

Islamic Republic of Pakistan

Balochistan: Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

April 2017



Government of Balochistan and Development Partners
(The World Bank, UKAID, USAID, European Union and ADB)



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July 1 - June 30

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Currency unit = Pakistan Rupee (PKR)
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Acronyms and Abbreviations

ABS	Annual Budget Statement
ADP	Annual Development Program
AG	Accountant General
AGP	Auditor General of Pakistan
APPM	Accounting Policies and Procedures Manual
BER	Budget Execution Report
BLGO	Balochistan Local Government Ordinance
BPPRA	Balochistan Public Procurement Regulatory Authority
BRA	Balochistan Revenue Authority
CGA	Controller General of Accounts
CoA	Chart of Accounts
COFOG	Classification of Functions of Government
CPEC	China-Pakistan Economic Corridor
DAC	Departmental Accounts Committee
DAO	District Accounts Office
DDEO	Deputy District Education Officer
DDO	Drawing and Disbursing Officer
DMS	Debt Management Strategy
ETD	Excise and Taxation Department
EU	European Union
FAM	Financial Audit Manual
FBR	Federal Board of Revenue
FD	Finance Department
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GFR	General Financial Rules
GFS	Government Finance Statistics
GoB	Government of Balochistan
GoP	Government of Pakistan
HLG	Higher Level of Government
HR	Human Resource
ICSID	International Center for Settlement of Investment Disputes
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standard
LCGC	Local Council Grants Committee
M&E	Monitoring and Evaluation
MNA	Member National Assembly
MoF	Ministry of Finance
MPA	Member Provincial Assembly

MTBF	Medium-Term Budgetary Framework
NA	Not Applicable
NAM	New Accounting Model
NBP	National Bank of Pakistan
NFC	National Finance Commission
P&D	Planning and Development
PAC	Public Accounts Committee
PC	Planning Commission
PC-I	Planning Commission Proforma I
PDWP	Provincial Development Working Party
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIFRA	Project to Improve Financial Reporting and Auditing
PPP	Public-Private Partnership
PSDP	Public Sector Development Program
SAE	Self-Accounting Entity
SAI	Supreme Audit Institution
SBP	State Bank of Pakistan
TSA	Treasury Single Account

Acknowledgments

The Balochistan: Public Expenditure and Financial Accountability (PEFA) Performance Assessment, using the PEFA Framework, 2016 was carried out by the World Bank in collaboration with the Government of Balochistan (GoB). The Asian Development Bank, U.K. Department for International Development, European Commission, and U.S. Agency for International Development provided peer review.

The Government managed the process through a high-level Steering Committee under the leadership of Secretary Finance and with representation from the Departments of Planning and Development, Accountant General, Audit General of Pakistan, and Local Government Department, Excise and Taxation, along with the Balochistan Board of Revenue, Provincial Assembly, and Balochistan Public Procurement Regulatory Authority. The PEFA assessment team acknowledges and appreciates the excellent cooperation extended by government counterparts who facilitated the entire process.

The World Bank cross-sectoral task team who contributed to this PEFA assessment report comprised **Fily Sissoko** (Assessment Manager, Practice Manager), **Syed Waseem Abbas Kazmi** (Task Team Leader, Senior Financial Management Specialist), **Rafika Chaouali** (Lead Financial Management Specialist), **Muhammad Waheed** (Senior Economist), **Rehan Hyder** (Senior Procurement Specialist), **Adnan Ashraf** (Economist), and **Sher Shah Khan** (Senior Public Sector Specialist). The team was supported by **Nauman Rafique** (National Consultant), **Winston Percy Onipede Cole** (Senior Financial Management Specialist) and **Clay Wescott** (International Consultant) conducted the technical review. **Abid Khan** (Program Assistant) provided administrative and logistical support.

Internal World Bank peer reviewers were **Mohan Gopalakrishnan** (Senior Financial Management Specialist), **Saeeda Sabah Rashid** (Senior Public Sector Specialist), and **Asif Ali** (Senior Procurement Specialist). PEFA Secretariat, the GoB, and the participating development partners also conducted peer review of the concept note and the final report.

PEFA CHECK



Islamic Republic of Pakistan-Balochistan
Public Expenditure and Financial Accountability (PEFA) Performance Assessment
Report, April 2017

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

PEFA Secretariat,
October 19, 2018

Executive Summary

Following the 18th Constitutional Amendment (2010) and 7th National Finance Commission (NFC) award (2009), Balochistan acquired increased competencies and resources. Balochistan has the lowest socioeconomic indicators among Pakistan's provinces and the Government of Balochistan (GoB) is challenged to deliver public services to its citizens. Small population spread across a vast geographical area increases the cost and complexity of service delivery; Balochistan has 44 percent of Pakistan's total land mass and only 5 percent of country's population. Improved management of public finances is a key element to the development of the province, and public expenditure is also a major contributor to the provincial economy. The GoB is interested to improve management of public finances for better fiscal discipline and public service delivery. At the request of the GoB, the donors led by the World Bank conducted the Public Financial Management (PFM) Assessment to provide a snapshot of the provincial PFM performance and provide a credible baseline for preparation of the Government's PFM reform strategy.

This PEFA performance assessment report reviews the performance of Balochistan's PFM system based on an application of the 2016 Public Expenditure and Financial Accountability (PEFA) assessment methodology. The assessment captures a snapshot of the performance of the provincial government PFM system, processes, and institutions in a set of 31 performance indicators (PIs) (and associated dimensions), categorized into seven critical pillars of performance. As Balochistan is a subnational government, an additional indicator on fiscal transfer from a higher level of government (HLG) was also used. This PEFA assessment provides a baseline against which future PEFA assessments can be compared using the same scoring criteria. The institutional coverage of the assessment includes budgetary entities of the provincial government. For indicators requiring historical data, the periods covered included fiscal years 2012–13, 2013–14, and 2014–15.

Aggregate Fiscal Discipline

Though over the years, the GoB has been able to curtail total annual expenditures within available resources, significant shortcomings exist resulting in low budget reliability. Since 2013–14, the GoB has been preparing an unrealistic deficit budget, which it cannot finance because in the absence of a debt strategy, the GoB is not allowed to borrow. At the year end, financial reports reveal significant variance in expenditure outturn at the aggregate level and by composition mainly because the expenditures were budgeted in excess of resources. The Government does not have a fiscal strategy and medium-term budgetary framework (MTBF) and no fiscal forecasts are prepared. There is no approved development or policy framework to link policy with the budget.

Annual budget is prepared and approved before the start of the fiscal year but the existing budget making process does not facilitate preparation of a complete and accurate budget. Budget is divided into current and development estimates and central departments (Finance and Planning) do not guide the line departments to prepare realistic budget estimates. Only a budget calendar is issued by the Finance Department (FD) which is not followed by most of the line departments. Annual process for current budget is largely an exercise that allows a certain increment over the previous year. For development budget, schemes are included in the budget without proper costing, appraisal, and approval. These schemes are approved during the year and remain unable to fully utilize the allocated budget in most cases. On the revenue side, fiscal transfers from the federal government constitute more than 90 percent of provincial receipts which are guaranteed under the 7th NFC award. Own source tax revenue collection

targets are prepared using an incremental approach without proper analysis and the GoB has been unable to achieve revenue collection targets for any of the last three fiscal years.

There is limited public disclosure of fiscal information and serious concerns about integrity of financial data. The provincial Freedom of Information Act, 2005 falls short of international best practices and as required by the Act, the GoB has not notified all the documents that should be classified as public records. Detailed budget documents and annual audited financial statements are the only available public documents. Budget documents provide original and revised budget estimates of revenue and expenditure by budgetary units for the fiscal year, and a forecast of the fiscal deficit. Information on previous year outturn, debt stock, financial assets/liabilities, and fiscal risks is not included in the budget documents. Financial reports of the GoB are prepared periodically but only capture the budgetary entities. There are more than 50 autonomous organizations or extra-budgetary units owned or controlled by the GoB that are not captured in the financial reports. Reconciliation issues also undermine the accuracy of financial reports. As of June 30, 2015 there was a net difference of PKR 7.56 billion between book balance and bank statement. Moreover, there was a balance of about PKR 5.5 billion in the suspense account on the same date.

The GoB had not formulated a system for transparent and rules-based fiscal transfers to the local governments during the years reviewed. Balochistan Local Government Act 2010 requires the provincial government to constitute the Local Council Grants Committee (LCGC) to recommend the formula for distribution of local council grants among the local councils in the province. Elected local councils assumed office in January 2015 but to date LCGC has not been constituted. During financial year 2015–16, amount of up to PKR 4.7 billion was transferred to the bank accounts of local councils directly by the FD for which no record was available with the Accountant General (AG). Amount of PKR 11.2 billion has been budgeted as grants to local councils in the provincial budget of the financial year 2016–17, as an expenditure.

Issues in public debt management, public assets management, and fiscal risk reporting also contribute to weak aggregate fiscal discipline. No mechanism or practice exists to monitor financial performance and fiscal risk arising from public corporations and local governments; a complete list of government-owned public corporations is not available. Similarly, contingent liabilities are not monitored and reported. There is no consolidated reporting of fixed assets, nor is there any proper mechanism for appraising the performance of fixed assets. This ultimately results in poor maintenance of capital assets resulting in and a shortening of their useful life. The GoB does not have a Debt Management Strategy (DMS) and practices for debt recording, reporting, and approval are also not established.

Strategic Allocation of Resources

The processes narrated above, do not provide a conducive environment for strategic allocation of resources. The GoB has no approved strategic development plan to prioritize allocation of resources and thereafter measure development impact. Moreover, there is no practice of preparing and communicating budget ceilings to the sectors/departments. Under the current state of affairs, development schemes are budgeted without proper costing, appraisal, and approval. There are no established criteria for project selection and guidelines for project identification and appraisal are also not followed. Information systems within the line departments are either weak or nonexistent and result in duplication of public investments in one area and no investments in other areas where they are needed. On the current side, employee-related expenses consume about 75 percent of the budget limiting fiscal space for operation and maintenance expenditure. The public perception that increasing the current budget represents higher administrative cost is a deterrent to allocate required resources to the current budget. This results in a

scenario where assets are acquired and used, but not maintained. Limited participation of spending units results in allocation for low priority expenditure heads, or inadequate allocation for expenditure heads where most of the funds are required.

Linkages are also weak between the current and development budget processes. There has been a significant deviation from the budget in the composition of expenditures because of extensive executive powers of in-year budget adjustments. Therefore, strategic priorities determined through the budget process do not remain in place. There is no monitoring and reporting on the financial performance of operations and entities outside budget. Absence of a consolidated database of financial and nonfinancial assets restricts the Government's ability to strategically allocate resources for investments and acquisition of new assets. Lastly, because of the lack of reconciliation processes and unreconciled differences, a complete and accurate picture on the availability and use of financial resources is not available.

Efficient Service Delivery

The Government Financial Management Information System (GFMIS) provides the enabling environment for efficient service delivery but the gains have not been fully captured because old processes have not been reengineered with the introduction of technology. For budget releases, parallel electronic and manual systems are followed, and spending units are not allowed to spend until they receive manual release orders; in some cases, it takes additional three months. Front line service delivery units are aggregated for budgeting and accounting though the GFMIS, which has the capability to budget and track funds to the lowest level of service delivery units.

The dimension of service delivery is not considered during budgeting and its execution. The GoB does not prepare and publish information on policy or program objectives, key PIs, outputs to be produced, and outcomes planned for programs or services that will be financed through the budget. As a result, there is no monitoring and accountability for service delivery. External audit also focuses on compliance and does not comment on service delivery performance.

In addition to delayed communication of budget release information to service delivery units, the practice of releasing the procurement budget in second semester is a constraint. Moreover, the spending units are not allowed to start the procurement process without budget release and are left with insufficient time to complete procurements after budget release. For development budget, absence of budget release policy and project-based releases limits the predictability of funds availability to service delivery units. At the Government level, as no cash forecasts are prepared, the practice adopted to manage cash balance is to release majority of the budget in last quarter. Service delivery units did not have sufficient resources for majority of the fiscal year and in the last quarter are constrained for time to spend the funds available.

Summary of the Performance Changes since 2007 Assessment

Budget credibility has deteriorated as the variance between budgeted and actual expenditure increased over the years, at aggregate level as well as by composition. The budget making process has become less organized and participatory because the central departments (FD and P&D Department) no longer provide extensive guidance and few line departments observe the timelines of the budget calendar. The transparent and rule based mechanism for fiscal transfers to the local governments no longer exist and fiscal transfers have been discretionary. No progress has been made to improve completeness of fiscal reports by capturing extra budgetary operations and the system to monitor autonomous entities, public enterprises and the local governments has not been established.

The tax administration performance has declined as rules governing assessment, controls over tax payer registration and monitoring compliance for sales tax on services are not fully established. In 2014, the GoB established BRA to collect sales tax on services which is now the largest provincial tax. BRA is a nascent entity and the rules governing assessment, controls over tax payer registration and monitoring compliance are not fully established. This has led to a lower rating for indicators related to tax administration. There has been no change in the prescribed internal control framework since the previous assessment, but external audit reported increased instances of non-compliance with the internal controls. Moreover, the GoB has not established an internal audit function. For the development budget, there is no policy for in-year budget releases and the GoB scores low for predictability in the availability of funds in the current assessment. The Government has not developed the debt management framework and no consolidated debt stock report is available which was previously provided in the budget documents. With the establishment of BPPRA, an improvement in competition, value for money and controls in procurement was noted in comparison to the previous assessment.

Scope and timing of the financial reports has improved but regularity of reconciliation processes declined over time resulting in huge unreconciled differences. Financial reports now allow direct comparison to original budget whereas the earlier financial reports only captured actual expenditure. Monthly accounts are now prepared within two weeks of the close of the month and annual financial statements are submitted to the external audit within two months of the close of the fiscal year. However, information about assets, liabilities and commitments is still not included in the financial reports. Significant unreconciled differences in the bank balances and suspense account still exist compromising the quality of data. Cash and in kind resources received by primary service delivery units still remain unreported.

Since last assessment, the performance related to external scrutiny and audit largely remains the same. There is an improvement in the timeliness of external audit but audit coverage has decreased. Huge backlog of unexamined audit reports still exist before the PAC. Hearing of the PAC, when in session, are extensive but compliance with PAC directives remains low. Legislature is still only allowed two weeks to review budget proposal.

Government Reform Process

Based on the results of this assessment, the GoB has prepared the 10 years PFM Reform Strategy. The overall vision is to have robust and sustainable PFM systems for effective and efficient use of public resources and service delivery. The strategy based on 5 Pillars and 4 crosscutting themes is expected to be approved by provincial cabinet by June 2017. EU and the World Bank are supporting the GoB in preparing and implementing the strategy and the GoB has already started implementing some of the key reform activities. Based on a study, Finance Department (FD) has created four additional units to improve tax policy, debt management, internal audit and investment management. Efforts are underway to strengthen capacity of tax collecting agencies and improve tax administration. Subsequent to this PEFA assessment, payroll of all provincial employees has been computerized and steps taken to reconcile HR and payroll data. Progress has been made to improve budget preparation process for the fiscal year 2016-17 by developing a budget strategy paper, improved budget call circular and communicating indicative ceiling to the largest spending departments. For sustainable capacity building, in collaboration with Auditor General and academia, a comprehensive PFM certification program is being developed for induction and in service training of civil servants.

Pillars and Performance Indicators		Scoring Method	2017				Overall Score
			Dimension Rating				
			(i)	(ii)	(iii)	(iv)	
HLG-1	Transfers from a Higher Level of Government	M1	A	A	A		A+
Pillar 1: Budget Reliability							
PI-1	Aggregate Expenditure Outturn	M1	C				C
PI-2	Expenditure Composition Outturn	M1	D	D	A		D+
PI-3	Revenue Outturn	M2	D	D			D
Pillars 2—3: Key Cross-cutting Issues							
Pillar 2: Transparency of Public Finances							
PI-4	Budget Classification	M1	A				A
PI-5	Budget Documentation	M1	D				D
PI-6	Provincial Government Operations outside Financial Reports	M2	D*	D*	D		D
PI-7	Transfers to Subnational Governments	M2	D	D			D
PI-8	Performance Information for Service Delivery	M2	D	D	D	D	D
PI-9	Public Access to Fiscal Information	M1	D				D
Pillar 3: Management of Assets and Liabilities							
PI-10	Fiscal Risk Reporting	M2	D	D	D		D
PI-11	Public Investment Management	M2	D	D	D	D	D
PI-12	Public Asset Management	M2	D*	D	D		D
PI-13	Debt Management	M2	D	D	D		D
Pillars 4—7: Budget Cycle							
Pillar 4: Policy-Based Fiscal Strategy and Budgeting							
PI-14	Macroeconomic and Fiscal Forecasting	M2	NA	D	NA		D
PI-15	Fiscal Strategy	M2	D	D	NA		D
PI-16	Medium-Term Perspective in Expenditure Budgeting	M2	D	D	D	NA	D
PI-17	Budget Preparation Process	M2	D	D	D		D
PI-18	Legislative Scrutiny of Budgets	M1	C	C	A	C	C+
Pillar 5: Predictability and Control in Budget Execution							
PI-19	Revenue Administration	M2	D	C	D	D*	D
PI-20	Accounting for Revenue	M1	A	A	D		D+
PI-21	Predictability of In-Year Resource Allocation	M2	A	D	D	D	D+
PI-22	Expenditure Arrears	M1	D*	D*			D
PI-23	Payroll Controls	M1	D	B	C	D	D+
PI-24	Procurement	M2	B	D*	C	D	D+
PI-25	Internal Controls on Nonsalary Expenditure	M2	B	D	C		C
PI-26	Internal Audit	M1	D	NA	NA	NA	D
Pillar 6: Accounting and Reporting							
PI-27	Financial Data Integrity	M2	D	D	A	A	C+
PI-28	In-Year Budget Reports	M1	C	A	C		C+
PI-29	Annual Financial Reports	M1	C	A	C		C+
Pillar 7: External Scrutiny and Audit							
PI-30	External Audit	M1	D	D	C	C	D+
PI-31	Legislative Scrutiny of Audit Reports	M2	D	D	C	D	D

Chapter 1: Introduction

1. Chapter 1 outlines the context and purpose of the assessment, the process by which the assessment report was prepared, and the methodology used in undertaking the assessment.

1.1 Rationale and Purpose

2. The PEFA is carried out as an objective, indicator-led assessment of the provincial PFM system in a concise and standardized manner. Its intention is to establish the current status of PFM performance that correlates with an updated understanding of the overall fiduciary environment and provides a credible basis for the preparation of a medium-term PFM reform strategy by the Government. This will inform the plans of development partners that are supporting PFM reform initiatives, including European Commission and the World Bank. By applying the 2016 PEFA Performance Management Framework, the work will also provide a baseline for future assessments of PFM performance.
3. Following the 18th Amendment to the Constitution of Pakistan and the seventh NFC award, like other provinces, Balochistan acquired increased competences and revenues. The 18th Amendment gave provinces exclusive competences in several areas including education and health. The seventh NFC award not only increased the provinces share of the divisible pool but also assigned the Sales Tax on Services to the provincial level. On account of its high poverty rate, low population density, and infrastructure gaps, Balochistan has been the biggest winner from the seventh NFC award. Between the FY 2009–10 and FY2010–11 alone, the province’s budget increased by 95 percent in nominal terms. In the past five years, public spending has increased dramatically. This increase in financing has enabled the province to ramp up spending on infrastructure and public services to narrow the development gap with the rest of the country.
4. Taking advantage of the devolution, Balochistan has implemented few reforms to improve governance and public sector performance. For example, the province has established a Public Procurement Regulatory Authority and adopted regulations that require procurement notices and awards to be published online. The province has also recently established the Balochistan Revenue Authority (BRA) with the mandate to take the collection of the sales tax on services over from the Federal Board of Revenue. Balochistan was also the first province to hold local government elections.
5. The previous PEFA assessment of the province carried out in 2007 noted some improvements in PFM systems steered by federal PIFRA and also identified a number of weaknesses across the PFM cycle. The GoB aims to strengthen its PFM systems over medium term and a comprehensive review of performance is the logical first step to establish baseline for future reforms. The GoB therefore partnered with the donor agencies to take stock of the overall performance of the PFM systems and complement the findings of PEFA report with subsequent detailed diagnostics study on impediments in budget execution.

1.2 Assessment Management and Quality Assurance

6. In December 2015, the GoB and the Government of Pakistan (GoP) requested the World Bank to carry out the PEFA assessment of Balochistan province. The assessment was financed by Multi Donor Trust Fund for KP, FATA, and Balochistan and the World Bank organized the technical team. The Government through the PFM Committee under the leadership of the FD provided high-level

coordination of assessment inputs, reviewed and approved the concept note as well as draft report, and cleared the report for publication.

7. The GoB vide notification dated January 18, 2016, formed a steering committee to supervise the process, to be chaired by Secretary Finance. While Secretary local government, Secretary planning, Accountant General Balochistan, DG(Audit) from the office of Auditors General of Pakistan, DG Treasuries, Chief (Foreign Aid), P&D, DG excise and taxation, MD (BPPRA), Additional Secretary Finance (Budget) and Additional Secretary Finance (Resources) were members. The Steering committee guided the process, reviewed the report and provided detailed comments on the report on behalf of GoB.
8. EU supported the process with part financing of the consultant and input of EU consultants working on the PFM project in Pakistan. The USAID, ADB provided valuable comments on the report. Whereas, DfID along with other development partners participated in the concept review and other important meetings with the government.

Box 1.1 Assessment Management and Quality Assurance Arrangement

PEFA Assessment Management Organization	
PEFA Oversight Team- Steering Committee	The GoB formed a steering committee to supervise the process, vide notification dated January 18, 2016 chaired by Secretary Finance. While Secretary local government, Secretary planning, Accountant General DG(Audit) from the office of Auditors General of Pakistan, DG Treasuries, Chief (Foreign Aid), P&D, DG excise and taxation, MD (BPPRA), Additional Secretary Finance (Budget) and Additional Secretary (Resources) were members. The Steering committee guided the process, reviewed the report and provided detailed comments on the report.
Assessment Manager	Fily Sissoko
Assessment Team	Syed Waseem Abbas Kazmi (Task Team Leader, Senior Financial Management Specialist), Rafika Chaouali (Lead Financial Management Specialist), Muhammad Waheed (Senior Economist), Rehan Hyder (Senior Procurement Specialist), Adnan Ashraf (Economist), and Sher Shah Khan (Senior Public Sector Specialist). The team was supported by Nauman Rafique (National Consultant). The concept note and final report were approved by Illango Patchamuthu (Country Director, Pakistan)
Review of Concept Note and Terms of reference	
Date of Review	December 14, 2015
Invited Reviewers	Mohan Gopalakrishnan (Senior Financial Management Specialist), Saeeda Sabah Rashid (Senior Public Sector Specialist), Asif Ali (Senior Procurement Specialist) and the PEFA Secretariat.
Reviewers who provided comments.	All peer reviewers provided comments.
Date of final concept Note.	February 16, 2016

Review of the Assessment report	
Date(s) of reviewed Draft Report	April 24, 2017
Reviewers who provided comments	Mohan Gopalakrishnan (Senior Financial Management Specialist) Saeeda Sabah Rashid (Senior Public Sector Specialist) Asif Ali (Senior Procurement Specialist) The PEFA Secretariat United States Agency for International Development Asian Development Bank

1.3 Assessment Methodology, Coverage, and Scheduling

9. This PEFA assessment used the updated Framework for Assessing PFM (the Framework) 2016 and related guidance issued by the PEFA Secretariat. All 31 high-level indicators were used to measure the operational performance of the key elements of the PFM systems, processes, and institutions of the Government. As this was a subnational assessment, HLG indicator to assess transfers from federal government was also used. In addition to the framework, following guidance documents provided by PEFA Secretariat were used for this assessment: (a) calculation sheets to calculate variances to score PI-1, PI-2, and PI-3; (b) PEFA Assessment Field guide; (c) supplementary guidance for subnational PEFA assessments, 2016 ; and (d) guidance on tracking performance across time: Comparing PEFA 2016 against PEFA 2005 or PEFA 2011.
10. The institutional coverage of the assessment encompasses the budgetary provincial government. This includes all government departments, government agencies, autonomous agencies, and deconcentrated entities. However, at the level of institutional entities, the focus is on PFM practices as evidence of Government performance rather than a review of specific entities. The Government’s fiscal risk oversight of Government owned or controlled companies is also covered, but not their PFM performance. Local government units, which comprise local councils and a municipal corporation are not covered in this assessment. The assessment includes an overall review of intergovernmental relationships, including reporting by local councils and monitoring by the GoB. The assessment team carried out extensive data collection and consulted with a range of stakeholders. Annex 3 provides details of sources of information.
11. The data cutoff (snapshot) date of the assessment was June 30, 2015. Completed fiscal years are 2012–13, 2013–14, and 2014–15, the latest three years for which audited reports are available. Data gathering for the assessment, primarily took place from February to July, 2016. The analyses of the PIs in Chapter 3 are based on the latest data available in each case. The coverage has been clearly indicated under each PI description. Table 1.1 presents the high-level schedule of activities undertaken for the assessment.

Table 1.1: PEFA Assessment Implementation Schedule

Task	Date(s)
Preparatory work	
i. Draft concept note shared with the Government, participating development partners and peer reviewers including PEFA secretariat	December 7, 2015
ii. Comments received on concept note and review meeting held	December 14, 2015

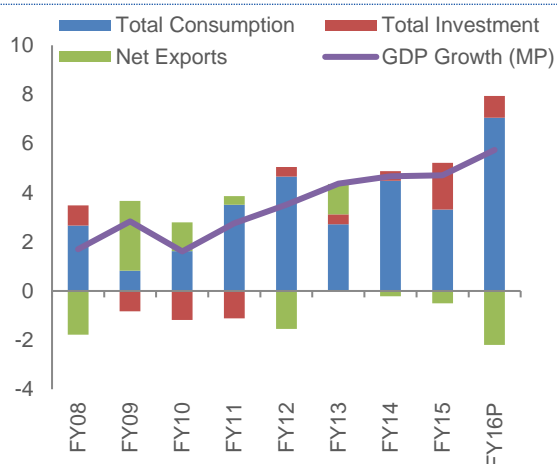
iii.	Orientation session held with Government officials and focal person nominated	January 5, 2016
iv.	Stakeholder oversight team/Steering Committee established; notification issued by the Government	January 18, 2016
v.	Concept note finalized and circulated	January 29, 2016
vi.	Government's concurrence to the concept note received	February 4, 2016
Field work		
vii.	Data collection and interviews	February 15 to April 15, 2016
viii.	Validation workshop with the Government to review initial findings	April 28-29, 2016
ix.	Draft report shared with the government for review and comments	July 29, 2016
Post field work		
x.	Report reviewed by the Steering Committee	February 7, 2017
xi.	Draft report shared with peer reviewers for comments	April 24, 2017
xii.	Review of comments received and finalization of report	October 19, 2018

Chapter 2: Country Background Information

2.1 Country Economic Situation

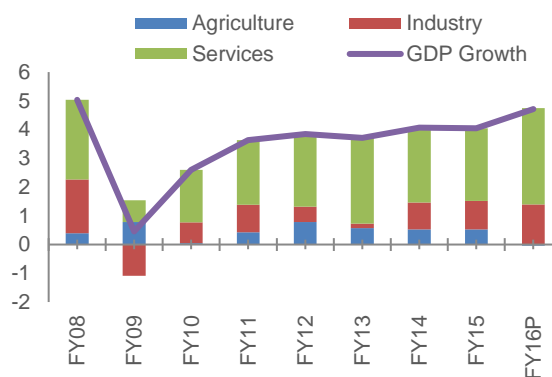
12. Pakistan is the world's sixth most populous country with an estimated population of 195.4 million¹ and per capita income of US\$1,560.7 placing it in lower-middle-income category. After a period of weak economic growth and high inflation,² the pace of economic progress has picked up. Pakistan's economy may have begun the long process of catching up to its regional neighbors in FY2015–16 with gross domestic product (GDP) growth reaching 4.7 percent—the highest rate in eight years and a significant increase from 4.0 percent growth in FY2014–15. Inflation after staying in double digits till FY2011–12 has come down to single digits and was recorded at 3.2 percent during FY2014–15.
13. In FY2015–16, a strong pickup in government-supported construction and manufacturing activities fed into and supported strong domestic public and private consumption. A relatively stable macroeconomic environment—due to better fiscal management, low inflation, a stable exchange rate, and an accommodating monetary policy—supported this outcome. China-Pakistan Economic Corridor (CPEC) projects are generating much higher foreign direct investment flows from China,³ but the substantive benefits of these investments will be felt over the medium term.
14. On the demand side, consumption remains the largest contributor to growth. This has been driven mostly by private consumption, supported by sustained growth in remittances—leading to a record high US\$19.9 billion of remittances in FY2015–16. The services sector is generally the engine of Pakistan's growth on the supply side with its share in GDP reaching about 59 percent in FY2015–16.⁴ Industry, contributing 21 percent of overall GDP, grew by 6.8 percent compared to 4.8 percent in FY2014–15. Agriculture representing 19.8 percent of the GDP contracted by 0.2 percent in FY2015–16.

Figure 2.1: Demand-Side Contributors to GDP Growth



Source: Economic Survey of Pakistan 2015–16.

Figure 2.2: Supply-Side Contributors to GDP Growth



Source: Pakistan Bureau of Statistics.

¹ Ministry of Finance, GoP, Pakistan Economic Survey 2015–16

² Between FY2008-9 and FY2012-3, economy grew at an average of 2.81 percent and inflation remained above 10 percent.

³ FY16 total net flows from China were US\$671 million compared with US\$268 million.

⁴ Economic Survey of Pakistan 2015–16.

15. The end of the Extended Fund Facility program of the International Monetary Fund (IMF) in September 2016 marked significant progress in achieving macroeconomic stability over the last three years. Fiscal deficits are significantly reduced, foreign reserves have returned to more comfortable levels, and inflation is in check. There remains, however, a significant agenda of economic reform to be implemented. The energy sector has reduced financial losses and load shedding—particularly for industry—but investments in transmission and distribution are desperately needed. The Government has also made solid progress on financial sector reforms but will need to continue to strengthen and diversify the sector and improve its governance and transparency. Continued improvements in tax collection will also be essential for the Government’s economic agenda, particularly those that widen the tax net and increase provincial revenue collection.

Table 2.1: Pakistan: Selected Economic Indicators

	2012–13	2013–14	2014–15	2015–16
GDP (US\$ billion)	231.1	243.4	269.9	282.5
GDP per capita (US\$)	1,333.7	1,388.8	1,516.8	1,560.7
Real GDP growth, at constant market prices (%)	4.4	4.7	4.7	5.7
Inflation (consumer price index)	7.4	8.6	4.5	2.9
Debt (% of GDP)	64.7	64.4	64.1	66.1
Current account balance (% of GDP)	-1.1	-1.3	-1.0	-0.9
Fiscal balance (% of GDP)	-8.4	-4.9	-5.2	-4.4
Primary balance (% of GDP)	-3.9	-0.3	-0.5	-0.1

Source: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.

16. The Government recently set a new national poverty line that identifies 29.5 percent of Pakistanis as poor (using the latest available data of FY2013–14) whereas recently launched Multidimensional Poverty Index estimates the country’s multidimensional poverty headcount ratio at 38.8 percent.⁵ By back casting this line, the poverty rate in FY2001–02 would have been about 64.3 percent. This means that poverty has more than halved between FY2001–02 and FY2013–14, even according to this new and higher metric. The new poverty line was introduced in April 2016 precisely because of Pakistan’s success in reducing poverty over the last decade and a half. Using the old national poverty line, set in 2001, the percentage of people living in poverty fell from 34.7 percent in FY2001–02 to 9.3 percent in FY2013–14—a fall of more than 75 percent. Other sources of data corroborate this decline—ownership of assets and dietary diversity also increased over this period.

2.2 The Provincial Context

17. Balochistan is Pakistan’s largest province, with an area of 347,190 sq km, which represents 43.6 percent of Pakistan’s total land area. However, it is also the least populated province of the country with only 9.3 million (5 percent of total population) residing in the province. Apart from the urban centers, such as Quetta and Khuzdar, rest of the population of this province is scattered over a large swath of arid and mountainous terrain. These peculiar geographical and population density features, along with the governance structure of the province, create substantial bottlenecks for public service

⁵ Ministry of Planning, GoP, Multidimensional Poverty in Pakistan, June 2016.

delivery. Consequently, Balochistan is one of the least developed provinces of Pakistan, with weak macroeconomic and social indicators.

18. **Balochistan despite having a key strategic location and rich natural resource base contributes only 8 percent to national GDP.**⁶ Balochistan's economy primarily depends upon agriculture, transport and wholesale, and manufacturing sectors. These three sectors contributed on average 77 percent in Balochistan's economy during the last decade. However, during this same time period the mining sector's average contribution was 5.5 percent. This contribution is insignificant looking at the endowment of minerals that Balochistan is blessed with. The province contains one of the largest deposits of copper in the world—a resource that has barely been touched to date—and substantial barely developed deposits of gold, marble, granite, onyx, and other minerals. It underpins the fact that historically Balochistan's economy has largely underperformed compared to its potential. The underlying facts behind this weak economic performance of the province include volatile political and security environment and structural bottlenecks.
19. Despite the upward trend seen in Balochistan's economic growth, key macroeconomic and social indicators are largely depicting a gloomy picture compared to other provinces. Incidence of poverty in the province is more than 70 percent⁷ compared to the national average of 39 percent. The feature that distinguishes Balochistan from other provinces of Pakistan is its vast land and extremely rough and terrain. Balochistan's vast area is not only its competitive advantage, but it is also a source of considerable strain for its development. Other than the few major urban centers of the province, the rest of the population is scattered over a vast land mass. Therefore, the provincial government requires considerable resources to provide basic facilities such as health, education, and road connectivity to this sparsely located population.
20. The GoB expects massive influx of economic activity in the province with operationalization of Gwadar Port with the advent of China Pakistan Economic Corridor (CPEC). With significant federal investment in physical infrastructure of the province under CPEC projects, Balochistan has the potential to become a regional transit hub.
21. In Pakistan, income account is only estimated at the national level. This exercise is conducted by Pakistan Bureau of Statistics, and it is yet to be conducted at the provincial level. Therefore, provincial governments formulate their respective economic policy in the absence of this vital information, which has direct and profound impact on its effectiveness. Balochistan is no exception in this regard, and its provincial government is faced with this challenge while preparing the annual budget.

2.3 Fiscal and Budgetary Trends

22. Pakistan's fiscal position continues to improve. The consolidated⁸ fiscal deficit (excluding grants) has declined from 5.3 percent of GDP in FY 2014-15 to 4.6 percent in FY 2015-16—the lowest in nine years. Fiscal consolidation is the lynchpin of the Government's reform program, supported by the recently-finalized IMF program (Extended Fund Facility). In FY16, total expenditure grew by 7.6 percent while total revenue increased by a robust 13.1 percent as a result of tax revenue growth. The federal government held recurrent spending under tight rein—recurrent spending grew by only 3.5 percent compared to 7.3 percent last year. On the other hand, provincial recurrent spending registered an

⁶ World Bank staff calculations based on Balochistan Needs Assessment, 2013.

⁷ Ministry of Planning, GoP, Multidimensional Poverty in Pakistan, June 2016.

⁸ This analysis refers to the consolidated fiscal accounts of federal and provincial governments.

increase of 11.7 percent. As a result, the Government generated a primary deficit (excluding grants) of 0.3 percent of GDP during FY 2015-16 compared to 0.6 percent in FY 2014-15.

23. The GoP's fiscal consolidation program initially assumed that provincial governments would contribute a combined surplus of 0.9 percent of GDP (or PKR 297 billion) in FY 2015-16. In reality, however, the provinces' combined surplus stood at just 0.5 percent of GDP (or PKR 142 billion). This was largely due to provinces' overspending on recurrent expenditures, which exceeded their budgets by 29 percent. Consistent with a recent trend, much of the growth in expenditure is directed toward higher salaries and pensions, while almost all provinces were unable to execute their development budgets in full. Provincial development expenditure was 27 percent below budget, although it represented a 19 percent increase in FY 2014-15.

Table 2.2: Summary of Pakistan Fiscal Operations

	2013–14	2014–15	2015–16	2014–15	2015–16
	Actual PKR in Billion (Unless Mentioned Otherwise)			Growth (Percentage)	
Total revenue	3,637	3,931	4,447	8.1	13.1
Tax revenue	2,565	3,018	3,660	17.7	21.3
Federal	2,375	2,812	3,377	18.4	20.1
Provincial	190	206	283	8.3	37.6
Nontax	1,073	913	787	(14.9)	(13.9)
Federal	1,023	838	693	(18.1)	(17.3)
Provincial	49	76	93	53.1	23.4
Expenditures	5,026	5,387	5,796	7.2	7.6
Current of which:	4,005	4,425	4,694	10.5	6.1
Interest	1,148	1,304	1,263	13.6	(3.1)
Defense	623	698	758	12.0	8.6
Development expenditure	1,136	1,113	1,301	(2.0)	16.9
Net lending	101	27	13	(72.8)	(53.9)
Statistical discrepancy	(215)	(178)	(212)		
Fiscal balance	(1,389)	(1,456)	(1,349)	(4.9)	(7.3)
% of GDP	(5.5)	(5.3)	(4.6)		

Source: Ministry of Finance (MoF), GoP.

Balochistan Context

24. The GoB does not have a fiscal strategy and the annual budget documentation does not contain fiscal objectives. Balochistan is the only province preparing the deficit budget without identifying the source to finance the deficit (refer to PI-1). However, the expenditure outturn remained less than 90 percent, and the GoB was able to finance expenditure from its own receipts; fiscal transfers from the federal government represent more than 90 percent of the GoB's receipts. The provincial resource position improved significantly with the seventh NFC award, which has not only increased the overall share of provinces in the pool of federally collected revenue, but has also increased the share of Balochistan within the provincial share. On average, total receipts have grown by more than 10 percent over the last three years mainly on account of fiscal transfers from the federal government. Provincial own revenue collection constitutes only a small, and declining, portion of the overall revenue resources of the province. Royalties and development surcharges on extraction of natural resources remain the biggest own source revenue.

25. Provincial expenditures over the last three years (in nominal terms) have grown at an average rate of 12 percent. The expenditure increase shows a haphazard trend, where the increase of expenditure in FY2013–14 is solely on the recurrent side, complemented by a decrease in development expenditure. While during FY2014–15, development expenditure increased by 23 percent as compared to the previous year, the recurrent budget increased by less than 5 percent.

Table 2.3: Balochistan Fiscal Data (PKR in Billion) Actual

	2012–13	2013–14	2014–15	2015–16 ^{prov}
Total revenue	166.5	186.7	194.7	221.9
Own revenue	18.8	19.7	16.3	26.7
Tax revenue	1.1	1.2	1.5	4.2
Nontax revenue including capital receipts	17.7	18.5	14.8	22.3
Total expenditure	154.7	173.6	194.9	233.7
Noninterest expenditure	152.3	171.8	193.7	232.5
Interest expenditure	2.4	1.8	1.2	1.2
Aggregate deficit	11.8	12.9	-0.2	-11.8

Source: GoB budget and audited financial statements.

26. The Government does not have an approved strategic plan or development strategy to be used as a policy document to prepare budgets. Spending of the province is predominately focused on the recurrent side that accounts for three-quarters of the total budget. The Government’s wage bill represents about 75 percent of the current expenditure (46 percent of the total budget) limiting fiscal space for operations and development expenditure. Due to the volatile security situation in the province, the GoB’s expenditure on law and order increased significantly. As a result of 18th Amendment of the Constitution, service delivery functions were fully transferred to the provincial government and the budget for these sectors also increased. However, the cost of service delivery in Balochistan due to the demography and topography of the province is much higher. The social indicators of the province are much worse off than the national average and other provinces, and significant investment is needed in the social sectors. The GoB prepared the medium-term education sector plan but remained unable to adequately fund it.

Table 2.4: Balochistan Budget Allocations by Function (PKR in Million)

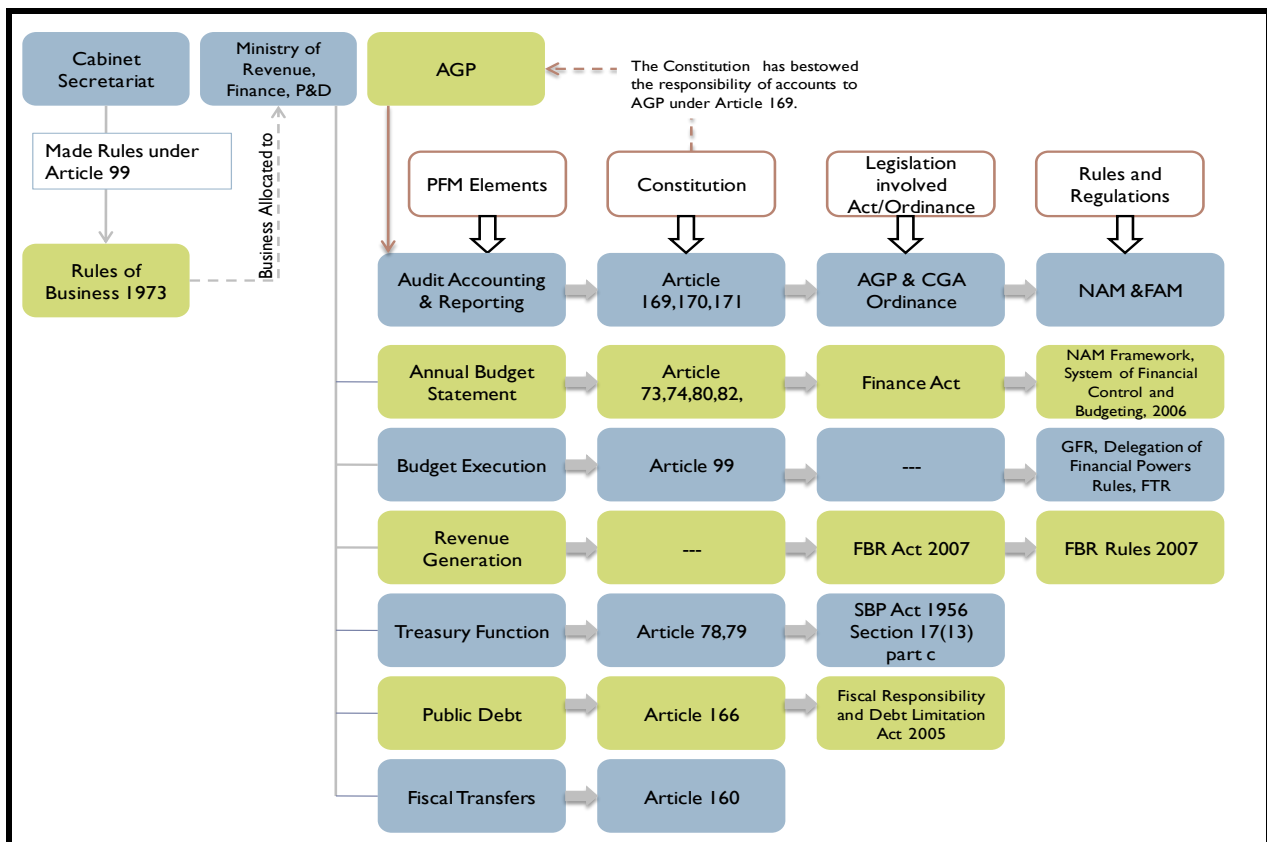
Function Head	2012–13	2013–14	2014–15
General public services	65,931	59,349	56,891
Public order safety affairs	14,255	16,807	22,496
Economic affairs	48,983	52,108	57,613
Environment Protection	2,210	3,199	5,039
Housing and community amenities	6,597	11,488	7,100
Health affairs and services	11,268	15,233	18,470
Recreation, culture and religion	1,230	1,705	3,541
Education affairs and services	24,830	35,298	40,701
Social protection	4,627	3,208	3,862

Source: GoB audited financial statements.

2.4 Legal and Regulatory Arrangements for PFM

27. The Constitution of Pakistan provides a basis for PFM elements to enable setting up of a hierarchical legal framework. The Constitution lays down procedures for preparation and approval of budget documents, procedures for approval of supplementary grants, definitions of federal and provincial consolidated funds and public accounts, procedures for fiscal transfer from the federal government to the provinces and preparation of accounts, methods of selection and removal of the Auditor General, and the scope of audit. Under the relevant provisions of the Constitution, a number of laws are approved by the parliament. These include the Auditor General Ordinance, Controller General Ordinance,, and Federal Board of Revenue Act governing revenue of the Government, Fiscal Responsibility and Debt Limitation Act, and State Bank of Pakistan Act.

Figure 2.3: Pakistan PFM Legislative Structure



28. The GoB's internal control system is based on a series of regulations, which have been developed at the National level and adopted by the provincial government. These includes (a) the New Accounting Model; (b) Balochistan Finance Manual 2008; (c) Balochistan Budget Manual 1987; (d) General Financial Rules; (e) Treasury Rules; (f) Balochistan Public Procurement Rules 2014; (g) Balochistan Civil Servants Rules 1976; (h) the GoB's Rules of Business 2012; (i) Balochistan Delegation of Powers 2008; (j) the Planning commission's Manual for Development Projects; and (k) various circulars and notifications issued by the MoF, the GoP, and the FD, GoB. Some of these regulations were enacted over a few decades, and there have been some revisions.

29. For budget preparation and execution, the federal and provincial governments are empowered to make rules and regulations. To guide the budget preparation, the GoB has prescribed the Balochistan Budget Manual 1987. Each year the provincial assembly approves the budget by enacting a finance act for a year. The budget execution is majorly carried out through General Financial Rules (GFR) that describe primarily the financial powers of different authorities and internal control principles.
30. The promulgation of the Controller General of Accounts (CGA) Ordinance 2001 and the Auditor General Ordinance 2001 separated the accounting and auditing roles and responsibilities, respectively. However, according to Article 170 of the Constitution, Auditor General of Pakistan (AGP) still retains the authority to prescribe the form of the accounts of the federation and the provinces and the methods and the principles underlying their maintenance. Further, the officers responsible for accounting and auditing belong to the same cadre (that is, the Pakistan audit and accounts service), which is under the administrative control of the AGP. The provincial AGs report to the CGA at the federal level. The CGA carries out policy formulation, coordination, and administration responsibilities. For accounting and financial reporting, the New Accounting Model (NAM) prescribed by the AGP with the approval of the president of Pakistan is used by the federal and provincial governments.
31. To regulate procurement of goods, works, and services, the GoB established Balochistan Public Procurement Regulatory Authority (BPPRA) through an act of provincial assembly in the year 2009. The FD issued Public Procurement Rules 2014 on December 15, 2014, to be followed by all government departments
32. In January 2015, local councils elected under Balochistan Local Government Act assumed offices, but the provincial government has still not prescribed the financial management framework for the local councils. Moreover, the GoB has also not constituted LCGC to recommend the formula for distribution of local council grants among the local councils in the province.

2.5 Institutional Arrangements for PFM

33. The PFM process at the provincial level starts with budget preparation. The FD has a dominant role in this process and compiles the budget in accordance with well-defined timetables and after detailed discussions with line departments. The Planning and Development (P&D) Department is responsible for the annual development program (ADP) and its monitoring. The budget is laid before the provincial legislature for review and approval. Drawing and disbursing officers (DDOs), nominated officers in the spending departments, submit expenditure bills to the accounts offices for payment. The district- and provincial-level accounts offices process (district accounts office [DAO] or treasury offices) payment claims while exercising budgetary controls and compliance checks. According to the legal framework, the CGA, through the provincial AG maintains the accounts of financial transactions and prepares financial reports—both in-year and the annual financial statements for Balochistan Province. The AGP conducts the external audit of the accounts, and the audited accounts and audit reports are submitted to the provincial Governor who then lays these reports before the provincial legislature for scrutiny.

Table 2.5. Structure of the Public Sector

2017	Government Sub-sector		Social Security	Public Sector Corporations	
	Budgetary Units	Extrabudgetary Units		Financial	Non-Financial
Provincial government	45	54	0	0	3
Local Governments	0	726 ⁹	0	0	0

Source: Budget Documents, Rules of Business, State Bank of Pakistan and Election Commission

34. The FD compiles the budget in accordance with the defined timetables (issued with the Budget Call Circular) with input from the line departments and the P&D Department (responsible for development budget). The budget proposals are laid before the Provincial Assembly (legislature) for review and approval. The drawing and disbursing officers (DDOs), nominated officers in the spending departments, submit expenditure bills to the to the accounts offices for payment. The accounts offices at the district and provincial level process payment claims while exercising budgetary controls and compliance checks. As per the legal framework, the provincial AG, through its Accounts Offices, maintains the accounts of financial transactions and prepares financial reports, both in-year and the annual financial statements.
35. The Controller General of Accounts (CGA) is tasked with the production of timely and accurate financial statements according to the form and method prescribed by the AGP. The promulgation of the Controller General of Accounts Ordinance 2001 and the Auditor General Ordinance 2001 separated the roles and responsibilities of the offices of CGA and the AGP regarding accounting and auditing respectively. In the KP province, the AG represents the CGA and functions with independent staff and budget. The Provincial AG reports to the CGA at the federal level. The CGA carries out policy formulation, coordination, and administration responsibilities.
36. The DG Provincial Audit conducts external audit of the accounts on behalf of the office of the AGP, and the audited accounts and audit reports are submitted to the Governor of the province for tabling them at the Provincial Assembly for legislative scrutiny. The Directorate General District Audit audits the local governments and the DG Commercial Audit audits public sector entities. The PAC of the Provincial Assembly conducts the legislative oversight of the provincial financial operations.
37. The lower tier of government represents local councils and Metropolitan Corporation, Quetta established under the Balochistan Local Government Act (BLGA) 2010. Local government elections were held in December 2013 and the elected local councilors assumed office in January 2015. Chapter IX of the BLGA 2010 provides a broad framework for local finance. Each council is empowered to prepare its budget and present to the next tier for approval; for example, local council is to submit the budget to district council. The local councils are allowed to maintain funds in commercial bank accounts. The DAO is responsible for accounting of funds provided by the provincial government and the local council is responsible to account for the from own source revenue. Director Local

⁹ 32 District Councils; 635 Union Councils; 1 Urban Council; 1 Metropolitan (Quetta City); 4 Municipal Corporations (Pishin, Killa Abdullah, Khuzdar and Kech); and 53 Municipal Committees.

Government Audit, a department of FD, is responsible for external audit and local council accounts committee is responsible to review audit reports.

2015	Provincial Government			
	Budgetary unit	Extrabudgetary units	Social security funds	Total aggregated
Revenue	7,057	Not Available	Not Applicable	7,057
Expenditure	215,713	Not Available	Not Applicable	215,713
Transfers from federal govt.	181,769	Not Applicable	Not Applicable	181,769
Liabilities	Cumulative data not available			
Financial assets				
Nonfinancial assets				

Year 1396	Provincial Government			
	Budgetary unit	Extrabudgetary units	Social security funds	Total aggregated
Revenue	5,554	Not Available	Not Applicable	5,554
Expenditure	194,970	Not Available	Not Applicable	194,970
Transfers from federal govt.	178,905	Not Applicable	Not Applicable	178,905
Liabilities	31,510	Not Available	Not Available	31,510
Financial assets	50,166	Not Available	Not Available	50,166
Nonfinancial assets	412,544	Not Available	Not Available	412,544

2.6 Other Key Features of PFM and its Operating Environment

38. The Auditing and Accounting is centrally controlled and administered by the Federal Government in Pakistan. Historically, the Auditor General of Pakistan was custodian of accounting, reporting, recording and auditing of the Federal Government as well as the provincial government. The AGP also prescribe the accounting policies and rules. The Accounting and Auditing functions have been gradually separated after promulgation of Controller General Accounts Ordinance 2001 and Auditors General of Pakistan Ordinance 2001.
39. The pre-audit, accounting and reporting functions are performed by Accountant General of Balochistan which is a sub-ordinate office of CGA. However, the provincial government has also placed treasury officers in the districts who performs payment function while sitting in district accounts offices. Balochistan government though independent of making its own financial rules, however, it has adopted by and large the rules and regulation of the federal government.
40. The Federal government under NFC (discussed in detail under HLG-1) transfer share of provincial government in centrally collected taxes. Whereas, the Federal Government beside NFC award also pays certain earmarked grants for development. The federal government through its own treasury

finance certain development schemes like roads and dams while in certain cases it has provided grants to extra-budgetary units like BDA for installing desalination plant at Gawadar, as well as to the provincial government for construction of water storage dams e.g. Mirani Dam. The size and extent of Earmarked grants or federally funded development schemes is very small (less than 10% of the GoB Budget) as compared to the GoB's own budget.

41. There is no legislation or practice whereby Public Participation has been enabled in Budget preparation, implementation or management other than the role of legislature. The Government is now working with the World Bank and EU to introduce PFM reforms and PFM reform strategy is under consideration which may embark upon many reforms including introducing citizen budget.
42. Oversight bodies controlled and managed by the federal government also work in Balochistan. This include National Accountability Bureau, which has jurisdiction over cases of corruption of public officer, Federal Investigation Agency looks after any financial crimes. Whereas, federal and provincial ombudsman have the jurisdiction over complaints filed by any citizen in maladministration of any federal or provincial public office.

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

43. This chapter provides an assessment of the key elements of the PFM system as captured by the 31 PIs. As this is a subnational assessment, HLG-1 was also used to assess transfers from the federal government. The PFM performance for each of the PIs was assessed and assigned ratings of ‘A’ to ‘D’ according to the scoring criteria for each indicator that must be met in entirety. The scores may be broadly interpreted as follows:

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

HLG-1 Transfers from a Higher Level of Government

44. This indicator assesses the extent to which transfers to the subnational government from a higher-level government are consistent with original approved high-level budgets and are provided according to acceptable time frames.

Dimension	Score	Brief Justification for Score
HLG-1 Transfers from a Higher Level of Government	A	Overall score based on M1 methodology.
HLG-1.1 Outturn of transfers from a higher-level government	A	Transfers from the federal government have been more than 95% of the budgeted amounts during last three fiscal years; variance is less than 5%.
HLG-1.2 Earmarked grants outturn	A	The annual variance in transfers by less than 5 percentage points in each of the last three years.
HLG-1.3 Timeliness of transfers from a higher-level government	A	Actual disbursements is almost evenly spread throughout the year.

45. Under Article 160 of the Constitution, the president constitutes the NFC to determine the formula for revenue sharing between federal and provincial governments. Based on the recommendations of the NFC, the president, by order, specifies the share of tax proceeds to be allocated to the provinces and the federal government (referred to as the NFC award). NFC recommendations are also laid before the federal and provincial legislative assemblies. The last/seventh NFC award 2009 altered the traditional population-based revenue distribution to multiple indicators—population (82 percent), poverty and backwardness (10.3 percent), revenue collection/generation (5 percent), and inverse population density (2.7 percent). It also raised the provincial share in the divisible pool taxes from 47 percent (before the NFC award 2009) to 57.5 percent from FY2011–12 onward.

HLG-1.1 Outturn of Transfers from a Higher-Level Government

46. The annual deviation between the budgeted and the actual transfers from the federal government is shown in table 3.1.

Table 3.1: Annual Deviation between Budgeted and Actual Transfers

Description	2012–13	2013–14	2014–15
Budgeted transfers (PKR in million)	152,316	164,288	181,769
Actual transfers (PKR in million)	146,602	164,416	178,805
Deviation (PKR in million)	5,714	(129)	2,964
Deviation percentage	3.75%	-0.08%	1.63%

Source: MoF, GoP, and FD, GoB.

47. Unlike for other provinces, Balochistan’s share of fiscal transfers by the federal government is guaranteed in the seventh NFC award. Balochistan Province shall receive the share from the divisible pool taxes based on annual budgetary projections, and any shortfall as a result of less tax collections shall be made up by the federal government from its own share. This allows the GoB to more accurately forecast the amount of fiscal transfers expected from the federal government. The annual deviation between budgeted and actual transfers from the federal government has been less than 5 percent in the preceding three years, and therefore, the dimension is rated A.

HGL-1.2 Earmarked Grants Outturn

48. In addition to NFC share, the GoB receives earmarked grants for development under special sanction from the federal government. Allocation and actual transfers from the federal grants for earmarked grants are given in table 3.2.

Table 3.2: Variance between Actual and Budgeted Transfers for Earmarked Grants

Earmarked Grants - COFOG Classification.	2012–13		2013–14		2014–15	
	Budget	Actual	Budget	Actual	Budget	Actual
Economic Affairs (PKR in million) – Unconditional Grants	152,316	146,602	164,288	164,416	181,769	178,805
Economic Affairs (PKR in million) – Conditional Grants	5,944	4,232	4,676	3,813	8,617	7,518
Total	158,260	150,834	168,964	168,229	190,386	186,323
Percentage difference	4.69%		0.44%		2.13%	

Source: MoF, GoP, and FD, GoB.

49. All earmarked grants are classified under Economic Affairs, therefore absolute and actual variance remains the same. The overall deviation is less than 5 percentage points in all of the last three financial years and the dimension is therefore rated A.

HLG-1.3 Timeliness of Transfers from a Higher-Level Government

50. The budget documents do not include the timetable of fiscal transfers. At the federal level, established practice is to release funds to the provincial governments on a biweekly basis. The data of funds

received by the GoB during last three fiscal years are shown in table 3.3. Since the distribution of funds is evenly spread across the year, the dimension is rated A.

Table 3.3: Federal Fiscal Transfers

Fiscal Year	Quarter	Forecast	Actual Disbursement	Planned for the Quarter	Actual Delay	Delayed Amount as Share of Total	Cumulative Delayed Amount as Share
		PKR in Million				Percentage	
2012–13	Quarter 1	32,767	31,702	32,767	1,065	0.84	0.84
	Quarter 2	32,767	31,702	32,767	1,065	0.84	1.68
	Quarter 3	32,767	31,702	32,767	1,065	0.84	2.52
	Quarter 4	32,767	31,702	32,767	1,065	0.84	3.36
	Total	131,066	126,808	31,066	4,259	3.36	3.36
2013–14	Quarter 1	35,495	43,513	35,495	(8,018)	(5.43)	(5.43)
	Quarter 2	35,495	33,293	35,495	2,202	1.49	(3.94)
	Quarter 3	35,495	35,531	35,495	(36)	(0.02)	(3.96)
	Quarter 4	35,495	35,280	35,495	215	0.15	(3.82)
	Total	141,980	147,617	41,980	(5,638)	(3.82)	(3.82)
2014–15	Quarter 1	39,928	42,626	39,928	(2,697)	(1.70)	(1.70)
	Quarter 2	39,928	38,345	39,928	1,583	1.00	(0.70)
	Quarter 3	39,928	39,002	39,928	926	0.58	(0.12)
	Quarter 4	39,928	38,692	39,928	1,236	0.78	0.66
	Total	159,714	158,665	59,714	1,049	0.66	0.66

Source: MoF, GoP, and FD, GoB.

Pillar 1: Budget Reliability

PI-1 Aggregate Expenditure Outturn

51. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in the government budget documentation and fiscal reports.

Dimension	Score	Brief Justification for Score
PI-1 Aggregate Expenditure Outturn	C	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in the last three fiscal years. Actual expenditure deviated from the original budget by more than 10% in two of the last three fiscal years. (2012–13: 14% 2013–14: 12.55% and 2014–15: 9.6%).

52. For assessment of PI-1, FY2012–13, FY2013–14, and FY2014–15 were considered for which audited financial statements were available. The data and resulting overall variances (in absolute terms) that are used to ascertain the score achieved are shown in table 3.4. Detailed data tables are provided in

annex 5. Considering the variances the score for PI-1 is assessed as C since the variance was in the range of 85 percent to 115 percent of the aggregate budget in the three fiscal years considered.

Table 3.4: Calculation of Aggregate Expenditure Outturn

	PKR in Million		
	2012–13	2013–14	2014–15
Total budget expenditure	179,931	198,395	215,713
Total actual expenditure	154,727	173,591	194,970
Difference between budget and actual	25,204	24,804	20,743
Aggregate outturn	86%	87%	90%

Source: Audited financial statements for the GoB.

53. Since FY2013–14, the GoB has been preparing deficit budgets without identifying the source to finance the deficit. The GoB cannot borrow money independently (refer to PI-13) and only the ways and means advance from the State Bank of Pakistan (SBP) is available that is already included in budgeted receipts. This means that practically budget cannot be executed in full as approved by the legislature. Budget execution is restricted by releasing budget for procurements mostly in the second half of the fiscal year, not allowing the departments to start the procurement process until full budget is released and imposing a ban or austerity measures on procurements. Almost all new project included in the development budget are unapproved and funds are released after their approval mostly during second semester of the fiscal year (refer to PI-11) that leads to low budget turnover. Presented in table 3.5 are GoB budget deficits.

Table 3.5: Budget Deficits

	2013–14	2014–15	2015–16	2016–17
Budgeted receipts (PKR in million)	190,454	200,050	217,526	252,871
Budgeted expenditure (PKR in million)	198,395	215,713	243,528	289,356
Budget Deficit	(7,941)	(15,663)	(26,002)	(36,485)

Source: Audited financial statements and budget documents.

PI-2 Expenditure Composition Outturn

54. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition.

Dimension	Score	Brief Justification for Score
PI-2 Expenditure Composition Outturn	D+	Overall rating based on M1 methodology
2.1 Expenditure composition outturn by function	D	Variance in expenditure composition exceeded 15% in two of the three years.
2.2 Expenditure composition outturn by economic type	D	Variance in expenditure composition exceeded 15% in all the three years.
2.3 Expenditure from contingency reserves	A	No expenditure has been charged to contingency vote.

55. The Constitution and financial regulations empower the executive to reappropriate among budget lines and to issue supplementary grants, thereby expanding the total budget outlay. The GoB follows an incremental budgeting approach, which leads to significant in-year budget adjustments and variances in expenditure composition. During the years under assessment, the volatile security situation within the province was a major reason for excessive supplementary grants.

Dimension 2.1. Expenditure Composition Outturn by Function

56. This dimension measures the variance between the original, approved budget, and end-of-year outturn in expenditure composition by functional classification during the last three years. It reflects the Government’s ability to pursue its policy objectives as intended and stated in the budget. According to table 3.6, the variance in expenditure composition exceeded 15 percent in 2012–13 and 2013–14. The score for Dimension 2.1 is hence assessed as D. Detailed data tables are provided in annex 5.

Table 3.6: Calculation of Variance by Function

Fiscal year	Total Budgeted Expenditure	Total Actual Expenditure	Absolute Deviation	Composition Variance
	PKR in Million			
2012–13	179,931	154,724	54,130.5	35%
2013–14	198,395	173,591	28,295.7	16.3%
2014–15	215,713	194,970	23,989.9	12.3%

Dimension 2.2. Expenditure Composition Outturn by Economic Type

57. This dimension measures the difference between the original, approved budget, and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items. The composition of the budget by economic classification is important for showing the balance between different categories of inputs. Table 3.7 shows that in all the three years under assessment, the variance exceeded 15 percent, and therefore the rating for this dimension is D. Detailed data tables are available in annex 5.

Table 3.7: Calculation of Variance by Economic Type

Fiscal Year	Total Budgeted Expenditure	Total Actual Expenditure	Absolute Deviation	Composition Variance
	PKR in Million			
2012–13	179,931	154,724	48,190.0	31.6%
2013–14	198,395	173,591	33,622.3	19.6%
2014–15	215,713	194,970	49,399.3	25.5%

Dimension 2.3. Expenditure from contingency reserves:

58. This dimension measures the average amount of expenditure actually charged to a contingency vote over the last three years. The Government may provide reserves for unforeseen events in the form of a contingency vote. There is no expenditure charged to contingency vote, therefore this dimension is rated A.

PI-3 Revenue Outturn

59. This indicator measures the change in revenue between the original approved budget and end-of-year outturn.

Dimension	Score	Brief Justification for Score
PI-3 Revenue Outturn	D	Overall rating based on M2 methodology.
3.1 Aggregate revenue outturn	D	Actual revenue was between 79% and 162% of the budget revenue during the last three financial years.
3.2 Revenue composition outturn	D	Composition variance during the last three years remained beyond 15%.

60. Fiscal transfers from the federal government constitute more than 90 percent of the provincial receipts, but there are a number of taxes administered by the provincial government. These include property tax, sales tax on services, motor vehicle tax, stamp duty, provincial excise, and a few other taxes. In addition, there are certain nontax revenue sources of the GoB including royalties, development surcharges, interest and dividends on investment, and fees collected by some departments. This indicator only assesses provincial tax and nontax revenues administered by the GoB.

Dimension 3.1 Aggregate Revenue Outturn

61. Institutional arrangements for revenue forecasting are seriously deficient in the province. At the time of preparing budget, the executive has no data available to forecast the revenue and accordingly fix targets for its revenue collecting machinery. This results in significant variance between budgeted and actual revenue collection. The FD has recently started quarterly review of the revenue collection targets, but results of the same are yet to be evidenced. It was noted that during the last three years, tax collection by the provincial tax administration was less than the budgeted tax revenue whereas nontax revenue, at an aggregate level, was significantly higher in two years and about 90 percent of the budget in one year. Table 3.8 presents aggregate revenue outturns, and because of the significant variance against budget, the dimension is rated D according to the PEFA framework. Detailed data tables are in annex 5.

Table 3.8: Calculation of Aggregate Revenue Outturn

	PKR in Million		
	2012–13	2013–14	2014–15
Total budget revenue	5,207	6,468	7,057
Total actual revenue	8,439	6,910	5,554
Difference between budget and actual	3,232	442	1,503
Aggregate outturn	162%	107%	79%

Source: GoB FD and AG Balochistan.

Dimension 3.2 Revenue Composition Outturn

62. This dimension measures the variance in revenue composition during the last three years. It includes actual revenue by category compared to the originally approved budget. During the last three years, there has been a huge composition variance as shown in table 3.9; detailed tables are provided in annex 5. Since the composition variance is more than 15 percent in all the three years, and therefore according to the PEFA methodology the rating is D.

Table 3.9: Calculation of Variance by Composition

Fiscal year	Total Budgeted Revenue	Total Actual Revenue	Absolute Deviation	Composition Variance
	PKR in Million			
2012–13	5,207	8,439	5,635	66.8%
2013–14	6,468	6,910	9,845	83.4%
2014–15	7,057	5,554	7,602	59.0%

Source: GoB FD and AG Balochistan.

Pillar 2: Transparency of Public Finances

PI-4 Budget Classification

63. This indicator assesses the extent to which the government budget and accounts classification are consistent with international standards.

Dimension	Score	Brief Justification for Score
PI-4 Budget Classification	A	Budget formulation, execution, and reporting classification system being used, since FY2005–06, is compliant with COFOG and GFS 1986.

Note: COFOG = Classification of functions of government; GFS = Government finance statistics.

64. In December 2000, the AGP prescribed the NAM that includes a new chart of accounts (CoA) for the federal and provincial governments, with the approval of the President of Pakistan under Article 170 of the Constitution. The CoA is aligned with GFS 1986 and provides a framework to capture budget formulation, execution, and reporting across five dimensions, namely, entity, object (GFS economic classification), fund, function (GFS functional classification), and project. The CoA is compliant with COFOG and GFS 1986. The CGA centrally controls any amendments to the CoA. The GoB has been consistently using the CoA for budget formulation, execution, and reporting since FY2005–06. However, for most of the development project, total budget is aggregated under a single economic classification.

PI-5 Budget Documentation

65. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.

Dimension	Score	Brief Justification for Score
PI-5 Budget documentation	D	Budget documentation fulfils two basic elements.

66. Article 120 of the Constitution obligates the provincial government to submit an annual budget statement (ABS) for each financial year to the legislature that presents estimated expenditure and revenue of the provincial government for that fiscal year. The GoB in addition to the ABS submits a detailed budget in seven volumes, a white paper, a budget speech, budget at a glance, and a scheme-wise development program, but the submission only fulfills 2 out of 12 elements prescribed by this indicator.
67. The assessment of this indicator is based on comparison of information included in FY2015–16 budget documents against elements prescribed by the indicator, as explained in the following table:

ELEMENTS	STATUS OF COMPLIANCE
Basic Elements	
1. Forecast of the fiscal deficit or surplus or accrual operating result	Met. Budget at a glance provides forecast of fiscal deficits for the budget year.
2. Previous year's budget outturn presented in the same format as the budget proposal	Not Met. The previous year's budget outturns are not presented.
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Met. The budget documents include original and revised budget estimates of the current fiscal year in the same format as the budget proposal for the next fiscal year.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Not Met. For current fiscal year and the budget proposal for the next fiscal year, this information is provided. Information for the previous year is not provided.
Additional Elements	
5. Deficit financing, describing its anticipated composition	Not Met. No information is provided.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Not Met. No macroeconomic information is provided in the budget documents. There is no agency available with the FD to get the required statistics.
7. Debt stock, including details at least for the beginning of the current fiscal year, presented in accordance with GFS or other comparable standard	Not Met. Only estimates of debt receipts and debt servicing are provided at an aggregate level.
8. Financial assets, including details at least for the beginning of the current fiscal year, presented in accordance with GFS or other comparable standard	Not Met. As mentioned in PI-12, complete information of financial assets is not available and the budget only includes estimates of transactions in the financial assets planned for the year
9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts and so on.	Not Met. Refer to PI-10 that notes absence of fiscal risk reporting and therefore no information on fiscal risks is included in the budget documents. However, no public private partnership contracts were signed by the GoB. Moreover, the GoB cannot borrow independently.

ELEMENTS	STATUS OF COMPLIANCE
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	Not Met. As explained in PI-15, there is no practice of analyzing and documenting the fiscal impact of policy proposals.
11. Documentation on the medium-term fiscal forecasts	Not Met. The GoB does not prepare medium-term fiscal forecasts; refer to PI-14.
12. Quantification of tax expenditures	Not Met. Tax expenditure information is not separately disclosed in the budget information.

PI-6 Provincial Government Operations outside Financial Reports

68. This indicator measures the extent to which government revenue and expenditure are reported outside provincial government financial reports.

Dimension	Score	Brief Justification for Score
PI-6 Provincial Government Operations outside Financial Reports	D	Overall rating based on M2 Methodology.
6.1 Expenditure outside financial reports	D*	Reliable data to assess the magnitude of expenditure incurred by budgetary and extrabudgetary units that are not reported in the Government's financial reports are not available.
6.2 Revenue outside financial reports	D*	Revenue of self-accounting entities (SAEs), Schools, colleges, and hospitals is not available for assessment purposes, and therefore this dimension cannot be rated.
6.3 Financial reports of extrabudgetary units	D	Detailed financial reports of most of the extrabudgetary units is not submitted to the FD.

69. The Financial Reporting Manual of the NAM requires the AG of Balochistan to prepare consolidated monthly, quarterly, and annual accounts only for budgetary units. There is no legal requirement and existing practice to prepare financial reports covering all budgetary and extrabudgetary units to allow a complete picture of revenue and expenditures. According to the GoB's Rules of Business 2012, there are 53 autonomous bodies/Institutions of the provincial government. Annual budgets of these extrabudgetary units are not fully captured in the provincial budget, and their income and expenditures are not consolidated in the GoB's financial reports. Moreover, some budgetary units are allowed to charge a fee for social services and use it for their own expenditure, but the accounting records to ascertain the amounts of their income and expenditure are not available. In the budget documents of FY2016–17, the GoB reported certain funds and investments of PKR 34 billion and profit earnings of PKR 2.7 billion, which were also not included in the consolidated financial reports.

Dimension 6.1 Expenditure outside Financial Reports

70. For extrabudgetary units, no information is available with the FD to assess the magnitude of expenditures incurred that are not reported in the Government's financial reports. Therefore, this dimension is rated as D*.

Dimension 6.2 Revenue outside Financial Reports

71. Hospitals, colleges, and schools collect some revenue and utilize the same for meeting their expenditure. Moreover, autonomous organizations also collect revenue and use it for their own expenditure. The FD is working with all the line departments to identify such revenue and oblige the line departments to deposit this revenue in the government consolidated fund as required by rules and constitution. Revenue of SAE is the major amount. However, data to assess the magnitude of receipts outside financial reports are not available; therefore, according to the PEFA methodology, the rating of this dimension is also D*.

Dimension 6.3 Financial Reports of Extrabudgetary Units

72. This dimension assesses the extent to which ex post financial reports of extrabudgetary units are provided to the provincial government. Most of the extrabudgetary units do not provide the ex post detailed financial reports to the FD. The rating for this dimension is therefore D.

PI-7 Transfers to Subnational Governments

73. This indicator assesses the transparency and timeliness of transfers to the lower tier of government. In the case of Balochistan, the lower tier of government represents local councils and Metropolitan Corporation, Quetta established under the Balochistan Local Government Act (BLGA) 2010.

Dimension	Score	Brief Justification for Score
PI-7 Transfers to Subnational Governments	D	Overall rating based on M2 methodology.
7.1 System for allocating transfers	D	There is no transparent, rule-based system in place for fiscal transfer to the local councils.
7.2 Timeliness of information on Transfers	D	There is no calendar for transfer or release of funds to local councils.

Dimension 7.1 System for Allocating Transfers

74. ¹⁰The BLGA 2010 requires the provincial government to constitute the LCGC to recommend the formula for distribution of local council grants among the local councils in the province. The LCGC is further entrusted to recommend the Government for special grants, conditional grants, and General Sales Tax (GST) grants besides deciding rules for local council finance. However, the formula for transfers to local governments was not approved¹¹ and notified as per requirement of the BLGA 2010.
75. In January 2015, elected local councilors assumed office but the local councils were provided development funds by the GoB on a case-to-case basis as special grant in aid during FY2014–15, without following any transparent policy for transfer of funds to the lower tiers of government. The local councils were also entrusted to spend Member Provincial Assembly (MPA)/Member National Assembly (MNA)/Senators special development grants in coordination with them. During FY2015–16, significant amounts were transferred to the bank accounts of local councils directly by the FD for

¹⁰ Section 120 of Balochistan Local Government Ordinance (BLGO).

¹¹ The GoB has approved formula for distribution of funds after completion of assessment of this report.

which no record was available with the AG and therefore the same were not accounted for in the fiscal reports. This came to the notice of assessors while reviewing the huge reconciliation differences in the bank reconciliation of the GoB (refer to PI-27). Moreover, it was also noted that local council inherited funds in the bank¹² accounts that are kept out of the provincial consolidated fund during the previous system of local governments. Amount of PKR 11.2 billion has been budgeted as grants to local councils in the provincial budget of FY2016–17, as an expenditure.

76. As all funds transferred to the local governments were not based on any transparent, rule-based system for fiscal transfers (cut off period for this assessment is June 30, 2015), this dimension is rated D.

Dimension 7.2 Timeliness of information on Transfers

77. The systems of the local councils is in infancy and procedures have not been developed to manage finances of the local councils. Neither annual budgets are prepared by the local councils nor do they receive any information from the provincial government about their allocations from the provincial government. Therefore, this dimension is rated D.

PI-8 Performance Information for Service Delivery

78. This indicator examines the service delivery performance information in the executive’s budget proposal or its supporting documentation in year-end reports.

Dimension	Score	Brief Justification for Score
PI-8 Performance Information for Service Delivery	D	Overall rating based on M2 methodology.
8.1 Performance plans for service delivery	D	No information on performance plans is published by the GoB in the budget documents or separately.
8.2 Performance achieved for service delivery	D	There is no practice of publishing performance results on the quantity of outputs produced and the outcomes achieved.
8.3 Resources received by service delivery units	D	The GFMS does not provide complete information on resources received by most of the service delivery units and neither a survey is carried out for this purpose.
8.4 Performance evaluation for service delivery	D	Structures and systems are not in place to assess the design, appropriateness, efficiency, and effectiveness of public services through program or performance evaluations.

79. According to the GoB’s Rules of Business 2012, the P&D Department is responsible to prepare provincial-level development/performance plans and also support line departments in preparing sectoral development/performance plans. The Balochistan Comprehensive Development Strategy 2013–20 has been prepared but still remains a draft and not being implemented. It provides a

¹² During assessment, local government Pashin was visited by the assessors and found that PKR 12 million was lying the council’s bank account from the previous government.

strategic framework for undertaking a prioritized development portfolio and includes 12 high-level outcome indicators to assess performance over a medium term. At the sectoral level, only the Balochistan Education Sector Plan 2013–18 has been prepared and approved by the GoB. The plan is a comprehensive document including policy objectives, PIs, outputs to be produced, and outcomes planned. However, the plan is neither considered during annual planning exercise and nor the Education Department publishes annual information on plans, indicators, outputs, and outcomes. The existing legal and regulatory framework of PFM also does not require the Government to consider sectoral plans while making budget and present performance information as part of budget documents or separately.

80. In Balochistan, service delivery largely remains a provincial subject as only few urban services and community development projects have been developed to local councils. To assess this indicator, Health and Education Departments were selected as most of their expenditure is devoted to service delivery; the GoB spends 25 percent of its annual budget on health and education. Service delivery units in these two sectors comprise 13,279 schools under the Education Department and 1,423 health facilities under the Health Department.

Dimension 8.1 Performance Plans for Service Delivery

81. The executive's budgetary proposals are tabled in the provincial assembly in the shape of an ABS along with six volumes of budget-related documentation giving details of expenditure and revenue. No information is published, either as part of budget proposal or separately, on policy or program objectives, key PIs, outputs to be produced, and outcomes planned for programs or services that will be financed through the budget. Therefore, this dimension is rated D.

Dimension 8.2 Performance Achieved for Service Delivery

82. As explained earlier, the Government does not issue performance plans; similarly, there is no practice of publishing performance results on the quantity of outputs produced and the outcomes achieved. Therefore, this dimension is rated D.

Dimension 8.3 Resources Received by Service Delivery Units

83. The GFMIS provide details of budget, releases, and actual expenditure of service delivery units at the cost center/DDO level, which are usually large spending units such as tertiary care hospitals and schools at the secondary level and above. Most of the service delivery units providing basic services are grouped under a cost center for budgeting, accounting, and reporting. For example, the budget of primary schools in a district is grouped under the Deputy District Education Officer (DDEO) who further allocates the budget among schools. The GFMIS only provides financial information up to the DDEO level, and details of resources transferred to primary schools are maintained manually by the DDEO in budget registers. However, no report is compiled that provides information on resources received by primary schools in a year. Similarly, in the case of the Health Department, Basic Health Units and Rural Health Centers are the frontline service delivery units, but these are grouped under the District Health Officer for budgeting, accounting, and reporting. There is also no practice of conducting a survey to estimate the resources received by each service delivery unit. Some donors and philanthropists also provide a few resources directly to the service delivery units outside the budget, but a mechanism to capture such contributions is not available in the country PFM system.

84. This dimension is rated D because the GFMIS does not provide complete information on resources received by most of the service delivery units and neither a survey is carried out for this purpose.

Dimension 8.4 Performance Evaluation for Service Delivery

85. The dimension is rated D as structures and systems are not in place to assess the design, appropriateness, efficiency, and effectiveness of public services through program or performance evaluations. The Education Department has established a Monitoring & Evaluation (M&E) Cell but is only undertaking monitoring and also maintaining Education Management Information System. There are however issues of data integrity. Similarly, the Health Department established a Health Management Information System under a provincial coordinator for monitoring and is also facing data integrity issues. No evaluations of program or performance has been carried out by the Education and Health Departments within the last three years. For development projects, the P&D Department has the mandate to undertake project evaluations but due to low capacity, evaluation of development projects is nonexistent except for donor-funded operations. An external audit has also not carried out any evaluation or performance audit during the last three financial years.

PI-9 Public Access to Fiscal Information

86. This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical.

Dimension	Score	Brief Justification for Score
PI-9 Public Access to Fiscal Information	D	Public information is available only for two basic elements.

87. The citizen’s right to information in Pakistan has been protected in the Constitution of Pakistan. Article 19A of the Constitution of Pakistan gives right to every citizen to have access to information in all matters of public importance. In pursuance of Article 19A, the provincial assembly enacted Freedom of Information Act 2005, but it falls short of international principles and best practices.¹³ Section 7(e) of the act requires the provincial government to notify the records of the public bodies to be declared public records, but no such notification has been issued. The Freedom of Information Rules 2007 prescribes that a citizen can obtain a copy of public document from a government office for a fee by applying in writing. Table below presents the status against nine elements prescribed by the indicator.

Elements	Status of Compliance
Basic Elements	
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within 1 week of the executive’s submission of them to the legislature.	Not Met. Budget is made publicly available once approved by the legislature.

¹³ The U.S. Agency for International Development, Balochistan’s Freedom of Information Act 2005 – A Baseline Assessment (October 2015)
https://grants.cvpa-tdea.org/grants/tables/iceMaterial/DRS_RTI_Baseline_Study_Approved.pdf.

Elements	Status of Compliance
<p>2. Enacted budget. The annual budget law approved by the legislature is publicized within 2 weeks of passage of the law.</p>	<p>Met. Detailed enacted budget is available on the GoB website (www.balochistan.gov.pk) and the enacted law is published in the official gazette. The enacted budget available is at a detailed level and does not include summarized information. Budget of FY2014–15 was enacted by the provincial assembly on June 25, 2015, and was published on the GoB website on July 6, 2015.</p>
<p>3. In-year budget execution reports (BERs). The reports are routinely made available to the public within 1 month of their issuance, as assessed in PI-27.</p>	<p>Not Met. AG prepares monthly civil accounts and submits to the FD within 10–15 days of the close of the month, but these are not publicly available.</p>
<p>4. Annual BER. The report is made available to the public within 6 months of the fiscal year’s end.</p>	<p>Not Met. Public can only access audited annual appropriation accounts, once they are submitted to the legislature, which has been after 10 months of the close of the financial year. The access is also restrictive as the accounts are not uploaded on the government website and are to be requested in writing from a government office (FD, CGA, AGP, provincial assembly secretariat).</p>
<p>5. Audited annual financial report, incorporating or accompanied by the external auditor’s report. The reports are made available to the public within 12 months of the fiscal year’s end.</p>	<p>Met. Audited financial statements of the federal and provincial government accompanied by the auditor’s report are available on the website of the CGA. http://www.cga.gov.pk/cfsagbq.php</p>
Additional Elements	
<p>6. Prebudget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least 4 months before the start of the fiscal year.</p>	<p>Not Met. No prebudget statement on budget proposals is issued by the Government. However, for the last two financial years, the Government is holding a prebudget consultation workshop just 2–3 weeks before the budget to seek civil society input on the development budget.</p>
<p>7. Other external audit reports. All nonconfidential reports on central government consolidated operations are made available to the public within 6 months of submission.</p>	<p>Not Met. External audit reports are not publicly available. Hearings of the Public Accounts Committee (PAC) are publicly held and are the main source of information about audit reports for the general public.</p>
<p>8. Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a ‘citizens’ budget’, and where appropriate translated into the most commonly spoken local language is publicly available within 2 weeks of the executive budget proposal’s submission to the legislature and within 1 month of the budget’s approval.</p>	<p>Not Met. The GoB issues a white paper as part of budget documents explaining government budget proposals, but it is not structured for nonbudget experts and general public and does not include a summary. No separate citizen’s budget or summary of the budget proposals is issued for general public.</p>
<p>9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within 1 week of their endorsement.</p>	<p>Not Met. The GoB does not prepare macroeconomic forecasts.</p>

Pillar 3: Management of Assets and Liabilities

PI-10 Fiscal Risk Reporting

88. The indicator measures the extent to which fiscal risks to the provincial government are reported.

Dimension	Score	Brief Justification for Score
PI-10 Fiscal Risk Reporting	D	Overall rating based on M2 methodology.
10.1 Monitoring of public corporations	D	There is no mechanism in place to monitor public corporations.
10.2 Monitoring of subnational governments	D	Local councils do not prepare and submit their financial statements to the provincial government.
10.3 Contingent liabilities and other fiscal risks	D	There is no practice of consolidating, quantifying, and reporting contingent liabilities and other fiscal risks of the provincial government.

Dimension 10.1 Monitoring of Public Corporations

89. Public corporations exist in Balochistan either under the legislative authority, or in certain cases the GoB is the owner of the securities of companies incorporated under Companies Ordinance 1984. The GoB does not monitor financial flows and liabilities of public corporations, and a complete list of public corporations is not available with the FD. The Rules of Business 2012 provides a list of public corporations (autonomous bodies/authorities/companies) but the list is not up-to-date.¹⁴ Moreover, audited financial statements of public corporations are not available with the FD. Annual financial statements include a note on investments in public corporations, but the information is incomplete and presents few of GoB investments. Public corporations, according to the Rules of Business 2012 are reportable to different line department but respective line departments also do not monitor financial performance and fiscal risk of public corporations. As there is no mechanism in place to monitor public corporations, the dimension is rated D.

Dimension 10.2 Monitoring of Subnational Governments

90. The subnational governments in the case of Balochistan are the local councils at the level of district, tehsil, and union as well as Quetta Metropolitan Corporation. Elected local governments assumed offices in 2005 and as explained in PI-7, funds were transferred to their commercial bank accounts by the FD. The financial management systems and practices are yet to be established for local governments, but the local government law does not allow them to independently borrow money. Financial statements of the local councils are not being prepared and submitted to the provincial government, and therefore the dimension is rated D.

Dimension 10.3 Contingent Liabilities and Other Fiscal Risks

91. As stated in PI-13 the provincial government cannot directly borrow from the market and issue a guarantee itself because it has not yet established a debt management framework. Moreover, the GoB has so far not entered into any PPP mode of financing in any project. The financial implications

¹⁴ For example, the Balochistan Technical Education and Vocational Training Authority was established in 2011 and the Balochistan Revenue Authority was established in 2015 under acts of the provincial assembly but are not included in the Rules of Business 2015.

of ongoing litigation and court cases and the risk of default of public corporations constitute contingent liabilities and other fiscal risks of the provincial government. Exact quantification of contingent liabilities is not available, but the amount of contingent liabilities is significant. Assessors noted an arbitration case pending with the International Center for Settlement of Investment Disputes (ICSID) for a claim of US\$400 million¹⁵ (equivalent to 15 percent of GoB budgeted expenditure). As there is no system or practice in place to quantify, consolidate, and report contingent liabilities and other fiscal risks, the dimension is rated D.

PI-11 Public Investment Management

92. This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the Government with an emphasis on the most significant projects.

Dimension	Score	Brief Justification for Score
PI-11 Public Investment Management	D	Overall rating based on M2 methodology.
11.1 Economic analysis of investment proposals	D	Economic analysis is carried out after investment projects have been approved in the budget.
11.2 Investment project selection	D	There is no published standard criteria for project selection and the P&D Department has a limited role in projects prioritization.
11.3 Investment project costing	D	The budget documents only provide project-wise details of total capital cost, budget allocation for the year, and projected capital cost for the entire project life.
11.4 Investment project monitoring	D	The project monitoring system is not properly functioning and only reviews financial progress of some projects.

93. Balochistan has a centralized public investment management system. The P&D Department is the principal planning organization at the provincial level headed by the Additional Chief Secretary. The department steers the provincial public investment program (Development Budget/Public Sector Development Program [PSDP]) and coordinates, screens, and reviews the development proposals prepared by the sponsoring agencies/line departments. The project identification and selection takes place at line departments and reviewed by the P&D Department at Provincial Development Working Party (PDWP) forum, the highest provincial forum mandated for appraisal and approval of the project proposals. Projects can be developed, appraised, and financed from the province's ADP up to a ceiling of PKR 5 billion. Foreign-funded projects as well as projects over PKR 5 billion are also reviewed and approved by the federal government.
94. The Planning Commission (PC) is the highest body of the federal government responsible to prepare national economic and social development plans as well as annual PSDP of the federal government. In addition, the PC also has a coordination role with the provincial governments for approval of development projects, and it also issues guidelines for public investment management. The guidelines for the review of capital investment projects are laid out in the document titled: Planning Commission:

¹⁵ Tethyan Copper Company Pvt. Ltd. has filed the case with the ICSID for arbitration pertaining to cancellation of lease rights of for Rekodiq mine.

Manual for Development Projects (referred as the PC Manual hereafter) that has been adopted by all the provinces. The manual sets out the responsibilities for planning, approval, implementation, and evaluation of development/investment projects. It further defines the planning documents and responsible departments and describes the steps to be followed at the federal and provincial levels in the planning, implementation, and evaluation of development projects. The manual includes the following set of templates (referred to as PC proformas) to be used and followed at each stage of the project life cycle:

- Planning Commission Proforma I (PC-I) is used for project appraisal and economic analysis. A simplified form of PC-I is required for small projects costing up to PKR 1 million (nonrecurring).
- Large projects are expected to produce a PC-II (before PC-I), which is a detailed feasibility study to provide full justification for undertaking the project before any funding is used. PC-II is also used for soft interventions such as capacity-building programs, surveys, and so on.
- PC-III represents the template to be used for quarterly monitoring and reporting on progress of ongoing projects that is required of executing/sponsoring agencies implementing projects. PC-III is expected to cover physical and financial progress and report on any implementation issue.
- PC-IV is prepared upon completion of the projects and serves as the instrument for handing and taking over of the projects between the agency responsible for project execution and the parent department.
- PC-V is used for end-of-project/program evaluation and is to be prepared annually for five years.

Dimension 11.1 Economic Analysis of Investment Proposals

95. The PC Manual stipulates preparation of PC-I for development project appraisal based on economic policies of the Government and economic and financial rate of return, in addition to considerations of social and environmental impacts and risks. However, sponsoring agencies/line departments do not carry out the needed due process before including projects in the budget. The Balochistan Budget Manual 1987 only allows inclusion of an unapproved scheme in the development budget on an exception basis with the approval of secretaries of finance and planning. Conversely, the GoB's budget of 2014–15 includes 1,077 new development projects (also called schemes), all without approved PC-I document (project appraisal) or PC-II (feasibility study). Moreover, there are a few development projects carried forward from the previous fiscal year without an approved PC-I or PC-II. In 2014–15, PC-Is of 1,220 projects were approved by the end of March leaving only 3 months in the year to carry out all projects activities including procurement. This practice means that the development budget is in fact approved on lump sum figures without due appraisal and costing of the projects. Unwritten and informal policy of the GoB is that each member of the provincial assembly (65 members) is allowed to include new projects/schemes in the PSDP for up to PKR 300 million per year each. These projects are only identified less than two months before presentation of budget to the legislature, and there is not enough time for project appraisal or feasibility. PC-I documents including economic analysis are prepared and approved by the provincial government after approval of the budget. The review of economic analysis as part of appraisal is not thorough due to limited capacity of the P&D

Department, and the appraisal exercise also becomes insignificant as projects have already been approved as part of the budget. However, sponsoring agencies are not allowed to incur expenditure on development projects until approval of PC-I. The results of appraisal and PC-I documents of the projects are not published and are not accessible to the general public.

96. A large number of development projects included in the PSDP are small projects that neither qualify as capital investment (some are training, scholarships, medical bills, operations, and maintenance costs among others) nor are large enough to warrant a due process and feasibility review. There is not a single project included in the PSDP/development budget of the FY2014–15 with a cost of equal or more than 1 percent of the total provincial budget. Average size of a development project is about US\$300,000.
97. The country guidelines require project appraisal including economic analysis, but it is carried out after the projects have been approved in the budget; therefore, the dimension is rated D.

Dimension 11.2 Investment Project Selection

98. According to the PC Manual, the P&D Department coordinates the development programs prepared by the provincial departments and prepares the overall provincial five-year annual plans. Despite the clear guidance issued by the PC with regard to the selection of development projects, there are no publicly available medium- and long-term development plans for the province to be used as a basis to anchor the investment budget and project approval process. The P&D Department maintains that the Balochistan Comprehensive Development Strategy 2013–20 is the guiding policy document for sectoral allocations and project selection. However, the strategy is still an unapproved draft and use of the strategy as a policy document to prepare development budget cannot be established. In addition, there is no clear guidance on whether there are considerations of alternative projects before making final selection of projects that get funded. There is no evidence that a given project idea/concept undergoes any sort of preliminary assessment to decide whether it would be worth developing further into detailed project proposal.
99. The selection of projects is done largely by the sponsoring agencies. Further reviews by the P&D Department only focus on the funding availability for the year and not on the basis of pre-established selection criteria for arbitrage among the competing projects. Since there are no published standard criteria for project selection, and the P&D Department has a limited role in projects prioritization, the dimension is rated D.

Dimension 11.3 Investment Project Costing

100. The PC guidelines requires that project appraisal includes the estimates of both the investments and annual operating and maintenance costs for the duration of the projects. However, in practice PC-I documents mainly include capital cost estimates with little or no information about operating and maintenance costs. Moreover, as PC-Is are prepared and approved after approval of the budget by the legislature, the budget estimates for capital estimates are not fully costed. Development and recurrent budget are prepared separately, and there is no multiyear budget framework. When a project is completed, a notification of completion is made through a document known as the Statement of New Expenditure issued by the project sponsoring agency and submitted to the FD. It is only then that operations and maintenance costs can be included in the annual budget. Their financing, however, is subject to availability of funding as determined by the FD. Total capital cost, projection of the total capital cost, as well as current year budget allocation for each project is

provided in the PSDP published as part of budget documents. However, the projected capital cost is for the total life of the project and capital cost for the forthcoming budget year is not available in the budget documents.

101. The dimension is rated D as the performance does not fully meet the criteria for a C score. For a C score projections of total capital cost of the major projects together with the capital cost for the forthcoming budget year are to be included in the budget documents. However, capital costs for the forthcoming budget year are not available in the budget documents.

Dimension 11.4 Investment Project Monitoring

102. A M&E unit is in place at the Provincial Planning Department (P&D). According to the Guidelines for Project Management issued by the PC,¹⁶ the unit is expected to act as a central agency overseeing the execution of projects through periodic M&E. The M&E unit of the P&D Department is expected to conduct quarterly reviews of the development projects. Executing agencies are expected to carry out M&E and report on their activities on a monthly basis to the P&D Department. Reporting on project financial and physical progress is required using proforma PC-III by the project executing/sponsoring agency. Reports are however not updated regularly and only cover financial progress and not physical progress. Despite the clear regulations on M&E, the function is fragmented and weak. Responsibility for M&E is diffused among the P&D Department and executing agencies. The capacity of M&E is weak at both the P&D Department level and the departmental level. Sponsoring agencies are required to submit project completion reports in the form of PC-IV to the P&D Department, but only 20 PC-IVs were received by the P&D Department during 2014–15, of the total of more than 2,200 schemes. These PC-IIIs and PC-IVs are not publicly available. Evaluation of development projects is nonexistent except for donor-funded operations. The M&E function at the P&D Department is however being strengthened including through a UNDP technical assistance. Development projects are audited by the external audit but mainly reviews compliance with rules and regulations for expenditure.
103. As the project monitoring system is not properly functioning and reviews financial progress of some projects, the dimension is rated D.

PI-12 Public Asset Management

104. This indicator assesses the management and monitoring of government assets and the transparency of asset disposal.

Dimension	Score	Brief Justification for Score
PI-12 Public Asset Management	D	Overall rating based on M2 methodology.
12.1 Financial assets management	D*	Complete record of shareholding of incorporated companies and government-owned enterprises is not available, and there are significant unreconciled differences in bank balance.
12.2 Nonfinancial asset management	D	There is no information available of subsoil assets, usage, and age of the fixed assets.
12.3 Transparency of asset disposal	D	The information of sale of nonfinancial assets is not included in the budget documents or any other financial report.

¹⁶ Guidelines for Project Management, Projects Wing Planning Commission, the GoP.

Dimension 12.1 Financial Assets Management

105. The GoB owns securities of companies incorporated under Companies Ordinance 1984 besides owning public sector enterprises. As explained in PI-10, the GoB does not have a system in place to monitor public sector corporations. A complete record of shareholding of incorporated companies and government-owned enterprises or a summary report is not available with the FD. However, respective line departments maintain the record of shareholding, but assessors were unable to establish completeness of the record for all government holdings. Moreover, no information about performance of these securities and holdings is available. The GoB has also established certain special purpose funds that are outside budget and invest in securities. These funds are maintained by the investment section of the FD and records of these investments are maintained at cost. There is no practice of recognizing the securities on fair market value in line with the international accounting standards. The Government also does not publish information on the performance of its financial assets as part of the financial statements or separately.
106. The other major financial assets is the government bank account. The consolidated provincial bank account is maintained by the SBP; however, there are serious issues of reconciliation and therefore the accuracy of bank balance is a concern. Table 3.10 highlights the unreconciled differences.

Table 3.10: Difference in Cash Balance between SBP and AG figures

Balance As At	Reported by SBP	Reported by AG	Difference
	PKR in Million		
June 30, 2013	19,279	15,076	4,203
June 30, 2014	29,639	29,587	52
June 30, 2015	42,067	38,780	3,287

Source: Cash balance from the SBP and financial statements for year-end 2012–13, 2013–14, and 2014–15.

107. As data to assess completeness of the record of government holdings and securities are not available, the dimension is rated D*.

Dimension 12.2 Nonfinancial Asset Management

108. Each cost center/DDO is responsible for maintaining the register of physical fixed assets. The NAM/Manual of Accounting Principles¹⁷ sets principle and accounting of physical assets. For vehicle usage, the rules require maintenance of a log book but audit highlights that these are not properly maintained. The GFMIS records all the physical assets procured during the year, and these are reported in the financial statements as payments/expenditure. However, this records in incomplete, first because opening balances of the physical assets were not recorded from the start of the GFMIS and second because physical assets constructed during the year are also not capitalized on completion of any construction activity. The assets records in the GFMIS also do not show the usage of assets and age of the same.
109. Balochistan is rich in subsoil assets, and the GoB's own assets include, copper, iron, gold, natural gas petroleum, and other minerals. However, there is no accounting of these subsoil assets and usually

¹⁷ See directive 2.2.4 and 3.3.2 of Manual of Accounting Principles.

the rights to extract such minerals are auctioned, after which the GoB completely relies on information provided by the contractor having rights for extraction of minerals.

110. The dimension is rated D as only records/registers of fixed assets holdings are maintained at the cost center level and information on asset usage and age is not available.

Dimension 12.3 Transparency of Asset Disposal

111. Sale of rights for extraction of minerals is the biggest sale/disposal of assets by the GoB. The Balochistan mining rules lay down a complete procedure for auction of lease rights for mineral auction. The auctions are rule-based and held in a transparent manner. However, there is no information being compiled in the budget documents or any other financial reports for such disposals. The financial reports only show the total receipts of the Government from such sales. General Finance Rules of the GoB prescribe procedure for disposal of physical assets, but no information is available in budget, financial reports, or other reports. Therefore, according to the PEFA methodology, this dimension is rated D.

PI-13 Debt Management

112. This indicator assesses the management of domestic and foreign debt and guarantees.

Dimension	Score	Brief Justification for Score
PI-13 Debt Management	D	Overall rating based on M2 methodology.
13.1 Recording and reporting of debt and guarantees	D	There are no debt ledgers available nor any reconciliation being carried out.
13.2 Approval of debt and guarantees	D	There is no notified procedure for incurring debt by the GoB.
13.3 Debt management strategy	D	The GoB does not have a DMS.

Dimension 13.1 Recording and Reporting of Debt and Guarantees

113. Debt receipts and payments are recorded in the GFMIS by the AG on the date of each transaction. Annual financial statements report lump sum figure of public debt without any further details. The debt stock reported in financial statements is neither supported by debt ledgers nor the value of foreign or local debts can be verified from loan agreements. Moreover, the debt stock at year-end is not carried forward in the GFMIS, nor the same is converted according to the closing exchange rates at the time of reporting. Foreign loans are on-lent to the GoB by the federal government, and stock of these debts according to the record of federal MoF as on June 30, 2015, is PKR 52 billion whereas the financial statements report total debt stock of PKR 3.2 billion on the same date.
114. Loan repayment schedules are communicated to the FD by the federal MoF. These schedules are the basis of budget estimates and actual repayment of loans as well as interest. The loan agreements of ongoing loans are kept by the P&D Department, but consolidated record of all loans is not available with the GoB. Moreover, no reconciliation of debt is being performed with lenders and federal governments for the public debt of the GoB. Due to absence of debt ledgers and annual reconciliation, the dimension is rated D.

Dimension 13.2 Approval of Debt and Guarantees

115. Eighteenth amendment of the Constitution, introduced in year 2010, empowered the provincial government to borrow directly from the international or local lenders.¹⁸ The borrowing by the provincial government is subject to the prior approval of a debt management framework by the National Economic Council. However, the GoB has not yet developed the debt management framework, nor has it borrowed any money independently. Foreign debts for the province are contracted by Economic Affairs Division of the federal MoF, which are project-specific loans. Each foreign loan is approved by the Chief Minister of the province. Since there is no procedure notified by the GoB that grants authorizations to borrow, the dimension is rated D.

Dimension 13.3 Debt Management Strategy

116. The GoB is establishing a debt management cell to be housed in the FD. However, currently there is no DMS available, and the dimension is therefore rated D.

Pillar 4: Policy-Based Fiscal Strategy and Budgeting

PI-14 Macroeconomic and Fiscal Forecasting

117. This indicator measures the ability of the GoB to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations.

Dimension	Score	Brief Justification for Score
PI-14 Macroeconomic and Fiscal Forecasting	D	Overall rating based on M2 methodology.
14.1 Macroeconomic forecasts	NA	Not applicable as macroeconomic functions rests with the federal government.
14.2 Fiscal forecasts	D	No fiscal forecasts are prepared by the GoB.
14.3 Macrofiscal sensitivity analysis	NA	Not Applicable

Dimension 14.1 Macroeconomic Forecasts

118. PI-14.1 is not relevant to the provincial government and therefore is rated 'Not Applicable' based on the following two considerations:
- The macroeconomic functions like the determination of the exchange and interest rates (which also influences the inflation and GDP growth rates) rests with the central (federal) government in Pakistan. Therefore, the provincial governments can neither notify a different interest rate nor can it conduct market operations to influence the exchange rate.
 - The PEFA Framework under PI 14.1 assesses not only the macroeconomic assumptions but also the preparation of the macroeconomic forecasts and these can only be applied to the budget for analysis if that particular tier of the government has the authority and autonomy to prepare the

¹⁸ Article 167(4) of the constitution of Pakistan 1973.

macroeconomic forecasts. Consequently, dimension 14.1 is not applicable to the provincial governments in Pakistan

Dimension 14.2 Fiscal Forecasts

119. The white paper issued by the GoB for FY2014–15¹⁹ contains detailed discussion on designing and implementation of the budget execution and monitoring framework for departments under the MTBF. However, no progress has been made in this regard and no fiscal forecasts are prepared. Since there is no fiscal forecast for current and two subsequent financial years, the dimension is rated D.

Dimension 14.3 Macroeconomic Sensitivity Analysis

120. In continuation to the considerations presented for PI-14.1, this dimension is also not applicable because the provincial governments cannot take measures to adjust to macroeconomic contingencies. Also, the Economic Affairs Division (Federal government) is the authority to enter into debt-related agreements while the MOF (Federal Government) is the authority for creation and approval of debt instruments. Therefore, any action requiring approval for changes to existing debt (even the authority for premature retirement of existing debt) or creation of a new instrument rests with the Ministry of Finance (Federal Government). Finally, some of the debt created by the federal government, does not have earmarked shares for the provinces, constraining the determination of exact share of the provinces in the debt. Finally, the fiscal responsibility and debt limitation act also does not provide province level limits. Therefore, in the existing situation debt sustainability analysis at the provincial level is not possible unless the aforementioned apportioning take place.

PI-15 Fiscal Strategy

121. This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the Government’s fiscal goals.

Dimension	Score	Brief Justification for Score
PI-15 Fiscal Strategy	D	Overall rating based on M2 methodology.
15.1 Fiscal impact of policy proposals	D	Fiscal impact of policy proposals is not analyzed and documented.
15.2 Fiscal strategy adoption	D	The GoB does not have a fiscal strategy and neither do budget documents provide such information.
15.3 Reporting on fiscal outcomes	NA	There is no fiscal strategy and resultantly no reporting on fiscal outcomes.

Dimension 15.1 Fiscal Impact of Policy Proposals

122. There is no practice to analyze and document the fiscal impact of policy proposals. More than 90 percent of the GoB’s revenue is the fiscal transfers from the federal government and the provincial tax revenue constitutes a meagre 2 percent of the total revenue. The Government does not have a tax policy framework and there have been no changes in provincial tax policy to create a significant

¹⁹ Chapter 5 of White paper for fiscal year 2014/15 issued by the Finance Department GoB

fiscal impact. On the expenditure side, incremental budgeting is used to prepare the current budget that has annually increased around 9 percent over the last four years, on average.

123. For the development budget, the FD communicates a ceiling to the P&D Department for the year and the development budget is prepared within that ceiling. However, a large number of new development schemes are included each year but do not get the required budget allocation for a fiscal year as the size of the development budget is to be curtailed within the available fiscal space. This results in increasing throw-forward, which as of June 20, 2016, was PKR 141 billion or almost three times of provincial PSDP. Moreover, as mentioned in PI-11, the fiscal impact of operations and maintenance cost is not considered at the time of project appraisal. There have been a few in-year policy decisions having a fiscal impact that were taken outside the budget, but no information on fiscal implications of these decisions was provided to the legislature. One such example is the Chief Minister’s Laptop Scheme to distribute 50,000 laptops among meritorious students of Balochistan, which was announced in April 2016 and was outside the budget. As the fiscal impact of policy proposals is not analyzed and documented, the dimension is rated D.

Dimension 15.2 Fiscal Strategy Adoption

124. The annual budget documentation does not contain fiscal objectives for at least the budget year and the two following fiscal years, nor is a separate fiscal strategy document prepared by the GoB. Therefore, the dimension is rated D.

Dimension 15.3 Reporting on Fiscal Outcomes

125. As the Government does not have a stated fiscal strategy, there is no progress reporting against the fiscal strategy. Therefore, the dimension is rated NA according to PEFA framework.

PI-16 Medium-Term Perspective in Expenditure Budgeting

126. This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

Dimension	Score	Brief Justification for Score
PI-16 Medium-Term Perspective in Expenditure Budgeting	D	Overall rating based on M2 methodology.
16.1 Medium-term expenditure estimates	D	The GoB does not prepare medium-term budget estimates.
16.2 Medium-term expenditure ceilings	D	Medium-term ceilings are not prepared and communicated to the line departments.
16.3 Alignment of strategic plans and medium-term budgets	D	The strategic plan is prepared only for one department, and it is also not aligned with the annual budget.
16.4 Consistency of budgets with previous year’s estimates	NA	There is no medium-term budgeting.

Dimension 16.1 Medium-Term Expenditure Estimates

127. The GoB does not prepare medium-term budget estimates. The PSDP, however, includes total throw-forward of each development projects without year-wise breakup. Therefore, the dimension is rated D.

Dimension 16.2 Medium-Term Expenditure Ceilings

128. Expenditure ceilings for the budget year and beyond are not prepared and communicated to the line departments during the budget making process. For the development budget, the FD communicates an overall ceiling for the year to the P&D Department less than three months before finalization of the budget. The dimension is rated D as there is no practice of preparing medium-term expenditure ceilings.

Dimension 16.3 Alignment of Strategic Plans and Medium-Term Budgets

129. As explained in PI-11, the GoB has an unapproved development strategy but annual budgets are not aligned with it. A multiyear costed sector plan exists only for the education sector, but annual budgets are not aligned with the sector plan. The assessors analyzed the education sector budget for the last three financial years and noted that only 23 percent of the interventions of the sector plan were reflected in the budget. The dimension is rated D because the strategic plan is prepared only for one department, and it is also not aligned with the annual budget.

Dimension 16.4 Consistency of Budgets with Previous Year's Estimates

130. Since there is no medium-term budgeting, the rating for this dimension is NA.

PI-17 Budget Preparation Process

131. This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

Dimension	Score	Brief Justification for Score
PI-17 Budget Preparation Process	D	Overall rating based on M2 methodology.
17.1 Budget calendar	D	2 out of 45 line departments observed the budget calendar.
17.2 Guidance on budget preparation	D	No ceilings are conveyed to the department for preparation of budget estimates.
17.3 Budget submission to the legislature	D	Less than two week time was allowed to the legislature for debate and discussion on the money bill.

Dimension 17.1 Budget Calendar

132. According to the Balochistan Budget Manual 1987, a budget calendar for each financial year is issued by the FD. The budget calendar clearly defines the timelines, but these are not adhered to by majority of the line departments. For the budget of FY2015–16, the budget calendar was issued on October 22, 2014, requiring the line departments to submit budget estimates of the current expenditure by January 1, 2015, allowing none weeks to the line departments to submit budget estimates. For the

development budget, the budget calendar required line departments to send the list of schemes to the FD and P&D Department by December 1, 2014. The budget manual requires the P&D Department to supply certain forms to line departments in December to provide details of development schemes by January 1 each year. However, the dates prescribed by budget calendar and the budget manual are not followed and the P&D Department separately requests the development budget proposals from the line departments in April. Though the time schedule is not followed, the final budget is presented to the provincial assembly in the month of June. For the FY2015–16, the budget was presented to the legislature on June 16, 2015, and the same was approved on June 24, 2015. Since only 2 out of 45 line departments complied with the budget calendar during the FY2014–15, the dimension is rated D.

Dimension 17.2 Guidance on Budget Preparation

133. The FD only issues a one-page budget calendar without any guidance to the line department for preparation of budget or format of budget estimates. There is no practice of communicating ceilings to the line departments, and hence, the departmental estimates have no link with the size of envelop available with them. The guidance provided in the budget manual is also limited to process and forms to be used. This factually results in incremental budgeting without catering the needs of the departments. Less than three months before the budget approval, the priorities committee headed by the Chief Minister with some provincial secretaries as its members approves percentage allocation of the development budget for difference sectors. The provincial cabinet only approves the budget estimates before its presentation to the provincial assembly. Since the budget calendar does not provide any guidance to line departments except a calendar of activities and nor does it include budget ceilings, the dimension is rated D.

Dimension 17.3 Budget Submissions to the Legislature

134. The budget for the FY2015–16 was submitted before the provincial legislature on June 16, 2015, and the same was approved on June 24, 2015, allowing only eight days to the legislature for discussion. Similarly the budget for FY2014–15 was presented to the legislature on June 18, 2014, and approved on June 24, 2014. In both cases, the executive tabled the money bill for less than one month before the start of new fiscal year. Therefore, according to the PEFA framework, the dimension is also rated D.

PI-18 Legislative Scrutiny of Budgets

135. This indicator assesses the nature and extent of legislative scrutiny of the annual budget.

Dimension	Score	Brief Justification for Score
PI-18 Legislative Scrutiny of Budgets	C+	Overall rating based on M1 methodology.
18.1 Scope of budget scrutiny	C	The legislature scrutinizes only the estimates of income and expenditure.
18.2 Legislative procedures for budget scrutiny	C	Balochistan Assembly procedure provide manner in which the budget is to be tabled and approved by the legislature.
18.3 Timing of budget approval	A	The legislature approve the annual budget before start of the fiscal year.
18.4 Rules for budget adjustments by the executive	C	The executive can make extensive re-allocations and expansion of the approved budget.

Dimension 18.1 Scope of Budget Scrutiny

136. Under the constitution of Pakistan, 1973 Executive, that is, GoB, is given a dominant role to adopt fiscal policies according to its own vision and manifesto. The legislative role in budget formulation is limited to the extent that it can only move a cut motion before the legislature. Treasury benches represent more than 90 percent of the provincial assembly, and the budget as presented by the Government is approved. The fiscal policies are not required to receive approval by the provincial assembly, finance committee, or even the Cabinet. The executive is only required to submit before the legislature an ABS, which is a summary of expenditure and income estimated for the next year. Discussions on aggregates of fiscal forecasts with respect to budgetary ceilings and fiscal policies are not held, as during the session the house is only allowed to move a cut motion. Since the legislature scrutinizes only details of income and expenditure, the dimension is rated C.

Dimension 18.2 Legislative Procedures for Budget Scrutiny

137. The money bill and the manner in which it has to be tabled before the legislature is specified in the Constitution. The money bill has to be approved by the Government comprising Chief Minister and the Cabinet before presenting to the legislature. The Government lays before the provincial legislature an ABS, along with details of current and development expenditure as well as estimates of domestic and external receipts. The legislature can only bring a cut motion on voted expenditure. House procedures for tabling budget, stages in the budget approval, the manner of discussion on the budget, procedures for dealing with a cut motion are laid down in the Balochistan assembly rules,²⁰. These rules are standing instructions that were approved by the legislature and can be amended by the legislature, if required. The rules are therefore approved in advance before the budget is tabled and the same were followed. The rules narrate that the procedure for approving supplementary grants will be the same as those of the budget, but nothing is mentioned to cater for a situation if the supplementary is not approved by the legislature. However, there is no practice to approve annual legislature review procedures. There is neither the practice of budget scrutiny through specialized committees nor technical support is available to provincial legislature. As procedures approved by the legislature to review budget proposals exist in the form of Balochistan assembly rule and have been complied with, the dimension is rated as C.

Dimension 18.3 Timing of Budget Approval

138. During all the three years under assessment, the legislatures approved the annual budget before the start of the fiscal year. Therefore, the rating for this dimension is A. The dates of budget approval by the legislature during the last three fiscal year as follows:

S. No.	Fiscal Year	Date of Approval of Budget
1.	2012/13	June 19, 2012
2.	2013/14	June 26, 2013
3.	2014/15	June 25, 2015

²⁰ Chapter XIV of Provincial Assembly of Balochistan Rules of Procedure and conduct of Business, 1974

Dimension 18.4 Rules for Budget Adjustments by the Executive

139. The GoB is empowered under Article 124 of the Constitution to approve supplementary grants to expand the size of budgeted expenditure. The financial regulations²¹ explain the procedure to process supplementary grants and also allow the GoB to reallocate/reappropriate the budget. However, no limit on the expansion of total expenditure and budget reallocations has been defined. The GoB expanded the budget of 2014–15 by about 7 percent; revised budgeted expenditure was PKR 229.2 billion against original approved budgeted expenditure of PKR 215.7 billion. According to the Constitution, only ex post approval of the supplementary grant from the provincial assembly along with the next year's budget is required. In history, the provincial assembly has never refused to give ex post approval of supplementary grants. As there is no defined limit on executive with regard to budget reallocation and expanding the total expenditure, the dimension is rate C.

Pillar 5: Predictability and Control in Budget Execution

PI-19 Revenue Administration

140. This indicator assesses the procedures used to collect and monitor provincial government taxes or own source revenues.

Dimension	Score	Brief Justification for Score
PI-19 Revenue Administration	D	Overall rating based on M2 methodology.
19.1 Rights and obligations for revenue measures	D	Major tax collecting entities do not provide information of rights and obligations of taxpayers.
19.2 Revenue risk management	C	The BRA and Excise and Taxation Departments (ETDs) have identified major taxpayers in some of the taxes being collected.
19.3 Revenue audit and investigation	D	No audit of taxpayers is conducted by the BRA. No compliance improvement plan is prepared by other tax collecting entities.
19.4 Revenue arrears monitoring	D*	Data of revenue arrears is not available.

Dimension 19.1 Rights and Obligations for Revenue Measures

141. The GoB's own source revenue is collected mainly by three government entities. For each of the three departments, the table below summarizes information dissemination policies and administrative procedures that allow redress:

Entity	Taxes Collected	Information Dissemination and Redress Procedures
BRA	Sales Tax on Services	There is no defined policy for information dissemination. The BRA's website (www.bra.gob.pk) is the primary source of information for the taxpayers. The website provides information about registration, filing of return, and payment of taxes. Procedures of sales tax input

²¹ General Financial Rules and Budget Manual, 1987.

Entity	Taxes Collected	Information Dissemination and Redress Procedures
		adjustment and determination of taxpayer's liabilities are still under preparation. Policies and guidelines for audit and appeal mechanism are also to be developed.
Excise and Taxation Department (ETD)	Motor Vehicle Tax, License for Liquor, Property Tax, and 12 Other Small Taxes	Taxpayers obtain relevant information by visiting the offices of the department that are spread across the province. However, the mechanism to appeal is not generally known. There is no appeal pending before the department. The GoB's web portal includes a page of the ETD, which does not provide information about revenue obligations to the taxpayers. There is no defined policy for information dissemination.
Board of Revenue	Stamp Duties, Tax on Transfer of Immoveable Property, and Agriculture Income Tax	With a province-wide setup, the Board of Revenue is the oldest revenue collecting agency of the province. Still, there is no policy for information dissemination and the taxpayer has to visit the relevant office to seek information. Even at the offices, no guiding document is available for the taxpayer who relies on the information provided by the officials. For information about the rights and obligations, the only reference document is relevant laws and regulations.

142. There is no independent tax appellate court or tribunal for any of the provincially collected taxes. The appeals lie before the senior officer of the same department, and taxpayers are concerned about transparency and independence of the appellate authority. This practice also contravenes the basic principle of separation of executive and judiciary functions.
143. Since entities collecting major taxes do not provide information of taxpayer rights and obligations with a minimum of right of filing of an appeal, as per the PEFA framework, this dimension is rated D.

Dimension 19.2 Revenue Risk Management

144. The BRA has recently installed an electronic taxpayer registration, filing, and payment system with the support of the Federal Board of Revenue (FBR). However, for the time being, the BRA is not adequately staffed and is working without its head, enforcement, audit wings, and appeal commissioner. The BRA has identified large/potential taxpayers through use of the FBR database. They have approached major service providers in relation to telecom and banking companies operating in the province and issued notices for compliance.
145. The ETD to some extent assesses and monitors compliance risk for motor vehicle tax and provincial excise tax on the sale of liquor. Non-payment of motor vehicle taxes is checked through posts installed at roads. The sales of liquor producing factories are properly watched and recorded by the ETD to minimize the risk of sale of liquor without a permit. The aforesaid two taxes collected by ETD constitutes more than 30 percent of the total tax revenue collected by GoB during the last three fiscal years.

146. Since the major tax collecting entities have partly structured the approach in revenue risk management of some of the taxes being collected, the dimension is rated C.

Dimension 19.3 Revenue Audit and Investigation

147. Enforcement of tax laws is a major challenge faced by all of the tax collecting entities of the GoB. Revenue collecting entities do not have the staff and systems in place to conduct revenue audit and investigations. There are neither compliance improvement plans in place nor any tax audits and investigations carried out. Therefore, the dimension is rated D as per the PEFA framework.

Dimension 19.4. Revenue Arrears Monitoring

148. No record of stock of revenue arrears is available with the revenue collecting entities. The BRA started collecting sales tax on services in December 2015 but did not receive any data on sales tax arrears from the FBR that was collecting sales tax on behalf of the provincial government. At present, the BRA is collecting sales tax under a self-assessment scheme where a taxpayer deposits taxes while filing return and no demand has been generated by the BRA. Some taxes collected by the ETD do not generate arrears; for example, tax is collected at the time of issuance of license for sale of liquor. However, in case of motor vehicle and property tax, no data of revenue arrears is available. The dimension is rated D* as the data on arrears is not available.

PI-20 Accounting for Revenue

149. This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts.

Dimension	Score	Brief Justification for Score
PI-20 Accounting for Revenue	D+	Overall rating based on M1 methodology.
20.1 Information on revenue collections	A	The AG office reports monthly the collection under each head of account for a tax or a line department.
20.2 Transfer of revenue collections	A	Revenue collected is deposited and consolidated by the National Bank of Pakistan (NBP) and the SBP on a daily basis.
20.3 Revenue accounts reconciliation	D	Revenue reconciliation is seriously deficient at the GoB.

Dimension 20.1 Information on Revenue Collections

150. The AG Balochistan compiles monthly 'civil accounts'²² that provide details of actual revenues collected during the month as well as year to date by revenue type and by revenue collecting entity. The dimension is rated A as per the PEFA framework.

Dimension 20.2 Transfer of Revenue Collections

151. Provincial revenues are collected by the SBP or the NBP acting as an agent of the SBP. Every revenue deposit by a person is made through a treasury challan at the SBP or the NBP that includes description as well as accounting codes. All nominated branches of the SBP and the NBP submit a daily bank scroll

²² The 'civil accounts' are the monthly fiscal accounts of the government published by the AG and circulated to the relevant revenue collecting agencies and the Finance Department. Refer PI 28.

to the relevant DAO/treasury office providing details of revenue receipts as well as payments. The SBP reports consolidated fund balance to the GoB on a daily basis. As most of the revenue collected is transferred on a daily basis, the dimension is rated A.

Dimension 20.3 Revenue Accounts Reconciliation

152. Revenue accounts reconciliation is seriously deficient at the GoB. On a monthly basis, the DAOs/treasury office are required to reconcile the revenue figures with the SBP/NBP but various unreconciled and old differences exist. A complete reconciliation should consist of three integral parts:
- a. The AG/DAO/treasury office with the revenue collecting agency
 - b. The NBP and the DAO
 - c. Credit reported as available by the SBP with the DAO data
153. The AG office communicates, quarterly accounts as generated by GFMIS to respective Secretaries but regular reconciliation is not performed. Since complete reconciliation practices are not established in the GoB, as according to PEFA framework, the dimension is rated D.

PI-21 Predictability of In-Year Resource Allocation

154. This indicator assesses the extent to which the FD is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

Dimension	Score	Brief Justification for Score
PI-21 Predictability of In-year Resource Allocation	D+	Overall rating based on M2 methodology.
21.1 Consolidation of cash balances	A	Treasury Single Account (TSA) is consolidated and reported by the SBP on a daily basis.
21.2 Cash forecasting and monitoring	D	No cash flow forecast is prepared.
21.3 Information on commitment ceilings	D	For the development budget, there is no defined release policy and commitment ceilings are communicated one month to a quarter in advance. For the current budget, spending units receive commitment ceiling a quarter in advance.
21.4. Significance of in-year budget adjustments	D	In-year budget adjustments are frequent and without a clearly defined mechanism.

Dimension 21.1 Consolidation of Cash Balances

155. The GoB maintains the TSA called Account-I at the SBP. Nominated branches of the NBP across the provinces handle government transactions, consolidate, and report on a daily basis a summary of total receipts and payments made out of the GoB's TSA to the SBP and AG office. Reconciliation issues are serious; however, the Government's cash balances are reported by the SBP on a daily basis to the FD. Since TSA is consolidated and reported on a daily basis, the dimension is rated A.

Dimension 21.2 Cash Forecasting and Monitoring

156. The FD does not prepare any cash flow forecast, and therefore, the dimension is rated D according to the PEFA framework.

Dimension 21.3 Information on Commitment Ceilings

157. The FD releases the current budget to provincial departments in two tranches, each covering a period of six months; the first tranche in August and the second in January. Subsequently, the secretary of the department communicates the budget release to the spending units. This process takes significant time, and spending units receive the release information about a quarter in advance. The P&D Department is responsible for the development budget releases but does not have a defined budget release policy. The development budget is released to individual projects, and most of the budget is released in the last quarter of the fiscal year. During the fiscal year 2014–15, 60 percent of the development budget was released in June, the last month of the fiscal year. Inclusion of a large number of unapproved development projects in the budget (refer PI-11) results in delayed releases as the budget can only be released to the approved project. The spending units are not allowed to start the procurement process, for both the current and development budgets, until they receive budget release. This results in low budget utilization as budgetary units after budget release do not have enough time to complete the procurement process before the close of the fiscal year.
158. The dimension is rated D as there is no defined release policy for the development budget, and the line departments implementing development projects have no information during the year as to when the funds will be available for commitment. .

Dimension 21.4. Significance of In-Year Budget Adjustments

159. The Constitution of Pakistan allows the executive to expand the budgeted expenditure during a fiscal year and get an ex post approval of the legislative assembly. The upward adjustments during the year are made through issuance of supplementary grants; however, for this purpose, the approval of the Chief Minister is required. For each in-year budget adjustment, the head of the department is required to provide proper justification to the FD. The Budget Manual prescribes the procedure for in-year budget adjustments, but there is no limit on the number, timing, and amount of in-year budget adjustments. A large number of in-year budget adjustments also contributes to significant overall composition variance of the GoB, which was 23–35 percent during the last three years (refer PI-2). Since in-year budget adjustments are frequent and without a clearly defined mechanism to ensure transparency, the dimension is rated D.

PI-22 Expenditure Arrears

160. This indicator measures the extent to which there is a stock of arrears and the extent to which a systemic problem in this regard is being addressed and brought under control.

Dimension	Score	Brief Justification for Score
PI-22 Expenditure Arrears	D	Overall rating based on M1 methodology.
22.1 Stock of expenditure arrears	D*	Data for measuring stock of arrears are not available.
22.2 Expenditure arrears monitoring	D	There is no system to record stock of arrears.

Dimension 22.1 Stock of Expenditure Arrears

161. There is no record of a stock of arrears maintained within the accounting and recording systems of the GoB. CGA-approved guidelines of commitment accounting exist but are not followed. Expenditure arrears are largely accrued by development projects in the shape of unpaid contractor invoices. Accrued interest payments and undrawn pensions also represent expenditure arrears for which no record is available. Since data of arrears are not available, this dimension is rated as D*.

22.2 Expenditure Arrears Monitoring

162. As stated earlier, the GoB does not have a system to record a stock of arrears and therefore the data for monitoring of expenditure arrears are not available. The dimension is therefore rated D.

PI-23 Payroll Controls

163. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved.

Dimension	Score	Brief Justification for Score
PI-23 Payroll Controls	D+	Overall rating based on M1 methodology.
23.1 Integration of payroll and personnel records	D	Manually kept personnel files are not reconciled on a regular basis with the payroll system.
23.2 Management of payroll changes	B	Payroll changes are decentralized but some payroll changes take place in more than a month.
23.3 Internal control of payroll	C	Sufficient internal controls to ensure integrity of payroll data.
23.4 Payroll audit	D	There is no audit of payroll that is designed to identify ghost workers.

Dimension 23.1 Integration of Payroll and Personnel Records

164. Monthly payroll of the GoB is processed using human resource (HR) modules of the GFMIS. However, out of 250,000 GoB employees, payroll for 186,000²³ was processed through the HR module at the time of assessment; payroll processed outside HR module was PKR 5.6 billion. As the GFMIS is rolled out completely in Balochistan, the AG office is entering data of remaining employees in the HR module. Personnel records in the form of files are kept manually, and there is no procedure to compare the payroll and personnel records. The AG office provides monthly payroll scroll to the respective spending units that are responsible to review and report any errors. If any change is required in the payroll, the spending unit needs to officially communicate to the AG office. Strength of employees for each department is approved by the FD, but no control exists in the GFMIS to ensure budgeting and payment of salaries are made only against posts approved by FD. The dimension is rated D since a higher rating requires a regular process of reconciliation between personnel records and payroll at least every six months.

²³ The GoB has completed the task of the computerization of the HR data, and by Feb 2017 payroll of all employees is executed through the system.

Dimension 23.2 Management of Payroll Changes

165. Change in the payroll system is decentralized to districts and consists of new recruitment, transfer, and promotion of the employees. There is clear delegation of powers within the GFMS for each type of change to the payroll. The change is supported by a duly authorized change form. Where the salary is paid through the system, the change done results in an auditable log. The change form, if received by 20th of a month, gets effected in the payroll of the same month. In some cases, where the approval of FD is required, the changes takes place in more than a month.
166. Retroactive changes are made only where arrears of allowances or salary increments are made effective from a previous date as per authorization or orders of court or establishment, or where a change is affected in more than a month. The number of such adjustments/changes was not more than 50 cases per month and the amount of adjustments is insignificant; less than 1% of the monthly payroll. Arrears of six months is authorized by the AG, while beyond six months is authorized by the FD. However, the volume of retroactive adjustments is not significant. The dimension is rated B as some payroll changes take more than a month and there are few retroactive adjustments.

Dimension 23.3 Internal Control of Payroll

167. The payroll processing system is well defined in the GFR and the Accounting Policies and Procedures Manual (APPM). Payroll management includes changes to the payroll data triggered by reasons such as recruitment, promotion, transfer, deputation, secondment, removal, dismissal, death, and retirement that are segregated with clearly defined roles and responsibilities both at the line department level and within the AG office/DAOs.
168. Changes in the payroll data are notified by the spending units under relevant rules and regulations. The prescribed HR form is submitted to the AG office/DAOs and is passed through series of checks for validation, incorporation, payment, recording, and reporting. Payroll management is undertaken in the GFMS; therefore, each and every movement in the HR module gets recorded and logs maintained enabling a complete audit trail. The business processes at the AG office/DAOs for an automated system entail a robust mechanism whereby users with predefined roles are created to strengthen proper command and control by those delegated with necessary powers to manage the payroll system. However, staff at the DAO/treasury offices lack capacity to use the GFMS and the practice of password sharing was noted, in a few cases, where a computer operator was entering changes using one user name and validating the same using another user name. This coupled with a significant number of employees outside HR modules signifies internal control weaknesses. As sufficient internal control exists to ensure integrity of payroll data of highest importance, the dimension is rated C.

Dimension 23.4 Payroll Audit

169. There is a quality assurance cell established in the CGA office that regularly performs analytical procedures to validate the payroll data. AGP audits payroll annually as part of the GoB audit but there is no regular and planned audit or survey of payroll that is designed to identify ghost workers, fill data gaps, and identify control weaknesses, and the dimension is therefore rated D.

PI-24 Procurement

170. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results,

and access to appeal and redress arrangements. Balochistan has a decentralized procurement system, and the following five departments with highest gross expenditure during FY2014–15 were used to assess this indicator: (a) Agriculture; (b) Health; (c) Irrigation; (d) Education; and (e) Communication and Works.

Dimension	Score	Brief Justification for Score
PI-24 Procurement	D+	Overall rating based on M2 Methodology
24.1 Procurement monitoring	B	Spending units have all relevant procurement records available though the external audit has reported a few instances where procurement record was not produced for audit.
24.2 Procurement methods	D*	Consolidated data is not available to assess the percentage of contracts awarded through competitive methods.
24.3 Public access to procurement information.	C	Three of the six listed requirements are met for majority of the procurements.
24.4 Procurement complaints management	D	Complaints mechanism meets 2 of 6 criteria and does not meet the first criteria.

171. To regulate procurement of goods, works, and services, the GoB established the BPPRA through an act of provincial assembly in 2009. The FD issued Public Procurement Rules 2014 on December 15, 2014, to be followed by all government departments.

Dimension 24.1 Procurement Monitoring

172. With each government department, procurement is undertaken at a spending/budgetary unit level that maintains all procurement records. There is no database at the level of department that provides department-wide data of all procurements and contracts. However, at the spending units' records on what has been procured, value of procurement and who has been awarded contracts are available for each procurement. The BPPRA website was launched on March 28, 2015, and is also capturing this information for the whole of the Government. Data accuracy and completeness of procurement record have not been verified by any third party, and the external audit reported a few instances where procurement record was not made available for audit. The assessment team reviewed record of 10 significant procurements of the five departments mentioned above and assessed the records maintained to be complete. As records of procurements and contracts are maintained by spending units and a few issues of data availability are reported by audit, the dimension is rated B.

Dimension 24.2 Procurement Methods

173. Public procurement rules prescribed competitive procurement as the default method of procurement. Advertisement on the BPPRA website is compulsory for any procurement above PKR 100,000 while procurements of PKR 1 million and above are also to be published in the newspapers. Consolidated data of total procurements made by the Government and those where competitive method is followed are not available. However, from the AGP report it is evident that instances of violation of rule for noncompetitive procurement are few; therefore, compliance for rule of using competitive method is followed for at least 80 percent of the total procurements. As consolidated

data is not available to assess the percentage of contracts awarded through competitive methods, the dimension is rated D*.

Dimension 24.3 Public Access to Procurement Information

174. This dimension is scored in accordance with public availability of key procurement information as explained in the table below.

Information Element	Status of Compliance
Legal and regulatory framework for procurement	Met. Available on the BPPRA website www.bppra.gob.pk
Government procurement plans	Not Met. Few spending units prepare procurement plans and those are also not publicly available.
Bidding opportunities	Met. The five departments assessed advertised all bidding opportunities on the BPPRA website and also in newspapers, if the procurement value is above PKR 1 million.
Contract awards	Partially Met. Evaluation reports as well as notices of contract award were made available on the BPPRA website within 2 weeks of the award, for about 40% (by value) of the contracts awarded. However, subsequent to the assessment cutoff date, all evaluation reports and notices of contract award are uploaded on BPPRA website.
Data on resolution of procurement complaints	Met. Publications section of the BPPRA website includes data of resolution of procurement complaints.
Annual procurement statistics	Not Met. The BPPRA plans to publish this information as part of its annual report. ²⁴

175. Since three of the six listed criteria are met for majority of the procurements; therefore, the rating for this dimension is C.

Dimension 24.4 Procurement Complaints Management

176. The complaint redress mechanism is a two-pronged process that is provided under Rules 56 and 57 of the Balochistan Public Procurement Rules. In accordance with Rule 56, the departments are required to form and notify committee with appropriate powers to redress the grievance of any complainant. Rule 56 (3)e has barred the complaint redress committee to award any contract. The powers and composition of the complaints redress committee are at the discretion of the head of procuring agency and are not explicitly provided in the Balochistan Public Procurement Rules. Moreover, the rules do not restrict an official involved in the procurement processes to be a part of complaints redressal committee. Rule 57 (b) provides for an independent action by the BPPRA to take notice of any material violation of rules, regulation or Public Procurement Act but it does not have an effective role to remedy any grievance of a complainant. However, BPPRA has launched an online complaint registration form (http://www.bppra.gob.pk/add_complaint.php) and the complaints received are referred to the relevant procuring agency. Status of complaints redressal committees against criteria prescribed by the indicator is provided in the table below.

²⁴ The BPPRA has planned to make the Annual Procurement Statistics made available publicly. The half yearly report has been prepared is expected to be published shortly.

CRITERIA	STATUS
1. Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Not Met. BPPRA Rules 56 requires a procuring agency to constitute a committee to redress complaints of the bidders. The complaint redressal committee is not allowed to make any decision to award the contract on its own move, but there is no restriction by rules to include officials involved in procurement or process leading to procurement as members of the committee. Rule 57 empowers BPPRA to take notice of material irregularities and declare a mis-procurement, however, the same does not empower the complainant to approach BPPRA.
2. Does not charge fees that prohibit access by concerned parties	Met. No fee is charged for filing the complaint.
3. Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Not Met. Processes for submission and resolution of complaints are not clearly defined.
4. Exercises the authority to suspend the procurement process	Not Met. Procuring agency can only award the contract after decision of the complaint redressal committee. The redressal committee at the time of its constitution is delegated appropriate powers. The question as to what are appropriate powers; have been left to the discretion of the procuring agency. The Procuring Agency may not opt to authorize the committee to suspend the procurement process.
5. Issues decisions within the time frame specified in the rules/regulations	Met. Rule 56 requires the compliant redressal committee to issue decisions within 15 days of complaint filing, which is largely followed.
6. Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Not Met. Decisions of the complaint redressal committee are recommendatory in nature as far as Procuring Agency is concerned. The same are not binding on the aggrieved person, who can take the matter to the courts of competent jurisdiction.

177. The dimension is rated D according to the PEFA framework because the first criteria is not met.

PI-25 Internal Controls on Nonsalary Expenditure

178. This indicator measures the effectiveness of general internal controls for nonsalary expenditures. Specific expenditure controls on public service salaries are considered in PI-23.

Dimension	Score	Brief Justification for Score
PI-25 Internal Controls on Nonsalary Expenditure	C	Overall rating based on M2 methodology.
25.1 Segregation of duties	B	The Government has laid down procedures for segregation of duties.
25.2 Effectiveness of expenditure commitment controls	D	There is no effective system to prevent the expenditure at the commitment stage.
25.3 Compliance with payment rules and procedures	C	External audit reports include significant observations on noncompliance with prescribed internal controls.

Dimension 25.1 Segregation of Duties

179. There are eight key steps required to be followed in all expenditure transactions, as a general policy under the APPM, namely, sanction of expenditure; preparation of claim voucher (bill) for payment (except for salaries and wages); approval of expenditure; registration of purchase order/claim voucher; certification (preaudit) of claims; authorization of payment; issue of payment; and recording of expenditure in the accounting records.
180. The APPM elucidate a comprehensive process flow model in respect of major categories of expenditures. To exercise effective control over expenditure, the roles and responsibilities are assigned according to the following arrangement:
- Head of the Administrative Department as Principal Accounting Officer
 - Head of the Attached Department/Public Corporation/Project Director/Autonomous Body as Controlling Authority
 - Head of the office as DDO
181. The nonsalaried expenditure for centralized accounting entities entail double checks, that is, a process for preparation and approval of payment bills at a departmental level as well as an extensive preaudit at the DAO/AG office. In both streams payments are processed under a well-defined and segregated scheme of assignments. Additionally, the delegation of financial power rules delineates the categories of officers and expenditure sanctioning competencies. The aforementioned policies and procedures and other rules have detailed provisions on segregation of duties for the core business processes related to authorization; recording; custody of assets; reconciliation; and/or audit.
182. The abovementioned policies and procedures are not fully applicable to extrabudgetary units and projects maintaining assignment account with ring-fenced financial management arrangements. Therefore, a rating of B is applicable to the dimension according to the PEFA framework.

Dimension 25.2 Effectiveness of Expenditure Commitment Controls

183. The GFMS provides the functionality of commitment recording and reporting but not utilized. The accounting office record commitment in the GFMS at the time of payment processing, and it is immediately reversed. As a result, the GFMS does not report any outstanding commitments. The prescribed procedures require spending units to periodically report commitments to the accounting offices for recording, which is not followed. Since there is no effective system in place to limit the expenditure at the commitment level, the dimension is rated D.

Dimension 25.3 Compliance with Payment Rules and Procedures

184. The budgetary units of the GoB execute payments through district treasury offices or DAOs across the province. The DAOs apply a pre-audit check on all the payments made through them irrespective of the materiality. In the pre-audit check, the DAO is required to check if all the formalities of relevant treasury rules and GFR have been complied with. In 27 districts out of 30, the DAO is headed over by the Treasury Officers who are not empowered and trained for pre-audit procedures.

185. A considerable part of development budget is executed through the assignment accounts. The assignment accounts though part of the TSA but are operated by project directors and bypass the preaudit check to be applied by the DAO. Since the record of all payments and vouchers are kept in the line departments across various districts, external audit reports were used for scoring of this dimension. The AGP audited expenditure of PKR 61.9 billion during FY2014–15 and pointed out 71 instances of irregular payments and internal control weaknesses amounting to PKR 27.8 billion. This implies that 55 percent of the payments are complied with prescribed rules and procedures. Since majority of the payments (more than 50 percent) are complaint with the payment procedure, therefore, this dimension is rated as C..

PI-26 Internal Audit

186. This indicator assesses the standards and procedures applied in the internal audit.

Dimension	Score	Brief Justification for Score
PI-26 Internal Audit	D	Overall rating based on M1 methodology.
26.1 Coverage of internal audit	D	Internal audit function does not exist at the GoB.
26.2 Nature of audits and standards applied	NA	
26.3 Implementation of internal audits and reporting	NA	
26.4 Response to internal audits	NA	

Dimension 26.1 Coverage of Internal Audit:

187. No internal audit function exists at the GoB though accounting offices apply certain preaudit checks while processing payments. The PFM legal framework also does not require the Government to establish internal audit function. The FD intends to establish internal audit function and a draft charter has been drafted. As internal audit function is not operational, the dimension is rated D.

Dimension 26.2 Nature of Audits and Standards Applied

Dimension 26.3 Implementation of Internal Audits and Reporting

Dimension 26.4 Response to Internal Audits

188. Since the GoB has not established an internal audit function, the dimensions 26.2, 26.3, and 26.4 are rated NA according to the PEFA framework.

Pillar 6: Accounting and Reporting

PI-27 Financial Data Integrity

189. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

Dimension	Score	Brief Justification for Score
PI-27 Financial Data Integrity	C+	Overall rating based on M2 methodology.
27.1 Bank account reconciliation	D	Prescribed bank reconciliation procedures are not followed, and significant unreconciled differences exist.
27.2 Suspense accounts	D	Suspense accounts have significant unadjusted balances that are not cleared in a timely manner.
27.3 Advance accounts	A	Consolidated Information to assess the total volume of advances and timeliness of adjustments is not available, and there are audit observations on adjustment of advances.
27.4 Financial data integrity processes	A	Access and changes to records are restricted, recorded and result in an audit trail. .

Dimension 27.1 Bank Account Reconciliation

190. The APPM requires DAOs and the AG to compare the bank scroll with payment advices and receipt vouchers on a daily basis and conduct monthly bank reconciliation. The assessors noted that bank reconciliation statements that were signed by officials were available but significant unreconciled differences exist that were not investigated. As of June 30, 2015, there was a net difference of PKR 7.56 billion between the book balance and the bank statement. The difference between the bank balance reported in audited financial statements and the cash balance reported by the SBP was PKR 4.2 billion on the same date.
191. The assessors noted a number of errors that are required to be corrected and reconciled including (a) recording of provincial receipts as federal receipts or vice versa; (b) duplicate debit to provincial Account-I by the NBP; (c) checks issued and not cleared by the NBP within the fiscal year, which were recorded as expenditure by accounting offices; (d) balance agreed between the DAO and NBP different than the balance reported by the NBP to the SBP; and (d) direct payment advices issues by the FD to the bank that were not captured in the accounts. Extra debit of about PKR 2 billion by the NBP to the provincial account was identified during the assessment that is being investigated by the FD.
192. The dimension is rated D due to significant unreconciled differences and nonobservance of prescribed bank reconciliation procedures.

Dimension 27.2 Suspense Accounts

193. Suspense accounts are often used to record debit or credit entries, which are not classified properly at the district treasury offices or DAOs. There are multiple suspense account in GoB books of accounts. Balances in the suspense accounts are unreconciled for many years. There is no reconciliation or breakup available for the figures appearing in the suspense accounts. The balances in the suspense

account as of June 30, 2015, are the SBP suspense account PKR 4.7 billion, the federal and provincial suspense account PKR 701 million, and other suspense accounts PKR 44 million. The assessors were informed that the SBP suspense account balance represents payments made to local councils for which payment advice was issued by the FD to the SBP and was not recorded in the books of accounts. Since suspense accounts are not cleared in a timely manner, the rating for this dimension is D.

Dimension 27.3 Advance Accounts

194. The advance payments to contractors are recorded as expenditure, since the GoB is following cash basis of accounting. Most of the payments for works are made by the Communication and Works Department or the Public Health Engineering Department. The divisional accountants in these departments keep a stand-alone record of the advance paid to a contractor and reconcile the same on a monthly basis at the time of payment of monthly interim payment certificate, the advances if any, are recovered from the monthly Interim payment certificates by the DAO. The external audit though reported instances of non-adjustment of advances but the unadjusted amount was not material (about 0.1 percent of total expenditure). Advance payments to government employees are recovered from the employee by the payroll system on regular and monthly basis. . Since advances are monthly reconciled by relevant divisional accountant or DDO, and cleared regularly therefore this dimension is rated A.

Dimension 27.4 Financial Data Integrity Processes

195. The GFMS is based on the SAP platform, and the software provides multiple levels of controls to view, modify, and enter data and generate reports. Access to the GFMS is by authorization and based on the level and nature of authorization. The CGA office has notified three levels for data entry and authorization at Level 0, 1, and 2. Any change in the data contained in the SAP system results in a complete audit trail and can identify the person making any change in the system. However, in practice staff posted at the treasury offices and DAOs share their password and IDs because most of the staff are not well trained to use the SAP system. However, this practice was noted only at the district level where expenditures were being recorded against the invoices. The manual vouchers are prepared and authorized as per procedure by different officials. The approved voucher is then punched into the system by a single computer operator using the password of level 0, 1 and 2 official. This practice do not undermine the overall integrity of the data, as the data punched is later checked by the AG offices and on the other hand manual voucher signed by the different official is available and traceable. The AG office has established a quality assurance cell, which is responsible for checking the data integrity. However, the organization of technical staff to maintain timely backup and overview data security is very thin. Within the same month, only TO/DAO/AO are authorized to make changes in the GFMS and after the close of the month, the change can only be made at the AG office. Access and changes to records is restricted and recorded and results in an audit trail, and therefore the dimension is rated A.

PI-28 In-Year Budget Reports

196. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution.

Dimension	Score	Brief Justification for Score
PI-28 In-Year Budget Reports	C+	Overall rating based on M1 methodology.
28.1 Coverage and comparability of reports	C	Financial reports allow direct comparison to the budget but do not cover extrabudgetary units.
28.2 Timing of in-year budget reports	A	In-year BERs are issued within two weeks from the end of the month.
28.3 Accuracy of in-year budget reports	C	There are concerns regarding data accuracy and expenditure is only captured at the payment stage.

Dimension 28.1 Coverage and Comparability of Reports

197. The AG office prepares monthly civil accounts that report monthly and year-to-date revenue and expenditure against budget appropriations using the same CoA and entity classification. The accounts provide budget execution details consolidated for each administrative department as well as for all the GoB as a whole. The development budget is prepared using single object code without detailed classification, and the budget execution is also reported similarly. Deconcentrated or extrabudgetary units providing services, for example, the text book board, are not covered by the financial reports. The financial reports allow direct comparison to the budget but do not cover extrabudgetary units, and therefore the dimension is rated C.

Dimension 28.2 Timing of In-Year Budget Reports

198. The AG office issues monthly civil accounts (**BER**) within two weeks from the end of the month. Beside that users of the GFMIS can access in-year budget reports at any time during the year. Viewing access to the GFMIS is available to line departments that can generate financial reports. This dimension is rated A.

Dimension 28.3 Accuracy of In-Year Budget Reports

199. The accuracy of in-year budget reports is undermined due to unreconciled bank and suspense accounts, using the single object code for the development budget, exclusion of extrabudgetary units, and absence of commitment information. The In-year budget reports only capture the expenditure at the payment stage. The dimension is rated C as there are concerns regarding data accuracy.

PI-29 Annual Financial Reports

200. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards.

Dimension	Score	Brief Justification for Score
PI-29 Annual Financial Reports	C+	Overall rating based on M1 methodology.
29.1 Completeness of annual financial reports PI-25(i)	C	Annual financial statements are comparable with budget and provide information on revenue, expenditure, and cash balance. Information on assets and liabilities is not provided.
29.2 Submission of reports for external audit PI-25(ii)	A	The financial statements of the GoB are submitted for audit within 2 months from the close of fiscal year.

29.3 Accounting standards	C	Financial statements are consistently prepared using national standards but are not fully compliant with Cash Basis International Public Sector Accounting Standard (IPSAS).
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Dimension 29.1 Completeness of Annual Financial Reports

201. The AG office prepares annual financial statements, as required by the NAM for all budgeted entities of the GoB, compliant with the format prescribed under Cash Basis IPSAS. The financial statements of the GoB include statements of receipts and expenditure, statements of cash flows, and statements comparing the budget and actual amounts by function, by object, and by department as well as a summary of significant accounting policies and other explanatory notes. As stated in Note 3 to annual financial statements of FY 2014–15, “commitment, asset and liability accounting practices have not yet been implemented and memorandum registers for assets and commitments do not exist and accounting of liabilities is not done in accordance with NAM.” The cash balance is reported in the financial statements but is not reconciled with the bank as described in PI-27. Since information on assets and liabilities is not complete, the rating for this dimension is C.

Dimension 29.2 Submission of Reports for External Audit

202. The financial statements of the GoB during the last three fiscal years were duly submitted to the AGP for audit by August 31, that is, within two months from the end of the fiscal year. Therefore, this dimension is rated as A.

Dimension 29.3 Accounting Standards

203. The GoB financial statements are prepared, compiled, and presented in a format that is in accordance with Cash Basis IPSAS and the NAM. A statement of compliance with IPSAS Cash Basis and NAM, basis of preparation and accounting convention is disclosed in the financial statement of GoB. Gaps remain in the full implementation of Cash Basis IPSAS as third-party payments are not disclosed and government-owned entities are not consolidated. The dimension is rated C as annual financial statements are consistently prepared using national standards but are not fully compliant with Cash Basis IPSAS.

Pillar 7: External Scrutiny and Audit

PI-30 External Audit

204. This indicator examines the characteristics of the external audit.

Dimension	Score	Brief Justification for Score
PI-30 External Audit	D+	Overall rating based on M1 methodology.
30.1. Audit coverage and standards	D	Audit coverage for expenditure is less than 50%, scope of revenue audit is limited, and gaps exist in implementation of auditing standards.
30.2. Submission of audit reports to the legislature	D	The audit reports were submitted to the provincial assembly after nine months from the date of receipt of unaudited financial statements.

30.3. External audit follow-up	C	Audited entities provide formal responses to the auditors.
30.4. Supreme Audit Institution independence	C	Constitution protects tenure and mandate of the AGP, and grants powers to determine nature and extent of the audit. Budget is provided by federal government and executed through government systems.

Dimension 30.1 Audit Coverage and Standards

205. The AGP adopted the Financial Audit Manual (FAM) in 2006 (amended in 2010) that incorporates International Standards of Supreme Audit Institutions (ISSAI). The FAM details guidance for the audit team on methods and approaches for public sector auditing. It encompasses a risk-based approach and provides for system-based analysis, including review of internal control structures. From an implementation perspective, gaps exist in the implementation of the FAM due to lack of capacity and systems for system-based audit techniques, audit samplings, and audit report quality. For example, significant unreconciled bank balance was not reported by the auditors and an unqualified audit opinion on the financial statements was provided. Audit coverage during the last three years remained inadequate. About 40 percent of the auditable expenditure was audited during each of the last three fiscal years. Audit of revenue receipts is carried out that identified some tax arrears, but the coverage of revenue audit is also limited. Table 3.11 provides audit coverage of expenditure in the last three completed audit years.

Table 3.11: Audit Coverage of Expenditure

Audit Year	Auditable Expenditure (PKR in billion)	Expenditure Audited (PKR in Billion)	Percentage Expenditure Audited	Total Auditable Formations	Formations Audited
2014–15	154	64	42%	1,814	239
2013–14	148	60	41%	1,566	239
2012–13	142	56	39%	1,513	274

Source: The AGP's audit reports.

206. The dimension is rated D as audit coverage for expenditure is less than 50 percent and gaps exist in implementation of auditing standards.

Dimension 30.2 Submission of Audit Reports to the Legislature

207. The Auditor General according to Article 171 of the Constitution submits the audit reports to the Governor of the province who shall cause them to be laid before the provincial assembly. The Governor as the representative of the President in the province is a part of the legislature and each bill of the provincial assembly requires the Governor's assent. During the last three fiscal years, the financial statements were submitted to audit by August 31 (within two months of the close of the fiscal year) and Table 3.12 provides dates of submission of audit reports to the legislature. The period of submission of the audit reports to the Provincial Assembly was more than nine months from the date of receipt of unaudited financial statements. The dimension is rated D.

Table 3.12: Date of Submission of Audit Reports to the Legislature

Audit Year	Date of Audit Report Submission to the Governor	Date of Audit Report laying before the Provincial Assembly
2012-13	March 7, 2013	May 25, 2014
2013-14	March 17, 2014	August 25, 2014
2014-15	April 10, 2015	August 15, 2015
2015-16	July 19, 2016	November 04, 2016

Source: Director General Audit, Balochistan.

Dimension 30.3 External Audit Follow-Up

208. The Manual of Balochistan Secretariat Instructions 2013 requires government departments to respond and settle audit observations within the period fixed by the auditors. The departments are required to hold meetings of Departmental Accounts Committee (DAC), chaired by the department's secretary, to discuss and address audit observations. Audited entities provide formal responses to the auditors, but DAC meetings are not held regularly and a number of audit observations remain unsettled. The AGP maintains manual records of audit observations, management response and implementation status of the audit recommendations. When the audit entity provides evidence of implementing the audit recommendation, an official letter is issued by the AGP to settle the audit observation. Follow-up is carried out as part of the next audit to ascertain the progress made by the entity in implementing the recommendations. However, the results of audit follow-up are not published in the audit reports. The dimension is rated C.

Dimension 30.4 Supreme Audit Institution Independence

209. The Constitution protects tenure and mandate of the AGP and grants powers to independently determine the nature, scope, and extent of audits. The Auditor General of Pakistan Ordinance, 2001 empowers the AGP to call for all documents and records from the provincial government. Under the Constitution, the AGP being the head of the Supreme Audit Institution (SAI) is appointed for a tenure of four years by the President of Pakistan, and the provincial executive has no influence on the appointment of AGP. Once appointed, AGP can only be removed through Supreme Judicial Council²⁵ following the procedure for the removal of a judge of a higher court. AGP is empowered to make transfer and postings within the department but requires executive approval to hire new staff. The federal government provides budget to the AGP, and there is no dependence on the provincial government. The AGP's budget is a charged expenditure and not subject to a cut motion by the federal legislature. However, the budget is executed through government system and is subject to preaudit by the accounting office though full powers to approve expenditure are with the AGP. The dimension is rated C.

²⁵ Supreme Judicial Council constituted under Article 209 of the Constitution and consists of Chief Justice of Pakistan with two senior most judges of Supreme Court along with two senior most Chief Justices of High Courts.

PI-31 Legislative Scrutiny of Audit Reports

210. This indicator focuses on legislative scrutiny of the audited financial reports of the Government.

Dimension	Score	Brief Justification for Score
PI-31 Legislative Scrutiny of Audit Reports	D	Overall rating based on M2 methodology.
31.1 Timing of audit report scrutiny	D	Audit reports of 17 years are pending with the PAC.
31.2 Hearings on audit findings	D	At the time of assessment, hearing of audit reports of the last three fiscal years were pending
31.3 Recommendations on audit by the legislature	C	The PAC issues directives to the executive but no system is in place at the PAC for proper follow-up.
31.4 Transparency of legislative scrutiny of audit reports	D	No report of PAC meetings is available to the public.

Dimension 31.1 Timing of Audit Report Scrutiny

211. The PAC of the provincial assembly is mandated to examine the audit reports and recommend actions to the executive. The PAC was nonfunctional for the last 14 years in Balochistan and has recently been notified. The newly established PAC worked commendably during the past four months. However, a huge backlog of audit reports is pending before the committee for scrutiny and recommending actions. At the time of the assessment, the PAC was scrutinizing audit reports for 2007–08, while audit reports for 23 years are pending before the PAC. The dimension is rated D.

Table 3.13: Audit Reports Pending Before the PAC

From	To	No. of Years
Audit Year 1982-83	Audit Year 1996-97	15
Audit Year 2001-02	Audit Year 2004-05	4
Audit Year 2012-13	Audit Year 2015-16	4

Source: Director General Audit, Balochistan

Dimension 31.2 Hearings on Audit Findings

212. The recently constituted PAC is holding in-depth hearings where the representative of the AGP explains to the committee nature and content of each and every audit observation, while the department explains the its position on the audit observation. The PAC members raise questions and examines the arguments extended by both sides. The members also examine the supporting documents that the departments submit before the PAC in their defense. Since the last three completed fiscal years have yet not been examined by the PAC due to pendency of work at PAC secretariat therefore this dimension is rated D.

Dimension 31.3 Recommendations on Audit by the Legislature

213. The organization of the PAC is very thin, and it has a few staff available with them to keep the record and follow up on its recommendations. The follow-up and track of PAC recommendations is being kept by the AGP as a support to the PAC. However, it is being carried out in an informal manner without proper reporting and a follow-up framework. The AGP reports to the PAC current audit observations with an updated status of compliance of PAC directives as received by the AGP. According to the audit report of 2014–15, the executive has reported compliance of PAC directives

only in 1 percent of the cases. The PAC lacks legal backup and empowerment to enforce its directives and also does not have adequate secretariat support to follow up on its recommendations/directives. The dimension is rated C.

Dimension 31.4 Transparency of Legislative Scrutiny of Audit Reports

214. The PAC hearings are not open to public at large. Limited access is allowed, in an informal manner, to print and electronic media, which covers only salient features of the directives of the PAC. However, no report on the PAC directives or its activities is available to the public. Therefore, according to the PEFA framework the dimension is rated D.

Chapter 4: Conclusions on the Analysis of PFM Systems

215. This chapter provides an integrated analysis on the basis of the information presented in the preceding chapters 2 and 3 and states overall conclusions on the performance of PFM systems. In particular, the analysis assesses how the performance of PFM systems may affect the GoB's ability to deliver intended fiscal and budgetary outcomes. The most important systemic weaknesses are identified in this respect.

4.1 Integrated Assessment of PFM Performance

216. This section shows the results of the assessment for the seven pillars of PFM performance - budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit.

Budget Reliability

217. On the revenue side, fiscal transfers from the federal government constituting more than 90% of provincial receipts have been on time and as per budget estimates. Own source tax revenue collection performance remains less than satisfactory, and GoB was unable to achieve revenue collection targets for any of the last three fiscal years. Actual expenditure and revenue of the GoB vary significantly from the budget at the aggregate level as well as by composition. Since FY 2013–14, the GoB has been preparing a deficit budget without identifying the sources to finance the deficit that puts in question the reliability of the budget on the day it is approved by the legislature. Inclusion of unapproved development schemes in the budget impedes budget implementation as expenditure cannot be incurred without the approval of the scheme that occurs largely during the second half of the fiscal year. Incremental budgeting is the basis for preparing the current budget, and significant variances even between salary budget and expenditure were noted in some departments. Variances up to 35 percent in expenditure composition noted during the assessment were due to in-year budget adjustments indicating unrealistic budgeting. Budget releases for most procurable items is during the second half of the fiscal year with a time lag of up to three months in communicating budget release information to spending units, which also contributes to low budget utilization. On the revenue side, fiscal transfers from the federal government constituting more than 90 percent of the provincial receipts have been on time and as per budget estimates.

Transparency of Public Finances

218. Budget formulation, execution, and reporting classification system being used is based on GFS/COFOG 1986 and is compliant with international standards. However, there are many shortcomings under this pillar. The legal framework prescribes limited disclosure requirements and does not require the Government to prepare and consider macroeconomic forecasts and performance information as part of the budget cycle. Also, the Government has not established the fiscal transfer mechanism to local governments as required by the legislation. The provincial Freedom of Information Act, 2005 falls short of international best practices and while required by the Act, the Government has not indicated all the documents that should be classified as public records. Detailed budget documents and annual audited financial statements are the only available public documents. Budget documents provide original and revised estimates of revenue and expenditure by budgetary units for the fiscal year, and a forecast of the fiscal deficit. There is no practice to prepare macroeconomic forecasts and

performance plans for service delivery. Furthermore, information on the previous year outturn, debt stock, financial assets/liabilities, and fiscal risks is not included in the budget documents. Financial reports of the GoB are prepared periodically using the GFMIS but only capture the budgetary entities. There are more than 50 autonomous organizations or extrabudgetary units owned or controlled by the GoB that are not captured in the financial reports.

219. The GoB has not formulated the system for transparent and rules-based fiscal transfers to the local governments. The Balochistan Local Government Act 2010 requires the provincial government to constitute the LCGC to recommend the formula for the distribution of local council grants in the province. Elected local councils assumed office in January 2015, but to date, the LCGC has not been constituted. During FY 2015–16, an amount of up to PKR 4.7 billion was transferred to the bank accounts of local councils directly by the FD for which no record was available with the AG. An amount of PKR 11.2 billion has been budgeted as grants to local councils in the provincial budget of FY2016–17, as an expenditure.

Management of Assets and Liabilities

220. The GoB performance in this area is seriously deficient and receives D scores for all indicators as well as dimensions under this pillar. No mechanism or practice exists to monitor the financial performance and fiscal risk arising from public corporations and local governments; even a complete list of government-owned public corporations is not available. Similarly, contingent liabilities are not monitored and reported. The size of public investments (development budget) has almost doubled over the last four years but systems to plan and implement public investments have not been developed. All new development projects included in the budget are unapproved and without feasibility and economic analysis. The fragmentation of the development budget into a large number of small and under-financed projects complicates public investment management. There is no approved development strategy, plan, or rules to be used as a criterion for project selection. Detailed guidelines issued by the PC for project appraisal and M&E have been adopted, but severe shortcomings exist in their implementation. There is neither consolidated reporting of fixed assets, nor any proper mechanism for effectively using the fixed assets and appraising the performance of assets. This ultimately results in poor maintenance of capital assets and a shortening of their useful life. The GoB does not have a DMS, and practices for debt recording, reporting, and approval are also not established.

Policy-Based Fiscal Strategy and Budgeting

221. During the past three fiscal years, the budget was approved by the legislature as proposed, before the start of the fiscal year and within 2 weeks of tabling the money bill before the assembly. The assembly can only move a cut motion and cannot identify any emergent need requiring allocation of financial resources. The absence of macroeconomic and fiscal forecasting, fiscal strategy, and medium-term as well as policy perspective in budgeting contributes to lower budget reliability. Incremental budgeting approach is followed, but no guidance is provided to the line departments to prepare their annual budget estimates except for a budget calendar. Only 2 out of 45 departments followed the budget calendar for FY 2015–2016. The GoB remains dependent on federal fiscal transfers. The Government does not have a tax policy framework, and there have been no recent improvements in the provincial tax policy. There is no practice to consider the fiscal impact of policy options, and line departments are not given any budgetary ceilings. The only government document that provides a medium-term perspective is the Balochistan Comprehensive Development Strategy 2013–18, but it is still only a

draft. The budget making process also loses its significance due to significant executive powers that make in-year budget adjustments. There is an informal mechanism where members of the treasury benches are involved in deciding the allocation of the development budget to a constituency.

Predictability and Control in Budget Execution

222. Good practices under this pillar include monthly reports from the AG office on the collection under each head of account for a tax or a line department. Revenue collected is deposited and consolidated by NBP & SBP on daily basis. TSA is consolidated and reported by the SBP on daily basis. Payroll changes are centralized and takes place in more than a month.
223. Balochistan Public Procurement Regulatory Authority (BPPRA) in a short period of time has developed systems to improve transparency in procurement. Bidding opportunities and contract awards are publicly available and the majority of the procurements are carried out using competitive methods. BPPRA is working to further improve public disclosure and complaint mechanisms. Procurements records are maintained in files at individual spending units though external audit reported some instances where procurement records were not produced for audit. Procurement planning remains deficient and departments do not prepare procurement plans.
224. Overall financial management controls are in place with good segregation of duties and procedures. However, the supreme audit institution reports that compliance with procedures is a significant problem. Absence of commitment accounting/stock of arrears information and internal audit are two important internal controls missing in the system.
225. Unpredictable budget releases during the fiscal year affect budget execution. For the development budget, there is no defined release policy and commitment ceilings are communicated one month to a quarter in advance. The P&D Department releases the development budget to individual projects, and as most of the development projects included in the project are unapproved, majority of the funds are released after their approval in the last quarter of the fiscal year. For the current budget, spending units receive a commitment ceiling one quarter in advance. The FD releases the current budget in two semesters, but it takes significant time for the line departments to inform the spending units about the releases. For procurements, the spending units are not allowed to start the procurement process without budget release, and are left with insufficient time to complete procurements after budget release.
226. Balochistan remains the only province where government payroll is not fully computerized; about 64,000 or 25 percent of government employees' payroll is processed outside the HR module. Rules and processes are notified for segregation of duties, approval, and verification for changes to the payroll system; however, payroll audit and the reconciliation practice of matching payroll with the personnel files (maintained manually) is missing. The FD maintains a list of approved positions in various departments; however, this list is not used as a budgetary check in the payroll systems.
227. The own source revenue receipts are recorded and reported on a monthly basis; however, reconciliation practices are seriously deficient. The Government has recently started actions to enforce existing rules and procedure for revenue reconciliation. Other weaknesses in the revenue administration include limited availability of information on taxpayers' rights and obligations, absence of revenue audit and investigation, no data on tax arrears, and partly structured revenue risk management approach.

Accounting and Reporting

228. Good practices under this pillar include restricted access to records, and changes recorded in an audit trail. In-year budget execution reports are issued within two weeks from the end of the month, but there are serious reconciliation issues. The Financial Statements of GoB are submitted for audit within 2 months from the close of fiscal year. The financial reports allow a direct comparison of budget with actual but do not include details of commitments, assets and liabilities. AG Balochistan, a federal entity, is responsible for accounting and reporting, while provincial treasury offices perform the treasury function creating confusion as to who has the primary responsibility for bank reconciliation. There are significant unreconciled differences in the cash balance with the bank and substantial unadjusted suspense account balances that affect completeness and accuracy of financial reports.

External Scrutiny and Audit

229. Good practices under this pillar include audit reports submitted to the Governor within a period of nine months from the date of receipt of un-audited financial statements, and in-depth hearings taking place for all observations in the audit report. Audit standards are compliant with international standards, but gaps exist in implementation. Limited audit coverage, delayed legislative scrutiny of audit reports, and absence of timely corrective action by the executive impede the independent review of public finances. The AGP has the constitutional powers to conduct an audit of the GoB, but audit coverage of expenditure was less than 50 percent and a limited-scope revenue audit was carried out. In early 2016, the provincial assembly notified the PAC after more than eight years. The progress made by the newly notified PAC is commendable but there still remains a huge backlog of audit reports of 23 fiscal years to be reviewed.

4.2 Effectiveness of the Internal Control Framework

230. An effective internal control system plays a vital role in addressing risks and providing reasonable assurance that operations meet the four control objectives: (a) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse, and damage. This analysis assesses the extent to which the internal control system operating in the PFM system contributes to the achievement of the four control objectives, based on available information obtained during the PEFA assessment. Detailed findings concerning the main elements of the five internal control components are summarized in annex 2.

Control environment

231. The GoB's internal control system for expenditure is based on a series of regulations, including (a) the NAM; (b) Balochistan Finance Manual 2008; (c) Balochistan Budget Manual 1987; (d) GFR; (e) Treasury Rules; (f) Balochistan Public Procurement Rules 2014; (g) Balochistan Civil Servants Rules 1976; (h) the GoB's Rules of Business 2012; (i) Balochistan Delegation of Powers 2008; (j) the PC of Pakistan Manual for Development Projects; and (k) various circulars and notifications issued by the MoF, the GoP, and the FD, GoB. Some of these regulations were enacted over a few decades, and there have been some revisions. However, a review and revision are required to ensure internal consistency across the existing organizational and institutional structures of the Government. For example, the rules require a manual budget release order, which is not required with the introduction of the GFMIS but to comply with rules, it is printed from the system, signed, and sent to relevant officials. There are

multiple approvals and complex lengthy processes, which lead to inefficiencies within the system. In certain cases, new instructions are issued without revoking previous guidance, which make the system ambiguous. The rules and procedures are well understood by those directly involved in their application such as the AG Balochistan, but not by those in the spending units or field treasury offices, which are under the administrative control of the FD.

232. Except for local governments and budget release policy and procedures, the coverage of existing rules and regulation is adequate; however, implementation of rules is the main concern. The set of procedures provides the basis for an effective system of internal control to be applied if the PFM stakeholders engage energetically in applying the principles and practices embodied in the guidelines/rules/procedures. However, during the assessment, it was noted that this is not yet the case. International guidance on effective internal control gives heavy importance to personal integrity and professional competence and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization. All the three elements needed attention and strengthening. As summarized in annex 2, this requires public sector authorities to encourage a strong commitment to competence, and the top and middle management philosophy and operating style should set a tone that demands comprehensive observance of internal control throughout the PFM system. Mechanisms for doing this include an organizational structure based on competence and program delivery and HR management policies that reward ethical conduct and penalize misbehavior, supported by information technology systems that assist with the management and monitoring of service delivery.

Risk assessment

233. There is no exercise within the GoB for risk identification, significance or evaluation. There is no risk management system and no planning for management of the risk. There is neither any reporting of the fiscal risks nor the Government has a fiscal strategy. Limited risk management was noted in the revenue administration where large tax payers are identified and monitored. The GoB has not established Internal audit function that would be helpful in risk management.

Control Activities.

234. The development and implementation of PFM-related internal controls is a shared responsibility between provincially administered PFM functionaries (Treasury offices, the P&D department, and the FD) and federally administered functionaries (AG, AGP, SBP, and NBP). The GoB heavily depends upon the control activities carried out by the Federally administered functionaries in accounting and auditing offices. The activities include pre-audit check ensure compliance to various financial rules and regulation, and post audit external audit by AGP. However, coordination on this aspect between the federal and provincial machinery is seriously deficient, which leads to inefficiency and no or weak accountability of those who fail to discharge their duties with a high level of competence and integrity.
235. The AGP has noted 45 percent of payments are made without following the prescribed rules and procedures. The general perception of the people at large for the integrity of the various PFM actors is not good. The organizational structures to support internal controls should include internal audit that is independent from management and reports directly to the highest level of authority. PI-26 assessed internal audit and found that internal audit is completely absent. Hence, the executive has no arm to monitor and ensure compliance of rules and regulation and it wholly relies on the AGP.

236. In respect of control activities, the PEFA assessment includes specific indicator dimensions on the expenditure side for internal controls over payroll (PI-23), non-salary expenditure (PI-25), and procurement (PI-24), and the ratings for Balochistan are predominantly poor.
237. On the revenue collection side, dimension 19.3 assesses whether sufficient controls are in place to deter evasion and ensure that instances of noncompliance are revealed, including through collusion with representatives within a revenue administration. There are no practices of revenue reconciliation. This is a major lapse within the control environment. There is high probability that the domestic revenue is not completely recorded as receipt of the provincial consolidated fund. Adding to this problem, the AGP has not conducted a revenue audit which further enhanced the risks of misappropriation and mismanagement.
238. Assessments of accounting, recording, and reporting indicators also witnessed weak internal controls. There are substantial and old balances in the suspense account beside unreconciled bank differences. The PFM systems of the newly established local government are highly risky and are being funded out of the books; the BLGO authorizes the executive to make direct payments outside the government systems directly to the local government, which in turn has no pre-audit check for payments made from local government funds.

Information and communication

239. Information is key necessity for the GoB for defining and implementing of better Internal Control. There is greater disconnect within and outside PFM actors as far as Internal controls are concerned. The outreach of Finance Department on the budget execution and desired impact on budgetary spending on intended improvement in service delivery is completely absent. Though GFMS has been implemented but effective use of the same by government functionaries is a need of time beside the need of training and derive to change and improve the information system. GoB and particularly the FD requires relevant and quality information from both internal and external sources to support the functioning of internal control.
240. Presently, Official communication within the Government departments is based on manual files. Hierarchy is strictly observed in the flow of information and communication that causes delay. Due to the weaknesses in the legal framework regards to public disclosure and absence of a communication strategy, limited fiscal information is publicly available.

Monitoring

241. The only monitoring with the GoB is done with a very limited scope by the P&D department. The P&D Department has established a monitoring wing. However, due to shortage and limited capacity of staff and other resources, the monitoring function is not properly discharged.
242. In absence of internal audit or any other monitoring functionary on fiscal issues, there is no monitoring of effective utilization of public money by the FD.

4.3 PFM Strengths and Weaknesses

243. This section assesses the extent to which the PFM system, as measured by the PIs, constitutes an enabling factor for achieving the planned fiscal and budgetary outcomes - aggregate fiscal discipline, strategic allocation of resources, and efficient use of resources for service delivery.
244. The GFMIS enables the GoB significant benefits in managing public monies more effectively, including greater financial control, improved monitoring of the Government's cash position and better planning for future requirements, better fiscal reporting, and timely availability of a complete set of data to form a reliable basis for budget formulation. The establishment of an effective system also contributes directly to improving transparency and accountability.
245. Budget formulation, execution, and reporting classification system being used is based on GFS/COFOG 1986 compliant chart of accounts. This allows budgeting and expenditure tracking by functional and economic classification as well as by spending unit. Monthly financial reports produced by the AG office are timely and covers revenue and expenditure of the budgetary units though reconciliation issues remain. Revenue collected is deposited and consolidated by NBP & SBP on daily basis. TSA is consolidated and reported by the SBP on daily basis. Payroll changes are centralized and takes place in more than a month. There is restricted access to records, and changes recorded provides an audit trail. Audit reports are submitted to the Governor within a period of nine months from the date of receipt of un-audited financial statements, and in-depth hearings taking place for all observations in the audit report. Audit standards are compliant with international standards but gaps exist in implementation.
246. The budget is expected to be a tool for controlling public expenditure and ensuring fiscal discipline across the Government. However, the Balochistan's budget document, as approved by the legislature, has three serious deficiencies due to which it has lost its significance as a control tool. First, the public investments in the development budget are not costed, nor is any check applied at the commitment stage; second, the budget authorizes expenditures that cannot be financed according to its own estimates of revenue; and third, the practice of informal budgetary cuts is applied through a complicated mechanism of budget releases.
247. Poor practices of expenditure and revenue reconciliation are a major weakness, which lead to significant risks of misappropriation and irregularities. The cash payments are often paid into the government consolidated funds, without any prenumber receipt that can be tracked in the treasury offices and revenue collecting agencies. Thus, controls of completeness of revenue are very weak in the absence of a reconciliation process coupled with nonexistent internal and external audit of revenue receipt.
248. Assets and liabilities record, though required to be maintained and reported, is neither reported nor recorded. The GoB is unaware of its committed liabilities, debt stock, stock of arrears, financial and nonfinancial assets, and its performance. The mechanism to monitor and evaluate capital expenditure is also very weak with no consolidated report available.
249. Strategic allocation of resources requires planning and executing the budget to be in line with government priorities aimed at achieving policy objectives. At the time of assessment, the GoB has one sectoral policy prepared for the education sector, and that too is not reflected in the approved budget. Incremental budgeting is only on the basis of budget preparation. As such, fiscal policy,

strategy, medium-term perspective, and performance evaluation against budget are completely missing in the budget making process.

250. Budget execution has many bottlenecks and impediments that adversely affect the performance of service delivery units. Due to the reasons discussed above, the budget is neither appropriately planned nor timely available to meet the requirements of the service delivery units. It cannot be predicted when and how much resources will be available with the service delivery units. Efficient use of the resources by service delivery units also depends upon the performance planning, recording of achievements, and evaluation of service delivery units against the resources made available to the service delivery units. The element of performance evaluation of service delivery is noted to be absent in PI-8.

4.4 Performance Changes since 2007 Assessment

251. Since the previous assessment, the GoB's budget outlay increased seven times and the Government also acquired additional competencies. However, no investment was made to strengthen the PFM institutions and systems to achieve better fiscal and budgetary outcomes. Budget credibility has deteriorated as the variance between budgeted and actual expenditure increased over the years, at aggregate level as well as by composition. However, actual domestic revenue collection remains more than 90 percent of the budgeted estimates, same as the previous assessment. The budget making process has become less organized and participatory because the central departments (FD and P&D Department) no longer provide extensive guidance and few line departments observe the timelines of the budget calendar. The GoB has not introduced multi-year budgeting and the performance remains unchanged since the previous assessment.
252. The GoB's performance related to the comprehensive budget and the fiscal risk oversight has declined in comparison to the previous assessment. Budget documentation no longer include macro-economic assumptions and details of debt stock. A new local government legislation was enacted in 2010 that provides a mechanism for fiscal transfers but that has not been established to date. Earlier, fiscal transfers to the local governments were transparent, rule based and timely. No progress has been made to improve completeness of fiscal reports by capturing extra budgetary operations and the system to monitor autonomous entities, public enterprises and the local governments has not been established.
253. A decline in the performance related to orderly and predictable budget implementation and application of internal controls was noted except procurement. In 2014, the GoB established BRA to collect sales tax on services which is now the largest provincial tax. BRA is a nascent entity and the rules governing assessment, controls over tax payer registration and monitoring compliance are not fully established. This has led to a lower rating for indicators related to tax administration. There has been no change in the prescribed internal control framework since the previous assessment, but external audit reported increased instances of non-compliance with the internal controls. Moreover, the GoB has not established an internal audit function. For the development budget, there is no policy for in-year budget releases and the GoB scores low for predictability in the availability of funds in the current assessment. The Government has not developed the debt management framework and no consolidated debt stock report is available which was previously provided in the budget documents. With the establishment of BPPRA, an improvement in competition, value for money and controls in procurement was noted in comparison to the previous assessment.

254. Scope and timing of the financial reports has improved but regularity of reconciliation processes declined over time resulting in huge unreconciled differences. Financial reports now allow direct comparison to original budget whereas the earlier financial reports only captured actual expenditure. Monthly accounts are now prepared within two weeks of the close of the month and annual financial statements are submitted to the external audit within two months of the close of the fiscal year. However, information about assets, liabilities and commitments is still not included in the financial reports. Significant unreconciled differences in the bank balances and suspense account still exist compromising the quality of data. Cash and in kind resources received by primary service delivery units still remain unreported.

255. Since last assessment, the performance related to external scrutiny and audit largely remains the same. There is an improvement in the timeliness of external audit but audit coverage has decreased. Huge backlog of unexamined audit reports still exist before the PAC. Hearing of the PAC, when in session, are extensive but compliance with PAC directives remains low. Legislature is still only allowed two weeks to review budget proposal.

Chapter 5: Government PFM Reform Process

256. This chapter outlines the GoB's overall approach to PFM reform and describes recent and on-going reform initiatives to improve PFM performance. This chapter was entirely contributed by the GoB.

5.1 Approach to PFM Reforms

257. PFM reforms in Balochistan have been under the umbrella of federal Project to Improve Financial Reporting and Auditing (PIFRA). The key outcomes of PIFRA are implementation of the GFMS across the province, updating of accounting and reporting framework, and efficiency in financial reporting.

258. Based on the results of this PEFA assessment, the GoB has prepared a 10 years PFM Reform Strategy that is expected to be approved by the provincial cabinet by June 2017. The overall vision is to have robust and sustainable PFM systems for effective and efficient use of public resources and service delivery. To cope with the wide span of PFM, the strategy is based on the following 5 Pillars; i) Enhanced Revenue; ii) Strengthened Fiscal Management; iii) Planning, Budgeting and Monitoring; iv) Reformed Development Budget System; and, v) Improved Management of Funds in Local Government. In addition, the strategy includes 4 crosscutting themes addressing respectively the regulatory framework, the use of technology in support of PFM, transparency and accountability and an integrated approach to capacity development in support of PFM reform. FD is steering the process of PFM reforms, at present holding consultations with donors and relevant government functionaries to finalize the PFM Reform Strategy.

Table 5.1: GoB PFM Reform Strategy – Pillars, Cross-Cutting Themes and Result Areas

Pillars		Result Areas	Timeframe (Years)		
			1-2	3-5	6-10
1.	Enhanced Revenues	1. Strengthened policy and administrative framework for own sourced revenues (Tax and Non-Tax)	•	•	•
		2. Strengthened system for management of self-generated revenues of autonomous organisations		•	
2.	Strengthened Fiscal Management	3. Fiscal Policy Framework drives budget	•	•	
		4. Expenditures are controlled within a realistic budget	•	•	•
		5. Debts, guarantees and fiscal risks are monitored and managed		•	
3.	Strengthened Planning, Budgeting and Monitoring	6. Planning establish the basis for sound budgeting across recurrent and development budgets		•	•
		7. Budget Execution closely reflects the original approved budget		•	•
		8. Budgets and results are monitored effectively		•	•
		9. Management in line departments is better oriented towards achieving targeted results			•
4.	Reformed Development	10. Comprehensive planning process includes sector strategies as the basis for identification of projects / schemes	•	•	
		11. Strengthened compliance with existing planning procedures		•	•

Pillars		Result Areas	Timeframe (Years)		
			1-2	3-5	6-10
Budget System		12. Effective project monitoring systems inform management		•	•
		13. Procurements are managed efficiently and transparently	•	•	
		14. Development of appropriate opportunities and subsequent management of PPP	•	•	
5. Improved Management of funds in Local Governments		15. Transfers to local governments are made under a well-defined financial allocation system	•	•	•
		16. Strengthened PFM systems exist in local governments		•	
Cross-cutting themes		Result Areas	Timeframe (Years)		
			1-2	3-5	6-10
1. Legal and regulatory framework		1. A PFM law defines overarching system of PFM management for Balochistan	•	•	•
		2. A comprehensive and consistent set of regulations underpin sound public financial management	•	•	
		3. Updated budgeting and planning manuals provide a sound basis for management of budget cycle	•		
2. Capacity Enhancement		4. Strengthened systems of PFM trainings including pre and in-service trainings	•	•	
		5. Stakeholder institutions have the capacity to establish and maintain PFM systems		•	•
3. Technology		6. Technology enables timely reporting and supports better management of public finances	•	•	•
4. Transparency and Accountability		7. A high level of confidence that public funds are administered in a transparent and an accountable manner		•	•

5.2 Recent and On-going Reforms Actions

259. Although the PFM Reform strategy provides a road map for a long term reform, considering the urgent necessity of such interventions, FD has embarked on implementation of the reform process based on an action plan. Governance and Policy Project (\$ 16 million) which is funded by the World Bank administered Multi Donor Trust Fund and the EU funded Public Financial Management Support Programme for Pakistan (Euro \$ 3 million) are supporting the GoB to implement PFM reforms. EU Support is for a three-year period purely focussed on PFM whereas the Governance and Policy Project is of four-year duration and covers interventions beyond PFM.
260. **Restructuring of Finance Department:** As the first step, a review of the existing FD structure has been carried out and based on the findings certain new functional units are being established in FD. This will lead to functional alignment resulting in enhanced efficiency and improved service delivery.

261. **Creation of Four New Units:** Based on the review of existing FD structure, four new units namely; i) Tax Policy and Reform Unit; ii) Debt Management Unit; iii) Internal Audit Unit; and, iv) Risk Assessment and Investment Management Unit, have been created. The Tax Policy and Reform unit will develop a comprehensive Tax Policy and Revenue Mobilisation Plan for the entire province. It will also assist the concerned departments in review and reform of the existing tax governance and collection mechanisms. Debt Management Unit will manage the debt portfolio of the GoB including debt evaluation, financial negotiation, debt settlement and periodic reporting. It will frame policies for domestic and foreign debt, operate a debt management information system, conduct financial analysis and annually publish the GoB's public debt statistics reports. The prime responsibility of the Risk Assessment and Investment Management Unit will be exploring ventures for self-sufficiency of various government owned funds, review existing fund management mechanisms, and develop investment and risk management strategies for various funds. The Internal Audit Unit shall provide assurance whether the governance processes, internal controls and risk management systems, in the GoB departments are operating effectively as designed and represented by the management.
262. **Revenue Mobilization:** Own source revenue has been a neglected as over 90% of the provincial revenue is received from the federal government. However, realising the importance of own source revenue, FD has established the office of Additional Secretary (Resources) to review revenue target of all the GoB tax collecting agencies and conducting quarterly reviews to assess revenue collection performance against budget. A diagnostic review of existing receipts mechanism has been carried out for nine major revenue generating departments with focus on reliable receipt estimation and rectification of misclassification of receipts recorded. Recognizing the potential of General Sales Tax on Services for enhancing own source revenues, focus is being laid on strengthening the Balochistan Revenue Authority(BRA). To broaden the base of sales tax on services, which constitutes more than 50 percent of the own source revenue, FD is initiating an assessment of revenue potential and diagnostic studies for tax administration and revenue collection.
263. **Budgeting Reforms:** For the fiscal year 2017-18, FD is preparing a budget strategy paper to be approved by the provincial cabinet. Based on the overall resource availability, FD has communicated indicative budget ceilings to major spending departments to facilitate budget preparation for the fiscal year 2017-18. A new Budget Call Circular is also being designed to integrate current and development budget containing full set of forms and detailed guidance for the line departments. To evaluate and improve the efficiency of public investment management system, with the support of the World Bank, the P&D Department is conducting a Public Investment Management Assessment. For timely approval of development schemes, the P&D Department has significantly devolved the project approval powers to the line departments.
264. **Procurement Reforms:** BPPRA is moving forward to establish a complaint redressal system and two tier grievance redressal system. This will allow the aggrieved party access to the administrative appellate authority. In addition, BPPRA has initiated the process to revise procurement legislation and rules allowing it the authority to penalize any government official for wilful default in complying with procurement rules.
265. **Accounting and Payroll Reforms:** With the efforts of FD and AG Office, significant old reconciliation issues have been addressed and the remaining unreconciled amounts are being investigated. Payroll of the all provincial employees have being shifted to the HR modules of FMIS and payroll of all government employees is now processed electronically. All salaries are being paid through bank

accounts and manual salary payments have been stopped. Pensioners in the province are also under the process of being shifted on the automated system.

266. Three-tiered committees have been constituted at the provincial, departmental and district levels for detection/ verification of bogus employees and reconciliation of their sanctioned strength with payroll strength. Lists of suspect employees compiled after detailed inspection of various treasuries have been shared with departments for verification. The Education Department has issued show cause notices to the employees of district Kachchi. Meetings of high-powered committee have been held with Education, C&W, Health and Agriculture Departments.
267. National Database and Registration Authority (NADRA) has been approached for validation of Computerized National Identify Cards (CNICs) of 295,457 provincial employees. The report of NADRA has been received according to which CNICs of around 45,000 employees could not be validated. Lists have been shared with all departments for rectifying CNICs of their employees within a month. The process may unearth many phantom employees.
268. **PFM Professional Accreditation Program:** For sustainable capacity building, the GoB in collaboration with Auditor General of Pakistan (AGP) and Association of Chartered Certified Accountants (ACCA) is developing a PFM Professional Accreditation Program based on government needs and international standards. The program is expected to be developed by December 2017 to be made a part of induction and regular in service training of civil servants.

5.3 Institutional Considerations

269. The PFM Reform Strategy is led and owned by the GoB which set out clear goals for improving the PFM system. FD and P&D Department are leading the reforms process as evident by initiation of priority reforms before formal approval of the strategy by the provincial cabinet. It is clear from the PFM Reform Strategy that the GoB recognizes that PFM-related capacity building is important to support the reforms. Initially, the GoB will rely on consultants but with the roll-out of PFM Professional Accreditation Program, the GoB aims to build the skill set to sustainably implement the envisaged PFM reforms.
270. Recruitment process for 353 employees of Directorate of Treasuries has been initiated through National Testing Service (NTS). Written exams and skills tests have been conducted to be followed by the interviews. The process is expected to be completed before June 2017. The process once completed will address the severe human resource shortage in the Directorate.
271. Punching powers in the Finance Department have been decentralized and distributed among 12 budget officers. This has broken the monopoly of erstwhile MIS cell. All budget-related matters are being handled in the sections now. To improve the working environment, FD has initiated procurement of necessary furniture and office equipment.
272. The spadework for introducing Organization Management Module as part of NFMIS in the Finance Department has been initiated which will lead to harmonization between the servers of FD and AG and allow comparison of working strength with sanctioned strength giving Finance Department greater control over budget and resolving, in a large measure, the problem of ghost employees. Designations and grades are currently being matched.

273. The proposal for restructuring of District Account Officers is under serious consideration. Meetings have been held with Accountant General Office to bring about improvement in the working of district treasuries and improve service delivery by devolving important functions like pension/ GP fund payment, service verification and pay fixation to the districts.
274. Work is in progress to delegate pre-audit functions to Local Fund Audit and strengthen the organization to introduce better financial management in local councils.

Annex 1: Performance Indicator Summary

Indicator/Dimension	Score	Explanation
HLG-1 Transfers from a Higher Level of Government	A	Overall score based on M1 methodology.
HLG-1.1 Outturn of transfers from a higher-level government	A	Transfers from the federal government have been more than 95% of the budgeted amounts during last three fiscal years; variance is less than 5%.
HLG-1.2 Earmarked grants outturn	A	The annual variance in transfers by less than 5 percentage points in each of the last three years.
HLG-1.3 Timeliness of transfers from a higher-level government	A	Actual disbursements is almost evenly spread throughout the year.
Pillar 1: Budget Reliability		
PI-1 Aggregate expenditure outturn	C	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in the last three fiscal years. Actual expenditure deviated from the original budget by more than 10% in two of the last three fiscal years. (2012–13: 14% 2013–14: 12.55% and 2014–15: 9.6%).
PI-2 Expenditure composition outturn	D+	Overall rating based on M1 methodology
2.1 Expenditure composition outturn by function	D	Variance in expenditure composition exceeded 15% in two of the three years.
2.2 Expenditure composition outturn by economic type	D	Variance in expenditure composition exceeded 15% in all the three years.
2.3 Expenditure from contingency reserves	A	No expenditure has been charged to contingency vote.
PI-3 Revenue outturn	D	Overall rating based on M2 methodology.
3.1 Aggregate revenue outturn	D	Actual revenue was between 79% and 162% of the budget revenue during the last three financial years.
3.2 Revenue composition outturn	D	Composition variance during the last three years remained beyond 15%.
Pillar 2: Transparency of Public Finances		
PI-4 Budget classification	A	Budget formulation, execution, and reporting classification system being used, since FY2005–06, is compliant with COFOG and GFS 1986.
PI-5 Budget documentation	D	Budget documentation fulfils two basic elements.
PI-6 Central government operations outside financial reports	D	Overall rating based on M2 Methodology.
6.1 Expenditure outside financial reports	D*	Reliable data to assess the magnitude of expenditure incurred by budgetary and extrabudgetary units that are not reported in the Government's financial reports are not available.
6.2 Revenue outside financial reports	D*	Revenue of self-accounting entities (SAEs), Schools, colleges, and hospitals is not available for assessment purposes, and therefore this dimension cannot be rated.

Indicator/Dimension	Score	Explanation
6.3 Financial reports of extra-budgetary units	D	Detailed financial reports of most of the extrabudgetary units is not submitted to the FD.
PI-7 Transfers to subnational governments	D	Overall rating based on M2 methodology.
7.1 Systems for allocating transfers	D	There is no transparent, rule-based system in place for fiscal transfer to the local councils.
7.2 Timeliness of information on transfers	D	There is no calendar for transfer or release of funds to local councils.
PI-8 Performance information for service delivery	D	Overall rating based on M2 methodology.
8.1 Performance plans for service delivery	D	No information on performance plans is published by the GoB in the budget documents or separately.
8.2 Performance achieved for service delivery	D	There is no practice of publishing performance results on the quantity of outputs produced and the outcomes achieved.
8.3 Resources received by service delivery units	D	The GFMIS does not provide complete information on resources received by most of the service delivery units and neither a survey is carried out for this purpose.
8.4 Performance evaluation for service delivery	D	Structures and systems are not in place to assess the design, appropriateness, efficiency, and effectiveness of public services through program or performance evaluations.
PI-9 Public access to fiscal information	D	Public information is available only for two basic elements.
Pillar 3: Management of assets and liabilities		
PI-10 Fiscal risk management	D	Overall rating based on M2 methodology.
10.1 Monitoring of public corporations	D	There is no mechanism in place to monitor public corporations.
10.2 Monitoring of subnational government	D	Local councils do not prepare and submit their financial statements to the provincial government.
10.3 Contingent liabilities and other fiscal risks	D	There is no practice of consolidating, quantifying, and reporting contingent liabilities and other fiscal risks of the provincial government.
PI-11 Public investment management	D	Overall rating based on M2 methodology.
11.1 Economic analysis of investment proposals	D	Economic analysis is carried out after investment projects have been approved in the budget.
11.2 Investment project selection	D	There is no published standard criteria for project selection and the P&D Department has a limited role in projects prioritization.
11.3 Investment project costing	D	The budget documents only provide project-wise details of total capital cost, budget allocation for the year, and projected capital cost for the entire project life.
11.4 Investment project monitoring	D	The project monitoring system is not properly functioning and only reviews financial progress of some projects.
PI-12 Public asset management	D	Overall rating based on M2 methodology.

Indicator/Dimension	Score	Explanation
12.1 Financial asset monitoring	D*	Complete record of shareholding of incorporated companies and government-owned enterprises is not available, and there are significant unreconciled differences in bank balance.
12.2 Nonfinancial asset monitoring	D	There is no information available of subsoil assets, usage, and age of the fixed assets.
12.3 Transparency of asset disposal	D	The information of sale of nonfinancial assets is not included in the budget documents or any other financial report.
PI-13 Debt management	D	Overall rating based on M2 methodology.
13.1 Recording and reporting of debt and guarantees	D	There are no debt ledgers available nor any reconciliation being carried out.
13.2 Approval of debt and guarantees	D	There is no notified procedure for incurring debt by the GoB.
13.3 Debt management strategy	D	The GoB does not have a DMS.
Pillar 4: Policy based fiscal strategy and budgeting		
PI-14 Macroeconomic and fiscal forecasting	D	Overall rating based on M2 methodology.
14.1 Macroeconomic forecasts	NA	Not applicable as macroeconomic functions rests with the federal government.
14.2 Fiscal forecasts	D	No fiscal forecasts are prepared by the GoB.
14.3 Macro-fiscal sensitivity analysis	NA	Not Applicable
PI-15 Fiscal strategy	D	Overall rating based on M2 methodology.
15.1 Fiscal impact of policy proposals	D	Fiscal impact of policy proposals is not analyzed and documented.
15.2 Fiscal strategy adoption	D	The GoB does not have a fiscal strategy and neither do budget documents provide such information.
15.3 Reporting on fiscal outcomes	NA	There is no fiscal strategy and resultantly no reporting on fiscal outcomes.
PI-16 Medium-term perspective in expenditure budgeting	D	Overall rating based on M2 methodology.
16.1 Medium-term expenditure estimates	D	The GoB does not prepare medium-term budget estimates.
16.2 Medium-term expenditure ceilings	D	Medium-term ceilings are not prepared and communicated to the line departments.
16.3 Alignment of strategic plans and medium-term budgets	D	The strategic plan is prepared only for one department, and it is also not aligned with the annual budget.
16.4 Consistency of budgets with previous year estimates	NA	There is no medium-term budgeting.
PI-17 Budget preparation process	D	Overall rating based on M2 methodology.

Indicator/Dimension	Score	Explanation
17.1 Budget calendar	D	2 out of 45 line departments observed the budget calendar.
17.2 Guidance on budget preparation	D	No ceilings are conveyed to the department for preparation of budget estimates.
17.3 Budget submission to the legislature	D	Less than two week time was allowed to the legislature for debate and discussion on the money bill.
PI-18 Legislative scrutiny of budgets	C+	Overall rating based on M1 methodology.
18.1 Scope of budget scrutiny	C	The legislature scrutinizes only the estimates of income and expenditure.
18.2 Legislative procedures for budget scrutiny	C	Balochistan Assembly procedure provide manner in which the budget is to be tabled and approved by the legislature.
18.3 Timing of budget approval	A	The legislature approve the annual budget before start of the fiscal year.
18.4 Rules for budget adjustments by the executive	C	The executive can make extensive re-allocations and expansion of the approved budget.
Pillar 5. Predictability and Control in Budget Execution		
PI-19 Revenue Administration	D	Overall rating based on M2 methodology.
19.1 Rights and obligations for revenue measures	D	Major tax collecting entities do not provide information of rights and obligations of taxpayers.
19.2 Revenue risk management	C	The BRA and Excise and Taxation Departments (ETDs) have identified major taxpayers in some of the taxes being collected.
19.3 Revenue audit and investigation	D	No audit of taxpayers is conducted by the BRA. No compliance improvement plan is prepared by other tax collecting entities.
19.4 Revenue arrears monitoring	D*	Data of revenue arrears is not available.
PI-20 Accounting for Revenue	D+	Overall rating based on M1 methodology.
20.1 Information on tax (and non-tax revenue)	A	The AG office reports monthly the collection under each head of account for a tax or a line department.
20.2 Transfer of revenue collections	A	Revenue collected is deposited and consolidated by the National Bank of Pakistan (NBP) and the SBP on a daily basis.
20.3 Revenue accounts reconciliation	D	Revenue reconciliation is seriously deficient at the GoB.
PI- 21 Predictability of In-Year resource allocation	D+	Overall rating based on M2 methodology.
21.1 Consolidation of cash balances	A	Treasury Single Account (TSA) is consolidated and reported by the SBP on a daily basis.

Indicator/Dimension	Score	Explanation
21.2 Cash forecasting and monitoring	D	No cash flow forecast is prepared.
21.3 Information on commitment ceilings	D	For the development budget, there is no defined release policy and commitment ceilings are communicated one month to a quarter in advance. For the current budget, spending units receive commitment ceiling a quarter in advance.
21.4 Significance of in-year budget adjustments	D	In-year budget adjustments are frequent and without a clearly defined mechanism.
PI-22 Expenditure arrears	D	Overall rating based on M1 methodology.
22.1 Stock of expenditure arrears	D*	Data for measuring stock of arrears are not available.
22.2 Expenditure arrears monitoring	D	There is no system to record stock of arrears.
PI-23 Payroll controls	D+	Overall rating based on M1 methodology.
23.1 Integration of payroll and personnel records	D	Manually kept personnel files are not reconciled on a regular basis with the payroll system.
23.2 Management of payroll changes	B	Payroll changes are decentralized but some payroll changes take place in more than a month.
23.3 Internal control of payroll	C	Sufficient internal controls to ensure integrity of payroll data.
23.4 Payroll audit	D	There is no audit of payroll that is designed to identify ghost workers.
PI-24 Procurement Management	D+	Overall rating based on M2 Methodology
24.1 Procurement monitoring	B	Spending units have all relevant procurement records available though the external audit has reported a few instances where procurement record was not produced for audit.
24.2 Procurement methods	D*	Consolidated data is not available to assess the percentage of contracts awarded through competitive methods.
24.3 Public access to procurement information	C	Three of the six listed requirements are met for majority of the procurements.
24.4 Procurement complaints management	D	Complaints mechanism meets 2 of 6 criteria and does not meet the first criteria.
PI-25 Internal controls on non-salary expenditure	C	Overall rating based on M2 methodology.
25.1 Segregation of duties	B	The Government has laid down procedures for segregation of duties.
25.2 Effectiveness of expenditure commitment controls	D	There is no effective system to prevent the expenditure at the commitment stage.

Indicator/Dimension	Score	Explanation
25.3 Compliance with payment rules and procedures	C	External audit reports include significant observations on noncompliance with prescribed internal controls.
PI-26 Internal audit	D	Overall rating based on M1 methodology.
26.1 Coverage of internal audit	D	Internal audit function does not exist at the GoB.
26.2 Nature of audits and standards applied	NA	Internal audit function does not exist at the GoB.
26.3 Implementation of internal audits and reporting	NA	Internal audit function does not exist at the GoB.
26.4 Response to internal audit	CNA	Internal audit function does not exist at the GoB.
Pillar 6: Accounting and Reporting		
PI-27 Financial data integrity	C+	Overall rating based on M2 methodology.
27.1 Bank account reconciliation	D	Prescribed bank reconciliation procedures are not followed, and significant unreconciled differences exist.
27.2 Suspense accounts	D	Suspense accounts have significant unadjusted balances that are not cleared in a timely manner.
27.3 Advance accounts	A	Consolidated Information to assess the total volume of advances and timeliness of adjustments is not available, and there are audit observations on adjustment of advances.
27.4 Financial data integrity processes	A	Access and changes to records are restricted, recorded and result in an audit trail.
PI-28 In-year budget reports	C+	Overall rating based on M1 methodology.
28.1 Coverage and comparability of reports	C	Financial reports allow direct comparison to the budget but do not cover extrabudgetary units.
28.2 Timing of in-year budget reports	A	In-year BERs are issued within two weeks from the end of the month.
28.3 Accuracy of in-year budget reports	C	There are concerns regarding data accuracy and expenditure is only captured at the payment stage.
PI-29 Annual financial reports	C+	Overall rating based on M1 methodology.
29.1 Completeness of annual financial reports	C	Annual financial statements are comparable with budget and provide information on revenue, expenditure, and cash balance. Information on assets and liabilities is not provided.
29.2 submission of reports for external audit	A	The financial statements of the GoB are submitted for audit within 2 months from the close of fiscal year.
29.3 Accounting standards	C	Financial statements are consistently prepared using national standards but are not fully compliant with Cash Basis International Public Sector Accounting Standard (IPSAS).

Indicator/Dimension	Score	Explanation
Pillar 7: External Scrutiny and Audit		
PI-30 External Audit	D+	Overall rating based on M1 Methodology
30.1 Audit coverage and standards	D	Audit coverage for expenditure is less than 50%, scope of revenue audit is limited, and gaps exist in implementation of auditing standards.
30.2 Submission of audit reports to the legislature	D	The audit reports were submitted to the provincial assembly after nine months from the date of receipt of unaudited financial statements.
30.3 External audit follow up	C	Audited entities provide formal responses to the auditors.
30.4 SAO independence	C	Constitution protects tenure and mandate of the AGP, and grants powers to determine nature and extent of the audit. Budget is provided by federal government and executed through government systems.
PI-31 Legislative scrutiny of audit reports	D	Overall rating based on M2 methodology.
31.1 Timing of audit report scrutiny	D	Audit reports of 17 years are pending with the PAC.
31.2 Hearings of audit findings	D	At the time of assessment, hearing of audit reports of the last three fiscal years were pending
31.3 Recommendations on audit by the legislature	C	The PAC issues directives to the executive but no system is in place at the PAC for proper follow-up.
31.4 Transparency of legislative scrutiny of audit reports	D	No report of PAC meetings is available to the public.

Annex 2: Summary of Observations on Internal Control Framework

Internal Control Components and Elements

Summary of Observations

1. Control environment

The PFM systems and procedures are mainly driven by federally issued comprehensive laws, rules, and regulations (as adapted by the GoB); however, enforcement of the same has been observed as a major concern. Moreover, these rules and regulations have not been regularly updated and a few dates back to the nineteenth century. Internal Audit (PI-26) does not exist and external audit reported a number of irregular payments and internal control weakness (PI-25). Compliance with the external audit recommendations is also inadequate (PI-30) which can be attributed to the non-existence of PAC for the last 14 years. The system of in-year budget releases, particularly for development budget, is inefficient. Other significant control environment weaknesses include; i) absence of a mechanism to monitor financial performance and fiscal risk arising from public corporations and local governments; ii) no monitoring of contingent liabilities; iii) no consolidated reporting of fixed assets and mechanism for appraising the performance of fixed assets; and, iv) lack of a debt management strategy as well as practices for debt recording, reporting, and approval. Because of significant executive powers of budget re-appropriation and expand the size of expenditure, in-year budget adjustments are significant. Introduction of the GFMS; however, has enabled the GoB to budget and track expenditure to the level of spending units, employ better payroll controls and prepare timely financial reports for the budgetary entities. Weak reconciliation practices though impact completeness and accuracy of the financial information.

1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization

The province is recovering from a volatile law-and-order situation, which has caused intense problems of deploying suitably qualified and trained officers with high integrity to be responsible for performing PFM roles within the Government. The Establishment Code applicable on the officers serving for the GoB has settled practices for annual evaluation of officers where integrity is part of evaluation apart from reliability, behavior with public, and quality and output of work assigned to them.²⁶ However, the annual evaluation/appraisal process has no linkage with salary increase and is mainly considered at the time of promotion. It is noted that the annual evaluation is completed with significant delay. The Government is equipped with few accountability institutions, including Anticorruption Establishment, National Accountability Bureau, Federal Investigation Agency, and so on, to support eradication of corrupt practices. The investigation procedures are cumbersome and lengthy and a number of cases are pending with these institutions.

²⁶ Annual Confidential Report to be submitted under the ESTA (Establishment) Code.

- 1.2. Commitment to competence The Government does not have a cadre for PFM professionals and the existing government pay structure does not attract professionals. However, the staff working on PFM are required to have the knowledge and training of financial rules, procedures and accounting practices. Some initial training is provided at the time of induction but there is no professional development plan available for government employees. Job descriptions for specific roles are not available but the responsibilities are described in various manuals. The staff of accounting and auditing offices, which are federal entities, have better access to relevant training offered by Pakistan Audit and Accounts Academy. A number of the accounting and auditing staff also work in provincial government on deputation. The number of control weaknesses noted during the assessment signifies the need to build staff capacity for better financial management. The GoB is yet to provide sufficient resources to ensure that staff have the necessary competence.
- 1.3. The ‘tone at the top’ (that is, management’s philosophy and operating style) Top management has been mainly concerned with short term objectives, while PFM governance fails to get due attention. There are a number of weaknesses in the existing system but the province does not have a PFM reforms strategy. The executive has been preparing deficit budget that cannot be financed and seriously compromises budget credibility. Almost 100 percent of investment projects included in the budget are unapproved and without appraisal. Compliance with the audit recommendations and PAC directives is poor; executive reported compliance with only 1% of PAC directives. Unwritten and informal policy of the GoB allows significant influence of the provincial assembly (65 members) in the budgeting process.
- 1.4. Organizational structure There is an overlap of responsibilities between the federally administered accounting offices and provincially administered treasury office, which causes many issues of accounting, reporting, recording and data integrity. There are also overlaps regarding development works, with multiple GoB offices having similar responsibilities and work areas. The line departments have assumed a passive role in PFM where central departments making major budgetary decisions and accounting offices’ solely maintaining accounts.
- 1.5. Human resource policies and practices The provincial public service commission has established rules and practices of recruiting officers for the provincial government based on competitive examination. However, professional qualification requirements suitable for PFM roles and responsibilities are not specifically and separately being dealt with. The officers are tested and trained for general administration and get senior roles within the government hierarchy for managing finance-related duties and responsibilities. The Establishment Code prescribes HR policies and procedures which is a compendium of laws, regulations, instructions and notifications related to terms and conditions of civil service. The code requires annual evaluation of offices but it is not linked to salary increment and is usually

completed with delay. Moreover, the Government does not have a plan to develop HR capacity.

2. Risk assessment

2.1 Risk identification

2.2 Risk assessment (significance and likelihood)

2.3 Risk evaluation

2.4 Risk appetite assessment

2.5 Responses to risk (transfer, tolerance, treatment, or termination)

The GoB does not have a risk management system and no risk assessment is carried out. There is neither any reporting of the fiscal risks nor the Government has a fiscal strategy. Limited risk management was noted in the revenue administration where large tax payers are identified and monitored. The GoB has not established Internal audit function that would be helpful in risk management.

3. Control activities

The control activities are extensively defined in the prescribed rules and regulations but gaps exist in implementation. Moreover, there is an opportunity to improve efficiency by removing redundancies in the existing system and by increased use of technologies.

3.1 Authorization and approval procedures

Authorization and approval procedures are laid down in the set of treasury rules, GFR, Delegation of Powers 2008 and Rules of Business of the GoB. The procedures are detailed, require multiple approvals and most of the powers are centralized. There is an opportunity to improve efficiency by revising the authorization and approval procedures. In most of the cases, the procedures are complied with. The most significant deviation noted was transfer of upto Rs. 4.7 billion to the bank accounts of local governments by FD in the absence of an approved formula for distribution by LCGC.

3.2 Segregation of duties (authorizing, processing, recording, and reviewing)

The PFM system revolves around the provincial FD, P&D Department, treasury offices, and AG. As noted in PI-25, duties among various actors in PFM are segregated. The line departments authorize the person responsible for approving the payments, while the DAO/Treasury offices make payments after confirming that relevant rules and regulations have been complied with. However, still external audit reported a number of instances of non-compliance with prescribed controls.

3.3 Controls over access to resources and records

There is neither consolidated reporting of fixed assets, nor any proper mechanism for effectively using the fixed assets and appraising the performance of assets. This ultimately results in poor maintenance of capital assets and a shortening of their useful life. Each spending unit maintains a memorandum record of the assets available in the form of a stock register. Assets are at the disposal of the head of the office who allocates it to difference functionaries.

SAP platform and software provides multiple levels of controls to view, modify and enter data and generate reports. Access and changes to records is

restricted and recorded, and results in an audit trail but there is a practice of password sharing.

3.4 Verifications

Verification of all expenditures is done through a preaudit at the DAO/Treasury or AG office. This process involves checking whether the payment voucher is accompanied with all the relevant records and necessary documents to verify occurrence of expenditure in accordance with the rules. Monthly payroll is processed through GFMS but there is no practice to reconcile payroll with personnel data that is maintained manually.

3.5 Reconciliations

Various reconciliation issues have been noted. The practices need major attention from concerned quarters. The GoB lacks banks reconciliation and reconciliation of expenditure between the DDO and Treasury offices, beside revenue reconciliation is completely missing.

3.6 Reviews of operating performance

The GoB does not prepare performance plans and there is no practice of performance review. The AGP has in the recent past initiated performance audit for some of the departments of the GoB; however, the reports are still awaited.

3.7 Reviews of operations, processes, and activities

Some operations, processes and activities are outdated, and could be eliminated by using technology-based solutions. However, no review of such practices has been taken by the GoB.

3.8 Supervision (assigning, reviewing, and approving and guidance and training)

Administrative secretaries and head of the departments are responsible for assigning responsibilities to the staff. The organizational structure is hierarchal and involves multiple layers of review/endorsement before final approval. There is no formal guidance and training mechanism within the departments.

4. Information and communication

Official communication within the Government departments is based on manual files. Hierarchy is strictly observed in the flow of information and communication that causes delay. Due to the weaknesses in the legal framework regards to public disclosure and absence of a communication strategy, limited fiscal information is publicly available.

5. Monitoring

The function and detailed guidelines exist but not properly implemented due to the lack of resources.

5.1 Ongoing monitoring

The P&D Department has established a monitoring wing. However, due to shortage and limited capacity of staff and other resources, the monitoring function is not properly discharged.

5.2 Evaluations

Evaluation of public expenditure is seriously deficient at the GoB. There is a complete guidance available for the evaluation of development sector expenditure by the PC of Pakistan; however, the same is rarely enforced.

5.3 Management responses

Due to non-functional monitoring and evaluation system, there is no response of management being recorded or tracked.

Annex 3: Source of Information

Annex 3 A: List of Surveys and Analytical Work

IMF (2012a) 'Advancing Public Financial Management Reforms' April 2012

PEFA Secretariat (2007), Balochistan Public Financial Management Assessment Report, May 2007

Boex, Jamie (2013) 'PEFA Performance Measurement Framework at Sub National Government Level – definitions and typology' Working paper for PEFA secretariat'.

World Bank (2008), Pakistan - Balochistan Economic Report : From Periphery to Core, May 2008

World Bank (2016), Pakistan Development Update, November 2016 edition.

MOF, Government of Pakistan (2016), Pakistan Economic Survey 2015-16

Annex 3 B: List of Individuals Met

Finance Department, Balochistan

- Mr. Akbar Durrani, Secretary
- Mr. Mushtaq Raisani, Secretary
- Mr. Lal Jan Jaffar, Additional Secretary
- Mr. Usman Moazam, Additional Secretary
- Mr. Saeed, Additional Secretary
- Mr. Humayon, Director General (Treasuries)
- Mr. Liaquat Kashani, Deputy Secretary (Development)
- Mr. Moeen, Deputy Secretary (Revenue)
- Haji Abdul Khaliq, Management Information System Manager
- Mr. Fakhrudin, Section Officer I
- Ms. Abida, Accounts Officer

Auditor General of Pakistan

- Mr. Irshad Ahmed Kaleemi, Dy. Auditor General
- Mr. Nasrullah Jan, Director General (Audit), Balochistan
- Mr. Mehmood Amir, Director General (Local Government Audit)
- Mr. Naseebullah, Deputy Director (Audit)
- Mr. Javed, Deputy Director (Audit)

BPPRA

- Mr. Pervaiz Nowsherwai, Managing Director
- Mr. Jahanzeb Malik, Director

Planning & Development Department

- Mr. Zulfiqar Durrani, Secretary
- Mr. Babar, Chief Management Information System
- Mr. Dost Muhammad, Chief (Development)
- Mr. Mujeeb-ur-Rehman, Chief (Foreign Aid)
- Mr. Nawaz, Assistant Chief

Treasury Offices

- Mr. Saeed, Director General (Treasuries)
- Haji Muhammad Younis, Treasury Officer, Pashin

Balochistan Local Government Department

- Mr. Mustafa Kamal, Secretary
- Mr. Hafiz Abdul Majid, Secretary

Accountant General Balochistan

- Ghulam Sarwar Mando Khel, Accountant General Balochistan (Acting)
- Mr. Javed Zehri, Additional Accountant General
- Mr. Shuja, Additional Accountant General
- Mr. Jehangir Kakar, Financial Reporting Specialist
- Mr. Irfan Noor, FI Specialist

Excise & Taxation Department

- Mr. Aftab Ahmad Baloch, Director General

Balochistan Revenue Authority

- Mr. Lal Jan Jaffar, Acting Managing Director

Mines and Mineral Department

- Mr. Abdullah Shawani, Director

State Bank of Pakistan

- Mr. Qadir Bakhsh, Additional Joint Director

Ministry of Finance, Government of Pakistan

- Mr. Abdul Malik Balghari, Deputy Secretary

Annex 3 C: Source of Information

Indicator/dimension	Data Sources
HLG-1 Transfers from a Higher Level of Government	<ul style="list-style-type: none">• 7th NFC Award• Budget documents of the federal and Balochistan Governments• Ministry of Finance, Government of Pakistan• Finance Department, Government of Balochistan• Accountant General• State Bank of Pakistan
HLG-1.1 Outturn of transfers from a higher-level government	
HLG-1.2 Earmarked grants outturn	
HLG-1.3 Timeliness of transfers from a higher-level government	
I. Budget reliability	
PI-1. Aggregate expenditure outturn	<ul style="list-style-type: none">• Budget Documents 2012/13 to 2014/15• Audited Financial Statements 2012/13 to 2014/15• Audit Reports of Auditor General of Pakistan, 2012/13 to 2014/15• Public Sector Development Plan 2012/13 to 2014/15• Government of Balochistan Budget Analysis/White Paper• Budget Speech 2012/13 to 2014/15
1.1 Aggregate expenditure outturn	
PI-2. Expenditure composition outturn	
2.1. Expenditure composition outturn by function	
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn	
3.1 Aggregate revenue outturn	
3.2 Revenue composition outturn	
II. Transparency of public finances	

PI-4. Budget classification 4.1 Budget classification	<ul style="list-style-type: none"> • Chart of Accounts, prescribed by the AGP as part of the New Accounting Model. • Budget Documents 2012/13 to 2014/15
PI-5. Budget documentation 5.1 Budget documentation	<ul style="list-style-type: none"> • Budget Documents 2012/13 to 2014/15 • Public Sector Development Plan 2012/13 to 2014/15 • Government of Balochistan Budget Analysis/White Paper • Budget Speech 2012/13 to 2014/15
PI-6. Central government operations outside financial reports 6.1 Expenditure outside financial reports 6.2 Revenue outside financial reports 6.3 Financial reports of extra-budgetary units	<ul style="list-style-type: none"> • Finance Department • Education and Health Departments • Rule of Business • Accountant General
PI-7. Transfers to subnational governments 7.1 System for allocating transfers 7.2 Timeliness of information on transfers	<ul style="list-style-type: none"> • Balochistan Local Government Act 2001. • Annual budget documents • Meetings with representatives of local governments Pashin, Lasbela and Quetta
PI-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	<ul style="list-style-type: none"> • Annual budget documents • Public Sector Development Plan
PI-9 Public access to fiscal information 9.1 Public access to fiscal information	<ul style="list-style-type: none"> • Government of Balochistan website
III. Management of assets and liabilities	
PI-10 Fiscal risk reporting 10.1 Monitoring of public corporations 10.2 Monitoring of sub-national government (SNG) 10.3 Contingent liabilities and other fiscal risks	<ul style="list-style-type: none"> • Balochistan Rules of Business 2012 • Meeting with officials of Finance Department • Review of relevant documents
PI-11: Public investment management 11.1 Economic analysis of investment proposals 11.2 Investment project selection 11.3 Investment project costing 11.4 Investment project monitoring	<ul style="list-style-type: none"> • Public Sector Development Plan 2012/13 to 2014/15 • Manual of Development Projects issued by the Planning Commission of Pakistan. • Project Identification, Preparation, Appraisal and Monitoring templates issued by the Planning Commission of Pakistan (PC I, PC II, PC III & PC IV) • Project Appraisal (PC I) of investment projects • Annual budget documentation • Database maintained by P&D Department • Project monitoring reports (PC IV)
PI-12: Public asset management 12.1 Financial asset monitoring 12.2 Nonfinancial asset monitoring 12.3 Transparency of asset disposal.	<ul style="list-style-type: none"> • Monthly civil accounts • Annual Financial Statements • Bank reconciliation statements • State Bank of Pakistan • Meetings with Finance Department officials
PI-13: Debt management 13.1 Recording and reporting of debt and guarantees 13.2 Approval of debt and guarantees 13.3 Debt management strategy	<ul style="list-style-type: none"> • Constitution of the Islamic Republic of Pakistan • Fiscal Responsibility and Debt Limitation Act, 2005 • Economic Affairs Division, Government of Pakistan • Development Assistance Database • Finance Department Records

	<ul style="list-style-type: none"> Accountant General's Records.
IV. Policy-based fiscal strategy and budgeting	
PI-14: Macroeconomic and fiscal forecasting	<ul style="list-style-type: none"> Annual budget documents Budget Call Circular MoF working papers Economic Survey of Pakistan
14.1 Macroeconomic forecasts	
14.2 Fiscal forecasts	
14.3 Macro-fiscal sensitivity analysis	
PI-15 Fiscal strategy	<ul style="list-style-type: none"> Budget documents including white paper
15.1 Fiscal impact of policy proposals	
15.2 Fiscal strategy adoption	
15.3 Reporting on fiscal outcomes	
PI-16 Medium-term perspective in expenditure budgeting	<ul style="list-style-type: none"> Annual budget documents Budget Call Circular MoF working papers Balochistan Comprehensive Development Strategy Balochistan Education Sector Plan
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	
PI-17: Budget preparation process	<ul style="list-style-type: none"> Balochistan Budget Manual, 1987 Budget Call Circular MoF working papers Budget Documents
17.1 Budget calendar.	
17.2 Guidance on budget preparation	
17.3 Budget submission to the legislature	
PI-18: Legislative scrutiny of budgets	<ul style="list-style-type: none"> Provincial Assembly of Balochistan Rules of Procedure and conduct of Business, 1974 Provincial Assembly Secretariat working papers Budget documents
18.1 Scope of budget scrutiny.	
18.2 Legislative procedures for budget scrutiny.	
18.3 Timing of budget approval.	
18.4 Rules for budget adjustments by the executive.	
V. Predictability and control in budget execution	
PI-19 Revenue administration	<ul style="list-style-type: none"> Balochistan Revenue Authority Act, 2015 Balochistan Sales Tax on Services Act, 2015 The Provincial Motor Vehicles Ordinance, 1965 The Prohibition (Enforcement of Hadd) Order, 1979 Review of the databases maintained by Balochistan Revenue Authority and Excise & Taxation Department Review of documents of relevant departments
19.1 Rights and obligations for revenue measures	
19.2 Revenue risk management	
19.3 Revenue audit and investigation	
19.4 Revenue arrears monitoring	
PI-20 Accounting for Revenues	<ul style="list-style-type: none"> AG/DAO/treasury office financial reports and reconciliation with the bank. National Bank and State Bank
20.1 Information on revenue collections	
20.2 Transfer of revenue collections	
20.3 Revenue accounts reconciliation.	
PI-21 Predictability of in-year resource allocation	<ul style="list-style-type: none"> Budget release policy/directions issued by Finance Department for current budget. P&D Department working papers for development budget releases. Annual and in-year financial reports
21.1 Consolidation of cash balances.	
21.2 Cash forecasting and monitoring.	
21.3 Information on commitment ceilings.	
21.4 Significance of in-year budget adjustments.	
PI-22 Expenditure arrears	<ul style="list-style-type: none"> Accountant General GFMIS Commitment accounting guidelines issued by CGA
22.1 Stock of expenditure arrears.	
22.2 Expenditure arrears monitoring	

PI-23 Payroll controls	<ul style="list-style-type: none"> Accountant General GFMS Establishment Department Auditor General
23.1 Integration of payroll and personnel records.	
23.2 Management of payroll changes.	
23.3 Internal control of payroll.	
23.4 Payroll audit.	
PI-24 Procurement	<ul style="list-style-type: none"> Balochistan Public Procurement Authority Act 2009 Balochistan Public Procurement Rules 2014 BPPRA database and website Reports of the Auditor General Procurement records of five line ministries
24.1 Procurement monitoring.	
24.2 Procurement methods.	
24.3 Public access to procurement information.	
24.4 Procurement complaints management.	
PI-25 Internal controls on non-salary expenditure	<ul style="list-style-type: none"> Accountant Policies and Procedures Manual Accountant General Selected Drawing and Disbursing Officers GFMS External Audit Reports
25.1 Segregation of duties.	
25.2 Effectiveness of expenditure commitment controls.	
25.3 Compliance with payment rules and procedures.	
PI-26 Internal audit	<ul style="list-style-type: none"> Internal Audit does not Exist
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.	
VI. Accounting and reporting	
PI-27 Financial data integrity	<ul style="list-style-type: none"> Accountant General/DAO/Treasury Office National Bank and State Bank Accounting Records and Reconciliations Annual and in-year financial statements External Audit Reports
27.1 Bank account reconciliation.	
27.2 Suspense accounts.	
27.3 Advance accounts.	
27.4 Financial data integrity processes	
PI-28 In-year budget reports	<ul style="list-style-type: none"> Accountant General Finance Department
28.1 Coverage and comparability of reports.	
28.2 Timing of in-year budget reports.	
28.3 Accuracy of in-year budget reports	
PI-29 Annual financial reports	<ul style="list-style-type: none"> Accountant General corroborated by Auditor General
29.1 Completeness of annual financial reports.	
29.2 Submission of the reports for external audit.	
29.3 Accounting standards.	
VII. External scrutiny and audit	
PI-30 External audit	<ul style="list-style-type: none"> Auditor General, corroborated by the parliamentary public accounts committee Constitution of Islamic Republic of Pakistan Auditor General's Ordinance, 2001 Financial Audit Manual Audit Reports Provincial Assembly Secretariat
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.	
PI-31 Legislative scrutiny of audit reports	<ul style="list-style-type: none"> Public Accounts Committee corroborated by Auditor General Provincial Assembly Secretariat Provincial Assembly of Balochistan Rules of Procedure and conduct of Business, 1974
31.1 Timing of audit report scrutiny	
31.2 Hearings on audit findings.	
31.3 Recommendations on audit by the legislature.	
31.4 Transparency of legislative scrutiny of audit reports.	

Annex 4: Comparison with Previous Assessment

The previous PEFA Assessment of Balochistan was conducted in 2007 using the PEFA – PFM Performance Measurement Framework, June 2005 whereas the current assessment is based on PEFA Framework for the Assessment of Public Financial Management, February 2016. Therefore, it is not feasible to directly compare the indicator-level scores of current assessment with the previous assessment. A precise comparison requires that assessments be based on the same PEFA version. As per PEFA Secretariat guidance²⁷, the updated scores have been calculated using PEFA 2005 for the same time framework as the current assessment.

Table A4.1: Comparison of PEFA Scores by Indicator and Dimension using PEFA 2005 Framework

Performance Indicators			Scoring Method	2007					2017				
				Dimension Ratings				Overall Score	Dimension Ratings				Overall Score
				i	ii	iii	iv		i	ii	iii	iv	
A - Credibility of the Budget													
PI-1	Aggregate expenditure outturn compared to original approved budget	M1	B				B	C				C	
PI-2	Composition of expenditure outturn compared to original approved budget	M1	C				C	C				C	
PI-3	Aggregate revenue outturn compared to original approved budget	M1	B				B	A				A	
PI-4	Stock and monitoring of expenditure payment arrears	M1	D	D			D	D	NR			NR	
B - Comprehensiveness and Transparency													
PI-5	Classification of the budget	M1	A				A	A				A	
PI-6	Comprehensiveness of information included in budget documentation	M1	B				B	C				C	
PI-7	Extent of unreported government operations	M1	D	D			D	NR	D			NR	
PI-8	Transparency of intergovernmental fiscal relations	M2	A	A	B		B+	D	D	D		D	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	D			D	D	D			D	
PI-10	Public access to key fiscal information	M1	C				C	B				B	
C - Policy-based Budgeting													
PI-11	Orderliness and participation in the annual budget process	M2	B	B	A		B+	D	D	A		C	
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	M2	D	D	D	D	D	D	D	D	D	D	D
D - Predictability and Control in Budget Execution													
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	C	B		C+	C	D	D		D+	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	D		D+	D	D	D		D	

²⁷ PEFA Secretariat; Guidance on tracking performance across time: Comparing PEFA 2016 against PEFA 2005 or PEFA 2011; March 23, 2016.

Performance Indicators		Scoring Method	2007				Overall Score	2017				Overall Score
			Dimension Ratings					Dimension Ratings				
			i	ii	iii	iv		i	ii	iii	iv	
PI-15	Effectiveness in collection of tax payments	M1	D	B	D		D+	NR	A	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B	A	B		B+	D	D	D		D
PI-17	Recording and management of cash balances, debt, and guarantees	M2	B	B	B		B	D	A	C		C+
PI-18	Effectiveness of payroll controls	M1	D	A	C	C	C+	D	A	C	D	D+
PI-19	Competition, value for money, and controls in procurement	M2	D	C	D		D+	NR	B	C		NR
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	C		C	D	C	D		D+
PI-21	Effectiveness of internal audit	M1	D	D	D		D	D	D	D		D
E - Accounting, Recording, and Reporting												
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	D			C+	D	D			D
PI-23	Availability of information on resources received by service delivery unit	M1	D				D	D				D
PI-24	Quality and timeliness of in-year budget reports	M1	D	D	C		D+	C	A	C		C+
PI-25	Quality and timeliness of annual financial statements	M1	C	B	C		C+	C	A	C		C+
F - External Scrutiny and Audit												
PI-26	Scope, nature, and follow-up of external audit	M1	B	D	C		D+	D	C	C		D+
PI-27	Legislative scrutiny of the annual budget law	M1	B	B	D	C	D+	C	B	D	C	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	B	B		C+/D	D	B	C		D+

Table A4.2: Brief Explanation of the Changes between 2007 and 2017

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
PI-1 Aggregate expenditure out-turn compared to original approved budget (i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	B	C	Performance Deteriorated. The actual expenditure deviated by equivalent or more than 10 percent of the budgeted expenditure during the fiscal years 2012-13, 2013-14 and 2014-15. During the previous assessment, the actual expenditure deviated by equivalent more than 10% of the budgeted expenditure in only one fiscal year (2004-05).
PI-2 Composition of expenditure out-turn compared to original approved budget (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	C	D	Performance Deteriorated. The 2007 PEFA assessment reported a variance in expenditure composition exceeding 10 percentage points in only one fiscal year (2003-04). The current assessment note a

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
			variance exceeding 10 percent in all three fiscal years (2012-13, 2013-14 and 2014-15).
PI-3 Aggregate revenue out-turn compared to original approved budget (i) Actual domestic revenue compared to domestic revenue in the originally approved budget.	B	A	Performance Improved. Actual revenue was 79%, 107% and 162% of the budgeted revenue during FY 2014/15, 2013/14 & 2012/13 respectively. According to PEFA 2005 framework this qualify for A rating. This exhibit a betterment in revenue target achievement, due to revenue from royalty on Chamlang coal mines which remain much higher than budgeted target during 2012/13 and 2013/14.
PI-4 Stock and monitoring of expenditure payment arrears	D	NR	Overall rating based on M1 methodology.
(i) Stock of expenditure payment arrears and any recent change in the stock	D	D	Performance Unchanged. There was no system of recording stock of arrears previously and the same status prevails.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	NR	NR	Performance Unchanged. Data not available.
PI-5 Classification of the budget (i) The classification system used for formulation, execution and reporting of the central government's budget.	A	A	Performance unchanged. GFS 1986/COFOG compliant chart of accounts is used for budget formulation, execution and reporting since 2004.
PI-6 Comprehensiveness of information included in budget documentation (i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).	B	C	Performance Deteriorated. The GoB used to provide details of macro-economic assumption containing aggregate growth and inflation and debt stock in the white paper, as part of budget documents. Moreover, previous year's budget outturn used to be presented in the budget books along with budget and revised budget, this practice has now been curtailed. These are no longer provided. Previously, budget documentation used to fulfil six out of nine elements and now only three (i.e. 2,7 & 8) out of nine elements are met.
PI-7 Extent of unreported government operations	D	NR	Overall rating based on M1 methodology.
(i) The level of extra-budgetary expenditure which is unreported i.e. not included in fiscal reports	D	NR	Performance Unchanged. In the 2007 assessment noted that expenditure made by the local governments out of the grants provided by the Federal Government remained un reported in the fiscal reports. The same situation still prevails and local government expenditure is not being captured in the government system.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	D	D	Performance Unchanged. The expenditure in respect of on-budget donor funded projects is captured in the fiscal reports. All the other expenditure of donor-funded was previously

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
			reported to be outside the fiscal reports and the situation remains the same.
PI-8 Transparency of inter-governmental fiscal relations	B+	D	Overall rating based on M2 methodology.
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)	A	D	Performance Deteriorated. At the time of previous assessment, fiscal transfers to the local governments were based on the provincial finance commission award. Formula of 75:25 (Area: Population) for the distribution of provincial funds to the local governments was notified. The new local government act was enacted in 2010 that requires formation of the Local Council Grants Committee (LCGC). The LCGC has not been established and funds are transferred to the local governments without any transparent formula.
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year	A	D	Performance Deteriorated. Since all the transfers to the local governments are discretionary in the current assessment, no information about timing and amount of transfers is provided to the local governments. In the previous system, local governments were provided timely and reliable information about their allocations.
(iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories	B	D	Performance Deteriorated. Fiscal information for at least 75% of the local governments was collected and consolidated into annual reports. In the current system, the financial statements of the local councils are not being prepared and submitted to the provincial governments.
PI-9 Oversight of aggregate fiscal risk from other public sector entities	D	D	Overall rating based on M1 methodology.
(i) Extent of central government monitoring of AGAs and PEs	D	D	Performance unchanged. The autonomous bodies in public enterprises of the provincial government were not formally monitored and the same situation still prevails. Public corporations including Sandak Metal Limited and Chamlang Coal Quarry neither have contributed any revenue during the years under assessment nor have they provided any financial statements.
(ii) Extent of central government monitoring of SN governments' fiscal position	D	D	Performance unchanged. GoB was not monitoring the local governments properly and the same situation was assessed to be prevailing in 2016 assessment.
PI-10 Public access to key fiscal information	C	B	Performance improved. Since the last assessment, in-year budget execution reports and information on contracts have

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).			been made publically available resulting in an improvement in the rating. At present, 4 out of 6 listed elements of information are publicly available; previously only 2 elements of information were publicly available.
PI-11 Orderliness and participation in the annual budget process	B+	C	Overall rating based on M2 methodology.
(i) Existence of and adherence to a fixed budget calendar	B	D	Performance Deteriorated. The timelines of the budget calendar were largely followed by majority of the departments during the previous assessment. However, the current assessment noted that only 2 of the 45 departments complied with the timelines of the budget calendar.
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	B	D	Performance Deteriorated. The previous assessment noted that budget circular containing guidelines on budget preparation was issued to the line departments. It also noted participation of the cabinet in the budget making process. Deterioration in performance is noted as budget circular is now limited to budget calendar without any guidance to the line department for preparation of budget or format of budget estimates.
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	A	A	Performance unchanged. The budget has always been approved by the legislature before the start of fiscal year. Please refer PI 18 for exact dates of budget approval by legislature.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	D	Overall rating based on M2 methodology.
(i) Preparation of multi -year fiscal forecasts and functional allocations	D	D	Performance unchanged. There is no practice of multiyear budget preparation the situation remains the same.
(ii) Scope and frequency of debt sustainability analysis	D	D	
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	D	D	
(iv) Linkages between investment budgets and forward expenditure estimates	D	D	
PI-13 Transparency of taxpayer obligations and liabilities	C+	D+	Overall rating based on M2 methodology.
(i) Clarity and comprehensiveness of tax liabilities	C	C	Performance Unchanged. The discretionary powers vested with the tax authorities for the assessment of taxes applicable on property transfers and stamp duties remain the same.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	D	Performance Deteriorated. Sales tax on services was devolved to the province during fiscal year 2011-12 and is the largest source of provincial revenue. However, rules governing assessment of sales tax on services are still under preparation.
(iii) Existence and functioning of a tax appeals mechanism	B	D	Performance Deteriorated. Since major tax is now sales tax on services and no appellate authority exists for sales tax on services demand, the rating for the dimension deteriorated.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D+	D	Overall rating based on M2 methodology.
(i) Controls in the taxpayer registration system	C	D	Performance Deteriorated. Sales tax on services is newly imposed tax and practices to strengthen BRA are underway. There is no linkage of databases available for sales tax on services causing drop in the rating.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	D	Performance Deteriorated. BRA is a nascent entity and does not have the full strength to monitor compliance with the registration and declaration obligations for sales tax on services. As a result, no penalties have been imposed.
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	D	Performance Unchanged. The planning and monitoring of tax audit programs remain non-existent and the tax audits and fraud investigations are undertaken on an ad hoc basis.
PI-15 Effectiveness in collection of tax payments	D+	D+	Overall rating based on M1 methodology.
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	D	NR	Performance Unchanged. The 2007 assessment noted that the government has failed to collect tax arrears as pointed out by the AGP. The situation still the same and tax arrears highlighted by the external auditors are not collected. Complete information on revenue arrears is not available.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	A	Performance Improved. By roll out of GFMS and computerization of NBP, the tax deposited becomes available to the treasury within one day.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	D	Performance unchanged. Reconciliation of tax revenue remains a major challenge for GoB without any improvement.
PI-16 Predictability in the availability of funds for commitment of expenditures	B+	D	Overall rating based on M1 methodology.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(i) Extent to which cash flows are forecast and monitored	B	D	Performance Deteriorated. There is no practice of cash flow forecast witnessed during the current assessment. However, the previous assessment considered the budget as cash forecast and rated the dimension B.
(ii) Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment	A	D	Performance Deteriorated. The Government does not have a release policy for development budget where project bases releases are made. Since previous assessment, fiscal transfers to the GoB increased significantly that considerably increased the development budget. The previous assessment considered budget approval as an intimation of the funds availability for expenditure commitment and rate the dimension A.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of departments	B	D	Performance Deteriorated. The current assessment noted frequent in-year budget adjustments without a prescribed policy. The 2007 assessment reported that in-year budget adjustments are made only for development budget nine months into the fiscal year.
PI-17 Recording and management of cash balances, debt and guarantees	B	C+	Overall rating based on M2 methodology.
(i) Quality of debt data recording and reporting	B	D	Performance Deteriorated There is no consolidated report on debt stock which was previously compiled for reporting in the white paper.
(ii) Extent of consolidation of the government's cash balances	B	A	Performance unchanged. Daily cash balances data are consolidated by SBP when reports are received from different NBP. The rating has been improved since previous assessment because of efficiency brought in NBP reporting system because of computerization. Previously NBP reporting was delayed due to manual system.
(iii) Systems for contracting loans and issuance of guarantees	B	C	Performance Deteriorated. Eighteenth amendment of the constitution, introduced in year 2010, empowered the GoB to borrow directly from the international or local lenders subject to the prior approval of a debt management framework by the National Economic Council. However, GoB has not yet developed the debt management framework and neither has it borrowed any money independently. Previously, the GOB was not allowed to borrow directly and the 2007 assessment noted that though all loans

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
			are approved by FD, clear guidelines, criteria, and ceilings are lacking
PI-18 Effectiveness of payroll controls	C+	D+	Overall rating based on M1 methodology.
(i) Degree of integration and reconciliation between personnel records and payroll data	D	D	Performance Unchanged. There is no practice of reconciling personnel data and payroll records.
(ii) Timeliness of changes to personnel records and the payroll	A	A	Performance Unchanged. Payroll records are updated in a timely manner.
(iii) Internal controls of changes to personnel records and the payroll	C	C	Performance Unchanged. The finance department has recently adopted practice of reconfirmation of new appointments and changes in the personnel records. However, at the AG office segregation of duties is a concern due to password sharing and changes made in the system by single computer operator.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	D	Performance Deteriorated. The previous assessment witnessed partial payroll audit conducted by provincial and district audit formations. However, the current assessment noted absence of payroll audits.
PI-19 Competition, value for money and controls in procurement	D+	NR	Overall rating based on M2 methodology.
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	D	NR	Performance Unchanged. With establishment of BPPRA and Balochistan public procurement rules, 2014, use of open competition is now the default method for procurement. However, data is not available to assess the percentage of contracts awarded through open competition.
(ii) Justification for use of less competitive procurement methods	C	B	Performance Improved. Balochistan public procurement rules promulgated in December 2014 requires justification for use of less competitive procurement process. The rules allow use of less competitive procurement methods in emergency situations.
(iii) Existence and operation of a procurement complaints mechanism	D	C	Performance improved. Complaint redress mechanism is laid down in rule 56 requiring the departments to notify complaint committees. Some of these complaint committees are functioning leading to improved rating.
PI-20 Effectiveness of internal controls for non-salary expenditure	C	D+	Overall rating based on M1 methodology.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(i) Effectiveness of expenditure commitment controls	C	D	Performance Deteriorated. The previous assessment witnessed recording of commitments in appropriation registers; however, currently commitments are not recorded before payment.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	C	C	Performance unchanged. Set of rules and regulation remained the same over the last decade.
(iii) Degree of compliance with rules for processing and recording transactions	C	D	Performance Deteriorated. Majority of the instances of non-compliance with rules and regulations exist in the development budget as it is mainly executed through assignment accounts without pre-audit. The size of the development budget increased seven times since the previous assessment and there is also a significant increase in the number of audit observations related to non-compliance with rules.
PI-21 Effectiveness of internal audit	D	D	Overall rating based on M1 methodology.
(i) Coverage and quality of the internal audit function	D	D	Performance unchanged. The GoB has not established and internal audit function.
(ii) Frequency and distribution of reports	D	D	
(iii) Extent of management response to internal audit findings	D	D	
PI-22 Timeliness and regularity of accounts reconciliation	C+	D	Overall rating based on M2 methodology.
(i) Regularity of bank reconciliation	A	D	Performance Deteriorated. The bank reconciliation used to be a regular feature in Balochistan government as assessed previously; however, this practice has declined over the time and there are significant unreconciled differences.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	D	D	Performance Unchanged. Suspense account still needed clearance which as of June30, 2015 shows balance of more than 5 Billion Rupees.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
<p>PI-23 Availability of information on resources received by service delivery units</p> <p>(i) Collection and processing of information to demonstrate that resources were actually received (in cash and in kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units</p>	D	D	Performance Unchanged. Cash and in kind resources received by primary service delivery units remain un reported. No comprehensive data available.
<p>PI-24 Quality and timeliness of in-year budget reports</p>	D+	C+	Overall rating based on M1 methodology.
<p>(i) Scope of reports in terms of coverage and comparability with budget estimates</p>	D	C	Performance Improved. Financial reports now allow director comparison to original budget that earlier only included actual expenditure. However, expenditure is still not captured at commitment stage.
<p>(ii) Timeliness of the issue of reports</p>	D	A	Performance Improved. With the roll out of GFMS, timeliness of reports improved significantly. Monthly civil accounts are prepared within two weeks of the close of the month. Earlier the quarterly accounts were prepared with significant delay.
<p>(iii) Quality of information</p>	C	C	Performance unchanged. Major unreconciled differences in the bank balances and suspense accounts still exist. Whereas, the quality of data in previous reports was also compromised.
<p>PI-25 Quality and timeliness of financial statements</p>	C+	C+	Overall rating based on M1 methodology.
<p>(i) Completeness of the financial statements</p>	C	C	Performance Unchanged. Completeness of information on assets and liabilities continue to remain deficient in the financial statements. Accuracy of the bank balance due to unreconciled differences also remains a concern.
<p>(ii) Timeliness of the submission of the financial statements</p>	B	A	Performance Improved. There is a significant improvement and financial statements are submitted to external audit within 2 months of the close of the fiscal year. Earlier, the submission period was 10 months.
<p>(iii) Accounting standards used</p>	C	C	Performance unchanged. Commitment, asset and liability accounting practices have not yet been implemented.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
PI-26 Scope, nature and follow-up of external audit	D+	D+	Overall rating based on M1 methodology.
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	D	Performance Deteriorated. The current assessment noted that entities audited represent less than 50% of total expenditure that was about 75% previously.
(ii) Timeliness of submission of audit reports to legislature	D	C	Performance Improved. The AGP's report have been submitted to the Governor within 8 months from the date of receipt of unaudited financial statements which was more than 12 months previously, However, the Governor office took much long time and as a result the audit reports took more than 12 months of the close of the fiscal year to reach at the PAC.
(iii) Evidence of follow up on audit recommendations	C	C	Performance Unchanged. There have been few DAC meetings under the years being assessed which has impacted follow up of audit reports.
PI-27 Legislative scrutiny of the annual budget law	D+	D+	Overall rating based on M1 methodology.
(i) Scope of legislature's scrutiny	B	C	Performance Deteriorated. The legislature used to receive comprehensive budget documentation including extensive and well documented white paper that covers fiscal policies and aggregate estimates. During current assessment, it was noted that white paper does not include fiscal policies and those are not reviewed by the legislature.
(ii) Extent to which the legislature's procedures are well-established and respected	B	B	Performance Unchanged. House procedures for tabling budget, stages in the budget approval, manner of discussion on the budget, procedure for dealing with cut-motion are laid down in the Balochistan Assembly rules.
(iii) Adequacy of time for the legislature to provide response to budget proposals both detailed estimates, and where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	Performance unchanged. Only 8 to 10 days were available with the legislature for approval of budget the same was the situation as was assessed in 2007.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	C	Performance Unchanged. Rules have usually not been followed for in-year adjustments during the years reviewed for this assessment.
PI-28 Legislative scrutiny of external audit reports	C+/D	D+	Overall rating based on M1 methodology.

Indicator / Dimension	Score		Brief Explanation
	2007	2017	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	D	D	Performance unchanged. There continued to exist huge volume of unexamined audit reports.
(ii) Extent of hearings on key findings undertaken by the legislature	B	B	Performance unchanged. When PAC is in session, it holds extensive hearings.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	B	C	Performance Deteriorated. Compliance with PAC directives is a serious concern which was noted only 1 percent in the current assessment. In 2007 assessment it was observed that some of the recommendations were implemented.

Annex 5: Calculation Sheets PI-1, PI-2 & PI-3

PI-1 Aggregate expenditure outturn and PI-2.1 Expenditure composition outturn by function

FY2012–13

Data for FY2012–13	Amount (PKR in Million)					Percentage
	Function Head	Budget	Actual	Adjusted Budget	Deviation	
General Public Services	65,931	30,702	56,695.7	-25,993.7	25,993.7	45.8
Public Order and Safety Affairs	14,255	18,174	12,258.2	5,915.8	5,915.8	48.3
Economic Affairs	48,983	51,064	42,121.7	8,942.3	8,942.3	21.2
Environment Protection	2,210	3,582	1,900.4	1,681.6	1,681.6	88.5
Housing and Community Amenities	6,597	9,084	5,672.9	3,411.1	3,411.1	60.1
Health Affairs and Services	11,268	10,448	9,689.6	758.4	758.4	7.8
Recreation, Culture, and Religion	1,230	837	1,057.7	-220.7	220.7	20.9
Education Affairs and Services	24,830	27,708	21,351.9	6,356.1	6,356.1	29.8
Social Protection	4,627	3,128	3,978.9	-850.9	850.9	21.4
Subtotal	179,931	154,727	154,727.0	0.0	54,130.5	—
Contingency Share of Budget	—	—	—	—	—	—
Total Expenditure	179,931	154,724	—	—	—	—
Overall (PI-1) Variance	—	—	—	—	—	14.0
Composition (PI-2) Variance	—	—	—	—	—	35
Contingency Share of Budget	—	—	—	—	—	0.0

FY2013–14

Data for FY2013–14	Amount (PKR in Million)					Percentage
	Function Head	Budget	Actual	Adjusted Budget	Deviation	
General Public Services	59,349	38,008	51,929.0	13,921.0	13,921.0	26.8
Public Order and Safety Affairs	16,807	18,956	14,705.7	4,250.3	4,250.3	28.9
Economic Affairs	52,108	46,740	45,593.3	1,146.7	1,146.7	2.5
Environment Protection	3,199	3,735	2,799.1	935.9	935.9	33.4
Housing and Community Amenities	11,488	11,672	10,051.7	1,620.3	1,620.3	16.1
Health Affairs and Services	15,233	13,768	13,328.5	439.5	439.5	3.3
Recreation, Culture, and Religion	1,705	1,265	1,491.8	-226.8	226.8	15.2
Education Affairs and Services	35,298	36,076	30,884.9	5,191.1	5,191.1	16.8
Social Protection	3,208	3,371	2,806.9	564.1	564.1	20.1
Subtotal	198,395	173,591	173,591.0	0.0	28,295.7	—
Contingency Share of Budget	—	—	—	—	—	—
Total Expenditure	198,395	173,591	—	—	—	—
Overall (PI-1) Variance	—	—	—	—	—	12.5
Composition (PI-2) Variance	—	—	—	—	—	16.3
Contingency Share of Budget	—	—	—	—	—	0.0

FY2014–15

Data for FY2014–15 Function Head	Amount (PKR in Million)					Percentage
	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	
General Public Services	56,891	40,649	51,420.4	10,771.4	10,771.4	20.9
Public Order and Safety Affairs	22,496	23,432	20,332.8	3,099.2	3,099.2	15.2
Economic Affairs	57,613	54,075	52,072.9	2,002.1	2,002.1	3.8
Environment Protection	5,039	3,930	4,554.4	-624.4	624.4	13.7
Housing and Community Amenities	7,100	9,593	6,417.3	3,175.7	3,175.7	49.5
Health Affairs and Services	18,470	17,534	16,693.9	840.1	840.1	5.0
Recreation, Culture, and Religion	3,541	2,616	3,200.5	-584.5	584.5	18.3
Education Affairs and Services	40,701	39,665	36,787.2	2,877.8	2,877.8	7.8
Social Protection	3,862	3,476	3,490.6	-14.6	14.6	0.4
Subtotal	215,713	194,970	194,970.0	0.0	23,989.9	—
Contingency Share of Budget	—	—	—	—	—	—
Total Expenditure	215,713	194,970	—	—	—	—
Overall (PI-1) Variance	—	—	—	—	—	9.6
Composition (PI-2) Variance	—	—	—	—	—	12.3
Contingency Share of Budget	—	—	—	—	—	0.0

Results Matrix

Fiscal Year	For PI-1	For PI-2.1	For PI-2.3
	Total Expenditure Deviation	Composition Variance	Contingency Share
2012–13	14.0%	35%	0.0%
2013–14	12.5%	16.3%	
2014–15	9.6%	12.3%	

PI-1: Aggregate expenditure outturn and PI-2.2: Expenditure composition outturn by economic type

FY2012–13

Data for FY2012–13	Amount (PKR in Million)					Percentage
	Economic Head	Budget	Actual	Adjusted Budget	Deviation	
A01- Employees-related Expenses	70,220	64,865	61,052.2	3,812.6	3,812.6	6.2
A03 - Operating Expenses	12,736	15,482	11,072.9	4,408.8	4,408.8	39.8
A04 - Employees' Retirement Benefits	7,500	7,206	6,520.8	685.2	685.2	10.5
A05 - Grants, Subsidies, and write-off of loans	19,865	12,160	17,271.3	-5,111.1	5,111.1	29.6
A06 - Transfers	244	241	212.3	29.0	29.0	13.7
A08 - Loans and Advances	750	273	652.1	-378.9	378.9	58.1
A09 - Physical Assets	9,044	2,669	7,862.9	-5,193.9	5,193.9	66.1
A10 - Principal Repayments of Loans	13,908	9,957	12,091.9	-2,134.7	2,134.7	17.7
A11 - Investment	15,500	2,200	13,476.4	-11,276.4	11,276.4	83.7
A12 - Civil Works	23,444	35,448	20,383.4	15,064.8	15,064.8	73.9
A13 - Repairs and Maintenance	1,977	1,813	1,718.9	94.5	94.5	5.5
Subtotal	175,187	152,315	152,315.2	0.0	48,190.0	—
Contingency Share of Budget	—	—	—	—	—	—
A07 - Interest Payments	4,745	2,408	—	—	—	—
Total Expenditure	179,931	154,724	—	—	—	—
Overall (PI-1) Variance	—	—	—	—	—	14.0
Composition (PI-2) Variance	—	—	—	—	—	31.6
Contingency Share of Budget	—	—	—	—	—	0.0

FY2013–14

Data for FY2013–14	Amount (PKR in Million)					Percentage
	Economic Head	Budget	Actual	Adjusted Budget	Deviation	
A01- Employees-related Expenses	77,333	72,909	68,075.8	4,833.2	4,833.2	7.1
A03 - Operating Expenses	16,688	15,935	14,690.1	1,244.9	1,244.9	8.5
A04 - Employees' Retirement Benefits	8,500	9,229	7,482.5	1,746.5	1,746.5	23.3
A05 - Grants, Subsidies, and Write-off of Loans	21,702	18,562	19,104.3	-542.3	542.3	2.8
A06 - Transfers	282	312	248.4	63.6	63.6	25.6
A09 - Physical Assets	12,098	4,525	10,650.1	-6,125.1	6,125.1	57.5
A10 - Principal Repayments of Loans	14,575	9,570	12,830.1	-3,260.1	3,260.1	25.4
A11 - Investment	15,500	6,761	13,644.6	-6,883.7	6,883.7	50.4
A12 - Civil Works	26,369	31,344	23,212.9	8,131.1	8,131.1	35.0
A13 - Repairs and Maintenance	2,062	2,607	1,815.0	792.0	792.0	43.6
Subtotal	195,109	171,754	171,753.9	0.0	33,622.3	—
Contingency Share of Budget	—	—	—	—	—	—

Data for FY2013–14	Amount (PKR in Million)					Percentage
	Economic Head	Budget	Actual	Adjusted Budget	Deviation	
A07 - Interest Payments	3,286	1,837	—	—	—	—
Total Expenditure	198,395	173,591	—	—	—	—
Overall (PI-1) Variance	—	—	—	—	—	12.5
Composition (PI-2) Variance	—	—	—	—	—	19.6
Contingency Share of Budget	—	—	—	—	—	0.0

FY2014–15

Data for FY2014–15	Amount (Rupees in Million)					Percentage
	Economic Head	Budget	Actual	Adjusted Budget	Deviation	
A01- Employees-related Expenses.	92,799	78,696	84,106.8	-5,410.6	5,410.6	6.4
A02 - Project Preinvestment Analysis	—	30	0.0	30.0	30.0	—
A03 - Operating Expenses	18,819	19,859	17,056.2	2,802.6	2,802.6	16.4
A04 - Employees' Retirement Benefits	10,000	10,154	9,063.4	1,090.7	1,090.7	12.0
A05 - Grants, Subsidies, and Write-off of Loans	19,035	28,080	17,251.8	10,827.9	10,827.9	62.8
A06 - Transfers	288	434	260.8	173.7	173.7	66.6
A08 - Loans and Advances	1,000	—	906.3	-906.3	906.3	100.0
A09 - Physical Assets	15,458	9,506	14,010.2	-4,503.8	4,503.8	32.1
A10 - Principal Repayments of Loans	12,620	6,044	11,437.8	-5,394.1	5,394.1	47.2
A11 - Investment	9,500	125	8,610.2	-8,484.8	8,484.8	98.5
A12 - Civil Works	32,263	37,745	29,240.8	8,503.8	8,503.8	29.1
A13 - Repairs and Maintenance	2,010	3,093	1,821.9	1,271.0	1,271.0	69.8
Subtotal	213,791	193,766	193,766.3	0.0	49,399.3	—
Contingency Share of Budget	—	—	—	—	—	—
A07 - Interest Payments	1,922	1,204	—	—	—	—
Total Expenditure	215,713	194,970	—	—	—	—
Overall (PI-1) Variance	—	—	—	—	—	9.6
Composition (PI-2) Variance	—	—	—	—	—	25.5
Contingency Share of Budget	—	—	—	—	—	0.0

Results Matrix

Fiscal Year	For PI-1	For PI-2.2	For PI-2.3
	Total Expenditure Deviation	Composition Variance	Contingency Share
2012–13	14.0%	31.6%	0.0%
2013–14	12.5%	19.6%	
2014–15	9.6%	25.5%	

PI-3: Revenue Outturn

FY2012–13

Data for FY2012–13	Amount (Rupees in Million)					
	Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation
Provincial Tax Revenues						
Property Tax	86	47	157	-110	110	70.0
Transfer of Property tax	75	12	137	-125	125	91.4
Land Revenue	111	48	203	-155	155	76.3
Capital Gain	1	0	1	-1	1	90.8
Professional Tax	3	2	5	-3	3	56.9
Provincial Excise	405	400	739	-339	339	45.9
Stamp Duty	169	172	309	-137	137	44.3
Motor Vehicle	409	418	747	-329	329	44.0
Other Indirect Tax	126	8	230	-222	222	96.5
Sum of the Rest	1,385	1,107	—	—	—	—
Provincial Non-Tax Revenue						
Development Surcharge and Royalties	1,685	4,893	3,076	1,817	1,817	59.1
Interest from Financial Institution	880	—	1,606	-1,606	1,606	100.0
Interest from Non-Financial Institution	93	47	170	-123	123	72.6
Agriculture	319	126	582	-455	455	78.3
Police	149	138	272	-134	134	49.4
Justice	112	127	205	-78	78	38.0
Sum of the Rest	584	3,068	—	—	—	—
Total Revenue	5,207	9,505	8,439	-2,002	5,635	—
Overall Variance	—	—	—	—	—	182.5
Composition Variance	—	—	—	—	—	66.8

FY2013–14

Data for FY2013–14	Amount (PKR in Million)					
	Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation
Provincial Tax Revenues						
Property Tax	86	51	157	-106	106	67.2
Sales Tax on services	—	1,555	—	1,555	1,555	—
Agriculture Income Tax	2	1	4	-3	3	83.0
Transfer of Property Tax	75	71	137	-66	66	48.4
Land Revenue	122	53	223	-170	170	76.2
Capital Gain	1	3	1	1	1	73.9
Professional Tax	3	8	5	3	3	62.5
Provincial Excise	405	364	739	-375	375	50.7
Stamp Duty	244	213	445	-232	232	52.1
Motor Vehicle	523	430	956	-526	526	55.0

Data for FY2013–14	Amount (PKR in Million)					
Other Indirect Tax	90	12	164	-152	152	92.8
Sum of the Rest	1,551	2,761	—	—	—	—
Provincial Non-Tax Revenue						
Development Surcharge and Royalties	2,833	1,131	5,171	-4,040	4,040	78.1
Interest from Financial Institution	800	472	1,460	-989	989	67.7
Interest from Non-Financial Institution	47	—	85	-85	85	100
Agriculture	323	219	590	-371	371	63
Police	150	162	274	-113	113	41
Justice	121	76	221	-144	144	65
Sum of the Rest	643	2,089	1,175	915	915	78
Total Revenue	6,468	6,910	11,806	-4,897	9,845	—
Overall Variance	—	—	—	—	—	106.8
Composition Variance	—	—	—	—	—	83.4

FY2014–15

Data for FY2014–15	Amount (PKR in Million)					
Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percentage
Provincial Tax Revenues						
Sales Tax on services	1,913	840	3,491	-2,651	2,651	76
Agriculture Income Tax	1	1	1	-0	0	44.1
Property Tax	88	57	160	-103	103	64.6
Transfer of Property Tax	95	23	173	-150	150	86.6
Land Revenue	114	189	209	-20	20	9.5
Capital Gain	4	2	6	-5	5	74.8
Professional Tax	3	2	5	-3	3	63.5
Provincial Excise	417	357	761	-404	404	53.1
Stamp Duty	244	446	445	0	0	0.0
Motor Vehicle	551	445	1,006	-561	561	55.8
Other Indirect Tax	80	10	146	-137	137	93.4
Sum of the Rest	3,509	2,370	—	—	—	—
Provincial Non-Tax Revenue						
Development Surcharge and Royalties	2,917	1,082	5,325	-4,243	4,243	79.7
Interest from Financial Institution	880	416	1,606	-1,190	1,190	74.1
Interest from Non-Financial Institution	47	—	85	-85	85	100.0
Agriculture	325	256	593	-336	336	56.7
Police	112	138	205	-67	67	32.6
Justice	123	65	225	-160	160	71.2
Sum of the Rest	1,058	2,069	1,932	137	137	7.1
Total Revenue	7,057	5,554	12,883	-7,329	7,602	—
Overall Variance	—	—	—	—	—	78.7
Composition Variance	—	—	—	—	—	59.0

Results Matrix

Fiscal Year	Total Revenue Deviation	Composition Variance
2012-13	182.5%	66.8%
2013-14	106.8%	83.4%
2014-15	78.7%	59.0%

Annex 6: Sub National Government Profile

Balochistan is Pakistan's largest province, with an area of 347,190 sq km, which represents 43.6 percent of Pakistan's total land area. However, it is also the least populated province of the country with only 9.3 million (5 percent of total population) residing in the province. Apart from the urban centers, such as Quetta and Khuzdar, rest of the population of this province is scattered over a large swath of arid and mountainous terrain. These peculiar geographical and population density features, along with the governance structure of the province, create substantial bottlenecks for public service delivery. Consequently, Balochistan is one of the least developed provinces of Pakistan, with weak macroeconomic and social indicators. According to the latest Pakistan's social and living standard measurement survey FY2015 Balochistan has the lowest literacy rate of 44% and lowest enrollment ratio of 73%. Similarly, Balochistan has lowest percentage of fully immunized children which is 51% as per the said survey.

Government level or administrative	Corporate body?	Own political leadership?	Approves own budget?	Number of jurisdictions	Population	Percentage of public expenditure	Percentage of public revenues	Percentage funded by transfers
Federal	Yes	Yes	Yes	1	199 million ²⁸	55 ²⁹	86 ³⁰	0
Provincial	Yes	Yes	Yes	5	10.1 million ³¹	45	14	97 ³²
District/Local Govt ³³	Yes	Yes	Yes / No ³⁴	134 ³⁵	N/A	** ³⁶	Not Available ³⁷	100

Balochistan despite having a key strategic location and rich natural resource base contributes only 8 percent to national GDP.³⁸ Balochistan's economy primarily depends upon agriculture, transport and wholesale, and manufacturing sectors. These three sectors contributed on average 77 percent in Balochistan's economy during the last decade. However, during this same time period the mining sector's average contribution was 5.5 percent. This contribution is insignificant looking at the endowment of minerals that Balochistan is blessed with. The province contains one of the largest deposits of copper in

²⁸ Population of Pakistan as per Economic Survey 2016-17

²⁹ Based on consolidated expenditure of Federal Government and Four Provincial Governments

³⁰ Based on consolidated expenditure of Federal Government and Four Provincial Governments

³¹ Population of Balochistan Province based on estimated result of 2017 census.

³² This represent GoB case whose 97% expenditure are financed by from federal government transfers.

³³ Public Revenue and Public Expenditure in case of local Governments are part of provincial Governments and structure of local Governments is at variance among the provinces and therefore figures cannot be reasonably estimated and reported.

³⁴ Local Government laws are different in each of the province having difference in authority delegated to local Governments for approval of their budget.

³⁵ Punjab 36, Sindh 29, Balochistan 32, KPK 26, and Gilgit 10

³⁶ Local/district governments' expenditure is reported in provincial government financial statements; not separately disclosed.

³⁷ District governments have negligible sources of income as rent of some government buildings or auction of animal market license etc. figures for the same is not available.

³⁸ World Bank staff calculations based on Balochistan Needs Assessment, 2013.

the world—a resource that has barely been touched to date—and substantial barely developed deposits of gold, marble, granite, onyx, and other minerals. It underpins the fact that historically Balochistan's economy has largely underperformed compared to its potential. The underlying facts behind this weak economic performance of the province include volatile political and security environment and sutural bottlenecks.

Main Functional Responsibilities of Balochistan Government

The Functions of provincial governments and the federal Governments have been enumerated in the constitution of Pakistan. Matters which are the subject matter of the Federal Government are contained in the fourth schedule to the constitution, whereas rest of the matters are in the domain of provincial Governments. The provincial Governments are responsible for Law and Order, health, education, agriculture, social security, provision of basic municipal facilities and regulate matters pertaining to local Governments and municipal corporations. Thus, the provincial Government is chiefly responsible for the service delivery and responsible and accountable for the same.

Before 18th amendment the constitution, the provincial Governments and the Federal Governments have shared responsibilities in public service delivery, however after the said amendment the concurrent list to the constitution have been deleted and the functions as mentioned above have been delegated and devolved to the provincial Governments under the constitution.

The Balochistan local Government Act was promulgated in May 2010 under article 32 of the constitution to constitute local Government system in the province repealing the previous local Government system in described under Balochistan local Government ordinance 2001. The functions and responsibilities of the local Governments have been prescribed under the said Law. The local Governments are mainly responsible for social welfare, culture promotion, adult education, plantation of Trees, gardens and forests, animal husbandry, maintenance of sanitation, removal collection and disposal of waste, registration of births and deaths, regulate water supply, regulate private drainage and sewerage, for commercial and industrial areas, maintenance of firefighting, town planning and building control etc. However, the local Government system is in nascent stage in Balochistan. Financial rules, regulation and procedures are not yet properly developed as a result the provincial Government continues to look after all the responsibilities on the local Governments.

The Balochistan Government Budgetary System

The provincial Governments under the constitution have the authority to prepare, approve and implement the Budget independently. The provincial Government tables the money bill before the provincial legislature for approval of the same under article 120 to 123. Once the budget is approved, the government can procure and spend on its own and does not require sanction of the federal government. The provincial Government owns and operate Consolidated Fund viz a viz single treasury account which has to be maintained with the State Bank of Pakistan.

The Provincial Government is independently authorized to operate this single treasury account under article 118 of the constitution. The provincial legislature is further authorized to pass an Act to deal with any matter connected with the custody and operation of the consolidated fund account. However, the Balochistan Assembly has not yet issued its own rules and regulations for the operations of the consolidated fund account and have for the time being adopted the financial rules of the federal government for operation of the treasury account.

The Balochistan government, in practice, follows the incremental budgeting. The budget proposals are prepared by the finance department based on the previous year's spending trend. There is no practice of multi-year budgeting nor the budgeting process is decentralized to the line departments. The Finance department issues a budget calendar however the same is hardly complied with. The budget is prepared for development and non-development expenditure separately. The development budget, known as PSDP consists of numerous development projects or development scheme. As discussed under PI-11 the development scheme is required to undergo a rigorous process of appraisal however, in practice the scheme is provided for in the PSDP and appraisal documents are prepare later on. There are 1684 such schemes in the provincial government's PSDP. However, the government is not able to finance all of such schemes and therefore, financial requirements to complete the schemes is recorded as throw forward which has soared to 87 billion as of June 30, 2015³⁹.

The accounting, recording, reporting and auditing functions are executed by the federally administered Controller General Accounts and Auditors General of Pakistan. GFMS is rolled out through-out the province and it applies budgetary check on all payments except salaries, the system is capable of issuing Budget execution reports based on Economic and Functional classification in line with the COFOG standards.

Fiscal System of Government of Balochistan

The Balochistan government meets 97%⁴⁰ of its financial needs through transfer of funds from the federal government. The Federal Government collects majority of the taxes imposed in the country. The tax revenue collected by the Federal Government is then distributed among the provincial Governments based on NFC Award. The 7th NFC Award⁴¹ obliges the Federal Government to transfer 57.5% of the total revenue collected to the provinces subject to any adjustment for actual collection. The share of Balochistan, however has been guaranteed by Federal Government viz a viz the Balochistan government receives its budgeted share of 9.09% even if federal government is not successful in meeting its budgetary targets.

The Balochistan province is rich in mineral deposits, however due to lack of investment in the mineral exploitation, the province is not able to collect the revenue according to potential. Currently, the largest

³⁹ PSDP for fiscal year 2014/15 as per budget documents.

⁴⁰ Based on audited financial statements for 2014/15.

⁴¹ http://www.finance.gov.pk/nfc/reportofthenfc_2009.pdf

revenue source of the government is Sales Tax on Services which has recently been imposed in the province. The other revenue sources include, taxes on transfer and registration of immovable properties, taxes on vehicles, sale of mineral rights and liquor license etc.

Eighteenth amendment of the Constitution, introduced in year 2010, empowered the provincial government to borrow directly from the international or local lenders.⁴² The borrowing by the provincial government is subject to the prior approval of a debt management framework by the National Economic Council. However, the GoB has not yet developed the debt management framework, nor has it borrowed any money independently. Foreign debts for the province are contracted by Economic Affairs Division of the federal MoF, which are project-specific loans. Each foreign loan is approved by the Chief Minister of the province.

Balochistan Government Overview of Finances 2014/15- Actuals Revenue and Expenditure			
Item	PKR. In Million	Value per capita PKR⁴³	Percentage of total Expenditure %
Wage and salary expenditure	89,350	8846.53	45.82
Nonwage recurrent administrative expenditure	52,200	5168.32	26.78
Capital expenditure	53,420	5289.11	27.40
Total expenditure	194,970	19303.96	100
Own revenue	1,562	154.65	0.80
Intergovernmental fiscal transfers	143,773	14234.9	73.80
Other revenue sources	49,457	4896.73	25.40
Total revenue	194,792	19286.34	100
Borrowing	595	58.91	0.30

Balochistan Government Institutional (Political and Administrative) Structure

The provincial legislature is elected by the people of province for five years during the general election in the country. Provincial legislature known as provincial assembly elects its own leader of the house which is the chief minister of the province who then pick his/her cabinet to form the government. The provincial legislature has full authority under the constitution of Pakistan to pass the budget for the province and make any law applicable in the province for which it has the jurisdiction under the constitution of Pakistan. The mandate to manage the approved budget wholly lies with the provincial finance department, which is manned and controlled by the provincial government. The treasury is managed through a mix of federal

⁴² Article 167(4) of the constitution of Pakistan 1973.

⁴³ Per capita values have been derived based on population of 10.1 million.

and provincial officers through district treasury offices, which are sub ordinate to provincial finance department and district accounts office (DAO) which are sub-ordinate to the federally administered Controller General Accounts (CGA). At the time of assessment, the Balochistan government has only two DAO while rest of the districts are managed by the district treasury officers of Finance Department of the provincial government. However, the overall responsibility for accounting and reporting lies with the Accountant General of Balochistan, who is a federal officer posted by the Controller General of Accounts.

The federal government is represented in the province through the governor of the province. The Governor is more of a ceremonial post and do not have much active role to play in the day to day management of the affairs of the province.