government systems.</p>
<p>5.2 Evaluations</p>	<p>The M&E wing of Planning and Development Department conducts external monitoring and impact evaluation studies.</p> <p>From fiduciary controls perspective, the lack of a robust internal audit function the evaluations of internal controls do not take place while the Sindh Audit and AG Sindh conducts internal control process evaluations.</p>
<p>5.3 Management responses</p>	<p>The Management’s approach towards the internal control framework is deficient. The instructions for compliance with the legal framework are issued from time to time, yet successive audit findings identify weak controls as a systemic issue.</p>

Annex 3. List of Surveys and Analytical Work

Annex 3A. Sources of information

Sr. No.	Institution	Title	Date	Link
1	Auditor General Pakistan	Annual Report (2016-17) and (2017-18)	2017	www.agp.gov.pk
2	Auditor General Pakistan	Strategic Plan (2014-2019)	2014	www.agp.gov.pk
3	IMF	Fiscal Monitoring/Article IV consultation report	2009 and 2015	www.imf.org
4	NFC, Pakistan	NFC Award Biannual report	2017 and 2018	www.finance.gov.pk/nfc/reportofthenfc_2009.pdf
5	PEFA Secretariat	Sindh Public Financial Management and Accountability Reports	2009 and 2013	www.pefa.org
6	PEFA Secretariat	PEFA assessment guidelines	2016	www.pefa.org
7	World Bank	Pakistan-Second Improvement to Financial Reporting and Auditing Project – Implementation completion report review	2015	http://documents.worldbank.org/curated/en/824391468185393598/pdf/ICRR14855-P076872-Box394823B-PUBLIC.pdf
8	Asian Development Bank	Pakistan: Public Sector Enterprises Reform Program (Subprogram 2) – Completion Report		https://www.adb.org/projects/documents/pak-48065-003-pcr
9	World Bank	PFM and accountability to support service delivery PforR – Disclosable version of ISR – PFM and accountability to support service delivery PforR – P157507 – Implementation Status and Results Report	Feb-2019	http://documents.worldbank.org/curated/en/264301549374422800/pdf/Disclosable-Version-of-the-ISR-PFM-and-accountability-to-support-service-delivery-PforR-P157507-Sequence-No-02.pdf
10	World Bank	Pakistan – Debt Management Strengthening Program Project	April -2017	http://documents.worldbank.org/curated/en/644161493631714210/pdf/PP2263-PJRP-

				P161451-PUBLIC-2017-04-25-Final.pdf
11	Pakistan Institute of Development Economics (PIDE)	Medium Term Budgetary Framework – Issues, Challenges and Prospects in Pakistan by Saifullah Khalid, Muhammad Jahangir Khan and Karim Khan		https://www.pide.org.pk/psde/pdf/AGM33/papers/Saif%20Ullah%20Khalid.pdf
13	Oxford Policy Management	Fiscal Transparency in Pakistan – Rapid Improvement in two provinces	July 2017	https://www.opml.co.uk/files/Publications/corporate-publications/briefing-notes/in-depth-fiscal-web.pdf?noredirect=1
14	European Union	Pakistan – Multi annual indicative program – 2014-2020	2014	https://eeas.europa.eu/sites/eeas/files/mip20142020-programming-pakistan-20140811_en.pdf

Annex 3B: List of persons met

S. No	Name	Designation	Contact No (dial 00-92-21 before number for Karachi)
1	Najam Ahmed Shah	Secretary Finance	021-99222101
2	Syed Baqar Naqvi	Special Finance Secretary (Res/LF)	021-99222166
3	Ms Iffat Malik	Additional Finance Secretary (B&E)	021-99222144
4	Asif Jahangir	Additional Finance Secretary (Dev)	021-99222170
5	Moazzam Mari	Additional Finance Secretary (LF)	021-99222135
6	Riaz Gill	Additional Finance Secretary (Res)	021-99222122
7	Nisar Ahmed Shaikh	Additional Finance Secretary (Admin/SR)	021-99222198
8	Altaf Ahmed Soomro	Director (PFC/NFC)	0334-3730307
9	Syed Shahnawaz Nadir Shah	Chief Investment Specialist	0300-2339308
10	Ali Sibtain	Director (PPP Unit)	0333-3044754
11	Asad Ali Khan	Director ERU	021-99201727
12	Muhammad Amir Ansari	Sr Program Officer (ERU)	0341-2084478
13	Muhammad Afzal Channa	Sr Program Officer (PFM)	0301-2196874
14	Samiullah Shaikh	DS (B&E-I)	0333-2335421
15	M. Aslam Soomro	DS (Res-I)	0334-3603395
16	Athar Bahzad	DS (Dev-I)	0300-3448554
17	Aftab Ahmed Qazi	Deputy Director IT (Dev)	0300-9204623

18	Abdul Rauf Samo	Program Officer (RCU), ERU	0333-7133999
19	Muhammad Sharif Phulpoto	Program Officer (MTBF), ERU (PEFA Coordinator)	0333-2474195
20	Abdul Basit Memon	Fiscal & Financial Manager (MTBF)	0345-3570983
21	Kashif Mumtaz Shaikh	Debt Management Specialist	0321-2686735
22	M. Sadiq Yonus	Program Officer (FMH)	0345-3105918
23	Muhammad Azeem	Section Officer (B&E-I)	0300-2505701
24	Ehtesham Asghar	Section Officer (D&R)	0300-8275107
25	Zaheer Ali	Section Officer (LF)	0345-2121567

Annex 3C: Sources of Information by Indicator

Indicator	Sources
PI-1 Aggregate expenditure outturn	‘Annual Appropriation Accounts’ and ‘Annual Financial Statements’. (2015-16, 2016-17, 2017-18) ‘Budget Analysis’ (2015-2018) ‘Annual Budget Statements’ (2015-18)
PI-2 Expenditure composition outturn	‘Annual Appropriation Accounts’ and ‘Annual Financial Statements’. (2015-16, 2016-17, 2017-18). ‘Budget Analysis’ (2015-2018) ‘Annual Budget Statements’ (2015-2018)
PI-3 Revenue outturn	Annual Appropriation Accounts’ and ‘Annual Financial Statements’. (2015-16, 2016-17, 2017-18). ‘Budget Analysis’ (2015-2018) ‘Annual Budget Statements’ (2015-2018)
PI-4 Budget classification	Chart of Accounts and IMF Article IV consultation Report. IMF (2014) GFSM
PI-5 Budget documentation	All Budget Publication available on Finance Department website as well as Budget Strategy Paper and Medium-Term Budgetary Statement
PI-6 Provincial government operations outside financial reports	Information provided by Finance Department through Resource and other relevant wings of Finance Department.
PI-7 Transfers to SNG	NFC Reports and notification of funds transfer.
PI-8 Performance information for service delivery	Budget Strategy Paper and Medium-Term Budgetary Statement
PI-9 Public access to fiscal information	All Budget Publication available on Finance Ministry website, Monthly and Annual civil accounts, External Audit reports, Performance audit reports. Annual Financial Statements
PI-10 Fiscal risk reporting	Audit annual financial statements, Budget Strategy Paper and MTBS.
PI-11 Public investment management	1. Planning and Development Department, Government of Pakistan (2008) ‘Guidelines for project management’ 2. PSDP, Planning and Development Department
PI-12 Public asset management	Budget Documents, Stock/Asset register
PI-13 Debt management	Budget documents, Debt sustainability analysis
PI-14 Macroeconomic and fiscal forecasting	Budget Documents, Budget Strategy Paper
PI-15 Fiscal strategy	Budget Strategy Paper

PI-16 Medium-term perspective in expenditure budgeting	Budget Strategy Paper and MTBS
PI-17. Budget preparation process	Budget Call Circular. Development budget formulation guidelines by Planning and Development Department, Budget proposal Submission letter to Provincial Assembly by Finance Department.
PI-18 Legislative scrutiny of budgets	Provincial Assembly Rules of Business, Calendar of Assembly's budget sessions notified to the legislators. Record of the demand for grants for legislative review. Confirmation from the Provincial Assembly on budget proposal submission and approval dates.
PI-19. Revenue administration	Laws, rules and taxpayer information on the SRB website, and as shared by SRB officials; and discussions held with private sector representatives
PI-20 Accounting for revenue	SBR revenue reports; Finance Department website; CGA reports; discussions/verification of information by SBP
PI-21 Predictability of in-year resource allocation	AG projected Cash position statement, Budget re-appropriation data, Finance Department, SBP Monetary reports.
PI-22 Expenditure arrears	
PI-23 Payroll controls	APPM; Financial Statement 2014/15; APPM Forms; Payroll Input Forms;
PI-24 Procurement	SPPRA Act and Procurement-Rules, PSDP Planning and Development Department. Annual budget proposals and enacted budgets, Budget Execution Reports, monthly and annual civil accounts, external audit reports.
PI-25 Internal controls on non-salary expenditure	General Financial Rules; BCC; MTBS; Financial Statements
PI-26 Internal audit	Internal audit Charter, Internal Audit Plans for different Department, Internal Audit Reports.
PI-27 Financial data integrity	APPM; Monthly Bank Reconciliation Statements; Quarterly Bank Reconciliation Statements; Monthly Advises issued by SBP for inter-provincial/inter-district adjustments; Appropriation Control Registers; Treasury Rules; General Financial Rules
PI-28 In-year budget reports	Chart of Accounts; Financial Statements & Appropriation Accounts, AGPR Monthly Civil Accounts, Pakistan Fiscal Operations
PI-29 Annual financial reports	System of Financial Control and Budgeting 2006. Treasury Rules. 'Annual Appropriation Accounts' and 'Annual Financial Statements' Confirmation letters from Auditor General indicating the dates of submission of accounts for audit
PI-30 External audit	Constitution of Pakistan (relevant articles). Controller General of Accounts of Auditor General Pakistan Ordinance (2001). Sample minutes of the DAC meetings, Audit Reports and sample working papers. Notifications Auditor General's Office
PI-31 Legislative scrutiny of audit reports	Sample working papers submitted for legislative scrutiny by the Line Departments. Meeting schedule notified for PAC hearings, External Audit Reports.

Annex 4: Tracking change in performance based on previous version of PEFA

Green = PI has improved

Red = PI has deteriorated

	Indicator/Dimension	Score 2013	Score 2019	Description of Requirements Met in Current Assessment	Explanation of change
HLG	Transfers from HLG	D+	D+		No change in performance
HLG-1.1	Outturn of transfers from HLG	B	C	Transfers were 94.3%, 86.3%, and 82.3% of the original budget in the FY 2015-2016, 16-17, and 17-18	Performance deteriorated due to difference between forecast and actual receipt from GoP being more than 10% in the last two fiscal years
HLG-1.2	Earmarked grants outturn	D	D	Variance in the earmarked transfers were greater than 10% in all 3 fiscal years (FY 2015-2016, 16-17, and 17-18)	No change in performance
HLG-1.3	Timeliness of transfers from HLG	D	C	A disbursement table is agreed on by all stakeholders at the beginning of the FY. 50% of actual disbursement have been on time in two of the last three FYs.	Performance improved due to lower in-year variations as compared to previous assessment years
A. PFM-OUTTURNS: Credibility of the Budget					
PI-1	Aggregate expenditure outturn compared to original approved budget	C	C	Scoring Method M1	
				Aggregate expenditure outturn was between 85% and 115% of the approved aggregate	No change in performance

				budgeted expenditure in at least two of the last three years.	
PI-2	Composition of expenditure outturn compared to original approved budget	C	C+	Scoring Method M1	
PI-2 (i)	Extent of the variance in expenditure composition during the last three years, excluding contingency items	C	C	Variance in expenditure composition by functional classification was <i>less than 15 percent</i> in two out of the last three fiscal years.	No change in performance
PI-2 (ii)	The average amount of expenditure actually charged to the contingency vote over the last three years	NR	A	There is no expenditure charged to contingency vote as GoS does not use contingency as a budget code	The dimension was not scored in the prior PEFA review
PI-3	Aggregate revenue outturn compared to original approved budget	D	C	Scoring Method M1	No change in performance
			C	Actual revenue was less than 94% and more than 92% of the budgeted revenue during two of the last three financial years.	
PI-4	Stock and monitoring of expenditure payment arrears	NR	NR	Scoring Method M1	
PI-4 (i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year and any recent change in the stock	N/A	NR	Government uses a modified cash-basis accounting system and there is no centralized mechanism for monitoring or maintaining a stock of arrears.	No change in performance
PI-4 (ii)	Availability of data for monitoring the stock of expenditure payment arrears	D	NR		No change in performance

B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5	Classification of the budget	A	A	Scoring Method M1	
				Budget formulation, execution, and reporting use a classification system that can produce consistent documentation comparable with GFS/COFOG 1986, however with certain modifications. Development budget is presented as a single line item therefore does not include sub functional classification.	No change in performance
PI-6	Comprehensiveness of information included in budget documentation	B	B	Scoring Method M1	
				Sindh Government provides three basic elements and two additional elements in its budget documents. Elements 5 and 6 are not applicable to Sindh being a SNG.	No change in performance
PI-7	Extent of unreported government operations	D+	NR	Scoring Method M1	Insufficient information therefore the rating has dropped
PI-7 (i)	The level of extra-budgetary expenditure (other than donor funded projects which is unreported)	A	NR	Complete data could not be generated regarding expenditure related to Extra-budgetary units.	
PI-7 (ii)	Income/expenditure information on donor-funded projects which is included in fiscal reports	D	NR	Data of foreign funded off budget projects was not available, nor could the total revenue from Extra-budgetary units be determined	

PI-8	Transparency of inter-governmental fiscal relations	A	B	Scoring Method M2	
PI-8 (i)	Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from provincial government (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.	No change in performance
PI-8 (ii)	Timeliness of reliable information to SN governments on their allocations from provincial government for the coming year;	B	C	The Local Governments receive budget ceilings after passage of the provincial budget (end June). The local government budget calendar is also from July to June. Due to delay in issuance of ceilings, budget planning and timelines at Local level are also impacted	Performance dropped due to delay in issuance of ceilings for the local governments
PI-8 (iii)	Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories	A	B	Local fund audit collects information for more than 75 percent of the SN governments and consolidates it for audit purposes	Rating slightly declined due to delays in generation of fiscal reports
PI-9	Oversight of aggregate fiscal risk from other public-sector entities	C+	D+	Scoring Method M1	
PI-9 (i)	Extent of provincial government monitoring of Autonomous entities and Public Enterprises	C	D	There is no formal mechanism for monitoring public corporations, especially regarding submission of their annual accounts (audited/unaudited within a given period).	Performance dropped due to lack of formal mechanism for monitoring public corporations.

PI-9 (ii)	Extent of provincial government monitoring of SN governments fiscal position	A	A	The Local Governments are not allowed to create debt. Local Fund audit consolidates the fiscal position of the local governments.	No change in performance
PI-10	Public access to key fiscal information	C	B	Scoring Method M1	
				Annual budget, in year budget execution reports and year-end financial statements are available on websites in stipulated time.	Performance improved due to more fiscal information provided to the public.
C. BUDGET CYCLE					
C (i) Policy-Based Budgeting					
PI-11	Orderliness and participation in the annual budget process	B+	B	Scoring Method M2	
PI-11 (i)	Existence of and adherence to a fixed budget calendar	A	A	A clear BCC exists and is generally adhered to. FD issued BCC in Nov 2017 (for budget year 2017-18) and were allowed at least 6 weeks to prepare the budget estimates.	No change in Performance
PI-11 (ii)	Guidance on the preparation of budget submissions	C	D	The BCC for the budget year 2017-18 included detailed guidelines and forms but indicative budget ceilings were not included for administrative or functional areas	Performance dropped since indicative budget ceilings were not included for administrative or functional areas
PI-11 (iii)	Timely budget approval by the legislature	A	A	Government of Sindh submitted budget proposals to the legislature less than one month before the start of fiscal year.	No change in Performance

PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	D+	Scoring Method M2	
PI-12 (i)	Multi-year fiscal forecasts and functional allocations	D	D	Only Budget Strategy Paper has a medium-term perspective. All documents, which are part of the Budget proposal, do not have a medium-term perspective	No change in performance
PI-12 (ii)	Scope and frequency of debt sustainability analysis	D	C	Debt sustainability analysis and Debt Bulletin are prepared annually	Performance improved due to annual debt sustainability analysis
PI-12 (iii)	Existence of sector strategies with multiyear costing of recurrent and investment expenditure	D	C	Medium-term sector strategies are prepared for majority of the sectors - Agriculture, Education, Health, however, summary of information is provided at the Aggregate level.	Performance improved due to sector strategies being considered in some of the line Departments.
PI-12 (iv)	Linkages between investment budgets and forward expenditure estimates	D	C	Some line Departments follow medium term rolling plans due to which there is alignment of strategic plans with expenditure policy proposals. This in turn impacts the investment budgets as well.	Performance improved some line ministries are following sector plans resulting in some linkage between investment budget and forward expenditure estimates.
C(ii) Predictability and Control in Budget Execution					
PI-13	Transparency of taxpayer obligations and liabilities	B	B	Scoring Method M2	

PI-13 (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.	No change in performance
PI-13 (ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	B	Information on major taxes, applicability, and assessment procedures is available to taxpayers, which are further facilitated through media campaigns in some cases.	No change in performance
PI-13 (iii)	Existence and functioning of a tax appeals mechanism	B	B	A tax appeal system exists but is not standard due to the nature so taxes and has a varied performance in the three revenue authorities. In a few cases Conflict of interest in terms of tax administrator reviewing complaints exist	No change in performance
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+	C	Scoring Method M2	
PI-14 (i)	Controls in the taxpayer registration system	D	C	The entity that collects the majority of revenues undertakes audits following the guidance of a 2016 compliance program and is working on cases selected by the risk parameters. So far, it has completed the	Rating improved due to improvement in registration system (automation) and compliance.

				majority of planned audit for FY2017-18.	
PI-14 (ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	Penalties for non-compliance exist and are applied to encourage registration and declaration obligation – resulting in increased number of registered taxpayers and filers. However, there is a large number of potential taxpayers, who are still out of tax net or not regularly filing tax returns. The effectiveness of penalties depends on adoption of proper risk-based management practices.	Performance has remained the same
PI-14 (iii)	Planning and monitoring of tax audit and fraud investigation programs	D	C	The entity that collects the majority of revenues undertakes audits following the guidance of a 2016 compliance program and is working on cases selected by the risk parameters. So far, it has completed the majority of planned audits for FY2017-18.	Performance has improved due to implementation of a compliance program, which entailed more risk-based tax audits
PI-15	Effectiveness in collection of tax payments	B+	D+	Scoring Method M1	
PI-15 (i)	Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	B	D	Sufficient information is not available. Information available on the stock of revenue arrears at the end of the last completed fiscal and on revenue arrears older than 12 months is not sufficient to calculate this indicator/dimension.	Based on available data, performance deteriorated due to arrears showing a rising trend as compared to previous assessment. In

					addition, the system to manage arrears is inefficient/manual, due to which a comprehensive and updated information is not readily available.
PI-15 (ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	Entities collecting most of the provincial government revenues use the Treasury account for the revenue collection. The amount of collection outside the treasury as identified by the Revenue receipts audit was relatively small as compared to total revenue collection	Performance has remained the same.
PI-15 (iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	B	C	Monthly reconciliation of tax and non-tax collection and transfer takes place but not of the assessments and the arrears.	Performance has deteriorated due to less frequent account reconciliations between SRB and Treasury, and high level of variations reported (which are later rectified in annual report).
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+	Scoring Method M1	
PI-16 (i)	Extent to which cash flows are forecast and monitored	B	C	The cash forecast is provided for the full year but only 25% of total revenue is updated on a monthly basis.	Performance deteriorated due to lack of monthly cash forecasting of total revenues.

PI-16 (ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C	B	Budgetary units are provided information on commitment ceilings at least quarterly in advance	Performance improved greater reliability and horizon of periodic in-year information.
PI-16 (iii)	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	C	C	There are significant in-year budget adjustments to budget allocations which are frequent as well as partially transparent.	No change in performance
PI-17	Recording and management of cash balances, debt and guarantees	B+	B	Scoring Method M2	
PI-17 (i)	Quality of debt data recording and reporting	C	C	Domestic and foreign debt and guaranteed debt records are updated annually, and reconciliations are performed annually as well as areas where reconciliation requires additional information to be complete are acknowledged in debt sensitivity analysis.	No change in performance
PI-17 (ii)	Extent of consolidation of the government cash balances	B	C	The government does not have a Treasury Single Account. Some of the extra-budgetary units are not linked to the government accounts and the SBP cash position does not include deposits of government entities in the scheduled banks.	Performance deteriorated as commercial bank accounts for EBUs are separately maintained and not consolidated into government cash balance.
PI-17 (iii)	Systems for contracting loans and issuance of guarantees	A	A	Constitution provides for the debt creation authority and responsibility. FD at the	No change in performance

				provincial level is responsible for the debt management and the provincial assembly approves the borrowing by the government	
PI-18	Effectiveness of payroll controls	C+	B+	Scoring Method M1	
PI-18 (i)	Degree of integration and reconciliation between personnel records and payroll data	D	A	Payroll is supported with relevant documentation and examined against prior month's data. Staff hiring is controlled by budget availability and approved staff strength. In year changes in staffing due to promotions with retrospective effect is addressed through supplementary grants	Performance has improved. The sanctioned strength is on the system. This point was not taken up in the previous assessment which is an inherent practice at AGPR. In addition, there has been improvement in regular reconciliation between payroll data and personnel records.
PI-18 (ii)	Timeliness of changes to personnel records and the payroll	A	A	The retroactive adjustments were 2.6% of the total salary payments in the year 2017-18	No change in performance
PI-18 (iii)	Internal controls of changes to personnel records and the payroll	A	A	There are several internal control mechanisms on the payroll, including pre-audit of any changes, and limited access to the system. In addition, authorization and basis of changes in personnel record has been specified in General	No change in performance

				Financial Rules and APPM.	
PI-18 (iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	C	B	Payroll is audited annually as part of certification audit but in-depth audits on the payroll are conducted through compliance audits, which are conducted for only a few departments annually. AG Office also has a monitoring unit which reviews the expenditure on annual basis.	Performance has improved as a result of focus on specific payroll audits especially during the certification and compliance audits.
PI-19	Competition, value for money and controls in procurement	C+	B+	Scoring Method M2	
PI-19 (i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	A	A	Spending units have all relevant procurement records available. These records were independently verified by Bank	No change in performance.
PI-19 (ii)	Use of competitive procurement methods	D	B	Majority (70%) of the procurements followed competitive process.	Performance improved since entities followed pre-requisites of competitive bidding like public advertisement, notifying procurement committee, contract management etc. Exemptions and exceptions to procurement were consistent with Rules

PI-19 (iii)	Public access to complete, reliable, and timely procurement information	D	B	Five of the Six listed requirements are met for majority of the procurements.	Performance improved since 5 out of 6 requirements were met.
PI-19 (iv)	Existence of an independent administrative procurement complaints system	B	B	Complaint mechanism meets 6 out of the 7 criteria under PEFA 2011, including the criterion where complaints are reviewed by a body which: comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from private sector and civil society as well as government, which has been discontinued under PEFA 2016. Please refer to SPPR rules dated March 8, 2010.	No change in Performance.
PI-20	Effectiveness of internal controls for non-salary expenditure	C	C+	Scoring Method M1	
PI-20 (i)	Effectiveness of expenditure commitment controls	C	C	Budgetary checks and releases are the primary tools of commitments controls. Releases help with cash management, but at times are used at the discretion of the Finance Department without any adequate communication to the line departments. Line departments also use releases for payment management and do not restrict commitments as per the releases.	No change in performance.

PI-20 (ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures	C	C	Detailed legal framework (Laws, rules and guidelines) stipulates the internal control procedure. Rules like delegation of financial power rules were revised, however some of the rules like Treasury and supplementary rules needs to be updated to match the Manual of Accounting practices (1999) to avoid duplication	No change in performance.
PI-20 (iii)	Degree of compliance with rules for processing and recording transactions	C	B	Payment rules and procedures are clearly outlined, and the AG office has its own SOPs and checklist to follow the rules. Compliance is also strong against these rules and is checked regularly through audits and inspection visits by the CGA.	Rating improved with capacity and systems development
C(iii) Accounting, Recording and Reporting					
PI-21	Effectiveness of internal audit	NR	D+	Scoring Method M1	
PI-21 (i)	Coverage and quality of the internal audit function	D	B	Within Sindh Government, Internal audit function has been established. The internal audit coverage has been extended to entities representing majority of the expenditure and revenue in Sindh Government. In addition, Internal Audit function is following International Internal Audit Standards Board	Performance improved due to establishment of Internal Audit function and having coverage for majority of expenditure and revenues. Moreover, Internal Audit activities have focus on financial compliance,

				(IIASB) as well as the provisions of Internal Audit Charter, although the Internal Audit Charter has not been rolled out.	therefore, there is improvement as compared to last assessment
PI-21 (ii)	Frequency and distribution of reports	D	D	Some audits have been undertaken by Internal Audit function through Chartered Accountancy firms, however, the reporting and implementation of internal audit recommendations were not available.	No change
PI-21 (iii)	Extent of management response to internal audit findings	NR	D	Management's response and action on the internal audit recommendations could not be ascertained.	No change
PI-22	Timeliness and regularity of accounts reconciliation	D+	D	Scoring Method M2	
PI-22 (i)	Regularity of bank reconciliations	D	D	The reconciliation process takes place on monthly basis; however, all reconciliation statements include sizeable unidentified amounts.	No change in performance.

PI-22 (ii)	Regularity of reconciliation and clearance of suspense accounts and advances	C	D	The suspense account is reconciled on monthly basis, however, there are un-reconciled balances in the DO Suspense Account for two months even after the close of Financial Year. In addition, most advances are cleared within a quarter after the close of the month (based on TA bill submission)	Rating deteriorated due to Outstanding advances and suspense accounts
PI-23	Availability of information on resources received by service delivery units	A	D	Scoring Method M1	
PI-23 (i)	Collection and processing of information to demonstrate the resources that were actually received (in cash and kind by the most common front-line service delivery units (focus on primary schools and primary health clinics	A	D	Where service delivery units and cost canters align, reports can be easily generated and published. However, while tracking budgets and expenditure to service delivery level is possible but limited in coverage, the exercise is not carried out and the information is not published.	Performance deteriorated. There are large number of service delivery units for which budgets are managed at Provincial level such as basic health units and dispensaries, primary schools and police stations. The system captures information at the aggregate level but not at the service delivery units even though the system allows for tracking expenditures at the service delivery level, the exercise is not carried out.

PI-24	Quality and timeliness of in-year budget reports	C+	C	Scoring Method M1	
PI-24 (i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	BERs (in-year budget reports) can be compared to the budget documentation at some level of aggregation, usually by departmental/grant level.	No change in performance
PI-24 (ii)	Timeliness of the issue of reports	A	C	Budget execution reports are prepared quarterly and issued within 8 weeks from the end of each quarter. However, none of the above reports provide any quantitative analysis. They only provide outturn data.	While the score has deteriorated this may be due to over optimistic score in previous PEFA. There may have been no change in performance
PI-24 (iii)	Quality of information	C	C	Data inconsistencies persist between the BERs and the monthly accounts, especially comparisons are difficult given the different levels of aggregation of the reports. Budget analysis is only published annually.	No change in performance
PI-25	Quality and timeliness of annual financial statements	C+	C+	Scoring Method M1	
PI-25 (i)	Completeness of the financial statements	C	C	Detailed information on revenues, expenditures and cash flows are presented, however, information on long-term commitments is severely deficient. Information on asset and liabilities is available on	No change

				historical cost basis as method of accounting is modified cash basis of accounting.	
PI-25 (ii)	Timeliness of submission of the financial statements	A	A	Submission of error free financial reports takes place within 6 months after the end of fiscal year.	No change in performance
PI-25 (iii)	Accounting standards used	C	B	IPSAS cash basis accounting formats are used for compilation of financial statements and cover majority of the mandatory disclosures. Variations between international and national reporting standards are disclosed in the reports.	Performance improved due to better quality of financial reporting
C(iv) External Scrutiny and Audit					
PI-26	Scope, nature and follow-up of external audit	C+	D+	Scoring Method M1	
PI-26 (i)	Scope/nature of audit performed (including adherence to auditing standards)	B	C	Financial reports of provincial government entities representing majority of total expenditures and revenues have been audited, using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant significant issues.	Performance has deteriorated because of reduction in the coverage of audit
PI-26 (ii)	Timeliness of submission of audit reports to legislature	B	D	Audit reports were submitted to the legislature after more than nine months from receipt of the financial reports by the audit	Performance has deteriorated. Previous PEFA assessment reported that audit reports were submitted within

				office for the last three completed fiscal years.	8 months, however, current PEFA assessment has observed that it took more than 9 months, therefore, the performance deteriorated.
PI-26 (iii)	Evidence of follow up on audit recommendations	C	C	PAC follows up on the recommendations however a system to track formal responses by the Executive does not exist.	No change
PI-27	Legislative scrutiny of the annual budget law	D+	D+	Scoring Method M1	
PI-27 (i)	Scope of the legislature's scrutiny	C	C	Parliament discusses the revenue and allocations for the next fiscal year. But there is limited discussion on budget priorities, and no discussion on medium term fiscal projections.	No change in performance
PI-27 (ii)	Extent to which the legislature's procedures are well-established and respected	B	C	Legislative procedures are well defined in the Rules of Procedures for the Sindh Assembly, including internal organizations of the Assembly. The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. However, there are no provisions for internal organizational arrangements such as specialized review committees, technical	Performance deteriorated because of optimism in Sindh PEFA 2013

				support, and negotiation procedures.	
PI-27 (iii)	Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	Government of Sindh submitted budget proposals to the legislature less than one month before the start of fiscal year.	No change in performance
PI-27 (iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	B	Clear rules exist for in-year budget adjustments. However, the rules do not account for ex-ante approval for the adjustments by the parliament and there are excessive adjustments by the executive during the year.	Performance improved due to having clear rules for in-year budget adjustments.
PI-28	Legislative scrutiny of external audit reports	D+	D+	Scoring Method M1	
PI-28 (i)	Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	D	D	Scrutiny of audit reports takes 12 months or more	No change in performance
PI-28 (ii)	Extent of hearings on key findings undertaken by the legislature	A	A	In-depth hearings on key findings of audit reports take place regularly with responsible officers from all audited entities which received a qualified or adverse audit opinion or a disclaimer.	No change in performance
PI-28 (iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	D	PAC issues directives for compliance and follows up, however a proper follow up system supported with a monitoring and reporting	Performance deteriorated due to lack of a follow up system.

				framework is not available	
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Annex 5: Calculation sheet for HLG, PI-1, PI-2 and PI-3

HLG 1.1						
Data for year = 2015-16						
HLG Heads	budget	actual	adjusted budget	deviation from adjusted budget	absolute deviation	percent
Development Grants (PSDP & Foreign)	9,663,643,000.00	10,484,999,403.00	9,108,150,477.70	1,376,848,925.30	1,376,848,925.30	15.1%
Other Grants (OZT)	11,326,212,000.00	12,639,954,000.00	10,675,150,482.93	1,964,803,517.07	1,964,803,517.07	18.4%
Foreign Projects Assistance	26,985,298,000.00	6,428,251,512.00	25,434,109,566.09	(19,005,858,054.09)	19,005,858,054.09	74.7%
General Capital Receipts	31,976,630,152.00	12,845,915,656.00	30,138,526,350.18	(17,292,610,694.18)	17,292,610,694.18	57.4%
Revenue Assignment	421,715,488,500.00	424,769,489,097.00	397,474,133,516.21	27,295,355,580.79	27,295,355,580.79	6.9%
Straight Transfers	61,499,934,000.00	63,626,211,000.00	57,964,750,274.89	5,661,460,725.11	5,661,460,725.11	9.8%
Total	563,167,205,652.00	530,794,820,668.00	530,794,820,668.00	0.00	72,596,937,496.54	
Total Transfers	563,167,205,652.00	530,794,820,668.00	530,794,820,668.00			
Total Transfer as % of Budget						94.3%
Data for year = 2016-17						
HLG Heads	budget	actual	adjusted budget	deviation from adjusted budget	absolute deviation	percent
Foreign)	12,188,015,000.00	10,736,580,000.00	10,515,017,798.61	221,562,201.39	221,562,201.39	2.1%
Other Grants (OZT)	13,258,431,000.00	11,757,256,000.00	11,438,502,327.63	318,753,672.37	318,753,672.37	2.8%
Foreign Projects Assistance	28,800,000,000.00	4,426,283,705.00	24,846,745,971.35	(20,420,462,266.35)	20,420,462,266.35	82.2%
General Capital Receipts	35,690,670,515.00	6,177,796,104.00	30,791,563,327.54	(24,613,767,223.54)	24,613,767,223.54	79.9%
Revenue Assignment	493,610,106,000.00	437,138,220,559.00	425,854,337,245.55	11,283,883,313.45	11,283,883,313.45	2.6%
Straight Transfers	54,667,763,000.00	80,373,781,000.00	47,163,750,697.32	33,210,030,302.68	33,210,030,302.68	70.4%
Total	638,214,985,515.00	550,609,917,368.00	550,609,917,368.00	0.00	90,068,458,979.78	
Total Transfers	638,214,985,515.00	550,609,917,368.00				
Total Transfer as % of Budget						86.3%
Data for year = 2017-18						
HLG Heads	budget	actual	adjusted budget	deviation from adjusted budget	absolute deviation	percent
Foreign)	27,326,065,000.00	17,125,018,000.00	22,489,655,900.40	(5,364,637,900.40)	5,364,637,900.40	23.9%
Other Grants (OZT)	14,716,865,000.00	13,727,565,000.00	12,112,143,837.12	1,615,421,162.88	1,615,421,162.88	13.3%
Foreign Projects Assistance	42,741,700,000.00	3,131,302,620.00	35,176,895,231.64	(32,045,592,611.64)	32,045,592,611.64	91.1%
General Capital Receipts	57,514,024,662.00	25,848,793,532.00	47,334,682,988.39	(21,485,889,456.39)	21,485,889,456.39	45.4%
Revenue Assignment	547,641,107,500.00	508,084,949,000.00	450,714,732,054.78	57,370,216,945.22	57,370,216,945.22	12.7%
Straight Transfers	65,167,530,000.00	53,544,085,000.00	53,633,603,139.67	(89,518,139.67)	89,518,139.67	0.2%
Total	755,107,292,162.00	621,461,713,152.00	621,461,713,152.00	0.00	117,971,276,216.19	
Total Transfers	755,107,292,162.00	621,461,713,152.00				
Total Transfer as % of Budget						82.3%

HLG 1.2						
Data for year = 2015-16						
HLG Heads	budget	actual	adjusted budget	deviation from adjusted budget	absolute deviation	percent
Development Grants (PSDP & Foreign)	9,663,643,000.00	10,484,999,403.00	5,952,906,951.74	4,532,092,451.26	4,532,092,451.26	76.1%
Other Grants (OZT)	11,326,212,000.00	12,639,954,000.00	6,977,067,152.80	5,662,886,847.20	5,662,886,847.20	81.2%
Foreign Projects Assistance	26,985,298,000.00	6,428,251,512.00	16,623,230,810.46	(10,194,979,298.46)	10,194,979,298.46	61.3%
Total	47,975,153,000.00	29,553,204,915.00	29,553,204,915.00	0	20,389,958,596.93	
Total earmarked grants outturn	47,975,153,000.00	29,553,204,915.00	29,553,204,915.00			
Actual grants outturn as % of budget						61.6%
Actual vs. budget variance as a%						38.4%
Data for year = 2016-17						
HLG Heads	budget	actual	adjusted budget	deviation from adjusted budget	absolute deviation	percent
Development Grants (PSDP & Foreign)	12,188,015,000.00	10,736,580,000.00	6,048,374,538.05	4,688,205,461.95	4,688,205,461.95	77.5%
Other Grants (OZT)	13,258,431,000.00	11,757,256,000.00	6,579,574,809.76	5,177,681,190.24	5,177,681,190.24	78.7%
Foreign Projects Assistance	28,800,000,000.00	4,426,283,705.00	14,292,170,357.19	(9,865,886,652.19)	9,865,886,652.19	69.0%
Total	54,246,446,000.00	26,920,119,705.00	26,920,119,705.00	0	19,731,773,304.38	
Total earmarked grants outturn	54,246,446,000.00	26,920,119,705.00				
Actual grants outturn as % of budget						49.6%
Actual vs. budget variance as a%						50.4%
Data for year = 2017-18						
HLG Heads	budget	actual	adjusted budget	deviation from adjusted budget	absolute deviation	percent
Development Grants (PSDP & Foreign)	27,326,065,000.00	17,125,018,000.00	10,952,997,818.17	6,172,020,181.83	6,172,020,181.83	56.4%
Other Grants (OZT)	14,716,865,000.00	13,727,565,000.00	5,898,902,393.57	7,828,662,606.43	7,828,662,606.43	132.7%
Foreign Projects Assistance	42,741,700,000.00	3,131,302,620.00	17,131,985,408.26	(14,000,682,788.26)	14,000,682,788.26	81.7%
Total	84,784,630,000.00	33,983,885,620.00	33,983,885,620.00	0	28,001,365,576.51	
Total earmarked grants outturn	84,784,630,000.00	33,983,885,620.00				
Actual grants outturn as % of budget						40.1%
Actual vs. budget variance as a%						59.9%

PI 1.1						
Data for year = 2015-16 (Rs. in million)						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Service	214,437	215,892	188,126	27,766	27,766	14.8%
Defense affairs and services	-	-	-	-	-	0.0%
Economic Affairs	130,741	107,185	114,699	(7,514)	7,514	6.6%
Public order and safety affairs	79,703	69,876	69,923	(47)	47	0.1%
Education affairs and services	157,085	131,898	137,811	(5,913)	5,913	4.3%
Health	69,894	63,753	61,318	2,435	2,435	4.0%
Housing and community amenities	6,977	4,455	6,121	(1,666)	1,666	27.2%
Recreational, culture and religion	6,684	5,888	5,864	24	24	0.4%
Social Protection	75,403	52,289	66,151	(13,862)	13,862	21.0%
Environment Protection	4,453	2,683	3,907	(1,224)	1,224	31.3%
Allocated expenditure	745,377	653,919	653,919	0	60,451	
Repayment of Principal	53,269	41,440				
Total expenditure	798,646	695,359				
Overall (PI-1) outturn %						87.1%
Composition (PI-2) variance %						9.2%
Data for year = 2016-17 (Rs. in million)						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Service	144,729	125,498	137,463	(11,965)	11,965	8.7%
Defense affairs and services	114	66	108	(42)	42	39.0%
Economic Affairs	237,415	278,774	225,495	53,279	53,279	23.6%
Public order and safety affairs	95,616	80,402	90,815	(10,413)	10,413	11.5%
Education affairs and services	175,947	145,901	167,113	(21,212)	21,212	12.7%
Health	76,702	64,053	72,851	(8,798)	8,798	12.1%
Housing and community amenities	57,633	16,775	54,739	(37,964)	37,964	69.4%
Recreational, culture and religion	12,814	13,634	12,171	1,463	1,463	12.0%
Social Protection	68,186	101,272	64,763	36,509	36,509	56.4%
Environment Protection	1,373	448	1,304	(856)	856	65.6%
Allocated expenditure	870,529	826,823	826,823	0	182,503	
Repayment of Principal	52,793	36,540				
Total expenditure	923,322	863,363				
Overall (PI-1) outturn %						93.5%
Composition (PI-2) variance %						22.1%
Data for year = 2017-18 (Rs. in million)						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Service	247,588	215,693	225,698	(10,004)	10,004	4.4%
Defense affairs and services	105	72	96	(24)	24	24.8%
Economic Affairs	202,087	199,785	184,220	15,565	15,565	8.4%
Public order and safety affairs	106,714	97,776	97,279	497	497	0.5%
Education affairs and services	198,523	165,446	180,971	(15,525)	15,525	8.6%
Health	108,962	97,967	99,328	(1,361)	1,361	1.4%
Housing and community amenities	14,201	10,378	12,945	(2,567)	2,567	19.8%
Recreational, culture and religion	16,881	14,494	15,389	(895)	895	5.8%
Social Protection	110,987	116,194	101,174	15,020	15,020	14.8%
Environment Protection	1,309	489	1,193	(704)	704	59.0%
Allocated expenditure	1,007,357	918,294	918,294	0	62,162	
Repayment of Principal	53,593	18,033				
Total expenditure	1,060,950	936,327				
Overall (PI-1) outturn %						88.3%
Composition (PI-2) variance %						6.8%

PI 2.1						
Data for year = 2015-16 (Rs. in million)						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Service	214,437	215,892	187,568	28,324	28,324	15.1%
Defense affairs and services	-	-	-	-	-	0.0%
Economic Affairs	163,978	134,319	143,431	(9,112)	9,112	6.4%
Public order and safety affairs	79,703	69,876	69,716	160	160	0.2%
Education affairs and services	157,085	131,898	137,402	(5,504)	5,504	4.0%
Health	69,894	63,753	61,136	2,617	2,617	4.3%
Housing and community amenities	6,977	4,455	6,103	(1,648)	1,648	27.0%
Recreational, culture and religion	6,684	5,888	5,846	42	42	0.7%
Social Protection	75,403	52,289	65,955	(13,666)	13,666	20.7%
Environment Protection	4,453	2,683	3,895	(1,212)	1,212	31.1%
Allocated expenditure	778,614	681,053	681,053	0	62,285	
Interest on debt	20,032	14,306				
Total expenditure	798,646	695,359				
Overall (PI-1) outturn %						87.1%
Composition (PI-2) variance %						9.1%
Data for year = 2016-17 (Rs. in million)						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Service	175,611	142,109	161,080	(18,971)	18,971	11.8%
Defense affairs and services	114	66	105	(39)	39	36.9%
Economic Affairs	237,415	278,774	217,770	61,004	61,004	28.0%
Public order and safety affairs	95,616	80,402	87,704	(7,302)	7,302	8.3%
Education affairs and services	175,947	145,901	161,388	(15,487)	15,487	9.6%
Health	76,702	64,053	70,355	(6,302)	6,302	9.0%
Housing and community amenities	57,633	16,775	52,864	(36,089)	36,089	68.3%
Recreational, culture and religion	12,814	13,634	11,754	1,880	1,880	16.0%
Social Protection	68,186	101,272	62,544	38,728	38,728	61.9%
Environment Protection	1,373	448	1,259	(811)	811	64.4%
Allocated expenditure	901,411	826,823	826,823	16,610	186,614	
Interest on debt	21,912	19,930				
Total expenditure	923,322	863,363				
Overall (PI-1) outturn %						93.5%
Composition (PI-2) variance %						22.6%
Data for year = 2017-18 (Rs. in million)						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Service	277,333	210,167	244,085	(33,918)	33,918	13.9%
Defense affairs and services	105	72	92	(20)	20	0.0%
Economic Affairs	202,087	199,785	177,860	21,925	21,925	12.3%
Public order and safety affairs	106,714	97,776	93,920	3,856	3,856	4.1%
Education affairs and services	198,523	165,446	174,723	(9,277)	9,277	5.3%
Health	108,962	97,967	95,899	2,068	2,068	2.2%
Housing and community amenities	14,201	10,378	12,498	(2,120)	2,120	17.0%
Recreational, culture and religion	16,881	14,494	14,857	(363)	363	2.4%
Social Protection	110,987	116,194	97,681	18,513	18,513	19.0%
Environment Protection	1,309	489	1,152	(663)	663	57.6%
Allocated expenditure	1,037,102	912,768	912,768	0	92,724	
Interest on debt	23,847	23,560				
Total expenditure	1,060,950	936,327				
Overall (PI-1) variance						88.3%
Composition (PI-2) variance						10.2%

PI 2.2						
Data for the year = 2015-16 (Rs. in million)						
Economic Classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
Civil Works	145,825	117,341	126,964	-9,623	9,623	7.6%
Employee Related Expenses	237,268	219,807	206,580	13,227	13,227	6.4%
Employees Retirement Benefits	46,000	52,811	40,050	12,760	12,760	31.9%
Expenditure on Acquiring of Physical Assets	59,910	47,933	52,162	-4,229	4,229	8.1%
Grants, Subsidies and Writeoffs of Loans/Advances/Others	91,790	90,942	79,918	11,024	11,024	13.8%
Interest Payment	20,032	19,794	17,441	2,353	2,353	0.0%
Investments	4,115	2,510	3,583	-1,072	1,072	29.9%
Loans and Advances	1,000	1,730	871	859	859	98.7%
Operating Expenses	105,135	65,577	91,537	-25,960	25,960	28.4%
Principal Repayments of Loans	53,269	41,440	46,379	-4,940	4,940	10.7%
Project Pre-investment Analysis	155	63	135	-72	72	53.6%
Repairs and Maintenance	20,910	14,058	18,206	-4,148	4,148	22.8%
Transfers	13,237	21,345	11,525	9,820	9,820	85.2%
allocated expenditure	798,646	695,351	695,351	0	100,088	
Interest on Debt						
total expenditure	798,646	695,351				
Overall (PI-1) outturn %						87.1%
composition (PI-2.2) variance %						14.4%
Data for year = 2016-17 (Rs. in million)						
Economic Classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
Civil Works	193,355	189,595	180,799	8,796	8,796	5%
Employee Related Expenses	259,921	238,088	243,042	-4,954	4,954	2%
Employees Retirement Benefits	55,000	70,019	51,428	18,591	18,591	36%
Expenditure on Acquiring of Physical Assets	55,097	63,613	51,519	12,094	12,094	23%
Loans/Advances/Others	106,360	112,352	99,453	12,899	12,899	13%
Interest Payment	21,912	19,930	20,489	-559	559	3%
Investments	19,150	12,950	17,906	-4,956	4,956	28%
Loans and Advances						
Operating Expenses	123,457	92,843	115,440	-22,597	22,597	20%
Principal Repayments of Loans	52,793	36,540	49,364	-12,824	12,824	26%
Project Pre-investment Analysis	20	59	19	40	40	213%
Repairs and Maintenance	25,149	19,377	23,516	-4,139	4,139	18%
Transfers	11,109	7,997	10,388	-2,390	2,390	23%
allocated expenditure	923,322	863,363	863,363	0	104,839	
Interest on Debt						
total expenditure	923,322	863,363				
overall (PI-1) outturn %						93.5%
composition (PI-2.2) variance %						12.1%
Data for year = 2017-18 (Rs. in million)						
Economic Classification	budget	actual	adjusted budget	deviation	absolute deviation	percent
Civil Works	234,116	211,647	206,616	5,032	5,032	2.4%
Employee Related Expenses	300,489	275,282	265,193	10,089	10,089	0.0%
Employees Retirement Benefits	76,046	92,614	67,113	25,500	25,500	38.0%
Expenditure on Acquiring of Physical Assets	50,574	66,106	44,634	21,472	21,472	48.1%
Loans/Advances/Others	135,275	130,537	119,385	11,152	11,152	9.3%
Interest Payment	23,847	23,560	21,046	2,513	2,513	
Investments	17,850	8,960	15,753	-6,793	6,793	43.1%
Loans and Advances			0	0	0	
Operating Expenses	129,486	76,619	114,276	-37,657	37,657	33.0%
Principal Repayments of Loans	53,593	18,033	47,298	-29,266	29,266	61.9%
Project Pre-investment Analysis	65	22	58	-35	35	61.4%
Repairs and Maintenance	26,562	22,993	23,442	-450	450	1.9%
Transfers	13,045	9,956	11,513	-1,557	1,557	13.5%
allocated expenditure	1,060,951	936,327	936,327	0	151,516	
Interest on Debt						
total expenditure	1,060,951	936,327				
overall (PI-1) outturn %						88.3%
composition (PI-2.2) variance %						16.2%

PI 3.1 and 3.2						
Data for the year = 2015-16						
Revenue Outturn	budget	actual	adjusted budget	deviation	absolute deviation	percent
Non-Tax Revenue	19,500,400,300	10,110,110,142	18,365,831,942	(8,255,721,800)	8,255,721,800	45.0%
Other Tax Receipts	63,620,000,500	63,254,540,000	59,918,474,461	3,336,065,539	3,336,065,539	5.6%
Sales Tax on Services	61,000,000,000	61,470,095,250	57,450,910,301	4,019,184,949	4,019,184,949	7.0%
Others	-	29,003	-	29,003	29,003	0.0%
allocated revenue	143,138,886,800	134,810,808,954	135,735,216,704	(900,442,309)	15,611,001,291	
total revenue	143,138,886,800	133,111,625,954				
overall (PI-3.1) revenue outturn %						93.0%
composition (PI-3.2) variance %						11.5%
Data for the year = 2016-17						
Revenue Outturn	budget	actual	adjusted budget	deviation	absolute deviation	percent
Non-Tax Revenue	12,019,900,000	8,597,773,000	11,085,840,754	(2,488,067,754)	2,488,067,754	22.4%
Other Tax Receipts	76,012,970,000	65,954,871,188	70,106,047,527	(4,151,176,339)	4,151,176,339	5.9%
Sales Tax on Services	78,000,000,000	78,637,207,930	71,938,666,613	6,698,541,317	6,698,541,317	9.3%
Others	-	2,761,292	-	2,761,292	2,761,292	0.0%
allocated revenue	166,032,870,000	153,130,554,895	153,130,554,895	62,058,515	13,340,546,702	
total revenue	166,032,870,000	153,130,554,895				
overall (PI-3.1) revenue outturn %						92.2%
composition (PI-3.2) variance %						8.7%
Data for the year = 2017-18						
Revenue Outturn	budget	actual	adjusted budget	deviation	absolute deviation	percent
Non-Tax Revenue	14,006,112,615	15,691,853,117	13,399,371,646	2,292,481,471	2,292,481,471	17.1%
Other Tax Receipts	85,402,477,500	75,995,051,438	81,702,865,527	(5,707,814,089)	5,707,814,089	7.0%
Sales Tax on Services	100,000,000,000	99,360,228,862	95,668,027,344	3,692,201,518	3,692,201,518	3.9%
Others	-	100	-	100	100	0.0%
allocated revenue	199,408,590,115	190,770,264,517	190,770,264,517	276,869,000	11,692,497,178	
total revenue	199,626,922,115	190,770,264,517				
overall (PI-3.1) revenue outturn %						95.6%

Annex 6. Sub-national government profile

Sub-national structure

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

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

A- Overview of sub-national governance structure in Pakistan								
Government level	Corporate body?	Own political leadership?	Approves own budget?	Number of jurisdictions	Population in Million	% Of public expenditure	% Of public revenue	% Funded by transfers
Central	Yes	Yes	Yes	1	207.7	80% (based on ratio of external receipts in Federal budget)	80% (based on ratio of external receipts in Federal budget)	0
SN/ Provinces	Yes	Yes	Yes	4	47.89 (Sindh Actual) National Average: 42	*100%	100%	72
Local Government levels:								
Metropolitan Corporation	Yes	Yes	Yes	01	47.89 m	100%	100%	92%
District Municipal Corporation	Yes	Yes	Yes	06		100%	100%	90%
Corporation	Yes	Yes	Yes	03		100%	100%	90%
Municipal Committee	Yes	Yes	Yes	36		100%	100%	100%
Tehsil Committee	Yes	Yes	Yes	148		100%	100%	100%
Union Committee	Yes	Yes	Yes	351		100%	100%	100%
District Council	Yes	Yes	Yes	24		100%	100%	100%
Union Council	Yes	Yes	Yes	1175		100%	100%	100%

The Constitution obligates the provinces for establishment of the Local Governments (LG) with complete political, administrative and fiscal authority to the elected representatives of the local governments. The provincial election commission is the authorized entity to conduct the provincial and local government elections. The LG system in Sindh has undergone a paradigm change three times in the past 2 decades - Sindh

Local Government Ordinance (2001), Sindh Local Government Act (2013), Sindh Local Government Amendment Act 2017 and Sindh Local Government Amendment Act 2019. Each enactment has changed the structure, function, powers, roles and responsibilities.

The Sindh Local Government (PLG) Act 2013 envisages establishment of local governments through adult franchise and joint electorate with a four-year term. The SLG Act (2013) has re-introduced urban and rural divide whereby every District is divided into an urban area (Town/ Municipal Committees) and rural area (District council and Union councils). The SLG Act (2013) also provides for Metropolitan Corporation, District Municipal Corporation, Corporation and Tehsil Corporation.

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

Main functional responsibilities at the sub-national levels

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

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

Table 6.1: Key Functions
<p>Union Council (UC)</p> <ul style="list-style-type: none"> • Approve: budget of the UC, levy of tax or fee assigned to the UC; • Nominate members of the Panchayat or Musalihat Anjuman and monitor performance • Improve and maintain public ways, public streets, public open spaces, graveyards, public gardens and playgrounds; • Maintain rural water supply schemes and public sources of drinking water, including wells, water pumps, tanks, ponds and other works for the supply of water and open drains; • Establish cattle pounds; Manage and maintain grazing areas, common meeting places and other common property; • Hold fairs and recreational activities; Provide conservancy services in the Union Council; • Registration of births, deaths, marriages and divorces
<p>District Council</p> <ul style="list-style-type: none"> • Approve byelaws and taxes; annual and supplementary budget of the District Council; proposals and long term and short-term development plans; • review the performance of all offices working for the District Council; • promote social counselling to inculcate civic and community spirit and motivate and • galvanize the general public for compliance with municipal laws, rules and byelaws. • control over land-use, spatial planning, land-subdivision, land development and zoning
<p>Municipal Committees</p> <ul style="list-style-type: none"> • Prepare spatial plans for the local government including plans for land use and zoning; • Execute and manage development plans; exercise control over land-use, land-subdivision, land development and zoning • Enforce all municipal laws, rules and byelaws regulating its functioning • Provide, manage, operate, maintain and improve the municipal infrastructure & services • Prepare budget, revised budget, annual and long-term municipal development program; • Approve taxes and fees; Assist in disaster relief
<p>Metropolitan and Municipal Corporations</p> <ul style="list-style-type: none"> • Approve spatial plans, master plans, zoning, land use plans and implement • Implement rules and byelaws governing land use, housing, markets, zoning, environment, roads, traffic, tax, infrastructure and public utilities; <ul style="list-style-type: none"> • Approve proposals for public transport and mass transit systems, construction of express ways, flyovers, bridges, roads, under passes, and inter-town streets; • Approve development schemes for beautification of urban areas; • Develop integrated system of water reservoirs, water sources, treatment plants, drainage, liquid and solid waste disposal, sanitation and other municipal services; • Execute and manage development plans; • Enforce all municipal laws, rules and byelaws governing its functions and prevent and remove encroachments; regulate affixing of signboards and advertisements within its remit • Provide, manage, operate, maintain and improve municipal infrastructure and services, • Environmental control in accordance with Federal and Provincial laws and standards; • Undertake urban design and urban renewal programs; • Develop and maintain museums, art galleries, libraries, community & cultural centers; • Prepare budget, revised budget and annual and long-term municipal development program; • Approve taxes and fees; etc.

Sub-national budgetary systems

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

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

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

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

Sub-national fiscal systems

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

Table 6.2 Overview of Sindh's Finances during the last three years (Rs. in Millions)			
	FY2015-16	FY2016-17	FY2017-18
PROVINCIAL CONSOLIDATED FUND			
RECEIPTS			
General Revenue Receipts			
Federal Transfers and Straight Transfers (Excluding 0.66% Grant)	433,232	444,938	515,516
Provincial Tax Receipts (Own Collection)	122,715	144,338	174,437
Provincial Non-tax Revenue	65,835	81,367	62,445
Other Grants from the Federal Government	29,371	26,920	33,984
TOTAL GENERAL REVENUE RECEIPTS (A)	651,153	697,563	786,382
Borrowings			
Foreign Debt	13,011	6,164	5,836
Domestic Debt	33,396	28,160	20,000
TOTAL BORROWINGS (B)	46,407	34,324	25,836
Recovery of Loans/Advances (C)	15	13	13
Trading Activities (D)	37,233	33,445	26,299

TOTAL PROVINCIAL CONSOLIDATED FUND (A+B+C+D)	734,808	765,345	838,530
EXPENDITURES			
Revenue Expenditure	474,612	567,619	639,712
Capital Expenditure	220,747	295,744	296,615
TOTAL EXPENDITURE	695,359	863,363	936,327

Sub-national institutional (political and administrative) structures

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

The Chief Minister is the executive head in the province and is supported by a Cabinet of Ministers and Advisers. The civil administration comprises of 45 departments.

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

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

Annex 7. List of evaluation reports (PI-11)

Project ID (ADP Number)	Project Title	Implementing Department	Location	Cost (PKR Million)
303	Sindh Basic Education Program (SBEP)	Education	Multiple Districts	870
1097	Sindh Water Sector Improvement Project Phase-I (WSIP-1)	Irrigation	Sindh	2,398
1220	Sindh Barrages Improvement Project (Phase-I) Rehabilitation and Modernization of Guddu Barrage -	Irrigation	Kashmore	1,970
1268	Sindh Resilience Project	Irrigation	Sindh	1,664
1884	Greater Karachi Water Supply Scheme (K-IV) Phase-I	Water and Sewer Board	Karachi	12,775
2438	Construction of Water Carrier from LBOD Spinal Drain RD-362 to Nabisar for Thar Coal Power Generation Units (Revised)	Thar Coal Infrastructure	Tharparkar	12,472
2439	Water Carrier from Nabisar Reservoir to Thar Coalfield	Thar Coal Infrastructure	Tharparkar	15,652
2966	Sindh Provincial Road Improvement Project	Communication and Works	Sindh	2,079