

Report No. 69185-PK

Pakistan Federal Government

Public Financial Management and Accountability Assessment

June 2012

Government of Pakistan and Development Partners



Government of Pakistan



The World Bank Group



European Union



Asian Development Bank

Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

Report No. 69185-PK

Pakistan Federal Government

Public Financial Management and Accountability Assessment

June 2012

Government of Pakistan and Development Partners



Government of Pakistan



The World Bank Group



European Union



Asian Development Bank

FISCAL YEAR
July 1 - June 30

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

Acronyms and Abbreviations

ABS	Annual Budget Statement
ADB	Asian Development Bank
ADR	Alternate Dispute Resolution
AGA	Autonomous Government Agencies
AGP	Auditor General of Pakistan
AGPR	Accountant General Pakistan Revenue
BER	Budget Execution Report
CCOR	Cabinet Committee of Restructuring
CFAO	Chief Finance and Accounts Officer
CGA	Controller General of Accounts
CLA	Controller Local Audit
CMA	Controller Military Accounts
CNIC	Computerized National Identity Card
COA	Chart of Accounts
DAC	Departmental Accounts Committee
DAO	District Accounts Office
DCLA	Deputy Controller Local Audit
DDO	Drawing and Disbursement Officer
DFID	Department for International Development
DG I&I	Director General Inspection and Investigation
DMFAS	Debt Management and Financial Analysis Software
DPCO	Debt Policy Coordination Office
EAD	Economic Affairs Department
ECC	Economic Coordination Committee
EU	European Union
FAM	Financial Audit Manual

FATA	Federally Administered Tribal Area
FBR	Federal Board of Revenue
FD	Finance Division
FTO	Federal Tax Ombudsman
FMC	Fiscal Monitoring Committee
FRDL	Fiscal Responsibility and Debt Limitation Act
FTR	Final Tax Regime
FY	Fiscal Year
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GFS	Government Fiscal Statistics
GFSM	Government Finance Statistics Manual
GoP	Government of Pakistan
IMF	International Monetary Fund
IMF-SBA	IMF Standby Arrangement
IPSAS	International Public Sector Accounting Standard
ISAF	International Security Assistance Force
ISPPIA	International Standards for the Professional Practice in Internal Audit
ITO	Income Tax Ordinance
JICA	Japan International Cooperation Agency
KP	Khyber Pakhtunkhwa
LAO	Local Audit Office
LIFO	Last in First Out
LTU	Large Taxpayer Unit
MAG	Military Accountant General
MAPS	Methodology for Assessing Procurement System
MDA	Ministries, Department and Agencies
MoF	Ministry of Finance
MPR	Monthly Progress Report
MRTB	Market related Treasury Bills
MTBF	Medium Term Budget Framework
MTDF	Medium Term Development Framework
NA	Not Applicable
NTN	National Tax Number
NADRA	National Data Registration Authority
NAM	New Accounting Model

NBP	National Bank of Pakistan
NEPRA	National Electricity Regulatory Authority
NFC	National Finance Commission
NR	Not Rated
NSS	National Saving Scheme
OAGP	Office of Auditor General of Pakistan
OPEC	Organization of Petroleum Exporting Countries
PAAS	Pakistan Audit and Account Services
PAC	Public Accounts Committee
PAO	Principal Account Officer
PD	Project Director
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIFRA	Project to Improve Financial Reporting and Auditing
PLA	Personal Ledger Account
PPR	Public Procurement Rules
PPRA	Public Procurement Regulatory Authority
PRAL	Pakistan Revenue Automation Limited
PRSP	Poverty Reduction Strategy Paper
PSDP	Public Sector Development Program
RA	Revenue Administration
SAE	Self-Accounting Entity
SBA	Stand- by- Arrangement
SBP	State Bank of Pakistan
SN	Sub-national
SOE	State Owned Enterprises
SRO	Statutory Regulatory Orders
STRN	Sales Tax Registration Number
TARP	Tax Administration Reform Project
TMA	Tehsil Municipal Administration
UAO	Unit Accounts Officers
USAID	US Agency for International Development
USAS	Universal Self Assessment Scheme

Table of Contents

Acronyms and Abbreviations	ii
Summary Assessment	1
Chapter 1: Introduction	7
Chapter 2: Background Information	11
2.1. Description of economic situation	11
2.2. Description of budgetary outcomes	13
2.3. Description of the legal and institutional framework for PFM	15
Chapter 3: Assessment of the PFM systems, processes and institutions	17
A – Credibility of the Budget	17
PI-1 Aggregate expenditure out-turn compared to original approved budget	17
PI-2 Composition of expenditure out-turn compared to original approved budget – Revised 2011	18
PI-3 Aggregate revenue out-turn compared to original approved budget – Revised 2011	20
PI-4 Stock and monitoring of expenditure payment arrears	21
B – Comprehensiveness and Transparency	22
PI-5 Classification of the budget	22
PI-6 Comprehensiveness of information included in budget documentation	23
PI-7 Extent of unreported government operations	25
PI-8 Transparency of inter-governmental fiscal relations	26
PI-9 Oversight of aggregate fiscal risk from other public sector entities	28
PI-10 Public access to key fiscal information	29
C- Policy Based Budgeting	30
PI-11 Orderliness and participation in the annual budget process	30
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	31
D - Predictability and control in budget execution	32
PI-13 Transparency of Taxpayer Obligations and Liabilities	32
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	35
PI-15 Effectiveness in collection of tax payments	36
PI-16 Predictability in availability of funds for commitment of expenditures	38
PI-17 Recording and management of cash balances, debt and guarantees	39
PI-18 Effectiveness of payroll controls	41
PI-19 Transparency, competition and complaints mechanisms in procurement – Revised 2011	43
PI-20 Effectiveness of internal controls for non-salary expenditure	46
PI-21 Effectiveness of internal audit	47

E- Accounting, recording and reporting	48
PI-22 Timeliness and regularity of accounts reconciliation	48
PI- 23 Availability of information on resources received by service delivery units	49
PI-24 Quality and timeliness of in-year budget reports	50
PI-25 Quality and timeliness of annual financial statements	51
F- External scrutiny and audit	52
PI-26 Scope, nature and follow-up of external audit.....	52
PI-27 Legislative scrutiny of the annual budget law	54
PI-28 Legislative scrutiny of external audit reports	55
G – Donor Practices	57
D-1 Predictability of Direct Budget Support	57
D-2 Financial information provided by donors for budgeting and reporting	58
D-3 Proportion of aid that is managed by use of national procedures.....	58
Chapter 4: Government Reform Process	61
Annex 1: Summary of PEFA Performance Indicators	65
Annex 2: List of References	67
Annex 3: List of Persons Met	69
Annex 4: Administrative Structure of the Federal Government of Pakistan	71

List of Tables

Table 1	Trajectory of change since 2009.....	3
Table 1.1	Interpreting PEFA Scores.....	8
Table 2.1	Economic Indicators.....	12
Table 2.2	Federal Budgetary Allocations.....	13
Table 2.3	Federal Budgetary Allocations PRSP Expenditures.....	14
Table 2.4	Budgetary Allocations by object.....	14
Table 3.1	Aggregate expenditure - budget and actual figures.....	18
Table 3.2	Average Weighted Variance for FY2008-09.....	19
Table 3.3	Average Weighted Variance for FY2009-10.....	19
Table 3.4	Average Weighted Variance for FY2010-11.....	20
Table 3.5	Revenue outturns for the Federal Government.....	21
Table 3.6	Status of Compliance with requirements for information in budget documents.....	24
Table 3.7	Federal Taxes and Provincial Revenue Shares 2010-11.....	27
Table 3.8	Status of Compliance with Public Access Criteria.....	29
Table 3.9	Budget Preparation Schedule for FY 2012-13.....	30
Table 3.10	Dates of Legislative Approval of Budget.....	31
Table 3.11	Ratio of Withholding Taxes in Income Tax.....	33
Table 3.12	Movement in Appeals Cases.....	34
Table 3.13	Results of Tax Audits.....	36
Table 3.14	Tax Arrears Collection.....	37
Table 3.15	Timetable for External Audit.....	53

Summary Assessment

This PEFA assessment has been undertaken as a follow up to the 2009 PEFA Assessment for Pakistan. Measured against the six core PFM objectives examined by the assessment, the assessment indicates that there have been improvements in some areas in recent years, which have served to improve general public financial management. Nonetheless, there continue to be areas which require further strengthening in order to result in better budgetary outcomes, as follows:

1. Integrated Assessment of PFM Performance

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

Credibility of the budget is maintained when deviations from the primary approved budget estimates are kept to a minimum as measured by PI 1-4 in PEFA assessment. The predictability of the aggregate expenditure over three years has shown considerable improvements for Federal Government moving from a 'D' to a 'B'. Issues remain at the disaggregated level for expenditures, where high deviations were common, pointing to substantial re-appropriations under individual expenditure heads. This is mainly due to economic slow-down caused by floods and additional expenditure on maintenance of law and order. Debt servicing, inflation and economic instability contributed to fiscal constraints. The government made frequent use of supplementary budgets and re-appropriation with ex-post approval by the legislature. While this is allowed by the constitution, the extensive changes undermine credibility of the budget. Management of arrears has not improved since the last PEFA assessment and reliable data on stock of arrears is still not available despite efforts being made to introduce commitment accounting.

The predictability of the Federal Government's revenue has seen considerable improvements for tax revenue, mainly due to tax reforms in the country and increased tax collections despite the declining tax to GDP ratio. However, the non-tax revenue predictability was observed to be comparatively low due to the economic downturn in the country.

b. *Comprehensiveness and Transparency (PI 5-10)*

Budget transparency and comprehensiveness remains unchanged except for improvements in public availability of fiscal information and comprehensiveness of budget documents. There is uniformity in the classification used for both formulation and recording of the execution of the budget since the deployment of GFMS using standardized Chart of Accounts. Accessibility of information for the public has significantly improved, with key data being placed on the Ministry of Finance (MoF) website, and also widely reported/discussed in the media when presented to the legislature.

The main areas of concern remain the extent of unreported foreign assistance and systematic procedures for monitoring consolidated fiscal risk. While the use of strict budget availability checks prior to recording of expenditures enhances internal controls, it has also highlighted the need for more rigorous budgeting practices for foreign assistance. In some cases the income and expenditure information for foreign assistance remains unrecorded only due to insufficient budget allocation. This is exacerbated by the fact that the donors are also not providing timely and complete information on projected disbursements and actual aid flows, particularly in accordance with government classifications.

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

The existence of a clear annual budget calendar, a general adherence to the calendar and timely approval of the budget by the legislature, points to well defined budgeting processes in place. A budget call circular issued by MoF in December, provides ample time to line ministries for preparation and finalization of budget proposals before consolidation of the budget estimates in the annual budget document and approval by the Cabinet and legislature prior to the start of the fiscal year in July.

The complete roll-out of the Medium Term Budgeting Framework (MTBF) to all ministries has largely contributed towards improvement in ratings. Sector strategies are in place and preparation of a Budget Strategy Paper and the MTBF allows timely communication of indicative budget ceilings to the line ministries. However, linkages between multi-year estimates in MTBF and annual budgetary ceilings need to be improved with adequate explanation and documentation.

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

There have been some improvements in factors constituting predictability and control in budget execution. The overall state of this section remains frail with performance on two thirds of the indicators remaining below satisfactory. Taxpayer registration, complete reconciliation of tax collections, procurement, and internal controls on non-salary expenditures all showed poor performance. The assessment does record improvements at sub-indicator level, and progress was observed in payroll controls, availability of in-year information for budgetary ceilings against expenditure commitments, and treasury functions (such as debt recording and management and cash management).

The clarity of tax liabilities and effectiveness of taxpayer registration continue to be areas of concern for Federal Government. Substantial discretionary powers of the tax authorities remain. The revision to the assessment methodology for procurement indicator (PI-19) renders the score incomparable to the previous assessment. However, the current score is poor and substantial efforts are required to improve the availability of information and put in place an independent complaints system. There was no progress in the area of internal audit. As opposed to the 2009 assessment, the current assessment has also considered the internal controls and processes in place for military expenditures which were found to be quite strong for both payroll and non-salary expenditures. In the civilian payroll, controls have considerably improved due to full implementation of GFMIS, but payroll audits, as a preventive control for mitigating the risk of ghost workers, is an area requiring attention.

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

The accounting, recording and reporting practices have seen an improvement at sub-indicator level, but overall scores have declined. Some issues have been highlighted due to introduction of GFMIS and more transparent processes. A large backlog of unresolved reconciling differences has caused a decline in the indicator for accounts reconciliation. After the 18th amendment to the Constitution, PI-23 is no longer applicable for the Federal Government since primary service delivery responsibilities mainly health and education have been devolved to provinces. While in-year budget reports are timely and accurate, improvement in score would require expenditure to be captured at both commitment and payment stage. Similarly, the annual financial statements are timely but lack inclusion of complete information on financial assets and liabilities.

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

The indicators for external scrutiny in Federal Government's public financial management require attention to be made more robust. The timeliness and quality of audit is strong, but legislative scrutiny is weak. The scope of the legislature's review of the budget proposals is severely undermined by the short time allowed for review. While the entire budget is open to debate and discussion, charged expenditure, mainly consisting of debt related expenditures, is not submitted to vote (up to 75% of the budgetary

outlay). The scrutiny of audit reports by the most recent Public Accounts Committee (PAC) has been extensive and succeeded in addressing the large backlog of audit reports to be reviewed. Unfortunately the review of most recent audit report is still delayed.

g. Donor Practices (DI 1-3)

The actual budgetary support from donors exceeded budget estimates in the past three years. Several donors communicate estimates of budgetary support in time for budget approval and quarterly disbursement estimates agreed between donors and Federal Government are substantially complied with. Most donors provide information for estimates for project support, well in time and according to government’s budget calendar except USAID (one of the five biggest donors). The lower score is largely due to USAID not providing breakdown information of assistance. Proportion of aid managed by use of national procedures has gone down to the lowest score as very few donors are using these procedures.

2. Measuring the trajectory of change between 2009 and 2012 assessments

The last PEFA Assessment for the Federal Government was published in June 2009. The table below compares the overall trajectory of the indicators from 2009 PEFA Assessment to current Assessment. Overall, the maximum number of indicators remained unchanged. There was a decline in 5 indicators and 11 indicators showed positive progress over the period between assessments. Out of total 31 indicators, 2 were not scored because of non-applicability or lack of information while 3 indicators are incomparable due to changed methodology.

Table 1 Trajectory of Change since 2009

(Number of indicators)

Indicator Group	Impact on Fiduciary Risk		
	Lower	Equivalent	Higher
Credibility of the budget	1	-	-
Comprehensiveness and transparency	3	3	-
Policy-based budgeting	2	-	-
Predictability and control in budget execution	3	4	1
Accounting, recording and reporting	-	1	2
External scrutiny and audit	2	1	-
Donor practices	-	1	2
Total	11	10	5

On the higher level, Credibility of the Budget has shown some progress but there are three indicators out of four, which were either not rated or rendered non-comparable. The only comparable indicator, the comparison of aggregate expenditure with original budget estimates, showed improvement over the period. The expenditure, at aggregate level, depicted minor deviations from the original budget.

The budgetary comprehensiveness and transparency has recorded some progress over the period for comprehensiveness of the information provided in the budget document, which can directly be attributed to utilization of New Accounting Model (NAM), and improvement in public accessibility to fiscal information. Oversight of fiscal risk arising from autonomous bodies and public enterprises continues to remain weak.

Policy-based budgeting remains strong and further improvement was observed through the successful implementation of MTBF in all line ministries at federal level.

Budget execution remained the most troubled area, especially the tax system currently employed in the country, procurements and internal audit and controls function. Tax to GDP ratio continues to drop and is currently the lowest in the region. PI-19 which addresses the country's procurement system is not comparable due to revision. However the same showed weaknesses in the system regarding non-availability of data pertaining to procurements. The current assessment observed a backlog of unexplained reconciliation differences, non-recording of expenditure commitments and lack of consolidation as the rationale behind the lower ratings awarded. On the whole, no solid improvement was recorded in this section.

While external audit practices showed positive impacts, legislative scrutiny is still lagging. Reforms introduced in the AGP have improved the timeliness of submission of the reports. The improvements in legislative scrutiny have lately been observed, with clearance of majority of inherited backlog of audit reports. At the same time, due to the large backlog, timeliness of review of the latest audit reports has been delayed and scores have not improved.

The ratings for donor practices declined over the period, largely due to non-compliance by a major donor, USAID with good practices for aid effectiveness.

3. Assessment of the impact of PFM weaknesses

As public financial management concerns the efficiency and effectiveness of the use of public resources, the interdependence of the components of the budget cycle means that weaknesses in one part can adversely affect other parts thereby constraining the achievement of better budgetary outcomes; conversely, improvements in one area which are not matched by corresponding changes in other areas can undermine the initial reforms. The strengths and weaknesses of Pakistan's public financial management system found in the assessment have an impact on the three measures of budget effectiveness – aggregate fiscal discipline, allocative efficiency and efficient service delivery. This is summarized below.

a. *Aggregate fiscal discipline*

The fact that budget preparation takes place within an increasingly transparent medium-term budget framework helps in maintaining aggregate fiscal discipline. This is also assisted by Cabinet-approved budget ceilings which are generally respected in MDA's budget submissions. However, deficiencies in overall expenditure controls, such as non-recording of commitments at the MDA level and a partly deficient internal control system as well as lack of internal audit continue to affect and weaken the ability of Federal Government to match revenue with expenditure. The ability to introduce several amendments including expansion of the budget with formal ex-post regularisation the year after significantly hinders fiscal discipline.

b. *Strategic allocation of resources*

The preparation of the budget on 3-year rolling basis under MTBF helps to set the framework for relative budget priorities, which are intended to be reflected in the MDA's budgetary ceilings. The strategic policy and sectoral objectives set out in the government's Medium Term Budget Estimates for Service Delivery could possibly provide the basis for guiding inter- (and intra-) sectoral allocations, including external finance. The successful implementation of NAM with improved procedures and documentation assists in increased allocative efficiency and transparency of the budget. However, the high level of budget re-allocations, gaps in in-year reporting on budget execution, lack of systemic internal audit function and weak procurement practices increase the risk of misallocation without public scrutiny and proper prioritization. Also, Federal Government needs to strengthen the linkage between MTBF and subsequent year's ceilings to adopt the consistent allocation policy.

c. *Efficient service delivery*

The accountability process is found to be deficient in holding responsible the persons liable for poor delivery of services. The lack of internal audit and timely legislative scrutiny are among the weaknesses identified. Procurement practices are considered deficient and are likely to limit the efficiency of ongoing activities. The ability for planning and management of quality service delivery is also affected by the deficiencies in the in-year budget reports and the adjustments to budget allocations during the year.

4. Prospects for reform planning and implementation

The GoP has a continuing agenda of PFM reform. Current programs are focused on areas of weaknesses in PFM administration that have been identified by the GoP and Development Partners. As detailed in Chapter 4, major efforts are well underway to enhance the effectiveness of financial managements systems in place. However, as have been shown in this assessment, there are deficiencies in PFM that must be addressed with some urgency in order to strengthen the fiscal discipline and align management with international standards. Those which are most critical are internal controls which have impact on almost every part of government's financial management operations. Procurement must be brought more to the forefront of reforms given the huge part of government expenditure it represents.

Pakistan's prospects for reform implementation should be regarded as positive considering the impact of the reform programs so far which have made visible contributions in improving budgeting, reporting and external audit. The successful application of MTBF in budgeting and planning, implementation of GFMS and support to the establishment of Procurement Regulatory Authority, are just few example of successful reforms. A continuation of the reform programs mentioned above is vital. However, it is essential that the GoP has the ownership of the reform process to better facilitate the reforms and ensure their sustainability.

Chapter 1: Introduction

1.1. This document reports on a Public Financial Management and Accountability Assessment (PFMAA) for the Federal Government of Pakistan. The assessment was conducted with the particular objective of updating the PFMAA published in June 2009 (Report No. 48652-PK) to provide the Federal Government with an objective, indicator-led assessment of the public financial management (PFM) system in a concise and standardized manner, to form an updated understanding of the overall fiduciary environment of the PFM system and to assist in identifying those areas in need of further reform and development.

1.2. The government, recognizing the importance of sound public financial management, has maintained a trajectory of reforms; taking actions to enhance the accountability and effectiveness of public expenditures. Strengthening of the PFM systems currently relies largely on the pace of implementation of the World Bank-financed nation-wide Project for Improvement in Financial Reporting and Auditing (PIFRA) which began assisting with PFM reforms in 1995. Notable progress has been made in terms of the accuracy, comprehensiveness, reliability, and timeliness of financial and fiscal reporting; enhanced accountability and transparency; the use of financial information for informed decision-making; and oversight of the use of public monies through risk-based audits. Since enhancing accountability, transparency, and reducing opportunities for corruption are core elements of improved governance and reduced fiduciary risks, public financial management and public procurement reforms are supported by a number of donor-funded initiatives such as the project for implementation of medium term budgetary framework (MTBF) supported by the UK Department for International Development (DFID).

1.3. Substantial changes to the Constitution of Pakistan were made through the 18th amendment¹. Most importantly, several functions related to service delivery have been devolved from the federal to provincial level of government. With the many actions taken in recent years, particularly the progress in implementation of the above-mentioned donor-funded initiatives, it was anticipated that improvements have been made and the Federal Government together with the Development Partners agreed to carry out an update of the PFMAA to provide a clear picture of changes in performance since the 2009 assessment. The assessment provides a common information pool with establishment of new baselines against which further progress in PFM development can be assessed.

1.4. The assessment was collaborated² by the World Bank (Bank), the delegation of the European Union (EU), The Asian Development Bank (ADB) and DFID. The Government managed the process through a high level steering committee under the Chairmanship of the Finance Division (MoF); and having representation from the Offices of the Planning and Development Division (P&DD), Economic Affairs Division (EAD), Office of Controller General Accounts (CGA), Accountant General Pakistan Revenues (AGPR), Department of the Auditor General of Pakistan (AGP), Federal Board of Revenue (FBR), Pakistan Procurement Regulatory Authority (PPRA), State Bank of Pakistan (SBP) and National Assembly Secretariat.

1.5. The assessment was conducted as per the revised PEFA PFM Performance Measurement Framework of 2011³ (PEFA Framework). The scope of the current assessment was comprehensive with due consideration of the

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

² EU funded the international consultant. ADB was part of task team led by World Bank.

³ Public Expenditure and Financial Accountability (PEFA). The PEFA Program was established in December 2001 as a multi-donor partnership between the World Bank, the European Commission, the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, and the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary Fund. PEFA PFM Performance

PEFA Secretariat guidance for repeat assessments. The PFMAA was conducted against 31 PFM performance management indicators (28 for government performance and 3 for donor practices) which are grouped into the following critical dimensions of performance of an open and orderly PFM system:

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

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

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

Table 1.1 Interpreting PEFA Scores

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

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

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

Measurement Framework January 2011. The PEFA PFM Performance Measurement Framework was issued in June 2005. Based on experience in more than 120 countries, the Framework was updated in 2011 by revising the content of three of the performance indicators.

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

1.10. A launch workshop, co-chaired by Ministry of Finance and the World Bank and attended by representatives of stakeholders was held on September 30, 2011. Thereafter a team consisting of persons listed in the preceding paragraphs was constituted and the Steering Committee was notified. The Joint Secretary (Budget Implementation) served as lead focal person. The assessment was carried out through a combination of field study and interviews, review of existing studies and related reports and extensive discussion and dialogue with concerned stakeholders in the government. The team acknowledges and appreciates the excellent cooperation extended by the government counterparts who facilitated the entire process and enabled a timely completion of the assessment. A full day stakeholders' workshop was conducted on April 13, 2012 with broad participation by government officials and Development Partners, to ensure inclusion of all views in the deliberations and the comments received were duly considered. The resources consumed included approximately 12 staff weeks and 30 consultant weeks, the budget for which was provided by the Bank. In addition an international consultant was funded by the EU for 60 days. The EU has already indicated its willingness to assist the Federal Government in the formulation of a PFM Reform Strategy to address the identified weaknesses.

Chapter 2: Background Information

2.1. Description of economic situation

2.1.1. Pakistan is the world's sixth most populous country with an estimated 175.3 million people in 2010-11⁴. It is a lower-middle income country with a per-capita gross national income of US\$1,050 in 2010. The country has a relatively young population with over two-fifths of the population below 15 years of age.

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

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

⁴ Pakistan Economic Survey

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

Table 2.1. Economic Indicators*(In percentages, unless otherwise indicated)*

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

Source: World Bank

1/ World Bank Staff estimates.

2/ In months of next year's imports of goods and service. Excludes gold and foreign currency deposits with SBP (cash reserve requirements).

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

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

2.1.6. The IMF program, off-track for a year, closed in September 2011 and it is unlikely that a new program will be agreed in the near term, though dialogue between the Government and the IMF continues. Higher than projected fiscal deficits or a fall in exports and remittances due to a global slowdown could result in a more significant economic deterioration.

2.2. Description of budgetary outcomes

2.2.1. Despite challenges posed by the severe floods in 2010 and 2011, volatile security situation and energy shortages in the country, the economy remained resilient. The emphasis of the budget 2011-12⁶ was to promote growth and 'jobs and growth' were declared a national priority. The strategy embodied in the budget is the reduction in fiscal deficit, debt and inflation through the development of a broad, equitable and stable revenue mobilization system, maintenance and further development of social safety nets for the vulnerable, reduction in untargeted subsidies and restructuring of loss making public sector enterprises. The development program focuses on investment in vital infrastructure and human resource development.

2.2.2. For FY 2011-12, the overall size of the Public Sector Development Programme (PSDP) was Pak Rs. 730 billion which is 3.5% of GDP in comparison with 2.6% of GDP in Revised Estimates of 2010-11. In addition there was Pak Rs. 97 billion for other development expenditures outside PSDP details of which are included in the budget document.

2.2.3. Long term challenges for the country include containment of the fiscal deficit and inflation, overcoming the energy shortage, creating employment and reducing public debt.

Table 2.2. Federal Budgetary Allocations

(As a percentage of GDP)

	2008-09	2009-10	2010-11
TOTAL REVENUES	9.2	9.6	8.6
Own Revenue	9.1	9.1	8.0
Grants	0.1	0.4	0.6
TOTAL EXPENDITURES	14.4	14.4	12.9
Non-interest expenditures	10.1	10.0	8.8
Interest expenditures	4.3	4.4	4.0
AGGREGATE DEFICIT (INCLUDING GRANTS)	-5.2	-4.8	-4.3
PRIMARY DEFICIT (EXCLUDING GRANTS)	-1.1	-0.9	-0.8
NET FINANCING	5.2	4.8	4.3
External	1.7	2.5	1.2
Domestic	3.5	2.3	3.1

Source: Annual Budget Statements and World Bank Staff Calculations

⁶ Federal budget speech Budget 2011-12 <http://www.finance.gov.pk/budget/FinalBudgetSpeech2011-12.pdf>

Table 2.3. Federal Budgetary Allocations- PRSP expenditures*(as a percentage of total expenditure)*

	2008-09	2009-10	2010-11
Roads, Highways and Bridges	4.4	4.1	4.6
Environment / Water Supply and Sanitation	0.8	1.0	1.1
Education	15.6	7.7	8.7
Health	4.4	4.0	4.3
Population Planning	0.4	0.4	0.4
Social Security and Social Welfare	3.0	4.4	4.3
Natural Calamities and Other Disasters	0.2	1.2	1.1
Agriculture	7.8	4.8	5.1
Land Reclamation	0.2	0.2	0.2
Rural Development	0.9	1.1	0.9
Law and Order	3.7	6.6	7.6
Low Cost Housing	0.1	0.2	0.1
Justice Administration	0.5	0.5	0.7
Subsidies	17.5	17.4	16.5
Food Support Programme	1.1	-	-
People's Works Programme-I	0.3	-	-
People's Works Programme-II	1.4	-	-

Source: Government of Pakistan PRSP II Progress report: [http://www.finance.gov.pk/poverty/PRSP II Progress Report 2008 09 2010 11.pdf](http://www.finance.gov.pk/poverty/PRSP%20II%20Progress%20Report%202008%2009%202010%2011.pdf)**Table 2. 4 Budgetary Allocations by Object***(as a percentage of total expenditure)*

	2008-09	2009-10	2010-11
Employees Related Expenses	1	4	4
Operating Expenses	7	5	3
Employees' Retirement Benefits	1	1	1
Grants Subsidies and Write Off Loans	8	11	9
Transfers	-	-	-
Interest Payment	10	11	8
Loans and Advances	2	3	1
Physical Assets	-	2	1
Principal Repayments of Loans	70	61	71
Repairs and Maintenance	-	-	-
Others	2	1	1

Source: Annual Financial Statements

2.3. Description of the legal and institutional framework for PFM

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

2.3.2. Public sector bodies are well defined in rules and statues by major types of entities including (i) departments of the government administered directly by the federal / provincial governments, and (ii) autonomous bodies that are indirectly administered by their respective governments. Government departments are further divided into centralized accounting agencies and self-accounting agencies. Autonomous bodies are divided into two categories; statutory bodies established for nonprofit objectives and public sector enterprises.

2.3.3. The 1973 Constitution adequately provides for laws on all subjects listed in the legislative list of the fourth schedule including public finances. The procedure for laying bill and presenting law on subjects listed in the federal legislative list are defined in Article 70. The Constitution provides adequate enabling legal frameworks with respect to public finance, public debt management and public sector audit through Articles 79 and 160-171. A separate law for public financial management is not in place. A rule-based fiscal policy, enshrined in the Fiscal Responsibility and Debt Limitation Act 2005 aims to establish responsible and accountable fiscal management and encourages informed public debate about fiscal policy. It requires transparency by the government in short and long term fiscal management and disclosure of fiscal policies.

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

2.3.5. Under the Local Governance Ordinance 2001, a number of public service functions have been devolved to local governments elected at the district and sub-district levels. Fiscal commissions have been established to manage the apportionment of the share in the divisible pools.

2.3.6. The promulgation of the Controller General Accounts (CGA)⁷ Ordinance 2001 and the Auditor General's Ordinance 2001 separated the roles and responsibilities of the offices of CGA and the Auditor General of Pakistan (AGP)⁸ regarding accounting and auditing respectively. However, as per Article 170 of the Constitution, the AGP still retains the authority to prescribe the form of the accounts of the Federation and the Provinces and the methods and the principles underlying their maintenance. Further, the officers responsible for accounting and auditing

⁷ <http://www.cga.gov.pk/>

⁸ <http://www.agp.gov.pk/>

belong to the same cadre i.e. the Pakistan Audit and Accounts Service which is under the administrative control of the AGP.

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

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

2.3.9. The 18th amendment to the Constitution of Pakistan and 7th NFC Award has changed the manner of interaction between the federal and provincial governments. Provinces have now increased responsibility for service delivery, development of new budgetary frameworks; and mechanisms to enhance implementation capacity. The 18th amendment has also stipulated that all bodies and authorities established or controlled by the federation or provinces shall be subject to audit by the Auditor General who shall determine the extent and nature of such audits. This will have far reaching implications in promoting transparency, accountability and good governance as this clause not only removes all existing exemptions claimed by various organizations and delinks audit from financial allocations made by the federations and provinces; but also abolishes the executive power to grant any audit exemptions.

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

3.1. This chapter assesses the current status of all relevant PFM systems, processes, and institutions in the Federal Government against all performance indicators (PIs) prescribed in the PEFA Framework. Each PI is assigned a rating calculated from the score achieved in each dimension and the minimum requirements for that score as defined in the Framework. Data used for the assessment has been provided with the full cooperation of GoP officials and the assessments have been discussed in detail with the concerned officials. Summary assessments showing compliance against the relevant minimum requirements for each PI are given in a table in each section and an overall summary of all PI scores is given in Annex 1.

3.2. This PEFA assessment aims to establish an objective baseline set of ratings that will help identify areas of strength and weakness and facilitate monitoring of future progress. Ratings take account of all relevant factors in each dimension, in keeping with the PEFA methodology and related guidance, to identify all areas that may be important for a PFM reform program. It should be noted, however, that in a few cases, issues that are relevant to PFM performance can fall outside the PEFA rating methodology but may be considered important for future progress. These aspects have been noted in the text as areas that could be considered in the reform strategy and monitoring program to be developed.

A – Credibility of the Budget

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

3.3. The ability to implement the budget expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans.

Dimension	Score		Brief explanation of status
	2009	2012	
Difference between actual primary expenditure and the originally budget primary expenditure excluding debt service charges and externally financed project expenditure.	D	B	Deviation of actual expenditure from original budget was greater than 10% in only one of the last three years.

3.4. Donor funded projects are included in budget and actual expenditure since complete data is not separately available. Figures for budgeted and actual expenditures for the last three years are presented in the table 3.1 below⁹, excluding debt servicing, both principal amounts and interest, based on data from GFMIS.

3.5. Federal Government was obliged to spend above the budgeted expenditures during the floods in 2010. Additional defense related expenditure was also incurred due to volatile security situation and military operation in FATA giving rise to a major deviation from the 2010-11 budget. Another area of deviation has been subsidies to the power sector. Subsidies of Pak Rs. 391 billion, Pak Rs. 147 billion and Pak Rs. 346 billion were given to the power sector in the fiscal years 2008-09, 2009-10 and 2010-11 respectively. These were on account of tariff differential and line losses including the non-recovery of electricity bills by distribution companies.

⁹ Figures of Budgeted and Actual expenditures are obtained from Annual Financial Statements of the Federal Government.

Table 3. 1. Aggregate expenditure (excluding debt servicing) - budget and actual figures

	2008-09	2009-10	2010-11
Budget (Pak Rs. in millions)	1,363,406	1,580,954	1,597,440
Actual (Pak Rs. in millions)	1,259,881	1,716,939	1,833,204
Difference between budget and actual	-7.6%	8.6%	14.8%

3.6. Applying the assessment criteria, the actual expenditure deviated from the budgeted expenditure by an amount equal to or more than 10% of budgeted expenditure in only one out of the last three years. Accordingly the indicator is rated 'B'.

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

3.7. Where the composition of expenditure varies considerably from the original budgeted figures, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an assessment of expenditure out-turns against the original budget at a sub-aggregate level. This is an important indicator to assess the extent of budget realism for different budget heads (including development and non-development). This indicator was revised in January 2011 and the score is not comparable with the 2009 assessment.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	NA	C+	
(i) Extent of the variance in expenditure composition during the last three years excluding contingency items.	NA	C	Variance in expenditure composition exceeded 15 % in one of the last three years.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	NA	A	Actual expenditure charged to the block grants is less than 3% of total expenditure.

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

3.8. The tables below show the difference of expenditure compositions and variance thereof. There is no separate contingency provided in the Federal budget. The executive, under the Constitution, has powers to approve supplementary grants which are approved by the parliament along with the next year's annual budget. Contingency payments were made by the government during the last three years by approving supplementary grants from time to time. All such, approved supplementary grants are compiled and laid before the parliament and approved as presented.

3.9. Debt servicing charges have been excluded from the actual and budget figures in line with PI-1 however donor funded projects are not excluded due to non-availability of data.

Table 3. 2. Average Weighted Variance for FY 2008-09

Administrative / Functional Head	Budget	Actual	Adjusted budget	Absolute Deviation	Percent
	- Pak Rs. in millions -				
General public services	603,349	598,459	557,536	40,293	7.34%
Defense affairs and services	297,576	334,957	274,981	59,976	21.81%
Economic affairs	342,272	212,768	316,283	103,515	32.73%
Public order and safety affairs	30,171	36,375	27,880	8,495	30.47%
Education affairs and services	49,243	45,393	45,504	111	0.24%
Health affairs and services	25,040	18,453	23,139	4,686	20.25%
Housing and community amenities	5,364	3,544	4,957	1,413	28.50%
Recreation, culture and religion	3,882	4,603	3,587	1,016	28.32%
Social protection	6,299	5,172	5,821	649	11.14%
Environment protection	210	157	194	37	19.09%
Allocated expenditure	1,363,406	1,259,881	1,259,882	220,821	-
Contingency	-	-	-	-	-
Total Expenditure	1,363,406	1,259,881			
Composition (PI-2) variance					17.53%

Table 3. 3. Average Weighted Variance for FY 2009-10

Administrative / Functional Head	Budget	Actual	Adjusted budget	Absolute Deviation	Percent
	- Pak Rs. in millions -				
General public services	883,337	1,013,767	959,317	54,450	5.68%
Defense affairs and services	344,655	388,700	374,300	14,400	3.85%
Economic affairs	205,019	171,428	222,654	51,226	23.01%
Public order and safety affairs	38,928	53,170	42,276	10,894	25.77%
Education affairs and services	62,452	48,830	67,824	18,994	28.00%
Health affairs and services	28,155	23,940	30,577	6,637	21.71%
Housing and community amenities	7,930	5,309	8,612	3,303	38.35%
Recreation, culture and religion	4,473	6,482	4,858	1,624	33.44%
Social protection	5,590	5,032	6,071	1,039	17.11%
Environment protection	415	281	451	170	37.65%
Allocated expenditure	1,580,954	1,716,939	1,716,940	162,737	-
Contingency	-	-	-	-	-
Total Expenditure	1,580,954	1,716,939			
Composition (PI-2) variance					9.48%

Table 3. 4. Average Weighted Variance for FY 2010-11

Administrative / Functional Head	Budget	Actual	Adjusted budget	Absolute Deviation	Percent
	- Pak Rs. in millions -				
General public services	866,312	1,073,922	994,170	79,752	8.02%
Defense affairs and services	443,464	453,916	508,914	54,998	10.81%
Economic affairs	143,193	125,132	164,327	39,195	23.85%
Public order and safety affairs	53,158	66,654	61,004	5,651	9.26%
Education affairs and services	55,612	60,658	63,820	3,162	4.95%
Health affairs and services	21,522	23,554	24,698	1,144	4.63%
Housing and community amenities	6,625	2,961	7,603	4,641	61.05%
Recreation, culture and religion	4,795	4,838	5,502	664	12.07%
Social protection	2,312	21,082	2,653	18,428	694.57%
Environment protection	448	488	514	27	5.18%
Allocated expenditure	1,597,440	1,833,204	1,833,204	207,662	-
Contingency	-	-	-	-	-
Total Expenditure	1,597,440	1,833,204			
Composition (PI-2) variance					11.33%

Source "Table: 3.2, 3.3 & 3.4": (1) Statement of Authorized Expenditure-Budget, and (2) Audited Financial Statements-Actual

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

3.10. Block grants, called Lump grants, are provided within the budget for specific purposes. For instance a block grant may be included for salary increments of government employees in case the same is not decided by the time the budget is presented to the legislature. These grants may be considered as provision for contingencies. Actual expenditures are not directly charged to these lump-sum provisions. During the year, the block grants are re-allocated to ministries as part of their revised budget. Actual expenditure is then charged against the revised budget. Values for re-allocation to ministries during 2008-9, 2009-10 and 2010-11, were Pak Rs. 10 billion, Pak Rs. 5 billion and Pak Rs. 45 billion respectively, which are all below 1% of total budgeted expenditure. The rating as per the PEFA Framework is assessed as 'A'.

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

3.11. An accurate revenue forecast is a key input to the preparation of a credible budget. Both optimistic and pessimistic revenue forecasts can lead to substantial impacts on expenditure allocations and incurrence. Since revenue out-turn can deviate from the originally approved budget for reasons unrelated to the underlying quality of forecast such as a major macroeconomic shock, the calibration allows for one unusual year to be excluded. This indicator was revised in January 2011 and direct comparison with previous assessment is not applicable.

Dimension	Score		Brief explanation of status
	2009	2012	
Actual domestic revenue compared to domestic revenue in the originally approved budget.	NA	B	Actual revenue collection is within 94%-112% of budgeted revenue during two of the last three years.

3.12. Revenue is recognized on receipt basis. Details of the budgeted revenue and actual receipts (including non-tax revenue and privatization proceeds) as per Annual Financial Statements of the Federal Government and annual budget statement are given in the table below.

3.13. While the variation is low in the past three years, the revenue forecasting process requires strengthening. Tax revenue forecasts are calculated by the Federal Board of Revenue (FBR) based on proposed tax measures. The final figures included in the budget proposal are decided in budget preparation meetings between representatives of MoF and FBR. Institutional arrangements for robust revenue forecasting consisting of tax revenue, proceeds from privatization taxes, royalty on petroleum, dividends from state owned enterprises, surplus of State Bank of Pakistan (SBP) profit and revenue from defense services etc. need to be improved and established in line with international best practices. Tax to GDP ratio is currently the lowest in the South Asia region and has seen a declining trend in the past years.

3.14. Other revenue depends on factors which are beyond the control of the Federal Government for example, variation in petroleum prices have a significant impact on the government revenues. Defense services remain another area of unpredictability. During 2010-11 the government received only Pak Rs. 70 billion against budgeted revenue of Pak Rs. 133 billion from defense services consisting mainly of the International Security Assistance Force (ISAF) coalition funds. Similar is the case of dividend forecast from state owned enterprises for which revenue shortfall was Pak Rs. 23 billion for 2009-10 and Pak Rs. 14 billion for 2010-11.

Table 3. 5. Revenue Out-turns for the Federal Government

(Pak Rs. in billions)

Budget Heads	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Actual
Tax revenue	1,251	1,145	1,494	1,313	1,779	1,540
Non-tax revenue	428	535	514	643	632	500
Privatization proceeds	25	1	19	-	-	1
Total	1,704	1,681	2,027	1,956	2,411	2,041
Percentage variation		1.31%		3.44%		15.37%

3.15. The country faced a major flood during the fiscal year 2010-11 leading to economic slowdown. Moreover, the government announced a blanket tax exemption for Khyber Pakhtunkhwa province to support economic activity in the conflict affected parts of the country. Both these factors had an impact on the achievement of tax revenue targets during 2010-11. On the other hand expenditures incurred during 2010-11 also exceeded budget due to heavy floods as discussed in PI-1 and as a result the domestic public debt increased exponentially. Based on the PEFA Framework, the rating is assessed as 'B'.

PI-4 Stock and monitoring of expenditure payment arrears

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	NR	NR	
(i) Stock of expenditure payment arrears as a percentage of actual total expenditure for the corresponding fiscal year and any recent change in the stock.	NR	NR	Consolidated stock of expenditure payment arrears is not maintained.
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	D	D	There is no reliable data on the stock of arrears from the last two years. Commitment accounting has been introduced but is still in nascent stages.

(i) Stock of expenditure payment arrears as a percentage of actual total expenditure for the corresponding fiscal year and any recent change in the stock.

3.17. In accordance with guidance from the PEFA Secretariat, this indicator is not rated (NR) due to lack of data on arrears. Instances like non-payment of tax refunds, delayed payment of committed expenditure due to non-fulfillment of documentation requirements are examples of arrears of payments. There is no recording and reporting done by the national financial management procedures which are mainly designed to record and report expenses on cash basis.

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

3.18. While instructions for commitment accounting were issued in December 2010, it is yet to be made fully operational. Complete and reliable data for expenditures committed and not paid is still not available. In the absence of any consolidated stock of arrears data, it is not possible to ascertain the extent of the entire payment arrears of the Federal Government. Necessary efforts should be made to consolidate such information as at the end of each financial year. Accordingly this dimension is rated 'D' as it was in 2009 PEFA assessment.

B – Comprehensiveness and Transparency

PI-5 Classification of the budget

3.19. A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional and program. Where standard international classification practices are applied, governments can report expenditure in GFS format and track poverty-reducing and other selected groups of expenditure.

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

3.20. No change has occurred in government procedure for classification of budget since last PEFA assessment. The GoP is using the Chart of Accounts (CoA) under the New Accounting Model (NAM) for the formulation and reporting of the budget, recording of the current and development expenditure and revenue. Books of accounts are maintained on the GFMIS system from which trial balances are produced. Monthly accounts and annual financial

statements based thereupon are generated in a timely fashion. Debt servicing for principal and interest are budgeted and recorded as financing items in the GFMIS.

3.21. The Federal budget is prepared with detailed functional and object classification. Spending can be tracked through GFMIS which records accounting data of actual spending on the same chart of accounts (CoA) which is used to prepare the budget. The budget, as approved by the legislature, is fed into the GFMIS which is now fully operational at federal, provincial and district level. GFMIS produces reports for comparison of budget and actual expenditure on real time basis.

3.22. Some gaps were identified in the IMF Article IV Consultations Staff Report ¹⁰ which stated that the concepts and definitions used in compiling government finance statistics are broadly based on the GFSM 1986, except that privatization proceeds are included below the line. The scope of central government data is limited because it does not cover the activity of extra budgetary funds. Classification and sectorization in source data follow GFSM 1986 standards to a limited extent. The classification of expenditure deviates from GFSM 1986 methodology because the economic and functional classifications are mixed in reporting, in particular, with defense and government administration expenditures not clearly identified according to economic classification. The basis of recording GFS is on, or close to, a cash basis. Transactions are recorded on a gross basis. Corrective transactions are not necessarily made in the original period, as required by GFSM 1986. Budgetary central government operations data are regularly reported for publication in the GFS Yearbook, and use the GFSM 2001 framework.

3.23. The functional heads of expenditure, given below, are in accordance with the United Nations Classification of Functions of Government (COFOG) and GFS standards. As stated above, consistent documentation in accordance with these standards is produced. The overall rating as in the 2009 PEFA Assessment is therefore maintained as 'A'.

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

PI-6 Comprehensiveness of information included in budget documentation

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

Dimension	Score		Brief explanation of status
	2009	2012	
Share of the listed information in the budget documentation most recently issued by the Federal Government.	B	A	The budget information includes 8 of 9 required elements.

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

¹⁰ <http://www.imf.org/external/pubs/cat/longres.aspx?sk=26714.0>

Table 3.6. Status of Compliance with requirements for Information in Budget Documents

Information requirement	Status	Details
Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Yes	The budget documents ¹¹ give key macro-economic assumptions ¹² and fiscal projections. The Budget Speech describes performance against key macro-economic assumptions during the preceding year and lays down key assumptions for the upcoming year for which budget proposals are being tabled.
Fiscal deficit, defined according to GFS or other internationally recognized standard.	Yes	The budget (including the budget speech and the Budget in Brief) presents the fiscal deficit according to IMF standards ¹³ . These are public documents and this is an improvement from 2009 assessment.
Deficit financing, describing anticipated composition.	Yes	Deficit financing is described in the budget documents along with composition for the outgoing and incoming financial years.
Debt stock, including details at least for the beginning of the current year.	Yes	Public debt data covering internal and external debt stock, as well as contingent liabilities are covered fully in the Economic Survey presented each year with the budget documents. In addition, the Federal Government is required to lay before the National Assembly, the Debt Policy Statement. This document is not included as part of the budget presentation, but rather in mid-fiscal year.
Financial Assets, including details at least for the beginning of the current year.	No	The budget documents do not include information on financial assets, showing only budget amounts for loans and investments for the current year and the budget year. ¹⁴
Prior year's budget out-turn, presented in the same format as the budget proposal.	Yes	This information is included in the budget documentation. Improvement from 2009.
Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposal.	Yes	The current year's original budget and revised estimates (actual of 9 months and projected estimated for the remaining 3 months of the financial year) are shown in comparison with the new budget.
Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year.	Yes	Summarized budget data for both revenue and expenditure according to main heads of classification used is published giving data for current and previous year at aggregate and detailed levels. Improvement from 2009 assessment.
Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	Yes	The Budget Speech contains explanation of budget implication of new policy initiatives with estimates of budgetary impact.

3.26. As eight of the recommended nine elements are adequately addressed in the budget documents, a rating of 'A' has been assigned.

¹¹ Budget documents, consist of Federal Budget in Brief, Annual Budget Statement, Demands for grants and appropriations, explanatory memorandum of federal receipts, MTBF, Estimates of foreign assistance.

¹² Budget speech and budget in brief for 2011-12 highlight performance against key macroeconomic assumptions.

¹³ <http://www.finance.gov.pk/budget>

¹⁴ Note 28 to the financial statements for 2010-11 gives the amount of assets and liabilities. However, looking at note 2 to the financial statements completeness of data is not reliable.

PI-7 Extent of unreported government operations

3.27. The annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public should cover all budgetary and extra-budgetary activities to allow a complete picture of revenue, expenditures across all categories and financing. Activities included in the budget but managed outside the government budget management and accounting system (mainly donor funding) should also be included in government fiscal reporting unless insignificant.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	D+	C+	
(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.	A	A	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	D	C	Receipt of grants especially in kind is still not completely covered in fiscal reports. Fiscal reports as generated by AGPR on income and expenditure lack inclusion of all information. Pakistan Fiscal operations report includes loan financed projects.

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

3.28. All Federal Government expenses are executed through AGPR and Military Accountant General (MAG), who cannot process any payments without budgetary allocations. Although certain block grants/special funds are available to the executive, these are subject to legislative scrutiny and are an integral part of approved budgets.

3.29. There is no unreported extra-budgetary expenditure in financial operations. Unexplained reconciliation differences exist, but these are not significant as discussed in PI- 22. Difference for June 2011 was Pak Rs. 371 million which is less than 1% of total expenditure.

3.30. Payments through personal ledger accounts (PLAs) have recently been restructured to improve controls. PLA involved cash transfers to the bank account of project authorities. These funds were non-lapsable besides being budgeted at aggregate level and booked as expenditure at transferred amount without proper classification. Now the personal accounts of civil administration are allotted a ceiling for issuing payments, instead of actual transfer of funds. The ceiling of PLA is replenished once the actual expenditures are recorded in the GFMIS. Further, these funds are lapsable and have to be re-authorized at the beginning of each financial year. This arrangement enables the government to expense the budget on the actual occurrence of expenditure rather than on transfer ensuring proper classification of expenditure in the accounting system. All expenditure incurred, even through PLAs, are reported in monthly budget execution reports (BER) and finally in the annual financial statements.

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

3.31. Donor receipts, whether grant or loan, are recorded by EAD and SBP. Estimates of foreign assistance are budgeted and provided in the budget documents approved by the legislature. Budget grants are recorded in the GFMIS. Receipts from donors are recorded and reported by EAD in its system DMFAS which generates monthly fiscal reporting for MoF, AGPR and other stake holders. AGPR also records all such receipts according to information from EAD, project authorities or SBP. Monthly reconciliation of receipts of grants and loans recorded in DMFAS and GFMIS is carried out by EAD and reported to MoF and AGPR. Expenditure/payments made are recorded in the GFMIS and reported in BER and financial statements against the approved budgets.

3.32. Donors are not providing information in a classification consistent with the government CoA. The other hindrance in recording and reporting is non-provision of budget allocation for a grant/loan. In such cases the receipts remain unrecorded, both for income and expenses, for example receipt of urea from Kingdom of Saudi Arabia for Pak Rs. 8.4 billion in 2009-10 remained an unresolved reconciling difference because no budget was available, without which the AGPR is unable to record the receipt. Due to unresolved reconciling differences between EAD and AGPR the fiscal reports fail to provide complete information on income and expenditure. However, the Pakistan Fiscal Operations report includes information for all the loan-financed projects due to which the rating for this dimension is assessed as 'C'. Discussions among relevant government officials and donors have been underway to resolve this matter. Most notable among the actions taken is the effort made to include donor-funded projects in the GFMIS. More than five World Bank projects are live in the GFMIS as of April 2012, but more efforts are required to improve the rating in this indicator.

PI-8 Transparency of inter-governmental fiscal relations

3.33. Assessment under this indicator examines the transparency of inter- governmental fiscal relations, for which fiscal transfers to immediate sub-level i.e. provincial governments are taken into account. A summary Assessment in each dimension and the overall rating by M2 methodology is given in the table below:

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	A	A	
(i) Transparent and rules-based systems in the horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations).	A	A	Transfers from Federal Government to provincial government are transparent and governed by rules settled under the Constitution.
(ii) Timeliness of reliable information to SN governments on their allocations.	A	B	Reliable estimates of transfers from Federal Government are passed on to provincial government two months before provincial budgets are sent to legislature but final numbers are provided only after Federal budget is presented. Variation has not been significant in recent years.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories.	A	A	Fiscal reports and CoA used by the federal and provincial governments is the same. GFMIS produces fiscal reports within 2 months from the end of fiscal year-end.

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

3.34. A structured rule-based allocation system governs the allocations to and among sub- national governments in Pakistan under the direction of the National Finance Commission (NFC). The NFC award is the distribution of financial resources among the provinces of Pakistan by the Federal Government on annual basis. Certain types of taxes collected by the Federal Government are pooled and then redistributed according to the NFC formula. Allocations from shares in Federal taxes are made through a divisible pool, with shares being determined by the NFC award. The 7th NFC award was approved unanimously on December 30, 2009 and introduced a significant new measurement for resource sharing to the fulfillment of all units of a federation¹⁵. All stakeholders have also agreed to cut collection charges to just 1 percent from the existing level of 5 percent which will boost the real transfers to the provinces from the divisible pool. The provincial share of the divisible pool would increase from 47.5 percent to 56 percent in the first fiscal year of NFC award FY 2010-10 and 57.5 percent in the remaining years

¹⁵ Pakistan Institute of development economic working paper 2011:73

of the Award. Royalties on crude oil, development surcharge and excise duty on natural gas is also transferred to the provinces in a structured and rule based manner. The rating is thus maintained at 'A'.

Table 3.7. Federal Taxes and Provincial Revenue Shares 2010-11¹⁶

(Pak Rs. in millions)

Federal Taxes	Tax Collected	Transfers to divisible pool	
Income tax	571,804	37%	(334,129)
Sales tax	633,654	42%	(383,735)
Customs	184,851	11%	(101,131)
Federal excise	137,313	10%	(87,490)
Others	12,473	0.1%	(749)
Total	1,540,095	100%	(907,234)

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

3.35. Provincial governments follow the same budgeting calendar as the Federal Government i.e. Budget Call Circular (BCC) issued in November/December each year and budgets are to be finalized in May/June. An indicative amount is given at the start of the budget making process and the final allocations are communicated to the provinces by early June once the Federal budget is prepared. Pre-budget meeting between Provincial Secretaries Finance and Federal Secretary Finance is held during April i.e. 2 months prior to presentation of provincial budget, wherein main contours of budgets are discussed including indicative budgeted revenue for allocation to provinces from federal divisible pool. The provinces prepare their budget based on their share in the indicative federal revenue which, in the past two years has been within +/-5% of the actual budget allocated to provinces in federal budget as approved by the National Assembly, enabling them to make significant changes in the provincial budgets. Through NFC award the percentage of divisible pool is known to the provincial government up-front. Similar is the case of royalties and development surcharge on natural gas and crude oil. The federal budget is tabled approximately 2 weeks before the provincial budget is submitted to the provincial legislature. Thus provincial governments have enough time to make substantial changes in the budget proposals. Actual transfers from Federal Government during the year are contingent upon actual collection of taxes. The rating is assessed as 'B'.

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

3.36. A Federal and provincial accountant generals operate under the Controller General of Accounts (CGA) and have a uniform CoA and accounting system; GFMIS. Fiscal reports are generated from GFMIS from provincial governments within 2 months from end of fiscal year which are consistent with Federal Government's fiscal reports. As per PEFA Framework the rating is assessed as 'A'.

¹⁶ Financial Statements of the Federal Government 2010-11

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

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

Indicator	Score		Brief explanation of status
	2009	2012	
Overall	C+	C+	
(i) Extent of central government monitoring of autonomous government agencies (AGAs) and Public Enterprises (PEs).	C	C	Representation of MoF on the Boards of AGAs and PEs signifies that fiscal reports are submitted and monitored. A systematic procedure for monitoring consolidated overview of the fiscal risk caused by PSE/AGA is lacking.
(ii) Extent of central government monitoring of Sub-national governments' fiscal position.	A	A	Provincial governments cannot generate fiscal liabilities for Federal Government.

(i) Extent of monitoring of AGAs and PEs.

3.38. Most of the major Public Enterprises (PEs) such as Pakistan International Airline, Pakistan Steel Mills etc. send their annual financial statements to MoF, Corporate Finance wing. However, no significant improvement has been made for monitoring of fiscal risks arising out of the Autonomous Government Agencies (AGAs) and PEs. AGAs and PEs continue incurring huge losses which are ultimately picked up by the government in shape of subsidies or by provision of loans/guarantees or as a minimum, loss in estimates of non-tax revenue.

3.39. Taking cognizance of the risks associated with PEs generating large losses, a Cabinet Committee of Restructuring has been established to initiate and oversee the restructuring of PEs. There is no practice of consolidating fiscal risk arising out of all AGAs and PEs. Some information is available in Economic Survey of Pakistan but this is insufficient to assess and monitor aggregate fiscal risk of AGAs and PEs. A major risk is the power companies who have been provided with sovereign guarantees which often remain unpaid by NEPRA. Annual reports are largely available but a consolidated overview is not done to effectively monitor, analyze and consolidate fiscal information of the AGAs and PEs. The economic reform unit has been established in the MoF for monitoring of state owned enterprises, but monitoring and reporting of consolidated fiscal risk of state owned enterprises is yet to be established and thus the rating is assessed as 'C'.

(ii) Extent of monitoring of Sub-national governments' fiscal position

3.40. Provincial governments cannot directly contract any foreign loan without consent of the Federal Government. A domestic loan can only be obtained in the shape of SBP's overdraft, thus no provincial government can cause a fiscal risk for the Federal Government. This dimension continues to be strong for the Federal Government. The overdraft of provincial governments is subject to monitoring by the Federal Government. The overdraft balance of all provinces is reported to the Federal Government on daily basis by SBP and monitored by the MoF to ensure that the debt balances remain within authorized limits.

3.41. The position remains unchanged from the 2009 assessment despite the introduction of the eighteenth amendment to the Constitution and the rating of 'A' is therefore maintained.

PI-10 Public access to key fiscal information

3.42. Transparency will depend on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest group.

Dimension	Score		Brief explanation of status
	2009	2012	
Number of listed elements of public access to information that is fulfilled.	C	B	Public access criteria are presently met in 3 of the 6 essential areas.

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

Table 3.8. Status of Compliance with Public Access Criteria

Type of Information	Compliance
Annual budget documentation: A complete ¹⁷ set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes. Annual Budget Statements, Statement of appropriation, details of demands and appropriations, MTBF, the budget in brief and budget speech and other budget documents are available through the MoF website. A complete set of budget documents is published, and is available in the market and through libraries.
In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	No. Reports on budget execution are prepared by the AGPR. These are now being distributed to Principal Accounting Officers (PAOs). BER are not available on website or any other medium for public consumption.
Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Yes. The year-end financial statements are generally published within six months of completed audit, and are accessible through a website or otherwise made readily available to the public.
External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes. External audit reports of Federal Government consolidated operations are made available to the public after these are submitted to the legislature for scrutiny. In all of the past three years, this was done well within 6 months of completed audit.
Contract awards: Awards of all contracts with value equivalent above approximately US\$ 100,000 are published at least quarterly through appropriate means.	No. PPRA requires award of all contracts above Pak Rs. 50 million to be published on its website. There is no evidence of full compliance by MDAs.
Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with province-wide coverage in at least two sectors (such as elementary schools or primary health clinics).	No. Broad information on resources annually allocated to poverty reduction sectors, including primary schools and health clinics is available through the MoF website, but detailed information at service unit level is not readily accessible. This is a provincial subject.

¹⁷ 'Complete' means that the documents made publicly available contain all or most of the information listed under indicator PI-6, to the extent this information exists.

C- Policy Based Budgeting

PI-11 Orderliness and participation in the annual budget process

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	B+	A	
(i) Existence of and adherence to a fixed budget calendar.	A	A	A clear annual budget calendar exists, is adhered to and allows MDAs enough time to complete their detailed estimates on time.
(ii) Clarity / comprehensiveness of and political involvement in the guidance on the preparation of budget submissions.	C	A	Guidance on budget preparation has improved, with the introduction of MTBF. Budget Call Circular gives clear and detailed instructions. It is accompanied by the budgetary ceilings as approved by the Cabinet.
(iii) Timely budget approval by the legislature (within the last three years).	A	A	The National Assembly regularly approves the budget before the start of the financial year.

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

3.45. A clear annual budget calendar exists, is adhered to, and allows MDAs more than six weeks to complete their detailed estimates. The time schedule is followed and the final budget has regularly been presented to the National Assembly, after approval from the Cabinet, in the beginning of June, and has been approved by the legislature in the last week of June. Time table for the main activities as per the latest Budget Call Circular for the preparation of FY 2012-13 budget was as follows:

Table 3.9. Budget Preparation Schedule for FY 2012-13

a) Issuance of 'Budget Call Circular' FY 2012-13.	By December 29, 2011
b) Letter of Indicative Budget Ceiling (3 years) to the Ministries/Divisions for current expenditure and development expenditure.	By January 9, 2012
c) Last date for submission of Section I forms and Section II (Fund Centre Form 1) by Ministries/Divisions for recurrent budget.	By February 15, 2012
d) Last date for submission of Section I forms and Section II (Fund Centre Form 1) by Ministries/Divisions for development budget.	By February 27, 2012
e) Last date for submission of Section I forms on Chart of Accounts for recurrent expenditure.	By March 15, 2012
f) Last date for submission of Section I forms on Chart of Accounts for development expenditure.	By April 9, 2012
g) Review of budget by the Priorities Committee.	By April 16, 2012
h) Annual Planning and Co-ordination Committee (APCC) meeting.	May 7, 2012
i) National Economic Council meeting.	May 21, 2012
j) Completion of all Budget Documents, Schedules and Summaries for Cabinet.	10 days before budget speech
k) Presentation of Budget to the Cabinet and Parliament.	June 1, 2012

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

3.46. Preparation of the budget is guided by a budget call circular which contains budget preparation forms, instructions and procedures for preparation and submission of detailed budget. The budget Call Circular for fiscal year 2012-13 was sent on December 29, 2011. Indicative budget ceilings are not included in the call circular¹⁸ but are later communicated in a separate letter from MoF after Cabinet approval. Ministries were informed of indicative budgetary ceilings on January 9, 2012. Detailed negotiations between line ministries and the MoF are held subsequently. The budget call circulars give clear and detailed instructions. The Medium Term Budgetary Framework (MTBF) has been gradually introduced and is now covering all ministries. Rating of this dimension is assessed as 'A'.

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

3.47. The National Assembly approved the budget during the last two weeks before the start of the next financial year in each of the three previous years. Dates of approval are given below:

Table 3.10. Dates of Legislative Approval of Budget

Fiscal Year	Date of approval of budget by the National Assembly
2008-09	June 23, 2008
2009-10	June 25, 2009
2010-11	June 28, 2010

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

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	C+	B+	
(i) Preparation of multi-year fiscal forecasts and functional allocations.	C	C	Rolling three-year budget forecasts are made for the government giving performance based budgeting to ministries. Links between multi-year estimates as per MTBF and subsequent annual budgetary ceilings are not strong, explanations for differences between the two is lacking.
(ii) Scope and frequency of debt sustainability analysis.	B	A	DSA is carried out as part of ¹⁹ Debt Policy Statement issued by DPCO annually, DSA is also carried out in IMF article IV consultation and Budget Strategy Paper prepared annually.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	B	A	Other than Defense budget which is less than 25 % of total budgeted primary expenditure, sectoral costing for current (recurrent) expenditure and capital (development) expenditure exists which is broadly consistent with fiscal forecast provided in Fiscal Policy Statement and Budget Strategy paper.
(iv) Linkages between investment budgets and forward expenditure estimates.	C	B	Planning Commission and relevant line ministries estimate forthcoming expenditure on development projects which are approved by relevant authority keeping in view sectoral strategy and budget available. MTBF provides budgets of next three years on rolling basis for development expenditures to line ministries and planning commission.

¹⁸ See budget call circular at MoF web site <http://www.finance.gov.pk/downloads.html>

¹⁹ http://www.finance.gov.pk/publications_latest.html

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

3.49. MTBF efforts at MoF have come a long way by preparing and presenting before the legislature multiyear fiscal forecast comprising of detailed budgets estimates for three years for all ministries on rolling basis. MTBF has been rolled out in Pakistan during last two years; budget estimates for service delivery (BESD) for three years constitute a response to the needs of adequate documentation at the time of preparation and presentation of budget²⁰.

3.50. Linkages between MTBF and subsequent year's budgetary ceiling are not strong during 2009-10 and 2010-11, mainly due to financial crunch during the last two years. The budgetary ceilings for line ministries are not in line with MTBF projections, differences need adequate explanation and documentation. MTBF has been rolled out in Pakistan at the federal level in the last two years.

(ii) Scope and frequency of debt sustainability analysis.

3.51. DSA is carried out by MoF and EAD debt offices with the IMF as part of Article IV consultation²¹ is also conducting DSA for the country which is available on IMF website. Economic survey and Debt Policy Statement are published annually by the MoF containing a limited DSA of domestic and Foreign Debt. The frequency has improved thereby improving the rating to "A".

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

3.52. MTBF has introduced budget strategy paper, which gives details of the government's policies, priorities and strategic allocation of resources. This is subject to approval by the Cabinet. Sector strategies for expenditure other than defense are prepared, approved and mapped with estimates of resources available. Each development expenditure (project) is properly costed for recurrent and development expenditure by the Planning Commission of Pakistan giving detail of phases and estimates of expenditure in each phase. Development projects are approved by committees formed under rules of business and constitution of Pakistan (NEC). The development projects are allocated budgets once approved by the competent forum, MTBF is showing multi-year cash out flows for three years based on those approved projects which have been allocated budget.

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

3.53. Federal ministries receive indicative budget ceilings for three years based on MTBF from MoF. Ceilings for current budget are prepared by MoF while ceilings for development expenditure are prepared by the Planning Commission and issued by the MoF. Planning commission and line ministries prepare cost estimates for recurrent and development expenditure for each of the approved projects according to the priorities and strategy of the government as approved for different sectors. Major development expenditures are selected and approved by the competent authority and resources are allocated to them according to sector preferences of the government keeping in view its cost implications and budget availability. MTBF development expenditure budget for each of the line ministry is based on future cash outflow requirements of the projects which have been approved for allocation of funds by the planning commission.

D - Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

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

²⁰ Economic survey of Pakistan 2010-11

²¹ See IMF website <http://www.imf.org/external/pubs/ft/scr/2012/cr1235.pdf>

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	B	B	
(i) Clarity and comprehensiveness of tax liabilities.	C	C	Legislation and procedures for major taxes are extensive; however, frequent changes in tax legislations have reduced clarity. No substantial curtailment of discretionary powers during last three years was made.
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	B	B	Taxpayers have easy access to information through brochures and the FBR website. 24 hour helpline has been developed. Information on tax liabilities at import stage is not easily available. Updated Sales Tax Act is not available on website.
(iii) Existence and functioning of a tax appeals mechanism.	B	B	The established tax appeals system needs improvement to work fairly, transparently and effectively. ADRC's decision is not binding on FBR.

(i) Clarity and comprehensiveness of tax liabilities.

3.55. The revenue administration in Pakistan is managed by Federal Board of Revenue (FBR). FBR has been restructured into two main wings i.e. Customs and Inland Revenue. Inland Revenue is managing Income Tax, Sales Tax and Federal Excise Duty.

3.56. Universal Self-Assessment Scheme (USAS) is enforced through Income Tax Ordinance (ITO) 2001 for all classes of taxpayers²². Under FBR policy reform program, certain exemptions have been withdrawn but several still remain especially under Customs and Sales Tax laws.

3.57. Withholding Taxes continue to form the major source of revenue for Federal Government's collection of income tax, which reduces collection lag. However, Final Tax Regime (FTR) viz a viz treatment of withheld tax as final tax liability hampers the objectivity of Income Tax as a direct tax measure. A summary of total Income tax collection and withholding tax is given as under²³:

Table 3.11. Ratio of Withholding Taxes in Income Tax

Fiscal Year	Total Income Tax	Withholding Tax	Percentage of Withheld Taxes
	- Pak Rs. in millions -		
2008-09	422,441	242,136	57%
2009-10	505,494	295,249	58%
2010-11	582,424	356,714	61%

3.58. Lack of a comprehensive legislative provision to determine taxed profits under FTR and reconcile wealth statements of tax payers creates ambiguity in determining source of income for asset creation. It gives wider discretionary powers to tax officials to choose a method to determine taxed income.

3.59. Several changes have been brought in ITO 2001 since its promulgation ten years ago. These have contributed towards reducing rather than enhancing ease of understanding. Example is Section 153 which was re-drafted in Finance Bill 2011. However, soon after its adoption, FBR had to issue clarifications to field offices and in certain cases itself requested interpretation from Ministry of Law.

²² See section 120 of the Income Tax Ordinance, 2001.

²³ Source data: Monthly progress reports for years ended June 30, 2009, 2010 and 2011

3.60. Discretion of tax officer still exists regarding selection of cases for audit under Section 177. Once a case is thus selected either under ITO or under Sales Tax Act 1990, there is substantial discretion with the tax official to re-determine the tax liability of the taxpayer. Discretion is still available with FBR to condone any delay in deciding of any appeal by Commissioner/Collector (appeal) making the statutory limit of 4 months practically ineffective. Discretion is also widely provided for invoking provisions of Sections 122C and 111 of ITO for unexplained source of income and assets and assessing value of goods imported in the country for imposing import duties. Guidance for exercise of discretion is not clearly provided under the law. Various exemptions from taxes are available at import stage. In view of the substantial discretionary powers still available with the authorities involved, the rating for this dimension is maintained as 'C'.

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

3.61. Computation of tax has always been a difficult task for the taxpayers as tax rates and conditions are complex and altered frequently. Efforts have been made by FBR in recent years to improve access to information and enhance user-friendliness. Easy to understand brochures are regularly issued for taxpayer guidance filing tax returns, basic concept of tax on income, collection and deduction of withholding taxes, tax rebates/credits, tax regimes and appeal mechanism. FBR has developed a 24 hour help line which is working effectively to help taxpayers in filling of tax returns and computing their tax liabilities.

3.62. Updated laws, relevant rules, statutory regulatory orders (SRO's) and notifications are available on the FBR website www.fbr.gov.pk. Taxpayers have easy access to comprehensive, though not very user friendly information on tax liabilities and administrative procedures for the major taxes. Updated laws are generally available at FBR web site, however for Sales Tax Act; the information is not updated since 2009. Rating is maintained at 'B'.

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

3.63. First tier of appellate authorities exist within the FBR hierarchy in the form of 13 Commissioners Inland Revenue (appeals) and 3 Collectors (appeals) to entertain taxpayer grievance from any order of Inland Revenue or Customs authority.

3.64. Alternate Dispute Resolution (ADR) mechanism which was introduced some years ago is not functioning properly in giving relief to taxpayers as the scope of ADR has been curtailed through amendment made through Finance Act 2009²⁴ whereby its decisions are no longer binding on FBR. Many of the ADR decisions have not been implemented.

3.65. Apart from normal appellate forums, Federal Tax Ombudsman (FTO), as an administrative authority is functioning effectively in entertaining complaints of maladministration against any action or non-action of a tax official. FTO has been vested with the same powers as that of Supreme Court for non-compliance of any of its recommendation. During 2010, 1,446 complaints were received by FTO out of which 242 cases were rejected and in remaining cases, maladministration was found and appropriate recommendations were given to FBR for implementation²⁵.

3.66. The cases pending and decided by Commissioner and Collector appeals are as follows²⁶:

Table 3.12. Movement in Appeals Cases

Year	Opening Balance		Fresh Institution		Cases decided		Pendency	
	Customs	Inland Revenue	Customs	Inland Revenue	Customs	Inland Revenue	Customs	Inland Revenue
2008-09	421	1,670	823	7,054	646	5,764	598	2,960
2009-10	598	2,960	2,948	6,665	2,171	5,873	1,375	3,752
2010-11	1,375	3,752	1,277	5,662	1,412	6,427	1,240	2,987

²⁴ See section 134 A of the Income Tax Ordinance 2001 and 47 A of the Sales Tax Act 1990.

²⁵ FTO report presented to the President of Pakistan.

²⁶ Source , Member Legal, FBR

3.67. The first tier of appellate authorities is under overall control of Member (legal) FBR, who is responsible for supervision of pleadings of FBR before higher appellate authorities. The appeals mechanism requires improvements to enhance fairness and transparency. One issue is the fact that the persons appointed as Commissioner (appeals) may not be viewed as impartial since they alternate between appellate and collection functions during their career. Moreover, they may often be required to review orders issued by more senior officers who could create a conflict of interest. Pending improvement in such areas, the rating is maintained as 'B'.

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

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	B	C+	
(i) Controls in the Tax payer Registration system.	C	D	A data base of taxpayers is maintained for individual taxes. Linkages with other registration authorities are weak and currently there are no provisions for conducting surveys of potential taxpayers.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	B	B	Penalties for non-compliance are not consistently applied to give a real impact on compliance due to discretion of the tax official to impose penalties during last three years.
(iii) Planning and monitoring of tax audit and fraud investigation programs.	B	B	A national tax audit plan has been in place since 2009. The latest audit plan is quite detailed with risk indicators/policy guidelines.

(i) Controls in the Tax payer Registration system.

3.69. A central data base of taxpayers is maintained by Pakistan Revenue Automation Limited (PRAL), a wholly owned subsidiary of FBR. A unique taxpayer identification number is issued under Income Tax Ordinance (National Tax Number - NTN) and under Sales Tax Act 1990 (Sales Tax Registration Number - STRN). Taxpayers can register themselves voluntarily or may compulsorily be registered by FBR. Efforts are being made by FBR and Bankers Association of Pakistan for sharing relevant information for effective administration of tax payer registration and identifying potential taxpayers. A Directorate General (investigation and intelligence) was established within FBR in March 2011 to identify potential taxpayers based on third party information.

3.70. There is no provision in tax laws for conducting of survey of business or residential premises to identify potential taxpayers. Legislation does not provide for sharing of information by Securities and Exchange Commission of Pakistan, Registrar of Firms in each district and Board of Investment at Federal level regarding registration of new businesses in form of companies and partnerships to establish better control on taxpayer registration. The rating is deteriorated to 'D' due to absence of surveys of potential taxpayers.

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

3.71. Imposition of the penalties continues to be at the discretion of the concerned tax official. Total penalties imposed under section 190 of the ITO were Pak Rs. 354 million, Pak Rs. 2,229 million and Pak Rs. 667 million during 2008-09, 2009-10 and 2010-11 respectively.

3.72. As discussed above there is no provision for survey of businesses and the only tool to prevent tax evasion is tax audit, which is conducted only for registered taxpayers. These are subject to shortcomings in procedures and legislation which has led to substantial litigation regarding conduct of tax audits.

3.73. The tax base has been declining and the tax to GDP ratio ²⁷ is currently the poorest in the region. It has deteriorated in the past 3 years from 9.8% in 2007-08 to 9.1%²⁸ in 2010-11. As per the PEFA Framework, the rating for this dimension is maintained at 'B'.

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

3.74. Federal Tax Ombudsman (FTO) has played a commendable role during past two years, in fraud examination. A major scam of avoiding payment of duty on shipments apparently meant for Afghanistan was investigated which has resulted in plugging many loopholes in the system and stopped revenue leakages.

3.75. Introduction of USAS (universal self-assessment scheme) was a paradigm shift introduced by Income Tax Ordinance 2001. A regular audit function was an underlying assumption for the success of USAS. However, the audit function remained halted for more than five years. The FBR after promulgation of ITO in 2001 introduced national audit plan for the first time in December 2009 for selected corporate cases only. Second annual audit plan was issued in September 2010 with wider scope and third national audit plan for tax year 2010 in August 2011 for income tax and corresponding tax periods of Sales Tax and Federal Excise Duty.

Table 3.13. Results of Tax Audits

Year	Number of Audits	Recovery Recommended	Amount Recovered
		- Pak Rs. in millions -	
2008-09	15,613	75,517	28,154
2009-10	7,112	71,219	8,387
2010-11*	1,004	35,884	27,218

Source: FBR audit wing
* Audits are in progress

3.76. The audit process does not currently cover un-declared or under declared assets and properties of existing taxpayers. DG (I&I) in recent past has been established to broaden tax base and look for undeclared potential tax payer. Rules and guidelines are being issued to field formations in this regard.

PI-15 Effectiveness in collection of tax payments

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

²⁷ See Pakistan Economic Survey page 48 and 49 for the years 2010/11

²⁸ Pakistan Fiscal Operations

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	D+	D+	
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	D	C	The debt collection in the most recent year was above 60% and the total amount of tax arrears is significant.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	A	Taxes are directly deposited into NBP which acts as agent of SBP and treasury of Federal Government. 95% of tax is collected in online branches of NBP. The tax so collected becomes available to Federal Government treasury within 24 hours.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	B	D	Reconciliation for taxes claimed in the tax return and tax collection in NBP needs improvement. The current practices have different gaps in recording, reporting and reconciliation of tax paid and tax self-assessed under USAS. Reconciling differences between AGPR, FBR and SBP remain unresolved.

(i) *Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year which was collected during that fiscal year (average of the last two fiscal years).*

3.78. Data collection on income tax arrears is reported through Monthly Progress Report (MPR) for collection of Income Tax arrears. However, MPR for Sales Tax is under development. MPR data for arrears of income tax and collection against arrears shows that arrear collection was 64%-65% during 2010-11 and 2009-10²⁹. As per PEFA Framework, the rating is therefore 'C'.

Table 3.14. Tax Arrears Collection

(Pak Rs. in millions)

Year	Amount of Arrears	Total Income Tax Collections	Percentage of Tax in Arrears	Arrears Collected	Percentage of Arrear Collections
	A	B	A / B	C	C / A
2009-10	30,621	505,493	6.1%	19,832	65%
2010-11	91,045	582,424	15.6%	58,385	64%

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

3.79. Taxes are directly deposited into National Bank of Pakistan (NBP) which acts as agent of SBP and treasury of Federal Government by the taxpayer. Automation in NBP is underway, but most branches in large cities are online. However, 95% of tax is collected in online branches of NBP. The tax so collected becomes available to Federal Government treasury within 24 hours. The system is being further strengthened to allow taxpayer to make direct fund transfers from their bank account into national treasury using online tax payment system. This system was made fully functional subsequent to the 2009 assessment and has thus contributed towards a better rating of 'A'.

²⁹ Source of data Monthly progress reports, Federal Board of Revenue.

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

3.80. Systematic reconciliation between taxes claimed/assessed under USAS in the tax return and tax collection in NBP is currently lacking. Several gaps exist in the current practices for recording, reporting and reconciliation of tax paid and tax self-assessed under USAS. Withheld taxes claimed in returns filed by taxpayers are not reconciled with actual payments made by the withholding agents. FBR is now working with PRAL on the development of a tax ledger for all taxes deposited on behalf of a taxpayer by different withholding agents. Moreover, FBR is also working on the online submission of statements of tax deducted / collected by the withholding agents, including banks, power distribution companies, and telecom companies etc. to make the tax ledger comprehensive. Complete reconciliation of tax assessments, collections, arrears and transfers to treasury do not occur and reconciling differences remain unresolved between MoF, AGPR, FBR, and SBP. These are now identified due to automation within FBR, the accounting offices and NBP. The rating is thus 'D'.

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

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	D+	C+	
(i) Extent to which cash flows are forecast and monitored.	D	C	Annual cash flow forecast is prepared and regularly updated for actual cash flows but not for re-estimation / re-scheduling of future cash flows.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C	B	MDAs are provided in-year reliable information of budgetary ceiling on quarterly basis for commitment of expenditure.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	D	C	Changes occur in approved budget including austerity measures. In-year adjustments, usually budget cuts, are made as per rules and regulations but may not be predictable as these are mostly driven by resource constraints. To ensure transparency these are applied across the board.

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

3.82. MoF is managing cash flow requirements based on information received from SBP, FBR and AGPR. MoF receives the cash balance from SBP on daily basis showing net cash balance. SBP provides data on maturity of loans on fortnightly basis to MoF. FBR provides figures for tax revenue collected for each quarter to MoF. Non-tax revenue receipts are not properly pursued and monitored on a systematic basis. Payments for expenditures are reported to MoF by AGPR on monthly basis on standard government fiscal reports. Based on all these information, MoF is managing liquidity requirements of GoP by issuing treasury bills from SBP based on partial estimates of cash requirements on fortnightly basis. The cash flow forecast is thus updated for actual cash flows on at least a quarterly basis but re-estimation / re-scheduling of future cash flows is only done to a limited extent. The rating is improved to 'C'.

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

3.83. Funds against budget allocations are released by the MoF for MDAs on quarterly basis. Funds release mechanism has been improved during last three years. As per the release policy in place, 20% of approved budget is released for each of the first two quarters of fiscal year and 30% each for the second two quarters. This schedule is adhered to and thus allows predictability in availability of funds to MDAs for their planning purposes at least quarterly and is rated 'B'.

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

3.84. Adjustments to budget allocations take place during the year through supplementary grants and re-appropriations which are numerous. The re-appropriations are done at the level of management of MDAs. The Principal Accounting Officer (PAO) of each MDA has the authority to re-appropriate among different lines in the budget grant. Supplementary grants are given by the MoF on the request of MDAs. Reductions in budget allocation take place either as a result of surrenders by the MDAs or on the application of cost reducing measures which are applied uniformly in a fairly transparent manner. This is well within the procedures and rules, but is often done without consultation. However, such types of measures are applicable across the board without any discrimination. No priorities are given to expenses relating to poverty reduction program etc. For example, instructions may be issued restricting procurement of physical assets by all MDAs during a year to curtail spending. All these changes are incorporated in the budget in May through second statement of surrenders and excesses.

3.85. The Government does not place, in advance, any adjustment mechanism to the budget priorities in a systematic and transparent manner. In case of fiscal deficit higher than estimated, government reduces its budget allocations for approved Annual Development Program. As in-year supplementary budgets / re-appropriations occur more than once but are done in a fairly transparent manner with the involvement of MDAs, the rating of this dimension is assessed as 'C'.

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

3.86. Debt management, in terms of contracting, servicing and repayment, and the provision of government guarantees are often major elements of overall fiscal management. Poor management of debt and guarantee can create unnecessarily high debt service costs and can create significant fiscal risks.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	B+	B+	
(i) Quality of debt data recording and reporting.	B	B	Local and foreign debt are properly recorded, reconciled and reported by SBP, MoF and EAD respectively.
(ii) Extent of consolidation of the government's cash balances	B	B	Government cash balances is consolidated and reported on daily basis by SBP.
(iii) Systems for contracting loans and issuance of guarantees.	A	A	Government system of contracting loans and guarantees is transparent and clearly defined. Minister of Finance supported by EAD and Finance Division is responsible for contracting of debt and guarantees. FRDL imposes limits for both loans and guarantees.

(i) Quality of debt data recording and reporting

3.87. External/foreign debt is recorded mainly by EAD which has installed data base system for management and recording of foreign debt known as DMFAS. DMFAS captures all disbursements of bilateral and multilateral donors. DFID, JICA, OPEC Fund, Kuwait Fund, Korean Fund etc. regularly provide information on transactions in the form of debit advice through fax messages to EAD. Multilateral Donors i.e. ADB, IDB, and World Bank have provided web portal facility to EAD for downloading the disbursement information. After downloading data from the web, DMFAS team takes three to five days, depending upon the volume of transactions, to update the data base. DMFAS data is reconciled with SBP for actual funds received in government's nostro account operated by SBP.

3.88. Reconciliation between GFMIS and DMFAS is made by accounts section of EAD and reconciling items are communicated to AGPR and MoF. Differences are still prevailing between GFMIS and DMFAS due to non-allocation of budgets for foreign assistance received during the year. Other than some reconciling issues between EAD and DMFAS, data of AGPR and EAD is properly reconciled with all local and foreign debt holders. Proper reconciliation is made every month by EAD for multilateral donors like World Bank, ADB, DFID, EU and IDB. Notable differences do not currently exist between the statements of lenders and AGPR/EAD records. Statistical reports, of high quality, covering debt receipts, repayments of principal and interest, stock are produced including: Quarterly Status Reports by EAD; and quarterly Update on Debt Situation, annual Debt Policy Statement, Fiscal Policy Statement and Economic survey of Pakistan. There has not been any substantial change in processes since the 2009 assessment and the rating of 'B' remains the same.

3.89. Domestic debt is executed through SBP and National Savings Scheme (NSS). SBP auctions treasury bills (TB) on fortnightly basis in the money market. Reconciliation between SBP and primary dealers takes place within 2 days.

3.90. NSS has various schemes of fixed terms deposits for which it issues scheme instruments to be retired with fixed maturity date. Reconciling differences pending since long among NSS, AGPR and SBP have been resolved by NSS during 2010-11. Presently data of debt stock of NSS and SBP is complete and reconciled between SBP, NSS and commercial banks on a monthly basis.

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

3.91. Federal consolidated fund is established under Article 78 of the Constitution of Pakistan. SBP consolidates all payments and receipts of the government on daily basis. SBP has agency agreement with NBP which has branches throughout the country. All online branches of NBP report to SBP on daily basis while data from manual branches is consolidated within 48 hours of the transaction.

3.92. Issues in the consolidation of government funds have been; exempt entities of government, personal ledger accounts of government authorities and revolving fund accounts of foreign funded projects/programs. Personal ledger accounts which were more than 900 as of June 30, 2011 have been addressed to a major extent by AGPR in the recent past. These accounts are now lapsable and operate against a financing ceiling instead of actual transfer of funds. This has resulted in better consolidation and recording of government's cash balance.

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

3.93. The government has rigorous and transparent system of contracting of both domestic and foreign loans and guarantees. Contracting of domestic debt is done through SBP and NSS. Market Related Treasury bills (MRTB) are issued to government for any debit balance in the consolidated account of the government as loan from SBP to GoP. Interest rate applied by SBP on MRTB is the same as that prevalent in the marketed TB. Cash balance report is generated by SBP on daily basis covering both local and foreign debt. MRTB and TB are contracted through SBP at competitive rates as per auction. Auction calendar for short term and long treasury bills and Pakistan investment bonds as authorized by MoF is circulated to primary dealers by the SBP. Loans are contracted by SBP electronically with the primary dealers after authorization of MoF. A committee constituted in the MoF approves the offers according to liquidity needs of GoP. SBP accordingly issues the TB electronically carrying unique identification number, and records this in GLOBUS- the accounting and settlement system installed at SBP.

3.94. Foreign loans can only be contracted by EAD on behalf of GoP except for IMF Stand-by Arrangement which is directly contracted by MoF. EAD examines terms and conditions of each loan before entering into contract. All foreign loans are contracted by EAD after approval of the ECC.

3.95. FRDL imposes fiscal targets for issuance of guarantees i.e. 2% of GDP and total debt of 60% of GDP. Given the severity of constraints, the government was unable to totally comply with some provisions of FRDL Act 2005. However, debt and guarantees remained within target of 60% and 2% as per government debt policy statement for 2010-11. IMF Article IV consultation shows that FRDL limits have slightly been exceeded. The rating of 'A' is maintained.

PI-18 Effectiveness of payroll controls

3.96. The payroll is usually one of the biggest items of government expenditure on the recurrent side. This indicator is concerned with the payroll for public servants only. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of general internal controls (PI-20). However, different segments of the public service may be recorded in different payrolls. In 2009 PEFA assessment, military payroll were not assessed. This includes more than 850,000 employees which is much more than the payroll of civil employees of Federal Government.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	C+	B+	
(i) Degree of integration and reconciliation between personnel records and payroll data	C	B	Payroll is backed by personnel files containing all information pertaining to payroll master data. Payroll master data changes create logged information and is being checked with payroll files.
(ii) Timeliness of changes to personnel records and the payroll	B	A	Changes impacting the payroll are recorded in time (around 10 th of each month). Retroactive adjustments are only in individual cases to give effects to any court order etc. These are well below 3%.
(iii) Internal controls over changes to personnel records and the payroll	B	A	Changes are authorized through a rule based systematic procedure at AGPR and MAG. These can only be affected after verification by three different officials. Changes are logged, documented and audit trail is available.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	B	Internal audit procedures and payroll audit are conducted in Military Payroll which is more than twice the civil payroll. Civil payroll is not subject to specific payroll audits but all Federal Government entities are covered over a period of three years. Strong internal controls exist for changes in Payroll master table and circulation of monthly list of employees to PAOs are sufficient to identify ghost employees.

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

3.97. Payroll and pension records of Federal Government are managed by two different departments. Civil servants payroll records are maintained by AGPR and most significant payroll with respect to number of employees and amounts involved is maintained by MAG for all defense/military related employees. Changes are logged into the GFMIS. Totals of changes made are checked against total of the last month's payroll.

3.98. Payroll and pension payment at MAG is fully automated on in-house developed systems. Payroll records are kept manually in files and registers maintained by Unit Accounts Officers (UAO) across the country. Monthly payroll is authorized by the commanding officer and UAO for each unit which is sent to MAG/CMA for processing and payment. All personnel related records are kept at the UAO level and are referred to for changes to payroll every month. A pensioner is added to the system after due authorization and checking of the data from payroll records both within system and from personnel files. Pensioners are required to appear in person in NBP to collect their pension to eliminate risk of Fraud.

3.99. Payroll at AGPR is now automated through GFMIS covering all employees. Information to the extent essential for calculating the emoluments of the civil servants is integrated within system. Changes are fully supported with the personnel record kept by the MDA. Linkages with payroll structure of different categories of employees exists, e.g. taxable income, different pay and allowances entitlements of various categories of employees. Rating has improved to 'B' due to complete as opposed to only partial coverage of the GFMIS in the 2009 assessment.

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

3.100. Changes to personnel data impacting the payroll are required to be supplied to the payroll processing units by the 10th of every month. Those received late are incorporated into next month's payroll. Changes in the MAG and AGPR master data of payroll system are made only on written authorization of concerned competent authorities, UAO and PAO as the case may be, on monthly basis. Changes are incorporated in next month payroll by the CMA of MAG or AGPR. Retroactive changes are very rare and made only where arrears of some allowances or salary increments is to be paid to an employee from a previous date as per authorization or orders of court or establishment. Though data is not available but such changes are very few and applicable in individual cases and are certainly below 3% of the payroll. Rating is improved to 'A'.

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

3.101. Both at AGPR and MAG, changes are made in the system after getting authorization from the competent authorities. Change authorization documents are subject to pre-audit at AGPR or CMA as the case may be. The system is updated for changes by computer operators after the change authorization documents are signed by pre-audit officer. Each change made is logged in the system. All changes made in the system are re-checked and verified by the accounts officer in charge on a daily basis.

3.102. In MAG, changes are subject to audit by Local Audit Office (LAO). Discrepancies found are reported to CLA/DCLA as per procedure in vogue discussed in more detail in PI-21.

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

3.103. Payroll maintained by MAG is subject to pre-audit before each payroll payment. In pre-audit activity, the MAG office applies various checks to verify correctness of the payroll. In addition, LAO is performing internal audit function for payroll audit. Each unit in military departments keeps a list of employees in the unit. LAO directly receives reports of pay and allowances from MAG office for each unit. Internal audit of each unit is carried out on quarterly basis wherein complete payroll audit is carried out based on data kept at unit by UAO and information from MAG office. Weaknesses identified and audit objections raised are reported to DCLA/CLA accordingly. External audit of MAG payroll is also covered under AGP's defense budget audit, wherein major amount is payroll related expenses.

3.104. Payroll of civil government is subject to external audit by AGP, wherein payroll is part of the scope of the audit. As per audit procedure of AGP audit of each entity of Federal Government is conducted at least once in three years thereby covering all Federal Government entities over a period of three years. No effective internal audit function exists within civil government payroll, constituting almost a third of government employees, but as stated above strong controls are exercised over changes in payroll data. Both civil and military payrolls do not currently apply any linkage with the national identity card data base with NADRA. Check for duplication of CNIC record is not in place. Monthly list of employees, with their remunerations are send to PAO who certifies accuracy on monthly

basis. Considering the existence of payroll audits in the military which constitutes two-thirds of the Federal Government payroll and the audit procedures in the civil payroll, the rating is improved to 'C'.

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

3.105. This Performance Indicator has changed profoundly since last PEFA assessment in 2009 and results of the assessment following new guidance cannot be directly compared with the previous assessment. The new PI 19 is based on the OECD-DAC Methodology for Assessing Procurement System (MAPS).

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	NA	D+	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	NA	B	The legal framework meets four of the six listed requirements.
(ii) Use of competitive procurement methods.	NA	D	No consistent and reliable data is available to make a detailed scoring of this dimension. Audit observations highlight use of other than competitive method of bidding without proper justification.
(iii) Public access to complete, reliable and timely procurement information.	NA	D	Complete and reliable data is not available for 3 out of 4 key information sets.
(iv) Existence of an independent administrative procurement complaints system.	NA	D	PPRA complaint cell does not include members from civil society and private sector. An independent administrative procurement complaint mechanism is not available

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

3.106. The dimension is scored according to how the following requirements are met:

Requirements, the legal and regulatory framework for procurement should:	Status
(i) be organized hierarchically and precedence is clearly established;	Requirement is met.
(ii) be freely and easily accessible to the public through appropriate means;	Requirement is met.
(iii) apply to all procurement undertaken using government funds;	Requirement is met.
(iv) make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	Requirement is met.
(v) provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	Requirement is not met. Information on procurement plans, contracts awarded and data on resolution of complaints is not available to public.
(vi) provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Requirement is not met. The rules stipulate for the implementing agencies to form committees for redress of complaints. No independent avenue is identified. Moreover, review process is not ensured before signing of contract.

3.107. Four out of six requirements are met which gives a 'B' score.

(ii) *Use of competitive procurement methods*

3.108. Public Procurement Rules (PPR) 2004 allow the agencies to procure other than by open competition under Rule 42 as alternative methods of procurements. Moreover, the Public Procurement Regulatory Authority (PPRA) Board³⁰ is also empowered to recommend to the Federal Government the exemption of any procurement or agency from PPR 2004. However, only 10 exemptions were granted during the last 7 years. As such data of those contracts awarded other than by open competition duly justified in accordance with legal requirements is not available and the dimension is rated 'D'.

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

3.109. The PPRA's website hosts all procurement activities carried out by Ministries, Departments, and Agencies (MDAs). The website provides details of all advertised tenders, name of procuring agency, deadline for submission of tender documents, mode of procuring tender documents and other necessary information. Under PPR 2004 the procuring agency is obliged to advertise all procurements above Pak Rs. 100,000 on PPRA website 15 days before closure of tender. Additionally a procuring agency is required to advertise in widely circulated Urdu and English newspapers if the amount of procurement is Pak Rs. 2 million or above. As per Rule 8 and 9, procurement plans are to be submitted to PPRA for hosting at its website. Perusal of PPRA website shows that reliable information of procurement plans is not available for more than 50% of procurement by MDAs. PPRA circular to all federal secretaries dated May 12, 2010 clearly corroborates the fact on lack of compliance with procurement rules pertaining to procurement planning.

3.110. This dimension is scored according to how the following requirements are fulfilled:

Key procurement information to be made available to the public through appropriate means:	Status
1. Government procurement plans	Requirement is not met. Plans are available for less than 50% procurement. There is variation in the information provided.
2. Bidding opportunities	Requirement is met.
3. Contract awards	Requirement is not met. Information of contracts above Pak Rs. 50 million is available for less than 50% of the procurement.
4. Data on resolution of procurement complaints	Requirement is not met.

3.111. Three out of four key information sets are not complete and reliable which gives a 'D' score.

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

3.112. Redressal of grievance is provided for under Rule 48 which requires constitution of committees of odd numbers for this purpose. PPRA circular dated December 23rd, 2009 exhibits that these have not been constituted and notified. Data of procurement complaints launched, resolved and resolution time is also not available. A complaint cell headed by a Deputy Director is working in PPRA. This is established under Section 5 of the PPRA

³⁰ See PPRA Ordinance 2002. PPRA Board consists of 6 Federal secretaries beside 4 other officials.

Ordinance 2002 which requires PPRA to monitor implementation of laws and rules. The linkages with the rules for formation of a third party complaints redressal mechanism with adequate competencies is still missing.

Year	Complaints received	Complaints settled	Percentage
2008-09	83	49	59 %
2009-10	268	155	57.8 %
2010-11	311	214	68.8 %

3.113. A complaint can be launched within 15 days of Bids Evaluation Report as per Rule 48, and is to be decided within 15 days. At the same time, Rule 35 states that a contract can be awarded after 10 days of Bids Evaluation Report.

3.114. This dimension is scored according to how the following requirements are fulfilled:

Complaints are reviewed by a body which:	Status
(i) is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;	Requirement is not met. PPRA complaint cell is set up but does not have sufficient administrative and legal backing, technical or professional expertise and members drawn from civil society and private sector.
(ii) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Although the cell is not involved in transactions, the effectiveness of the cell is not established for the reasons given above.
(iii) does not charge fees that prohibit access by concerned parties;	The cell does not charge a fee but its effectiveness is not established for the reasons given above.
(iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Requirement is not met.
(v) exercises the authority to suspend the procurement process;	Requirement is not met (no evidence is available). The mandate of the cell is not legally established.
(vi) provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Requirement is not met.
(vii) issues decisions within the timeframe specified in the rules/regulations; and	Requirement is not met. Rule 48(3) provides for a decision in 15 days of receipt of complaint. Whereas, under rule 35 contract can be awarded after 10 days of Bid Evaluation Report. No evidence available to substantiate whether decisions, if any, were taken in time.
(viii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Requirement is not met. PPRA complaint cell cannot issue binding instructions.

3.115. The complaints system does not meet the above criteria substantially; hence it is scored as 'D'.

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

3.116. An effective internal control system is one that (a) is relevant i.e. based on an assessment of risks and the controls required to manage the risks; (b) incorporates a comprehensive and cost effective set of controls which address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting; (c) is widely understood and complied with; and (d) is circumvented only for genuine emergency reasons. Evidence of the effectiveness of the internal control system should come from government financial controllers, regular internal and external audits or other surveys carried out by management.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	C	C+	
(i) Effectiveness of expenditure commitment controls	C	B	Comprehensive expenditure commitment controls are in place, in military side. In Civil government budget check at payment stage and phased release of funds against budget allocations ensures that commitments are limited to cash availability and approved budget allocations.
(ii) Comprehensiveness, relevance and understanding of other internal control rules / procedures	C	B	Internal controls established as sets of rules in place are detailed and are understood throughout the financial administration. Procedures to address risk of error and fraud tend to create duplication of approvals causing inefficient use of personnel.
(iii) Degree of compliance with rules for processing and recording transactions	C	C	Rules for recording and reporting transactions are complied with in a significant majority of transactions. The Audit Year Reports for past 3 years contain several observations on internal control weaknesses.

(i) Effectiveness of expenditure commitment controls.

3.117. The AGP has highlighted weaknesses in the system of commitment controls of civil government in the last three years audit reports. Commitment recording and reporting is being rolled out. The government accounting system is designed on the cash basis of accounting and therefore little attention is given for recording of commitments. Commitments are controlled through the rigorous application of budget check at the point of payment. Payments are limited to the extent that approved budget has been released by the MoF thereby allowing control over limiting the commitments being made to cash availability. The largest non-salary expenditure in civil government is interest on debts which are recorded and reported by SBP on accruals as well on cash basis.

3.118. On the military side, commitments are properly recorded against approved budgets. Commitments over budgets are rare and possible only with the approval of the highest authority. There is a strong system of record keeping for inventory and equipment within each unit which is subject to internal and external audit. Expenditures committed are recorded in running balance of budget registers. The pre-audit function within MAG ensures budget availability before payments. Considering the strong controls in the military expenditures, established expenditure controls in the civil payments and the fact that the civilian non-salary expenditures are a proportionately small amount, the rating is improved to 'B'.

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

3.119. The GoP internal control system is largely based on General Financial Rules, Fundamental Rules (FR), Supplementary Rules (SR), Federal Treasury Rules (FTR), Military Financial Rules, System of Financial Control and Budgeting (September 2006), and other regulations, instructions and orders issued by the MAG, MoF and AGPR from time to time. Internal controls for military organization are considered effective, comprehensive, and are widely understood across the different departments of military. However, there are duplications of approvals and multi-tiered checks leading to inefficiency in staff usage. The rating is maintained as 'C'.

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

3.120. Rules for recording and reporting transactions are complied within the government in a significant majority of transactions. The Audit Year Reports 2008-09, 2009-10 and 2010-11 contain numerous audit observations of non-compliance with rules and regulations without adequate justifications. As an example, constitutional rule for receipts and payments from consolidated fund is relaxed for all project accounts, and exempt entities. Rating is maintained as 'C'.

PI-21 Effectiveness of internal audit

3.121. Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit system or equivalent systems monitoring function. This should meet international standards in terms of appropriate structure, particularly independence; sufficient breadth of mandate, access to information and power to report; and use of professional audit standards including risk assessment techniques.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	D	D	
(i) Coverage and quality of the internal audit function	D	D	Internal Audit in civil government is the general responsibility of CFAO, but is not yet developed effectively in most ministries. In Ministry of Defense it is the responsibility of CLA, though it lacks compliance with international standards.
(ii) Frequency and distribution of reports	D	D	There is no evidence suggesting that Internal Audit reports are issued regularly for most GoP entities.
(iii) Extent of management response to internal audit findings	D	D	As an operational internal audit function with regular reporting is not implemented, follow up management actions becomes non-existent.

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

3.122. The internal audit function exists in certain AGAs and PEs operating under corporate legislation. The internal audit function in the civil administration is responsibility of Chief Finance and Accounting Officers (CFAO), but has not been developed as an effective administrative control function. Ministry of Foreign Affairs has its internal audit department functioning under CFAO. In other MDAs no significant improvements are evidenced.

3.123. Military administration's internal audit is working under Controller Local Audit (CLA). Local audit function has breadth of mandate and access of information. All units across the military are subjected to internal audit on half-yearly or quarterly basis. Local audit reports are divided into three categories in order of significance and are accordingly reported to MAG, Secretary Defense or CLA. There is lack of use of professional audit methods and

compliance with International Standards for the Professional Practice in Internal Audit (ISPPIA)³¹ or any other national/international standards. Data on staff time usage regarding system and transaction review is not available. The dimension is rated 'D'.

(ii) Frequency and distribution of reports

3.124. Although most of CFAO posts (22 out of 24) have been filled since last PEFA assessment in 2009, there is no evidence suggesting that Internal Audit reports are regularly prepared for most GoP entities covering aspects like; reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. CLA reports are issued for military expenditures.

(iii) Extent of management response to internal audit findings

3.125. Reports issued in military organizations are properly responded to and observations by the internal audit function impact the performance evaluation of officers' in-charge. On the civilian side, since regular internal audits are not implemented, the management response is non-existent.

E- Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	C+	D+	
(i) Regularity of bank reconciliations	C	D	Bank reconciliations are conducted monthly but unresolved reconciliation differences remain. Receipt side reconciliation practices of treasury managed bank accounts are deficient.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B	C	Monthly clearing house meetings are scheduled for all the accounting offices for reconciliation. Difference between EAD and AGPR data exists for foreign funded projects. Practice of advances has been curtailed.

(i) Regularity of bank reconciliations.

3.127. AGPR and CMAs issue all payments pertaining to budget expenditures. Better control in recording payment at AGPR has been achieved with the help of GFMS. AGPR is now issuing cheques printed directly by the GFMS. Improvement in procedures is required for identifying and addressing the un-reconciled differences. Reconciliation at AGPR is conducted every month. Net unresolved reconciling differences of AGPR as of June 30, 2010 were Pak Rs.410 million and as of June 30, 2011 were Pak Rs. 370 million. Differences are carried forward to next year reconciliation. No payment from AGPR or CMA is made in cash.

³¹ International Standards for the Professional Practice in Internal Audit (ISPPIA), issued by the Institute of Internal Auditors

3.128 Receipt side reconciliation practices are lacking. Data of FBR, AGPR and SBP continue to differ for many reasons, e.g. collection of tax through book adjustments. Strengthening of the system is much required to reconcile bank receipts of the Federal Government for both tax and non-tax revenue. As discussed in PI 15, system of payment of tax into treasury is automated and controls are strong, however, reconciliation practices are still to be developed. Since final figures of tax and non-tax revenue are taken directly from the SBP therefore reconciling differences, if any, are not affecting financial statements.

3.129. To remove discrepancies of data and financial information reconciliation between AGPR, NBP and SBP, the CGA office is making efforts to establish a portal between the data bases maintained by the three organizations to remove issues in reconciliation.

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

3.130. Apart from the bank reconciliation procedures there are monthly clearing house meetings of all the accounting offices for reconciliation. Practice of advancing funds in more than 900 assignment account (or project accounts) has been abolished by the government. Each authority is given a financing ceiling for issuance of payments. This ceiling was previously entered as an accounting entry and this practice has been abolished. On relinquishment of limit expenses are to be reported to AGPR for recording in GFMS and thereafter limit is replenished. The government has also introduced payments of projects directly from the treasury to discourage use of assignment account. Clearance of reconciliation differences is long outstanding. Receipts side reconciliation practices have deteriorated during the last few years despite implementation of computerized system of filing of tax returns. The deficiency is being addressed by PRAL by developing a new system for reconciling the receipts with AGPR records through the system.

3.131. Un-reconciled differences between EAD and AGPR remain a concern. Such differences are mainly due to insufficient allocation of budget by MoF and non-provision of data from ministries to AGPR. Such differences for 2010-11 and 2009-10 were Pak Rs. 5.15 billion and Pak Rs. 10.77 billion respectively³².

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

3.132. The indicator is measured by collecting and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

Dimension	Score		Brief Explanation of status
	2009	2012	
Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	B	NA	The indicator is no more applicable after 18 th amendment in the Constitution of Pakistan whereby education and health are provincial subjects and no earmarked grants are provided to provinces. There is nothing to be tracked.

3.133. Health and Education service delivery functions are carried out by provincial and district governments after promulgation of 18th amendment in the Constitution in 2009³³; the Federal Government has no or very limited direct responsibilities. The Federal Government has an overall responsibility for oversight of service delivery as part of the Poverty Reduction Strategy Paper. There is no earmarked government funding for specific services; the funding comes as lump sum financing and the services are also financed by revenue raised by the lower tiers of

³² Un-explained difference as reported by AGPR

³³ Constitution of Islamic Republic of Pakistan 1973 as amended <http://www.na.gov.pk>

government themselves. In this case, the indicator is not applicable following clarifications to PEFA framework which reads: “Where central government provides unconditional grants to lower level government, there is nothing to be tracked and this indicator is not applicable to assessment of a central government which does not directly provide primary services and which does not finance such services through earmarked transfers to lower level governments or other service providers.”

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

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	C+	C+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Government fiscal reports are generated from GFMS every month giving high quality information at all levels of the budget. Non-recording of expenditure at commitment level by MDA remained major deficiency to improve score.
(ii) Timeliness of the issue of reports	A	A	Reports are produced every month from GFMS within 10 days, while SBP is reporting cash balance of Federal Government on daily basis. Timely information is available with the financial managers of the government.
(iii) Quality of information	B	B	Government fiscal reports are now generated from GFMS every month giving detailed information of budget and actual spending. Data is considered credible and accurate.

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

3.135. Accounting for the Federal Government follows the cash basis. The same chart of accounts is used for both budget formulation and execution. Payments of all MDAs are processed, recorded and reported centrally by AGPR and MAG for all civil departments and military departments respectively. Civil government fiscal reports are generated from GFMS, every month giving detailed information of budget and actual spending.

3.136 However, ³⁴non-recording of expenditure at commitment level by MDA is a major deficiency in the financial management procedures. The usage of the GFMS, application of NAM and capacity building of accounting staff has strengthened the financial reporting mechanism. Commitment and liability accounting, provided for in NAM, is still not fully enforced. Expenditure is fully captured only at the payment stage. At the year-end all un-presented cheques and related expenditure is reversed and any liabilities not fully provided for in the next budget cannot be honored. As expenditure is not fully covered at both commitment and payment stage, a rating of ‘C’ is given for dimension (i).

³⁴ Preface to the financial statements for FY 2010-11 as per CGA and statement of compliance of financial statements.

(ii) Timeliness of the issue of reports.

3.137. GFMIS terminals are now available to most of the ministries of the government and the PAO is provided with the budget and spending status on real time basis. AGPR is producing GFSM 2001 compliant fiscal reports by use of GFMIS with a time lag of 10 days, while SBP reports consolidated cash balance of Federal Government on daily basis. Timely information is thus made available for revision of budgets and where necessary approval of supplementary budget to meet urgent or emergency requirement. The dimension is rated 'A'.

(iii) Quality of information.

3.138. Government Fiscal Statistical Manual has prescribed the main reports to be generated on regular intervals. The BER and GFS are produced adhering to IMF standards of reporting of fiscal data. GFMIS is now capable of reporting up to third level in both federal and provincial level. Historical reconciliation issues as highlighted in PI 22 do not undermine the credibility of information included in the reports being issued. Sometimes classification or input errors occur, but these are not common and do not compromise the overall usefulness.

PI-25 Quality and timeliness of annual financial statements

3.139. Consolidated year-end financial statements are critical for transparency. To be complete, they must be based on details for all ministries, independent departments and de-concentrated units.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	B+	C+	
(i) Completeness of financial statements	B	C	The financial statements lack consolidation of independent departments, disclosure of third party payments and some of the grants/loans received. These issues were not considered during assessment in 2009.
(ii) Timeliness of submission of the financial statements	A	A	The financial statements are prepared and submitted to AGP for audit within 2 months from the end of fiscal year.
(iii) Accounting standards used	B	C	Financial Statements are being prepared under cash basis of accounting and are aligned with the format given by the cash basis IPSAS, but gaps remain as stated in note of compliance in the financial statements

(i) Completeness of financial statements

3.140. Financial Statements of Federal Government are prepared annually on cash basis, which contains, a statement of cash receipts and payments, cash flow, comparison of budget and actual expenditure by function, comparison of budget and actual expenditure by division and statement of appropriation of grants by object for the year. In note 2 to the financial statements for 2010-11 it is stated: "commitment, asset and liability accounting practices have not yet been implemented and memorandum registers for assets and commitments do not exist and accounting of liabilities is not done in accordance with NAM". These issues were not highlighted in 2009 assessment. Considering the lack of full information on financial assets and liabilities, the dimension is rated 'C'.

3.141. Financial statements for the years 2008-09, 2009-10 and 2010-11 contain a stand-alone note on liabilities and assets, however, evidence in support of basis, correctness and completeness of the figures of the note is not available.

3.142. The function of recording and reporting of transactions is undertaken on a cash basis and therefore it does not capture fully the third party payments. The financial statements do not contain consolidated financial information of independent departments. Certain receipts from donors are not reflected in the financial statements e.g. urea received from Kingdom of Saudi Arabia in 2010.

(ii) Timeliness of submission of the financial statements

3.143. AGPR is responsible for preparing the financial statements on behalf of CGA. AGPR is now able to prepare the financial statements within two months from the close of financial year. The financial statements are prepared for fiscal year end i.e. June 30 and submitted to AGP by August 31 every year. The dimension is thus rated 'A'.

(iii) Accounting standards used

3.144. Financial Statements are being prepared under cash basis of accounting and are compliant with the format given by the cash basis IPSAS. NAM was developed using modified cash basis of accounting, which required recording and reporting of liabilities and assets as notes to the financial statements. The financial statements are yet not fully compliant with cash basis IPSAS or NAM. Commitment accounting has been notified but is yet to be made operational in the accounting practices of the Federal Government. Undrawn borrowing facilities and undrawn external assistance disclosure in the financial statement is also not present. Third party payments need to be disclosed separately in financial statements under the IPSAS cash basis for which a column has been included but no amounts are reported.

F- External scrutiny and audit

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

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	C+	B	
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	B	Audit is covering central government entities representing at least 75% expenditure for the last three financial years. INTOSAI auditing standards are adopted but some aspects are only partially implemented.
(ii) Timeliness of submission of audit reports to legislature.	C	B	AGP has submitted audit reports to the President, within 8 months from the end of the fiscal year and within 6 months of submission to AGP.
(iii) Evidence of follow up on audit recommendations	C	B	Response of the MDA has substantially been improved during last three years. There is evidence to support that formal response to audit observations has been made during the last three years.

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

3.146. The AGP is empowered under Articles 168 to 171 of the Constitution to audit the accounts of the Federation and of the Provinces and of any body or authority established by the Federation or a Province. The AGP Ordinance 2001 describes the powers of the AGP, which include the following functions: inspection of any accounts office or treasury of the Federation, Province or District; requisition accounts, books, papers and other documents for audit; and enquire or make such observations considered necessary for audit. The bank-funded Project for Improvement to Financial Reporting and Auditing (PIFRA) has a component for the capacity building of the AGP, with an objective to support the adoption of modernized government audit procedures and internationally accepting auditing standards that will enhance program oversights and improving evaluation capabilities of AGP.

3.147. At the time of preparing an annual audit plan for a fiscal year, AGP office selects ministries and allied departments in such a way that at least 75% of total expenditure is covered by the audit. The audit, based on risk and materiality assessments in line with the new Financial Audit Manual (FAM), covers expenditure through a wide range of certification and compliance audit procedures. The coverage is following a recurrent cycle ensuring that those MDAs or areas left out in one year, are covered in the next cycle. Performance audits are also done but do not follow an annual cycle.

3.148. Adherence to international auditing standards requires independence of SAI and its staff. Service structure of Audit and Accounts historically been framed under all the three Constitutions of Pakistan, whereby Audit and Accounts has always been a single cadre. Pakistan made a significant improvement through legislation in 2001 by giving functional autonomy and independence to CGA and AGP offices to address issue of independence to a major extent. However, appointment of AGP directly by the head of state, transfers and postings within CGA by the Auditor General are still threats to independence which need improvement to adhere to international auditing standards.

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

3.149. The audited financial statements of the Federal Government (as well as of the four provincial governments) for the last three years have been certified by the Auditor General and final reports have been submitted according to the table below.

Table 3.15. Timetable for External Audit

Financial Year	Close of Financial Year and receipt of Financial Statements	Issuance of Audit Opinion	Submission of Final Audit Report and Management Letter to the President
2008-09	June 30, 2009 receipt on Aug 31, 2009	Feb 10, 2010	Feb 28, 2010
2009-10	June 20, 2010 receipt on Aug 31, 2010	Jan 24, 2011	Feb 28, 2011
2010-11	June 20, 2011 receipt on Aug 31, 2011	Dec 31, 2011	Feb 28, 2012

(iii) Evidence of follow up on audit recommendations

3.150. AGP's commitment for timely submission of audit report to the President and effective operations of PAC during past three years has been a driving force in substantially improving formal response from the audited MDAs. Audit observations are communicated to audited organisations and formal response is requested within a dead line given by the AGP office. There is evidence to support that formal response to audit observations has been made during the last three years. Audit observations which remain unresolved are sent to PAC for its scrutiny and directions.

PI-27 Legislative scrutiny of the annual budget law

3.151. The power to give the government authority to spend rests with the legislature and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not effectively exercised and will undermine the accountability of the government to the electorate.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	D+	C+	
(i) Scope of the legislature's scrutiny.	B	B	The legislature's review includes fiscal policies and aggregates for coming year and detailed estimates of expenditure and revenue.
(ii) Extent to which the legislature's procedures are well-established and respected.	C	B	The National Assembly's procedures are well established and respected.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro - fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	D	C	The time for National Assembly review of the budget law, including the review by the Standing Committee of the House is at least one month.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	C	C	Rules exist, but they allow extensive administrative re-allocation as well as expansion of total expenditure.

(i) *Scope of the legislature's scrutiny*

3.152. As stated in the previous PEFA assessment, the legislature's review of the budget is quite extensive in terms of information made available, but proposals are presented at a late stage in the decision-making process and the time for legislative review is less than one month. The annual budget documentation (see also PI 6) covers fiscal policies and aggregates for the coming year (through the Medium Term Budget Framework paper) as well as detailed estimates of expenditure and revenue. As per Article 80 of the Constitution, the Annual Budget Statement laid before parliament provides a statement of the estimated receipts and expenditure of the Federal Government clearly distinguishing and showing separately:

- (a) the sums required to meet expenditure described by the Constitution as expenditure charged upon the Federal Consolidated Fund; and
- (b) the sums required to meet other expenditure proposed to be made from the Federal Consolidated Fund.

3.153 Charged expenditure under Article 81 of the Constitution consists of debt charges and related expenditures as well as the remuneration and administrative expenses related to constitutional positions such as the President, the Auditor General, the judges of the Supreme Court etc. While the entire budget is open to review and debate, as per Article 82 (1) of the Constitution, charged expenditure is not submitted to vote. In 2010-11 budgeted total expenditure was Pak Rs. 6.7 trillion out of which Pak Rs. 5.1 trillion was charged expenditure and only Pak Rs. 1.6 trillion was voted expenditure. The practices remain similar as in the 2009 assessment and the rating is maintained as 'B'.

(ii) *Legislative Procedure for Budget Review*

3.154. Legislation for budget review by the legislature is simple and respected, but full implementation of the rules is hampered by time and resource constraints. Articles 82-86 of the Constitution specifically deal with budget preparation, presentation and other related matters including requirement relating to Annual Budget Statement. Furthermore, Rules of Conduct of Business in the National Assembly 2007, elaborate organizational arrangements and procedures in financial matters. A Standing Committee functions in this jurisdiction. However, these rules lack procedures for detailed estimate review by the legislature. Committee procedures will also need to be developed to address recent and coming changes in the budget process including MTBF.

(iii) *Time for review of Budget Proposals*

3.155. The period for legislative review is at least one month. The government has during the last three years submitted the budget to the National Assembly in the beginning of June while the approval of the budget has taken place within three weeks thereafter. The budget proposal is submitted to the Senate simultaneously. The Senate makes recommendations to the National Assembly within seven days. The Senate, like the National Assembly, has a Standing Committee on Finance, Revenue, Economic Affairs and Statistics in which the budget proposals are reviewed and recommended to Senate. Including the time allowed to the Standing Committees, the review period is at least one month and therefore the rating is assessed as 'C'.

(iv) *In-Year Budget Amendments by Executive*

3.156. Clear rules of business for the government, exist for in-year amendments of the budget without prior approval of the legislature, but they allow extensive administrative reallocation as well as expansion of total expenditure. The government has in theory an unlimited right to amend, change and reallocate the budget as no strict limits are set on the extent, the nature, or the timing of amendments for in-year budget amendments. All amendments are submitted ex post as Supplementary Grants to the legislature with the following year's budget proposal, and voted upon separately by the legislature.

PI-28 Legislative scrutiny of external audit reports

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

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	D+	D+	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years);	D	D	Overall, there is a clear and commendable improvement of the timeliness of examination but due to back-log of more than 10 years; rating for this dimension remains unchanged.
(ii) Extent of hearings on key findings undertaken by the legislature.	C	A	When the PAC is active, it holds in-depth hearings summoning the responsible PAO and other relevant officials.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	C	B	The PAC includes concrete recommendations in its reports. These recommendations are submitted to an Implementation Committee which also has the responsibility to follow up on all recommendations. Substantial amount of recoveries have been made on recommendation of PAC.

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

3.158. In most countries, the legislature is the constitutionally mandated institution through which governments are held to account to the electorate. In Pakistan the Public Accounts Committee (PAC) is responsible for carrying out the legislative oversight of budget execution on behalf of National Assembly. The AGP under Article 171 submits its report to the president who causes it to be laid before both houses of the parliament. The PAC examines the accounts showing the appropriation of sums granted by the National Assembly for the expenditure of the Government, the annual finance accounts of the Government, the report of the Auditor-General of Pakistan and such other matters as the Minister for Finance may refer to it. Details of the PAC hearings are recorded in a report with recommendations. The report of the Committee shall be presented to the National Assembly within a period of one year.

3.159. The examination of the audit reports by the PAC has until recent years taken much more than 12 months to complete, in fact, there were several years of standstill when PAC was not working effectively. The PAC at the federal level has a long history of back logs and sometimes non-functionality and there are still some audit reports going as far back as 1998-99 that are now being discussed by the PAC. When the new PAC was formed in 2008 it inherited a backlog of 12 years of un-examined reports which they are by law bound to deal with. The new PAC has worked vigorously and adopted a two pronged strategy meaning that they examine the latest reports, first while at the same time dealing successively with the old pending reports. To make these examinations, the PAC has formed sub-committees to deal more effectively with the backlog. The table below summarizes the status of examinations for audit reports concerning the last 5 years received by the PAC.

Audit Year AGP report	Report received by PAC	Discussion by PAC and finalization of its report	Comments/other information
2006-07	24-12-2008		Pending
2007-08	15-10-2009	18-10-2011	PAC Report Laid in the House on 18-10-2011
2008-09	03-05-2010	18-10-2011	PAC Report Laid in the House on 18-10-2011
2009-10	03-05-2010		Pending
2010-11	22-07-2011		Pending

3.160. PAC has dealt with the Audit reports 2007-2008 and 2008-2009, and is working on 2009-2010 and 2010-2011. For 2008-2009, PAC was able to finish within 18 months while the later reports are still pending. Overall, there is a clear and commendable improvement of the work of the PAC but due to backlog of reports, the score remains a 'D'.

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

3.161. When the PAC is active, it holds in-depth hearings with responsible officers; Principal Accounting Officers are always called and appear in the hearings to settle each audit observation. The PAC's emphasis on most recent audit reports increases the likelihood that responsible officers will still be in service at the time of the hearing. As the PAC has formed sub-committees to speed up and intensify the examination the extent of hearings has also become deeper and more effective meaning that the PAC now can fulfill its mandate. PAC hearings are also open to the general public and the media.

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

3.162. In its reports, the PAC includes concrete recommendations which are submitted to an Implementation Committee. This Committee has the responsibility to follow up on all recommendations of PAC. As per the Annual Report 2010 of Monitoring and Implementation Committee it is evident that most of the recommendations made by the PAC have not been implemented by the executive due to retirement of concerned officer or other legal

deficiencies due to late scrutiny of audit reports. However, billions of rupees have been recovered on recommendations of PAC.

G – Donor Practices

D-1 Predictability of Direct Budget Support

3.163. Direct budget support constitutes an important source of revenue for the government. Poor predictability of inflows of budget support affects the government's fiscal management in much the same way as the impact of external shocks on domestic revenue collection.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	A	A	
(i) Annual deviation of actual budget support from the forecast provided by donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	A	A	Actual budgetary support has fallen below 5% of estimated amount only in one year i.e. 2010-11. Donors are informing estimates of budgetary support at least six weeks before tabling of money bill in parliament.
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	A	A	Quarterly /monthly disbursement estimates are agreed with donors which are substantially complied with.

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

3.164. The forecast from the donors for budgetary support is received by the MoF through EAD six weeks before the finance bill is presented, based on which estimates of foreign assistance are prepared and submitted to the legislature along with other budget documents. During past three fiscal years actual direct budgetary support by donors has exceeded the estimates.

(Pak Rs. in millions)

	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Actual
Loans	23,019	176,272	26,189	406,371	26,076	229,766
Grants	4,874	25,672	6,365	29,401	7,576	2,586
Total	27,893	201,944	32,554	435,772	33,652	232,352

Source: Budget – Estimates of Foreign Assistance as per budget document; Actual – Financial Statements.

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

3.165. For the federal receipts, quarterly disbursement schedules are agreed with most of the donors. In certain cases the disbursement schedule is agreed on monthly basis. Disbursement agreements have been made with major donors before the beginning of the fiscal year and the actual disbursement delays have not exceeded 25% in two of the last three years. USAID, WB, ADB, IDB, DFID and EU contribute the overwhelming share of the donor funds without any delays in disbursement. The delays which usually occur are due to delay in meeting disbursement criteria by the executing agencies.

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

3.166. Predictability of disbursement of donor support for projects and programs affect the implementation of specific line items in the budget. Project support can be delivered in a wide range of manners with varying degrees of government involvement in planning and management of resources.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall	C+	C	
(i) Completeness and timeliness of budget estimates by the donor for project support	A	C	USAID, among the five largest donors is not providing breakdown information consistent with government budget classification. Other donors are providing timely information. Estimated amount of disbursement is included as lump sum line item in budget documents.
(ii) Frequency and coverage of aid flow by donors	C	C	At least 50% of donors (by value) provided quarterly (or on transactional basis) information for donor disbursements to EAD for recording in DMFAS.

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

3.167. EAD coordinates with the donors to consolidate estimates of foreign assistance to be included in the budget documents by the MoF. Most donors provide information for estimates for project support, well in time and according to government's budget calendar. Among the biggest five donors, USAID has not provided details of project aid and breakdown of the grants according the government's budget classifications. MoF included budget estimates of Kerry-Lugar bill as a line item in the estimates for foreign assistance. Other donors provide timely information for the project aid. Donor funded project's PC-1 (feasibility study and other vital information for project appraisal) are approved by planning Commission and then by Priorities Committee, the information of project expenditures is then translated into government CoA by the executing agency and/or the project management team at the time of submission of records of expenses to AGPR. The donors do not provide information based on Government CoA but the same is prepared by the project authorities.

(ii) Frequency and coverage of aid flow by donors

3.168. Actual receipts of grant from donors are reported to EAD by SBP, fax messages from donors and information from project authorities. Information received from donors on expenditures under projects does not match with budget classifications i.e. the CoA of the government. This information is mostly provided by the project personnel. In case of multilateral donors, access is provided to disbursement data on the web to facilitate recording and reconciliation on monthly basis. EAD records all receipts from donors in DMFAS. Data of DMFAS is reconciled with the donors on monthly basis. Financing by World Bank, ADB, IDB, DFID and EU constitute more than 50% of funds received by Federal Government from donor agencies. These donors provided monthly reports for disbursement made within one month after the end of month in which disbursement was made for proper reconciliation and recording.

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

3.169. National systems for management of funds are those established in the general legislation (and related regulations) of the country and implemented by the mainstream line management functions of the government. The requirement that national authorities use different (donor-specific) procedures for the management of aid funds diverts capacity away from managing the national systems. This is compounded when different donors have

different requirements. Conversely, the use of national systems by donors can help to focus efforts on strengthening and complying with the national procedures also for domestically funded operations.

Dimension	Score		Brief explanation of status
	2009	2012	
Overall proportion of aid funds to government that are managed through national procedures	C	D	There are very few donor funds which are managed through national procedures for banking, budgeting, authorization, procurement, accounting and auditing.

3.170. National procedures of Pakistan for banking, authorization, procurement, accounting, audit, disbursement and reporting are rarely adopted and used by the donors. In most of the cases the funds are managed by specially authorized project authorities in assignment accounts, opened with special approvals, instead of banking the funds in single treasury account of GoP maintained at NBP/SBP and routing payments through AGPR by pre-audit processing and recording function of AGPR. Procurement rules of donors are also applicable in most of the cases. Similarly in many cases, donor funded projects are not audited by AGP. Poor macroeconomic performance has had an impact on direct budget support by multilaterals.

3.171. During last three years, grants from USA pursuant to Kerry-Lugar bill are a major part of total grants coming into Pakistan. Substantial amount of such grants have been disbursed outside the national procedures. World Bank has used national procedures for processing payments through AGPR for a few projects in recent years; however, amount of aid managed through national procedures was less than 50% during last three years.

Chapter 4: Government Reform Process

4.1. The Federal Government has a continuing agenda of PFM reforms. Current programs are focused on areas of weakness in PFM administration that have been identified by the GoP and Development Partners. Major efforts are well underway to establish an effective system for financial management, reporting and audit; implement a medium-term budget framework; strengthen the capacity of the public sector in key areas (including aspects of PFM); reform tax administration and strengthen the FBR; and consolidate and strengthen the country's public procurement system.

Budget Reform

4.2. In 2003, the Federal Government started an important reform program for adopting a Medium-Term Budgetary Framework (MTBF) with aims to enhance fiscal discipline, improve linkages between government's strategic policy priorities and budget, and enhance operational efficiency. The MTBF reform initiative was approved by the Cabinet in February 2009 and since then it has been rolled out across all Ministries with the support of DFID.

4.3. The reform program has resulted in change in budget preparation cycle of the Federal Government. Two new components are now embedded in the process; the Budget Strategy Paper and the Output Based Budget.

4.4. The Budget Strategy Paper presents medium-term fiscal framework and budget strategy and is endorsed by the Cabinet each year. The medium-term fiscal framework is prepared as part of the 5-year macroeconomic framework on rolling basis. The Government has formed a Macro Working Group with representations from the Finance Division, Planning Commission, Federal Board of Revenue, Pakistan Bureau of Statistics, and State Bank of Pakistan. The working group is chaired by Chief Economist of the Planning Commission. For the budget years 2010-13, the Budget Strategy Paper was presented in the Cabinet in February 2009 and then in June 2009. Subsequently this is updated and presented to the Cabinet each year as part of the budget preparation process, latest being the Budget Strategy Paper for the budget years 2012-15. The Budget Strategy Paper results in issuance of ceilings to all Principal Accounting Officers for better guidance in preparation of budget estimates.

4.5. Within the 3-year ceilings, all Principal Accounting Officers (PAOs) present Output Based Budgets. The Output Based Budgets (OBB) link policy priorities and current budget through outcomes, outputs and inputs. In addition key performance indicators and targets are presented by outputs. The OBB is being presented in the Parliament as part of the annual budget for the past 2 years. In order to produce OBB, the Ministries have formed MTBF Core Team (headed by a Joint Secretary or Chief Finance and Accounts Officer) that deliberates on policy priorities and fulfills the requirements of the Budget Call Circular. Also, the MTBF project has provided all PAOs with custom developed software that produces OBB. Trainings and capacity building initiatives were undertaken throughout the Government over the past few years to enhance understanding and ownership by the Ministries.

4.6. In addition to the above, the following important developments have been initiated as part of the reform program:

- The Priorities Committee, which would only discuss project funding prior to MTBF has been upgraded and is co-chaired by Secretary Finance, Secretary Planning and Secretary Economic Affairs Division. The upgraded Priorities Committee discusses policy priorities of the Principal Accounting Officers together with medium-term budgets.
- The Budget Strategy Paper is discussed with Parliamentary Standing Committees on Finance and Revenue. This process improves parliamentary input into the budgeting process of the government.

- The Budget Strategy Paper is discussed with political parties, economic advisory council and chambers. This is allowing greater focus on strategic economic and budgeting agenda.
- In order to improve public financial management, a Public Finance Administration Act (PFAA) has been drafted. The PFAA represents a deliberate effort to draft a law that addresses immediate weaknesses in PFM in Pakistan and introduces modern budgeting practices. Issues addressed in the PFAA include budget preparation, better expenditure control especially for excess spending; budgeting for contingencies, clearer responsibilities including those of 'public entities', movement towards a single treasury account and greater fiscal transparency.
- The monitoring mechanism is being strengthened whereby the Finance Division and the Planning Commission are currently defining processes for output and outcome monitoring.
- Linkages with GFMIS. The software for GFMIS is currently being upgraded. The new version will provide the platform for linking with the MTBF based budgeting system software to allow sharing of data and better monitoring of budget execution.
- Creation of an MTBF Secretariat that would take over the responsibilities of Consultants and ensure sustainability of reform program.

Economic Reform Unit

4.7. Economic Reform Unit has been established within the Ministry of Finance with main objectives to:

- Formulate a Private Sector Development Strategy;
- Review existing laws, rules and regulations pertaining to the business environment that are obsolete, overlapping and inconsistent or unduly add to the cost of doing business;
- Act as a quality filter for new regulations and propose changes that stimulate private sector development, improve transparency, reduce costs and are consistent with international best practices;
- Establish a Better Business Advisory Council (BBAC), comprising of representatives from both the private and public sectors to advise the Government on priorities of private sector friendly reforms at the national, provincial and local levels;
- Develop a prioritized sector wise reform plan and a roadmap with benchmarks for its effective monitoring and implementation, supported by funding interventions, wherever necessary.

Restructuring of Public Sector Enterprises (PSEs)

4.8. Restructuring of PSEs has been initiated as a roadmap for improved economic governance. An overall framework for restructuring of following eight PSEs has been devised:-

- Pakistan International Airlines (PIA);
- Pakistan Steel Mills (PSM);
- Pakistan Electric Power Company (PEPCO);
- Pakistan Railways;
- National Highway Authority;
- Pakistan Agricultural Storage and Services Corporation (PASSCO);
- Trading Corporation of Pakistan (TCP); and
- Utility Stores Corporation (USC).

4.9. Key objectives with respect to PSEs are to improve overall corporate governance of PSEs; curtail hemorrhages; improve service delivery; reduce fiscal burden on the exchequer and move to a structural surplus and increased public sector savings. The key aspects of the restructuring model include:

- Restructure Boards of Directors of PSEs by inducting a mix of skills including academia, management experts, professional managers and technocrats;
- Induct professional management including Chief Executive Officers(CEO), Chief Financial Officers and key managers;
- Develop viable turn around plans;
- Ensure implementation of plans in an independent manner with the support of government under the mandate of Cabinet Committee of Restructuring (CCOR) and
- Ensure monitoring by CCOR.

4.10. Substantial progress has been achieved including restructuring BODs of 8 Power Sector Distribution Companies (DISCOs), National Transmission and Dispatch Company (NTDC), Pakistan Steel Mills (PSM) and Pakistan Railways. BODs for 4 Power Generation Companies (GENCOs), Central Power Purchase Authority (CPPA), USC and TCP are being finalized. A framework for hiring of professional CEOs has been approved by the CCOR to create transparency. BODs are being empowered to carry out a transparent process and induct professionals from the market. Extensive work is being done on turn-around plans. Turn around plans for Power Sector and PSM are under implementation and consequently hemorrhaging has been curtailed in these PSEs.

4.11. Restructuring plans for TCP, PIA, PASSCO and USC have been framed. Initial implementation process of the restructuring plans for these enterprises is underway. Future strategy is to develop a framework for ensuring well-functioning BODs and to engage them in turnaround of the PSEs.

4.12. The corporate governance framework envisages a transparent process of Board nominations; capacity building of BODs; clarifying role of BODs; and monitoring performance of BODs by setting key performance indicators.

Power Sector Reform Plan

4.13. Power Sector Reform plan has been initiated under the guidance of CCOR. The plan is formulated on the following key pillars:

- Improved governance structure;
- Supportive legal framework;
- Financial sustainability;
- Supply side management;
- Demand side management; and
- Promote private sector participation in the sector.

4.14. Dissolution of PEPCO has been initiated to ensure autonomy to power sector companies. Boards of Directors of 8 DISCOs and NTDC have been reconstituted as professional and autonomous BODs with a mix of government and private sector professionals. Technical, financial and managerial audit of DISCOs has been completed. Capacity addition of 3,334 megawatts has been made in the three years between 2008 and June 2011. Line losses of DISCOs reduced to 19.6% (June 2011) from 20.4% (July 2010) with an estimated saving of Pak Rs. 12 billion.

Financial Reporting and Audit

4.15. To enhance financial reporting and auditing and to improve compliance with international standards, the Auditor General of Pakistan embarked upon an important reform program called 'Project to Improve Financial Reporting and Auditing' (PIFRA) funded by the World Bank. The main aims of PIFRA are to establish an effective accounting, reporting and auditing system that complies with accepted standards, strengthen financial management and tighten internal controls, improve decision support system by generating information for management decision making, and enhance organizational and staff capacity.

4.16. The reform program was carried out in phases. In the first phase 'New Accounting Model' was developed and implemented through a GFMIS. A total of 31 sites achieved live status. In this phase New Chart of Accounts was

developed and made operational. Most importantly, the functions of audit and accounts were separated through creation of the office of the Controller General of Accounts. In addition, modernization of audit was initiated through development of Financial Audit Manual. In this phase several hundred personnel were trained, a large exercise of data migration was undertaken, and a competency center was created that institutionalized specialist knowledge of systems and processes. This phase was carried out from September 1996 to May 2005.

4.17. The second phase (PIFRA-II) started in May 2005. PIFRA-II was designed to build on the achievements of PIFRA-I and implement new policies and procedures in all accounts / audit offices in the country. The project was scheduled to be completed on December 31, 2010. However, for completion of some ongoing activities and to ensure system sustenance and consolidation, financial support for critical elements of PIFRA was extended up to June 2013.

4.18. Currently, the following institutional arrangements are in place:

- A Strategic Committee comprising the Auditor General of Pakistan (AGP) and the Federal Finance Secretary for policy directions.
- Two independent Steering Committees on Audit and Financial Accounting and Budget System (FABS) for overseeing component implementation. AGP is the Chair of Audit Steering Committee while FABS Steering Committee is headed by Federal Finance Secretary.
- A Technical Committee for each component (Audit, FABS) to oversee day to day technical aspects of component implementation;
- Project Directorate of PIFRA continues to work towards attainment of deliverables.
- A 'SAP Competency Centre' (CC) with a blend of in-house and market resources provide support for accounting reforms based on New Accounting Model and GFMIS.
- An 'Audit Competency Centre' is working at AGP office to support Audit reforms based on Financial Audit Manual and computerized aided auditing techniques and to implement quality output through an elaborate quality management framework.
- Regional Directorates of PIFRA are established at each provincial headquarter which apart from operational and coordination work also act as regional SAP CC and Audit CC for support and implementation of reforms.

4.19. Major challenges include current ongoing upgrade of the GFMIS software, volatile law and order situation in Balochistan and FATA which has an impact on progress of development works in some areas. The smooth decentralization and handing over of the operational components of PIFRA from project management to the relevant offices like CGA, AGP and Finance is itself one of the major challenges.

Revenue Mobilization

4.20. To improve tax base, enhance tax to GDP ratio and improve capacity for achievement of fiscal targets, the Federal Government through FBR is currently working with the World Bank for preparing a project for revenue mobilization with following objectives:

- Broadening of the tax base;
- Strengthening tax audit and enforcement procedures;
- Guarantee fair and more equitable application of tax laws;
- Increase in transparency and integrity;
- Facilitate and promote voluntary compliance with tax laws; and
- Provide transparent and high quality tax services.

4.21. Federal Government with the help of GIZ is developing mechanism for revenue forecasting of the Federal Government. The project is in its initial phase, targets of the projects and project design is yet to be finalized.

Annex 1: Summary of PEFA Performance Indicators

Performance Indicators			Scoring Method	2009					2012				
				Dimension Ratings				Overall Score	Dimension Ratings				Overall Rating
			i	ii	iii	iv		i	ii	iii	iv		
A – Credibility of the Budget													
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	D				D	B				B	
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	NA				NA	C	A			C+	
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	NA				NA	B				B	
PI-4	Stock and monitoring of expenditure payment arrears	M1	NR	D			NR	NR	D			NR	
B – Comprehensiveness and Transparency													
PI-5	Classification of the budget	M1	A				A	A				A	
PI-6	Comprehensiveness of information included in budget documentation	M1	B				B	A				A	
PI-7	Extent of unreported government operations	M1	A	D			D+	A	C			C+	
PI-8	Transparency of inter-governmental fiscal relations	M2	A	A	A		A	A	B	A		A	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	A			C+	C	A			C+	
PI-10	Public access to key fiscal information	M1	C				C	B				B	
C – Policy Based Budgeting													
PI-11	Orderliness and participation in the annual budget process	M2	A	C	A		B+	A	A	A		A	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	B	B	C	C+	C	A	A	B	B+	
D – Predictability and Control in Budget Execution													
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	B	B		B	C	B	B		B	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	B		B	D	B	B		C+	
PI-15	Effectiveness in collection of tax payments	M1	D	B	B		D+	C	A	D		D+	
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	D	C	D		D+	C	B	C		C+	
PI-17	Recording and management of cash balances, debt and guarantees	M2	B	B	A		B+	B	B	A		B+	
PI-18	Effectiveness of payroll controls	M1	C	B	B	C	C+	B	A	A	B	B+	
PI-19	Transparency, competition and complaints mechanism in procurement	M2	NA	NA	NA	NA	NA	B	D	D	D	D+	
PI-20	Effectiveness of internal controls for non-salary Expenditure	M1	C	C	C		C	B	B	C		C+	
PI-21	Effectiveness of internal audit	M1	D	D	D		D	D	D	D		D	

Performance Indicators		Scoring Method
E – Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	M2
PI-23	Availability of information on resources received by service delivery unit Quality and timeliness of in-year budget reports	M1
PI-24	Quality and timeliness of in-year budget reports	M1
PI-25	Quality and timeliness of annual financial statements	M1
F – External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	M1
PI-27	Legislative scrutiny of the annual budget law	M1
PI-28	Legislative scrutiny of external audit reports	M1
G. Donor Practices		
D-1	Predictability of Direct Budget Support	M1
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1
D-3	Proportion of aid that is managed by use of national procedures	M1

2009				Overall Score
Dimension Ratings				
i	ii	iii	iv	

C	B			C+
B				B
C	A	B		C+
B	A	B		B+

B	C	C		C+
B	C	D	C	D+
D	C	C		D+

A	A			A
A	C			C+
C				C

2012				Overall Rating
Dimension Ratings				
i	ii	iii	iv	

D	C			D+
NA				NA
C	A	B		C+
C	A	C		C+

B	B	B		B
B	B	C	C	C+
D	A	B		D+

A	A			A
C	C			C
D				D

Annex 2: List of References

Budget-related Documents:

- Budget Speech 2009/10, 2010/11
- Federal Budget in Brief 2009/10, 2010/11
- Annual Budget Statement 2009/10, 2010/11
- Demands for Grants and Appropriations 2009/10, 2010/11
- Explanatory Memorandum on Federal Receipts 2009/10, 2010/11
- Estimates of Foreign Assistance 2009/10, 2010/11
- Economic Survey 2009/10, 2010/11
- Budget call circulars
- Medium Term Budget Estimates for Service Delivery 2011-14
- Debt Policy Statement 2010/11, DPCO
- Fiscal Policy Statement 2010/11, DPCO
- The Fiscal Responsibility and Debt Limitation Act 2005
- System of Financial Control and Budgeting (September – 2006), Finance Division

Accounting and Audit Documents:

- Audit Report on the Accounts of Federal Government (Civil) for Audit Years 2008/09, 2009/10
- Financial Statements of the Federal Government 2008/09, 2009/10 & 2010/11.
- PAC reports for audit reports scrutiny
- Financial Audit Manual, AGP
- Quality Management Framework 2011 by Auditor General of Pakistan

Economic Planning and Poverty Reduction:

- Poverty Reduction Strategy Paper (PRSP II), Government of Pakistan, Finance Division, February 2009.
- Mid Term Review of Medium Term Development Framework 2005-10, May 2008, Planning Commission
- Planning Commission – A Synoptic View (2008) Planning Commission.
- Economic Survey of Pakistan 2009, 2010 & 2011.
- Annual Reports, Ministry of Finance.
- Pakistan Fiscal Operations.

Other Reports:

- The World Bank (November 2007), Case Study on the Review of Flow of Funds and Utilization Rate of the PSDP in Pakistan
- Pakistan: Request for Stand-By Arrangement—Staff Report, December 2008, IMF Country Report No. 08/364
- Pakistan: 2009 Article IV Consultation and First Review Under the Stand-By Arrangement—Staff Report, April 2009, IMF Country Report No. 09/123
- Monthly progress reports FBR, June 2009, June 2010, and June 2011.
- Tax payer education brochures.

-
- Income Tax Ordinance 2001,
 - Sales Tax Act 1990.
 - Pakistan Custom Tariff books.
 - Federal Tax Ombudsman Report to President of Pakistan.
 - Transparency International Pakistan report on FTO, May 2011
 - Constitution of Pakistan 1973.
 - National Finance Commission award 2010.

Key Websites

- Federal budget speech Budget 2011-12 <http://www.finance.gov.pk/budget/FinalBudgetSpeech2011-12.pdf>
- Budget in Brief 2011-12 http://www.finance.gov.pk/budget/BudgetinBrief_2011_12.pdf
- IMF Article IV Consultations Staff Report <http://www.imf.org/external/pubs/cat/longres.aspx?sk=25714.0>
- Ministry of Finance <http://www.finance.gov.pk/budget>
- See budget call circular at MoF web site <http://www.finance.gov.pk/downloads.html>, http://www.finance.gov.pk/publications_latest.html
- See IMF website: <http://www.imf.org/external/pubs/ft/scr/2012/cr1235.pdf>
- Federal Board of Revenue: www.FBR.gov.pk
- Controller General Accounts: www.cga.gov.pk
- Auditor General of Pakistan: www.agp.gov.pk
- Federal Tax Ombudsman :www.FTO.agp.gov.pk

Annex 3: List of Persons Met

Office of the Auditor General of Pakistan

- 1) Mr. Manzar Hafeez Mian, Dy. Auditor General (Defence Audit), Islamabad
- 2) Mr. Abdul Basir, Dy. Auditor General (APR&SD), Islamabad
- 3) Mr. Muhammad Azam Khan, Deputy Auditor General (AP&SS), Islamabad
- 4) Mr. Saeed Akhtar Malik, Director General (AP&SS), Islamabad
- 5) Mr. Tafakhar Ali Asdi, Director (AP&SS), Islamabad
- 6) Mr. Shahid Hussain, Audit Officer, Islamabad
- 7) Mr. Saeed Akhtar, Auditor General Office, Islamabad

Office of the Controller General of Accounts

- 8) Mr. Muhammad Junaid, Controller General of Accounts, Islamabad
- 9) Mr. Akhtar Ali, Deputy CGA, Islamabad
- 10) Mr. Mutahir Shah, D. G. (MIS), Islamabad
- 11) Mr. M. Afzal, D. G. (A/Cs), Islamabad

PIFRA Directorate

- 12) Mr. Asif Usman Khan, Project Director – PIFRA, Islamabad
- 13) Mr. Arsalan Hanif, Director PIFRA Audit, Islamabad
- 14) Mr. Iftikhar Ahmed, Business Process Specialist, PIFRA, Islamabad

Accountant General of Pakistan Revenue

- 15) Ms. Farah Ayub Tarin, Accountant General of Pakistan Revenue, Islamabad
- 16) Mr. Shahzad Hasan, Additional Accountant General, Islamabad
- 17) Mr. Muhammad Arshad, Deputy AGPR (A/C), Islamabad
- 18) Mr. Javed Khan, Accounts Officer, Islamabad
- 19) Mr. Muhammad Farooq, Financial Reporting Specialist, Islamabad

Military Accountant General

- 20) Mr. Masood Sherwani, Deputy Military Accountant General, Rawalpindi
- 21) Mr. Zafar Masood, Director (MIS), Islamabad
- 22) Mr. Tariq Mehmood, Accounts Officer, Islamabad

Ministry of Finance

- 23) Mr. Arshad Mirza, Additional Secretary (External Finance & Policy Wing), Islamabad
- 24) Mr. Haque Nawaz, Joint Secretary (Budget & Implementation), Islamabad
- 25) Mr. Talib Baloch, Joint Secretary (Budget), Islamabad
- 26) Mr. Ahmad Hussain, Joint Secretary (CF-1), Islamabad
- 27) Mr. Naveed Alauddin, Joint Secretary (CF-2), Islamabad
- 28) Mr. Nohman Ishtiaq, Consultant (MTBF), Islamabad
- 29) Mr. Syed Ahmed Raza Asif, Deputy Secretary (EFP-I), Islamabad
- 30) Mr. Qamar-uz-Zaman Farooqi, Deputy Secretary, Islamabad
- 31) Mr. Abdul Waheed Khan, S. O. (EFP), Islamabad
- 32) Mr. Mahmood Ahmad Bhatti, S. O. (EFP), Islamabad
- 33) Mr. Rohail Aziz Qudwai, S. O. (EFP-III), Islamabad

Economic Affairs Division (EAD)

- 34) Syed Mumtaz Hussain Shah, Deputy Secretary, Islamabad.
- 35) Sabz Amin, Director of Accounts, Islamabad.
- 36) Abdul Karim, Chief Finance & Accounts Officer, Islamabad.
- 37) Asif Khan, Director, EAD, Islamabad.

Federal Tax Ombudsman (FTO) Secretariat

- 38) Dr. Shoaib Suddle., FTO.
- 39) Mehmood Alam, Secretary, Islamabad

Federal Board of Revenue

- 40) Aqil Usman, Member Legal, Islamabad
- 41) Hafiz Muhammad Anees, Member Taxpayer Audit, Islamabad
- 42) Shahid Hussain Asad, Member ITP, Islamabad
- 43) Dr. Muhammad Iqbal, Chief ITP, Islamabad
- 44) Najib Qadir, Director R&S, FBR, Islamabad
- 45) Nawab Khan, Chief Audit, FBR, Islamabad.
- 46) M. Saleem Chief P&TR, Islamabad
- 47) Faisal Mushtaq Dar, Secretary (Legal)
- 48) Tanvir Akhtar Malik, Director I&I, FBR

Planning and Development Division

- 49) Rai Nasir Ali Khan, Chief MP&FP Section, Islamabad

National Assembly (PAC)

- 50) Moosa Raza Effandi, Additional Secretary, Islamabad
- 51) Najma Siddiqi, Joint Secretary, PAC, Islamabad
- 52) Sharafat Ali, Section Officer, PAC, Islamabad

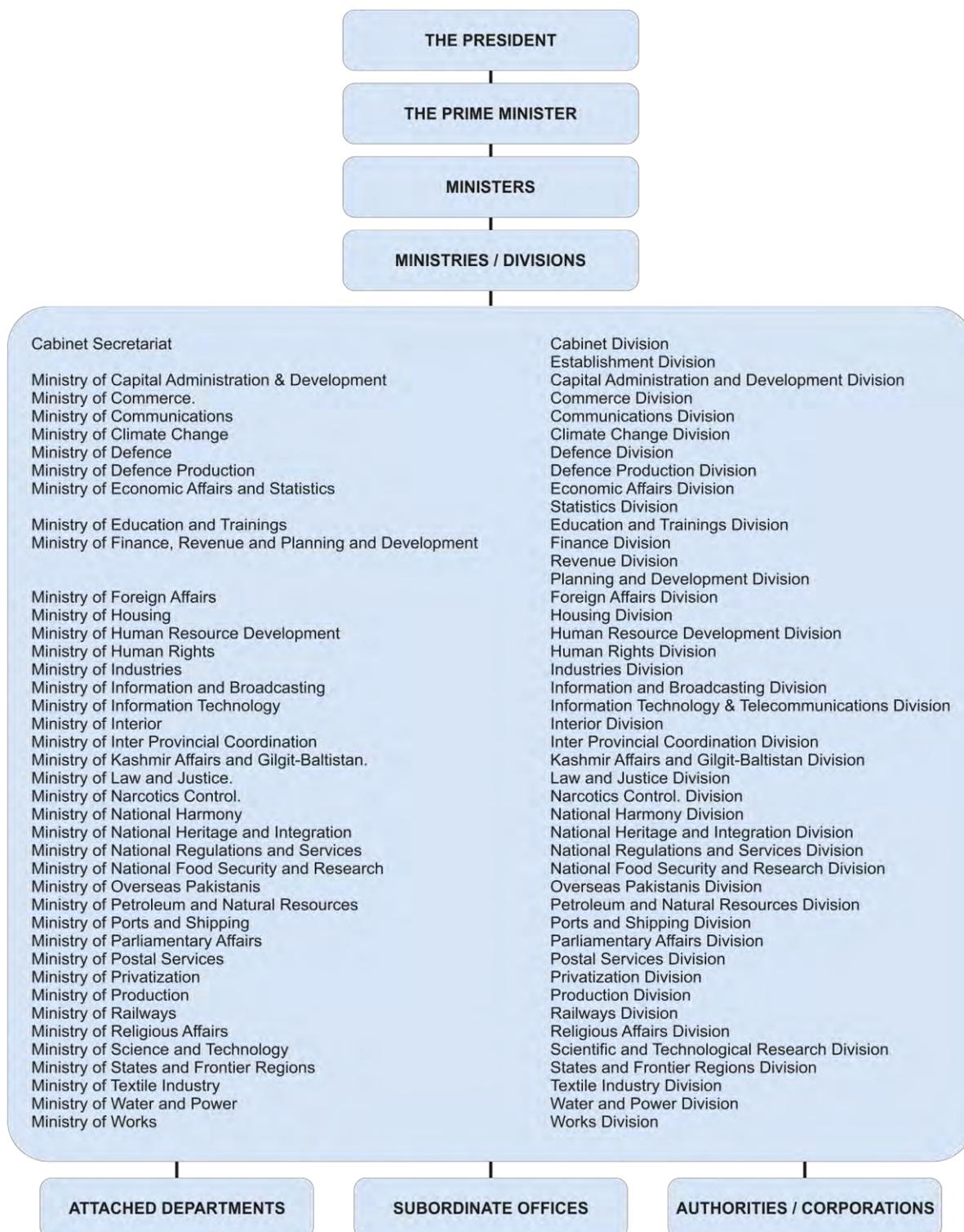
State Bank of Pakistan

- 53) Muhammad Haroon Rasheed, Executive Director, SBP, Karachi
- 54) Riaz Nazarali Chunara, Director Finance, SBP, Karachi

Public Procurement Regulatory Authority

- 55) Khalid Mahmood Lodhi, Director PPRA, Islamabad

Annex 4: Administrative Structure of the Federal Government of Pakistan



Source: Cabinet Division Website - <http://www.cabinet.gov.pk> (as of June 20, 2012)



THE
WORLD BANK
PAKISTAN

The World Bank
20-A, Shahrah-e-Jamhuriat
G-5/1, Islamabad, 44000 Pakistan
Ph: + 92 51 2279641-7
Fax: + 92 51 2823295
www.worldbank.org/pk