

## **ANNUAL PROGRESS REPORT REGARDING PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY FOR FINANCIAL YEAR 2016-17.**

Public Financial Management (PFM) Reform is one of the important component of Sindh Public Sector Management Reform Project (SPSMRP) initiated by the Government of Sindh in the April 2015, with the Assistance of World Bank i.e. US \$50 million IDA Credit No: 5584 PK, with the objective to strengthen Public Sector performance through improved revenue generation & expenditure management. Enhancing performance of PFM is a focused area, aimed at strengthen PFM System by improving budget formulation, execution and related oversight mechanism. The interventions include: transparency in budget formulation and execution, improving debt management practices, Predictability & availability of development funds. This sub component is also supported by European Union, under Public Financial Management Support for Pakistan with assistance of US \$12.00 million. The project development objectives (PDOs) of SPSMRP and outcomes / milestones of PFM are interlinked & support each other on various activities.

The PFM reform strategy is an ambitious program with many inter connected components. The strategy is approved by Sindh Cabinet in October 2014 and is being implemented by PFM Action Plan (PFM-AP) approved by Provincial Steering Committee headed by Additional Chief Secretary (Development), Planning & Development Department in July 2015. The Action Plan, i.e. 10 years reform agenda is consist of 5 pillars & 25 outcomes is phased out as under;

*Short term -2015-2017, Medium term -2017-2020, Long term -2020-2025*

The Government of Sindh took various initiatives during financial year 2015-16 to improve transparency and good governance through PFM reforms strategy.

### **1. Resource Mobilization & Debt Management:-**

Tax Reform Unit (TRU) and Debt Management Unit (DMU) have been established in Finance Department.

#### **Tax Reform Unit (TRU):**

In order to implement Sindh Tax Reform Management Reform to mobilize revenue, a Tax Reform Unit was Establish in Finance Department in July 2014 which would generate data & information, design and implement specific initiative for rising optimal tax revenue and orchestrate a tax policy dialogue among tax administration entities. TRU will coordinate to three tax collection agencies of Government of Sindh i-e Sindh Revenue Board, Excise, Taxation & Narcotic Department and Board of Revenue to enhance revenue collection.

In order to meet the training needs of the tax officials, Government of Sindh hired services of Institute of Business Administration (IBA) to help revitalize its SPSMRP program by providing research and capacity building support in the areas identified by Government of Sindh. Besides this, Automation Reforms have also been introduced which include provincial unique taxpayer identification number; establishment of IT governance protocols that provide timely solutions spanning over assessment, automated notices, collection (including e-payments), audit, appeals and integrity management.

## **Debt Management Unit (DMU):**

To keep the Debt Management system in the province, a Debt Management Unit was also established in Finance Department in July 2014 which would have an active and functional debt management office within FD structured along functional lines: Back, Middle and Front Office, where the operational, analytical and execution functions are no longer segregated, developing a procedures, manual for borrowing, consolidating Debt Database, Formulating a Debt Management Strategy and undertaking Debt Sustainability Analysis, designing an Operational Risk Management Plan. In addition to this Debt Manual is being prepared.

## **(2) Planning and Budgeting:**

### **Budget Strategy Paper: –**

Budget Strategy Paper (BSP) is a policy document which assists public understanding of the fiscal situation and proposed budget strategies of the Government. It usually contains the principles that will guide the whole budget cycle and broad fiscal parameters, key government strategies, priorities and policies for the management of public revenues & expenditures. It gives a brief Analysis about transition of Budget Strategy Paper with Medium Term Fiscal Framework, Medium Term Development Framework and risk to the budget parameters. BSP is a concrete framework for the preparation of departmental budget forward estimates and the development of detail budget policies. Budget Strategy Paper has been developed for financial year 2016-17. Budget Strategy Paper is 3 year rolling plan that sets polices & priorities of the Government in medium term. The Budget Strategy Paper (BSP) has been approved by the Provincial Cabinet during its meeting held on 13.05.2016.

## **Strengthen Budget Formulation**

### **Preparation of Master Data:**

Finance Department in consultation with other stake holders such as, Accountant General Sindh and Administrative Departments developed a new master data which will be introduced w.e.f 1<sup>st</sup> July 2016. It is pertinent to mention that the budget for financial year 2016-17 is being prepared on the newly developed Master Data. In Master Data new demands have been created / sequenced. The functional classification, as well as functions assigned to cost centers have also been revised / corrected. In this connection FABS Directorate Islamabad has enhanced range of entity elements for Finance Department Government of Sindh. The new developed master data will remove various anomalies and will help in correct report generation.

In addition, IFMIS connectivity has been provided to P&D and Energy Department for producing budget submission. In this connection Excel training imparted to 80 officers / officials of different department of Government of Sindh.

### **3. Budget implementation**

#### **Cash flow forecasting & liquidity Management**

In order to improve Cash flow forecasting & liquidity management a study has been carried out by Finance Department in Food Account. Further, Study is continued on PLA / Assignment Accounts & Bank Accounts rationalization & reconciliation procedures. A notification for transfer of new retirees on to Direct Credit System (DCS) w.e.f 1<sup>st</sup> Feb 2016 has been issued by Finance Department.

In order to strengthen internal control, Internal Audit Function is being established in Finance Department and the same exercise will be replicated in line departments. In this connection, under the legal & regulatory frame work, the draft Internal Audit Charter and Internal Audit Act, 2016 have been developed for robust Internal Audit Function in Sindh. The Internal Audit Charter has been approved by honorable Chief Minister Sindh and accordingly notified by Finance Department on 15.07.2016. Whereas, draft Internal Audit Act, 2016 is under process of legislation for which a summary for Chief Minister of Sindh has been floated. Besides this Audit test for pay roll data of Finance Department has also been carried out on ACL software, to get cognizance about fiduciary risk areas and to prepare risk based audit plan.

#### **4. External over sight & audit by parliamentarians (Outcome -4)**

Priority is assigned to strengthen the over sight function of Provincial Assembly. However, the suggested oversight cannot be achieved without dissemination of complete information. In this context, an interactive information dissemination workshop was organized on 26<sup>th</sup> of April, 2016 with the objective to inform to honorable MPAs regarding budgetary process, budget documents and sectorial budget analysis. During the workshop the MPAs from treasury as well as opposition raised various quires which were replied by the trainers and Finance Minister Sindh. All quarterly reports have been presented to the Provincial Assembly. The reporting formats are being reviewed for further improvements.

#### **5. Institutional frame work & support system (Outcome 5)**

Under institutional framework, five Operational Reform Groups (ORGs) on Planning, Budgeting, Accounting, IFMIS and improving Internal Financial Management Capacity have been notified. Feasibility of establishing CFO in line departments has been worked out. A meeting of ORG pertaining to Planning has also been held at P&D Department to review the progress.

In order to support the system various capacity building workshops / trainings have been organized for senior level managers, mid-level managers & budget officers and officials. The training was provided in areas of modified BCC, MS-Excel & PFM-Outreach program. Besides this, a legal and financial regulatory framework has also been developed. In this connection, Draft Sindh Public Finance Act, 2016 has also been prepared.