



FUNDAMENTALS OF PUBLIC FINANCIAL MANAGEMENT

A TRAINING HANDBOOK



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PUBLIC FINANCIAL
MANAGEMENT SUPPORT
PROGRAMME for PAKISTAN

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This Handbook has been developed as a training support resource for an EU funded program PFM - SPP (Public Financial Management Support Programme for Pakistan). It is not an exhaustive or official document. Although it explains processes of government, it is not issued or endorsed by government. Effort has been made to accurately represent information as much as possible, however PFM-SPP accepts no liability of any error or inaccuracy in the document.

Preface

The Government of Sindh embarked on a Public Financial Management (PFM) Reforms Action Plan in 2015, following approval of a PFM Reforms Strategy by the Cabinet a year earlier. One of the pillars of reform agenda is enhancing the capacity of government functionaries in the field of public financial management. This is also in line with vision of the then Finance Minister (current Chief Minister, Syed Murad Ali Shah) for improving governance. For this purpose a comprehensive PFM manual or handbook was required which specifically covered the processes in Government of Sindh. The task was taken up with the partnership of an EU funded PFM Support Programme for Pakistan (PFM-SPP)-Sindh and Economic Reforms Unit (ERU) of Finance Department Sindh. The 'Fundamentals of Public Financial Management' is the product of that partnership. Finance Department acknowledges the work and we hope that this handbook will serve as a guide to those wishing to enhance their understanding of PFM.

Officials from across the government departments and spending units are encouraged to review and use the book as a guide for enhancing their understanding of financial management systems of Government of Sindh.


Najam Ahmed Shah
Secretary
Finance Department

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List of Acronyms

AB	Advisory Board	CFAA	Country Financial Accountability Assessment
ABS	Annual Budget Statement	CGA	Controller General of Accounts
ACS	Additional Chief Secretary	CM	Chief Minister
ADB	Asian Development Bank	CoA	Chart of Accounts
ADP	Annual Development Programme	CVT	Capital Value Tax
AFS	Additional Finance Secretary	DAO	District Accounts Officer
AG	Accountant-General	DB	Design-Build
AGP	Auditor-General of Pakistan	DBFO	Design-Build-Finance-Operate
AGPR	Accountant-General Pakistan Revenues	DDO	Drawing & Disbursing Officer
AiIB	Asian Infrastructure Investment Bank	DDWP	Departmental Development Working Party
APCC	Annual Plan Coordination Committee	DIAC	Departmental Internal Audit Committee
APPM	Accounting Policies and Procedures Manual	DS	Deputy Secretary
AS	Additional Secretary	DG	Director-General
BBO	Buy-Build-Operate	DMU	Debt Management Unit
BCC	Budget Call Circular	ECNEC	Executive Committee of National Economic Council
BE	Budget Estimates	EDO	Executive District Officer
BER	Budget Execution Report	EMO	Education Management Organizations
BLOT	Build-Lease-Operate-Transfer	ERP	Enterprise Resource Planning
BOO	Build-Own-Operate	ETO	Excise & Taxation Officer
BOOT	Build-Own-Operate-Transfer	FABS	Financial and Budgeting System
BOR	Board of Revenue	FD	Finance Department
BSP	Budget Strategy Paper	FPA	Foreign Project Assistance
CCI	Council of Common Interest	FS	Finance Secretary
CDL	Cash Development Loan	GDP	Gross Domestic Product
CDWP	Central Development Working Party	GFS	Government Finance Statistics
CF	Consolidated Fund	GP Fund	General Provident Fund
		GST	General Sales Tax
		HR	Human Resource
		IA	Internal Audit
		IAS	International Accounting Standard
		IASB	International Accounting Standard Board
		IASC	International Accounting Standards Committee

IBRD	International Bank for Reconstruction and Development	PAO	Principal Accounting Officer
ICAP	Institute of Chartered Accountants of Pakistan	PBB	Performance-Based Budgeting
IFRS	International Financial Reporting Standard	PDWP	Provincial Development Working Party
IDA	International Development Association	PEFA	Public Expenditure and Financial Accountability
IDPC	Inter-Departmental Priority Committee	PER	Public Expenditure Reviews
IFAD	International Fund for Agriculture Development	PETS	Public Expenditure Tracking Survey
IFMIS	Integrated Financial Management Information System	PFC	Provincial Finance Commission
IMF	International Monetary Fund	PFM	Public Finance Management
INTOSAI	International Organization of Supreme Audit Institutions	PIAC	Provincial Internal Audit Committee
IPSAS	International Public Sector Accounting Standards	PIFRA	Project to Improve Financial Reporting and Auditing
LIBOR	London Inter Bank Offered Rate	PLA	Personal Ledger Account
LG	Local Government	POL	Petroleum, Oil & Lubricants
MFDAC	Memorandum for Departmental Accounts Committee	PPP	Public Private Partnership
MIS	Management Information System	PPRA	Public Procurement Regulatory Authority
MTBF	Medium Term Budgetary Framework	PSDP	Public Sector Development Programme
NAB	National Accountability Bureau	ROBs	Rules of Business
NACS	National Anticorruption Strategy	SAE	Schedule of Authorized Expenditure
NAM	New Accounting Model	SBP	State Bank of Pakistan
NAO	National Accountability Ordinance	SCARP	Salinity Control and Reclamation Project
NBFI	Non Banking Financial Institution	SDGs	Sustainable Development Goals
NBP	National Bank of Pakistan	SNE	Schedule of New Expenditure
NEC	National Economic Council	SO	Section Officer
NFC	National Finance Commission	TO	Treasury Officer
O&M	Operation & Maintenance	UNDP	United Nations Development Program
OAGP	Office of the Auditor-General of Pakistan	VGF	Viability Gap Fund
OBB	Output-Based Budgeting	WAN	Wide Area Network
OECD	Overseas Economic Cooperation Fund	WAPDA	Water and Power Development Authority
OFID	OPEC Fund for International Development	XEN	Executive Engineer
P&D	Planning & Development	ZBB	Zero-Based Budgeting
PAC	Public Accounts Committee		

Introduction to Handbook

Purpose

The purpose of this Handbook is to provide a comprehensive source for Public Finance Management (PFM) literature to PFM practitioners in Pakistan. The Handbook provides a simplified description of PFM processes, procedures, rules and regulations including practices followed, in specific context of Provincial Government of Sindh.

The content has been explained with the help of examples using real life scenarios. In addition, Activities and Case Studies have also been included to help readers/practitioners practically apply the concepts discussed.

Users of the Handbook

This Handbook is intended to be used by a variety of users in government departments/organizations. Some of the users may include:

- Officials newly inducted into the Provincial Civil Service;
- Officials serving in the administrative departments in planning, budget and accounts functions and requiring capacity building on PFM concepts and practices;
- Officials performing planning and budget related activities in Finance Department and Planning & Development Department and requiring capacity building on PFM concepts and practices;
- All others directly or indirectly involved with budget preparation, approval, execution and monitoring activities in administrative departments and Finance Department;

The Handbook may also be used as part of training material for effective budget management and control in the public sector training institutes. The Handbook may be useful to all those interested in getting insight into the budgetary management system of the Provincial Government.

The Handbook may also be used for academic or research purposes.

What to expect in this Handbook?

The Handbook presents a brief overview of all aspects of the PFM processes prevailing in the Government of Sindh with specific focus on the laws, rules and procedures of Sindh Government. References for further readings are also provided, where required, at the end of each chapter to encourage the readers/users of the Handbook to seek detailed knowledge of the relevant topic from multiple sources.

The contents on PFM processes have been set out in a logical sequence from theoretical to more practical aspects with coverage of practical exercises / activities and case studies on different topics.

Similarly key processes in various chapters are further elaborated with the help of process flow diagrams, where necessary. The contents of the Handbook are arranged with reference to subject under discussion. The users are encouraged to refer to the table of contents to locate relevant topics / processes of their interest before detailed reading.

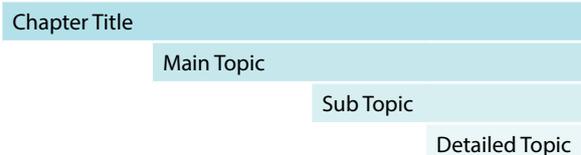
The Handbook has been divided into 16 chapters as explained below:

- **Chapter 1** briefly defines and explains key concepts and terminologies used in this Handbook;
- **Chapter 2** introduces Public Finance Management and explains its key components and objectives;
- **Chapter 3** briefly explains the evolution of budget and relevant constitutional and legal provisions governing the budget in Pakistan. It also describes various methodologies used for budget preparation/management;
- **Chapter 4** defines administrative structures of a provincial government in the context of the provincial Rules of Business;
- **Chapter 5** describes roles and responsibilities of various stakeholders involved in Public Finance Management;
- **Chapter 6** gives an overview of key elements / phases of a typical budget cycle.
- **Chapter 7** emphasizes the need for strategic planning in the budget cycle and introduces key components of strategic planning at Finance / P&D

- Departments and administrative departments;
- **Chapter 8** describes the process followed in the Sindh Government for preparation, review, analysis and final approval of Non-Development and Development budgets. Use of various Budget Forms as prescribed under the Budget Call Circular is also explained;
- **Chapter 9** provides overall structure of Provincial Receipts and Expenditure and gives brief description of each;
- **Chapter 10** describes in detail the execution stage of budget and among other topics, also discusses various modes of release of funds for development budget, procurement rules of the Sindh Government and process for supplementary and revised budgets;
- **Chapter 11** discusses accounting and reporting requirements. The chapter also introduces Government's Chart of Accounts and provides details on the structure and individual components of the Chart of Accounts. Some activities are also included to help the readers in practically applying the concepts discussed. The chapter also explains the use of an Integrated Financial Management Information System (IFMIS) during various stages of budget cycle. Brief notes on IPSAS are also given in this chapter;
- **Chapter 12** describes constitutional and legal aspects of accountability for the public funds by discussing Government audit requirements and key legal provisions under National Accountability Bureau law. Besides, internal audit requirements under Sindh Internal Audit Charter are also briefly mentioned;
- **Chapter 13** describes PFM diagnostic tools including discussion on World Bank's Public Expenditure and Financial Accountability (PEFA) framework;
- **Chapter 14** briefly explains the functions and taxing powers conferred upon the Federal and Sindh Government by the Constitution. The chapter also provides guidance on mechanism used for resource transfer from Federal Government to Sindh Government under National Finance Commission Award;
- **Chapter 15** introduces Public Private Partnership as a modern type of funding arrangement for undertaking large development projects in public sector with the help of private partners;
- **Chapter 16** briefly explains Local Government structures and public finance requirements in Sindh.
- **Case Studies:** Two case studies have been included in the Handbook. These are aimed at helping the readers to practically apply the concepts discussed in the Handbook.

Structure of the Handbook

The contents of this Handbook are structured along the following four levels:



Chapter 1. Key Concepts and Definitions

Accountant General: As defined in Accounting Policies and Procedures Manual (APPM), Accountant-General is the head of an office of accounts. Accountant-Generals are established in each Province and the Federal government and each reports to Controller General of Accounts. These officers are responsible for the overall operations of accounting offices within their jurisdiction (e.g. a Province) and deal with matters of accounting policy and procedure in those areas.

Accrual Accounting¹: A method of accounting that recognises expenses when economic benefits have been consumed and revenues when economic benefits have been generated even if cash is not paid or received.

Actual Receipt / Expenditure: Actuals of receipts, or expenditure relating to a financial year are the figures of actual receipts, or expenditure, respectively, for that financial year, as recorded by the Accountant General in the accounts.

Annual Budget Statement: Annual Budget Statement is a constitutional document prepared under the requirements of Article 120 of the Constitution of the Islamic Republic of Pakistan. This document provides function-wise classification of accounts; estimates of revenue receipts and expenditure on revenue account; capital receipts and disbursements on capital account and various transactions including debt and grants. ABS is a summary of the budget estimates and is prepared for a financial year.

Annual Development Programme (ADP): This refers to a statement of on-going and new development schemes of a provincial government for a financial year. This is also referred to as Public Sector Development Programme (PSDP).

Annual Financial Statements: A set of financial reports, produced after the close of the financial year by the Controller-General of Accounts/Accountant-General of Pakistan Revenue / Provincial Accountants-General for the Federal and each of the Provincial Governments.

Appropriation: Appropriation refers to an allocation of funds to a spending department. It is an Act of the

Parliament that enables the department to spend money for specific purposes.

Appropriation Accounts: Appropriation Accounts refer to a comparative statement of actual expenditure against respective budget allocations separately for each grant/demand. These Accounts are published annually by the Accountant-General.

Assignment Account: A Government bank account established with the National Bank of Pakistan (NBP), to provide independent payment facility for certain priority projects or for government entities.

Auditor-General: Auditor-General is appointed by the President of Pakistan and performs such functions and exercises such powers and prepares such reports in relation to the expenditure and accounts of the Federation and Provinces as are determined under Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001.

Budget: A Budget is government's annual financial plan describing the proposed expenditure and the means of financing them.

Budget Call Circular: This represents an official notice issued by Finance Department to line departments inviting them to prepare and submit budget estimates for the following financial year. This also includes budget forms, instructions and guidelines for preparing budget estimates and calendar of activities leading to final presentation of budget in the Provincial Assembly.

Budget Deficit: The amount by which government's spending exceeds its income in a fiscal year.

Budget Estimates (BE): Budget Estimate, in relation to expenditure, means the expenditure proposed for the financial year and, in relation to receipts, the receipts expected to be realized during a financial year.

Budget Execution Report: This refers to a report prepared by Finance Department that gives progressive actual revenue and expenditure for a particular period of the fiscal year (i.e. quarter/half-year) and also gives comparisons to the budgeted receipts and expenditure.

Budget Strategy Paper: Budget Strategy Paper

1 Accounting Policies and Procedures Manual

(BSP) is a document that sets out a Government's policy goals and strategic priorities that provide a basis for formulation of budget for the next financial year. The BSP guides the central departments (Finance Department and Planning & Development Department) in indicating expected level of budget ceilings to the administrative departments, while at administrative department level, it helps them in prioritizing their current and development spending within the indicated resources.

Budget Surplus: The amount by which government's income exceeds its spending in a fiscal year.

Capital Receipts: These refer to receipts obtained from sources of finance other than Revenue. Examples include loans, advances, grants, etc.

Capital Expenditure: Generally, expenditure on capital items (e.g. bricks and mortar) is classified as Capital Expenditure. This also includes expenditure met from capital receipts². For example, repayment of loans, investments in approved securities.

Cash Accounting: A method of accounting that records cash payments and cash receipts only.

Charged Expenditure: This refers to certain expenditures met from the Consolidated Fund, which, under the Constitution, must be discussed, but are not submitted to the vote of the National or Provincial Assemblies. Examples include salaries of the Judges of the High Court; salary of the Governor and related expenses of the Governor's House.

Chart of Accounts: A coding structure that allots codes to all types of expenditures, receipts, assets, liabilities, departments, and functions of the government in order to make the accounting simple. The codes help to consolidate and summarize information.

Consolidated Fund: Constitution requires every government to open two accounts (i) Consolidated Fund and (ii) Public Account. For Provinces, article 118 of Constitution stipulates that "all revenues received by the Provincial Government, all loans raised by that Government, and all moneys received by it in repayment of any loan, shall form part of a consolidated fund, to be known as the Provincial Consolidated Fund". Money left in the account on 30th June is called closing balance, and the same becomes opening balance at the start of the new financial year on 1st July.

Constitution: A body of fundamental principles or established precedents according to which a country or other organization is acknowledged to be governed. This handbook will be referring to the Constitution of the Islamic Republic of Pakistan, 1973.

Contingent Liability: International Public Sector Accounting Standard 19 defines a Contingent Liability as " (a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) A present obligation that arises from past events but is not recognized because: (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (ii) The amount of the obligation cannot be measured with sufficient reliability.

Current Revenue Expenditure: This refers to budgeted or actual outflow of funds from Revenue account for Government's ongoing/non-development operations. For example, pay and allowances, pension, utilities, repair & maintenance, etc. paid from revenue account.

Debt Servicing: The amount of money required to cover payments for interest and principal on outstanding debts / loans for a given period.

Development Project / Schemes: A development project is an activity undertaken to acquire, build or improve physical assets or develop human resources and is provided within the development expenditure grant. Development project usually has a finite life and a specific source of funding. Development budget may comprise Revenue Expenditure and / Capital Expenditure (Provincial-own sources, Foreign Project Assistance (FPA), Federal Grant, etc.). Development budget consists of ongoing or new schemes for the province. It is called Annual Development Programme (comprising budgets for Provincial Departments and Districts separately) in Sindh.

Direct Tax: A tax imposed directly on the income or capital of a person or organization, rather than as part of the price of goods or services. Tax on an individual's income, referred to as Income Tax is an example of Direct Tax.

Drawing & Disbursing Officer: Drawing & Disbursing Officer (DDO) is responsible for accounting, payment, cash and personnel record-keeping functions of a

spending unit / department.

DDO Code: A six digit unique code allotted to each spending unit and is published in Budget Books against names of spending units / projects. It is also called cost centre code or DDO code. For example: Medical Superintendent Liaquat University Hospital Hyderabad has been assigned 'HB5099' as DDO code; similarly, District Prosecutor Shikarpur has been allotted a DDO code of 'SQ0027'.

Divisible Pool Taxes: Under the National Finance Commission (NFC) Award, Federal Divisible Pool comprises 7 different taxes and duties collected by Federal Board of Revenue, i.e.:

- Taxes on Income
- Wealth Tax
- Capital Value Tax (CVT)
- Taxes on sales of goods & purchase of goods imported, exported, produced, manufactured and consumed
- Export duties on cotton
- Customs duties
- Federal Excise Duties excluding the excise duty on gas charged at well heads.

The Divisible Pool Taxes are divided among the Federal Government and Provincial Governments under a formula specified in NFC Award.

Employee Benefits: Employee Benefits include General Provident Fund, Pension and Encashment of Leave.

Employee-related Expenditure: Employee-related expenditure primarily includes pay and allowances of the government employees. Pay can include basic and special pay, while there can be a range of different allowances, e.g. House Rent Allowance, Conveyance Allowance, etc. Allowances are generally grouped under Regular and other allowances.

Excess: An amount of expenditure exceeding the approved budget, which is regularised / approved by the Provincial Assembly through an Excess Budget Statement in next budget session. The approval exercise is mostly perfunctory as the expenditure has already been incurred and the Assembly has little time to discuss it.

Expenditure: Depending upon the context, the term 'Expenditure' as used in Annual Budget Statement generally refers to Budget Estimates, Revised Estimates

and Actual Expenditure.

External Audit: This refers to an audit of the financial statements of a company, government entity, other legal entity or organization, carried out in accordance with specific laws or rules, by an expert who is independent of the entity being audited.

Federal Grants: These constitute grants other than Straight Transfers and Divisible Pool Transfers from the Federal Government. These mainly comprise grants from the Federal Government for Public Sector Development Programs (PSDP). The federal PSDP grants are only pass-through items as these are released to executing agencies for implementation of Federal Development Projects.

Federal Transfers: Payments made by the Federal Government to the Provinces either out of the Federal Divisible Pool or as part of Straight Transfers. Moneys forming part of the Straight Transfers are collected by the Federal Government on behalf of the Provinces and are transferred to the respective province after deducting collection charges.

Finance Bill: Finance Bill is a legal document that gives effect to the financial proposals of the Provincial Government for a particular financial year. The Bill becomes a law once debated, amended and approved by members of the Provincial Assembly. Finance Bill is tabled in the Provincial Assembly at the time of budget presentation every year. Financial / Fiscal Year Refers to the accounting period of the government. It is a 12-month period starting from 1st July of the current year and ends on 30th June of the succeeding year, e.g., FY 2013-14 runs from July 1, 2013 until June 30, 2014. Both terms (financial year and fiscal year) are used interchangeably.

Foreign Project Assistance: External resources available to a Federal/Provincial Government mainly comprise loans and credits from friendly countries and specialized international agencies and grant assistance under specific country programmes. The Foreign Assistance (Loans, Credits and Grants) is broadly categorized as project aid and commodity aid. Project Aid/Assistance generally takes the shape of foreign loans and grants for procurement of project equipment and supply of services etc. The purpose of obtaining the Assistance is to supplement domestic resources for achieving accelerated growth in selected priority areas.

Function and Function Code: Government performs various functions such as Health services, Education,

Agriculture, etc. As already explained under Chart of Accounts, codes are also allocated to these functions. Each function has some sub-functions such as primary education, secondary education which are also assigned sub-codes for ease of recording of budget and expenditure.

Fiscal Transfer: This refers to the share of a province out of Divisible Pool Taxes, transferred in accordance with the National Finance Commission (NFC) Award to the relevant account of the Provincial Government by the Federal Government. Similarly in case of districts, the share of districts in the Provincial Consolidated Fund worked out as Allocable Amount, in accordance with the award of the Provincial Finance Commission and transferred to districts.

General Ledger Account: A General Ledger Account is an account used to sort and record balance sheet and receipt and payment transactions. Examples include the asset accounts such as Cash, Investments and Equipment.

Grant/Demand: Every department presents its requirements of expenditures for next year to the Assembly in the shape of a 'demand'. The Assembly debates and then 'grants' the money to the department. Every Grant/Demand also has a code number.

Gross Domestic Product (GDP): GDP is the standard measurement of the size of the economy. It represents the total value of goods and services produced within a country during a fiscal year, including those of the private sector and the government.

Indirect Tax: This means a tax levied on sale/purchase of goods and services rather than on income and profit. Examples include General Sales Tax (GST) levied on sale of goods/services, Customs Duty on imports, Excise Duty on production, etc.

Internal Audit³: Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The organization can be any entity of the Government, i.e. an Administrative Department, an autonomous body of the Administrative Department, a Development programme/project, etc.

IPSAS⁴: International Public Sector Accounting Standards (IPSAS) are a set of accounting standards

³ See: <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx>

⁴ See: https://en.wikipedia.org/wiki/International_Public_Sector_Accounting_Standards

issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements. More details appear in Chapter 11.

Medium Term Budgetary Framework (MTBF):

A multi-year budgetary framework is aimed at assisting ministries / departments in predictability of resources they need to formulate plan and implement government policies. Unlike an annual budget, the MTBF is a multi-year approach to budgeting which links the spending plans of the government to its policy objectives.

Modified Cash Accounting: A method of accounting in which all cash payments and receipts are recorded, along with certain assets and liabilities/commitments. Pakistan currently follows modified cash accounting system.

Non-Development Expenditure: Expenditure relating to the on-going operations of the government. Examples include pay and allowances of employees, operating expenditure, repair & maintenance, etc. Non-Development Expenditure is also referred to as Current Expenditure.

National Finance Commission: National Finance Commission (NFC) comprises Federal and Provincial Finance Ministers and other persons appointed by the President. Article 160 of the Constitution lays down the provision for the establishment of NFC. Its main objective is to set a revenue sharing formula of the Divisible Pool taxes between federation and provinces (vertical distribution), and among the provinces (horizontal distribution).

Object: Object element of the Chart of Accounts enables the classification of transactions into expenditure and receipts and also facilitates recording of financial information about assets, liabilities and equity. Examples include Pay & Allowances (Object code A01), Repairs & Maintenance (Object code A13), Operating Expenses (Object code A03).

PEFA⁵: Public Expenditure and Financial Accountability (PEFA) is a tool for assessing the status of public financial management. A PEFA assessment provides a thorough, consistent and evidence-based analysis of PFM performance at a specific point in time. The PEFA methodology can be reapplied in successive assessments to track changes over time

Post-audit: An audit of accounting

⁵ See: <https://pefa.org/>

records, conducted at some interval of time after a transaction or a series of transactions has already occurred.

Pre-audit⁶: A process undertaken by the DAO/AG/AGPR involving verification (proper approval and validity) and audit (scrutiny against irregularities) of a payment prior to it being made.

PC Forms: Planning Commission, Government of Pakistan, has prescribed five pro-formas/forms for development projects/schemes. The PC-I proforma is used for creation of a project, PC-II is for assessing feasibility of a project, PC-III is prepared for reporting budget and actual expenditure, PC-IV is used as a template for preparation of project completion report, while PC-V is used for annual performance of the project in terms of finance and operations/key targets. These are explained in more detail in Chapter 8 of this Handbook.

Public Private Partnership: A Public-Private Partnership (PPP) is a “mechanism for government to procure and implement public infrastructure and/or services using the resources and expertise of the private sector”⁷. The public partner is represented by the government at a local, provincial and/or national level. The private partner can be a privately-owned business or consortium of businesses with a specific area of expertise.

Public Sector Development Program (PSDP): The Federal and provincial governments’ combined expenditure relating to development projects / schemes. Federal PSDP document includes project wise allocations for federal projects separately for each Ministry / Division for a particular fiscal year and single line development budget allocations by all provincial governments.

Public Account: Public Account comprises those moneys for which the Government has fiduciary duty but it is not at liberty to appropriate for its general services of the Government. Public Account encapsulates trust accounts and special deposit accounts. Article 118 of the Constitution defines both Consolidated Fund and Public Account of a provincial government.

Public Accounts Committee (PAC): The body constituted from the members of the Provincial

Assembly having principle functions to examine Appropriation Accounts and the Report of the Auditor-General thereon and such other matters as the Assembly or the Speaker or the Finance Minister may refer to it. Public Accounts Committee functions under the Rules of Procedure of Provincial Assembly.

Re-appropriation: It means the transfer of savings, in the appropriations of one or more objects/cost centres, to meet excess expenditure anticipated under another such costing object. Re-appropriation is carried out under a Re-appropriation policy of the Government.

Revenue Account: This refers to the account of the income derived from taxes and duties, fees for services rendered, land revenue from government estates, fines, penalties, other miscellaneous items, and the expenditure met there-from.

Revenue Receipts: These represent receipts which are collected during the normal operations of the government and make up the largest proportion of government’s own-source receipts in a financial year. For example, sales tax on services collected by or on behalf of Sindh Revenue Board.

Revised Estimates (RE): During any year, departments may change their budget allocations between items of expenditure as well as demand more funds for some items. Around April every year, government look at their revenues and expenditures for the past eight months and forecast the requirements of the remaining four months. Based on these changes and demands they make adjustments in the original budget. The result is a Revised Budget or Revised Estimates.

Revenue Expenditure: Expenditure met from revenue receipts. This can be both Development and Non-Development Expenditure. For example, expenditure on salaries (pay and allowances), pension, repair & maintenance, utilities paid out from tax and non-tax receipts. Salaries may be for employees engaged in ongoing non-development operations of the Government or for those hired for a specific development project or scheme with a finite life.

Savings and Surrenders: Amount un-utilized out of budget allocation is called ‘Saving’. Relinquishment of allocated funds by a spending unit/department is called ‘Surrender’. This generally happens when the allocated funds are not likely to be spent by that spending unit/department, within the stipulated time as prescribed by the government, and are not required to be or cannot be re-appropriated to other

⁶ Under Accounting Policies and Procedures Manual (APPM), ‘certification’ and ‘pre-audit’ refer to the same process.

⁷ See: <http://ppp.worldbank.org/public-private-partnership/about-public-private-partnerships>

expenditure heads.

Schedule of Authorised Expenditure: Schedule of Authorized Expenditure means the schedule prepared, following consideration by the Provincial Assembly, of the Annual or Supplementary or Excess Budget Statement in respect of a financial year, and authenticated by the Chief Minister with his signatures, under Article 123 of the Constitution.

Schedule of New Expenditure (SNE): New expenditure pertains to items of expenditure which are not part of the on-going financial year and are expected to arise afresh in the coming year. For example, procurement of new vehicle and creation of new vacancies in departments. A separate pro-forma is used by provincial government departments for preparation of SNE budget.

State Trading: State Trading operations of the provincial government relate to procurement and sale of food grains especially wheat. Transactions pertaining to state trading are kept separately and their receipts and expenditures are credited and debited to the provincial government's food account i.e. Account No. 2 with the State Bank of Pakistan. It is carried out with the borrowing from commercial banks as per cash credit facility extended by these banks.

Straight Transfers: Under Article 161 of the Constitution, Straight Transfers to the provinces include (a) net proceeds of the Federal Excise Duty on natural gas; and (b) net proceeds of royalty on crude oil and natural gas assigned to the provinces under the Constitution.

Supplementary Budget: This refers to additional funds not provided in the original budget. Under Article 124 of the Constitution, if, in respect of any financial year it is found that the amount authorized to be expended for a particular service for the current financial year is insufficient, or that a need has arisen for expenditure upon some new service not included in the Annual Budget Statement for that year, the Provincial Government has the power to authorize expenditure from the Provincial Consolidated Fund, whether the expenditure is charged by the Constitution upon that Fund or not, and shall cause to be laid before the Provincial Assembly a Supplementary Budget Statement.

Tax Revenue: Revenue of the government is bifurcated into tax revenue and non-tax revenue. Tax revenue comprises General Sales Tax on Services, Property Tax, etc., whereas non-tax revenue is composed of receipts from services rendered to general public. For example, examination fees received by Boards of Education, consultation fees/lab test charges received by government hospitals, water charges collected by Irrigation Department, etc.

Voted Expenditure: Voted Expenditure means such expenditure as is submitted to the vote of the Assembly, with reference to Article 82 (2) of the Constitution (in case of Federal Government's budget) and Article 122 (2) of the Constitution (in case of Provincial Government's budget). Under the requirements of the Constitution, expenditure in Annual Budget Statement (ABS) is separately shown for "charged expenditure" and "voted expenditure".

Chapter 2. Introduction to Public Finance

Learning Objective 1: Define Public Finance

2.1 Definitions of Public Finance

Public Finance Management deals with management of public resources. Management covers both allocation and use of resources collected from the economy.

Chartered Institute of Public Finance & Accountancy (CIPFA) defines PFM as “the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals⁸.”

According to Development Assistance Committee (DAC) of Organization for Economic Cooperation & Development (OECD⁹), PFM includes all components

⁸ <https://www.oecd.org/dac/effectiveness/48782679.pdf>

⁹ For more information see: <http://www.oecd.org/dac/effectiveness/>

of a country’s budget process... including strategic planning, medium-term expenditure framework, annual budgeting and also revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight”.

Public Finance is a field of economics which is concerned with how governments raise money, how that money is spent, and the effects of these activities on the economy and on society.

Public Finance studies how government at all levels - national, state, and local - provide the public with desired services and how they secure the financial resources to pay for these services.

[pfm.htm](#)

Learning Objective 2: Identify key elements of Public Finance

2.2 Elements of Public Finance

There are three¹⁰ elements of public finance, as mentioned below:

- Public Expenditure
- Public Revenues
- Public Debt

2.3 Public Expenditure

Each year National, Provincial and Local governments create a budget to determine how much money they will spend during the upcoming year.

The budget determines which public goods and services to produce, which spill-overs to correct, and how much assistance to provide to financially disadvantaged people.

2.4 Public Revenue

Government must have funds, or revenue, to pay for their activities. Some of the revenue is generated by charging fees for the services they provide, such as a revenue from sale of gas, electricity, water, tolls for using a highway, or fee at a Government hospital.

Most government revenue comes from taxes, such as Income Taxes, Capital Taxes and Sales and Excise Taxes.

An important source of tax revenue in Pakistan is the income tax, which is imposed on labour or activities that generate income such as wages or salaries.

¹⁰ The fundamental and more traditional PFM elements include Public Expenditure, Public Revenue and Public Debt. However, due to changing role of the government, other elements are considered to be part of PFM, e.g. Federal Finance and Financial Administration. See https://en.wikipedia.org/wiki/Public_finance.

Sales and excise taxes are also a major source of government tax revenue. Many provincial and local governments levy sales tax on the purchase of certain items.

Consumers usually pay a percentage of the sales price as the tax on buying goods and / or services. Sales tax on goods is a Federal Government's tax and collected by the Federal Board of Revenue, while Sales Tax on Services is charged and collected by provincial revenue authorities, i.e. Sindh Revenue Board (SRB) in Sindh.

Traditional concept of public finance has been to raise sufficient revenues for meeting public expenditure. However, renowned economist JM Keynes holds that the objective of Public Finance is to help in the achievement of certain social and economic objectives and finance some essential economic activities.

2.5 Public Debt

Public debt refers to borrowing by a government from within the country or from abroad, from individuals or association of individuals or from banking and Non-Banking Financial Institutions (NBFIs).

Sindh Government, besides borrowing from State Bank and commercial banks, also raise money from foreign sources (e.g. World Bank, Asian Development Bank and various international donor agencies) to meet their operational and development needs.

Public Debt is broadly classified into the following

categories:

- **Internal / Domestic Debt:** When a government finds it impossible to obtain further money by taxation, it resorts to borrowing from citizens and financial institutions within the country. This is 'internal or domestic borrowing'. Monies borrowed from citizens is in the form of bonds, saving schemes etc.
- **External / Foreign Debt:** This money is raised from international money markets, foreign governments, and from international agencies like International Monetary Fund.
- **Productive Debt:** The debt that is expected to create assets which will yield income sufficient to pay the principal amount and the interest on it, is known as 'productive debt'.
- **Unproductive Debt:** Debt raised for financing unproductive assets or heavy unproductive expenditures. Such a debt is a deadweight debt. Debt invested on ailing state industry is an example of deadweight debt.
- **Short and Long Term Loans:** Loans that are repayable within a period of one year are termed as 'short-term loans' and if taken for more than one year, they are referred to as 'long-term loans'.
- **Contingent Liabilities:** These liabilities mainly arise from Pension and General Provident Fund maintained by the Sindh Government and also include any guarantee issued by the Sindh Government to third parties on behalf of a Provincial Department or a Public Sector Enterprise under a loan agreement with third parties.

Learning Objective 3: Name Three objectives of Public Finance

2.6 Need for Public Finance

One of the most important functions of the modern Governments is to provide public goods, i.e. government-financed items and services such as roads, policing, defence and street lights. Since the citizens would not voluntarily pay for these services, the private businesses have no incentive to produce them.

Public finance also enables governments to correct or offset undesirable side effects of a market economy. These side effects are called spill-overs or externalities. Example: households and industries may generate

pollution and release it into the environment without considering the adverse effect pollution has on others.

Public finance provides government programs that moderate the incomes of the wealthy and the poor. These programs include social security, welfare, and other social programs. For example, some elderly people or people with disabilities require financial assistance because they cannot work.

Governments redistribute income by collecting taxes from their wealthier citizens to provide resources for their needy ones. The taxes fund programs that help

support people with low incomes.

2.7 Three objectives of Public Finance Management (PFM)

PFM is only one of the instruments to implement public policies, but it is probably the more important. As an instrument, PFM has specific objectives to properly implement policies. These policies, which should not be confused with policy objectives.

Traditionally, emphasis is placed on regularity, probity, due process, development of a control culture and adequate procedures. Good control procedures and due processes are required but they do not necessarily lead to good outcomes.

The three specific objectives of PFM which have emerged over time place an emphasis on policies and efficiency of spending.

These objectives are:

- Maintain aggregate fiscal discipline
- Ensure strategic allocation of resources - also called attaining allocative efficiency
- Ensure efficient service delivery - also referred to as attaining technical efficiency

The first objective, i.e. aggregate fiscal discipline is fundamental to the whole PFM system. Without fiscal discipline the other two objectives do not make sense. These are linked together in the following manner:

Aggregate fiscal discipline

Pertains to effective controls of budget at the aggregate level throughout the policy, planning and budget cycle, by setting hard ceilings on expenditures that are binding both at the aggregate level and on individual spending entities.

Maintaining a sustainable balance between a government's revenues, expenditures and the level of public debt is part of this objective. This in other words, also means respecting the expenditures ceilings at all levels and by all actors of the Government administration.

Strategic allocation of resources

Also referred to as 'allocative efficiency'. Broadly, refers

to the capacity to establish priorities within the budget.

Means allocating and spending public resources in such a way that attainment of the government objectives is maximised (i.e. allocated efficiency achieved). To achieve this allocated efficiency, there must be:

- Clearly defined national and sub-national (provincial / district) objectives and priorities
- Existence of effective sector programmes and strategies
- Capacity and willingness to re-allocate if needed

Efficient service delivery

Also referred to as 'operational efficiency'

Represents the ability to make efficient and effective use of resources in the implementation of strategic priorities. Key elements of this objective are as follows:

- Use of liquidity (loans, cash management)
- Support to service delivery units
- Reduce leakages

2.8 PFM is an instrument

PFM is an instrument to implement public policies.

Examples of policies are:

- Public finance policies
- Tax policy
- Government Service Charges i.e. policy for Non-Tax Receipts
- Public expenditure policy
- Debt policy
- National and sector policies
- Poverty Reduction Strategy
- Sector plans, etc

Activity: Identifying PFM Institutions

The table below indicates names of various entities. Please state if it is a PFM institution or not.

ENTITY	IS IT A PFM INSTITUTION? YES / NO	
District Accounts Office, Karachi	Y	N
Jinnah Post-Graduate Medical College (Hospital), Karachi	Y	N
Board of Revenue	Y	N
Finance Department	Y	N
Fisheries Department	Y	N
Lady Health Workers Programme	Y	N
Planning & Development Department	Y	N
Accountant General, Sindh	Y	N
Government Higher Secondary School, Shikarpur	Y	N
Accountant-General, Sindh	Y	N

Suggested Readings

- Historical perspective of Public Finance: https://en.wikipedia.org/wiki/Public_finance
- Definition and explanation of concepts in Economics: http://economicsconcepts.com/public_finance.htm
- Economic Survey of Pakistan (A chapter on Public Finances): http://www.finance.gov.pk/survey/chapter_10/04_Public_Finance.pdf

Chapter 3. Budget Concepts, Objectives and Principles

Learning Objective 1: Appreciate the term 'Budget' in historical perspective and its current usage

3.1 Origin and evolution of Budget

The origin of the word budget is the Latin bulga, or the Irish bolg, "bag". The word turned up in English sometime between 1400 and 1450, having travelled via the Middle French bougette, a diminutive form of bouge, "leather bag" or satchel. By the end of the sixteenth century, it became a standard part of the late Middle English vocabulary, usually referring to a leather bag.

Budgeting practices largely evolved since nineteenth century when Napoleon Bonaparte, the French army general and Emperor, realized to streamline military spending by establishing the budgetary control institution like office of Auditor General. In 1803, France adopted the English word budget and expanded on the English technical capabilities to obtain greater control over all expenditures, both military and non-military and accomplished them in such a short period of time.

By the 1860s France had developed a uniform accounting system consisting of conventions, a standard fiscal year, requirements, procedures, reporting and auditing. Consequently, the budget was considered to be one of the government's major policy documents.

In later years, the spectrum of budget encompassed spending in social infrastructure besides military spending. In England, for instance, focus of budgetary spending was concentrated on expenditures on domestic activities to stimulate commerce. England viewed the French budgetary techniques as a promising way to control English finances and in 1861 created the first ever Public Accounts Committee in Parliament and, in 1866 the offices of Controller and Auditor General.

By the end of the Nineteenth Century, unity, annularity,

balance, comprehensiveness, and control, had emerged in Europe. Fiscal procedures there had developed into structures, a century of innovations had settled into institutional relationships.

The Twentieth Century witnessed new dimensions and roles to the budgeting that focused more on linking of public sector spending with national / sub-national government policies. The emergence of Medium Term Budgetary Framework (MTBF) is an example in this regard.

3.2 What is Budget?

Budget refers to a plan expressed in financial terms prepared for a specific period. This plan covers both projections for revenues and expenditure of an organization.

For a governmental entity, the budget represents the legal authority to spend money.

A government budget is a government document presenting the government's plan of revenues and spending for a financial year that is passed by the legislature, approved by the Chief Minister and presented by the Finance Minister.

Budget is a product of the planning process. It also involves allocating limited resources to the prioritized needs of the government besides determining what is to be done and achieved, the manner in which it is to be done and the resources required for the same.

It requires the broad objectives of the government/ or a government entity to be broken down into detailed work plans for activities and / or projects.

More specific purposes of the budget could be defined as follows;

It provides a comprehensive and transparent financial

plan linking a government organization's available financial resources to its activities.

It sets out a limit on the level of expenditure permitted in carrying out the organization's activities.

It provides a structure of releasing (allotment),

recording (accounting) and monitoring (auditing) the expenditure of funds.

It provides authority to public fund managers to spend money on implementing agreed policies and carrying out planned activities without constant reference to top management.

Learning Objective 2: Name key budgeting principles

3.3 Budget Principles

The broad principles governing a 'good' budget are summarized as followed:

- **Comprehensiveness:** There should be a single budget document with all receipts and expenditures of the government and should cover ALL government revenue and expenditure.
- **Annual:** Budget should be prepared on an annual basis. Budget estimates developed as part of a multi-year budget must also be prepared for a particular year.
- **Universality:** Revenue / receipts and expenditure should be entered in full without any adjustment against each other.
- **Transparency:** Revenues and expenditure should be presented in a transparent manner.
- **Balanced (policy):** of revenues and expenditures, compatible with macroeconomic constraints, or international commitment.

Learning Objective 3: Describe key features of different budget methodologies

3.4 Budget Methodologies

Over the years, different budget methodologies have emerged and are being practiced in public sector at varying degrees. Some of the key ones include:

- Incremental Budgeting
- Zero-Based Budgeting
- Performance Budgeting
- Output Based budgeting
- Program Budgeting

These are described in more detail in the following section:

Incremental Budgeting

An incremental budget is a budget prepared using a previous period's budget or actual performance as a basis with incremental amounts added for the new budget period.

The incremental budgeting has two identifying characteristics. First, funds are allocated to departments or organizational units. The managers of these units then allocate funds to activities as they see fit. Second, an incremental budget is developed on the basis of a previous period's budget. Each period's budget begins by using the last period as a reference point. Only incremental changes in the budget request are reviewed.

The concept of Incremental Budgeting is simple and easily comprehensible, hence operation-friendly in nature. However, each of these characteristics creates a problem.

Incremental budget is particularly troublesome when top management seeks to identify inefficiencies and waste. Inefficiencies generally tend to grow in the incremental budget because it's easy for them to get hidden. In the typical incremental budget, nothing ever gets cut. Each budget begins with the funds allocated for the last period; to which the budget entities add a

percentage for inflation and requests for those new or expanded activities they seek to pursue.

Zero-Based Budgeting

Zero-Based Budgeting (ZBB) approach assumes that the existing programs / services will not continue indefinitely. It requires the financial managers to justify the entire level of funding for their programs each fiscal year. Budgets are established based upon what is needed for the upcoming fiscal year, regardless of whether the budget is higher or lower than prior allocations.

Zero-Based Budgeting designed to overcome certain deficiencies in incremental budgeting, for instance, avoids an activity from becoming immortal.

In ZBB, the function of a government department is analyzed and evaluated in a comprehensive manner, and any expense may increase only after approvals. When discrepancies arise, Zero-Based Budget requires detailed justification from public service managers, starting from the lowest levels, called the Zero-Base. The Zero-Base is however, least bothered about the overall increase or reduction of the budget.

ZBB usually requires budgeting for each activity to be started from scratch leading to detailed and lengthy procedures and includes a lot of paper work. The merits of ZBB are usually outweighed by high cost of human resource engaged and time required to undertake this type of budgeting. Another downside is that it is resource intensive and as a result is rarely used.

Performance Budgeting

Performance Based Budgeting (PBB) comprises an annual, integrated performance plan, indicating the relationship between the levels of program funding and the anticipated outcomes. It refers to a single or a set of performance target(s) which must be achieved at a given expenditure level. PBB relates the appropriations or expenditure targets with the performance targets.

PBB process considers following three different elements prior to the formulation of the budgetary document:

- The ultimate outcome of a particular performance
- The strategies, that is, the diverse means of attaining the final result

- The activities performed, in order to achieve the final outcome

A Performance Based Budget informs the public about the total expended amounts on various services, as well as the anticipated benefit which the public may derive. It informs the public about the possible destinations where their expenses go, along with the cost of the expected benefits. It permits the policy and decision makers to have a transparent view of the tradeoffs between alternative expenditure plans.

PBB uses Key Performance Indicators and Balanced Scorecard approach for tracing out activities of a program or project. It shortens the lengthy, traditional budgeting and reporting procedures which save money and time simultaneously, with fresh regulatory necessities. It requires highly skilled human resource along with sophisticated analytical tools to perform this type of budgeting practices.

Output Based Budgeting

Output based budgeting supports strategic prioritization of resources and the linkage of financial information to the policy objectives of the government. Such approach is preferred in government sectors in order to enhance efficiency of budgetary allocations through establishing linkages between operational plans based on service (output) delivery targets with the constraining fiscal resources. OBB provides key foundation for moving towards performance based budgeting. The difference lies in setting the operational services delivery targets rather than performance benchmarks.

Output based budgeting can assist the public service managers in ensuring greater transparency in public spending through establishing solid basis for monitoring and evaluation in both financial and operational perspective. However, the process involves collection, scrutiny and analysis of a lot of operational and financial data besides difficulties in quantification of optimal levels of service delivery vis-à-vis resource inputs.

Output based budgeting framework enables the preparation of budget by linking the inputs (resources) with Outputs (services) and Outcomes (impact) of an organization. In a nutshell, OBB estimates are prepared for three years and are linked to organization's policy objectives.

OBB has the following key elements:

- **Outcome:** This refers to the intended results (or impact) on a target population of a particular service (output) being delivered. For example, a reduction in burden of a particular disease as a result of expenditure incurred on a particular activity by a provincial department/attached department
- **Output:** The products or services delivered to the target population. For example, detection of dengue cases, improved disease surveillance, etc. Outputs may be the result of a set of activities funded through the Current Budget, the Development Budget, or both.
- **Key Performance Indicator:** A variable used to measure service delivery. Targets are set for each KPI against each output. For example, number of dengue virus cases reported, number of master trainers trained, etc.
- **Inputs:** Resources required to undertake activities that contribute to an output. These include physical, financial and human resources. For example, equipment, personnel, vehicles.

Program Budgeting

Program budgeting is an extended form of performance based budgeting. It describes and gives the detailed costs of every activity or program that is to be carried out in a budget and allocates funds

to groups of activities (programs) that are needed to achieve a specific objective. As such, they are designed to deal with one of the major problems of incremental budgets; that is, funds are allocated to activities, not to departments.

Objectives, outputs and expected results are described fully as are their necessary resource costs, for example, equipment and human resource. The sum of all activities or programs constitutes the Program Budget. Thus, when looking at a Program Budget, one can easily find out what precisely will be carried out, at what cost and with what expected results in considerable detail.

This approach demands thorough understanding of program structures, activities and components. The alignment of all programs and their objectives in a comprehensive organizational policy framework remains a challenge especially where such programs have conflicting targets.

Suggested Readings

- About 'Budget': https://en.wikipedia.org/wiki/Government_budget
- Budget Theory in the Public Sector (edited by Aman Khan and W. Bartley Hildreth): http://www.untag-smd.ac.id/files/Perpustakaan_Digital_1/BUDGET%20Budget%20theory%20in%20the%20public%20sector.pdf

Chapter 4. Administrative Structures of the Government

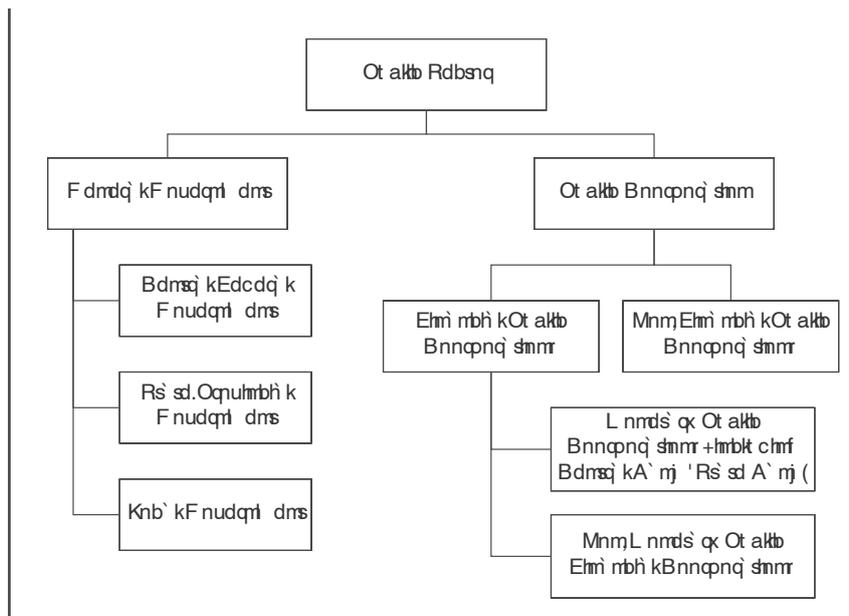
Learning Objective 1: Define 'government' and describe key functions of a modern government

4.1 What is a Government?

The term "government" is derived from 14th Century French word, meaning "act of governing and ruling:" – "system by which a thing is governed". A government is responsible to govern or rule the state. Since this power cannot be exercised arbitrarily it is done through the constitution which is also termed as the source from where all powers are derived.

In general government comprises all government units, i.e. central government, provincial government and local government. In some countries, social security funds are sometimes combined into a separate subsector and are thus also part of a General Government. It is the bureaucracy which is termed as permanent government and exercises powers to run the affairs of the government.

Government is part of what is called 'public sector' which also includes public corporations¹¹ and quasi-corporations controlled by the government units e.g. airlines, railways, large industrial units etc. The relationship of Government and Public Sector is given in the following diagram¹²:



11 Public corporations are often established to provide goods and services in larger quantities than a private corporation would provide at the same selling price.

12 A simplified version based on IMF's Government Finance Statistics (GFS) Manual, 2014

4.2 Functions of a Modern Government

- Protection of rights of citizens.
- Provision of basic social services (health, education, sanitation, drinking water etc.).
- Efficient service delivery (immigration, tertiary education etc.).
- Administration of Justice.
- Promoting economic growth and development
- Improving economic efficiency.
- Making the distribution of income less unequal (taxation and distribution of wealth).
- Stabilizing the economy through macro-economic policies.
- Foreign diplomacy and representing the country internationally.
- Defence against outside forces, i.e. military defence.
- Internal security.

Learning Objective 2: Gain an overview of the overall structure of Provincial Government and understand the meaning, scope and contents of Rules of Business of the Provincial Government and their relevance to the functions of the Government

4.3 Structures of the Government in Pakistan

Government of Pakistan consists of executive, legislative and judicial branches. President of Pakistan is the head of the state and is elected through an electoral process by the members of the Senate, National Assembly, and provincial assemblies for a five-years term, while Prime Minister is elected by the votes of the majority of the members of the National Assembly. Under article 1 of Constitution of Islamic Republic of Pakistan, territory of Pakistan may consist of four provinces, one federal capital territory, Federally Administered Tribal Areas (FATA) and other states and territories, included by accession or otherwise. The four provinces include Balochistan, Khyber Pakhtunkhwa (KPK), Punjab and Sindh. Two autonomous territories / states are (i.e. Azad Jammu and Kashmir and Gilgit Baltistan).

Provincial Government consists of several 'Departments' headed by ministers chosen from the elected representatives of the Provincial Assembly and a secretary (from the public service). The head of the province is the Governor, who is nominated by the President of Pakistan, while the head of the Government of each province is the Chief Minister who is elected by the respective Provincial Assembly.

Sindh is the second largest province in terms of population. It has an area of 140,914 sq km. Government of Sindh is based in Karachi (provincial capital). The Provincial Assembly consists of 168 members, while Chief Minister is the head of the

Government. A Cabinet of Ministers is responsible for around 46 Provincial Departments.

Within provinces, there are 'Divisions', each of which comprises three to four Districts. Each District has sub-districts (talukas/tehsils) and several union councils.

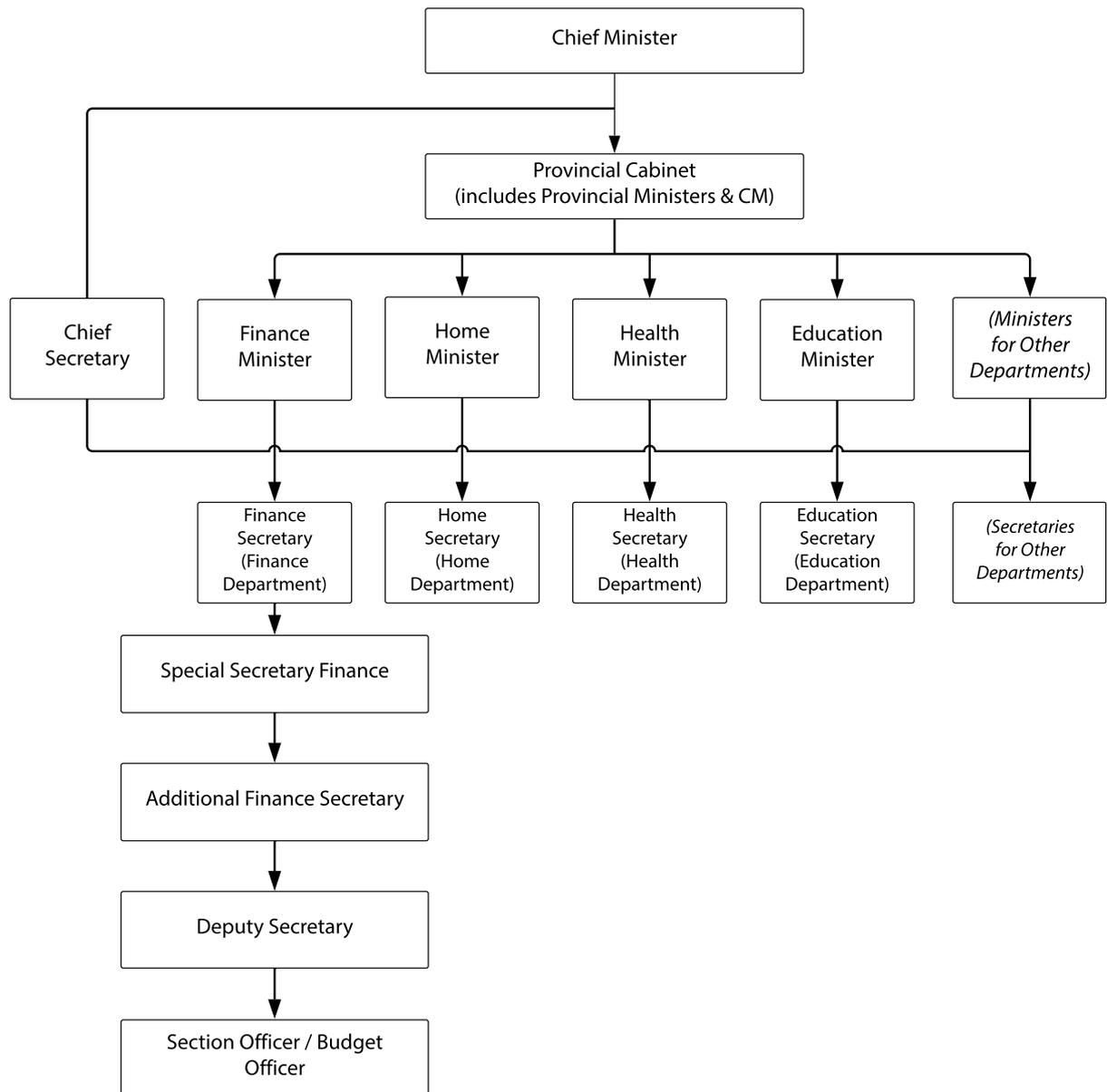
Under Sindh Local Government Act 2013, each district is governed by a Chairman and each Metropolitan/ Municipal Corporation is governed by a mayor through a Local Council which comprises a number of elected representatives (councillors). Depending upon an urban or rural district, the local council structures include the following:

- Urban Local Councils:
 - Metropolitan Corporation¹³
 - Municipal Corporation
 - Municipal Committee;
 - Town Committee;
- Rural Local Councils:
 - District Council
 - Union Council

More details of Sindh Local Government structures are given in Chapter 16 of this Handbook.

¹³ There is one Metropolitan Corporation in Sindh (i.e. Karachi Metropolitan Corporation)

4.4 Typical Organogram of a Provincial Government



4.5 Sindh Rules of Business

Each Province has developed rather own set of rules to transact business of the Government. Rules of Business prescribe the scope of functions / services for each department of the Government. These rules are updated

on creation of new departments and on changes / additions in scope of services of the Departments.

In Sindh, the government business is transacted in accordance with Sindh Government Rules of Business 1986, as updated from time to time.

The ROBs also specify the key administrative units (e.g. Department, Attached Departments etc.) of the Government and the officers responsible for carrying out the respective functions of the Department.

Chief Minister

Chief Minister¹⁴ is the head of the Cabinet. He/She is responsible for coordination of all policy matters. Chief Minister has the powers to call for any case or information from any office, attached department or departments.

Minister

Minister¹⁵ is the in-charge of the assigned department. He/she is responsible for policy matters and for the conduct of business of his/her department.

Advisor

Advisor is appointed by the Governor on the advice of the Chief Minister. Advisor performs such duties and functions as may be specified from time to time. The Advisor holds the office for so long as the Chief Minister desires. The terms and conditions of Advisor's appointment are determined by the Chief Minister.

Department

Department¹⁶ means an administrative unit in the Secretariat responsible for conducting activities as specified in the Provincial Rules of Business.

Each Department consists of a Secretary and other subordinate officials.

Under the Rules of the Business, one person can serve as Secretary to more than one Department.

Similarly, a Department may have more than one¹⁷

14 As defined in Sindh Rules of Business and Government of Sindh's Manual of Secretariat Instructions, 2010

15 ibid

16 ibid

17 As per Rule 4 of Sindh Rules of Business

Secretary dealing with specifically assigned subjects.

Secretary

Secretary¹⁸ is the official head of the Department and is responsible for its efficient administration and discipline for the proper conduct of the business assigned to the Department.

The Secretary has the authority to distribute the work of the Department among the officers, branches and sections of the Department.

On Chief Minister's direction, the head of an Attached Department can exercise the powers of a Secretary¹⁹.

Attached Department

An Attached Department is an extended arm of the Department and refers to an administrative unit which performs distinct functions and is headed by a separate officer (other than Secretary). Attached Department as defined under Sindh Rules of Business, is under an administrative control of Administrative Department to perform specific functions including supervision of field offices.

In Sindh, some Provincial Departments have Attached Departments. Examples include:

- Education Department: Bureau of Curriculum and Extension, Sindh. Headed by Director of Curriculum and Extension, Sindh
- Agriculture Department: Agriculture Extension. Headed by Director General Agriculture Extension and Adaptive Research Project Sindh
- Agriculture Department: Bureau of Supply and Prices. Headed by Director General Bureau of Supply and Prices.
- Health Department: Directorate of Nursing. Headed by Director Nursing.
- Home Department: Police Department. Headed by Inspector General Police

Examples from Selected Departments of Sindh:²⁰

Brief summaries of business assigned to three of the Sindh Government's departments are given in this section as an example only. The departments include Finance Department, Planning & Development

18 As defined in Sindh Rules of Business

19 Rule 4(iv) of the Sindh Rules of Business, 1986.

20 As given in the Government of Sindh's Rules of Business 1986.

Department and Agriculture Department.

Finance Department

- Administration of public revenue, save as otherwise provided
- Assets and Liabilities Committees
- Audit of receipt and expenditure
- Entering into agreements with banks for availing banking services on behalf of the government
- Communication of financial sanctions
- Creation of new posts and examination of schemes of new expenditure
- Examination of all proposals for the increase or reduction of taxes
- Examination and advice on matters affecting directly or indirectly the finances of the Province, including:
 - grants, contribution, other allowances and honoraria, contingencies, recoveries from and payment to Government Departments and cases relating to money matters generally, such as defalcations embezzlement and other losses
 - emoluments, pensions and allowances
 - loans and advances to Government servants
- Public Debt including floatation and administration of Provincial Loans
- Framing of financial rules for guidance of Government Departments and supervision of maintenance of accounts
- Managing the attached department of Local Fund Audit
- Management of public funds Public accounts and Public Accounts Committee
- Report of Auditor General
- Service matters, except those entrusted to the Services & General Administration Department
- Administration of Treasuries and Sub-Treasuries

P&D Department

- Preparation of Annual Development Plan
- Co-ordination of technical assistance and foreign aid from abroad
- Co-ordination of statistics in general, and all matters relating to Bureau of Statistics
- Co-ordination and training of officers in foreign countries
- Economic research and matters relating to Board of

Economic Inquiry

- Evaluation of the progress of development schemes and writing their critical appraisal
- Initiation of measures for giving suitable publicity to the Development Plan and educating the public on the results achieved from time to time
- Maintaining liaison with the National Planning Agencies (e.g. Planning Commission)
- Planning, including policy and development
- Processing of all development schemes programmes and proposals submitted by other Departments and making recommendations to Government thereon
- Service matters, except those entrusted to the Services & General Administration Department

Planning & Development Board:

- An independent P&D Board has been created in Sindh with the objective of effective management of development portfolio. The Board formulates strategic directives for key development sectors like Health, Education, Water & Infrastructure in accordance with Government's policy objectives
- The Board is headed by a Chairman while there are seven Members who supervise and manage their respective assigned areas/sectors, as follows:
 - Member (Development)
 - Member (Social Sector)
 - Member (Energy & Infrastructure)
 - Member (Services)
 - Member (Natural Resources)
 - Chief Economist / Member
 - Secretary (Planning) / Member (Secretary)

Agriculture Department

- Agricultural Education
- Agriculture Research, Plant Protection and Entomology
- Matters relating to Agriculture University
- Control over the price and distribution of sugarcane
- Collection and compilation of Agricultural Statistics
- Experimental and demonstration farms
- Improvement of agricultural methods
- Matters connected with agricultural census
- Procurement and distribution of improved varieties of seed and fertilizer
- Protection against insects and pests and prevention of plant diseases including plant protection work

- Soil conservation in canal-irrigated zones
- Enhancing the area under cultivation
- Service matters, except those entrusted to the Services & General Administration Department

Learning Objective 3: Understand the typical structures of a Provincial Department

4.6 Typical Administrative Structures within a Provincial Department

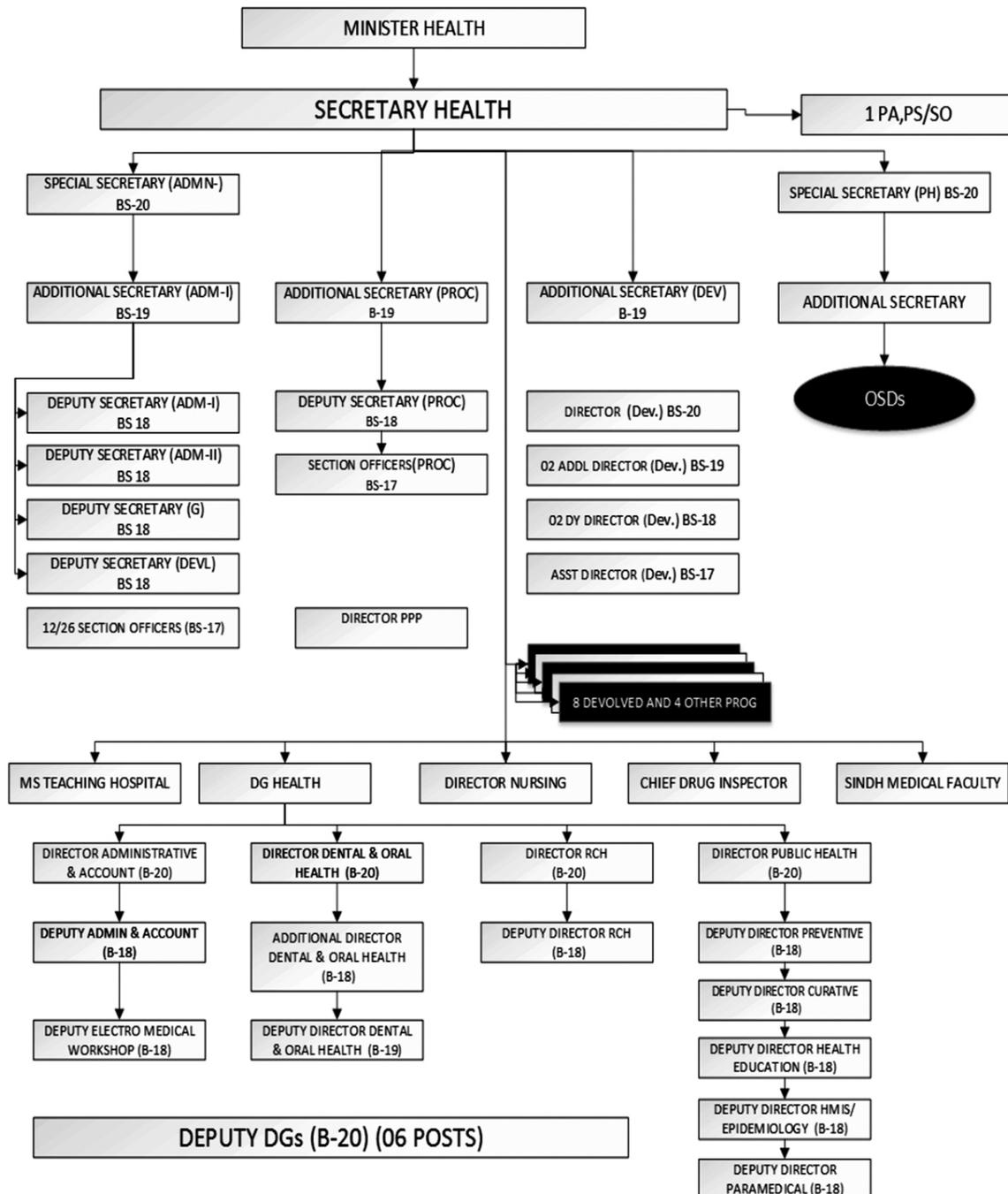
Administrative structures in the provincial departments are created according to the functions assigned to them under their respective rules of business. However, following structures generally exist in almost every department:

- Secretary
- Special Secretary
- Additional Secretary
- Deputy Secretary
- Undersecretary
- Section Officer

In addition to the above, other structures also exist depending upon the technical areas dealt with by the departments. Some of those may include:

- Director
- Deputy Director
- Assistant Director

4.7 Example of an Organizational Chart - Sindh Health Department²¹



Suggested Readings:

- About 'Government': <https://en.wikipedia.org/wiki/Government>
- Definition of Government: <http://dictionary.cambridge.org/dictionary/english/government>
- Official web portal of Sindh Government: www.sindh.gov.pk
- Rules of Business, Government of Sindh

²¹ <http://sindhhealth.gov.pk/Organization-Structure>

Chapter 5. Roles and Responsibilities of Different Institutions in Public Finance Management

Learning Objective 1: Identify key categories of stakeholders in the budgetary process

5.1 Key Stakeholders

The institutions involved in budgetary process at the provincial levels can be broadly categorized in two sub groups:

- Provincial Assembly, and
- The Executive Arm.

Provincial Assembly

The Assembly is responsible for authorizing budget estimates besides ensuring good governance and transparency in public spending.

Generally the executive arm of Government (led by Cabinet and includes different central and administrative departments of the Government) has primary responsibility for budget formulation and implementation.

Provincial Assembly is directly answerable to the public over the performance of the Government. It is not only concerned with budget planning but also has responsibility to ensure that the utilization of public funds is done in a transparent and effective way.

Given the complexity and volume of the business of the Provincial Assembly, it is a normal practice to delegate its powers and responsibilities to a sub-group of parliamentarians generally referred to as 'Committee'.

A Provincial Government is required to lay a statement of the estimated receipts and expenditure of the Government known as 'Annual Budget Statement' for the next financial year before the Assembly. The Budget is presented to the Assembly on such day and at such time as the Governor may appoint. The Finance Minister, or a Minister acting on his behalf, presents the Budget. The Assembly considers the Budget in two stages:

- General discussion on the Budget as a whole; and
- Discussion and voting on demands for grants, including voting on motions for reduction, if any.

The Executive

The executive arm on the other hand is mostly concerned with the processes and legal provisions that relate to budget formulation and execution

Their role requires in depth knowledge and understanding of the rules and procedures relating to public finance management

On the basis of roles performed in the overall public finance domain, the executive arm is bifurcated into Central Departments (i.e. Finance Department and Planning & Development Department) and other administrative departments (e.g. Health, Agriculture, Education, etc.).

Within an Administrative Department the budgetary process is performed at various cadres that provide strategic guidance and control, e.g. Principal Accounting Officer (PAO) and other executive sub-groups under their control including operational planning and implementation groups comprising officers / officials of middle and lower management including, for example, Drawing & Disbursing Officers (DDOs).

Learning Objective 2: Understand roles and responsibilities of the key stakeholders

5.2 Role and Responsibilities of the Sindh Assembly, Cabinet and Public Accounts Committee in Financial Management and Control

Provincial Assembly

The Provincial Assembly is responsible for approving targets for resource generation and authorizing public spending.

The enactment of the provincial budget by the Assembly is the key step towards empowering the Executive to undertake all necessary activities in this direction.

The roles and responsibilities of the Provincial Assembly in respect of the budgetary process are contained in "Rules of Procedure" of the Provincial Assemblies.

Provincial Cabinet

The Provincial Cabinet, besides other responsibilities, performs a link between the executive arm and the Provincial Assembly in the discharge of responsibilities for the operations of the government.

Most of the matters that need to be deliberated upon in the Provincial Assembly are first presented to the Cabinet for endorsement / approval.

In respect of financial matters of the Provincial Government, the Cabinet functions as an interface for the Provincial Assembly and most of the key financial matters (including budget approval) are first presented to the Cabinet before being presented in the Assembly.

Public Accounts Committee (PAC)

Public Accounts Committee (PAC) is the body constituted from the members of the Provincial Assembly with principle functions to examine the Appropriation Accounts of the Government and the report of the Auditor-General thereon and such other matters as the Assembly or the Speaker or the Finance Minister may refer to the Committee.

Matters relating to PAC are dealt with in Rules 189-194 of the Sindh Assembly Rules of Procedure.

PAC of the Sindh Assembly consists of Seven (7) elected members with Minister of Finance as its ex-officio member.

Key responsibilities of PAC in relation to review of the audit report are covered in Chapter 12 of this Handbook.

5.3 Role of the Executive in Financial Management

Responsibility for generating revenues and incurring expenditures that emanate from and relate to various economic activities of the Government lies with different executive agencies (administrative departments).

The Secretary of each Administrative Department of the Government is the Principal Accounting Officer (PAO), who is thus responsible for collection of all receipts and incurrence of expenditure falling under his jurisdiction.

Finance Department

The Finance Department is responsible for supervision and control of provincial finances, preparation of provincial budget, formulation of Financial Rules and Civil Services Rules relating to pay, pension & perquisites of Civil Servants, management of public debt and administration of Local Fund Audit Department and the Treasuries.

Some of the key functions of the Finance Department relevant to financial management of the Provincial Government are summarized as follows²²:

- Management, supervision and control of the Provincial Consolidated Fund of the Province and matters connected therewith or ancillary thereto
- Management, supervision and control of Provincial

²² Sindh Finance Department's specific rules of business are given (as an example) in Chapter 4. Here, a more generic summary is given of what Finance Departments do in relation to public financial management.

- Treasures, ways and means and public debt
- Preparation and submission of Annual Budget Statement, Excess Budget Statement, Revised Budget Statement, and Supplementary Budget Statement to Provincial Assembly
- Business relating to National Finance Commission and Provincial Finance Commission
- Business pertaining to audit and accounts
- Grant sanctions beyond the powers delegated to the administrative departments, subordinate offices and special institutions
- Performing Treasury functions of the Federation in the province in terms of Article 146 of the Constitution and matters related thereto;

Planning and Development Department

Planning and Development Department is the custodian of annual development plan, development budget and, in coordination with administrative departments, oversees development activity in the Province.

- It is responsible for formulation and execution of the development portfolio of the Sindh Government. A summary of the key functions of the P&D department as mentioned in the rules of business of the provinces is presented as follows:
- Preparing the Annual Development Program (ADP) / Public Sector Development Programme (PSDP) in coordination with all Departments (especially Finance Department).
- Approval of PC-1's / Development Projects.
- Project appraisal
- Monitoring the implementation of development programs and projects by Monitoring & Evaluation Cell (MEC):
- Monitoring the progress of all provincial development projects;
- Project physical progress verification through field visits and identification of bottlenecks in financial and physical progress of schemes included in ADP;
- Scrutiny and compilation of Monthly Progress Reports of ADP (PC III) received for Administrative Department and District Government;
- Preparing monthly, quarterly and annual review and monitoring reports.
- Coordination with the administrative departments with respect to development activities
- Determining policy for the approval of

development schemes in the Provincial Government. As the Secretariat for the Provincial Development Working Party, it also acts as a clearing house for development schemes within the competence of the Federal Government (ECNEC/ CDWP).

- Policy formulation for approval of development schemes.
- Monitoring the utilization of ADP funds.
- Project evaluation and impact analysis

Administrative Departments

Administrative departments are responsible for budget preparation, implementation, monitoring, reporting, review and evaluation.

The head of the Department ensures financial discipline and accountability in the performance of these activities.

The mandate of the Administrative Department is performed at various tiers, e.g. Principal Accounting Officer and Drawing & Disbursing Officer (DDO), etc. as given below:

Principal Accounting Officer

In the duties and responsibilities of the Principal Accounting Officer (PAO), finance is an essential element. The PAO is to ensure that financial considerations are taken into account at all stages in framing and implementing decisions.

The Principal Accounting Officer is responsible not only for the efficient and economical conduct of the Departments, but also continues to be personally answerable before the Public Accounts Committee.

- Responsible for the overall preparation and implementation of the budget.
- Provide strategic guidance on budget planning and prioritization
- Ensure compliance with procedures concerning preparation of receipts and expenditure estimates
- Communication and distribution of budget grants to all concerned in the Department
- Ensure budget control
- Preparation and finalization of requirements for re-appropriation, supplementary grants, and surrenders of excess funds

Principal Accounting Officer has the power to delegate his functions to his sub-ordinate officers/officials of the department to act on his behalf.

Depending upon nature, type and structure of an Administrative Department, the team of subordinate officers / officials may include:

- Additional Secretaries / Director General
- Deputy Secretaries / Directors / Senior Planning officer
- Under Secretary / Section officer / Budget and Accounts officer / Superintendent / Planning officer

Drawing and Disbursing Officer

Drawing and Disbursing Officer (DDO) holds primary responsibility for execution of the budgetary process for their respective organization / offices.

DDO is a Government servant who draws bills, incurs expenditure to the extent specified and makes payments on behalf of the Government. DDO is assisted by a team of officials comprising Assistants and Budget Clerks etc.

Key roles and responsibilities with respect to the financial management of the office under their jurisdiction are as follows:

- Providing input for development of operational plans
- Preparation of estimates of expenditures
- Preparation of estimates of receipts
- Analysis of activities relating to generation of receipts and incurrence of expenditures
- Identification of organizational outputs (services) and correlating with financial requirements
- Assists PAO in control of expenditure
- Preparation of revised and supplementary estimates
- Timely submission of budget documents to the controlling officer or to the Head of the Department
- Other activities in respect of audit, monitoring of expenditures and receipts, if any.

Auditor-General of Pakistan

The Auditor General of Pakistan (AGP) is responsible for ensuring public accountability and fiscal transparency in the governmental operations. The Auditor General is appointed under the Constitution of the country.

Reports produced by AGP are laid before the Provincial Assemblies and are considered in the Public Accounts Committee of the Sindh Assembly.

AGP also has a key role in strengthening the legislative oversight by providing an independent and objective assessment of the process of governance both at the federal and provincial levels.

More details on key functions performed by AGP are given in Chapter 12.

Controller General of Accounts

The Controller General of Accounts (CGA) is the premier accounting office of the Government of Pakistan. The Office is entrusted with the task of producing financial statements for the federation. It was formed under an ordinance issued in 2001. Some of the key functions performed by CGA are as follows:

- to prepare and maintain the accounts of Pakistan, the Provinces and district governments in such forms and in accordance with such methods and principles as the Auditor-General may prescribe
- to authorize payments and withdrawals from the Consolidated Fund and Public Accounts of the Federal and Sindh Government against approved budgetary provisions
- to prepare and maintain accounts of organizations and authorities established/controlled by the Federal and Sindh Government
- to lay down the principles governing the internal financial control for Government departments in consultation with the Ministry of Finance and provincial finance departments
- to render advice on accounting treatment for new schemes, programmes or activities undertaken by the Government
- to submit accounts of receipts and disbursements for Federal and Sindh Government to the Auditor-General
- develop and maintain a system of pension, provident funds and other retirement benefits in consultation with the concerned government
- to co-ordinate and ensure resolution of audit observation of the Audit Department with the concerned departments
- to prescribe syllabus, standards and provide facilities for the training of officers and staff under his administrative control

The Controller General is the administrative head of various offices and has authority for transfer and posting within his organization. Some of these offices include:

- the Accountant General of Pakistan Revenues and its sub-offices
- the Military Accountant General and its sub-offices
- the Offices of the Provincial Accountants General of each Province and their subordinate offices

Accountant-General

Accountant-General is sub-ordinate to the Controller General of Accounts and is the head of office of Accounts in the province and performs the assigned duties with assistance of District Accounts Officers (DAOs) and Treasury Officers (TOs).

Accountant-General has a key role in the public financial management of the province. Key functions performed by the Accountant-General include:

- keeping the accounting records of all centralized accounting entities of the province
- performing the pre-audit (validation) function on payments out of Provincial Consolidated Fund
- preparation and submission of civil accounts / appropriation accounts of the Provincial Government, District Governments and Tehsil Municipal Administrations in the manner specified by the Auditor-General
- preparation and submission of annual accounts of the Provincial Government to the Controller-General
- preparation of bank reconciliations

District Accounts Officer

At district level, there is a District Accounts Officer (DAO) who operates under the guidance of the Accountant-General of the province. DAO is responsible for processing all accounting transactions relating to the provincial departments in their respective district.

The DAOs maintain records of payments and receipts, for Federal and Provincial transactions (in separate ledgers) and submit consolidated monthly accounts to the respective AGPR sub-office or AG office

Treasury Officer²³

Under the Treasury Rules of the Government of Sindh, every district has a separate treasury under the charge of a Treasury Officer (TO), who is appointed by Pakistan Audit Department. However, where the appointment has not been made, the treasury will be in the general charge of the Collector who may appoint one of his subordinate officers to act as TO.

Under the Rules, the government moneys standing in the public account must be retained either in a treasury or deposited in State Bank / National Bank. Moneys can be received at a treasury under different accounts. Examples include:

- Receipts under civil, revenue and criminal court cases
- Money received by notaries public
- Receipts of the Public Works Department
- Receipts of the Forest Department
- Receipts of the Railways
- Examination fees collected on behalf of examination boards
- To effectively deal with cash and maintain necessary records, a treasury usually has two departments: Accounts Department under the charge of an Accountant and Cash Department under the charge of a Treasurer.

Key responsibilities of the TO are summarized as follows:

- Receiving moneys deposited by individuals / government departments on behalf of the government under various heads of account
- Ensuring safe custody of cash and service postage stamps by putting in place effective physical, administrative and institutional controls
- Authorizing utilization of cash as permitted under the rules (TO 7 Sub Rule 4 of the Sindh Treasury Rules)
- Depositing cheques drawn in favour of the government into the State Bank or National Bank
- Depositing money orders into the post office and issuing acknowledgment receipts to the concerned department
- Permitting withdrawal of funds from the treasury. This may be done for the following purposes:
 - To pay sums due by Government to the drawing

²³ In Sindh, Treasury Officers have been gradually converted and re-designated as District Accounts Offices except for Karachi.

officer

- To place the drawing in funds to meet claims likely to be presented against Government in the immediate future by other Government servants or private parties
- To enable the drawing officer to supply funds to another Government servant from which to meet similar claims
- To pay the amounts due by Government to a private party
- Making payments against approved pension claims
- Making payments against approved refund claims
- Ensuring safe transfer of money from treasury to State Bank
- Authorizing receipt of moneys deposited into the treasury
- Maintaining complete records of cash, cheques and service postage stamps
- Reporting to the Collector / Auditor General / DG Audit (Works) on a timely basis
- Ensuring compliance with Treasury Rules / Financial Rules of the Province at all times
- Monitoring/supervising the work of the Accountant and the Treasurer
- In case of sub-treasuries being in place, monitoring the work of sub-treasury officer(s)

Divisional Accounts Officer

Divisional Accounts Officer is an employee of the Provincial Accountant-General's Office and is posted at a Divisional level to carry out pre-audit of transactions relating to departments in infrastructure sector. These Departments mainly include Communication & Works Department, Irrigation Department and Public Health Engineering Department.

The job of the Divisional Accounts Officer requires providing assistance to Executive Engineers (XEN) of the above Departments in ensuring compliance with the rules and regulations in respect of expenditure incurred by the XEN office, verifying accuracy and completeness of third party claims and compiling relevant accounts of the XEN offices on a monthly basis. The Divisional Accounts Officer reports his findings to Director General (Works) in the Accountant-General Office.

The Divisional Accounts Officer is the head of the Accounts branch of the XEN office and is assisted by auditors and other subordinate staff in carrying out the

assigned tasks.

State Bank of Pakistan

The Government's banker at both the Federal and Provincial levels is the State Bank of Pakistan, with National Bank of Pakistan acting as its agent.

Federal and Provincial Governments are separate accounting and reporting entities and each government operates separate bank accounts with the State Bank of Pakistan.

Key functions of the State Bank in relation to public finances are as follows:

- Administering transactions relating to Consolidated Fund and Public Account of the Government
- Compiling and reporting receipts in and disbursements from various saving and deposit schemes operated by the Government
- Making payments of authorized amounts from the accounts maintained with SBP / NBP
- Providing loans and advances to the Government
- Carrying out open market operations (including sale and purchase of Treasury Bills) on behalf of the Government for raising and discharging loans for the Government
- Administering Assignment Accounts for approved programmes/projects of the government
- Managing Food Accounts of the government

Suggested Readings:

- Provincial Financial Rules
- Provincial Treasury Rules
- Accounting Policies & Procedures Manual (PIFRA / Auditor-General's Office)
- Rules of Business of the Sindh Government
- Auditor-General of Pakistan's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001
- Controller General of Accounts (Appointment, Functions and Powers) Ordinance, 2001
- A Guide to Sindh DDOs

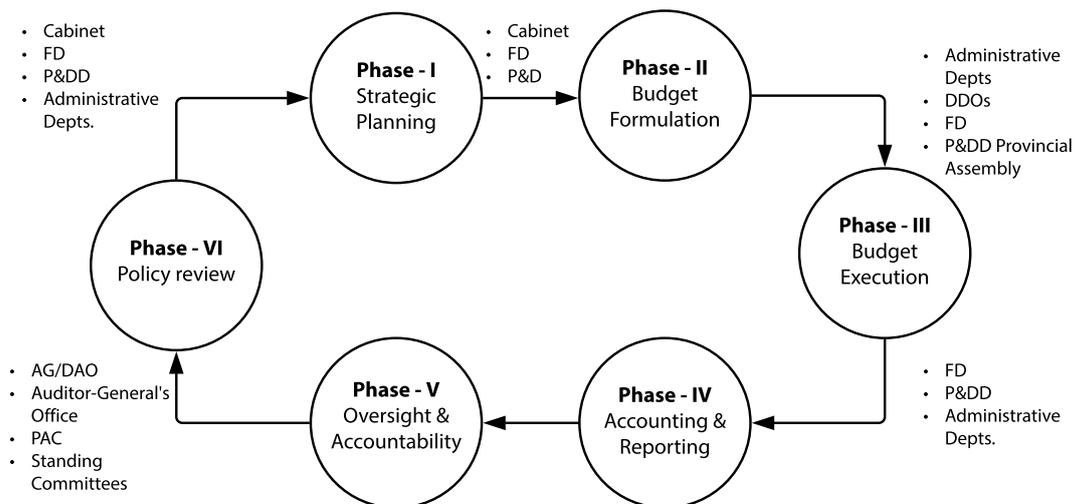
Chapter 6. Budget Cycle

Learning Objective 1: Define Budget Cycle

6.1 What is Budget Cycle?

The provincial budget planning, preparation and execution process consists of distinct activities and steps performed at Central Departments (Finance Department and Planning & Development Department) and Line Departments (including their attached departments, controlling officers / DDOs).

These activities / steps are grouped in what is generally called a Budget Cycle and are linked to each other in the following manner:



Learning Objective 2: Name budget cycle components and understand how these are linked to each other

6.2 Brief Description of the Budget Cycle Phases

Phase I - Strategic Planning

This Phase primarily covers planning aspects of budgeting and consists of activities undertaken for resource projection, inter-sectoral prioritization, identification of relevant strategies for resource mobilization and public investment, and determination of sectoral and departmental expenditure ceilings.

This also includes communication of budgeting instructions to the government entities / DDOs as part of the Budget Call Circular / Guidelines.

Phase II - Budget Formulation

This Phase covers detailed procedures to be followed for preparing estimates for both Expenditure and Receipts.

As part of the budgeting exercise, the Finance Department determines the likely scale of expenditure against and receipts into, the Provincial Consolidated Fund for next financial year.

The budget estimates as submitted by administrative departments are analyzed and reviewed in detail at Finance Department and Planning & Development Department before onward submission to the Cabinet for approval and for presenting the same before the Provincial Assembly

After Cabinet approval, the budget consisting of Annual Budget Statement along with supporting budget publications is laid before the Provincial Assembly under Article 120(1) of the Constitution for consideration and authorization.

Phase III - Budget Execution

Actual incurrence of expenditure authorized under the Schedule of Authorized Expenditure, and the realization of the estimated receipts included in the Annual Budget Statement, is monitored and controlled by the concerned authorities.

The Phase also covers releases of funds for procurement of goods/services, budget revisions including supplementary budget requests, budget savings/excesses and surrenders of unutilized budget.

Phase IV - Accounting & Reporting

This Phase relates to recording of actual receipts and expenditure by DDOs and reporting to the Department Secretariat and from Department Secretariat to Finance

Department and Planning & Development Department on prescribed format.

Use of accounting/reporting functionality of IFMIS including use of Chart of Accounts is also part of this Phases.

Phase V - Oversight & Accountability

This Phase specifies procedures relating to Excesses and Surrenders of budget. If an amount allowed to be spent during a financial year under the authority of the Schedule of Authorized Expenditure is not expected to be spent before the close of the financial year (or is expected to be spent only partially), the savings expected are surrendered by the Head of Department concerned, through the Statements of Excesses and Surrenders.

Phase VI - Policy Review

The last phase of the budget cycle is about evaluation of Government's policies for which funds are provided as part of the annual budget process.

Currently, policy reviews are not carried out as an integrated phase of the budget cycle, but only on an ad hoc basis by way of annual progress reviews or other reviews initiated by donors.

Timing of Completion of Various Phases

- Phases I and II are completed before the commencement of the financial year to which the Annual Budget Statement relates.
- Phases III and IV are executed throughout the financial year.
- Phases V and VI are executed after completion of the relevant financial year.

Learning Objective 3: Understand relative timelines of key activities within each Phase of Budget Cycle

6.3 Budget Cycle

NO.	BUDGET ACTIVITY	RESPONSIBILITY	TIMELINES -
Phase-I of the Budget Process – Strategic Planning			
1	Issuance of the budget call circular (BCC) in Sindh	Finance Department	October
2	Development of Medium Term Fiscal Framework (MTFF) ² ; Development of Budget Strategy Paper (BSP)	Finance Department; P& Department	November - February
Phase-II of the Budget Process – Budget Formulation			
3	Forwarding of BCC to DDOs / spending units	Administrative departments	October
4	Submission of proposals for Schedule of New Expenditure (SNEs) to Finance Department	Administrative departments	November
5	Issuance of Indicative Budget Ceilings for Recurrent and Development budgets	Finance Department; P& Department	January
6	Preparation of detailed budget estimates and submission to administrative department's HQ	DDOs	October-February
7	Preparation of scheme wise ADP estimates and submission to administrative department's HQ	DDO (Project Manager / Director) / Administrative departments	December - February
8	Review, consolidation and internal approval of non-development and development budget estimates (ADP)	Section Officers, Deputy / Additional Secretaries / Secretaries of Administrative departments	December - February
9	Submission of Non-Development budget (on Regular and MTBF mode) to Finance Department	Administrative departments	February
10	Submission of statement of the excess & surrender including the revised estimates of the current financial year & all the proposal of re- appropriation / supplementary budget	Finance Department; Administrative departments	February
11	Submission of 1st edition of proposed ADP to P&D and Finance Department	Administrative departments	February
12	Sharing of 1st edition of ADP by Finance Department with P&D Department	Finance department	February
13	Inter-departmental Priority Committee (IDPC) meetings for clearance of tentative Development Programme	P&D Department	March
14	Communication of ADP by P&DD to the FD for printing 2 nd edition of ADP	P&D Department	April/May

6.3 Budget Cycle

NO.	BUDGET ACTIVITY	RESPONSIBILITY	TIMELINES -
15	Sharing of printed tentative ADP (2 nd edition) by the Finance Department to the P&D Department.	Finance Department	April/May
16	Finalisation of Revised Estimates for current year and Budget Estimates and SNEs for next year (Current Budget)	Finance Department	April/May
17	Finalization of MTBF estimates	Finance Department	April
18	Annual Plan Coordination Committee (APCC) meeting	Finance Department; P& Department; Administrative departments	April/May
19	National Economic Council (NEC) meeting	Finance Department; P& Department;	May / June
20	Finalization of Annual Development Programme (ADP)	Finance Department; P& Department;	May
21	Completion of all budget documents, schedules, and summaries for the Cabinet	Finance Department	May
22	Submission of Surrender of Savings	Administrative departments	June
23	Presentation of the budget to Provincial Cabinet	Finance Minister	June (After Federal Budget)
24	Cabinet approval to budget estimates	Provincial Cabinet	June
25	Presentation of the budget to Provincial Assembly	Finance Minister	June
26	Consideration and authorization of budget estimates (demands for grants) by Provincial Assembly	Provincial Assembly	June
27	Authorization of budget estimates	Provincial Assembly	June
28	Communication of approved budget estimates to Line Departments	Finance Department	July
29	Procurement of goods and services; Spending by Administrative departments and their DDOs/spending entities (as per provincial PPRA rules)	Administrative departments	Throughout the year (July - June)
Phase-IV of the Budget Process – Accounting & Reporting			
30	Recording and reporting of actual expenditure	Administrative departments; Finance Department; Accountant-General's office	Throughout the year (July - June)
Phase-V of the Budget Process – Oversight & Accountability			
31	External audit	Auditor General of Pakistan	After the end of relevant financial year

6.3 Budget Cycle

NO.	BUDGET ACTIVITY	RESPONSIBILITY	TIMELINES -
32	Oversight by Public Accounts Committee of the Sindh Assembly	Public Accounts Committee of Sindh Assembly; Administrative departments	After compilation of Audit Reports by the Auditor-General

Phase-VI of the Budget Process – Policy Review

33	Currently, Policy Reviews are not integrated to the budget process. However, these are carried out as and when required as part of budget reforms currently being undertaken in the Sindh government. These are discussed in more detail in Chapter 13 of this Handbook.
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Note: The Budget Cycle components / phases are discussed in detail in the ensuing chapters.

Learning Objective 4: Name key constitutional and legislative provisions governing the budget processes

6.4 Legislative Framework for Budgeting in Sindh Government

Financial management and control in Sindh is exercised in the light of the Constitution of Pakistan 1973 and the rules / acts promulgated under the Constitution and other rules and procedures as prescribed by the Provincial Government / Provincial Assembly.

Constitutional and other regulatory requirements relating to budget preparation, management and control are briefly discussed in this Section under the following headings:

Constitutional Provisions

ARTICLE	TITLE
Article 118	Provincial consolidated fund and Public Account
Article 119	Custody of Provincial Consolidated Fund and Public Account
Article 120	Annual Budget Statement
Article 121	Expenditure Charged Upon Provincial Consolidated Fund
Article 122	Procedure Relating to Annual Budget Statement
Article 123	Authentication of Schedule of Authorized Expenditure
Article 124	Supplementary and Excess Grant
Article 125	Votes on Account
Article 126	Powers to Authorize Expenditures when Assembly Stands Dissolve

Rules of Procedures of Sindh Assembly

RULE	TITLE
Rule 145	Budget
Rule 146	Presentation of the Budget
Rule 147	Budget not be discussed on presentation
Rule 148	Stages of the Budget
Rule 149	Allotment of days
Rule 150	General Discussion
Rule 151	Completion of Stages of the Budget
Rule 152	Cut Motions
Rule 153	Notice of the Cut Motions
Rule 154	Cut Motions in respect of Expenditure other than New Expenditure
Rule 155	Conditions for Admissibility of Cut Motions
Rule 156	Admissibility of Cut Motions
Rule 157	Discussions on Cut Motions
Rule 158	Voting on Demands for Grants
Rule 159	Voting on Account
Rule 160	Procedure for dealing with Supplementary and Excess Demands

Law on Management of Public Finances

Many countries have enacted laws for effective public finance management. Some of these include South Africa, Kenya, Afghanistan, etc. Key objectives of having a generic PFM (Public Financial Management) law are to:

- regulate financial management in the government;
- ensure that all revenue, expenditure, assets and liabilities of the government are managed efficiently and effectively;
- provide for the responsibilities of persons entrusted with financial management in the government.

In Pakistan, the Federal Government enacted Public Finance Management Act in 2019²⁴. In Sindh there is a 'Sindh Financial Management and Accountability Act 2011'. In addition, the Government of Sindh has recently initiated the process of introducing a generic PFM law. A draft law has been developed and is currently under consideration at relevant forums.

24 <http://download1.fbr.gov.pk/Docs/2019731173630487FinanceAct,2019.pdf> - Pages 231 - 246

Learning Objective 5: Practically apply the concepts discussed in this Chapter

Activity: Identifying relevant Phases of Budget Cycle for some Budget Activities

The following Table comprises 2 Columns:

- **Column 1** lists some of the Activities that are normally performed during a financial year in relation to budget by government departments/entities, while
- **Column 2** is blank. Identify relevant phases of the budget cycle in Column 2 against each of the Activities in Column 1.

ACTIVITY	RELEVANT BUDGET CYCLE PHASE
(1)	(2)
Issuance of budget ceilings by Finance Department to line departments	
Analyzing salary budget estimates at Health Department secretariat before submission to Finance Department	
Assigning chart of account codes to DDOs budget submissions	
Determination of key Outputs for next year by a Budget Officer in Education Department	
Rectification of an error in draft budget demands	
Cabinet approval of budget demands for next year	
Approval of development budget by P&D Department	
Re-appropriation from "Utilities" to "Traveling"	
Submission of a supplementary budget request from Energy Department for purchase of vehicles	

ACTIVITY	RELEVANT BUDGET CYCLE PHASE
(1)	(2)
Issuance of a Purchase Order by Irrigation Department for purchase of an IT equipment	
Receipt of Invoice at Services Hospital from an Equipment supplier	
Reconciliation of Livestock Department's actual expenditure with AG's records	
Issuance of cheque for Rs. 500,000/= by Health Department to K Electric in August 2016	
Issuance of draft audit paras to Education Department by Senior Auditors	
Reporting of irregularities by auditors in purchase of vehicles	

Suggested Readings:

- Budget Call Circulars of Sindh Finance Departments
- DDOs Handbook
- Accounting Policies & Procedures Manual (PIFRA / Auditor-General's Office)
- Constitution of Pakistan
- Rules of Procedures of the Sindh Assembly

Chapter 7. Strategic Planning

Learning Objective 1: Appreciate the significance of strategic planning in the budgetary process

7.1 Strategic Planning

Conventionally, there has been no strategic planning phase in Provincial budget cycles.

The only 'planning' document traditionally used is budget call circular issued by Finance Department that triggers preparation of current and development budget at the administrative departments.

Key components of this Strategic Planning are being introduced as part of the ongoing PFM reforms in the Province of Sindh. Some interventions (like Medium Term Fiscal Framework and Budget Strategy Paper) have been initiated in recent years as part of planning

process.

These components are aimed at guiding the Finance and P&D Departments estimate resource availability at earlier stages of the budget cycle and help administrative departments and their spending units / DDOs prioritise their operational and development activities.

It consists of activities undertaken for resource projection, inter-sectoral prioritization, identification of relevant strategies for resource mobilization and public investment, and determination of sectoral and departmental expenditure ceilings.

Learning Objective 2: Understand the key activities performed at Finance Department and Administrative departments as part of strategic planning process, and issuance of Budget Call Circular

7.2 Planning at Finance Department

Developing a Medium Term Fiscal Framework (MTFF)

MTFF is concerned with estimating the availability of resources (both domestic and foreign) over the medium term comprising next financial year and two subsequent financial years.

MTFF broadly covers the following;

- Overview of the fiscal situation in the province
- Projection of federal transfers
- Resource mobilization
- Identification of budget pressures and an account

of forward budget estimates of the administrative departments

- Development and non-development priorities
- Expenditure forecast

MTFF has been introduced under the ongoing PFM reforms in Sindh and is currently presented as part of Budget Strategy Paper (BSP).

Preparing the Budget Strategy Paper

BSP covers requirements for financing of Current and Development budgets in light of budget priorities.

It is based on the projections / numbers finalized for MTFF.

Finance Department has a leading role in preparation of the BSP. Input from P&DD is also obtained.

Presented to the Provincial Cabinet for deliberation and final approvals each financial year.

The BSP is updated each year to incorporate impact of changes e.g. in Federal Transfers and Provincial own receipts; and in development / sectoral priorities of the Province.

Preparation of BSP has been a regular feature in Sindh which is carried out under the ongoing PFM reforms.

Developing Expenditure Ceilings

There has been a practice of issuing expenditure ceilings to selected administrative departments.

These ceilings are based on the estimated resource availability of the provincial government, actual spending levels of the administrative departments in the previous financial year and sectoral policies / priorities in the ensuing budget period.

Expenditure ceilings are usually part of the BSP.

Finance Department has leading role in developing the ceilings

Once the ceilings are determined, the Finance Department conveys the same to the concerned PAO / Secretary of the administrative departments.

Ceilings help the Departments in prioritising their current and development spending in the ensuing period.

Issuance of Budget Call Circular²⁵

Commencement of budget process at administrative departments takes place with issuance of Budget Call Circular by Finance Department.

An integrated Budget Call Circular (BCC) is issued with the purpose of providing guidance to Departments in framing their Revised Estimates for the current year and the Budget Estimates for the ensuing financial year for both current and development portions of the budget

It consists of budget preparation guidelines and instructions for administrative departments and their DDOs

²⁵ The description under this heading relates to Sindh processes only.

BCC triggers the budget preparation activity at the administrative departments.

BCC is generally issued in October / November each financial year.

BCC gives instructions on the preparation of estimates of various types of receipts and expenditure, including the formats and statements in which the estimates are required to be furnished. It generally includes the following details:

- Covering letter by Finance Secretary
- Budget guidelines and Instructions (including brief introduction to any changes or initiatives taken for upcoming budget year)
- Budget calendar
- Annexures including Budget Forms and instructions to fill in the forms
- Key Contents of the Sindh BCC
- Budget Calendar
- Instructions and budget forms for Schedule of New Expenditure
- Information on developing Budget Strategy Paper
- Guidelines and Budget Forms for Recurrent (Non-Development) Budget
- Guidelines and Budget Forms for Development Budget / Annual Development Programme (ADP)
- Guidelines and Budget Forms for Pilot MTBF Departments²⁶
- Guidelines and Budget Forms for formulation of Revised Estimates
- Guidelines and Budget Forms for Re-appropriations and Supplementary Budgets (both current and development)
- Guidelines and Budget Forms for Surrenders & Savings

7.3 Strategic Planning at Administrative Departments

The practice of preparing strategic / spending plans has not fully evolved yet as there are only a few administrative departments that have prepared their plans. For example, Health and Education Departments prepared such plans a few years ago.

A strategic plan can serve as an important tool to

²⁶ These are Eight Administrative departments: Agriculture Supply & Prices Department; Education & Literacy Department; Energy Department; Health Department; Irrigation Department; Livestock & Fisheries Department; Social Welfare Department; Special Education Department

integrate budgetary processes and department's priorities.

Suggested Readings:

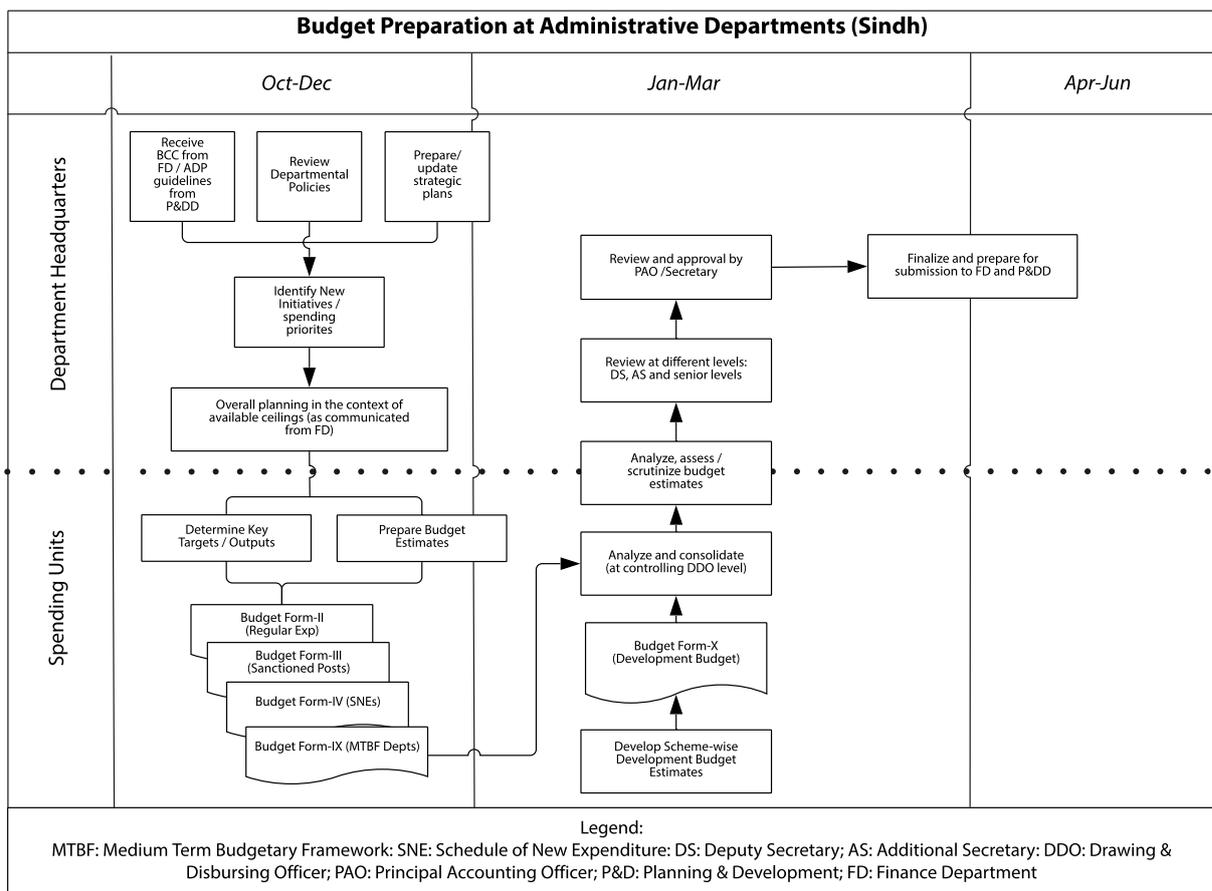
- Budget Call Circular of Finance Department
- DDOs Handbook

Chapter 8. Budget Formulation

Learning Objective 1: Get an overview of the budget formulation process at administrative departments for both Current and Development budgets

8.1 Non Development Budget Process

Non Development Budget (or Current Budget) comprises Regular Budget and Schedule of New Expenditure. Overall process for this type of budget is given in the figure below:



Regular budget: DDOs of the administrative departments fill budget forms as given in the Budget Call Circular. These comprise Final List of Excesses and Surrenders and Revised Estimates for current year including budget demands for next year. Explanatory memorandum with justifications are also attached to support budget demands. The DDOs also provide vacancy positions and estimates for Receipts.

Schedule of New Expenditure (SNE): DDOs submit SNEs to Section Officer responsible for Non-Development

Budget in the Administrative Department. SNEs are mainly for funding staff costs and physical assets.

Administrative departments prepare budget demands for Expenditure on prescribed forms (discussed later). The budget demands are aligned to the Provincial Budget Strategy. Before being submitted to the Finance Department / P&D Department, these demands are examined by senior officials of the administrative departments in consultations with subordinated DDOs, taking into consideration the following:

- Instructions given in the BCC are followed by DDOs while preparing the budget demands
- Budget demands of the attached departments/

- subordinate offices are rationalized and prioritised
- Actual Expenditure for current and past financial years is reflected as recorded in the Integrated Financial Management Information System (IFMIS)
- Reconciliation of actual Receipts and Expenditure with Accountant General Sindh/District Accounts Offices/ Treasury
- Officer/senior staff's entitlements/ceilings for vehicle, telephone, etc. are reflected appropriately
- Need is assessed considering the future requirements for key budget heads
- Preparation of budgets for each DDO and consolidated for all DDOs

Learning Objective 2: Define 'Development Budget' and understand the role of PC-I in development budget and various other PC forms used in the project life cycle

8.2 Development Budget

Development budget refers to scheme-wise (or project-wise) budget for specific a development activity. Development projects are projects undertaken to acquire, build or improve physical assets or develop human resources.

Planning Commission, Government of Pakistan, performs the functions of economic planning and oversees development activity in Pakistan. The Commission is responsible for setting development priorities on an annual and medium term basis.

There is a separate Planning & Development Department at each province with responsibility to perform similar functions within their respective jurisdiction. The Department provides overall leadership to the administrative departments for creation, processing, approval, implementation and monitoring of development schemes in the province.

P&D Department also coordinates with the Federal Government / Planning Commission on implementation of large development programmes, foreign funded projects and federally-funded province-specific projects.

Federal development budget is also termed as Public Sector Development Programme (PSDP) which

consists of budget allocations to Federal Ministries and Divisions for the upcoming fiscal year. Allocations made by Sindh Government for their development budget outlays are also separately identified in the PSDP document and are included to arrive at overall size of the national development budget for a particular year.

Provincial development budget is also known as "Annual Development Programme".

Financing for Development Budget

Following are the funding source for Development Projects:

- Provincial Consolidated Fund
- Federal funded projects
- Foreign funded projects
- Provincial and federal co-funded projects
- Provincial and foreign co-funded projects
- Federal and foreign co-funded projects
- Provincial and private co-funded projects

8.3 PC Documents

Planning Commission, Government of Pakistan, has prescribed various forms for use at different stages of the project life cycle. The same forms have been adopted by Provincial Planning & Development

Departments. Names of the forms are given below while their brief description follows:

- PC-I: Form for project preparation for production sectors /infrastructure sectors / social sectors
- PC-II: Form for survey and feasibility studies
- PC-III(A): Form for physical targets based on PSDP allocations
- PC-III(B): Form for monthly progress reporting
- PC-IV: Form for project completion report
- PC-V: Annual performance report after project completion
- Low cost PC-I: Form for preparation of projects less than PKR 1 million

PC-I Form - Project Preparation (for Production, Infrastructure and Social Sectors)

Separate PC-1 forms have been designed for economic sectors. These include:

- Production Sector
- Infrastructure Sector
- Social Sector

Key contents of this form include the following:

- Project name and location
- Responsible authority and project stakeholders
- Project objectives
- Detailed description
- Capital cost estimates
- Recurrent cost estimates after project completion
- Demand and supply analysis
- Financing plan
- Project appraisal
- Project implementation schedule and management

PC-II Form - Survey and Feasibility Studies

Key contents include:

- Name by which the survey/ feasibility will be identified
- Administrative authorities responsible for sponsoring and execution
- Details of survey/feasibility study showing:
- General description and justification
- Implementation period
- Year wise estimated cost
- Manpower requirements

- Financial plan
- Expected outcome of the survey feasibility study and details of projects likely to be submitted after the survey.
- Name, designation and contact details of the official preparing the PC-II

PC-III(A) Form - Physical Targets based on PSDP Allocations

Key contents of the Form include:

- Project name
- Approved capital cost
- Expenditure till date
- Budget allocations for the current year
- Annual work plan with targets in quantitative terms and actual achievements
- Quarterly work plan with targets identified for each quarter of the financial year
- Cash requirements for each quarter separately
- Output indicators

PC-III(B) Form - Monthly Progress Reporting

Key contents of the Form include:

- Project name
- Financial status with break up showing budget allocations, financial requirements for the current quarter of the fiscal year, releases and expenditure during the month
- Physical status, giving details on physical progress / stage of completion of the project
- Description of issues / problems in project implementation

PC-IV Form - Project Completion Report

Key contents of the Form include:

- Project name and other relevant details (location, sector, executing agency, project approval date, etc.)
- Project implementation period including extensions, if any
- Project cost (with breakup of capital cost into local, foreign components and loan/grant portions)
- Actual expenditure incurred
- Original allocations and revised allocations
- Financing details: Federal/Provincial/Donor, etc.
- Project accounts (Assignment Account, Current

- / Saving accounts, etc.) including status of these accounts (whether closed or still open)
- Details of financial phasing as per PC-I and actual expenditure
- Physical targets and achievements
- Break up of planned and actual expenditure
- Estimate of recurring cost after completion of the project
- Comments on achievement of objectives
- Estimate for year-wise income and revenue generation, if any
- Detail of inputs/outputs/outcomes
- Names/designations of project directors (from start to end)
- Financial / economic analysis
- Issues faced during implementation
- Key lessons learned and suggestions for future planning and implementation of similar projects

PC-V Form - Annual Performance Report after project completion

PC-V is used to document the actual achievement against the targets set in PC-I and also to portray the

recurring cost and impact of completed projects.

Key contents of the Form include:

- Project name
- Objectives & scope of project as per approved PC-I and achievement of those objectives
- Planned and actual recurring cost of the project, with details
- Planned & actual manpower employed
- Planned and actual physical output of the project
- Planned and actual income of the project
- Planned and actual benefits to the economy
- Planned and actual social benefits
- Planned and actual cost per unit produced/sold
- Marketing mechanism
- Arrangement for maintenance of building & equipment
- Reasons for non achievement of outputs/ targets as envisaged in the PC-I
- Lessons learned during the year in operation, maintenance, marketing and management
- Changes in project management during the year
- Suggestions to improve projects performance

Learning Objective 3: Gain an overview of PC-I preparation, review and approval process

8.4 Summary of PC-I preparation, review and approval process

Department identifies activity to be performed to achieve certain objectives. Similarly, other authorities, i.e. Member of the Assembly, Provincial Cabinet, Chief Minister, Federal Government) may also identify a particular initiative to be funded through development budget.

- Need for financing is assessed
- Source of funding is determined
- Internal discussions are held to determine if the need would be met from internal or external sources
- Fine tune the concept
- Discuss with P&DD and agree the concept
- After the go-ahead, start preparing PC-1 on relevant

PC-1 proforma

- Hold internal discussions and finalize the draft PC-I
- Present to P&DD authorities
- Incorporate P&DD's feedback into the draft and finalize
- Seek approval from the appropriate authority:
 - If project cost is less than Rs. 100 Million: Approving authority is Departmental Development Working Party (DDWP, chaired by secretary of the respective administrative departments) and P&DD to notify the approval
 - If project cost is between Rs. 100 Million to Rs. 5 Billion: Approving authority is Provincial Development Working Party (PDWP, chaired by Chairman Development Board/ Additional Chief Secretary (Development)) and P&DD to notify the approval

- If project cost is between Rs. 5 billion and Rs. 10 billion: Approving authority is PDWP. Summary sent to Chief Minister for approval and then P&DD to notify the approval
- If project is funded by Sindh Government and its total cost is more than Rs. 10 billion or project is funded by Federal Government or if it is a foreign-funded project: Approving authority is Central Development Working Party (CDWP, at the Federal Government level).

Learning Objective 4: Understand the Development Budget formulation process at Administrative departments

8.5 Formulation of Development Budget (ADP / PSDP)

Administrative departments prepare their Annual Development Program (ADP) in line with prevalent economic policies, strategies of the Government and, in case of Public Sector Development Programme (PSDP), broad guidelines given by the Federal Government on preparation of PSDP.

There is usually a separate planning & development section dedicated to Development budgeting in each Administrative Department. The section is responsible for initiating, preparing and finalizing the development budget demands for the Administrative Department. The planning section after receiving the Budget Call Circular sends it to all concerned DDOs (including districts) for preparing budget proposals for development schemes.

Specific guidelines for formulation of ADP/PSDP as issued by the P&D Department are included in the Budget Call Circular. These include the following:

Administrative departments to ensure that their projects / schemes in the approved portfolio fall within the parameters of economic agenda of the Government and can also add new projects, which are implementable under Public Private Partnership (PPP) mode.

The Administrative departments prepare their draft ADP in accordance with ceilings given in the Budget

Strategy Paper. However, the actual ceiling is decided depending on the future demand, priority, impact on socio-economic and implementation capacity of the Departments.

Usually, a specific ratio of budget allocation for ongoing and new schemes is maintained each year. On-going schemes nearing completion, generally have priority over the new schemes.

Prioritization of new schemes is also carried out before finalizing the draft portfolio. The Administrative departments also ensure aligning their development projects to Sustainable Development Goals (SDGs)

For projects / schemes involving Foreign Projects Assistance, appropriate provision is also made for counter-part funds in accordance with commitments made with International Development Partners. The Revenue and Capital components are separately identified.

The development portfolio with draft budget ceilings is discussed in internal meetings of the Administrative departments and approved by the Secretary. After approval of the Secretary the filled ADP proformas are sent to P&D Department with a copy to FD. The P&DD has the final authority on recommending allocations as well as finalizing number of schemes to be included in the APD.

Learning Objective 5: Identify various budget forms issued by Sindh Government as part of the Budget Call Circular

8.6 Budget Forms²⁷

Expenditure Budget Forms

Regular Expenditure (Budget Form BCC-II)

Regular Expenditure component of current budget is prepared using the budget Form BCC-II "Estimates of Regular Expenditure". See Annexure - A.

Pay & Allowances (Budget Form BCC-III)

Details of employees Pay & Allowances are budgeted on Form BCC-III "Details of Sanctioned Posts for Regular Expenditure Estimates". See Annexure - B.

New Expenditure (Budget Form BCC-IV)

Budget proposals for New Expenditure are prepared on another budget form BCC-IV titled "Proposal for Schedule of New Expenditure". See Annexure - C.

Development Expenditure (Budget Form BCC-X)

²⁷ Budget Forms are included in Sindh Budget Call Circular. .

Estimates for Development budget are prepared on Budget Form BCC-X "Estimates of Annual Development Programme". See Annexure - D.

Pilot MTBF Departments (Budget Form BCC-IX)

Additional Budget Form has been prescribed for Pilot MTBF Departments to provide information on their service delivery targets (outcomes/outputs). The information pertaining to their performance indicators and targets is prepared on Budget Form BCC-IX "Performance Indicators and Targets". See Annexure - E.

Receipt Budget Form

Tax and Non-Tax Receipts (Budget Form BCC-1)

Tax and Non-Tax Receipt estimates are prepared using budget form BCC-1 - Estimates of Regular Receipts. (See Annexure - F).

Budget Review, Analysis and Finalization

Learning Objective 6: Understand the key concepts of budget review and analysis process at Finance Department and P&D Department

8.7 Analysis and Review of Budget at Finance Department

Budget submissions from the administrative departments are reviewed and analyzed at Finance Department.

Budget submissions are made separately for each DDO / cost centre.

The purpose of the review process is to determine accuracy, appreciate constraining fiscal boundaries, assess reasonableness, and ensure proper account coding according to chart of account classifications.

Budget demands for administrative departments are also reviewed in light of budget ceilings provided at initial stages of the budget cycle.

The budget review / analysis / recommendation functions are performed at various levels within the Finance Department:

At Budget Examiners Level

The primary job of Budget Examiners is to assist Section Officer (Budget) in effectively performing day-to-day budget activities. Some of their specific tasks are listed below:

- Review budget proposals from the administrative departments and check for accuracy of and rationale for the budget proposals.
- Review previous years' allocations and check actual budget utilization till date for each budget submission.
- Review budget proposals in light of initial budget ceilings and any particular instructions / budget formulation policy from the higher management of the Finance Department.
- Propose / carry out budget cuts.
- Ensure new expenditure is appropriately included in the budget proposals.
- Review supplementary grants, revised estimates, excesses/savings/surrenders statements from the administrative departments and assess their impact on next year's budget.
- Ask administrative departments for further justifications, details.
- Amend the budget proposals and submit to the Section Officer (Budget).
- At Section Officer (Budget) Level
- Review the work performed by Budget Examiners.
- Comparative analysis of budget proposal received from administrative departments and initial budget ceilings.
- Assess the reasonableness of the budget proposals as modified by the Budget Examiners and ask for rationale/justifications.
- Obtain further justifications, details, etc. from administrative departments.
- Prepare a statement of variance/recommendation for each budget file reviewed.
- Submit the statement to Deputy Secretary (Budget)/Additional Secretary Finance for their review and analysis.

At Deputy Secretary (Budget) / Additional Finance Secretary / Special Secretary Finance Level

- Review the Statement of Recommendations and Variances prepared by Section Officer.
- Invite the concerned Administrative Department's representatives to provide any key information

missing in their budget proposals before finalization.

- Perform an overall review to judge if the updated proposals fit into the latest estimates for fiscal resources.
- Liaison with administrative departments and finalise the Budget Proposals.
- Prepare a consolidated statement in respect of the budget proposals along with their recommendations for the review of the Special Secretary Finance and Finance Secretary.

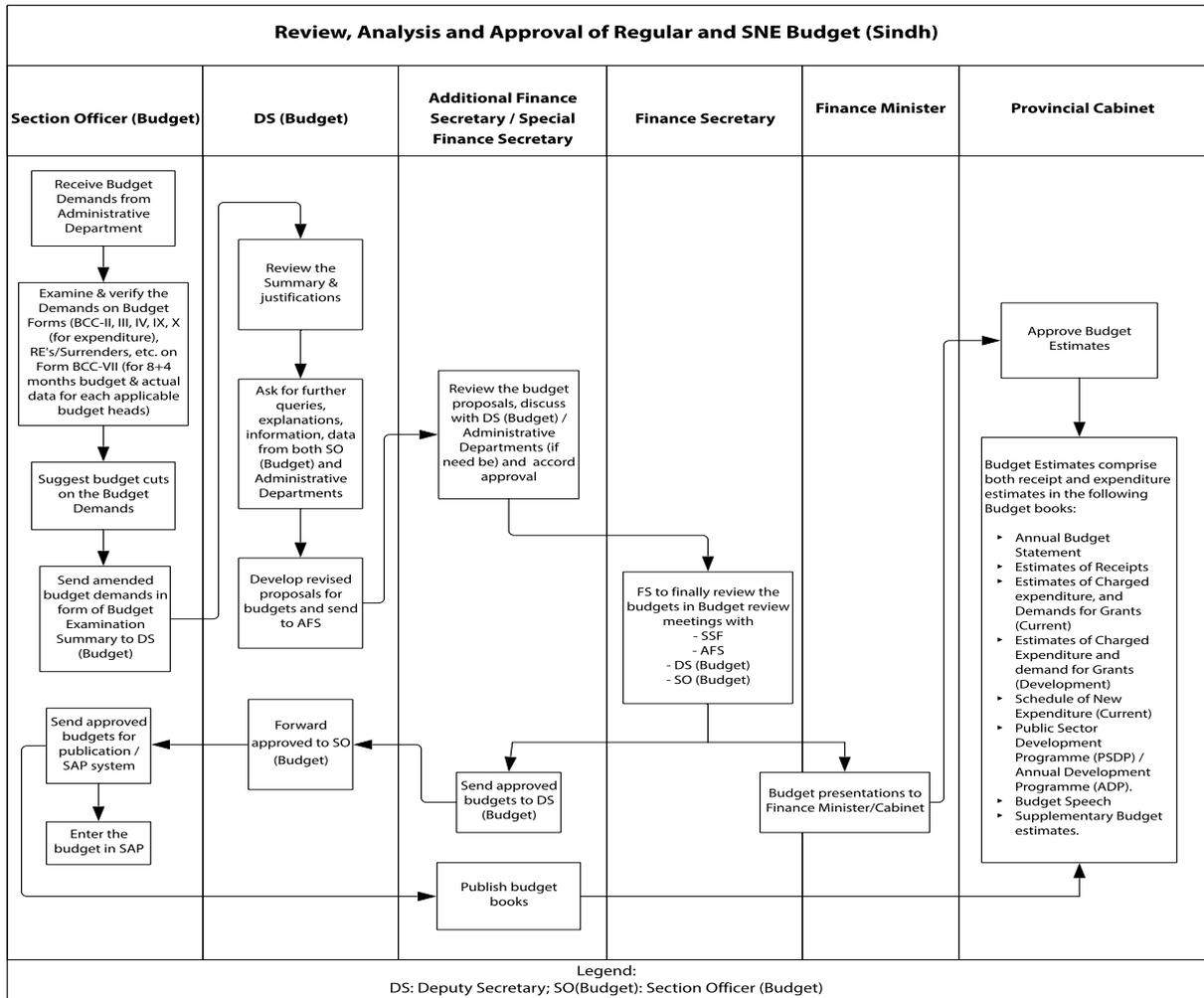
Budget Reviews in Priority Committee Meeting

- Review of departmental policies and their linkage with current and development budgets for upcoming budget year.
- Review of budget ceilings and initial budget estimates of the administrative departments.
- Review and analysis of receipt targets.
- Review of measures for rationalization of budget allocations and optimum utilization of limited financial resources available to the Departments to meet Departmental mission/policy objectives
- Discussion on measures for identification of any redundant operations of the administrative departments and related budget impact.
- Review of new initiatives by the Administrative Department.
- Negotiation of budget demands / final budget ceilings with Finance Department / P&DD

Review by Finance Secretary

- Review consolidated budget proposals
- Conduct the reviews in consultation with all concerned Wings of the Finance Department (Budget Wing, Expenditure Wing, Local Government Wing, etc.).
- The purpose of this review is to assess budget constraints and to determine overall size of probable expenditure in relation to expected resources in next financial year.
- Ensure that the policies of the Government are appropriately translated into budget proposals

The budget review, analysis and approval process for Sindh is presented in the following flow-chart:



8.8 Analysis and Review of Development Budget at Planning & Development Department

P&D Departments is responsible for receiving development budget demands from the administrative departments.

The Department is also responsible for consolidating, processing, finalizing and recommending the budgets for approval by the competent authority (Cabinet/Provincial Assembly).

The analysis and review of the proposals of the administrative departments is conducted in light of the Provincial Government’s vision, policies and plans for the development activities over the medium term.

Review of Draft ADPs by Section Chiefs/Assistant Section Chiefs

- Review draft ADPs of the administrative departments in light of the sectoral development policies and priorities of the Government.
- Analyze the ADPs in accordance with ADP guidelines issued by the P&D Department.
- Review the budget proposals in light of the overall size of the ADP.

- Review is also carried out considering the PC-1 (financial / operational) requirements.
- Analyze financial requirements separately for ongoing and new schemes.
- Forward budget recommendations to the Member P&D / Chief Economist.

ADP Review by Member P&D²⁸ / Chief Economist

- Review ADP proposals / recommendations by the Sector Chief/Assistant Sector Chief.
- Review with the objective that developing the subject sector promotes the development of overall cluster of sectors within which the subject sector is classified.
- Identify core schemes/programmes which gain priority in the ADP allocations.
- Macro-Level Review and Finalization of ADP
- Recommendations by Members in respect of ADPs are reviewed by ACS (Development).
- Hold meetings jointly with Finance Department / concerned departments for dialogue on the recommendations to finalize the ADPs.
- Ensure that the Government policies and the inter-sectoral prioritization have been reflected properly in the ADP before submitting to the Cabinet for approval.

8.9 Budget Finalization and Approval

The Finance Department and the Planning and Development Department complete their respective budget processes and perform an overall review of the whole Provincial budget.

Budget demands are also assessed in light of projections made earlier under MTFF / BSP.

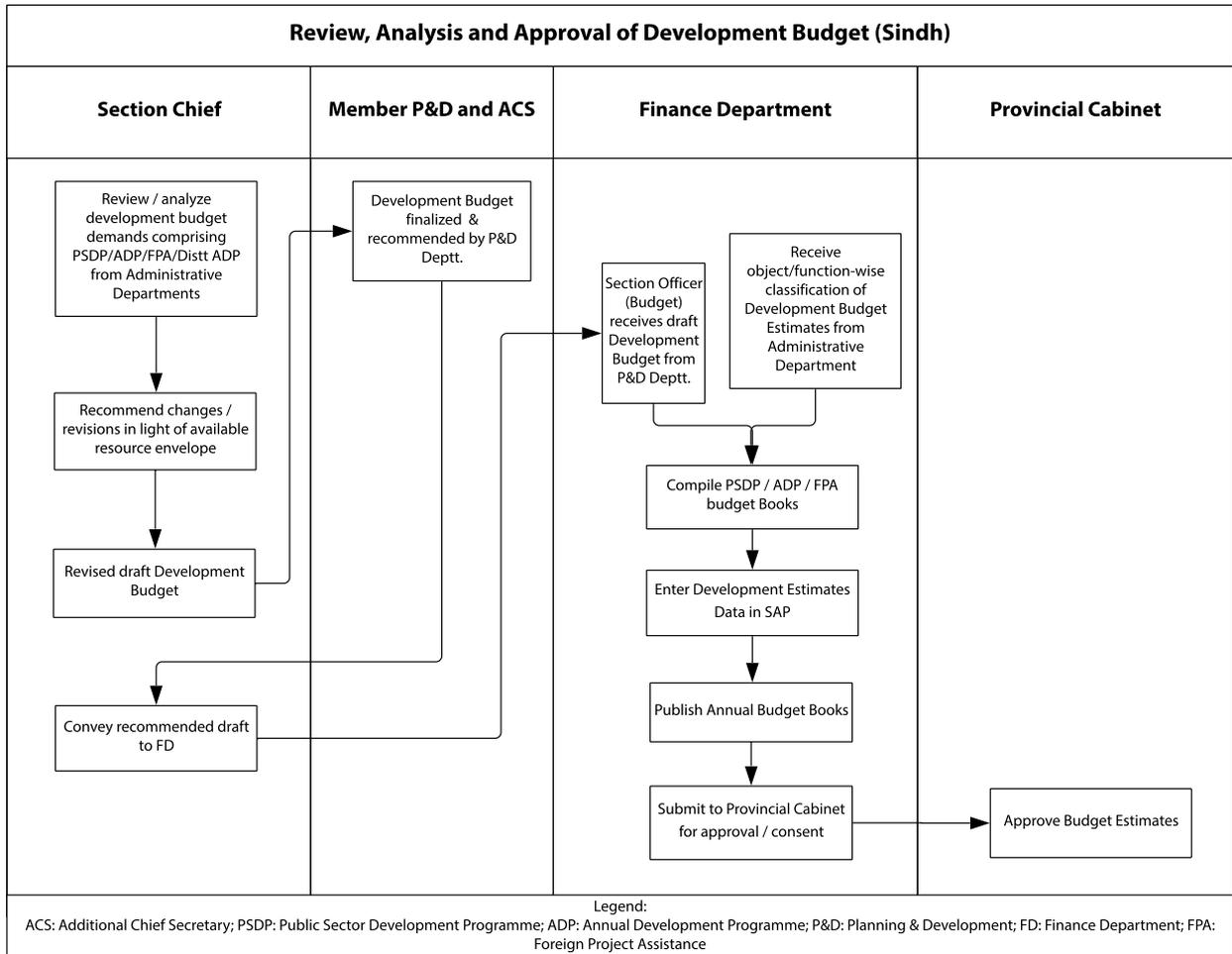
Both FD and P&D Department hold meetings to discuss availability of resources for the development programme.

Budget estimates are finalized as part of a series of meetings held under the chairmanship of the Chief Minister.

The estimates are approved by competent authorities at Finance Department and Planning and Development Department in respect of current and development budget (ADP) respectively.

28 Member P&D, Sindh

Process relating to review, analysis and approval of Development Budget is given in the flow-diagram below:



8.10 Use of SAP System / IFMIS for Budget Consolidation

As mentioned in Chapter 11, an IFMIS for budget compilation and execution has been developed under the PIFRA reform project by the Federal Government. The same has been adopted by the Sindh Government.

Input of budget forms into the SAP Budget Module is completed at the Finance Department for all administrative departments (and their DDOs).

Most of the budget publications are directly produced through the SAP system. However, some publications like ABS, Development Budget-Volume V (Sindh) are being compiled without using the software. However, the data required for these publications comes from the SAP database.

8.11 Printing of Budget Books

After the documents are produced through the SAP and are verified for errors and mistakes, mass printing of the budget publications is authorized by the Finance Department.

Budget Publications comprise numerous books. The number of copies printed for the budget books depends upon the number of Members of the Sindh Assembly. Extra copies are also printed for internal use at the Finance Department and for researchers/ general public / academia.

Not all budget books are printed. However, softcopies of all budget books are uploaded at the official website of the Sindh Government. Brief description of the Budget books is given in the next section.

Learning Objective 7: Name different budget publications / books and understand their key contents

8.12 Budget Books Matrix

	NAME OF BUDGET BOOK	PURPOSE
1	» Budget Speech - Urdu » Budget Speech - English	Policy statement, rationale for next year's budget estimates and financial performance in current year
	<p>Key Contents: The Budget Speech is the government's budgetary policy statement for a fiscal year. The finance minister reads the budget speech in the Assembly. The budget speech is a proposed account of the government's plan for expenditures and projected revenues and debt. The speech covers the measures planned to be taken for raising revenues and financing the proposed expenditure and other fiscal policy measures including key modes of financing to meet any budget deficit. The speech also highlights prevailing macroeconomic situation including social indicators, budgetary performance, financial discipline and key challenges which can impact the economy. It also includes major spending and tax proposals for the upcoming fiscal year.</p>	
2	Budget at a Glance	High level summary of Receipts and Expenditure
	<p>Key Contents: Budget at a Glance is a summary of the whole budget presented in two pages (in Sindh). It gives a summary of the projected receipts by major classifications, e.g. Revenue Assignment from the Federal Government; Straight Transfers; Provincial Receipts (Tax and Non-Tax), etc.</p> <p>Similarly, expenditure is also shown by categories like Current Revenue Expenditure, Current Capital Expenditure and Development Expenditure, etc. At the bottom of the summary, difference between the Receipts and Expenditure is shown as a Deficit or Surplus.</p>	
3	Volume I - Annual Budget Statement	Receipt and Expenditure with appropriate level details

8.12 Budget Books Matrix

	NAME OF BUDGET BOOK	PURPOSE
	<p>Key Contents: This document is tabled for each fiscal year in the Provincial Assembly of Pakistan under Article 120 of the Constitution of Pakistan. The Annual Budget Statement (ABS) shows separately:</p> <ul style="list-style-type: none"> » the sums required to meet “charged expenditures” described by the constitution » the sums required to meet other expenditure proposed to be made by the constitution (“voted expenditures”) » The statement distinguishes expenditure on revenue account from other expenditure both for current and development expenditure. <p>ABS includes both Receipts & Expenditure:</p> <p>Receipt portion of ABS provides balances of all budgetary receipts, e.g. Federal Transfers, Revenue Receipts, Capital Receipts, External Receipts; Public Account Receipts (net balances). Additional resources may include privatization proceeds plus credit from the banking sector to finance government expenditures.</p> <p>Expenditure portion is broken down into current expenditure and development expenditure and is separately shown for expenditure on Revenue Account and expenditure on Capital Account. A summary of Object-wise classification (e.g. Pay & Allowances, Operating Expenses, etc.) is also given. Expenditure on Revenue Account signifies that portion of expenditure which is met from resources other than loans and grants, etc., whereas expenditure on Capital Account refers to expenditure which is financed from loans, finances, credits, grants, and other borrowings.</p> <p>Sindh ABS also includes Fiscal Framework; a summary of Expenditure by Department; a brief description of Public Debt liability of the Government; and various Funds managed by the Government.</p>	
4	Volume II - Part 1 and Part 2 - Estimates for Receipts	Receipts / Provincial Resources
	<p>Key Contents: This summarizes receipts from various sources, i.e. transfers from federal government, provincial taxes, non-tax receipts, borrowings, public account balances (receipts and disbursements), etc.</p> <p>This book is published in two parts (Part I & II)..</p>	
5	Abstract for Current Expenditure - Volume III	Summary of Current Expenditure
	<p>Key Contents: This is a grant-wise abstract of Current Expenditure in Sindh.</p> <p>The Volume III provides details of Current Expenditure for each applicable department, identified through the DDO code and classified according to the relevant object and functional classifications for the next financial. Budget estimates and Revised estimates for the preceding financial year are also given. At the start of the book, a summary is given for all relevant departments who would be provided funds for their operational needs.</p>	
6	Demands for Grants (Development Expenditure): Capital & Revenue (Volume -IV); and Public Sector Development Programme (PSDP) (Volume V)	Description of development projects / schemes for each Department

8.12 Budget Books Matrix

	NAME OF BUDGET BOOK	PURPOSE
	<p>Key Contents: The Book on Development Budget is a listing of development schemes and provides information on on-going and new development schemes managed / to be managed by each administrative department. Key information provided includes name of schemes, total cost, proposed allocation, future throw forward, etc.</p> <p>Similarly, there is another book on Development expenditure that provides development expenditure for each relevant DDO. The expenditure is classified according to the relevant object and functional classifications for the next financial year. Budget estimates and Revised estimates for the preceding financial year are also given. At the start of the book, a summary is given for all relevant departments who would be provided funds for their development needs.</p> <p>In Sindh, the Book is published in two parts.</p>	
7	Volume VI - Part I to Part V - New Expenditure/Current Expenditure/Development Expenditure	Current / Non-Development budget estimates for DDOs
	<p>Key Contents: The budget books of the Sindh Government provide details for New Expenditure, Current & Development Expenditure. Information in this book is presented for each applicable department, identified through the DDO code and classified according to the relevant object and functional classifications for the next financial. Budget estimates and Revised estimates for the preceding financial year are also given. At the start of the book, a summary is given for all relevant departments who would be provided funds for their operational needs.</p>	
8	Volume VII - Explanatory Memorandum (on Receipts & Expenditure)	Explanations / justifications of receipts and expenditure
	<p>Key Contents: This book gives brief explanation and basis of estimation for major receipt and expenditure items. The information is presented separately for each of the following categories of receipts and expenditure:</p> <ul style="list-style-type: none"> » Current Revenue Expenditure » Revenue Receipts » Capital Receipts » Current Capital Expenditure » Development Capital Expenditure 	
9	Salient Features of Budget	Analysis of receipts and expenditure with ratio analysis, commentary on significant items with rationale / justifications
	<p>Key Contents: This brief document is prepared by Sindh Government. It gives analysis of receipts and expenditure for each major head and compares proposed allocations with previous year's budgets.</p>	
10	Budget Analysis	Detailed analysis of budget & expenditure
	<p>Key Contents: This document is published by Sindh Government only and includes a detailed analysis of both receipt and expenditure sides of the budget. It also includes a comparison of budgeted numbers with actual collections / receipts and expenditure. However, this information pertains to the current year and not the next financial year.</p>	
11	Foreign Project Assistance	Details of foreign loans and grants

8.12 Budget Books Matrix

	NAME OF BUDGET BOOK	PURPOSE
	<p>Key Contents: This book is published by Sindh Government. It provides details of loans and grants from external sources. These include bi-lateral / multi-lateral loans, project loans / aid and financial assistance from other donors. The information in this book is provided for each relevant department and identified through the DDO and applicable object classifications (the presentation is similar to that given in detailed estimates books).</p> <p>Previous year's budget estimates and revised estimates are also presented in this book.</p>	
12	Supplementary Budget Demands	Post-budget allocations / budgets not provided for in previous year's budget
	<p>Key Contents: This book includes budget allocations provided to the administrative departments over and above their budget estimates approved in last fiscal year.</p>	

Learning Objective 8: Understand the significance of Pre-budget Session of the Provincial Assembly and name the budget approving authorities

8.13 Pre-budget Session of the Sindh Assembly

As per Sindh Assembly Rules, pre-budget Session of the Sindh Assembly is to be held every financial year but practically there is no such practice of holding these sessions. The Assembly's Rules of Business prescribe procedures in this regard.

The purpose of the Session is to brief the Members of the Assembly on likely size of the budget for the upcoming financial year and to review progress of current financial year's budget with focus on budget utilization for current and development operations of the Province.

This Session is usually held during the months of January and March each financial year.

Finance Department prepares necessary information to be presented for discussion during the Pre-budget Session. This normally includes:

- Overall utilization vs. allocations (provincial budget) for the current financial year;
- Budget utilization in the key sectors (health, education, agriculture, etc.);
- Performance of mega programs/projects;
- Likely size of resources for the upcoming financial year;
- New initiatives planned

Further details on Pre-budget Session are contained in Provincial Assembly's Rules of Procedure.(See Rule 143)

Rule 144 also provides for a Post-budget discussion in the Assembly whereby Assembly shall discuss releases and utilization of budget on quarterly basis.

8.14 Cabinet Approval of the Budget

The finalized budget is laid before the Cabinet for detailed discussion and consideration

The Annual Budget Statement along-with the supporting budget publications are reviewed and approved by the

Cabinet before approving the same to be presented before the Provincial Assembly.

The Cabinet also reviews the budget in light of its approvals of MTF and BSP earlier during the course of budget preparation cycle.

The Cabinet, after satisfying themselves on the budget laid before them for approval, or make modifications in accordance with the policies of the Government, recommends the same to be presented before the Provincial Assembly.

8.15 Presentation of the Budget before the Sindh Assembly

Article 120(1) of the Constitution demands laying of the Annual Budget Statement before the Provincial Assembly under Article 120(1) of the Constitution.

The budget is presented before the Assembly by the Provincial Finance Minister.

Sindh Assembly's Rules of Procedure contain similar considerations for budget related matters. Specific guidance is given in Rules 145 to 160.

Rule 145 - Budget

(1) The Budget shall be presented to the Assembly on such day and at such time as the Chief Minister may appoint.

(2) The Secretary shall cause the day and time appointed under sub-rule (1) to be notified in the Gazette.

(3) The demand for grant shall be entertained only if it is certified to have been made on the recommendations of the Chief Minister.

(4) The Budget shall not be referred to a Standing Committee or to a Select Committee and no motion in respect thereof shall be made except as provided in the this Chapter.

Rule - 146 Presentation of the Budget

The Budget shall be presented by the Finance Minister or, in his absence, by any other Minister nominated by the Chief Minister.

Rule - 147 Budget not to be discussed on Presentation

There shall be no discussion on the budget on the day on which it is presented to the Assembly.

Rule - 148 Stages of the Budget

The Budget shall be dealt with by the Assembly in the following stages, namely:-

- (a) general discussion on the budget as a whole,
- (b) discussion on expenditure charged upon the Provincial Consolidated Fund; and
- (c) discussion and voting on demands for grants;

Rule - 149 Allotment of Days

The Speaker shall allot days for different stages of the budget referred to in rule 148:

Provided that not less than two days shall intervene between the day of the presentation of the budget and the first day allotted by the Speaker for general discussion:

Provided further that not less than five days shall be allotted for general discussion.

Rule - 150 General Discussion

(1) No motion shall be moved nor shall the budget be submitted to the vote of the Assembly on the day allotted for general discussion.

(2) The Finance Minister or the Minister who has presented the budget shall have a general right of reply at the end of the discussion.

(3) The Speaker may prescribe a time-limit for speeches.

Rule - 151 Completion of stages of the Budget

The Speaker shall, on the last day of the days allotted for any stage of the budget, just before the termination of the sitting, put every such question as is necessary to dispose all the outstanding matters in connection with the completion of that stage.

Rule - 152 Cut Motions

A member may move a cut motion to reduce the amount of a demand in any of the following ways:-

(a) that the amount of the demand be reduced to Re.1.00 representing disapproval of the policy underlying the demand. Such a motion shall be known as "Disapproval of Policy Cut". A member giving notice of such a motion shall indicate in precise terms the particulars of the policy which he proposes to discuss. The discussion shall be confined to the specific point or points mentioned in the notice and it shall be open to members to advocate an alternative policy;

(b) that the amount of the demand be reduced by a specified amount representing the economy that can be effected. Such specified amount may be either a lump sum reduction in the demand or omission or reduction of an item in the demand. The motion shall be known as "Economy Cut". The notice shall indicate briefly and precisely the particular matter on which discussion is sought to be raised and speeches shall be confined to the discussion as to how economy can be effected;

(c) that the amount of the demand be reduced by Rs.100.00 in order to ventilate a specific grievance which is within the sphere of the responsibility of the Government. Such a motion shall be known as "Token Cut" and the discussion thereon shall be confined to the particular grievance specified in the motion.

Rule - 153 Notice of Cut Motions

Unless notice of a motion for reduction in a grant has been given two clear days before the day on which the demand is to be considered, any member may object to the moving of the motion and thereupon such objection shall sustain; provided that the Speaker suspends this rule and allows the motion to be made.

Rule - 154 Cut Motions in Respect of Expenditure other than New Expenditure

If a motion under rule 153 is carried, the Speaker shall inform Government in writing of the fact and Government shall communicate its decision thereupon to the Speaker for the information of the Assembly.

Rule - 155 Conditions for admissibility of Cut Motions

In order that a motion under rule 153 may be admissible, it shall not –

- (a) to more than one demand;
- (b) extend beyond one specific matter which shall be stated precisely;
- (c) contain arguments, inferences, ironical expressions, imputations, epithets or defamatory statements;
- (d) make suggestions for the amendment or repeal of all existing law;
- (e) refer to a matter which is not a concern of Government;
- (f) relate to a expenditure charged upon the Provincial Consolidated Fund;
- (g) raise a question of privilege;
- (h) revive discussion on the matter which has been discussed in the same session and on which decision has been taken;
- (i) relate to a matter which is under adjudication by a court of law; and
- (j) anticipate a matter which has been previously fixed for consideration in the same session.

Rule - 156 Admissibility of cut motions

The Speaker shall decide whether a cut motion is admissible under these rules and may disallow any cut motion if, in his opinion, it is an abuse of the right of moving cut motions or is calculated to obstruct or prejudicially affect the procedure of the Assembly or is in contravention of these rules.

Rule - 157 Discussion on cut Motions

(1) A motion under rule 153 shall ordinarily be considered in order of the heads of the budget.

(2) The Speaker may put before the Assembly all motions for consideration and voting at a time.

Rule - 158 Voting on demands for Grants

(1) Each demand for grant referred to in sub-rule (c) of rule 148 shall be discussed separately.

(2) Before a question is put in respect of a demand for grant, all cut-motions in respect of that demand shall be discussed and voted upon.

(3) When notices of several cut-motions relating to the same demand are given, the motions shall be discussed in the order in which the heads to which they relate appear in the Budget.

(4) On the last day of the days allotted under rule 149 for the stage referred to in sub-rule (c) of rule 148 at the time when the sitting is to terminate, the Speaker shall forthwith put every question necessary to dispose of all the outstanding matters in connection with the demands for grants.

Rule - 159 Vote on Account

(1) A motion for vote on account shall state the total sum required to be voted and the various amounts needed for each Department or item of expenditure which compose that sum shall be stated in a schedule appended to the motion.

(2) Amendment may be moved for the reduction of the whole demand for grant or for the reduction or omission of the items of which the demand is composed.

(3) Discussion of a general character may be allowed on the motion or any amendments moved thereto but the details of the grant shall not be discussed further than is necessary to develop the general points.

(4) In other respects, a motion for vote on account shall be dealt with in the same way as if it were a demand for grant.

(5) The schedule referred to in sub-rule (1) shall also separately specify the several sums required to meet the expenditure charged on the Provincial Consolidated Fund.

Rule - 160 Procedure for dealing with supplementary and excess demands

The procedure for dealing with supplementary estimates of expenditure and excess demands shall, as far as possible, be the same as prescribed for the budget, except that if, on a demand for a supplementary grant, funds to meet the proposed expenditure on a new purpose are available by re-appropriation, a demand for the grant of a token sum

may be submitted to the vote of the Assembly and if the Assembly assents to the demand, funds may be made available.

Provided that the Speaker may relax all or any of the provisions of rules 146,147 and 149.

8.16 Budget Authorization by Sindh Assembly

After the Annual Budget Statement is considered and the demands for grants are approved by the Provincial Assembly, the Finance Department prepares a Schedule Authorized Expenditure (SAE), specifying:

- the grants made or deemed to have been made by the Provincial Assembly under Article 122 of the Constitution;
- the several sums required to meet expenditure charged upon the Provincial Consolidated Fund, but not exceeding, in the case of any sum, the sum shown in the statement previously laid before the Assembly;
- submits it to the Chief Minister for authentication. The schedule so authenticated by the Chief Minister is laid before the Provincial Assembly, but is not open to discussion or vote thereon.

SAE is prepared under the requirements of Article 123 of the Constitution .

8.17 Communication of Authorized Budget Estimates to Administrative Departments

The Finance Department communicates Schedule of Authorized Expenditure (SAE) to the concerned Heads of Departments. The communication is in the form of a letter, which indicates the:

- expenditure charged upon the Provincial Consolidated Fund, and
- other expenditures voted by the Provincial Assembly.

The letter is accompanied by the pages of the estimates containing the complete details of the expenditure authorized.

A copy of the letter along-with its enclosures is also forwarded to the Accountant General and the Administrative Department concerned.

Some expenditure items included in the grants, or provisions made for charged expenditure are not

communicated to any administrative departments but remain at the disposal of the Finance Department. For example:

- Interest on Debt and Other Obligations
- Appropriation for Reduction or Avoidance of Debt
- Superannuation Allowances and Pensions
- Provincial Miscellaneous Investment
- Public Debt
- Loans and Advances

Learning Objective 9: Apply basic concepts of budget preparation and perform simple costing for selected budget heads

Activity 1: Identify Three Outputs for following types of organizations in government sector:

1. A hospital	2. A Primary School	3. A Veterinary Support Office
ORGANIZATION	OUTPUT	
Civil Hospital, Karachi		
Government Primary School for Girls, Karachi		
Veterinary Support & Disease Control Centre, Hyderabad		

Activity 2: Preparing Budget Estimates for Physical Assets

Suppose you are a Drawing & Disbursing Officer (DDO) of Government of Sindh. Your current assignment is preparation of next year's budget. As part of the, you are finalizing a schedule of Physical Assets comprising various items of equipment, furniture & fixtures, vehicles, etc. The schedule will serve as one of the Annexures to the budget document of the Hospital. Following data is available in this regard:

	QUANTITY	UNIT RATE (RS.)
Office table	5	2,500
Carpet	5000 sq ft.	20/sq. ft.
Fax machine	1	20,000
Chairs	5	200
External Modems	2	5,000
Curtains	5	2,000
Photocopier	1	60,000
Computer table	2	4,500
Printers HP laser jet	2	18,000
Desktop computers	3	40,000
Revolving chair	1	10,000
Repair to Chairs & Office tables (last year's budget) total: Rs. 2,000. Next year's budget will be increased by 10%		
Laptop computers	2	80,000
File rack	3	2000
Motorcycle 100 cc	2	50,000
Suzuki Jeep	2	550,000
Peach tree (software) license	1	70,000
Staff car	1	650,000
Sofa set	2	5,000
Replacement of tyres for:		
» Existing staff cars	4	1,500
» Existing motorcycles	4	500

Required:

- Calculate Cost of each of the items listed in the Table.
- Calculate Total Cost of all items.
- Identify items which should not be classified under the Physical Asset category.
- Show Repair & Maintenance Cost separately.

- Classify the above items according to the type of the Physical Assets. (Example: Suzuki Jeep will be classified as 'Vehicles'; Desktop Computers will be classified as Computer Equipment)

Activity 3: Calculating Total Receipts and Total Expenditure

Table below gives a simplified summary of provincial Receipts and Expenditure for two years, i.e. 2016-17 and 2017-18. The Table has four Columns: Column 1 shows alphabets against some selected rows; Column 2 lists Receipt and Expenditure budget heads; Column 3, which is split in two parts, gives Budget Estimates 2016-17 and Revised Estimates 2016-17; the last Column shows Budget Estimates 2017-18.

From this Table:

- Calculate Totals in rows marked by alphabets A-H in Column 1.
- Calculate percentage increase / decrease in Total Expenditure of the Province by comparing corresponding Budget Estimates 2017-18 and Budget Estimates 2016-17
- Calculate percentage increase / decrease in Total Expenditure of the Province by comparing Budget Estimates 2017-18 and Revised Estimates 2016-17
- Calculate percentage increase / decrease in Total Expenditure of the Province by comparing Revised Estimates 2016-17 and Budget Estimates 2016-17

Table: Summary of Provincial Receipts and Expenditure

		2016-17		2017-18
(1)	(2)	(3)		(4)
		Budget Estimates Rs. in million	Revised Estimates Rs. in million	Budget Estimates Rs. in million
	CURRENT REVENUE RECEIPTS			
	Federal Transfers			
	Revenue Assignment from the Federal Government	493,173	480,488	547,422
	Straight Transfers	54,667	73,622	65,167
A	TOTAL TRANSFERS FROM THE FEDERAL GOVERNMENT			
	Provincial Own-Source Receipts			
	Provincial General Sales Tax on Services	78,000	78,000	100,000
	Provincial Tax Receipts (Other than GST on Services)	76,013	69,395	85,620
	Provincial Non-Tax Receipts	12,019	11,898	14,006
B	TOTAL PROVINCIAL OWN-SOURCE RECEIPTS			
C	TOTAL CURRENT REVENUE RECEIPTS			
	CURRENT CAPITAL RECEIPTS			

		2016-17		2017-18
(1)	(2)		(3)	(4)
		Budget Estimates Rs. in million	Revised Estimates Rs. in million	Budget Estimates Rs. in million
	Foreign / Domestic Loans & Borrowings			
	Foreign Debt	3,900	2,864	1,621
	Bank Borrowings - Local	20,000	20,000	46,500
	Foreign Project Assistance (FPA)	28,800	23,041	42,741
	Other Receipts	12,188	5,925	27,326
D	TOTAL CURRENT CAPITAL RECEIPTS			
	PUBLIC ACCOUNT OF THE PROVINCE			
	Gross Receipts	1,467,602	1,630,117	1,780,972
	Less: Disbursements	-1,377,245	-1,517,755	-1,668,191
E	NET RECEIPTS IN PUBLIC ACCOUNT			
F	TOTAL RECEIPTS OF THE PROVINCE			
	EXPENDITURE OF THE PROVINCE			
	Current Revenue Expenditure	572,760	606,962	666,474
	Current Capital Expenditure	30,369	27,856	32,643
	Development Expenditure	265,988	242,777	344,067
G	TOTAL EXPENDITURE OF THE PROVINCE			
H	DIFFERENCE BETWEEN RECEIPTS AND EXPENDITURE			

Suggested Readings:

- Budget Call Circular, issued by Sindh Finance Department
- Rules of Procedure of Sindh Assembly
- Constitution of Pakistan (Budget related Provisions)
- Budget publications of Sindh Government
- Sindh P&D Department: <http://www.sindhpn.gov.pk>
- PC Forms: <http://www.sindhpn.gov.pk/resource-center/docs.html>

Chapter 9. Structure of Receipts and Expenditure

Learning Objective 1: Understand the concepts of Consolidated Fund and Public Account

9.1 Consolidated Fund and Public Account

Receipts of a Sindh Government are classified under two broad categories, i.e. Consolidated Fund and Public Account Receipts.

Similarly, outflows of moneys are also separately categorized as Expenditure on Consolidated Fund and Public Account. A brief description of each of the category is given in the following paragraphs:

Consolidated Fund

Consolidated Fund represents those moneys for which the Government is at liberty to appropriate for the operations of Government.

Under **Article 118** of the Constitution, the Provincial Consolidated Fund comprises:

- All revenues received by the Provincial Government
- All loans raised by that Government
- All moneys received by it in repayment of any loan
- All moneys other than those listed above are included in Public Account (discussed later in this Chapter).

Article 119 of the Constitution empowers the Provincial Government to regulate the custody of the Provincial Consolidated Fund, the payment of moneys into that Fund, the withdrawal of moneys there-from and all related matters legislation.

Article 121 of the Constitution specifies certain expenditure to be charged upon Provincial Consolidated Fund. These include:

- remuneration payable to the Governor, the Judges of the High Court and the Speaker and Deputy Speaker of the Provincial Assembly
- administrative expenses, including the remuneration payable to officers and servants, of

the High Court and the Secretariat of the Provincial Assembly

- all debt charges for which the Provincial Government is liable, including interest, sinking fund charges, the repayment or amortisation of capital, and other expenditure in connection with the raising of loans, and the service and redemption of debt on the security of the Provincial Consolidated Fund
- any sums required to satisfy any judgement, decree or award against the Province by any Court or Tribunal
- any other sums declared by the Constitution or by Act of the Provincial Assembly to be so charged.

The above types of expenditure are termed as "Charged" Expenditure while all other are called "Voted" Expenditure.

The Consolidated Fund is subdivided into several components of revenue and expenditure, to meet Constitutional requirements (e.g. requirement for voted and charged expenditures) and administrative requirements. The Annual Budget Statement follows this broad scheme of classification.

Article 118 of the Constitution characterizes Public Account as all moneys which do not form part of the Provincial Consolidated Fund but are: (a) received by or on behalf of the Provincial Government; or (b) received by or deposited with the High Court or any other court established under the authority of the Province;

Public Account

Public Account comprises those moneys, for which the Government has fiduciary duty but it is not at liberty to appropriate for its general services of the Government. Public Account encapsulates trust accounts and special deposit accounts.

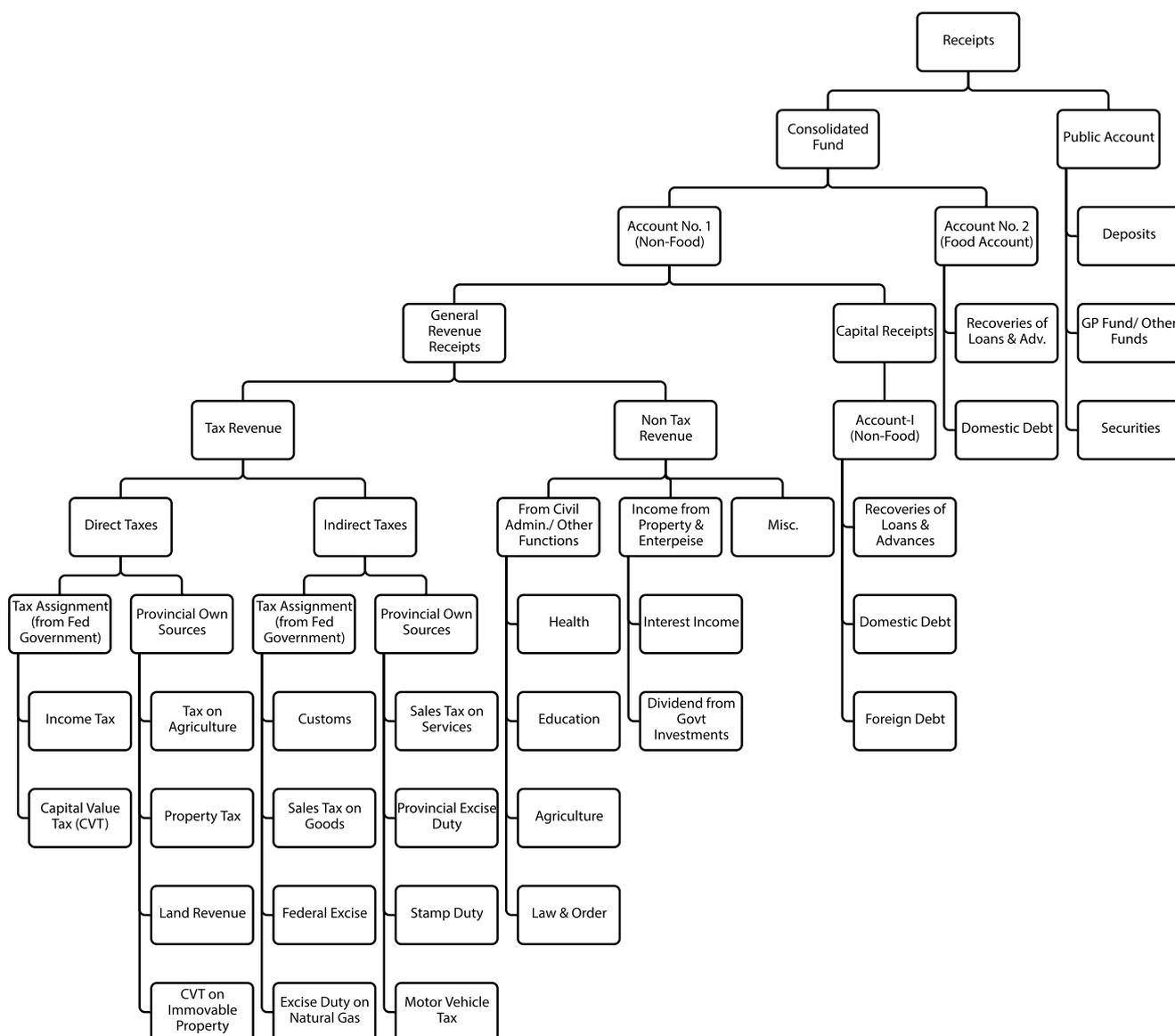
These are defined as under:-

- Trust Accounts- legal entities in their own right, under the stewardship of the Government, and as such are expected to produce financial statements in their own name. These trust accounts are normally established under an Act of Parliament or a Presidential Order. Examples of trust accounts include provident and benevolent funds, employee's insurance funds and trust accounts of certain departments (e.g. Railways)
- Special deposit accounts- these accounts include Public Account moneys that are operated under the authority of the Ministry of Finance, but are not trusts as they are not legal entities. Examples of special deposit accounts include relief funds, civil and criminal court deposits, welfare funds and development funds.
- Public Account Receipts
- Assets
- Cash and Bank Balances
- Receivables
- Other Assets
- Liabilities
- Trust Account – Funds
- Trust Account – Others
- Special Deposit – Investments
- Special Deposit – Funds
- Personal Ledger Accounts (PLAs)
- A major component of these balances is generated on account of reserves / deposits in Trust Account Funds such as General Provident Fund and Benevolent Fund, etc.
- Disbursements
- These represent outflows from Assets
- Liability represents payouts from deposits and reserves account

Learning Objective 2: Discover various types of Provincial Receipts and their significance to Sindh government

9.2 Classification of Receipts

Overall structure of the receipts is given in this diagram while a brief description follows:



9.3 Account No. 1 - Non-Food Account

Sindh Government maintain two accounts with the State Bank of Pakistan. Account No. 1 is called Non-Food Account and is used to record, besides Revenue Receipts, transactions for loans also.

Receipts on account of new loans (foreign and domestic) obtained by the Government and recoveries against loans and advances extended by the Government are routed through the Account No. 1.

9.4 Revenue Receipts

These are the incomes which are received by the government from all sources in its ordinary course of governance. These receipts do not create a liability or lead to a reduction in assets.

Revenue receipts are further classified as tax revenue and non-tax revenue.

Tax Revenue

Tax revenue consists of the income received from different taxes and other duties levied by the government. It is a major source of public revenue. Every citizen, by law is bound to pay them and non-payment is punishable. Tax Revenue comprises a number of taxes which are classified under two groups, i.e. Direct Taxes and Indirect Taxes.

Direct Taxes

Taxes levied on a person's or an organization's income are called Direct Taxes. Such taxes must be paid by the person / organization on whom levied, i.e. their burden cannot be shifted to someone else. There is no direct benefit to the tax payer on payment of these taxes. Following are examples are Direct Taxes:

Share of Direct Taxes received from the Federal Government as part of Federal Transfers under National Finance Commission (NFC) Award²⁹ include the following Taxes:

- **Personal Income Taxes:** Taxes levied on incomes / salaries of individuals including on profits of individuals' businesses. Also include all related penalties, surcharges, etc. collected from the individuals.

²⁹ See Chapter 14 for more details on NFC mechanism

- **Corporate Income Taxes:** These include taxes on companies' profits and revenues. The corporate category includes all types of companies (public, private, listed, non-listed, etc.)

Taxes collected from own sources of the Province: The Board of Revenue is the controlling authority for administration of Revenue collection including land taxes, land revenue, preparation of land record and other related matters.

Board of Revenue is the custodian of the rights of the land holders and is the highest revenue court in the province with Appellate Jurisdiction against orders of subordinate revenue officers/courts including EDOs (Revenue) and Collectors. Board of Revenue is responsible for administering various revenue laws in force in the province, in particular the following:

- Sindh Board of Revenue Act 1957
- The Sindh Land Revenue Act 1967
- Sindh Land Revenue Rules 1968
- The Land Acquisition Act 1894
- Stamps Act 1899
- Registration Act 1908
- Amendments in Registration Act 1908
- Following types of Taxes are collected by BOR, Sindh:
 - Capital Value Tax
 - Property Registrations
 - Stamp Duty
 - Jamabandi³⁰
 - Indirect Taxes
- Indirect taxes are those taxes which are levied on commodities and services and affect the income of a person through their consumption expenditure. Here the burden can be shifted to the user of the goods/services.

Share of Indirect Taxes received from the Federal Government as part of Federal Transfers under National Finance Commission (NFC) Award³¹ include the following Taxes:

- **Customs Duties:** Goods imported into Pakistan are liable to customs duties at tariff rates specified in First Schedule to the Customs Act 1969. Every year, the government determines the expected level of receipts from this source and accordingly revises

³⁰ Jamabandi is a record of rights of a village. A Jamabandi Register contains name of owners, area of land, shares of owners and other rights. It also indicates rent/revenue and other charges payable on land.

³¹ See Chapter 14 for more details on NFC mechanism

tax rates on all / certain goods imported into the country.

- **Sales Tax:** Sales tax is a tax on consumption levied on manufacturers, importers, wholesalers, distributors, dealers, retailers. Sales tax on services has been specifically excluded from this regime and is being collected by the provinces.
- **Federal Excise Duty:** The federal excise duty is levied on such excisable goods produced or manufactured in Pakistan or imported into Pakistan as are specified in the First schedule to the Central Excise Act 1944. This source of receipt is being gradually phased out and largely replaced with sales tax. Excise revenue comes from five major sources, i.e. cigarettes, beverages, POL Products, cement and natural gas.

Provincial Own-Source Indirect Taxes include Sales Tax on Services, which constitutes the biggest proportion of the overall indirect taxes collected by provinces from their own-sources. In Sindh, this tax is collected by Sindh Revenue Board (SRB), which was established under the Sindh Revenue Board Act, 2010 to regulate fiscal and related economic policies in the province.

The role of the SRB also encompasses administration, management, imposition, levy and collection of taxes, duties, cess and other levies, and to provide leadership for enforcing the tax system through application of modern techniques of information and developing automated system of collection and assessment of tax and related matters in the province.

The SRB administers Sales Tax on Services Act in the province and ensures compliance with the related rules and regulations.

Under the Sales Tax on Services law in force in the province, Telecom services are liable to tax @ 19.5% while other services are taxed at the standard rate of 16%. On certain other services, Sales Tax is levied at reduced/concessionary rates.

Sindh Excise & Taxation Department has a leading role in resource mobilization for the Government of Sindh. The Department has been entrusted with two functions i.e. Tax collection and Narcotics suppression. It has the exclusive authority of issuance & administering the intoxicating liquor and other intoxicating licenses.

The Sindh E&T Department administers various laws for collection of taxes, duties and levies from more than 5 million taxpayers in the province. The taxes / levies are listed below:

▪ Motor Vehicle Tax	▪ Property Tax
▪ Entertainment Duty	▪ Professional Tax
▪ Hotel Tax	▪ Excise Duty
▪ Cotton Fee	▪ Infrastructure Cess

Non-Tax Revenue

Receipts from civil administration and other functions

These receipts are realized from a number of sources covering various organs of the state, for example, health, education, economic regulation, civil defence, justice, jails, communication and works, forest institutions, fisheries, agriculture, printing, irrigation, etc.

Income from property and enterprise

Income from property & enterprise comprises profits, interest receipts, dividends from the government's investment in public corporations.

Dividends on Government Investments

Dividends represent return on government's investment in the share capital of financial institutions and commercial enterprises. The receipt of dividend varies from year to year depending upon profits earned each year by these bodies and declaration of dividends on share capital.

Interest Income

Government advance loans to districts, local authorities, Public Sector Enterprises and others to assist them in carrying out their development programmes or other day-to-day operations. Interest on loans is chargeable in accordance with the terms and conditions of each loan.

Miscellaneous receipts

These include receipts on account of economic services and other receipts.

9.5 Capital Account

Capital Account is maintained to record inflows from loans and advances from internal and external sources and outflows on account of repayments of loans and advances to the lenders. The items in Capital Account directly impact the asset and liability balances of the Government.

Loans/debts are described in detailed in the remaining part of this Chapter.

Capital Receipts

These are Receipts which normally create a liability or result in a reduction in assets are called capital receipts. However, other Receipts which neither create a liability nor reduce assets (e.g. grants) are also part of the Capital Receipts.

These consist of proceeds from borrowing, money received in repayment of loans, recoveries of advances/ investments, proceeds of saving schemes and net receipts from transactions under deposits and reserves heads.

The net capital receipts so realized by the government generally constitute the availability of resources for financing of Annual Development Programme (ADP).

Capital Receipts include Receipts from Internal and External Sources.

Current Capital Receipts

Current Capital Receipts broadly fall under the following two categories:

- Funds received on account of new loans
- Recoveries of loans extended to provincial autonomous bodies/agencies and employees of the Government

9.6 Account No. 2 - Food Account

All receipts acquired by the Government under State Trading in food commodities and all repayments against these are channelized through Account No. 2. The Government obtains loans from commercial banks under counter-finance arrangement with the SBP for financing operation of State Trading in food grains (wheat procurement). Once the procured wheat is released from public warehouses, the sale proceeds are directly deposited in Account No. 2 to retire the loan taken from the consortium of banks.

Receipts under Food Account also form part of Current Capital Receipts.

Learning Objective 3: Describe main types of Debts raised by Sindh Government and learn how to calculate debt ceilings for the Government

9.7 Types of Debt

Classification of Sindh Debt on the basis of debt terms and conditions is as follows:

- Soft Term Loans
- Commercial Loans

Debt is from two sources:

- Domestic
- Foreign

Domestic Debt comprises:

- Floating Debt/Ways & Means Advances (Non-Food Account-I)
- CDLs (Cash Development Loans) - Normal

- CDLs - SCARP (Salinity Control and Reclamation Project)

Foreign Debt comprises debt from a variety of multilateral and bilateral lending organisations including:

- IDA (International Development Association)
- ADB (Asian Development Bank)
- IBRD (International Bank for Reconstruction and Development)
- OFID (OPEC Fund for International Development)
- IFAD (International Fund for Agriculture Development)
- OEFC (Overseas Economic Cooperation Fund) Japan
- AIIB (Asian Infrastructure Investment Bank)

Floating Debt/Ways & Means Advances (Non-Food Account-I): It is a short term borrowing extended by the State Bank of Pakistan to Government of Sindh to meet any shortfall of cash in day-to-day government business. The Government of Sindh is receiving this loan in pursuance of the Agreement signed with State Bank of Pakistan under State Bank of Pakistan Act 1951. It is also known as SBP's Overdraft Facility. Interest/mark-up on outstanding amount of current account is charged at a rate equivalent to the quarterly average rate of Market Treasury Bills with six months maturity.

CDLs - Normal is a development loan extended by the Federal Government to the Province for financing its ADP (Annual Development Programme)

CDLs - SCARP is channelised from the Federal Government to WAPDA (Water and Power Development Authority) for the execution of water & power projects

The interest rate on CDLs ranges from 7.42% to 17.71% per annum and comprises uniform amortization period of 25 years including a grace period of 5 years.

The need for foreign loan arises under the scarcity of domestic resources

More than 60% of the external debt is from World Bank (IDA) while 36% from Asian Development Bank. The balance is shared between OECF (Overseas Economic Cooperation Fund) Japan (2.75%) and the rest of the lenders.

The foreign loans comprise both concessional and commercial loans. IDA (World Bank) loans have been taken on concessional lending rates while ADB loans are based on mixed mode i.e. concessional and commercial rates.

The main difference between the two lending types is of the rate of interest and the length of maturity. Concessional lending allows a longer maturity period for repayments of loan as compared to commercial lending. Commercial lending is usually based on London Inter Bank Offered Rate (LIBOR) with shorter maturity periods.

9.8 Debt Servicing

Debt servicing includes the payment obligation on account of interest and principal against domestic and foreign loans.

In provincial Budget Books, interest payments are classified under Current Revenue Expenditure while repayments of principal amount are shown under Current Capital Expenditure.

(In case of borrowings from the Federal Government)
- These payments are made through at source deductions by Federal Government from monthly divisible pool share of the Provincial Government.

9.9 Debt Ceilings

Raising of debt has mainly remained in Federal Government's control. Provincial governments have had no power to raise debt. However, after the 18th Amendment to the Constitution, the provincial governments have been empowered under Article 167 of the Constitution to raise debt to meet their budget deficits.

The provincial governments can obtain domestic borrowing up to a certain limit. This limit is set by National Economic Council (NEC). The combined debt ceiling currently set for all the provinces is 0.5% of the national GDP (Gross Domestic Product).

This limit is divided amongst the provinces according to their share in the NFC Transfers. An example to explain this concept is given below:

- GDP: Rs. 28,000 billion
- Combined Debt Ceiling for all the Provinces: 0.5% of the GDP
- Combined Debt Ceiling for all the Provinces: 0.5% x Rs. 28,000 billion = Rs. 140 billion

The ceiling (Rs. 140 billion) will now be distributed amongst the provinces in the ratio of their respective share in NFC transfers:

Share of each provinces in NFC transfers:

- Balochistan: 9.09%
- Khyber Pakhtunkhwa: 14.62%
- Punjab: 51.70%
- Sindh: 24.55%

Distribution of Debt Ceilings among the provinces is as follows:

PROVINCE	PROVINCIAL DEBT CEILING (RS. IN BILLION)
Balochistan	12.726
Khyber Pakhtunkhwa	20.468
Punjab	72.380
Sindh	34.370

9.10 Debt Management Unit of Finance Department

Finance Department (Sindh) has established Debt Management Unit (DMU) to manage the provincial debt and liabilities. DMU has embarked upon developing a Debt Management Strategy to provide a framework for management of debt, loans and liabilities.

The objective of establishing a dedicated DMU is to use the additional fiscal space effectively through borrowing to accelerate economic growth in the province.

The World Bank is providing technical assistance for this initiative.

9.11 Issues with Public Debt

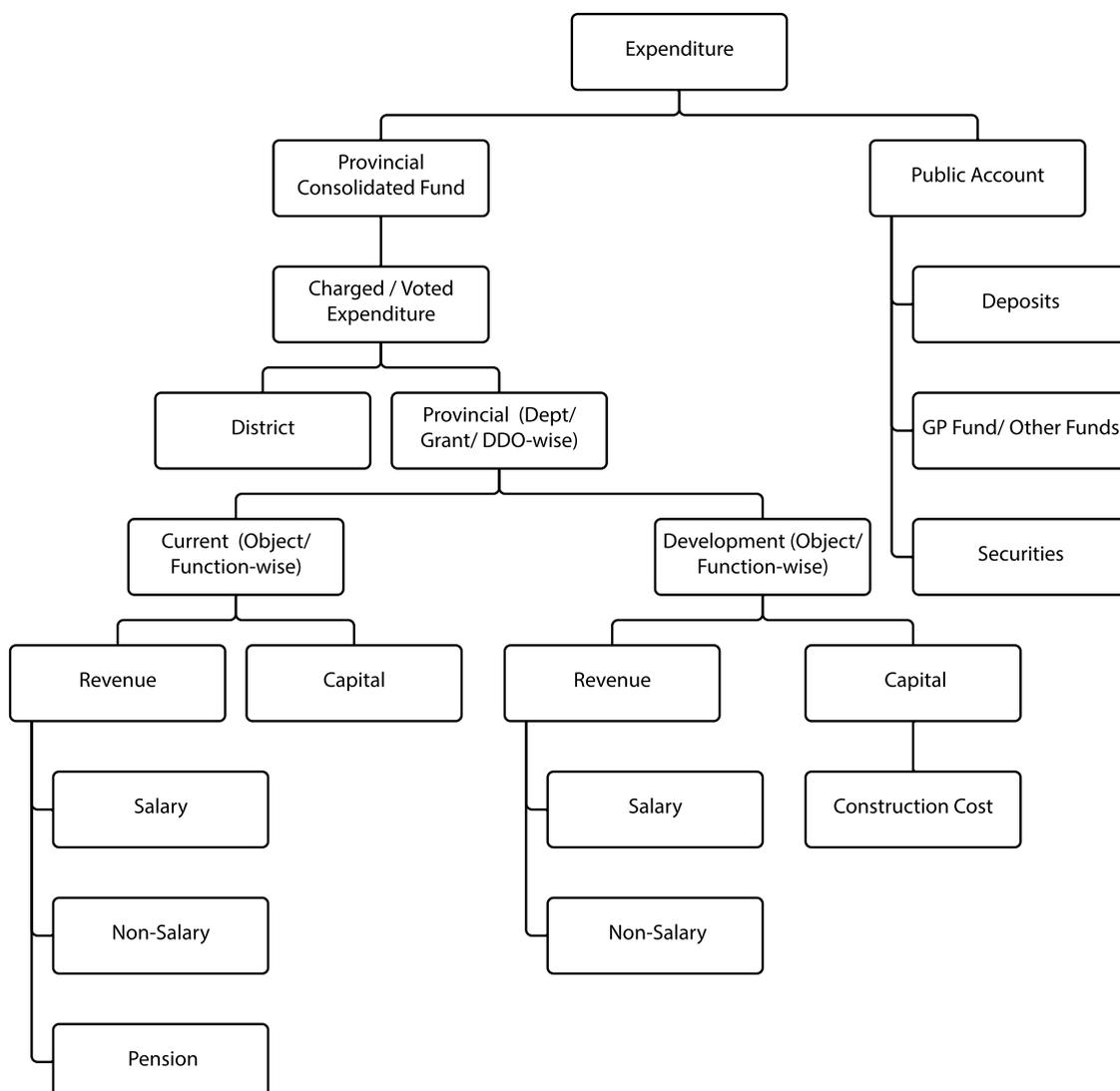
Economic problems generally arise when debt servicing capacity of a government does not keep pace with the growth of debt. Debt servicing capacity directly relates to a government's ability to generate enough funds from within the economy as a whole or from the specific project / programme for which debt was obtained. If the use of debt fails to generate desired economic benefits, the government generally tend to resort to additional borrowing to pay off the existing debt and correct any economic imbalances emanating from the use of debt. This can result in a debt-trap in the long run.

The sustainability in public debt in terms of its level and rate of growth are the core issues that the government pay special attention to. A prudent public debt management always strives to maintain the ratio between the stock of debt and capacity to service it without any sacrifice of the economic goals.

Learning Objective 4: Identify individual components of the Provincial Expenditure and learn how these relate to each other

9.12 Expenditure Types and Classification

Overall structure of the Expenditure looks like the following:



Article 121 of the Constitution specifies certain expenditure to be charged upon Provincial Consolidated Fund. These include:

- remuneration payable to the Governor, the Judges of the High Court and the Speaker and Deputy Speaker of the Provincial Assembly

- administrative expenses, including the remuneration payable to officers and servants, of the High Court and the Secretariat of the Provincial Assembly
- all debt charges for which the Provincial Government is liable, including interest, sinking fund charges, the repayment or amortisation of capital, and other expenditure in connection with the raising of loans, and the service and redemption of debt on the security of the Provincial Consolidated Fund
- any sums required to satisfy any judgement, decree or award against the Province by any Court or Tribunal
- any other sums declared by the Constitution or by Act of the Provincial Assembly to be so charged.

The above types of expenditure are termed as **“Charged”** Expenditure while all other are called **“Voted”** Expenditure.

Expenditure is also classified into **Non-Development** and **Development** expenditure with a further branching out into Revenue and Capital components. The Non-Development expenditure is also referred to as Current expenditure.

The **“Revenue”** ingredient of Non-development Expenditure comprises payments of salary bills along with ancillary expenditures such as allowances, purchases, repairs and maintenance, interest payments, pension, general provident fund, utilities, and other operational expenses.

The **“Capital”** element of Non-development Expenditure enshrines outflows on account of investments, principal repayments, loans and advances to government servants, local/autonomous bodies etc.

The “Revenue” part of Development Expenditure makes up the bulk of operational expenses such as salaries of contract employees, consultants, purchases etc.

The “Capital” component of Development Expenditure essentially entails expenditures on mortar and bricks.

In Provincial Annual Budget Statement of Sindh, Expenditure is also split between **Provincial and District components**, i.e. Provincial and District ADP. The former indicates that the allocation would be utilized by Provincial departments/entities, while the latter refers to the allocation to district /local government entities to be utilized under their local government system.

Similarly, the Expenditure is also categorized along Object and Functional classifications. **Object classifications** are specified under the Government’s Chart of Accounts and broadly cover the following:

OBJECT CODE	DESCRIPTION
A01	Employee-Related Expenditure
A02	Project Pre-Investment Analysis
A03	Operating Expenditure
A04	Employees Retirement Benefits
A05	Grants, Subsidies & Write-off Loans
A06	Transfers
A07	Interest Payments
A08	Loans & Advances
A09	Physical Assets
A10	Principal Repayments
A11	Investments
A12	Civil Works
A13	Repair & Maintenance

Functional classifications of Expenditure have been prescribed in IMF’s Government Finance Statistics Manual 2014 as part of COFOG (Classification of the Functions of the Government) and are also included in Government’s Chart of Accounts. A brief description of each of the classification is given below:

- **General public services:** This includes expenditure for executive & legislative organs of the government, financial & fiscal affairs, external affairs, debt servicing; foreign debt, loan payment, domestic debt, pensions etc.
- **Defence Affairs and Services:** Consists of Military defence and defence administration
- **Public Order and Safety Affairs:** This covers expenditure for law courts, police, fire protection, prison administration and operation, administration of public order etc.
- **Economic Affairs:** It includes allocations for general economic, commercial and labour affairs, agriculture, food, irrigation, forestry & fishing, fuel and energy, mining and manufacturing, construction and transport, communication and other industries, etc.

- **Environmental Protection:** It covers budget estimates for waste water management, pollution abatement, R&D environment, administration of environment protection, etc.
- **Housing and community amenities:** It includes allocations for housing department, community development and water supply.
- **Health:** This includes allocations for medical products, appliances, and equipment, hospital services, public health services, research and development in health and health administration.
- **Recreation, Culture and Religion:** This includes budget estimates in respect of recreational and sporting services, cultural services, broadcasting and publishing, religious affairs and administration of information, recreation, and culture.
- **Education affairs and services:** This covers for Pre-primary / primary education affair and services, secondary education affairs and services, Education Sector Reforms, tertiary education affairs and services, education services, subsidiary services to education, administration, education affairs and services not classified elsewhere.
- **Social protection:** Includes allocations for administration and other functions for social welfare institutions of the government, e.g. Bait-ul-Maal, child protection, etc.

Capital Expenditure: This refers to any projected expenditure which is incurred for creating an asset with a long life or repayment of loan. Thus, expenditure on land, machines, equipment, irrigation projects, oil exploration, general economic/ commercial / labour affairs, agriculture, food, forestry and fishing etc. and expenditure by way of investment in long term physical or financial assets are examples of capital expenditure.

Activity: Calculating Provincial Debt Ceilings

National GDP data and provincial share in NFC award are given below:

Gross Domestic Product (GDP)	Rupees 32,000 billion
Provincial share as per NFC Award:	
Balochistan:	9.09%
Khyber Pakhtunkhwa:	14.62%
Punjab:	24.55%
Sindh:	51.70%

Calculate Domestic Debt ceilings for each province in accordance with debt ceiling set by National Economic Council. Complete the following Table with the computations performed:

Province	Domestic Debt Ceiling (Rs. In Billion)
Balochistan	
Khyber Pakhtunkhwa	
Punjab	
Sindh	

Suggested Readings:

- Budget publications of the Sindh Government (Annual Budget Statements / Budget Analysis)
- Government's Chart of Accounts
- Board of Revenue, Sindh: <http://borsindh.gov.pk/>
- Excise & Taxation Department, Sindh: <http://www.excise.gos.pk/>
- Sindh Revenue Board: <http://www.srb.gos.pk/home/index.jsp>
- External Debt Management Manual, Government of Sindh: <https://fd.sindh.gov.pk>

Chapter 10. Budget Execution

Learning Objective 1: Gain an overview of the procurement process followed by Provincial Departments

10.1 Budget Execution - Procurement of Goods & Services

Following creation of Public Procurement Regulatory Authority (PPRA) and subsequent issuance of PPRA rules by the Federal Government, the Sindh Government have formed their own PPRA and framed the relevant rules that govern procurement of goods and services by Government Departments.

Sindh Government adopted the system in 2007 through an ordinance which was converted into an Act in 2009. Sindh Public Procurement Rules 2009 were also notified in the same year. All provincial government departments and their subordinate units are required to follow SPPRA for procurement of goods/services.

The key objective of PPRA rules is to ensure transparent and cost effective procurement of quality goods and services in the public departments covering all stages involved in the procurement process.

Provincial PPRA rules contain almost identical provisions for procurement of goods, services and works. A summary of the important procurement rules is given below:

Procurement agencies should do proper planning keeping in the view the expected procurement time frame and should decide in advance the procurement method to be followed

All procurements over Rs. 100,000 and up to Rs. 1,000,000 should be advertised through the authority's website and may also be advertised in print media.

The Sindh Rules stipulate that the advertisement should be given in at least three dailies (in Sindhi, Urdu and English languages).

Response time should not be less than 15 days in case of national competitive bidding and 45 days in case of

international competitive bidding.

Prequalification of suppliers or contractors can be done by the procuring agency keeping in the view the relevant experience, past performance, capacity or capability of the firms or suppliers.

Procuring agency (i.e. a government department/ organization intending to procure goods, services and works) should provide the concerned supplier with all the documents and other requirement needed to be fulfilled at the time of bid submission and proper communication should be done to qualified as well as disqualified firms with the reason of disqualification. Procuring agency has a right to reject any bid of any firm if not fulfilling the required criteria and it may also blacklist the firm on having finding fraudulent or corrupt activity.

Generally open competitive bidding method is used as a principal bidding method and these bids must be submitted on the prescribed bidding documents prepared by procuring agencies containing necessary instructions and bidding forms for the bidders. Bid security should not be more than 5% of the bid price.

Open competitive bidding procedures have also been specified in detail in the Rules. These relate to:

- Single Stage - One Envelope procedure
- Single Stage - Two Envelope procedure
- Two Stage Bidding procedure
- Two Stages - Two Envelope procedure

The Rules also specify alternate procurement methods. These include:

- **Request for Quotations:** a method based on comparing price quotations obtained from at least three suppliers/service providers
- **Direct Contracting:** a method under which goods/ services are procured from a single source without

- competition. Certain conditions apply on this method.
- **Negotiated Tendering:** A procuring agency may procure goods/services under this method from one or more suppliers or contractors with or without prior publication of a procurement notification. Certain conditions apply on this method.
 - **Force Account:** this means construction by the use of the procuring agency's own personnel and equipment. This method can only be used for the works under some conditions specified in the Rules.
 - **Petty Purchases:** the procuring agency may provide for petty purchases, where the object of the procurement is below the financial limit of Rs. 50,000. Such procurement is exempted from the requirements of bidding or quotation of prices (again subject to certain conditions).
 - **Repeat Orders:** this means procurement of additional quantities of the item(s) procured through open competitive bidding from the original contractor or supplier and such additional quantities of the same item(s) of goods or works are needed to meet any shortfall in the quantities.

Learning Objective 2: Describe various modes for release of funds

10.2 Funds Release Process

The process for release of funds is different for Non-Development (Current) and Development expenditure. A bulleted summary is given below:

Non-development Expenditure:

The Budget Coordination section of Finance Department prepares a budget release policy for first half of the financial year during 1st week of July each year. Amounts in specific heads, like pay & allowances and other operational costs are fully released for 1st half and are available for expenditure.

Certain types of contingencies, like repairs and maintenance, purchase of assets, financial grants etc. are withheld and are dealt with on case to case basis, according to plan submitted by the administrative department, or when the demand arises.

Additional grants, where no budget is allocated or budget allocated is short of the requirements are also approved and released on case to case basis. This is further included in the schedule of supplementary expenditure, if not met through re-appropriations.

The steps involved are as follows;

- Request for release of funds is received at the Finance Department from the Administrative Department.
- In Finance Department, Section Officer reviews

the release request and submits to the Deputy Secretary who reviews and recommends to Additional Finance Secretary (AFS). From AFS the request is submitted to the Finance Secretary.

- The Finance Secretary once approves a particular release, the relevant section prepares an audit copy of the release and issues copies to the concerned department (after embossing a seal on the release orders) and to the Accountant General..

In Sindh, releases for current budget are made on quarterly basis.

Development Expenditure:

Advice for release of fund is received from the Planning and Development Department (P&DD). These schemes should be reflected in the Provincial PSDP (provincial schemes) or Federal PSDP (in case of Federal funded projects).

If a particular scheme is included in the PSDP during the financial year, all the relevant procedure for approval and inclusion in the PSDP must be completed. Properly approved minutes of the meeting approving inclusion of a new scheme during the FY should be accompanied with the advice from the P&DD.

The finance department checks the following before releasing for any scheme:

PSDP reflection (or appropriate approvals in case of new schemes)

The amount demanded is according to the allocation and not crossing the limit.

The steps involved in the process are similar to those described for non-development side above. In case of development projects / schemes with authority to operate Assignment Accounts, the Provincial AG, after being satisfied with the genuineness of the audit copy received from the Finance Department, authorizes Treasury Officer (TO) to issue cheque to the concerned Project for the authorized amount. TO conforms to AG's instructions. Cheque received by the Project from TO is deposited into Project's Assignment Account maintained with NBP. The Account is credited after receipt of funds from Government's main account.

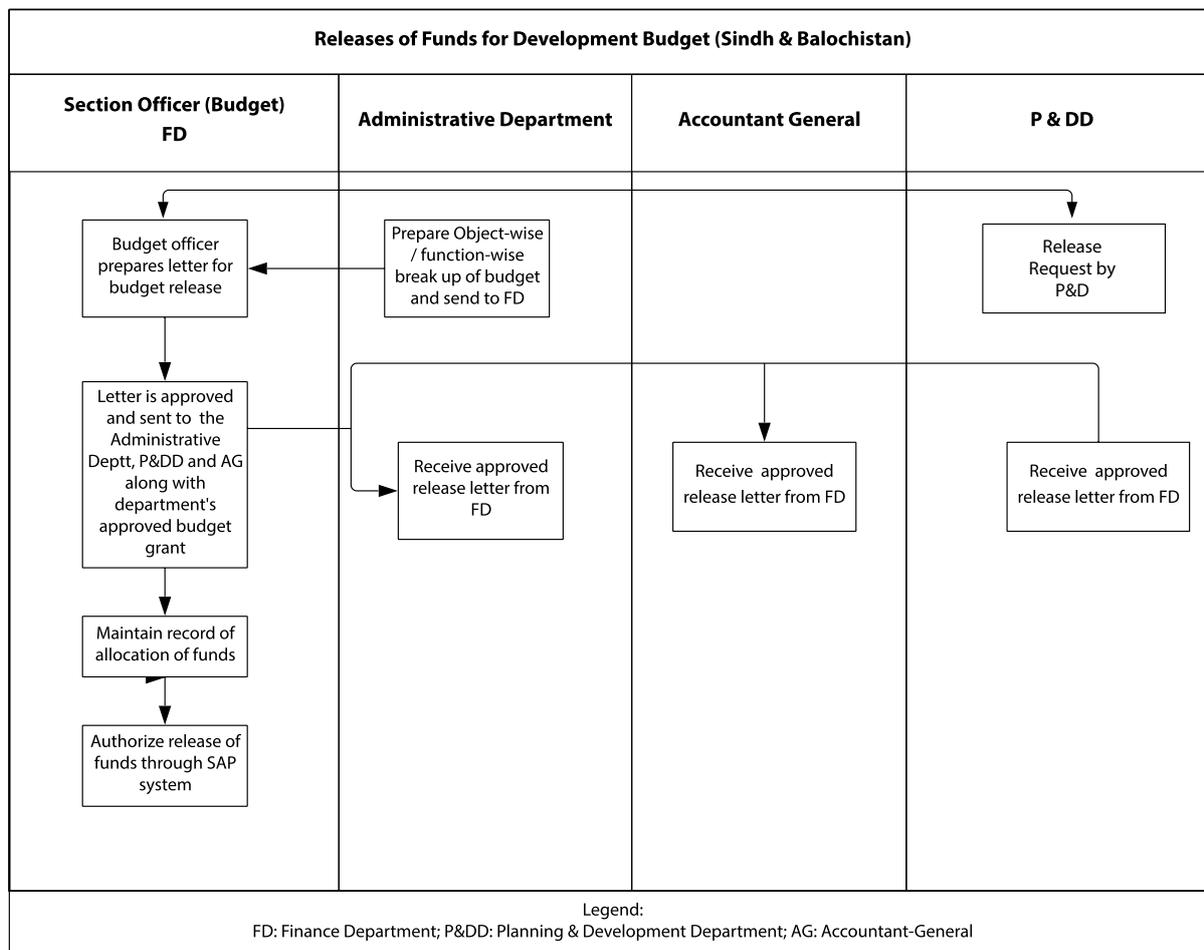
10.3 Modes of Release of Funds

Pre-Audit

In Sindh, current budget stands released in the SAP system from the start of the new fiscal year.

Development budget is not automatically available for spending. There is a release process which must be followed before the departments/budget users should be able to spend.

An overview of the process is given below:



Assignment Account

Revised Procedure for Operation of Assignment Accounts of Federal Government (Local Currency) 2018 is applicable to Federal Government as well as the Provincial Governments.

To ensure uniformity in fiscal operations, Special Drawing Accounts (SDAs), Personal Ledger Accounts (PLAs) and Revolving Fund Account (Local Currency) will be discontinued by Federal and Provincial Government departments.

Opening of Assignment Account:

Assignment Account is opened in National Bank of Pakistan (NBP).

Assignment Accounts shall only be established/opened with the approval of Ministry of Finance (MoF) for the Federal Government and respective Finance Departments for the Provincial Governments.

Requests for opening of Assignment Account duly authorized by the concerned Principal Accounting Officer will be considered by -MoF on case to case basis through set criteria. The letter of assignment shall specify the following:

- Account name
- The bank branch from where it will be operated
- Authorized cheque signatories and specimen signatures
- Budget head from which the allocation of funds will be made
- Any other condition for operation of the account

The authorization letter is issued direct to NBP by the AG/DAO. The cheque book of assignment Account is also supplied to authorized cheque signatories by the AG/DAO. A copy of this authorization is furnished to Treasury officer for information.

Assignment Account criteria:

- Assignment Accounts are opened, both for development and non-development budget, as per the criteria laid down by) the MoF. In ease of development budget, a separate assignment account shall be opened for each project. The Assignment Account will not be used for collection and deposit of receipts.
- Assignment Account shall be opened only in the jurisdiction of AG/AGPR/DAO concerned. The

location of assignment account and profit centre for budget allocation must be same.

- Ministries/Divisions/Depts/Subordinate-Offices/Projects/Organisations where government funding is an exclusive source of financing and those who submit their claims to AGPR/AG/DAO shall not be allowed Assignment Accounts.
- The Assignment Account opened for a specific project, activity or entity will not be used for any other purpose. Commercial account(s) and assignment-account(s) will not be Inter linked in their operations for any purpose. Besides, the assignment account(s) will not be used for collection and deposit of receipts.

The dormant Assignment Accounts which have either not received funds from the Government or no transaction took-place for the last three years, will be -closed by NBP under-intimidation to MoF and AGPRJAG/DAO concerned.

Control of Expenditure:

- The withdrawing entities shall be responsible for preparation and submission of detailed budget estimates to the Ministry of Finance through Ministries/Divisions for budgeting purposes. The practice of allocating one lino budget shall be discontinued.
- On a monthly basis, the NBP shall send a bank statement to the drawing authorities/DOOM respect of each assignment account that it maintains.
- The withdrawing entities shall be primarily responsible for accounting of -expenditure-on-a daily on the basis of this record arid the bank statement, the drawing authorities will render classified account of expenditure to the. AGPR/DAO on a monthly basis (by 10th of each Month for reconciliation of expenditure. The variation if any will be reconciled and appropriate entries shall be made to update the accounting records. Monthly/quarterly release of funds will be subject to reconciliation with AGPR/AG/DAO.
- National Bank of Pakistan will report the account remaining undrawn against the authorized ceiling at the close of a financial year to AGPR/DAO/PAO in respect of each Assignment Account within a week

Recording of Expenditure:

The expenditure will be recorded in the accounts on endorsement by the AGPR/AG/DAO. In order to record expenditure, the concerned DDO will supply

the cheques along with copy of schedule providing the expenditure coding details on daily basis before presenting to the bank. The AGPR/AG/DAO will check the codal formalities i.e. budget availability, approval etc at the time of endorsement of the schedule for the purpose of accounting. On making endorsement, AGPR/DAO will issue a schedule of cheques to NBP and DDO.

The officers holding Assignment Accounts will ensure that no cheque is drawn on Assignment Accounts, unless it is required for immediately disbursement to the goods/services provider. Cheque(s) will not be drawn for deposit into chest or any bank account maintained by the entity. A certificate to this effect will be recorded on the Schedule of Payment. Moreover, AGPR/DAO will not endorse any cheque, under any circumstances, which are drawn in the name of project authorities or drawer/payer for lump sum transfer of funds from Federal Consolidated Fund/Central Account No: I to their commercial bank accounts or deposit in to any chest. NBP will provide scroll with paid cheques of Assignment Accounts (local currency) to AGPR/AG/DAO on daily bails or as the payments are made.

The limit of amount in cash drawn in favour of DDO shall be finalised /approved with consultation of Finance Division as per rules.

Establishment of Sub-Assignment Account(s):

Sub-Assignment-Account(s) shall be established / opened in accordance with the-following procedure:

- Sub-Assignment Account(s) shall be allowed on the basis of a given benchmark/criterion. The Benchmark/criterion shall include variables such as Budgetary Arrangements, Geographic Location(s), Number of Field Offices, and other relevant variable considerations.
- Sub-Assignment Account(s) shall be opened with the approval of Ministry of Finance/Finance Departments, on the recommendation(s) of the Principal Accounting Officer concerned.
- The Sub-Assignment Account(s) shall be operated / maintained in designated branches of NBP.
- Sub-Assignment Account(s) shall be constituted under the main assignment account. All sub-Assignment Account(s) will be tagged with CIF (Customer Information Folio) of NBP through IT system shall be sent by Finance Division/ Finance Departments to AGPR/AG/DAO and subsequently to NBP. The signatories of Sub-

Assignment Account(s) shall be different from those of main account. National Bank of Pakistan will supply separate cheque books in respect of Sub-Assignment Account(s) to the authorized signatories.

- No modification/change will be made in the ceilings fixed for Sub-Assignment Account after the issuance of authorization letter by the Account Office concerned.
- The authorized signatories of the Sub-Assignment Account(s) will issue separate cheque against each object code (Head of Account) and present the same in the designated branch of NBP along with schedule of cheques after applying financial rules, regulations and fulfilling -all codal formalities. It shall be mandatory on the part of NBP to see that accounting classification (cost centre and object code) is clearly written on the schedule of cheques. The cost centres and object code(s) shall also be recorded on the -back of each cheque. Any cheque without such information will be returned by the NBP concerned branch.

Budgeting, Reconciliation and Audit:

- The withdrawing entities shall be responsible for preparation and submission of detailed budget estimates to the Ministry of Finance through Ministries/Divisions for budgeting purposes. The practice of allocating one lino budget shall be discontinued.
- On a monthly basis, the NBP shall send a bank statement to the drawing authorities/DOOM respect of each assignment account that it maintains.
- The withdrawing entities shall be primarily responsible for accounting of -expenditure-on-a daily on the basis of this record and the bank statement, the drawing authorities will render classified account of expenditure to the. AGPR/DAO on a monthly basis (by 10th of each Month for reconciliation of expenditure. The variation if any will be reconciled and appropriate entries shall be made to update the accounting records. Monthly/quarterly release of funds will be subject to reconciliation with AGPR/AG/DAO.
- National Bank of Pakistan will report the account remaining undrawn against the authorized ceiling at the close of a financial year to AGPR/DAO/PAO in respect of each Assignment Account within a week

Post Audit:

The drawing authorities will submit monthly account of expenditure with copies of -paid vouchers to the AGPR/DAO concerned for post-audit purpose by 15th of each month that will carry out 100% post audit. The AGPR/DAO will issue a certificate of post audit by the end of month to the DDO concerned.

Revolving Fund Account

Revolving Fund Account is another mode of release of funds for development projects. Like Assignment Account, Revolving Fund Account is also opened for expeditious flow of funds to development projects by eliminating the pre-audit requirement. However, the key difference is that Revolving Fund Account is opened for projects which are funded by foreign donors besides the Government.

National Bank of Pakistan is the designated bank for handling all transactions of Revolving Fund Account. The foreign currency amounts received under a foreign credit/loan/grant for the Account are translated/ converted into Pak Rupees at the State Bank of Pakistan's weighted average buying rate of exchange prevailing on the date of transfer of funds by the donors.

Payments out of the Revolving Fund Account are made by way of reimbursement to National Bank at the weighted average rate of exchange at which the foreign currency was purchased by the State Bank of Pakistan.

Separate Revolving Fund Accounts are required to be opened for each of the loans/credit/grants and are part of the Government's main account opened in the State Bank of Pakistan (i.e. Non-Food Account No. 1).

The transactions against individual Accounts are recorded and reported along with other Government balances by the respective office of SBP to SBP Karachi. The reimbursement of payments made by NBP are claimed by NBP from SBP on a daily basis.

The balances in the Revolving Fund Accounts are reported in SBP Finance Department's daily report of consolidated balances of Federal/Provincial Government Account along with other Government balances to the Federal/Provincial Government (Finance Division / Finance Department/respective Accountants-General).

Balances in Revolving Fund Accounts lapse at the end of each financial year. However, the lapsed funds can be revalidated in the next financial year.

If the funds from donors are received in currencies other than US Dollars, these are credited in respective Revolving Fund Account in Pak Rupees at the prevailing rate of exchange.

The SBP head office reports any receipt of funds from foreign donors in Pak Rupees and equivalent foreign currency to National Bank head office with a copy to respective NBP branch, the project authorities, Planning & Development Division/Department and Provincial AG.

The project authorities send the cheque to the Treasury Officer for endorsement before presentation to the NBP. An accounting entry is made in the books of AG/DAO at this stage. In case of funds received on behalf of Provincial Governments, the SBP simultaneously credits the funds to the respective Provincial Government Accounts. The Finance Department will ensure that budget allocations are available in the budget books for the project.

Payments from the Revolving Fund Accounts are effected by NBP cheques/authorizations issued by at least two authorized signatories. The payments into the account in respect of donor funds are initiated through withdrawal applications signed by persons approved by the respective Administrative Department. Withdrawals are not permitted unless prior budgetary provisions exist for the project.

Project authorities prepare statements for share from Government, donor and any other entities and expenditure incurred.

At the close of the project, the project authorities must reconcile their account with the SBP/NBP and determine any unspent balance. The unspent balance is required to be surrendered within two weeks of the closure of the project. The State Bank authorizes to close the Revolving Fund Account after fulfilling all formalities. All concerned Departments/offices are intimated of the closure.

Learning Objective 4: Understand basic concepts of Re-appropriation, Supplementary Budget, Surrenders, Excesses, Savings, Delegation of Financial Powers

10.4 Re-Appropriations

Re-appropriation means transfer of allocated amount from one unit of appropriation (e.g. budget head) to another such unit. This is done to utilize 'saving' of budget allocation in a specific head of appropriation.

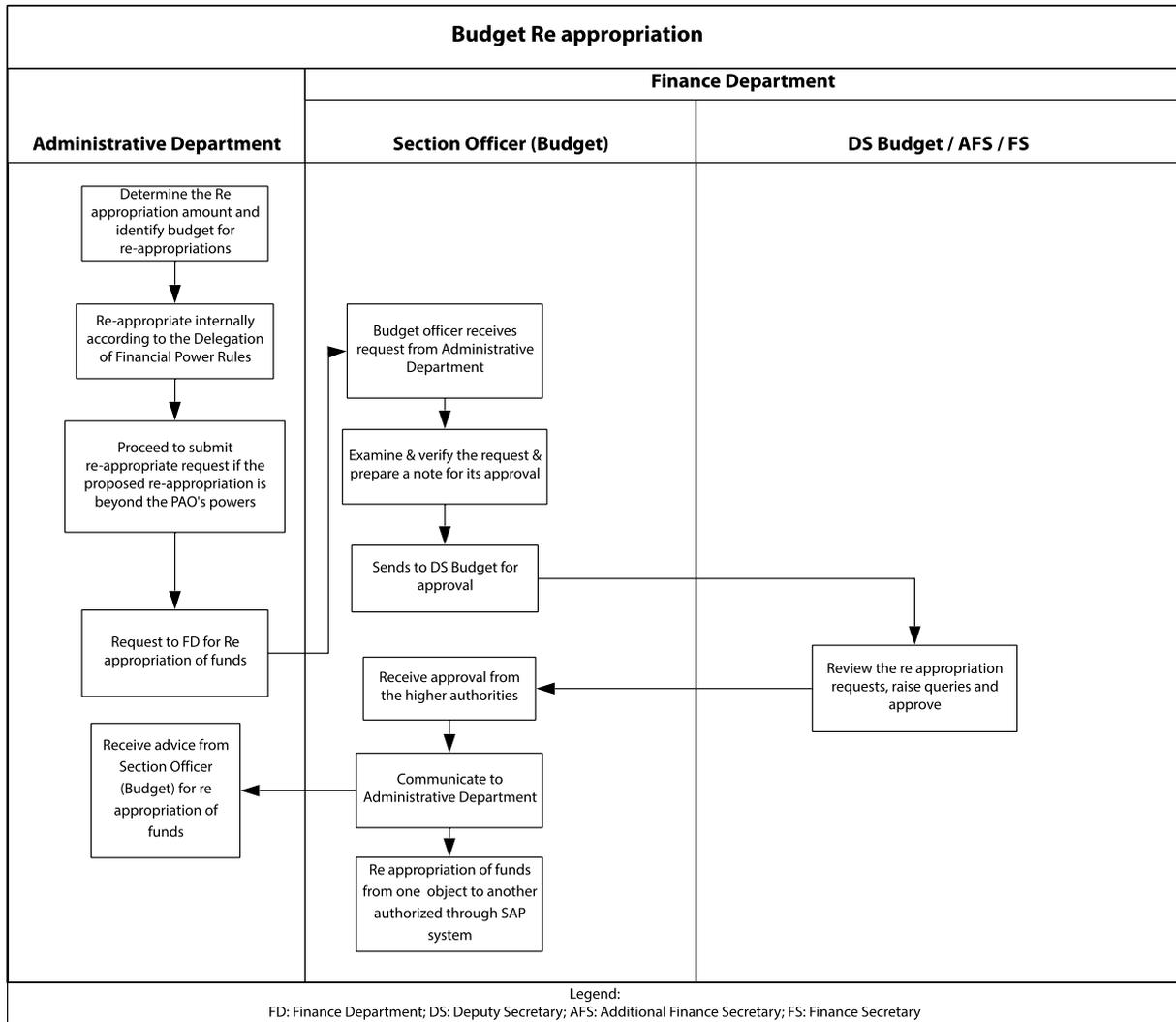
Example: If it is anticipated that budget allocation for Repair & Maintenance would not be fully utilized during the fiscal year, the spending agency can request for transfer of un-utilized amount to another account head, e.g. Utilities. Certain restrictions apply on Re-appropriations.

Re-appropriation Process

Re-appropriation is carried out in accordance with Delegation of Financial Power Rules of the Sindh government. Brief introduction of the Rules is given in later part of this Section.

Re-appropriation request is prepared according to the Re-appropriation policy on Budget Form BCC-V (for Non-Development/Current Budget) and Budget Form BCC-XI (for Development Budget) as given in Sindh BCC. See Annexure-G and Annexure - H.

Process flow for Re-appropriation is depicted in the diagram below:



10.5 Revised Estimates, Excesses / Savings & Surrenders of Budget Estimates

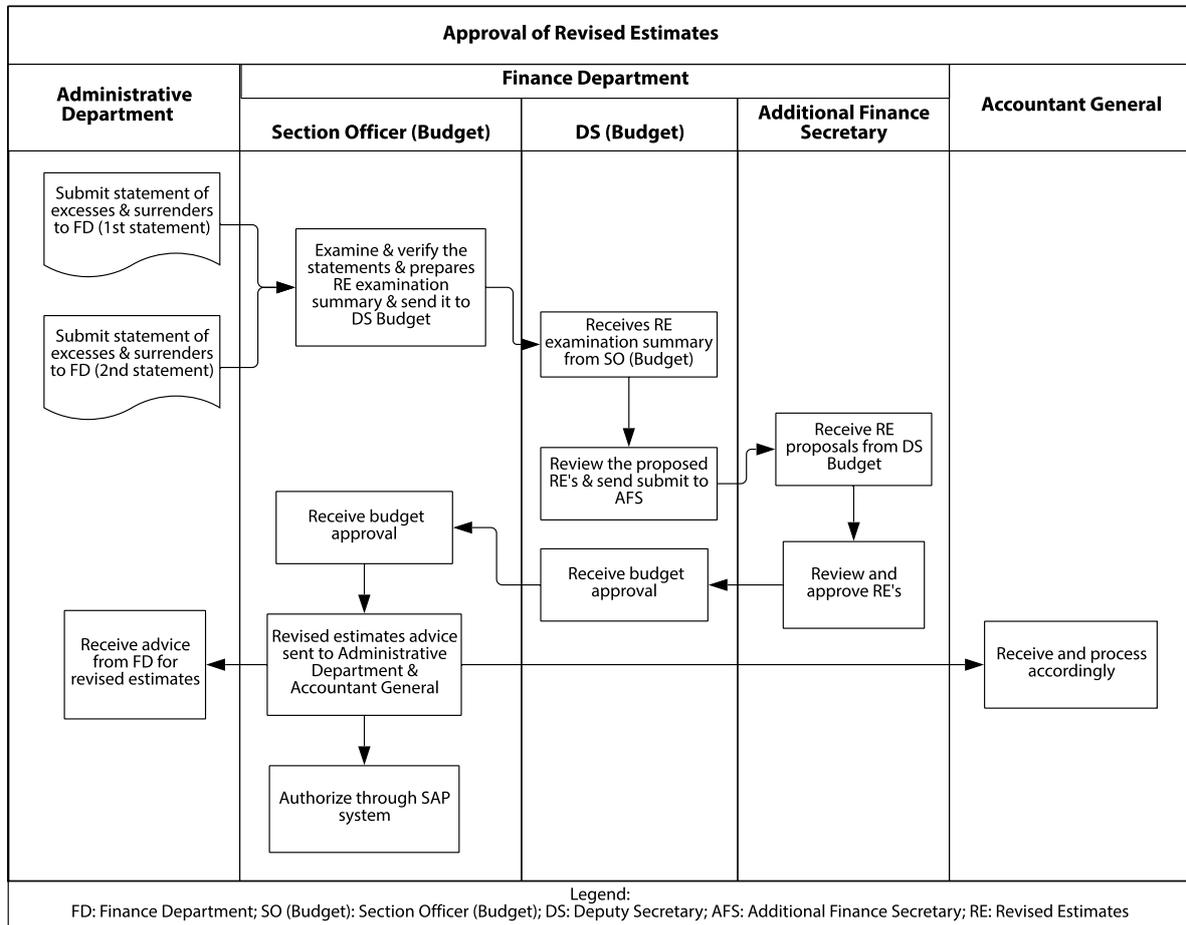
Administrative departments prepare Revised Estimates and identify Excesses / Savings in the budget. This is usually done in April/May as a parallel activity to budget preparation for next year. Any portion of the budget unlikely to be spent by the close of the financial year is required to be surrendered to the Finance Department.

A statement is prepared by the administrative departments to determine the likely surrenders or excesses over the sanctioned budget and for fixing the revised estimates of expenditure for the current financial year.

The Statement of Revised Estimates, Excesses and Surrenders enables the Finance Department to frame the revised estimates of the current financial year on the basis of the Statement. It helps in determining the cash balance for the current financial year.

The Revised Estimates Statement is prepared on Form BCC-VII (Annexure - L), while surrenders of budget are determined on Form BCC-VIII (Annexure - M).

Process flow diagram for Revised Estimates is given below:



10.6 Supplementary Budget

Administrative departments can raise requests for supplementary grant to meet expenditure of urgent nature. These requests are submitted to the Finance Department for approval and release of funds.

For significant supplementary budget requests, a Summary is moved to the Chief Minister for approval. Funds can only be released once the Summary is approved by the Chief Minister. Key contents of the Summary include:

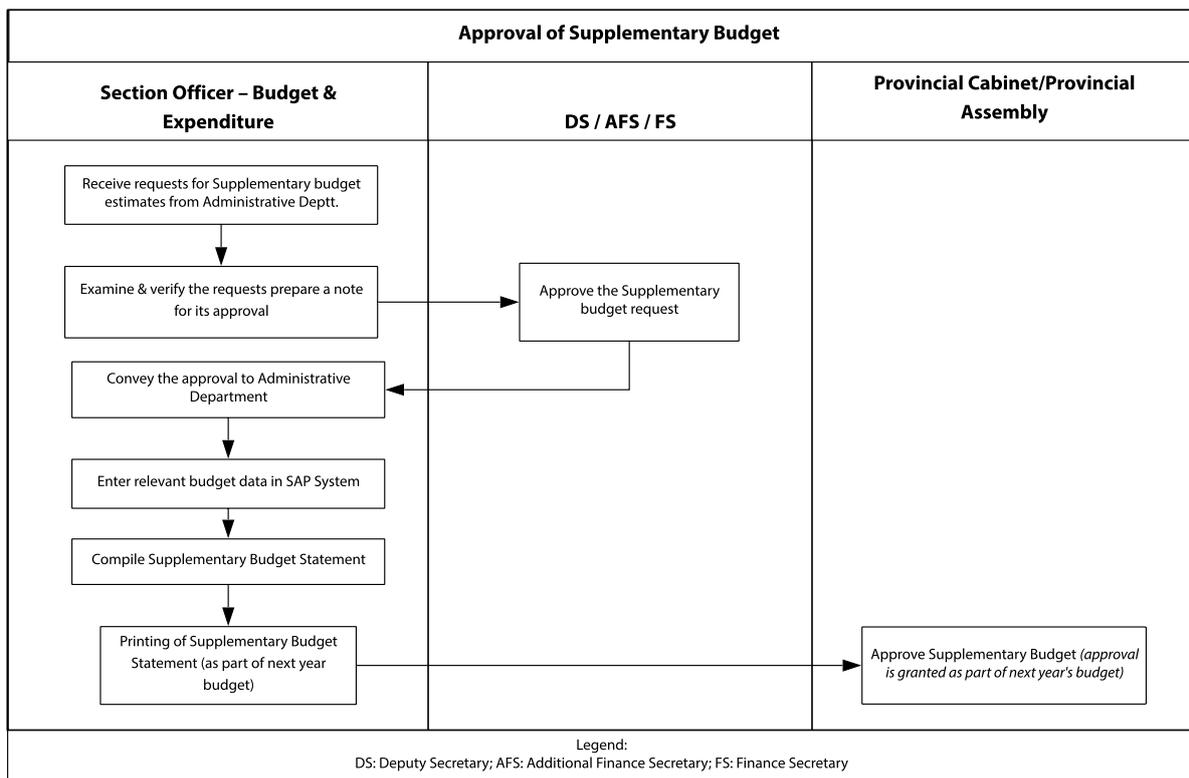
- Background of the scheme / initiative / case for which supplementary budget is requested
- References to any previous meetings held / decisions made for the proposed scheme or initiative
- Amount requested including break up into applicable budget heads
- Rationale for seeking funds as part of supplementary budget
- Attachments for further details
- Decisions required

These requests received during the year are consolidated by the Finance Department in the form of a statement called "Supplementary Budget Statement" as part of the annual budget process.

Approval to the Supplementary Budget Statement is accorded by the Provincial Assembly at the time of approval of next year's budget.

The request is prepared on a prescribed format and is usually part of the Budget Call Circular issued by the Finance Department. The format is given in Annexure - K.

Process flow diagram for Supplementary Budget is given below:



10.7 Budget Execution Report

Finance Department, Government of Sindh, has initiated the practice of preparing a Budget Execution Report. This report is primarily prepared on a quarterly basis and is submitted to the Provincial Assembly. However, it can also be produced monthly and can be used by administrative departments or other users.

For each quarter, the Report gives progressive actual revenue and expenditure for the relevant quarter of the fiscal year and also gives comparisons to the target receipts and expenditure allocations. The Report also includes summaries of inflows/outflows in public account and food account.

It serves as a tool for the Provincial Assembly to exercise oversight on the operations of the executive.

10.8 Delegation of Financial Power Rules

Finance Departments has a pivotal role in managing provincial budget. This role demands that the Finance Department maintains updated budget allocations, regulates and authorizes budget releases, approves transfer of funds to intended recipients, closely monitors the budget utilization (expenditure), ensures accountability of unspent funds and maintains accurate and complete record of budget and expenditure.

Over the years, some of the financial powers vested in the Finance Department, have been delegated to the administrative departments and their offices/officers in view of the SPPRA Rules 2010 and the Delegation of Financial Power and Financial Control Rules, 2019.

A system of financial delegation has been devised by each provincial government. This actually acts as a regulatory framework for management of expenditure by Provincial Government Officers. This framework prescribes categories of officers and their respective powers to carry out various financial processes within the budget cycle throughout the year.

The Framework covers general and specific financial powers applicable to administrative departments and each class of officers.

The delegation of authorities is contained in Delegation of Power and Power of Re-appropriation Rules 1962.

Suggested Readings:

- Budget Call Circular of Sindh Finance Department
- Sindh PPRA Rules
- Provincial Finance Rules
- Accounting Policies & Procedures Manual (APPM)
- The Sindh Delegation of Financial Powers and Financial Control Rules, 2019
- Treasury Rules
- A Guide for Sindh DDOs
- Assignment Account / Revolving Fund Account procedures
- Budget Execution Report: www.fdsindh.gov.pk

Chapter 11. Accounting and Reporting

Learning Objective 1: Understand the role of DDO in controlling and reporting Expenditure

11.1 Accounting System and Role of DDOs in monitoring and controlling of expenditure³²

During the budget execution phase, the commitments and payments need to be monitored. This is done by 'accounting', which can be defined as the maintenance of basic records of government transactions.

At the heart of any fiscal system is the accounting system, which maintains the basic records of government transactions and actual expenditure.

The primary aim of the accounting system is to deliver reliable information on the government's financial position. Accordingly, accounting systems are also referred to as 'financial management information systems' (FMIS). The financial management information system is being used by Finance Department and administrative departments and.

In general the accounting system is not well suited to provide the financial information required for macroeconomic, fiscal and financial management because it requires further data analysis and consolidation. This is also a reason to integrate the accounting system into a Financial Management Information Systems (FMIS) for an integrated FMIS (or IFMIS - this is discussed in later parts of this Chapter).

Authorized expenditure allowed to be incurred is distributed by the Finance Department to the Heads of the Departments under relevant Grant/ Demand Numbers and DDO codes. Actual incurrence of authorized expenditure and the realization of the estimated receipts included in the Annual Budget Statement, are monitored and controlled by the concerned authorities at the administrative departments (including Secretaries, Additional Secretaries, DDOs and other senior management of

the Departments and their attached departments and administrative units operating under the Departments).

The administrative departments have the responsibility for controlling expenditure to ensure that:

- Expenditure is incurred in public interest and for the approved purpose for which the grant was provided;
- It is within the allotted available grant;
- The competent authority has sanctioned the expenditure;
- Financial discipline and strict economy is enforced at every step;
- Due care has been taken in incurring and paying the expenditure;
- All applicable rules and regulations have been observed.

11.2 Expenditure Reporting

During the budget execution phase, payments to suppliers, vendors, service providers are recorded and reported. This is done with the help of both automated and manual processes that support maintenance of accounting records of the government's transactions.

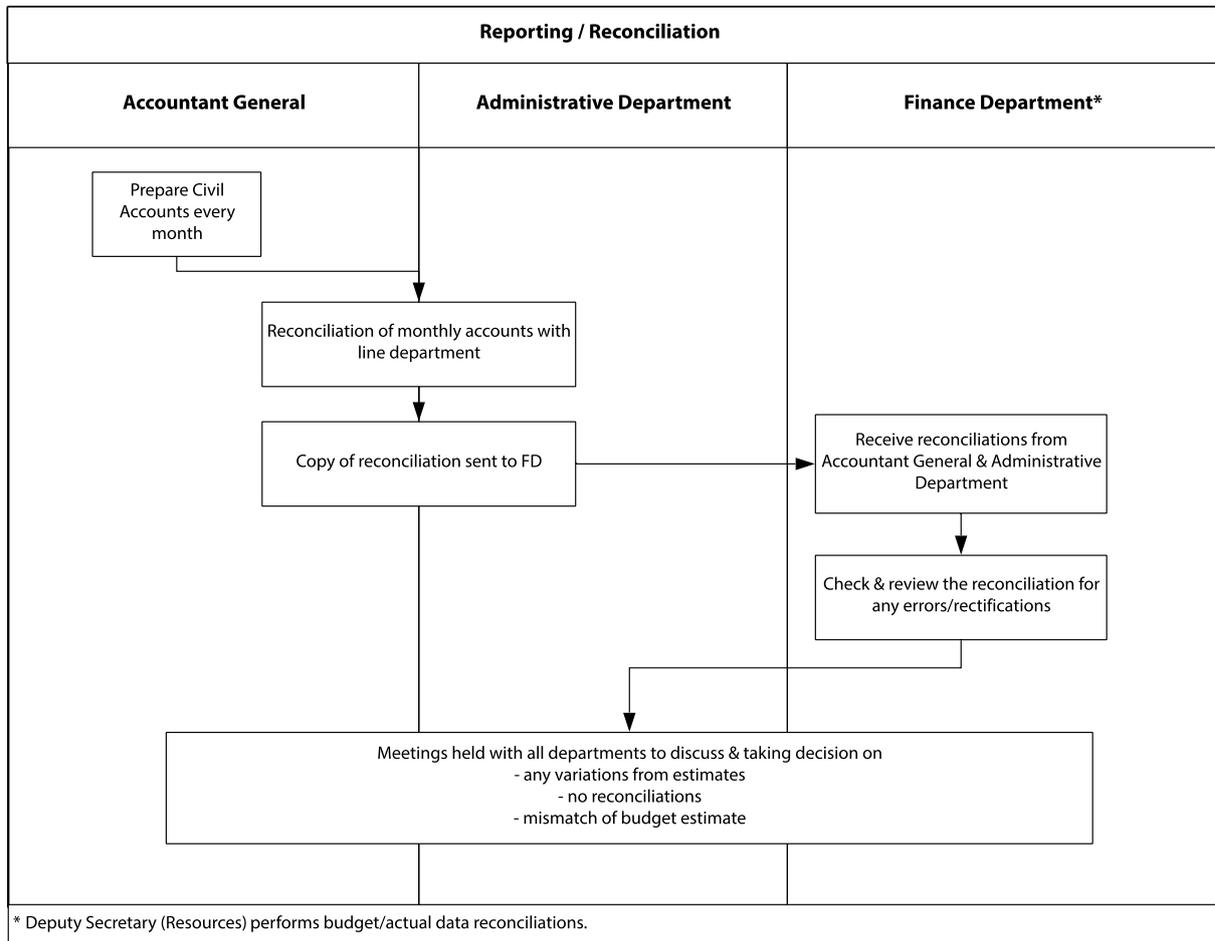
Payments made and actual expenditure incurred at the DDO level are also centrally recorded in IFMIS accounting system primarily maintained at the Accountant-General's office. The function of the IFMIS before committing expenditure and making payments is to primarily ensure that adequate funds are available in the relevant budget head and the expenditure is duly authorized.

The expenditure incurred is periodically reconciled with AG's records on a prescribed format and is reported to the central management in Department headquarters.

The process for reconciling expenditure is presented in

³² For details, see "Guide to Sindh DDOs"

the diagram below:



Learning Objective 2: Understand the key features of IFMIS implemented under PIFRA

11.3 IFMIS in Public Finance Management

Government of Pakistan initiated Project to Improve Financial Reporting and Auditing (PIFRA) to revamp its outdated accounting and auditing systems and make them more responsive to the changing needs of time. This Project was funded by the World Bank and implemented by the Office of the Auditor-General of Pakistan, Government of Pakistan. It comprised three components:

- Financial Accounting and Budgeting System
- Auditing
- Training

Implementation of PIFRA commenced in early 2000 with following key objectives:

- Establish effective accounting and reporting systems.

- Modernize government audit procedures and adopt internationally accepted auditing standards.
- Strengthen financial management practices in public sector.
- Generate financial information, which is more useful, complete, reliable and timely.

PIFRA has helped the Federal and Provincial Governments in adoption of modern accounting, budgeting and reporting concepts and techniques and has brought a paradigm shift in Public Financial Management in line with best international practices. Innovative changes such as Accounting based on 'Modified Cash Basis', adoption of International Public Sector Accounting Standards (IPSAS) and acquisition of an Enterprise Resource Planning (ERP) related software (SAP/R3), have all been part of PIFRA initiative. PIFRA was implemented at federal, provincial and district levels of the government in three phases between 1996-2014.

Further explanation of IPSAS is given in Section 11.7 of this Chapter.

11.4 Financial Accounting and Budgeting System (FABS)³³

FABS comprises New Accounting Model (NAM) and a SAP-ERP-based Information Technology platform. The New Accounting Model (NAM) was introduced to improve the traditional government accounting system by bringing-in a shift towards modified cash-basis of accounting, double-entry book-keeping, commitment accounting, fixed asset accounting and a new multi-dimensional Chart of Accounts.

Key objectives of FABS (i.e. NAM, along with the SAP-based IT platform) include effective budgetary management, financial control, cash forecasting, trend analyses, fiscal administration and debt management to enable effective accountability and better financial governance.

Most of the business processes of the Government relating to accounting, budgeting and HR have been revamped and are contained in following books/manuals of the New Accounting Model:

- Accounting Policies & Procedures Manual
- Manual of Accounting Principles
- Chart of Accounts

- Book of Forms
- Accounting Code for Self Accounting Entities
- Financial Reporting Manual
- Handbook of Accounting Guidelines

The office of the Director General MIS/FABS, working under the Controller General of Accounts (CGA), is responsible for smooth functioning of the SAP-based Financial Accounting & Budgeting System (FABS), which is an Integrated Financial Management Information System (IFMIS) being operated at government offices at federal, provincial and district level.

11.5 IFMIS Architecture

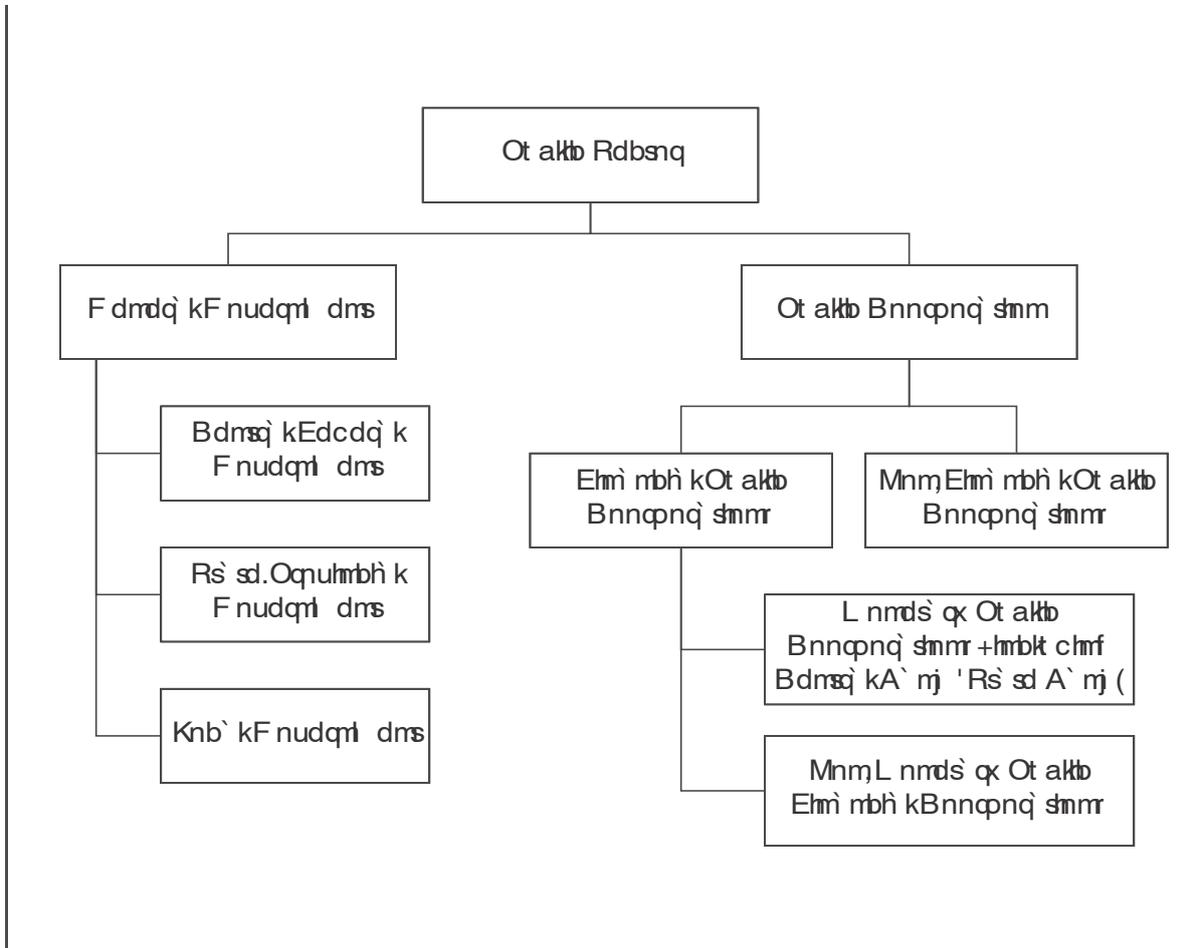
The IFMIS is being used at more than 500 sites across the country. The District Accounts Offices (DAOs) and other district level offices, and provincial line departments are linked through Wide Area Network (WAN) to servers at Accountant General office and the Finance Department of the respective province.

All provincial servers are linked through WAN to the federal server lying at the office of the Accountant General Pakistan Revenues (AGPR) in Islamabad, thereby creating a seamless and integrated system capable of providing real-time information on financial transactions taking place on the system across the country at national and sub-national level.

11.6 IFMIS Modules

IFMIS has helped in integration of information systems across the government departments/organizations by creating one database linked to all applications. It is being used in a large number of government entities in the country to process (a) monthly pay of more than 2.2 million government employees at federal, provincial and district levels (b) monthly pension of more than 0.1 million government employees (c) General Provident Fund payments of government employees (d) thousands of payment claims of government departments across the country on a daily basis (e) monthly and annual accounts of federal, provincial and district governments (f) budgets of federal and provincial governments. See figure below:

33 More details for FABS/IFMIS are given at <http://www.fabs.gov.pk/>



The functional subsystems of IFMIS are represented by different modules. Currently two key modules i.e. SAP Financial Accounting and HR have been implemented across the country. These modules are integrated in real-time, i.e. data is entered only once and this results in updating of all the relevant modules.

SAP FI

SAP Financial Accounting (FI) module is used for budget preparation, expenditure recording and tracking, accounting and financial reporting. The specific use of the SAP FI is as follows:

- Uploading approved budget estimates
- Releasing budget to DDOs
- Performing budget availability checks before incurring any expenditure
- Recording re-appropriations, excesses, surrenders and savings
- Preparing final grants
- Recording supplementary budgets
- Accessing / viewing actual expenditure against the budget grants
- The budget after being approved by the Assembly is available for utilization in the first week of July and is immediately transferred to relevant servers.

HR Module

In this Module, following types of HR-related data is recorded, processed and maintained:

- Data relating to the government employees
- GP Fund account and related calculations and payments
- Pension/commutation data and payments
- Salaries of the government employees
- The HR Module and related sub-systems are in use at AG Offices and District Accounts Offices.

Learning Objective 3: Gain comprehensive understanding of IPSAS

11.7 International Public Sector Accounting Standards (IPSAS)

International Public Sector Accounting Standards Board (IPSASB)

IPSASB develops accounting standards and guidance for use by public sector entities. The structures and processes that support the operations of the IPSASB are facilitated by International Federation of Accountants (IFAC). IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC comprises over 175 members and associates in more than 130 countries and jurisdictions, representing almost 3 million accountants in public practice, education, government service, industry, and commerce.

The IPSASB's forward strategy from 2015 has a single strategic objective, i.e. strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSAS by:

- Developing high-quality public sector financial reporting standards
- Developing other publications for the public sector; and
- Raising awareness of the IPSAS and the benefits of their adoption.

Since 1997, the IPSASB has developed and issued a suite of 39 accrual standards (four of which have been, or are in the process of being, withdrawn), three recommended practice guidelines, which provide guidance on the broader areas of financial reporting outside the financial statements, and a cash basis standard for countries moving toward full accrual accounting. In October 2014 the IPSASB issued the first

global conceptual framework for public sector entities. This underpins IPSASB's standard-setting and guidance development activities.

Governments that report on a cash basis do not account for significant liabilities, such as employee pensions and loans and assets such as property, plant and equipment and investments. The IPSASB encourages public sector entities to adopt the accrual basis of accounting - which will improve financial management and increase transparency resulting in a more comprehensive and accurate view of a government's financial position. Many governments, jurisdictions, and international institutions have already adopted IPSAS - many more are on the road to convergence.

Rationale for IPSAS

There is increasing demand for public accountability and transparency by stakeholders.

The preparation of transparent and understandable financial statements is an important way for PSEs to facilitate meaningful internal control and monitoring by oversight bodies such as the legislature.

In the past, there has not been a clear financial reporting framework for the Public Sector, thus the need for (IPSAS).

Scope and authority of IPSAS

IPSAS are designed to apply to the governments and their component entities e.g. departments and agencies They set out to recognize, measure, present and disclose requirements dealing with transactions and events in the Government sector. The IPSASB encourages the adoption of IPSAS and advocates for

the harmonization of national reporting requirements with IPSAS.

Types of IPSAS

Accrual basis:

Prescribes the manner in which Government's financial statements should be presented under the accrual basis of accounting.

Focuses on revenue, cost, assets, liability and equity, instead of cash flow only. Most IPSAS are on accrual basis which is in line with International Financial Reporting Standards (IFRS).

Cash basis:

Prescribes the manner in which financial statements should be presented under the cash basis of accounting.

Focuses on financial reporting of cash receipts, payments and balances, under the cash basis of accounting.

Benefits of adoption of IPSAS

- Accountability
- Quality and comparability
- Transparency
- Improved governance
- Consistency

International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS)

All IPSAS are based on International Accounting Standards (IAS) issued by International Accounting Standards Committee (IASC) and International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). IASC was formed on 29th June 1973 with the objectives to develop accounting standards to be observed in the presentation of audited financial Statements of the private sector and to promote their worldwide acceptance. In 1974, global accountancy bodies (e.g. Institute of Chartered Accountants of Pakistan - ICAP and Institute of Cost & Management Accountants of Pakistan - ICMAP) were also allowed to become member of IASC.

In 2001, the IASC was restructured to form an

International Accounting Standards Board (IASB) with the objective of making the international standard-setting process more effective. Currently, the IASB is the standard-setting body of the IFRS Foundation, an independent, private sector, not-for-profit organization. Accounting Standards issued by IASC until 2001 are called International Accounting Standards, while those issued by IASB are called International Financial Reporting Standards.

When a new accounting standard is released, it is known as International Financial Reporting Standard (IFRS). However, any revisions to IAS are still referred to as IAS. As a result both acronyms (IAS & IFRS) run in parallel until all IAS are superseded by IFRS.

Standard Setting Process

Key steps involved in the standards setting process include the following:

- Review of International Accounting Standards / International Financial Reporting Standards for terminology;
- Study of national accounting requirements and practice(s) and exchange of views about the issues with national standard-setters;
- Consideration of pronouncements issued by IASB, national standard setters, and other authoritative bodies, professional accounting bodies, and organizations interested in financial reporting;
- Formation of steering committees, project advisory panels, or sub-committees to provide input to the IPSASB on a project;
- Steering committees to seek public sector guidance, discuss public sector issues and analyze public sector examples and issues exposure draft for public comment;
- Consideration of all comments received within the comment period on discussion documents and exposure drafts, and modifications to proposed standards where appropriate;
- Publication of an IPSAS which includes a basis for conclusions that explains the steps in the IPSASB's due process and how the IPSASB reached its conclusions.

Structure of IPSAS

IPSAS are usually structured as follows:

- Objectives

- Scope
- Definitions
- Main body
- Effective date
- Appendices
- Comparison with the relevant IAS
- Adoption of IPSAS by various countries

Countries which have adopted full accrual basis of accounting include: New Zealand, Australia, USA, UK, Canada, France, Colombia, Indonesia, Cayman Islands.

Some countries have agreed processes or have a project in place to adopt accrual based IPSAS or align

with IPSAS as part of wider reforms to adopt accrual accounting, e.g. Kenya, Uganda, Brazil, South Africa, India, Jamaica, Costa Rica, Chile, Russia, Ghana.

Pakistan has adopted IPSAS 1 (Presentation of Financial Statements) only. Financial Statements of the Federal Government³⁴ and Provincial Governments are presented on the format approved in IPSAS 1.

Summary of IPSAS

See Annexure - L for a brief summary of all IPSAS.

³⁴ See Federal Government's Financial Statements at: http://www.cga.gov.pk/pdf/annual/Federal/fin_st/2013-2014-Fed.pdf

Learning Objective 4: Define chart of accounts and understand the structure of Government's Chart of Accounts

11.8 What is Chart of Accounts?

In simple words, a chart of accounts is a list of accounts with codes numbers. It is one of the fundamental concepts of accountancy.

To understand it better, a few basic accountancy concepts have been explained in the following paragraphs:

Transaction

The concept of chart of accounts is closely linked to the concept of 'transaction'.

In its simplest form, a transaction is a 'deal between two persons to exchange goods or services for money'.

Examples

- A hospital purchases CT scan machine from an equipment supplier and makes payment by cheque.
- A school pays electricity bill.
- A college purchases a staff car.

A transaction generally always affects the financial position of both parties. A person receiving goods or services pays cash while simultaneously the other person delivering goods or services receives cash.

Number of transactions can vary depending upon

the size of an organization. In a small business entity, the number of transactions are expected to be very few, whereas in a large entity (such as a government hospital), the number of transactions is relatively very high.

Types of Transactions

There are generally two categories of transactions:

- Monetary Transactions - A large number of transactions are classified as those involving money.
- Other Transactions - There are transactions that do not involve money. These mostly represent accounting provisions, adjustments, corrections for error, etc. in accordance with accounting concepts/conventions.

Basic Analysis of Transaction

Since every money-related transaction involves an 'inflow' and 'outflow' of resources (e.g. goods 'received' and cash 'paid'), it implies that a transaction always has two parts: the one that relates to receipt of goods (or services) AND the other part that relates to payment of money.

And from other person's perspective, delivery of goods (or services) AND receipt of money.

Accounting Elements

There are five accounting elements on which the whole accounting is founded. These are:

- Equity
- Liability
- Asset
- Revenue
- Expense

Any accounting transaction involves one or more of the above elements. These elements change on the basis of relevant transactions taking place within the business entity.

The changes take place due to dual side of an accounting entry, involving a Debit and Credit.

Rules of Debit & Credit

The universal rules for debit and credit are as summarized below:

ACCOUNTING ELEMENT	INCREASE (+)	DECREASE (-)
Expenses	Debit	Credit
Assets	Debit	Credit
Income / Revenue	Credit	Debit
Liabilities	Credit	Debit
Equity / Capital	Credit	Debit

Accounting Entry:

- Recording of a transaction in books of account is done with the help of what is called an accounting 'entry'.
- Accounting Entry has two parts: a debit part AND a credit part. No entry is complete unless both parts are recorded.

Classification of Transactions

Classification of transactions is the first step in developing a chart of accounts. Accounting Entry enables recording of events / transactions with the help of accounting elements.

In fact the accounting elements are the original form of a chart of account since these provide the basic

classification of various 'accounts' that any entity deals with at the time of making transactions.

These elements can be further classified to detailed level:

- Expenses can have details like Salary, Allowances, Utilities, Maintenance, while Assets can be further classified into items like Furniture, Vehicle, Computer, etc.
- Income can refer to Grants, Dividends and Rent
- Liabilities can be further sub-divided into various types of obligations, for example, loans, salary payables, etc.
- Equity can be classified into Reserves and Funds.

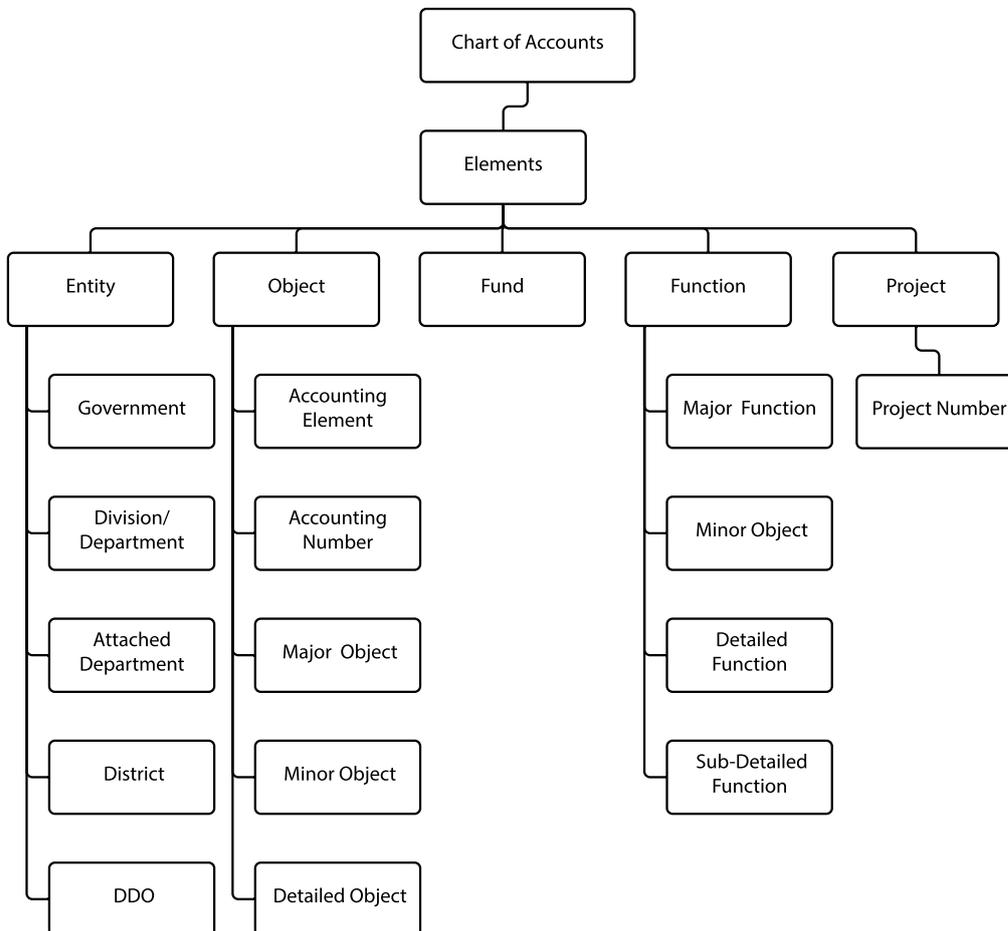
Structure of Government's Chart of the Accounts

Government comprises a number of units and sub-units, e.g. departments, divisions, sections, entities, programmes, authorities, hospitals, schools, etc. and each one of the units initiates transactions on almost daily basis.

The transactions are classified in Government's accounting system according to an elaborate scheme of codes called a Chart of Accounts. Government uses the chart of account for all transactions it carries out throughout the year.

Chart of accounts provides a basis for classifying transactions. It is specifically used when there are a large number of transactions in an entity providing goods or services to other people. It also helps in reporting the transactions by summarizing them to a few lines.

Overall structure of the Chart of Accounts looks like the following:



Key Features of Government's Chart of Accounts

- Government's chart of account is more complex as it involves a large number of codes to identify transaction with respect to its type, purpose, originating department, source of funding,
- Provide a framework for organising accounting transactions to provide a number of views of these transactions
- These views are provided by the elements contained in the CoA
- Each elements provides both summary and detailed views of accounting transactions
- The elements consist of a number of characters which consist of both alpha and numeric characters
- All the above features help in providing different views of accounting information required for reporting

11.9 Explanation of the Structure of the Chart of Accounts

Entity Element

The entity element enables reporting of transactions by the organisational structure or in other words the

organizational unit which is creating the transaction. The use of the entity element is mandatory for all accounting transactions.

There are a number of sub elements contained within the entity element. These allow for capturing transaction data at more detailed levels. The sub elements contained in entity are government, division / department, attached department, district and Drawing and Disbursing Officer (DDO).

Government: The government sub element is the Federal or Provincial Government and represents the highest level at which entity information can be aggregated.

Each government is represented by a single alpha character.

- Ministry
- Ministry refers to Federal Ministry.
- Each Ministry is identified by two numeric characters.

Division / Department: Division/Department is a subset of the Federal Government, while only Department is a subset of the Provincial Government and reflects the departmental organisation responsibilities.

Each division/department is identified by one numeric character.

Attached Department: Attached department is a subset of a Division, is relevant to the Federal Government only.

This sub element defines the highest level at which operational responsibilities are assigned and at which operating entities can logically be aggregated and reported on (e.g. Cabinet Division).

The attached department is identified by four numeric characters.

District: District is the location in which the concerned DDOs of the Division / Department and / or attached department are located.

The district also represents the District Accounting Office (DAO). Each DAO will be identified by a separate code.

Each district is identified by two alpha characters.

Drawing and Disbursing Officer (DDO): DDO is the

lowest organisational level at which budgetary control occurs and organisation information is collected and reported on. It is an example of a cost centre.

A DDO is also called a 'cost centre' that is, the place from where the costs/expenditures are incurred. The cost centre is represented by alpha-numeric codes. The alpha codes (two digits) represent the district and the four numeric codes represent the DDO..

DDOs are ordinarily responsible for expenditure for one entity (e.g. a school or a single project). However in circumstances where the DDO is responsible for more than one entity one DDO code will be assigned for each.

Example:

In Chart of Accounts, Sindh Government is denoted by one alpha character 'S'. Each of the Provincial Departments has been assigned two numeric characters. So, Sindh Health Department is identified as S42; Finance Department has been assigned S31; Energy Department is represented by S46, etc. For Government of Sindh, the Entity codes range from S01 to S99.

Object Element

The object element enables the collection and classification of transactions into expenditure and receipts and also to facilitate recording of financial information about assets, liabilities and equity.

The use of the object element is mandatory for all accounting transactions.

The object element consists of two sub elements, the accounting element and the account number.

Accounting Element: The accounting element is a single alpha character sub element and defines the accounting element to which a transaction will be classified. The accounting elements are as follows:

- A00000 Expenditure
- B00000 Tax receipts
- C00000 Non-tax receipts
- E00000 Capital receipts
- F00000 Assets
- G00000 Liabilities
- H00000 Equity.

Account Number: The account number is a five

numeric character sub elements. This sub element defines the detailed “natural” accounts to which transactions will be classified (e.g. salaries, utilities, etc).

The account number contains a further internal structure. This structure is as shown below:

- Major object
- Minor object
- Detailed object.

Object Element Structure - Example

An example of the object element in terms of the actual code is shown below (Accounting Element A Expenditure):

Major Object	A01	Employee related expenses
Minor Object	A011	Pay
Detailed Object	A01101	Basic Pay-Officers

Fund Element

The fund element enables financial reporting by fund being either the Consolidated Fund or the Public Account. The use of the fund element is mandatory for all accounting transactions.

The fund element consists of four sub elements, fund; source; sub-fund; and grant / public account number.

Fund: The fund sub element is one alpha character and identifies the fund as being the Consolidated Fund or Public Account.

Source: Source represents either Capital or Revenue receipts and is identified by one numeric character.

Sub-fund: The sub-fund sub element is one numeric character, which divides the Consolidated Fund between development, current and charged expenditure and divides the Public Account between trust accounts and special deposit accounts.

The different sub-fund sub elements along with the related codes are as follows:

- Voted Current expenditure
- Voted Development expenditure
- Voted Capital Expenditure
- Charged Current Expenditure
- Charged Development Expenditure
- Charged Capital Expenditure

Grant Number / Demand Number: The grant / demand number is a three numeric character sub element, which identifies the relevant Consolidated Fund grant or Public Account.

The grant number will facilitate capturing and reporting whether expenditure is met from capital and revenue via a grant being distinctly revenue or capital in nature.

Fund element structure – Example (for Consolidated Fund):

FUND	CONSOLIDATED FUND	DIGITS
Source	Capital / Revenue	1
Sub-Fund	Development	1
Grant	Grant Number	222

Function Element

The function element provides reporting of transactions by economic function and program. The function code is mandatory for transactions relating to expenditure and revenue.

The function element consists of four sub elements, major function, minor function, detailed function and program (program sub element will only be used by computerised entities if the Federal and Provincial Government decides to introduce program accounting).

Major Function: Major function describes the principal economic function to which a transaction should belong.

The major functions included in the Chart of Accounts are those provided by the International Monetary Fund in the publication “A Manual on Government Financial Statistics” (GFS).

Major function is identified by two numeric characters.

Minor Function: The second sub element is minor function, which provides the lowest level of economic function to which a transaction will be classified.

The minor functions included in the Chart of Accounts are those provided by the International Monetary Fund in the publication “A Manual on Government Financial Statistics”(GFS), modified where necessary.

Minor function is identified by a single numeric character.

Detailed Function: Detailed function provides an additional level of detail and analysis and will be uniquely applied to each major / minor function combination. The detailed function sub element will be revised (with input from all stakeholders) prior to issuing the proposed CoA. The detailed function is identified by one numeric characters.

Sub-detailed Function: Sub-detailed Function is a lowest level of additional information and is represented by two numeric characters. An example of the function element in terms of the actual code is shown below:

FUNCTION	EXAMPLE	DIGIT
Major Function	General Public Service	01
Minor Function	Executive and Legislative Organs, Financial & Fiscal Affairs, External Affairs	1
Detailed Function	Financial and Fiscal Affairs	2
Sub-detailed Function	Foreign Debt Management	08
Program	Program	123

Project Element

The project element enables transactions to be aggregated and reported at a project level (generally equivalent to “sub -grant” level in the project development budget). The project code will be used for all development projects and the use of this code for all such projects will be mandatory. The project element consists of the project number, which is identified by four numeric characters.

Learning Objective 5: Learn to use the Government’s Chart of Accounts

EXAMPLE: ASSIGNING CHART OF ACCOUNT CODES TO TRANSACTIONS

Government of Sindh collects sales tax from a restaurant based in Karachi.

How will the above transactions be described in Chart of Accounts language?

There is a unique code number in the Chart of Accounts for Government of Sindh. Collection of sales tax is the responsibility of Sindh Revenue Board (SRB). The sales tax is part of provincial receipts and is also allotted codes under the relevant receipt categories. The collections will be deposited into a designated bank account owned by the Government of Sindh. This transaction will be analyzed with the help of some simple questions, for example:

» Who is the overall Entity?

It's a Provincial Government - Government of Sindh.

» What is the name of the administrative unit/entity responsible for collecting taxes?

Sindh Revenue Board

» Which Accounting Element(s) does the transaction actually involve?(i.e. a Receipt/Expenditure/Asset/Liability?)

It involves Receipt AND Asset

» Is this Receipt refundable to the person who pays it?

No

EXAMPLE: ASSIGNING CHART OF ACCOUNT CODES TO TRANSACTIONS

» Will this Receipt be part of Provincial Consolidated Fund or Public Account?
Consolidated Fund (since all taxes are part of the Consolidated Fund)

The above transaction will be written in Chart of Account language in the following manner:

Entity	Object	Fund	Function	Project
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Activity: Identifying Function and Object Elements of Chart of Accounts

In the following table, Functions and Objects are intermingled. Please mention either Object or Function against each item separately:

No.	Description	Whether Object or Function?
1	Repairs to Furniture & Fixtures	
2	General Hospital Services	
3	Basic Pay of Officers	
4	Computer Equipment	
5	Chemical Examiner and Laboratories	
6	Hot and Cold Weather Charges	
7	Drug Control	
8	Newspaper, Periodicals and Books	
9	Pension	
10	Postage & Telegraph	
11	Training	
12	P.O.L Charges-Planes, Helicopters, Staff Cars	
13	Secondary Education	
14	Primary Education	

Suggested Readings:

- PIFRA / FABS / IFMIS: <http://www.fabs.gov.pk/> & <http://www.pifra.gov.pk/fabs.html>
- Office of the Controller General of Accounts: <http://www.cga.gov.pk/>
- New Accounting Model (NAM) Manuals/Books
- Government's Chart of Accounts
- IPSAS https://en.wikipedia.org/wiki/International_Public_Sector_Accounting_Standards
- IFRS Foundation: <http://www.ifrs.org/about-us/our-structure/>
- International Federation of Accountants: <http://www.ifac.org/about-ifac/organization-overview/history>
- About IPSASB <https://www.ipsasb.org/about-ipsasb>

Chapter 12. Accountability for Public Funds

Learning Objective 1: Describe the key objectives of Sindh Government's Internal Audit function and understand the key structures of the Internal Audit Committees

12.1 Internal Audit

Key Objectives of Internal Audit Function

Internal Audit function has remained virtually non-existent in public sector in Pakistan. Except for a few isolated examples in entities in corporate sector, there exists no concept of Internal Audit at either the Federal or Provincial Governments.

Government of Sindh has, however, developed an Internal Audit Charter for establishment of Internal Audit function in the Province. Some of the key Objectives of the Charter include the following:

- Additional assurance to the Government of Sindh including the administrative secretary and management of department concerned that the implementation of risk management and internal control mechanism is adequate, economical, efficient, effective and consistent with the generally recognized standards, legislation, rules and regulations;
- Detailed functions and mandate, terms of reference, structures and roles and responsibilities for an effective internal audit function aimed at improving transparency, governance and accountability in public resource management;
- Basis for improved value for money out of the use of precious public funds and other resources appropriated for service delivery;
- Whether internal controls are in place at appropriate levels of public management and operations;

Systems to check against pilferage, wastage, leakages, losses or frauds through:

- Assessment of reliability and integrity of financial and operational information;
- Assessment of extent of compliance with

government policies, procedures, laws, rules and regulations; and

- Overall technical assistance for the operational effectiveness efficiency of the administrative departments.

Institutional Framework for Internal Audit Function

There will be a Provincial Internal Audit Committee (PIAC) to be headed by Provincial Finance Minister. The Committee will be responsible for establishing and maintaining a robust internal audit function and mechanism for the government. The PIAC will oversee the implementation of the Internal Audit Charter and relevant laws and rules.

PIAC will be supported by an appropriately staffed secretariat to be established at the Finance Department.

At each department level, there will be Departmental Internal Audit Committee (DIAC) to be headed by the respective Secretary of the Department. The Departments will have an internal audit function established in the form of a Wing (for large administrative departments, like Education, Health, Irrigation, etc.) or a Cell for medium sized Departments.

In case of very small Departments, including autonomous and semi-autonomous bodies, corporations, companies other authorities established by the provincial government, the services of established internal audit wing or cell other Administrative Department can be solicited through the PIAC.

Composition of PIAC:

Finance Minister	Chairman
Chief Secretary	Vice Chairman
Additional Chief Secretary	Member
Secretary Finance	Member
Secretary Law Department	Member
Secretary of the concerned Department	Co-opted Member
Accountant-General	Member
Director-General Audit	Member
Private Sector Representative	Member
PIAC Secretariat Coordinator	Member/Secretary

Departmental Internal Audit Committee (DIAC)

Reporting by DG-IA / CIA: The Departmental CIA / Director General Internal Audit Wing/Cell shall report administratively to the PIAC and functionally to DIAC / secretary of the concerned department. The reporting will normally include:

- Submission of audit report to the DIAC
- Regular reporting to the Administrative Secretary including coverage of matters relating to fiduciary risk
- Regular assessment reporting on adequacy and effectiveness of the operational processes
- Reporting of significant issues and problems relating to core areas of concern with recommendations and impartial conclusions
- Provision of information on audit plan and other allied matters to the Secretary on a regular.

Relationship with External Auditors

- For effective and efficient use of resources, the DG IA / CIA and the External Auditors may consult each other.
- DG IA / CIA can discuss their audit plans with the External Auditors to avoid duplication of activities and resources.
- Availability of IA's working papers, documents and other material to the External Auditors to be on latter's request only.

Learning Objective 2: Appreciate the role of the Auditor General of Pakistan and Public Accounts Committee of Provincial Assembly in ensuring exgternal oversight and accountability for public funds

12.2 Auditor-General of Pakistan

The Office of the Auditor-General of Pakistan (OAGP) is responsible for ensuring public accountability and fiscal transparency in the governmental operations. The Auditor-General is appointed under the Constitution of the country. Reports produced by OAGP are laid before the National and Provincial Assemblies and are considered

in the Public Accounts Committee of the respective Assemblies.

OAGP also has a key role in strengthening the legislative oversight by providing an independent and objective assessment of the process of governance both at the federal and provincial levels.

A summary of key functions³⁵ performed by OAGP are as follows:

- Determining, with the approval of the President, such forms, principles and methods in which the accounts of the Federation and of the Provinces shall be kept
- Certifying the accounts, compiled and prepared by the Controller General of Accounts or any person authorized on that behalf for each financial year, showing under the respective heads the annual receipts and disbursements for the purpose of the Federation, each Province and each District
- Submitting the certified accounts with such notes/ comments or recommendations as he may consider necessary to the President or the Governor of a province or the designated district authority
- Preparing reports relating to the accounts of the Federation/Provinces and submit them to the President/Governor, who shall cause them to be laid before the National/ Provincial Assemblies

Performing the function of audit in respect of:

- expenditures from the Consolidated Fund and Public Accounts of the Federation and each Province
- receipts which are payable into the Consolidated Fund or Public Accounts of the Federal Government and of each Province and in the accounts of each district; and to provide assurance that these were payable, have been properly and correctly deposited; and internal controls are in place for their proper assessment and collection
- accounts of stores and stock kept in any office or department of the Federation or of a Province or of districts;
- trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts in any Federal or Provincial department and public sector enterprises
- the accounts of any body or authority substantially financed by loans or grants from the Consolidated Fund of the Federal or Provincial or District

Government and to provide assurance as to the fulfilment of the conditions subject to which such grants or loans were given.

Under Article 171 of the Constitution and in terms of Section 7, 9 and 10 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 the Auditor General of Pakistan is required to submit to the Governor the accounts of the province relating to each financial year along with his report thereon. These accounts together with the reports are called:

- Appropriation Accounts and the Audit Report thereon
- Finance Accounts
- Commercial Accounts and the Audit Report thereon

These reports indicate, among other things, what irregularities have been committed by the executive agencies in the management and control of the amounts placed at their disposal for expenditure. These reports are laid before the Provincial Assembly and examined and disposed of by the Public Accounts Committee of the Assembly in accordance with the Rules of Procedure of the Assembly.

12.3 Budget Oversight Role of Public Accounts Committee

Public Account Committee (PAC) is the body constituted from the members of the Provincial Assembly with principle functions to examine appropriations of Government expenditure, 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.

Matters relating to PAC are dealt with in Rules 189-194 of the Sindh Assembly Rules of Procedure.

PAC of the Sindh Assembly consists of Seven (7) elected members with Minister of Finance as its ex-officio member.

Key responsibilities of PAC in relation to review of the audit report are as follows:

- Examine the statement of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes, concerns and projects;
- Examine the statement of accounts showing the income and expenditure of state corporations,

- trading and manufacturing schemes (including autonomous and semi-autonomous bodies);
- Consider the report of the Auditor-General;
 - In scrutinizing the appropriation accounts and the reports of the Auditor General, the committee should satisfy itself to:
 - The money shown was legally available to the service it was provided for
 - Expenditure conforms to the authority which governs it
 - Re-appropriation has been in accordance with the provisions framed by the Finance Department
 - Examine any funds spent in excess of the amount granted by the Assembly and make appropriate recommendations

Learning Objective 3: Name various types of accounts and understand their key contents

12.4 Brief Description of Financial Statements, Appropriation Accounts and Commercial Accounts

Financial Statements

The Financial Statements deal with the Accounts of the Province as a whole, including transactions relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business and general financial matters.

Appropriation Accounts

The Appropriation Accounts consist of:

- a summary on total expenditure under each Grant/ Appropriation;
- audited accounts of the expenditure of the year whether "Authorized" or "Charged", separately for each Grant/ Appropriation, with important observations as a result of audit investigation; and
- detail on financial irregularities.

Commercial Accounts

Commercial Accounts consist of the accounts and review of government's commercial or semi-commercial concerns or undertakings, including their audited accounts and related audit observations

Commercial Accounts are a part of the Appropriation Accounts but published as a separate document for the purpose of convenience

12.5 Financial Irregularities

Some examples of financial irregularities include:

- Any expenditure incurred without sanction
- Any expenditure incurred without sufficient budget allocation
- Any re-appropriation made in defiance of the principles laid down for re-appropriation or supplementary grants
- Any expenditure during a financial year on a purpose not provided for in the Schedule of Authorized

- Expenditure/ Annual Budget Statement / Supplementary Budget Statement
- Loss of public money or property due to fraud,
- negligence or misappropriation
- Drawing money from treasuries, which is not required for immediate disbursement

Learning Objective 4: Gain an understanding of the types of audits and the overall audit process followed for audit of public expenditure

12.6 Audit of Accounts

According to the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards, the full scope of government auditing includes regularity and performance audit. Regularity audit comprises of the attest of Financial Statements called Certification Audit and Compliance with Authority Audit. Regularity audit embraces:

- Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinion on Financial Statements;
- Attestation of financial accountability of the government administration as a whole;
- Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- Audit of internal control and internal audit functions;
- Audit of the probity and propriety of administrative decisions taken within the audit entity; and
- Reporting of any other matters arising from or relating to the audit that the Supreme Audit Institution considers should be disclosed.

Performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces:

- Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- Audit of the efficiency of utilizing of human, financial and other resources, including the examination of information systems, performance measures, monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities

compared with the intended impact.

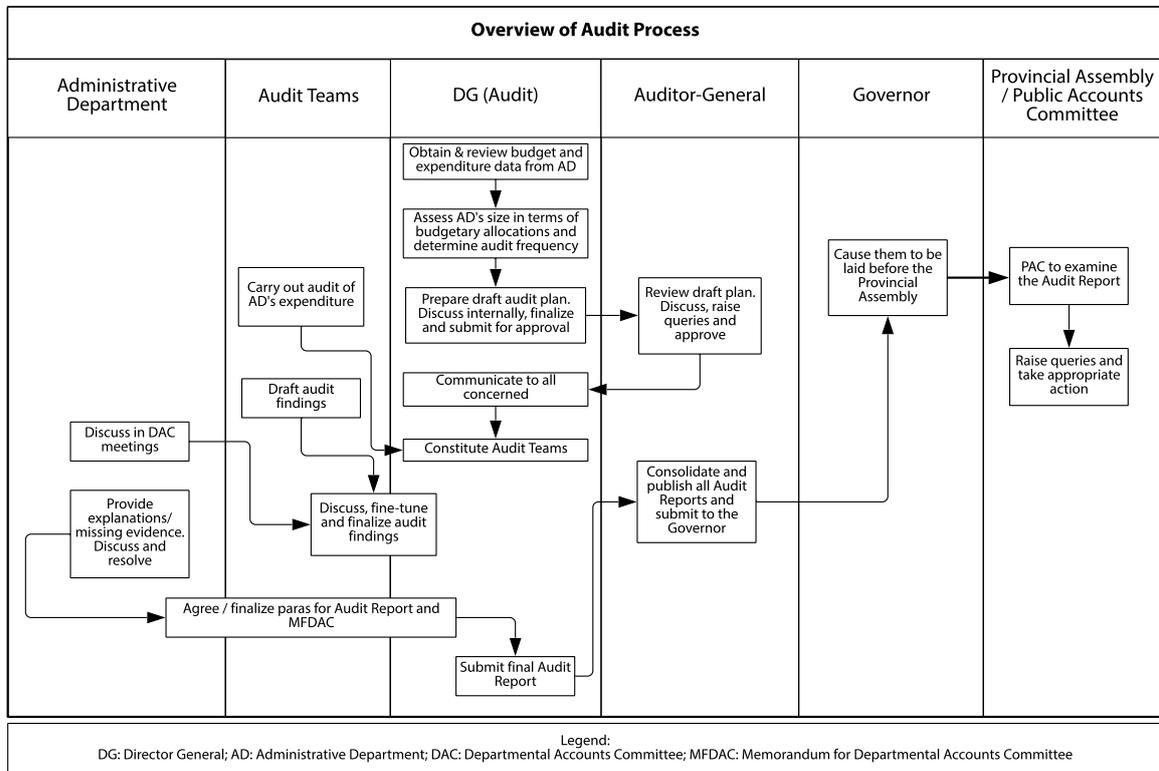
12.7 Audit Process

- Planning for audit usually starts in the last quarter of the financial year. Office of the DG (Audit) requests the administrative departments to provide expenditure incurred till-date against the allocated budget.
- Preliminary assessment of the expenditure / allocations are carried out by the concerned staff of the DG (Audit).
- Frequency of audit of the Departments is determined on the basis of their relative budget allocations and are categorized accordingly. For example, Departments with highest budget allocations are put in category 'A' and are subject to audit every year. Others with relatively less share in the overall budget outlay of the Government are put in category 'B' and 'C' and are subject to audit after two or three years.
- DG (Audit) prepares audit plan for auditing the Provincial Government's departments / entities.
- The plan is approved by the OAGP. The plan preparation and approval process usually takes around 2-3 months.
- DG (Audit) informs the concerned Administrative Department, Finance Department, Accountant-General's Office / CGA and OAGP.
- The Administrative Department communicates the same to the concerned DDO. DDO starts preparing the necessary information, data, reports, schedules, material for the audit.
- Audit teams are constituted for audit of the accounting records. Audit team assigned to a particular Department visits the DDOs offices and starts performing review / audit of the expenditure and other relevant information in light of the rules and regulations (i.e. Sindh Financial Rules, Accounting Policies & Procedures Manual, General

Financial Rules, Treasury Rules, Delegation of Financial Power Rules, Departmental policies/vision/mission statement and plans. The audit team generally comprises an Auditor and a Senior Auditor.

- Audit team enquires about the validity, accuracy and completeness of the expenditure incurred and ensures that it is incurred within the approved delegation of financial powers and prepares audit paras for violations of rules and regulations and other financial irregularities committed.
- At the conclusion of the audit, the team prepares a compilation of audit paras and submits the same to the DG (Audit) and the department concerned.
- Internal meetings in the Administrative Department are held to discuss the audit findings. Meetings of the audit team with their senior officers also take to determine the reasonableness of the audit paras.
- Meeting of the Departmental Accounts Committee (DAC) is held to discuss the audit report. DAC is chaired by Additional Secretary of the Department concerned and comprises other officials of the Department and audit team members. A representative of the Finance Department also attends the meeting.
- Audit paras are discussed in the DAC meeting and after provision of the required information / removing the deficiencies as identified in the audit paras, both sides agree on the final version of the audit findings. Upon auditors satisfaction, the relevant paras are removed and a final version of the audit findings is agreed upon.
- Audit paras of the individual DDOs audit are discussed as outlined above. The final version of the audit findings represents the compilation of remaining paras of all DDOs and are then made part of the overall audit report for the province. The report also includes a section on some audit observations for which the management of the Department has committed to provide information or take action as suggested by the auditors. These paras are presented separately in the final audit report as "Memorandum for Departmental Accounts Committee (MFDAC)". The final report is then submitted to the Governor of the Province.
- The report is also submitted to the Public Accounts Committee (PAC) of the Sindh Assembly (through the Finance Department), where it is deliberated upon according to PAC's own time table.

- The audit process is also presented in the diagram below:



Learning Objective 5: Understand the role of accountability agencies in eradication of corruption

12.8 Accountability Laws

National Accountability Ordinance, 1999

National Accountability Ordinance (NAO) was promulgated by the Federal Government in 1999 to eradicate corruption in Pakistan. Some of the key features of this law are summarized as follows:

- Setting up of a National Accountability Bureau to eradicate corruption and corrupt practices and hold accountable those accused of such practices
- Take effective measures for the detection, investigation and prosecution of cases involving corruption, corrupt practices, misuse / abuse of powers, misappropriation of property, kickbacks & commissions and ensuring speedy disposal
- Recovery of the outstanding amount from those persons who have committed wilful default in repayments to banks, development finance institutions, government and other agencies.
- Implement policies and procedures for awareness, prevention, monitoring and combating corruption in the society

- Corruption and corrupt practices committed by holder of public office or any other person is cognizable under NAB Ordinance, 1999.
- Punishment may include imprisonment (up to 14 years) or fine or both. Also, fine may also be imposed which may shall not be less than the gains derived by the accused.
- The law empowers the government to establish Accountability Courts in the country. The Accountability Court can take cognizance of any offence upon a reference by the Chairman NAB or an officer of the NAB duly authorized by him.

National Accountability Bureau (NAB)

National Accountability Bureau (NAB) operates under the National Accountability Ordinance 1999 and is entrusted with the responsibility of eliminating corruption through a holistic approach of awareness, prevention and enforcement.

NAB has headquarters in Islamabad, with seven regional offices in Karachi, Lahore, Peshawar, Quetta, Rawalpindi, Multan and Sukkur. It takes cognizance of all offences falling within the National Accountability Ordinance (NAO).

During initial three years, NAB focused mainly on detection, investigation and prosecution of white-collar crime and prosecuted politicians, public service officials and other citizens who were either guilty of abuse of powers, or had deprived the national exchequer of millions of rupees through corruption or resorted to other corrupt practices.

After its role re-defined under the National Anticorruption Strategy (NACS) project in February 2002 and relevant amendments made in NAO, NAB is now empowered to undertake prevention and awareness in addition to its enforcement functions. NAB can initiate enquiries for cases involving corruption and corrupt practices, misuse and abuse of authority, creation of assets beyond known sources of income as specified in the NAO 1999.

NAB is headed by a Chairman who is appointed by the Federal Government in consultation with the Opposition Leader in the National Assembly. Key powers vested in Chairman NAB include the following:

- order freezing of movable or immovable property
- authority to file a reference
- may request the concerned court for transfer of

case(s) to the Accountability Court

- call for information from any person during inquiry/ investigation in connection with the provisions of the Ordinance
- request a Foreign State to have the evidence taken/ obtained, freeze assets, confiscate articles, transfer such evidence or articles or assets to Pakistan and transfer the person in custody to Pakistan
- inquire/ investigate any suspected offence in conjunction with any other agency or with any person
- direct that the accused be arrested during investigation of the case
- authority to declare and notify any place as a police station or a sub- jail at his discretion
- tender full or conditional pardon to any accused with a view to obtain evidence of such person who is supposed to have been directly or indirectly concerned in or privy to the offence
- seek full & complete assistance from any department, organization, office
- delegate any of his powers and authorized performance of his functions to nay officer of NAB

Procedure for reporting of an offence to NAB

NAB entertains only those complaints that pertain to offence(s) mentioned in Section 9-A of the NAB Ordinance. A holder of a public office, or any other person, can be tried under this Ordinance if the person is said to have committed the following offence(s) of corruption and corrupt practices:

- Acceptance of gratification
- Accepting any valuable thing without consideration
- Misappropriation of property
- Obtaining any valuable thing or pecuniary advantage by corrupt, dishonest or illegal means
- Acquiring, owning or possessing wealth/assets disproportionate to his known sources of income
- Misuse of authority for personal favors
- Issuing any policy, directive or other order to grant undue benefit himself
- Wilfully committing an offence of default
- Committing an offence of cheating
- Committing an offence of criminal breach of trust
- Committing an offence of criminal breach of trust (by banker, merchant, broker, attorney, etc.)
- Providing assistance to someone on committing the above offences

- Key steps involved in lodging a complaint with NAB against a person who has allegedly committed an offence under Section 9-A are listed as under:
- Prepare an application addressed to the Chairman of NAB
- Attach necessary documentary evidence in support of the complaint
- Attach an affidavit certifying correctness and genuineness of the evidences attached and also mentioning that the matter is not sub-judice under any court or other investigation agency in Pakistan
- Attach a copy of National Identity Card and mention personal details (name, address and phone number)
- Attestation of affidavit by notary public
- Submit the completed application to the nearest Regional Office of NAB (may be hand-delivered or couriered). NAB Regional Offices are located at Karachi, Lahore, Peshawar, Quetta, Rawalpindi, Sukkur and Multan.

The Sindh Enquiries and Anti-Corruption Act, 1991:

The Act constitutes a special agency for the investigation of certain offences relating to corruption by, or enquiry into misconduct of, public servants and for holding preliminary enquiries against such servants in Sindh.

Suggested Readings:

- Sindh Internal Audit Charter: [http://fdsindh.gov.pk/site/userfiles/IA%20Charter%20-%20Approved%20\(1\).pdf](http://fdsindh.gov.pk/site/userfiles/IA%20Charter%20-%20Approved%20(1).pdf)
- Constitution of Pakistan (Provisions relating to the Auditor-General of Pakistan)
- Rules of Business of the Sindh Assembly
- Sindh inquiries and anti-corruption Act, 1991

Chapter 13. Policy Review and PFM Diagnostic Tools

13.1 Policy Reviews

The last phase of the budget cycle concentrates on the evaluation of government policies. Based on policy evaluation, a government can decide to alter its policies. Such policy changes need to be taken into account in the strategic planning stage of the next budget.

It is not necessary to evaluate all government policies in-depth each year. This would be too costly and add too little value. A more efficient approach is to schedule evaluation at intervals of various years. The planning and control of such an evaluation schedule forms part of the budget cycle.

The reviews involve assessment of actual versus desired government policy outcomes. Adaptations of strategic policy mix based on outcomes of government policy effectiveness and efficiency in service delivery.

Policy review should be an integrated phase of the budget cycle. In Pakistan, however, policy reviews are not carried out as an integrated phase of the budget cycle, but only on an ad hoc basis by way of Public Expenditure Reviews (PER), Public Expenditure Tracking Survey (PETS), annual progress reviews and other reviews usually initiated by the donor community. These are more frequently referred to as 'PFM diagnostic tools' discussed in the next section.

Learning Objective 1: Gain an overview of various diagnostic tools available for PFM assessment

13.2 PFM Diagnostic Tools³⁶

Financial diagnostics are undertaken in the public sector to provide information on the status of the financial management system. Diagnostic tools have largely been developed by donor agencies but are undertaken in close collaboration with government counterparts. Country ownership of the reports and findings is promoted. Financial diagnostics are used to inform the development of a PFM reform strategy and progress on the reforms. Diagnostic tools are also used by donors to inform a fiduciary risk assessment, which can be used to guide funding and lending operations.

Code of Good Practice on Fiscal Transparency

This diagnostic tool is used to identify principles and practices for the structure and finances of government. It sets out a code of good practices on fiscal transparency, based on four key principles: (i) the roles and responsibilities in government should be

clear; (ii) information on government activities should be provided to the public; (iii) budget preparation, execution and reporting should be undertaken in an open manner; and (iv) fiscal information should attain widely accepted standards of data quality and be subject to assurances of integrity.

Public Expenditure Review (PER) and Public Expenditure Tracking Survey (PETS)

PER is used to understand a country's fiscal position and its expenditure policies (particularly if they are pro-poor). It is intended to aid expenditure allocation and management decisions made during budget formulation and help strengthen the composition and management of the budget to deliver policy priorities. PER is usually undertaken by the World Bank.

PETS has been closely associated with PER. This is a quantitative survey of the supply side of public services, which traces the flow of resources from origin to destination and determines the location and scale of any anomalies.

³⁶ Based on "A guide to public financial management literature - For practitioners in developing countries" - by Overseas Development Institute.

Country Financial Accountability Assessment (CFAA)

The World Bank's Country Financial Accountability Assessment (CFAA) is a diagnostic tool used to examine the strengths and weaknesses of a country's financial accountability arrangements. It is used alongside

other diagnostic tools such as the PEFA to develop an integrated fiduciary assessment, which is used to inform the World Bank's Country Assistance Strategy. The tool is primarily used by the World Bank and other donors, and is developed in close consultation with governments.

Learning Objective 2: Understand PEFA concept and methodology

13.3 Public Expenditure and Financial Accountability (PEFA) Assessment³⁷

The Public Expenditure and Financial Accountability (PEFA) program provides a framework for assessing and reporting on the strengths and weaknesses of PFM using quantitative indicators to measure performance.

PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time.

The PEFA framework includes a report that provides an overview of the PFM system and evidence-based measurement against 31 performance indicators. It also provides an assessment of the implications for overall system performance and desirable public financial management outcomes. It provides a foundation for reform planning, dialogue on strategy and priorities, and progress monitoring.

PEFA helps governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes.

The PEFA methodology draws on international standards and good practices on crucial aspects of PFM, as identified by experienced practitioners. PEFA incorporates a PFM performance report for the subject government that presents evidence-based indicator scores and analyzes the results based on existing evidence. It emphasizes a country-led approach to performance improvement and the alignment of stakeholders around common goals.

Governments use PEFA to obtain a snapshot of their own PFM performance. PEFA offers a common basis for examining PFM performance across national and sub-national governments. PEFA scores and reports allow all users of the information to gain a quick overview of the strengths and weaknesses of a country's PFM system.

Composition of PEFA Framework

The purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their objectives. An open and orderly PFM system is one of the enabling elements needed for desirable fiscal and budgetary outcomes:

- Aggregate fiscal discipline requires effective control of the total budget and management of fiscal risks.
- Strategic allocation of resources involves planning and executing the budget in line with government priorities aimed at achieving policy objectives.
- Efficient service delivery requires using budgeted revenues to achieve the best levels of public services within available resources.

PEFA identifies seven pillars of performance in an open and orderly PFM system that are essential to achieving these objectives. The seven pillars thereby define the key elements of a PFM system. They also reflect what is desirable and feasible to measure. The pillars are as follows:

- **Budget reliability.** The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.
- **Transparency of public finances.** Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive

³⁷ Based on information available at www.pefa.org

budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

- **Management of assets and liabilities.** Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.
- **Policy-based fiscal strategy and budgeting.** The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.
- **Predictability and control in budget execution.** The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.
- **Accounting and reporting.** Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.
- **External scrutiny and audit.** Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Each pillar comprises a group of indicators that capture the performance of the key systems, processes, and institutions of government. Each indicator in turn includes one or more performance dimensions. A complete listing of the individual indicators and their constituent performance dimensions is provided in Annexure - M.

Each dimension of the indicators measures performance against a four-point ordinal scale from A to D. The highest score is warranted for an individual dimension if the core PFM element meets an internationally recognized standard of good performance. Dimension-specific scores are aggregated to reach an overall score for each indicator using an appropriate method based on the degree of linkage between the individual dimensions.

What institutions PEFA covers or does not cover

The PEFA indicator set is focused on the financial operations of the entire level of government covered by the assessment. Sub-national governments (provinces/districts) with a direct relationship to central government are also separately covered as part of the performance indicators. PEFA examines operations outside of the government being assessed only to the extent that they have an impact on the fiscal performance of the central government.

The PEFA indicators focus on the operational performance of key elements of the PFM system rather than on all the various inputs and capabilities that may enable the PFM system to reach a certain level of performance. PEFA thus does not measure every factor affecting PFM performance, such as the legal framework or human resource capacities within the government.

PEFA does not involve fiscal or expenditure policy analysis that would determine whether fiscal policy is sustainable. It does not evaluate whether expenditures incurred through the budget ultimately have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery. International organizations and research institutions have such tools at their disposal to perform more detailed analysis, such as public expenditure reviews (PER) performed by the World Bank. PEFA focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes.

PEFA Assessments of Sindh Government

Two PEFA assessments for Sindh were carried out in 2009 and 2013. A comparison of the assessments suggests that in 2013, scores against:

- 11 Performance Indicators remained unchanged;
- 7 Performance Indicators demonstrated improvement;
- 11 Performance Indicators showed deterioration over the 2009 assessment.

A Table showing comparison of the two assessments for each Performance Indicator is given below:

PERFORMANCE INDICATORS		SCORE 2009	SCORE 2013
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	C
PI-2	Composition of expenditure out-turn compared to original approved budget	D	C
PI-3	Aggregate revenue out-turn compared to original approved budget	B	D
PI-4	Stock & monitoring of expenditure payment arrears	D+	NR [not reported]
PI-5	Classification of the budget	A	A
PI-6	Comprehensiveness of information included in budget documentation	A	B
PI-7	Extent of unreported government operations	D+	D+
PI-8	Transparency of inter-governmental fiscal relations	B	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D	C+
PI-10	Public access to key fiscal information	C	C
PI-11	Orderliness and participation in the annual budget process	B+	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	C	D
PI-13	Transparency of taxpayer obligations & liabilities	C	B
PI-14	Effectiveness of measures for taxpayer registration & tax assessment	D+	D+
PI-15	Effectiveness in collection of tax payments	C+	B+
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	C+
PI-17	Recording and management of cash balances, debt & guarantees	B	C+
PI-18	Effectiveness of payroll controls	C+	D+
PI-19	Transparency, competition and complaints mechanism in procurement	NA	C+
PI-20	Effectiveness of internal controls for non-salary Expenditure	C	C
PI-21	Effectiveness of internal audit	D	NR
PI-22	Timeliness & regularity of accounts reconciliation	C+	D+
PI-23	Availability of information on resources received by service delivery unit	B	A
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality & timeliness of annual financial statements	B	C+
PI-26	Scope, nature & follow-up of external audit	D+	C+
PI-27	Legislative scrutiny of the annual budget law	D+	D+
PI-28	Legislative scrutiny of external audit reports	D+	D+
D-1	Predictability of Direct Budget Support	C+	D
D-2	Financial information by donors for budgeting & reporting on project & program aid	C+	D+
D-3	Proportion of aid that is managed by use of national procedures	B	B
HLG-1	Predictability of Transfers from Higher Level of Government	A	D+

Suggested Readings:

- A guide to public financial management literature - For practitioners in developing countries - by Overseas Development Institute
- For PEFA, see www.pefa.org

Chapter 14. Resource Transfers under National Finance Commission Award

Learning Objective 1: Identify key taxing powers of the Federal and Provincial Governments under the relevant constitutional provisions of 18th Constitutional Amendment

14.1 18th Amendment to the Constitution

The 18th Amendment to the Constitution deleted the list of federal/provincial concurrent responsibilities and reassigned selective functions to the federation to be guided by the Council of Common Interest (CCI) and devolved others to the provinces.

The federal government has also been constrained in terms of its authority over banking, finance, and insurance as its regulatory authority no longer extends to provincially owned entities or private entities operating in a single province.

The federal government has been mandated to consult the provinces prior to initiating any hydroelectric projects. The provinces, on the other hand, have been given a free hand in all public services delivered within their territory, and control over all local government institutions.

All the residual functions not enumerated in the constitution also fall within the provinces' domain.

14.2 Re-assignment of functions under the Constitution

Federal functions - Federal Legislative List I

RE-ASSIGNED FUNCTION

Defence

External affairs and international treaties Immigration and citizenship

Post and telecommunications

Central banking, currency, foreign exchange

Corporate regulation, including banking and insurance

Fishing beyond territorial waters

Standards of weights and measures

International and interprovincial trade

Nuclear energy

Airports, aircraft, air navigation, air and sea travel and shipment, lighthouses

Patents, trademarks, copyrights

RE-ASSIGNED FUNCTION

Stock exchanges and futures markets

National highways and strategic roads

Federal geological surveys and meteorological organizations

Local government in cantonment areas

Joint Federal-Provincial tasks (Federal Legislative List - I, Part II)**RE-ASSIGNED FUNCTION**

Electricity

Minerals, oil, and natural gas

Railways

Major ports

Censuses

Public debt

Federal corporate entities, including the Water and Power Development Authority and Pakistan Industrial Development Corporation

Legal, medical, and other professions

Provincial police operations beyond provincial boundaries

Industrial policy

National planning and national economic coordination

Coordination of scientific and technological research

All regulatory authorities under a federal law

Standards in higher education and research, scientific and technical institutions

Interprovincial matters and coordination

According to the Fourth Schedule of the Constitution, the re-assigned functions of the Federal and Provincial Governments are as follows:

- Provincial Functions
- Provincial governments perform all residual functions.
- Functions of the local governments are determined by the provincial governments.

14.3 Re-assignment of Taxing Powers

There has also been a limited reassignment of taxing powers of federal and provincial governments. Following matrix shows the types of taxing powers added / deleted:

GOVERNMENT	TAXING POWERS ADDED	TAXING POWERS DELETED
Federal Government	Taxes on the sale and purchase of goods Taxes on the capital value of assets, excluding immovable property	Estate and inheritance taxes (wealth tax, including agricultural wealth) Value Added Tax (VAT) / General Sales Tax on services Zakat and usher
Provincial Government	Value Added Tax (VAT) / General Sales Tax on services Taxes on immovable property Zakat and usher International and domestic borrowing, subject to limits and conditions imposed by National Economic Council	
Local Government	No change in taxing powers of the local governments	

Learning Objective 2: Appreciate the concept of fiscal transfers under NFC Award

14.4 Why Fiscal Transfers?

Generally, central governments collect taxes and re-distribute to sub-national governments (Provincial / Local Governments).

Provincial share in the overall national resources is generally significantly less when compared to the tax collections by central governments, resulting in fiscal imbalances in the provinces.

The purpose of fiscal transfer system is to equalize vertical fiscal imbalances between the central governments and the provinces and correct horizontal imbalances in fiscal capacity among the provinces.

14.5 Transfers from the Federal Government under NFC Award

National Finance Commission (NFC) Award

Pakistan is a federation with centralized Government structure. The federation comprises four provinces, namely Balochistan, Khyber Pakhtunkhwa, Sindh and Punjab.

A large portion of Direct & Indirect taxes are collected by the Federal Government through its tax collecting agencies/departments with offices throughout the country, which are later distributed between the Federal

Government and Provinces according to a defined formula.

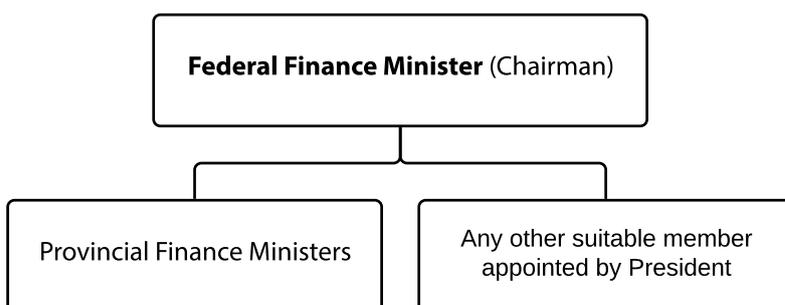
A National Finance Commission (NFC) has been set up which is responsible for devising mechanism for this distribution. Article 160 of the Constitution provides for guidance for NFC Award.

Taxes collected in each province redistributed according to the NFC formula. Since its inception in 1973, 7 NFC awards have been announced.

Charter of NFC

- Distribution of the net proceeds of the taxes between the Federation and the Provinces
- Making of grants-in-aid by the Federal Government to the Provincial Governments
- Exercising borrowing powers by the Federal Government and the Provincial Governments
- Any other matter relating to finance referred to the Commission by the President

NFC Composition



Chronology of NFC Awards

AWARDS	STATUS	FISCAL YEAR
First NFC Award 1974	Conclusive	1974–79
Second NFC Award 1979	Inconclusive	1979–84
Third NFC Award 1985	Inconclusive	1985–90
Fourth NFC Award 1991	Conclusive	1991–96
Fifth NFC Award 1997	Conclusive	1997–98
Sixth NFC Award 2002	Inconclusive	2002–2003
Seventh NFC Award 2009	Conclusive	2010–11

Learning Objective 3: Name 'Divisible Pool' Taxes and understand the resource distribution criteria under the 7th NFC Award

14.6 Divisible Pool Taxes

Taxes subject to distribution

- Taxes on income
- Wealth tax
- Capital value tax
- Taxes on sales and purchases of goods imported, exported, produced, manufactured or consumed
- Export duties on cotton
- Customs-duties
- Federal excise duties excluding the excise duty on gas charged at well-head
- Any other tax that may be levied by the Federal Government

Distribution Criteria:

INDICATOR	% WEIGHT
Population	82.00
Poverty/backwardness	10.30
Revenue Collection/ generation	5.00
Inverse population density	2.70
TOTAL	100

Federal and Provincial Share:

SHARE/ PROVINCE	6 TH NFC AWARD	7 TH NFC AWARD	EFFECT
Federal Share	52.7%	44% (2010-11) 42.5% (2011-12 onwards)	Reduced
Provincial Share	47.3%	56% (2010-11) 57.5% (2011-12 onwards)	Increased
NET EFFECT			
Punjab	53.01%	51.74%	1.27% Decreased
Sindh	24.94%	24.55%	0.39% Decreased
Khyber Pakhtunkhwa	14.88%	14.62%	0.26% Decreased
Balochistan	7.17%	9.09%	1.92% Increased

Box : How are NFC Resources Distributed Vertically and Horizontally?**Divisible Pool =**

Taxes on Income

Plus Wealth Tax*Plus* Capital Value Tax*Plus* Taxes on sales & purchase of goods*Plus* Export duties on cotton*Plus* Customs duties*Plus* Federal excise duties (excluding the excise duty on gas charged at wellhead prices)*Less* Federal Government's Collection Charges (1%)*Less* 1% charge on war on terror (for KP only)**Net Divisible Pool****Vertical Distribution:**

Federal Government's Share --> 42.5% (FY2011-12 onwards)

Provincial Share (Consolidated) --> 57.5% (FY2011-12 onwards)

Horizontal Distribution (amongst Provinces)

Punjab	51.74%
Sindh	24.55%
Khyber Pakhtunkhwa	14.62%
Balochistan	9.09%

Learning Objective 4: Practically apply the concepts discussed in this Chapter**Activity: Calculating share of Federal and Provincial Governments under the 7th NFC Award**

A simplified summary of Divisible Pool Taxes for a financial year is given in Table 1. Using the concepts explained in this Chapter, calculate:

- Share of the Federal Government and combined share of all Provinces (under Vertical Distribution)
- Individual share of the Provinces (under Horizontal Distribution)

Write the respective share of the Federal and Provincial Governments in Table 2.

TABLE 1: SUMMARY OF DIVISIBLE POOL TAXES

Taxes / Duties	(Rs. In Million)
Income Tax	890,000
Capital Value Tax	2,000
Taxes on sales & purchase of goods	925,000

Export Duties on cotton	5,000
Customs Duties	345,000
Federal Excise Duties (excluding the excise duty on gas charged at wellhead prices)	115,000
Wealth Tax	-
Total	2,282,000

Table 2: Share of Federal and Provincial Governments (to be calculated)

Government	Share in Divisible Pool Taxes (Rs. In Million)
Vertical Distribution:	
Federal Government	
All Provinces	
Total	
Horizontal Distribution:	
Balochistan	
Khyber Pakhtunkhwa	
Punjab	
Sindh	
Total	

Suggested Readings:

- Presidential Orders on NFC Award
- Constitution of Pakistan (Article 160-163)
- Constitution of Pakistan (Fourth Schedule)

Chapter 15. Service Delivery under Public Private Partnership Arrangements

Learning Objective 1: Understand the concept of Public Private Partnership (PPP) and appreciate various PPP models

15.1 What is PPP?

World Bank's³⁸ 'PPP knowledge lab' defines a PPP as "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance". PPPs mostly do not include service contracts or turnkey construction contracts, which are categorized as public procurement projects, or the privatization of utilities where there is a limited ongoing role for the public sector.

PPP is a broad term that can be applied to anything from a simple, short term management contract (with or without investment requirements) to a long-term contract that includes funding, planning, building, operation, maintenance and divestiture. PPP arrangements are useful for large projects that require highly-skilled workers and a significant cash outlay to get started.

An increasing number of countries are enshrining a definition of PPPs in their laws, each tailoring the definition to their institutional and legal particularities.

15.2 PPP Models

Different models³⁹ of PPP funding are characterized by which partner is responsible for owning and maintaining assets at different stages of the project. Examples of PPP models include:

- **Design-Build (DB):** The private-sector partner designs and builds the infrastructure to meet the public-sector partner's specifications, often for a

fixed price. The private-sector partner assumes all risk.

- **Operation & Maintenance Contract (O & M):** The private-sector partner operates a publicly-owned asset for a specific period of time. The public partner retains ownership of the assets.
- **Design-Build-Finance-Operate (DBFO):** The private-sector partner designs, finances and constructs a new infrastructure component and operates/maintains it under a long-term lease. The private-sector partner transfers the infrastructure component to the public-sector partner when the lease is up.
- **Build-Own-Operate (BOO):** The private-sector partner finances, builds, owns and operates the infrastructure component in perpetuity. The public-sector partner's constraints are stated in the original agreement and through on-going regulatory authority.
- **Build-Own-Operate-Transfer (BOOT):** The private-sector partner is granted authorization to finance, design, build and operate an infrastructure component (and to charge user fees) for a specific period of time, after which ownership is transferred back to the public-sector partner.
- **Buy-Build-Operate (BBO):** This publicly-owned asset is legally transferred to a private-sector partner for a designated period of time.
- **Build-Lease-Operate-Transfer (BLOT):** The private-sector partner designs, finances and builds a facility on leased public land. The private-sector partner operates the facility for the duration of the land lease. When the lease expires, assets are transferred to the public-sector partner.
- **Operation License:** The private-sector partner is granted a license or other expression of legal permission to operate a public service, usually for

³⁸ <http://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships>

³⁹ <http://whatis.techtarget.com/definition/Public-private-partnership-PPP>

- a specified term. (This model is often used in IT projects.)
- Finance Only: The private-sector partner, usually a financial services company, funds the infrastructure component and charges the public-sector partner interest for use of the funds.
 - **Viability Gap Fund (VGF):** Sometimes a VGF is created to fund projects which are generally economically viable but fall short of commercial

/ financial viability due to, for example, private sector being unable to fully provide the required amount of funds. VGF represents a cash fund that pre-empts the requirement for Finance Department to process approvals for each and every PPP payment. Allocations for VGF are made as part of annual budget process and money is held in the VGF so that cash availability is ensured at the time of processing of payments to the private sector partner.

Learning Objective 2: Explain the process followed in Sindh for selecting a private sector partner for PPP projects

15.3 PPP in Sindh Government⁴⁰

Government of Sindh has taken the initiative of Public Private Partnership to build large infrastructure projects and improve service delivery in the public sector by engaging private-sector partners in different sectors of economy.

A Public Private Partnership Act was promulgated in 2010 and a high-powered PPP Policy has been created under the chairmanship of Chief Minister to issue PPP policy guidelines and oversee the implementation/ administration of PPP projects in the Province.

A PPP Unit has also been established within the Finance Department, Government of Sindh, under the technical assistance of Asian Development Bank, to facilitate and develop PPP projects and procedures to improve the socio-economic milieu of Sindh.

PPP Unit has delivered projects like Hyderabad Mirpurkhas Dual Carriageway, Karachi Thatta Dual Carriageway, Jhirk Mulla Katiar Bridge, NICH Security & Fire Safety project, Sindh Nooriabad Power Projects, Education Management Organizations amongst others.

15.4 PPP Process⁴¹

Step 1 - Department or private sector entity identifies opportunity for a PPP consistent with government needs and priorities.

Step 2 - Project feasibility undertaken by department

or private sector entity.

Step 3 - Project proposal submitted to PPP Unit of Finance Department.

Step 4 - PPP Unit convenes steering committee meeting consisting of relevant Planning and Development Department wing, relevant administrative department and Finance Department.

Step 5 - Steering Committee examines proposal feasibility study for:

- Relevance of project to government's stated priorities
- Future financial commitment required of government in the context of government's sectoral resource constraints
- Practical issues in relation to legal and operating environment
- Potential impact on various stakeholders

Step 6 - Decision by PPP Unit to proceed or discard proposal

Step 7 - Proposal forwarded to Advisory Board (AB) for endorsement in case decision is to be obtained from AB

Step 8 - Decision by Advisory Board to proceed or discard

Step 9 - Selection of Project Manager appointed and Project Group established (or Director General PPP or Director PPP can assume this responsibility, however, this is purely internal issue which can be decided at local level)

⁴⁰ This Chapter describes PPP-related processes/projects for Sindh .

⁴¹ Sindh PPP Policy Guidelines, 2008

Step 10 - Project advisers identified and appointed

Step 11 - Tender structure and evaluation procedure defined with panel input

Step 12 - Tender specifications prepared

Step 13 - Project contract documentation drafted with assistance of commercial law firm

Step 14 - Tender procurement notice issued

Step 15 - Tender proposals submitted and ranked by PPP Unit evaluation panel

Step 16 - Negotiations on project documentation and clauses entered into with first ranked tender

Step 17 - If negotiations fail with first ranked tender, move to next ranked tender or retender

Step 18 - Project documentation executed

Step 19 - Project implementation commenced

Step 20 - Completion certificates issued in relation to any infrastructure construction, commissioning and operational issues

Step 21 - Delivery of good and/or service commences

Step 22 - Ongoing contract management, performance monitoring and subsidy payments/receipts from/to government by the relevant administrative department

Step 23 - Closure of PPP activity

15.5 Key PPP Projects⁴² in Sindh

PPP projects administered by Works and Services Department:

- Hyderabad-Mirpurkhas Dual Carriageway (Rs. 6.5 billion)
- Jhirk Mullah Katiar Bridge (Rs. 4.2 billion)
- Karachi Thatta Dual Carriageway (Rs. 9.9 billion)
- PPP projects administered by Transport

42 Budget Analysis 2015-16, Sindh Finance Department

Department:

- Intercity Bus Project (Rs. 2 billion)
- Rapid Bus Transit project for Karachi
- Karachi Thatta Dual Carriageway
- Vehicle Inspection and Certification System (VICS)
- Malir Expressway Project
- Jhirk Mulla-Katiyar Bridge (JMK)
- Performance Based Contracts for Health Facilities
- Education Management Organizations (EMOs)

Similarly, **Energy** Department has administered a 100MW Sindh Nooriabad Power Project on PPP mode, while Health Department is implementing a management and services contract with the assistance of various partners of the private-sector for improvement of health services and facilities in RHCs/THQs/DHQs and hospitals.

In **Education** sector, service delivery improvement initiative is being implemented through Education Management Organizations (EMOs).

PPP projects in **Health** sector are being implemented with private partners like Indus Hospital, Aman Foundation, Merlin International and Integrated Health Services (IHS) through management and services contract for RHCs/THQs/DHQs, other hospitals and Ambulance Services for improving infrastructure and availability of health services. Health Department also signed a management contract under PPP mode for outsourcing the Security and Safety at National Institute of Child Health in Karachi.

Suggested Readings:

- Sindh PPP Unit: www.pppunitsindh.gov.pk
- Sindh Budget Analysis

Chapter 16. Local Government Structures and Financial Management

Learning Objective 1: Understand the key provisions of Sindh Local Government law on financial management

16.1 Local Government System

In Pakistan, Local Government is the third tier in the executive branch of government after the Federal and Provincial Governments. Article 140-A of the Constitution stipulates that “each Province shall, by law, establish a local government system and devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments”.

Sindh Government has enacted laws for setting up and administering local governments. The Local Governments exercise administrative and financial powers as defined by the Sindh Government.

16.2 Local Government Structures in Sindh

Sindh promulgated Local Government (LG) Act in 2013. The objectives of the Act are to establish an elected local government system to devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments; to promote good governance, effective delivery of services and transparent decision making through institutionalized participation of the people at local level; and, to deal with related matters.

The Act specifies various local councils to be formed as part of the local government system. These are classified under Urban Local Councils and Rural Local Councils as mentioned below:

- Urban Local Councils:
- Metropolitan Corporation
- Municipal Corporation
- Municipal Committee;
- Town Committee;

- Rural Local Councils:
- District Council
- Union Council

Local Government Board in Local Government Department deals with matters relating to Local Councils. These may include service issues, financial matters, rules, regulations pertaining to the Local Councils.

Population size is a key determinant for constitution of a local council and is given in the table below:

Key functions of Metropolitan Corporation

A Metropolitan Corporation covers a population of 3.5 million people or more. Some of the compulsory functions performed by the Metropolitan Corporation include:

- Planning development and maintenance of Inter-district roads, bridges, street lights and storm water drains
- Special Development Programme
- Co-ordination. Monitoring and supervision of all inter-district development / maintenance work
- Maintenance of Abattoirs and Cattle Colonies to be specified by Government
- Medical Colleges and Teaching/Specialized Hospitals and such other institutions as were being managed by City District Government Karachi or Karachi Metropolitan Corporation or as may be specified by Government before commencement of this Act
- Zoological Gardens, Safari Park, Aquarium, Sports Complex and Beeches
- Art Gallery, Museum and Metropolitan Library
- Municipal Watch and Ward

- Fire Fighting Service
- Civil Defence
- Traffic Engineering
- Milk Supply Schemes
- Control of Land owned by Metropolitan Corporation and Removal of Encroachments from the properties owned by Metropolitan Corporation
- Celebration of National Days
- Reception of foreign dignitaries / distinguished guests
- Providing protection against stray animals and animal trespass, and establishing cattle pounds
- Regulation or prohibition of the establishment of brick kilns, potteries and other kilns within the residential areas

Key functions of Corporations (other than Metropolitan Corporations), Municipal Committees and Town Committees

Key compulsory functions are summarized below:

- Make adequate arrangements for the removal of refuse from all public streets, public latrines, urinals, drains and all buildings and lands vested in the Council concerned and for the collection and proper disposal of such refuse
- Register all births, deaths and marriages within the Local Area
- Adopt measures to prevent infectious diseases and for restraining infection within the Local Area
- Control, regulate and inspect all private sources of water supply within the concerned Local Area
- Provide adequate system of public drains in the Local Area
- Provide and maintain at such site or sites within or without Local Area as may be approved by Government one or more Slaughter Houses for the slaughter of animals generally or of any specified description of animals for sale
- Provide and maintain such public streets and other means of public communication as may be necessary for the comfort and convenience of local inhabitants and visitors to the local area
- Lay out new streets
- Take such measures as may be necessary for the proper lighting of the public streets and other public streets and other public places vesting in the Council concerned by oil, gas, electricity or such other illuminate as the Council may determine
- Grant licences for public vehicles (other than motor vehicles)
- Take such measures as may be necessary for promotion of adult education.
- Monitor Primary Education and related facilities and report any violations, failures, omissions in provision thereof by the authority concerned to the Government
- Provide protection against stray animals and animal trespass and establish cattle pounds
- Regulate or prohibit establishment of brick kilns, potteries and other kilns within the residential areas

Key Functions of the District Councils

Key functions are summarized below:

- Aggregation of the financial allocations and physical programmes and targets received from the Sindh Government in different sectors and to draw up a District Development Programme.
- To make proposals to the Sindh Planning and Development Department for modifications in the aggregate District Programme
- To discharge the overall responsibility for the identification of projects and appraisal and approval of projects prepared and to be constructed by Union Councils in various sub-sectors (e.g. Primary, Middle and Secondary education; Rural Health Centres, etc.).
- To supplement the programme of the District derived from the Sindh Development Programme with financial and other resources.
- Disbursement of ADP funds for the approved projects (placed at the disposal of District Council by the Provincial Government) to various Union Councils.
- To arrange the procurement and distribution of locally made equipment and material for Health Centres and Schools.
- To take appropriate measures for the development of skills, Crafts and Cottage Industries.
- To review the implementation of the District Development Programme
- To monitor the supply of agricultural inputs and to make appropriate recommendations to the concerned authorities.
- To formulate Union Development Programmes derived from the District Development Programme in consultation with the respective Union Councils and to review periodically its implementation.

- Provision and maintenance of public Libraries and Reading Rooms.
- To promote adult education.
- Provision and maintenance of Hospitals and Dispensaries including Veterinary Hospitals and Dispensaries.
- Provision, maintenance and improvement of public roads, culverts and bridges.
- Plantation and preservation of trees on road sides and public places.
- Provision and maintenance of Public Gardens, Public Playgrounds and Public Places.
- Maintenance and regulation of Public Ferries other than those maintained by Government Departments.
- Maintenance and regulation of Cattle Pounds.
- Provision and maintenance of Serais, Dak Bungalows, Zailghars, Rest Houses and other buildings for the convenience of travellers.
- Prevention, regulation and removal of encroachments.
- Holding of fairs and shows.
- Promotion of public games and sports.
- Celebration of public festivals.
- Promotion of sanitation and Public Health.
- Prevention, regulation and control of Infectious Diseases.
- Enforcement of Vaccination.
- Protection of foodstuffs and prevention of adulteration.
- Permission to organize Cattle Piri (Mall Piri).
- Provision of water supply, construction, repair and maintenance of water work and other sources of water supply.
- Fees and charges for the use of utility services provided by the Councils such as water supply, sanitation, etc.
- Procurement and distribution of equipment and materials for Health Centres, and Schools.
- Take appropriate measures, on its own or on behalf of the District Council, for the development of rural skills, crafts and cottage industry.
- Monitor the implementation of development projects of line departments by regular review meetings, inspections and review of periodic progress reports and to take appropriate action within the sphere of their jurisdiction.
- Make recommendations about the location of various facilities to the District Council.
- Identify gaps in various sectors (e.g. non-availability of teachers and medicines in the schools and dispensaries) for the provision of facilities in the Union Area and to take steps within the available sources and in accordance with priorities laid down by District Council.
- Keep a watch over the actual supplies and delivery of various agricultural and service inputs within the Union Area and to report any inadequacies to the supplies Organization/District Council.
- To encourage and to facilitate the formation of associations for collective use and collection of charges for services such as electric supply and water course management, co-operative tube-well development, co-operative for input supplies and output marketing, water-course management, etc.
- Provision and maintenance of public ways and public streets. Provision and maintenance of Eid Gahs, public open spaces, public gardens and public playgrounds, common meeting places and other common property.
- Lighting of public ways, public streets and public places.
- Plantation and preservation of trees in general, and plantation and preservation of trees on public ways, public streets and public places in particular.
- Management and maintenance of graveyards, shamilats and cremations and burial grounds.
- Provision and maintenance of accommodation for travellers.
- Prevention and regulation of encroachments on public ways, public streets and public places.
- Prevention and abatement of nuisances in public ways, public streets and public places.
- Sanitation, conservancy, and the adoption of other

Key Functions of the Union Councils

Key functions are summarized below:

- To act as construction agency for sub-sectors like Primary, Middle and Secondary Schools; Rural Health Centres; Family Welfare Clinics; Basic Health Units; Piped Water Supply; Potable Water/ Storage Tanks/Tube-wells, and Wells; Hand Pumps; Sanitation; Rural Roads.
- To raise local resources through
- Voluntary resources; labour, land and cash contribution
- Taxes; property, consumption and other sources identified by the community (except on trade).

measures for the cleanliness of the Union.

- Regulation of collection, removal and disposal of manure and street sweepings.
- Regulation of offensive and dangerous trades.
- Regulation of the disposal of carcasses of dead animals.
- Regulation of the slaughter of animals.
- Regulation of the erection and re-erection of buildings in the Union.
- Regulation of dangerous buildings and structures.
- Provision and maintenance of wells, water pumps, tanks, ponds, and other works for the supply of water.
- Adoption of measures for preventing the contamination of the sources of water supply for drinking.
- Prohibition of the use of the water of wells, ponds, and other sources of water supply suspected to be dangerous to Public Health.
- Regulation or prohibition of the watering of cattle, bathing or washing at or near wells, ponds or other sources of water reserved for drinking purposes.
- (30) Regulation or prohibition of the steeping of hemp jute or other plants in or near ponds or other sources of water supply.

16.3 Financial Powers of the Local Government

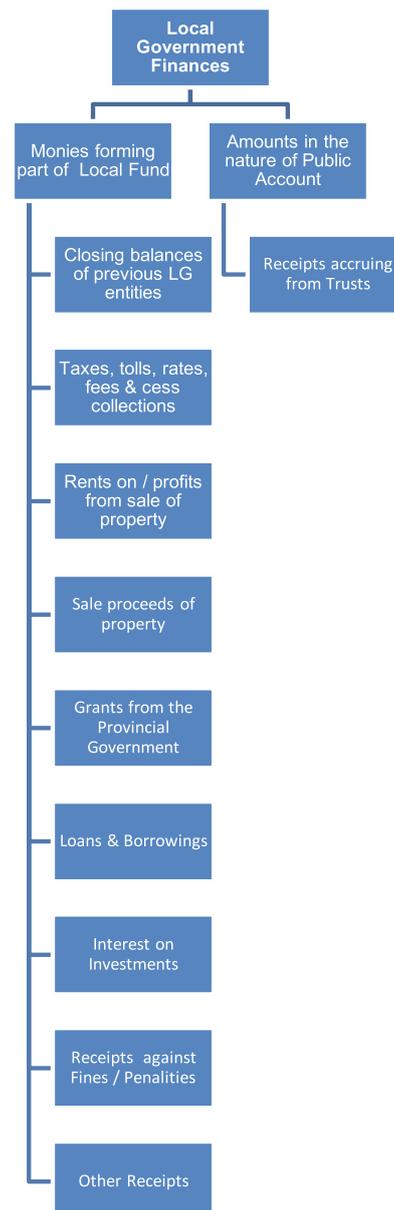
A Local Council is empowered to levy taxes, rates, tolls and fees as mentioned in Schedule V of the Act. The Provincial Government can direct a Council to increase, decrease or to abolish any rate, tax, toll or fee.

Under Clause 104 of the Sindh LG Act, a local fund can be created to deal with the financial matters of the relevant tiers of the government. Local Fund has the same purposes as the Consolidated Fund has at the provincial or federal levels. The Local Fund can be operated at all tiers of the local government and can have different nomenclatures according to the respective tier, e.g.

- Corporation Fund in the case of a Corporation;
- Municipal Committee Fund in the case of Municipal Committee;
- Town Committee Fund in the case of Town Committee;
- Union Committee Fund in the case of Union Committee;
- District Council Fund in the case of a District Council;

- Union Council Fund in the case of a Union Council.

The Local Fund consists of proceeds of money from various sources as shown the diagram, see below:



A Local Council is not authorized to borrow any money or give any guaranty without prior approval of Government. However, if there any surplus funds, the same may be invested in Government-approved securities and financial institutions.

The Council can utilize the Local Fund to meet expenditure / pay off liabilities as specified in the Act.

These include:

- Salaries and allowances to the Council employees
- Repayment of loans and utility bills
- Share of expenses on conduct of elections, maintenance of the Sindh Council Unified Grades and the Auditing of Accounts
- Payment against other liability/ obligation resulting from the discharge of any duty under the Act
- Expenditure charged on the local fund under this Act
- Amount payable under a decree or award against the Council by Court or Tribunal

There is an annual budgeting process at the council level. Every council prepares a separate budget comprising estimates of grants from the Government, amounts available in the Local Fund, receipts for the next year and expenditure to be incurred for the next year.

Demands for a grants are made on the recommendation of the Mayor or the Chairman. The functionaries of a Council are empowered to re-appropriate budget in accordance with the powers of re-appropriation delegated to them by Government.

Local Councils maintain their Funds outside the SAP/ IFMIS system. However, for all budgeting, accounting and reporting purposes, the Local Councils follow the same Chart of Accounts as is used by the Provincial / Federal Governments.

Taxes permissible for Metropolitan Corporation⁴³

- Fire Tax.
- Conservancy Tax.
- Drainage Tax.
- Fees for slaughtering of Animals.
- Fee on conversion of land use all over the City.
- Fee on licences / sanctions / permits granted by KMC.
- Market fee on land owned by KMC.
- Tolls on roads and bridges owned and maintained by KMC.
- Charged Parking on the roads maintained by KMC.
- BTS Towers.
- Entertainment Tax.
- Tax on transfer of immovable property.
- Cess on any taxes levied by the Government.
- Taxes permissible for Municipal Corporations, Municipal Committees and Town Committees
- Property Tax (as may be determined by the Provincial Government)
- Tax on the transfer of immovable property.
- Tolls on road and bridges and ferries owned and maintained by Council.
- Tax on professions, trades and callings.
- Fee on births, marriages, adoptions and feasts.
- Advertisements including hoarding and billboard.
- Taxes on Animals.
- Tax on cinemas, dramatic and theatrical shows and other entertainments and amusements as may be determined by Government.
- Tax on vehicles, other than motor vehicles and boats.
- Street lighting Rate and Fire Rate.
- Conservancy Rate.
- Rate for the execution of any work of Public Utility.
- Rate for the provision of water works or the supply of water.
- Cess on any of the taxes levied by Government.
- School Fees.
- Fees for benefits derived from any works of public utility maintained by the Council.
- Fees at fairs, agricultural shows, industrial exhibitions, tournaments and other public gatherings.
- Fees for Markets.
- Fees for licences sanctions and permits granted by the Council.
- Fees for specific services rendered by the Council.
- Fees for the slaughtering of Animals.
- Parking Fee on roads.
- Taxes permissible for Union Councils and District Councils
- Tax on the annual value of buildings and lands.
- Tax on lands not subject to local rate.
- Tax on the transfer of immovable property
- Tax on professions trades and callings.
- Fee for registration and certificates of birth and death, marriages and divorces.
- Advertisements including bill board and hoarding as determined by Government.
- Cinemas, dramatic and theatrical shows, and other entertainments and amusements.

⁴³ This refers to Karachi Metropolitan Corporation

- Animals.
- Vehicles (other than motor vehicles but including carts bi-cycles and all kinds of boats).
- Tolls on roads, bridges and ferries.
- Street Lighting Rate.
- Drainage Rate.
- Rate for the execution of any works of Public Utility.
- Conservancy Rate.
- Rate for the provision of water works or the supply of water.
- Fees on application for the erection and re-erection of building.
- Schools fees in respect of schools established or maintained by the Council.
- Fee for the use of benefits derived from any works of public utility maintained by the Council.
- Fees at fairs, agricultural shows, industrial exhibitions, tournaments and other public gatherings.
- Fees for Markets.
- Fees for licences, sanctions and permits granted by the Council.
- Fees for specific services rendered by the Council.
- Fees for the slaughtering of Animals.
- Parking Fee.
- Fee on BTS Tower.
- Surface minerals.
- Fisheries.

Provincial Finance Commission

Local government share in fiscal resources is determined under a Provincial Finance Commission (PFC) award. In Sindh, PFC consists of the following members:

- Minister for Finance (Chairperson)
- Minister for Local Government (Co-Chairperson)
- Two members of the Provincial Assembly of the Sindh
- Finance Secretary
- Secretary Planning and Development Department
- Secretary Local Government
- Mayor of the Metropolitan Corporation
- A Mayor of a Corporation to be nominated by Government
- A Chairman of a District Council to be nominated by Government

- A Chairman of a Municipal Committee to be nominated by Government
- Two professional members from the private sector to be nominated by Government

Key functions of the PFC are to make recommendations to the Government on a resource distribution formula and distribution between the Provincial Government and the councils out of the proceeds of the Provincial Consolidated Fund into a provincial retained amount and a Provincial allocable amount. Similarly, the PFC also makes recommendations on distribution of provincial allocable amount amongst the Councils as share of each council and matters relating to finances of the Councils.

The horizontal resource distribution formula takes into account the principles of population, backwardness, need and performance of a council. The Government has authority to approve or alter the recommendations of the PFC. The PFC award remains in force for a period of four years.

Maintenance of Accounts

An annual statement of accounts is prepared at each council after the close of a financial year and transmitted to Government and the Audit Authority separately within thirty days of the close of the financial year.

Audit

The Provincial Director, Local Fund Audit of Government is the designated authority for pre-auditing payments from the Local Fund of the Councils. A Council is not allowed to withdraw or disburse money from the Local Fund unless it is pre-audited by the Provincial Director.

The accounts of every Council are subject to audit. The Audit Authority will have access to all books, records and other documents pertaining to accounts and may also examine the Mayor, Deputy Mayor, Chairman, or Vice-Chairman, or any Member or Employees of the Council.

Report of the audit authority is submitted to Government and the Council. This report covers cases of (a) embezzlement, fraud and mis-appropriation of Local Fund; (b) loss, waste or misapplication of Local Fund; (c) irregularities in the maintenance of accounts;

(d) unauthorized and excess expenditure.

The Council is required to comply with the instructions and rectify the irregularities given in the audit report and furnish to Government a detailed report in that behalf. The audit report is forwarded to the PAC of the Sindh Assembly.

In addition to the routine / annual audit, the Government may require that a special audit of a Council be conducted. This may be conducted either by the Provincial Director Local Fund Audit or any other audit agency, or an independent Auditor.

16.4 Local Government Structures and Functions

Municipal Committees, Municipal Corporations and Metropolitan Corporation:

- Tax on the annual rental value of buildings and land;
- Tax on cinemas and cinema tickets;
- Entertainment tax on dramatical and theatrical shows;
- Tax on the transfer of immovable property;
- Water rate;
- Drainage rate;
- Conservancy rate;
- Tax on all kinds of vehicles;
- Lighting rate;
- Tax on the birth of children;
- Fee for the erection and re-erection of buildings;
- Marriage tax;
- Fee for the licenses, sanctions and permits granted by an Urban Council;
- Fees on the slaughter of animals;
- Tax on professions, trade, callings and employment;
- Market fees for market established by the respective Urban Council;
- Fee on advertisement and billboards, other than on radio, print media and television;
- Tax on feasts when more than twenty persons, not belonging to the household of the persons arranging the feast are entertained with foodstuffs;
- Tax on animals and sale of animals;
- Toll tax on roads, bridges and ferries maintained by an Urban Council;
- Fees at fairs, agricultural shows, industrial exhibitions, tournaments and other public

gathering;

- Fees for specific services rendered by an Urban Council;
- Tax for the construction or maintenance of any work of public utility;
- Parking fees.

District Councils:

- Tax on the transfer of immovable property;
- Fees for licenses, sanctions and permits granted by the District Council;
- Market fees for the markets maintained by the District Council
- Rates on the services provided by the District Council;
- Fees at fairs, agricultural shows and industrial exhibitions tournaments and other public gathering;
- Fees for specific services rendered by the District Council;
- Tax on the annual rental value of buildings and lands;
- Toll on roads and bridge and ferries maintained by the District Council;
- Tax on vehicles other than motor vehicles and including carts, bicycles, and tongas.
- Tax for the construction or maintenance of a work of public utility;
- Fee on advertisement and billboards, other than on radio, print media and television.

Union Councils:

- Tax on cinemas and cinema tickets.
- Entertainment tax on dramatical and theatrical show;
- Fees for registration and certification of birth, marriages, and deaths;
- Fees for licenses, sanctions and permits granted by a Union Council;
- Fee on the slaughter of animals;
- Fee for erection and re-erection of buildings;
- Rate for the remuneration of village guards;
- Market fees for the markets established by the Union Council;
- Rates on the services provided by the Union Council;
- Rate for the execution or maintenance of any work of public utility like lighting of public places, drainage, conservancy and water supply operated

by Union Council;

- Fee at fairs, agricultural shows, industrial exhibitions, tournaments and other public gathering;
- Tax on feasts where more than twenty persons, not belonging to the household of the person arranging the feast, are entertained with foodstuffs;
- Community tax for the construction of public work of general utility for the inhabitants of the Union.

Case Study: Preparing Non-Development/Current Budget Estimates

Specific objectives of the Case Study are as follows:

- Using basic concepts of calculations, prepare budget estimates for Salaries, Operating Expenditure, Drug & Medicines, Physical Assets and Repair & Maintenance
- Fill relevant budget Forms as given in Budget Call Circular
- Use basic codes of Government's Chart of Accounts

This Case Study is about preparation of expenditure budget for Lyari General Hospital, Karachi. This will require estimating for individual expenditure components, assigning Chart of Account codes and then filling the relevant budget forms with the relevant data/information. Relevant Information is given as under:

Key objectives of Lyari General Hospital, Karachi: Helping the Government in achieving health policy objectives by improve the quality of Public Health and decreasing the mortality rate by providing medical facilities to population of Sindh

Key activities: Protecting people against hazardous diseases, promoting public health, upgrading curative health facilities, enhancing equity, efficiency and effectiveness in health sector

Department Name:	Health Department
Attached Department:	None
Grant No. :	SC21025 (025)
Grant Name:	Health
Function Code of Chart of Accounts:	073101-General Hospital Services
Fund Centre Name:	Lyari General Hospital, Karachi
Applicable DDO Code / Fund Centre Code:	KQ5119
Key Performance Indicators :	A list of key targets / Key Performance Indicators (KPIs) for 2017-18 to 2019-20 and achievements for 2016-17 is given in Table A

Table A: Key Performance Indicators

		UNIT OF MEASUREMENT	ACHIEVEMENTS (BASELINE)				TARGETS			
			2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20
a)	Patients Treated (Indoor)	Number	1200	1300	1350	1320				
b)	Patients Treated (Outdoor)	Number	12000	12000	12000	12000				
c)	Operations carried out in Operations Theatre	Number	1000	1050	1070	1100				

Staff details are given in Table B.

Table B: Staff details (Basic Salary per Month and No. of Positions)

DESCRIPTION	PAY-SCALE	BASIC SALARY/MONTH (FOR 2016-17)	2016-17	2017-18	2018-19	2019-20
Total Staff strength:			12	12	12	12
Additional Medical Superintendent	(BPS - 20)	150,000	1	1	1	1
Senior Physician	(BPS - 19)	115,000	5	5	5	5
Blood Transfusion Officer	(BPS - 17)	85,000	2	2	2	2
Accounts Assistant	(BPS - 11)	45,000	1	1	1	1
Haemo Dialysis Technician	(BPS - 09)	35,000	1	1	1	1
Lab Assistant	(BPS - 07)	25,000	2	2	2	2

(All staff positions are filled and no change is expected in number / status of positions over the next three years.)

Other data:

Quantitative data for Drugs & Medicines, Physical Assets, POL and other related items is presented in Table C and related prices are shown in Table D.

Table C: Quantities for Drugs & Medicines, Physical Assets, POL and Electricity consumption

DESCRIPTION	UNIT OF MEASUREMENT	2016-17	REQUIREMENTS FOR		
			2017-18	2018-19	2019-20
Drugs & Medicines :	No. of Packs				
Famotidine Tablets	No. of Packs	2,000	2200	2300	2300
Omeprazole Tablets	No. of Packs	1,000	1000	1000	1000
Bisacodyl Tablets	No. of Packs	1,000	1200	1200	1400
Methyl cellulose Tablets	No. of Packs	500	500	500	500
Loperamide Hcl Capsules	No. of Packs	800	900	900	1000
Petrol/Fuel	Litres	5,000	6,500	6,500	6,500
Electricity	Units	50,000	52,500	53,500	55,000
Computers	No.	5	2	2	1
Vehicles	No.	3	1	0	0
Beds	No.	10	5	3	2
Tables	No.	10	2	2	3

Table D: Rates/Prices per unit

DESCRIPTION	UNIT OF MEASUREMENT	RATE / UNIT (RS.) (AS RECORDED FOR 2016-17 BUDGET)
Medicines :		
Famotidine Tablets	No. of Packs	500
Omeprazole Tablets	No. of Packs	650
Bisacodyl Tablets	No. of Packs	400
Methyl cellulose Tablets	No. of Packs	550
Loperamide Hcl Capsules	No. of Packs	200
Petrol/Fuel	Litres	70
Electricity	Units	22
Computers	No.	75,000
Vehicles	No.	1,500,000
Beds	No.	200,000
Tables	No.	25,000

Important Notes: Annual increment to basic salary is estimated at 5%. Allowances to be provided to the staff each year are given in Table E.

Table E: Allowances per year (Total for all Positions)

DESCRIPTION	PAY-SCALE	2017-18	2018-19	2019-20
Additional Medical Superintendent	(BPS - 20)	226,800	245,700	274,050
Senior Physician	(BPS - 19)	869,400	941,850	1,050,525
Blood Transfusion Officer	(BPS - 17)	257,040	278,460	310,590
Accounts Assistant	(BPS - 11)	68,040	73,710	82,215
Haemo Dialysis Technician	(BPS - 09)	52,920	57,330	63,945
Lab Assistant	(BPS - 07)	75,600	81,900	91,350
Total		1,549,800	1,678,950	1,872,675

- Unit rate for Electricity is expected to increase by 5% per annum.
- Increase in POL prices is estimated at 10% per annum.
- Prices of Drugs & Medicines are expected to increase by percentages given in the Table F in year 2017-18 only and will remain unchanged in subsequent years.

Table F: Expected Increase in Unit Rates of Drugs & Medicines (%)

DESCRIPTION	% INCREASE
Famotidine Tablets	10%
Omeprazole Tablets	5%
Bisacodyl Tablets	15%
Methyl cellulose Tablets	20%
Loperamide Hcl Capsules	10%

- Car price will rise by 5% in 2017-18.
- Prices for Computers, Beds and Tables will not change in the coming years.
- Repair & Maintenance of vehicles in year 2018-19 will be Rs. 150,000. Thereafter, the cost will increase by Rs. 10,000 per year.

Required:

(A) Based on the simplified information given above and assuming no other data for the Hospital, carry out the following actions:

- (Ai) Calculate Pay and Allowances of the Hospital staff for 2017-18
- (Aii) Calculate cost of Drugs & Medicines to be procured in 2017-18
- (Aiii) Calculate total cost of vehicle, computers, beds, tables for 2017-18
- (Aiv) Calculate electricity and POL/petrol cost for 2017-18

(B) Calculate Pay & Allowances and other costs for Drugs & Medicines, Physical Assets and Electricity/POL for 2018-19 and 2019-20 using the relevant information provided in the Question.

(C) Using the available data (provided in the Question and to be prepared under the requirements of (Ai) to (Aiv) above for various budget heads), fill in Budget Forms BCC-II and BCC-IX of Sindh Budget Call Circular. Please fill in column for 2017-18 only and ignore the other columns in the Forms. On Budget Form BCC-II, assign relevant Codes of Chart of Accounts to all the budget heads.

Solution:**(Ai) Calculate Pay and Allowances of the Hospital staff for 2017-18**

Basic Pay of the staff for 2017-18 will be calculated by applying 5% increment rate on previous year's (2016-17) Basic Pay. As shown in the Table below, the Basic Pay for 2017-18 has been calculated for each of the staff members separately and appears in last column of the Table 1:

Table 1: Basic Pay for 2017-18

DESCRIPTION	PAY-SCALE	BASIC PAY PER PERSON PER MONTH (BEFORE INCREMENT)	NO.	BASIC PAY PER PERSON FOR 12 MONTHS (BEFORE INCREMENT)	INCREMENT %	INCREMENT PER PERSON (RS.)	BASIC PAY PER PERSON FOR 2017-18 (AFTER INCREMENT)	BASIC PAY FOR 2017-18 (AFTER INCREMENT) - ALL STAFF
Additional Medical Superintendent	(BPS-20)	150,000	1	1,800,000	5%	90,000	1,890,000	1,890,000
Senior Physician	(BPS-19)	115,000	5	1,380,000	5%	69,000	1,449,000	7,245,000
Blood Transfusion Officer	(BPS-17)	85,000	2	1,020,000	5%	51,000	1,071,000	2,142,000
Total - Pay of Officers							4,410,000	11,277,000
Accounts Assistant	(BPS-11)	45,000	1	540,000	5%	27,000	567,000	567,000
Haemo Dialysis Technician	(BPS-09)	35,000	1	420,000	5%	21,000	441,000	441,000
Lab Assistant	(BPS-07)	25,000	2	300,000	5%	15,000	315,000	630,000
Total - Pay of Other Staff							1,323,000	1,638,000
Total			12	5,460,000		273,000	5,733,000	12,915,000

Then calculate Total of Pay and Allowances for 2017-18 by adding Basic Pay as calculated above and Allowances (given in the Question). See Table 2 for this calculation.

Table 2: Pay & Allowances for 2017-18

DESCRIPTION	PAY-SCALE	BASIC PAY	ALLOWANCES	TOTAL PAY & ALLOWANCES
Additional Medical Superintendent	(BPS-20)	1,890,000	226,800	2,116,800
Senior Physician	(BPS-19)	7,245,000	869,400	8,114,400
Blood Transfusion Officer	(BPS-17)	2,142,000	257,040	2,399,040
Accounts Assistant	(BPS-11)	567,000	68,040	635,040
Haemo Dialysis Technician	(BPS-09)	441,000	52,920	493,920
Lab Assistant	(BPS-07)	630,000	75,600	705,600
Total		12,915,000	1,549,800	14,464,800

(Aii) Calculate cost of Drugs & Medicines to be procured in 2017-18

Drugs & Medicines to be purchased in 2017-18 by the Hospital are specified along with relevant quantities and rates per unit. The expected increase in rates over the following years is also given. Now, the cost of the medicines will be calculated by taking into account all these factors. Use of MS Excel is the best way to perform calculations involving multiple factors (similar to those given in this scenario).

In MS Excel, list all medicines in the first column. Then mention unit of measurement (which is a 'pack' containing some specific number of tablets). In the next column, mention unit rate per pack and then give percent rate of increase in unit rate in the following column. Then perform calculation of revised per unit rate by applying the percentages on the (original) per unit rate. For example, one pack of Famotidine Tablets costs Rs. 500. With 10%

increase, the revised rate per unit be Rs. 550. Multiply this rate with the quantity to be procured in 2017-18. The resulting figure will represent total cost of this medicine. This will be mentioned in the last column of the Table. Repeat these steps to calculate cost of all other medicines. The Table will keep populated with the relevant data. Finally, total all individual costs in the last column of the Table. This will represent total cost of all medicines.

All calculations are shown in the Table 3.

Table 3: Cost of Drugs & Medicines for 2017-18

DESCRIPTION	UNIT OF MEASUREMENT	RATE / UNIT (RS.)	RATE INCREASE (%)	REVISED RATE/UNIT	QUANTITY REQUIRED	AMOUNT
Famotidine Tablets	Packs	500	10%	550	2,200	1,210,000
Omeprazole Tablets	Packs	650	5%	682.5	1,000	682,500
Bisacodyl Tablets	Packs	400	15%	460	1,200	552,000
Methyl cellulose Tablets	Packs	550	20%	660	500	330,000
Loperamide Hcl Capsules	Packs	200	10%	220	900	198,000
Total						2,972,500

(Aiii) Calculate total cost of vehicle, computers, beds, tables for 2017-18

Method of calculating cost for Physical Assets is the same as has been followed for Drugs & Medicines. The Table to be prepared for Physical Assets will have the same number of columns (and same column headers) as has been prepared for Drugs & Medicines.

There are some assets whose prices will remain unchanged, while price of only vehicles will increase in 2017-18 by 5%. To ensure completeness, all asset items will be mentioned in the Table, including those prices will remain unchanged in the coming years. Then the rates applicable for 2017-18 will be calculated by following the same method as described for Drugs & Medicines.

Detailed calculations for Physical Assets are given in the Table 4.

Table 4: Cost of Physical Asset Items for 2017-18

ITEMS	UNIT OF MEASUREMENT	PRICE / UNIT	PRICE INCREASE (%)	PRICE INCREASE (RS.)	REVISED PRICE / UNIT (RS.)	QUANTITY	TOTAL COST (RS.)
Computers	Number	75,000	0%	0	75,000	2	150,000
Vehicles	Number	1,500,000	5%	75000	1,575,000	1	1,575,000
Beds	Number	200,000	0%	0	200,000	5	1,000,000
Tables	Number	25,000	0%	0	25,000	2	50,000
Total							2,775,000

(Aiv) Calculate Electricity and POL/petrol cost for 2017-18

Again, the method to be followed for calculating cost of electricity / POL products is the same as described for Medicines and Physical Assets. Detailed calculations are shown in Table 5.

Table 5: Cost of Electricity and POL/Petrol consumption for 2017-18

ITEMS	UNIT OF MEASUREMENT	PRICE / UNIT	PRICE INCREASE (%)	PRICE INCREASE (RS.)	REVISED PRICE / UNIT (RS.)	QUANTITY	TOTAL COST (RS.)
Petrol/Fuel	Litres	70	10%	7	77	6,500	500,500
Electricity	Units	22	5%	1.1	23.1	52,500	1,212,750
Total							1,713,250

Until this stage, all required costs have been determined for one year, i.e. 2017-18. If the budget is required to be prepared for one year, then these costs will be transferred to relevant Budget Forms under 2017-18 column and appropriate codes assigned from Chart of Accounts. However, since the question includes data for following two years (2018-19 and 2019-20) also, this means the budget would also need to be prepared for these years.

(B) Calculate Pay & Allowances and other costs for Drugs & Medicines, Physical Assets and Electricity/POL for 2018-19 and 2019-20 using the relevant information provided in the Question.

Pay & Allowances for 2018-19 and 2019-20 will be calculated using the information given plus the cost determined for 2017-18. The steps are almost the same as followed earlier for 2017-18 calculations. Basic Pay for 2018-19 and 2019-20 are given in Tables 6 and 7 respectively while the totals are given in Tables 8 and 9.

Table 6: Basic Pay Calculations for 2018-19

DESCRIPTION	PAY-SCALE	NO.	BASIC PAY PER PERSON IN PREVIOUS YEAR (I.E. 2017-18)	INCREMENT %	INCREMENT PER PERSON (RS.)	BASIC PAY PER PERSON FOR 2017-18 (AFTER INCREMENT)	BASIC PAY FOR 2018-19 (AFTER INCREMENT) - ALL STAFF
Additional Medical Superintendent	(BPS - 20)	1	1,890,000	5%	94,500	1,984,500	1,984,500
Senior Physician	(BPS - 19)	5	1,449,000	5%	72,450	1,521,450	7,607,250
Blood Transfusion Officer	(BPS - 17)	2	1,071,000	5%	53,550	1,124,550	2,249,100
Total - Pay of Officers			4,410,000				11,840,850
Accounts Assistant	(BPS - 11)	1	567,000	5%	28,350	595,350	595,350
Haemo Dialysis Technician	(BPS - 09)	1	441,000	5%	22,050	463,050	463,050
Lab Assistant	(BPS - 07)	2	315,000	5%	15,750	330,750	661,500
Total - Pay of Other Staff			1,323,000				1,719,900
Total		12	5,733,000				13,560,750

Table 7: Total Pay & Allowances 2018-19

DESCRIPTION	PAY-SCALE	BASIC PAY FOR 2018-19	ALLOWANCES	TOTAL PAY & ALLOWANCES FOR 2018-19
Additional Medical Superintendent	(BPS - 20)	1,984,500	245,700	2,230,200
Senior Physician	(BPS - 19)	7,607,250	941,850	8,549,100
Blood Transfusion Officer	(BPS - 17)	2,249,100	278,460	2,527,560
		11,840,850	1,466,010	13,306,860
Accounts Assistant	(BPS - 11)	595,350	68,040	663,390
Haemo Dialysis Technician	(BPS - 09)	463,050	52,920	515,970
Lab Assistant	(BPS - 07)	661,500	75,600	737,100
		1,719,900	196,560	1,916,460
Total		13,560,750	1,662,570	15,223,320

Table 8: Basic Pay Calculations of for 2019-20

DESCRIPTION	PAY-SCALE	NO.	BASIC PAY PER PERSON IN PREVIOUS YEAR (I.E. 2018-19)	INCREMENT %	INCREMENT PER PERSON (RS.)	BASIC PAY PER PERSON FOR 2019-20 (AFTER INCREMENT)	BASIC PAY FOR 2019-20 (AFTER INCREMENT) - ALL STAFF
Additional Medical Superintendent	(BPS - 20)	1	1,984,500	5%	99,225	2,083,725	2,083,725
Senior Physician	(BPS - 19)	5	7,607,250	5%	380,363	1,901,813	9,509,063
Blood Transfusion Officer	(BPS - 17)	2	2,249,100	5%	112,455	1,237,005	2,474,010
Total - Pay of Officers			11,840,850				14,066,798
Accounts Assistant	(BPS - 11)	1	595,350	5%	29,768	625,118	625,118
Haemo Dialysis Technician	(BPS - 09)	1	463,050	5%	23,153	486,203	486,203
Lab Assistant	(BPS - 07)	2	661,500	5%	33,075	363,825	727,650
Total - Pay of Other Staff			1,719,900				1,838,970
Total		12	13,560,750				15,905,768

Table 9: Total Pay & Allowances for 2019-20

DESCRIPTION	PAY-SCALE	BASIC PAY FOR 2019-20	ALLOWANCES	TOTAL PAY & ALLOWANCES FOR 2019-20
Additional Medical Superintendent	(BPS - 20)	2,083,725	274,050	2,357,775
Senior Physician	(BPS - 19)	9,509,063	1,050,525	10,559,588
Blood Transfusion Officer	(BPS - 17)	2,474,010	310,590	2,784,600
		14,066,798	1,635,165	15,701,963
Accounts Assistant	(BPS - 11)	625,118	82,215	707,333
Haemo Dialysis Technician	(BPS - 09)	486,203	63,945	550,148
Lab Assistant	(BPS - 07)	727,650	91,350	819,000
		1,838,970	237,510	2,076,480
Total		15,905,768	1,872,675	17,778,443

Drugs & Medicines

Prices for Drugs & Medicines will not change in 2018-19 and 2019-20. Therefore the unit rates calculated for 2017-18 can be used to calculate cost of Drugs & Medicines for 2018-19 and 2019-20. See Tables 10 and 11.

Table 10: Cost of Drugs & Medicines for 2018-19

DESCRIPTION	UNIT OF MEASUREMENT	REVISED RATE/UNIT	2018-19	
			QUANTITY REQUIRED	AMOUNT
Famotidine Tablets	Packs	550	2,300	1,265,000
Omeprazole Tablets	Packs	682.5	1,000	682,500
Bisacodyl Tablets	Packs	460	1,200	552,000
Methyl cellulose Tablets	Packs	660	500	330,000
Loperamide Hcl Capsules	Packs	220	900	198,000
Total				3,027,500

Table 11: Cost of Drugs & Medicines for 2019-20

DESCRIPTION	UNIT OF MEASUREMENT	REVISED RATE/ UNIT	2019-20	
			QUANTITY REQUIRED	AMOUNT
Famotidine Tablets	Packs	550	2,300	1,265,000
Omeprazole Tablets	Packs	682.5	1,000	682,500
Bisacodyl Tablets	Packs	460	1,400	644,000
Methyl cellulose Tablets	Packs	660	500	330,000
Loperamide Hcl Capsules	Packs	220	1,000	220,000
Total				3,141,500

Physical Assets

Physical asset prices are not expected change in 2018-19 and 2019-20. Therefore, based on the information given and that prepared earlier for 2017-18, Tables 12 and 13 will be prepared for cost of Physical Assets budgeted for 2018-19 and 2019-20 respectively.

Table 12: Physical Assets for 2018-19

ITEMS	UNIT OF MEASUREMENT	PRICE / UNIT	PRICE INCREASE (%)	PRICE INCREASE (RS.)	REVISED PRICE / UNIT (RS.)	QUANTITY	TOTAL COST (RS.)
Computers	Number	75,000	0%	0	75,000	2	150,000
Vehicles	Number	1,500,000	0%	0	1,500,000	0	-
Beds	Number	200,000	0%	0	200,000	3	600,000
Tables	Number	25,000	0%	0	25,000	2	50,000
Total							800,000

Table 13: Physical Assets for 2019-20

ITEMS	UNIT OF MEASUREMENT	PRICE / UNIT	PRICE INCREASE (%)	PRICE INCREASE (RS.)	REVISED PRICE / UNIT (RS.)	QUANTITY	TOTAL COST (RS.)
Computers	Number	75,000	0%	0	75,000	1	75,000
Vehicles	Number	1,500,000	0%	0	1,500,000	0	-
Beds	Number	200,000	0%	0	200,000	2	400,000
Tables	Number	25,000	0%	0	25,000	3	75,000
Total							550,000

Electricity, Petrol/Fuel

Similarly, cost of Electricity and POL/Fuel will also be budgeted using the information provided. Since prices for both the items are expected to increase in 2018-19 and 2019-20, the unit rate will first be adjusted accordingly and then cost calculated by multiplying the new rates with the quantities expected to be consumed during the two

years. The related calculations are given in Table 14 and 15.

Table 14: Electricity, Petrol/Fuel 2018-19

ITEMS	UNIT OF MEASUREMENT	PRICE / UNIT	PRICE INCREASE (%)	PRICE INCREASE (RS.)	REVISED PRICE / UNIT (RS.)	QUANTITY	TOTAL COST (RS.)
Petrol/Fuel	Litres	77	10%	7.7	84.7	6,500	550,550
Electricity	Units	23.1	5%	1.155	24.26	53,500	1,297,643
Total							1,848,193

Table 15: Electricity, Petrol/Fuel 2019-20

ITEMS	UNIT OF MEASUREMENT	PRICE / UNIT	PRICE INCREASE (%)	PRICE INCREASE (RS.)	REVISED PRICE / UNIT (RS.)	QUANTITY	TOTAL COST (RS.)
Petrol/Fuel	Litres	84.7	10%	8.47	93.17	6,500	605,605
Electricity	Units	24.255	5%	1.21275	25.47	55,000	1,400,726
Total							2,006,331

(C) Using the available data (provided in the Question and to be prepared under the requirements of (Ai) to (Aiv) above for various budget heads), fill in Budget Forms BCC-II and BCC-IX of Sindh Budget Call Circular. Please fill in column for 2017-18 only and ignore the other columns in the Forms. On Budget Form BCC-II, assign relevant Codes of Chart of Accounts to all the budget heads.

Budget Form BCC-II will be filled for all cost estimates developed so far while Budget Form BCC-IX will be used for KPIs of the Hospital. On Budget Form BCC-II, codes will also be assigned from Chart of Accounts. A copy of Chart of Accounts must be available for this purpose. Detailed guidance on use of Chart of Accounts is given in this Handbook.

The Forms will also be completed for Hospital identification and data such as Hospital Name, DDO Code /Fund Centre codes, etc. will also be mentioned on the Forms. After the information has been transferred to the relevant Forms, the filled Forms will look like the following:

Form BCC-II - Estimates of Regular Expenditure 2017-18 and MTBF 2018-19 to 2019-20

(1) Department	Health Department
(2) Attached Department (Where Applicable)	None
(3) Grant No.	SC21025 (025)
(4) Grant Name	Health
(5) Fund Centre Name	LYARI GENERAL HOSPITAL, KARACHI
(6) Fund Centre Code (DDO Code)	KQ5105
(7) Functional Classification	073101-General Hospital Services

All Amounts in Rs.

(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	
		Posts Data		ACCOUNTS INFORMATION				BUDGET INFORMATION		PROPOSAL	FORECAST		
Object code	Object description	BPS	No. of Posts	Actual Expenditure 2015-16	Actual Expenditure (Last 8 Months) 2015-16	Actual Expenditure (First 4 Months) 2016-17	Probable Outlay in 2016-17 (Col.12+13)	Revised Estimates 2014-15	Revised Estimates 2015-16	Budget 2016-17	Budget Estimates 2017-18	Budget Estimates 2018-19	Budget Estimates 2019-20
											(to be filled by MTBF pilot Depts. only)		
A01	EMPLOYEES RELATED EXPENSES										14,464,800	15,223,320	17,778,444
A011	TOTAL PAY										12,915,000	13,560,750	15,905,769
A011-1	TOTAL PAY OF OFFICERS										11,277,000	11,840,850	14,066,798
A0110-1	Total Basic Pay of Officers										11,277,000	11,840,850	14,066,798
	Additional Medical Superintendent	20	1								1,890,000	1,984,500	2,083,725
	Senior Physician	19	5								7,245,000	7,607,250	9,509,063
	Blood Transfusion Officer	17	2								2,142,000	2,249,100	2,474,010
A011-2	TOTAL PAY OF OTHER STAFF										1,638,000	1,719,900	1,838,971
A01151	Total Basic Pay of Other Staff										1,638,000	1,719,900	1,838,971
	Account Assistant	11	1								567,000	595,350	625,118
	Haemo Dialysis Technician	09	1								441,000	463,050	486,203
	Lab Assistant	07	2								630,000	661,500	727,650
A012	TOTAL ALLOWANCES										1,549,800	1,662,570	1,872,675
A03	Operating Expenses										4,685,750	4,875,693	5,147,831
A033	Utilities										1,212,750	1,297,643	1,400,726
A03303	Electricity										1,212,750	1,297,643	1,400,726
A038	Travel and Transportation										500,500	550,550	605,605

All Amounts in Rs.

(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)		
		Posts Data			ACCOUNTS INFORMATION				BUDGET INFORMATION		PROPOSAL	FORECAST		
Object code	Object description	BPS	2016-17	2017-18	Actual Expenditure 2015-16	Actual Expenditure (Last 8 Months) 2015-16	Actual Expenditure (First 4 Months) 2016-17	Probable Outlay in 2016-17 (Col.12+13)	Revised Estimates 2014-15	Revised Estimates 2015-16	Budget 2016-17	Budget Estimates 2017-18	Budget Estimates 2018-19	Budget Estimates 2019-20
													(to be filled by MTBF pilot Depts. only)	
A03807	POL Charges, Aeroplanes, Helicopters, Staff Cars, Motor Cycles											500,500	550,550	605,605
A039	TOTAL GENERAL											2,972,500	3,027,500	3,141,500
A03927	Purchase of Drug and Medicines											2,972,500	3,027,500	3,141,500
A09	Expenditure on Acquiring of Physical Assets											2,775,000	800,000	550,000
A092	Computer Equipment											150,000	150,000	75,000
A09201	Hardware											150,000	150,000	75,000
A095	Purchase of Transport											1,575,000	-	-
A09501	Purchase of Transport											1,575,000	-	-
A097	Purchase of Furniture & Fixture											1,050,000	650,000	475,000
A09701	Purchase of Furniture & Fixture											1,050,000	650,000	475,000
A13	Repairs and Maintenance											150,000	165,000	175,000
A130	Transport											150,000	165,000	175,000
A13001	Transport											150,000	165,000	175,000
Total												22,075,550	21,064,013	23,651,275

(Signature)

Name

Designation

Telephone Number

Form BCC-IX - Performance Indicators and Targets 2017-18 to 2019-20

(1) Department	Health Department
(2) Attached Department (Where Applicable)	None
(3) Grant No.	SC21025 (025)
(4) Grant Name	Health
(5) Fund Centre Name	LYARI GENERAL HOSPITAL, KARACHI
(6) Fund Centre Code (DDO Code)	KQ5105
(7) Functional Classification	073101-General Hospital Services

(8)	(9)	(10)	(11)	(12)	(13)	(14)
S. No.	Performance Indicator	Unit of Measurement	Baseline 2016-17	Target 2017-18	Target 2018-19	Target 2019-20
1	Patients Treated (Indoor)	Number	1,200	1,300	1,350	1,320
2	Patients Treated (Outdoor)	Number	12,000	12,000	12,000	12,000
3	Operations carried out in Operations Theatre	Number	1,000	1,050	1,070	1,100

(Signature) _____

Name _____

Designation _____

Telephone Number _____

Annexures

Annex A. Budget Form BCC-II - Estimates of Regular Expenditure and MTBF

(1) Department _____

(2) Attached Department (Where Applicable) _____

(3) Grant No. _____

(4) Grant Name _____

(5) Fund Centre Name _____

(6) Fund Centre Code (DDO Code) _____

(7) Functional Classification _____

All Amounts in Rs.

(8)	(9)	(10)		(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
Object code	Object description	Posts Data		ACCOUNTS INFORMATION				BUDGET INFORMATION		PROPOSAL	FORECAST		
		BPS	No. of Posts	Actual Expenditure 2015-16	Actual Expenditure (Last 8 Months) 2015-16	Actual Expenditure (First 4 Months) 2016-17	Probable Outlay in 2016-17 (Col.12+13)	Revised Estimates 2014-15	Revised Estimates 2015-16	Budget 2016-17	Budget Estimates 2017-18	Budget Estimates 2018-19	Budget Estimates 2019-20
													(to be filled by MTBF pilot Depts. only)

(Signature) _____

Name _____

Designation _____

Telephone Number _____

Annex B. Budget Form BCC-III - Details of Sanctioned Posts for Regular Expenditure Estimates

(1) Department

(2) Attached Department (Where Applicable)

(3) Grant No.

(4) Grant Name

(5) Fund Centre Name

(6) Fund Centre Code (DDO Code)

(7) Functional Classification

All Amounts in Rs.

(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
						Increment falling due within the financial year 2017-18				Annual Financial Impact of Regular Allowances (A012-1)					
Name	O Designation (as per Budget Book)	Personnel No. (as per Pay Roll)	BPS (as per Budget Book)	Actual Basic Monthly Pay inclusive of Personal Pay of Government Servant due on 1 December 2016	Annualized Basic Pay inclusive of Personal Pay for the period 1 December 2017 - 30 November 2017	Date of increment	Rate of increment	Amount of increment for the year (7 months)	Total provision for Basic Pay for 2017-18 (Col.13+16)	Remaining Pay for 2017-18	House Rent Allowance	Conveyance Allowance	Medical Allowance	Remaining Regular Allowances	Total Regular Allowance (sum.19 to 22)
GRAND TOTAL															

(Signature)

Name

Designation

Telephone Number

Annex C. Budget Form BCC-IV - Proposal for Schedule of New Expenditure

(1) Department _____

(2) Attached Department (Where Applicable) _____

(3) Grant No. _____

(4) Grant Name _____

(5) Fund Centre Name _____

(6) Fund Centre Code (DDO Code) _____

(7) Functional Classification _____

All Amounts in Rs.

(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Administrative Department's Demands 2017-18							Please indicate posts or relevant items approved during last 3 years		
Object Code / Sub-detail Item Number	Object / Sub-detail Item Description	Sanctioned Strength of Posts 2016-17	No. of Posts6	Quantity of Item(s)	Financial Impact	Justification (Please give a brief in the column and attach detailed justification and indicate reference number)	R2014-15	2015-16	2016-17
Grand Total									

(Signature) _____

Name _____

Designation _____

Telephone Number _____

Annex D. Budget Form BCC-X -Estimates of Annual Development Programme (ADP)

(1) Department

(2) Attached Department (Where Applicable)

(3) Grant No.

(4) Grant Name

(5) Fund Centre Name

(6) Fund Centre Code (DDO Code)

(7) Functional Classification

All Amounts in Rs.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
S.No.	Sector/ Sub-sector / Name of Scheme	Location of Scheme/ District	Status Date of Approval	Target Date for Completion	Estimated Cost	Actual Expenditure upto June 2016	Revised Allocation 2016-17		Estimated Expenditure upto June, 2016	Throw forward as on 01.07.2017	Allocation for 2017-18			PFA for 2017-18	Financial Progress in %age upto		Financial Projection	
							Total	F.P.A			Capital	Revenue	Total		Jun-17	Jun-18	2018-19	2019-20
GRAND TOTAL																		

(Signature)

Name

Designation

Telephone Number

Annex E. Budget Form BCC-IX - Performance Indicators and Targets

(1) Department

(2) Attached Department (Where Applicable)

(3) Grant No.

(4) Grant Name

(5) Fund Centre Name

(6) Fund Centre Code (DDO Code)

(7) Functional Classification

All Amounts in Rs.

(8)	(9)	(10)	(11)	(12)	(13)	(14)
S. No.	Performance Indicator	Unit of Measurement	Baseline 2016-17	Target 2017-18	Target 2018-19	Target 2019-20
Grand Total						

(Signature)

Name

Designation

Telephone Number

Annex F. Budget Form BCC-I - Estimates of Regular Receipts

(1) Department _____

(2) Attached Department (Where Applicable) _____

(3) Grant No. _____

(4) Grant Name _____

(5) Fund Centre Name _____

(6) Fund Centre Code (DDO Code) _____

(7) Functional Classification _____

All Amounts in Rs.

(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Object code	Object description	ACCOUNTS INFORMATION			Probable Outlay in 2016-17 (Col.9+10)	BUDGET INFORMATION				FORECAST	
		Actual Receipts 2015-16	Actual Receipts (Last 8 Months) 2015-16	Actual Receipts (First 4 Months) 2016-17		AR Revised Estimates 2014-15	Revised Estimates 2015-16	Budget Estimates 2016-17	Budget Estimates 2017-18	(to be filled by MTBF pilot Depts. only)	
										Budget Estimates 2018-19	Budget Estimates 2019-20
GRAND TOTAL											

(Signature) _____

Name _____

Designation _____

Telephone Number _____

Annex G. Budget Form BCC-V - Proposal for Budget Re-appropriation

(1) Department _____

(2) Attached Department (Where Applicable) _____

(3) Grant No. _____

(4) Grant Name _____

(5) Fund Centre Name _____

(6) Fund Centre Code (DDO Code) _____

(7) Functional Classification _____

All Amounts in Rs.					
(8)	(9)	(10)	(11)	(12)	(13)
Object Code	Object Description	Amount of (-) Re-appropriations / Surrender	Object Code	Object Description	Amount of (+) Re-appropriations
Grand Total					

(Signature) _____

Name _____

Designation _____

Telephone Number _____

Annex H. Budget Form BCC-X -Proposal for Development Budget Re-appropriation

(1) Department

(2) Attached Department (Where Applicable)

(3) Grant No.

(4) Grant Name

(5) Fund Centre Name

(6) Fund Centre Code (DDO Code)

(7) Functional Classification

All Amounts in Rs.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
S.No.	Sector / Sub-sector / Name of Scheme	Existing Allocation			Additional Proposed			Deduction proposed			Revised Allocation after proposed Re-appropriation		
ADP No.	Name of Scheme (on-going schemes)	Capital	Revenue	Total	Capital	Revenue	Total	Capital	Revenue	Total	Capital	Revenue	Total
GRAND TOTAL													

(Signature)

Name

Designation

Telephone Number

Annex I. Budget Form BCC-VII - Revised Estimates/ Final List of Excesses & Surrenders

(1) Department _____

(2) Attached Department (Where Applicable) _____

(3) Grant No. _____

(4) Grant Name _____

(5) Fund Centre Name _____

(6) Fund Centre Code (DDO Code) _____

(7) Functional Classification _____

All Amounts in Rs.

(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
						ACTUALS						
Object code	Object description	Budget Estimates 2016-17	Amount Sanctioned Outside Budget 2016-17	Approved Amount of Re-appropriation (+/-) by FD 2016-17	Total Outlay 2016-17 (Col.10+11+12)	First 6 Months CFY 2016-17	Last 6 Months of FY 2015-16	Total Actuals (Col.14+15)	Proposed Re-appropriation (+/-) within budget by AD if any 2016-17	Anticipated Expenditure for CFY 2016-17	Excess (+) (Col.18-13)	Savings (-) (Col.18-13)
GRAND TOTAL												

(Signature) _____

Name _____

Designation _____

Telephone Number _____

Annex J. Budget Form BCC-VIII - Submission of Surrender of Savings

(1) Department _____

(2) Attached Department (Where Applicable) _____

(3) Grant No. _____

(4) Grant Name _____

(5) Fund Centre Name _____

(6) Fund Centre Code (DDO Code) _____

(7) Functional Classification _____

All Amounts in Rs.

(8)	(9)	(10)	(11)	(12)	(13)
Object Code	Object Description	Budget Estimate 2016-17	Modified Budget 2016-17	Expenditure to date	Amount to be surrendered
Grand Total					

(Signature) _____

Name _____

Designation _____

Telephone Number _____

Annex L. Summary of International Public Sector Accounting Standards (IPSAS)

#	IPSAS TITLE	BASED ON	BRIEF SUMMARY
IPSAS 1	Presentation of Financial Statements	IAS 1	Sets out the overall considerations for the presentation of financial statements, guidance for the structure of those statements and minimum requirements for their content under the accrual basis of accounting.
IPSAS 2	Cash Flow Statements	IAS 7	Requires the provision of information about the changes in cash and cash equivalents during the period from operating, investing and financing activities.
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8	Specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors, defines extraordinary items and requires the separate disclosure of certain items in the financial statements.
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	IAS 21	Deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for determining which exchange rate to use for the recognition of certain transactions and balances and how to recognise in the financial statements the financial effect of changes in exchange rates.
IPSAS 5	Borrowing Costs	IAS 23	Prescribes the accounting treatment for borrowing costs and requires either the immediate expensing of borrowing costs or, as an allowed alternative treatment, the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
IPSAS 6	Consolidated and Separate Financial Statements	IAS 27	Requires all controlling entities to prepare consolidated financial statements which consolidate all controlled entities on a line by line basis.
IPSAS 7	Investments in Associates	IAS 28	Requires all investments in associate to be accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required.
IPSAS 8	Interests in Joint Ventures	IAS 31	Requires proportionate consolidation to be adopted as the benchmark treatment for accounting for such joint ventures entered into by public sector entities.
IPSAS 9	Revenue from Exchange Transactions	IAS 18	Establishes requirements for the accounting treatment of revenue from exchange transactions.
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29	Describes characteristics of an economy that indicate whether it is experiencing a period of hyperinflation and provides guidance on restating the financial statements in a hyperinflationary environment to ensure useful information is provided.
IPSAS 11	Construction Contracts	IAS 11	Deals with both commercial and non-commercial contracts and provides guidance on the allocation of contract costs and, where applicable, contract revenue to the reporting periods in which construction work is performed.

#	IPSAS TITLE	BASED ON	BRIEF SUMMARY
IPSAS 12	Inventories	IAS 2	Establishes the accounting treatment of inventories held by public sector entities and deals with inventories held for sale in an exchange transaction and certain inventories held for distribution at no or nominal charge.
IPSAS 13	Leases	IAS 17	This IPSAS is based on IAS 17 Leases. The IPSAS establishes requirements for financial reporting of leases and sale and leaseback transactions by public sector entities, whether as lessee or lessor.
IPSAS 14	Events After the Reporting Date	IAS 10	The IPSAS is based on IAS 10, Events After the Balance Sheet Date (revised 1999) but has been amended where necessary to reflect the public sector operating environment. The Standard establishes criteria for deciding whether the financial statements should be adjusted for an event occurring after the reporting date.
IPSAS 15	Financial Instruments: Disclosure and Presentation (superseded by IPSAS 28 and IPSAS 30)		The IPSAS is based on IAS 32 Financial Instruments: Disclosure and Presentation (Revised 1998). The Standard includes requirements for disclosures about both on-balance sheet and off-balance sheet (statement of financial position) instruments, and the classification of financial instruments as financial assets, liabilities or equity.
IPSAS 16	Investment Property	IAS 40	Based on IAS 40 Investment Property (issued 2000) and provides guidance on identifying investment properties in the public sector. The Standard requires that investment property initially be recognised at cost and explains that where an asset is acquired at no or nominal cost, its cost is its fair value as at the date it is first recognised in the financial statements.
IPSAS 17	Property, Plant and Equipment	IAS 16	Establishes the accounting treatment for property, plant and equipment, including the basis and timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation.
IPSAS 18	Segment Reporting	IAS 14	Establishes principles for reporting financial information about distinguishable activities of a government or other public sector entity appropriate for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	This Standard defines provisions, contingent liabilities and contingent assets; and identifies the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them.
IPSAS 20	Related Party Disclosures	IAS 24	Requires disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances.
IPSAS 21	Impairment of Non-Cash-Generating Assets	IAS 36	Prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognised. The standard also specifies when an entity would reverse an impairment loss and prescribes disclosures.
IPSAS 22	Disclosure of Financial Information About the General Government Sector	n/a	Establishes requirements for governments that choose to disclose information about the general government sector and that prepare their financial statements under the accrual basis of accounting.

#	IPSAS TITLE	BASED ON	BRIEF SUMMARY
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	n/a	Addresses recognition and measurement of revenue from taxes; recognition of revenue from transfers, which include grants from other governments and international organisations, gifts and donations.
IPSAS 24	Presentation of Budget Information in Financial Statements	n/a	Applies to entities that adopt the accrual basis of financial reporting. It identifies disclosures to be made by governments and other public sector entities that make their approved budgets publicly available. Also, it requires public sector entities to include a comparison of budget and actual amounts in the financial reports and an explanation of any material differences between budget and actual amounts.
IPSAS 25	Employee Benefits	IAS 19	Sets out the reporting requirements for the four categories of employee benefits dealt with in the IASB's IAS 19 Employee Benefits. These are short-term employee benefits, such as wages and social security contributions; post-employment benefits, including pensions and other retirement benefits; other long-term employee benefits; and termination benefits. The IPSAS also deals with specific issues for the public sector, including the discount rate related to post-employment benefits, treatment of post-employment benefits provided through composite social security programs, and long-term disability benefits.
IPSAS 26	Impairment of Cash-Generating Assets	IAS 36	IPSAS 26, which is based on IAS 36 Impairment of Assets, applies to public sector entities that operate assets with the main purpose of generating a commercial return (rather than providing a public service). It sets out the procedures for a public sector entity to determine whether a cash-generating asset has lost future economic benefit or service potential and to ensure that impairment losses are recognised in its financial reports.
IPSAS 27	Agriculture	IAS 41	Prescribes the accounting treatment and disclosures related to agricultural activity, a matter not covered in other standards. IPSAS 27 is primarily drawn from the IAS 41 Agriculture, with limited changes dealing with public sector-specific issues.
IPSAS 28	Financial Instruments: Presentation	IAS 32	Draws primarily on IAS 32, establishing principles for presenting financial instruments as liabilities or equity, and for offsetting financial assets and financial liabilities.
IPSAS 29	Financial Instruments: Recognition and Measurement	IAS 39	Draws primarily on IAS 39, establishing principles for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items.
IPSAS 30	Financial Instruments: Disclosures	IFRS 7	Draws on IFRS 7 and requires disclosures for the types of loans described in IPSAS 29. It enables users to evaluate: the significance of the financial instruments in the entity's financial position and performance; the nature and extent of risks arising from financial instruments to which the entity is exposed; and how those risks are managed.
IPSAS 31	Intangible Assets	IAS 38	Covers the accounting for and disclosure of intangible assets. It is primarily drawn from IAS 38 Intangible Assets. IPSAS 31 does not deal with uniquely public sector issues, such as powers and rights conferred by legislation, a constitution, or by equivalent means.

#	IPSAS TITLE	BASED ON	BRIEF SUMMARY
IPSAS 32	Service Concession Arrangements: Grantor	IFRIC 12	Provides for the recognition, measurement, and disclosure of service concession assets and related liabilities, revenues, and expenses by the grantor. The criteria in IFRIC 12 Service Concession Arrangements for determining whether the operator controlled the asset used in a service concession arrangement are also used in IPSAS 32 to assess whether the grantor controlled the asset.
IPSAS 33	First-time Adoption of Accrual Basis IPSASs	IFRS 1	Addresses the transition from either a cash basis, or an accrual basis under another reporting framework, or a modified version of either the cash or accrual basis of accounting.
IPSAS 34	Separate Financial Statements	IAS 27	This series of standards is based on the 'package of five' standards issued by the IASB in May 2011 dealing with consolidation, joint arrangements, the equity method, separate financial statements and disclosure. A number of amendments have been made in IASs to tailor them for the public sector.
IPSAS 35	Consolidated Financial Statements	IFRS 10	
IPSAS 36	Investments in Associates and Joint Ventures	IAS 28	
IPSAS 37	Joint Arrangements	IFRS 11	
IPSAS 38	Disclosure of Interests in Other Entities	IFRS 12	
IPSAS 39	Employee Benefits	IAS 19	Replaces IPSAS 25 as off 1 January 2018. The main changes from IPSAS 25 are: Removal of an option that allows an entity to defer the recognition of changes in the net defined benefit liability (the "corridor approach"); introduction of the net interest approach for defined benefit plans; Amendments regarding certain disclosure requirements for defined benefit plans and multi-employer plans; simplification of the requirements for contributions from employees or third parties to a defined benefit plan when those contributions are applied to a simple contributory plan that is linked to service; and removal of the requirements for composite social security programmes.
IPSAS 40	Public Sector Combinations	IFRS 3 (partially)	Classifies public sector combinations as either amalgamations or acquisitions taking into account control and other factors.

Annex M. Public Expenditure and Financial Accountability (PEFA) Pillars, Indicators and Dimensions

PILLAR		INDICATOR		DIMENSIONS
I. Budget Reliability	1	Aggregate expenditure outturn	1.1	Aggregate expenditure outturn
			2.1	Expenditure composition outturn by function
	2	Expenditure composition outturn	2.2	Expenditure composition outturn by economic type
			2.3	Expenditure from contingency reserves
			3.1	Aggregate revenue outturn
3	Revenue outturn	3.2	Revenue composition outturn	
		4	Budget classification	4.1
II. Transparency of Public Finances	5	Budget documentation	5.1	Budget documentation
			6	Central government operations outside financial reports
	6	Central government operations outside financial reports	6.2	Revenue outside financial reports
			6.3	Financial reports of extra-budgetary units
			7	Transfers to subnational Governments
	7	Transfers to subnational Governments	7.1	System for allocating transfers
			7.2	Timeliness of information on transfers
	8	Performance information for service delivery	8.1	Performance plans for service delivery
			8.2	Performance achieved for service delivery
			8.3	Resources received by service delivery units
			8.4	Performance evaluation for service delivery
	9	Public access to fiscal information	9.1	Public access to fiscal information
			9.2	Monitoring of public corporations
	III. Management of assets and liabilities	10	Fiscal risk reporting	10.1
10.2				Monitoring of subnational governments
10.3				Contingent liabilities and other fiscal risks
11	Public investment management	11.1	Economic analysis of investment proposals	
		11.2	Investment project selection	
		11.3	Investment project costing	

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			11.4	Investment project monitoring
	12	Public asset management	12.1	Financial asset monitoring
			12.2	Nonfinancial asset monitoring
			12.3	Transparency of asset disposal
	13	Debt management	13.1	Recording and reporting of debt and guarantees
			13.2	Approval of debt and guarantees
			13.3	Debt management strategy
Policy based fiscal strategy and budgeting	14	Macroeconomic and fiscal Forecasting	14.1	Macroeconomic forecasts
			14.2	Fiscal forecasts
			14.3	Macro-fiscal sensitivity analysis
	15	Fiscal strategy	15.1	Fiscal impact of policy proposals
			15.2	Fiscal strategy adoption
			15.3	Reporting on fiscal outcomes
	16	Medium-term perspective in expenditure budgeting	16.1	Medium-term expenditure estimates
			16.2	Medium-term expenditure ceilings
			16.3	Alignment of strategic plans and medium-term budgets
			16.4	Consistency of budgets with previous year's estimates
	17	Budget preparation process	17.1	Budget calendar
			17.2	Guidance on budget preparation
			17.3	Budget submission to the legislature
	18	Legislative scrutiny of budgets	18.1	Scope of budget scrutiny
			18.2	Legislative procedures for budget scrutiny
			18.3	Timing of budget approval
			18.4	Rules for budget adjustment by the executive
IV. Predictability and control in budget execution	19	Revenue administration	19.1	Rights and obligations for revenue
			19.2	Revenue risk management
			19.3	Revenue audit and investigation
			19.4	Revenue arrears monitoring
	20	Accounting for revenue	20.1	Information on revenue collections
			20.2	Revenue arrears monitoring
			20.3	Revenue accounts reconciliation
	21	Predictability of in-year resource Allocation	21.1	Consolidation of cash balances
			21.2	Cash forecasting and monitoring

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			21.3	Information on commitment ceilings
			21.4	Significance of in-year budget adjustments
	22	Expenditure arrears	22.1	Stock of expenditure arrears
			22.2	Expenditure arrears monitoring
	23	Payroll controls	23.1	Integration of payroll and personnel records
			23.2	Management of payroll changes
			23.3	Internal control of payroll
			23.4	Payroll audit
	24	Procurement	24.1	Procurement monitoring
			24.2	Procurement methods
			24.3	Public access to procurement information
			24.4	Procurement complaints management
	25	Internal controls on non-salary Expenditure	25.1	Segregation of duties
			25.2	Effectiveness of expenditure commitment controls
			25.3	Compliance with payment rules and procedures
	26	Internal audit	26.1	Coverage of internal audit
			26.2	Nature of audits and standards applied
			26.3	Implementation of internal audits and reporting
			26.4	Response to internal audits
V. Accounting & Reporting	27	Financial data integrity	27.1	Bank account reconciliation
			27.2	Suspense accounts
			27.3	Advance accounts
			27.4	Financial data integrity processes
	28	In-year budget reports	28.1	Coverage and comparability of reports
			28.2	Timing of in-year budget reports
			28.3	Accuracy of in-year budget reports
	29	Annual financial reports	29.1	Completeness of annual financial reports
			29.2	Submission of reports for external audit
			29.3	Accounting standards
VII. External scrutiny and audit	30	External audit	30.1	Audit coverage and standards
			30.2	Submission of audit reports to the legislature
			30.3	External audit follow-up
			30.4	Supreme Audit Institution independence
	31	Legislative scrutiny of audit reports	31.1	Timing of audit report scrutiny
			31.2	Hearings on audit findings

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		31.3 Recommendations on audit by the legislature
		31.4 Transparency of legislative scrutiny of audit reports

