

ANNUAL PROGRESS REPORT REGARDING PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY FOR FINANCIAL YEAR 2019-20.

The Government of Sindh on the basis of Public Expenditure & Financial Accountability (PEFA) Assessment carried out in 2013, developed a Public Financial Management (PFM) Reform Strategy. In order to implement PFM Reform Strategy, PFM Action Plan was developed by the Government of Sindh. In addition to this some of the milestones of PFM Reform Strategy / Action Plan were achieved through World Bank funded Sindh Public Sector Management Reform Project (SPSMRP), IDA Credit No: 5584-PK.

2. Public Financial Management (PFM) Reform is one of the key reform area initiated by the Government of Sindh in the April 2015, with the objective to strengthen the 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 over sight mechanism. The interventions include: transparency in budget formulation and execution, improving debt management practices, predictability & availability of development funds. The reforms are 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.

3. The PFM Reform Strategy is an ambitious program with many inter connected components. The strategy was approved by the Provincial Cabinet of Sindh in October 2014 and is being implemented through PFM Action Plan (PFM-AP) approved by Provincial Steering Committee of SPSMRP & PFM-SPP headed by the Chairman, Planning & Development Board in July 2015. The Action Plan, i.e. 10 years reform agenda consists of 5 pillars & 25 outcomes is phased out as under;

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

REVISION OF THE PFM ACTION PLAN

4. Mid-term review of the Action Plan was conducted during financial year 2017-18. The purpose was to assess the progress made so far, and to re-examine the timelines to see what could realistically be achieved within the remaining timespan of the project. As a result, some activities originally planned for the medium-term were re-adjusted in the longer term. Since the Action Plan is a rolling plan, all activities of medium term have been adjusted in the long term. Similarly, some milestones have also been better aligned with outputs. The revised Action Plan was approved by the Steering Committee of Sindh Public Sector Management Reform Project and Public Financial Management Support Program for Pakistan (PFM-SPP) in February 2018.

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

Strategy is being implemented through PFM Action Plan (2014-15 to 2024-25). The Plan focused on following pillars/thematic areas.

PILLAR 1: RESOURCE MOBILIZATION & DEBT MANAGEMENT

6. Tax Reform Unit (TRU) and Debt Management Unit (DMU) have been established in Finance Department during FY 2014-15.

Tax Reform Unit (TRU)

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

8. Under the STRMP, the Sindh Revenue Board increased its revenue on Sales Tax on Services through various reforms initiated under the project and achieved all assigned target values. In addition to that the Sindh Revenue Board has also developed an automation plan for tax collection & administration which increased automation of SRB systems. The risk-based criteria for the carrying out of taxpayer audits and fraud investigations is also in place. Tax base has also been increased under the reforms.

Debt Management Unit (DMU)

9. Debt Management Unit was also established in Finance Department in July 2014 which has an active and functional debt management office within Finance Department. It manages Provincial portfolio on modern lines. It has formulated a Debt Management Strategy, i.e. Sindh Medium Term Debt Management Strategy and also drafted Sindh Fiscal Responsibility and Debt Limited Act. DMU undertakes Debt Sustainability Analysis and develop an Operational Risk Management Plan. In addition to this External Debt Manual has been prepared and approved.

Internal Audit Unit (IAU)

10. The establishment of Internal Audit function in Government of Sindh is one of the key reform areas under the project. The purpose of this reform is to strengthen internal controls and public governance standards. Internal Audit function through process mapping and work assessment exercise will greatly add to improved operations, which in turn improve service delivery. With the approval of competent authority, i.e. the Chief Minister Sindh the Internal Audit Function is rolled out in four departments, i.e. Finance, Health, School Education and Home. The risk based audit plan of these four departments have been developed and audit reports have been prepared and shared with PAO of the departments. The Departmental Internal Audit Committee

of Finance Department discussed the audit reports and proposed some action on the recommendation of audit reports. The other departments also conducted Internal Audits and planned for DIAC meetings. In addition to this Internal Audit function will be rolled out two more departments during financial year 2020-21.

11. Since Internal Audit function was new initiative in Public Sector departments so provision of awareness was essentially required. In this connection, a national level Information Dissemination workshop on Internal Audit was organized in Karachi on February 7, 2019 in which all stakeholders participated including officials of sister provinces and representative of World Bank team.

PILLAR 2: PLANNING & BUDGETING

12. Main activities under this Pillar include:

- i. Diagnostic study on issues in Regional Statistics and way forward shared with P&DD.
- ii. Diagnostic study on Public Investment Management in Sindh presented to P&DD.
- iii. Completion of a new and improved website for P&DD.
- iv. Concept Note on establishment of a Research & Training Wing (R&TW) in P&DD, including TORs, structure of the wing, qualifications of the researchers etc. This was approved and the work on establishing the wing was initiated.
- v. Draft of the Planning Manual was submitted to P&DD for approval.
- vi. Initiated Strategic Planning exercise and support provided to line departments in preparation of sectoral plans. The support provided to Social Welfare, Women Development and Livestock & Fisheries Department for developing sector plans.
- vii. Continued support for preparation of Budget Strategy Paper (BSP). BSP is 3 years rolling plan that sets policies & priorities of the Government in medium term. BSP is a concrete framework for the preparation of departmental budget forward estimates and the development of detail budget policies. Budget Strategy Paper was developed for financial year 2019-20 and approved by the Provincial Cabinet of Sindh and submitted to the Secretary Provincial Assembly for placing it before Standing Committee on Finance.
- viii. Support in preparation of an improved Salient Features of the Budget.
- ix. Further improvement was done in Budget Call Circular (BCC) and trainings provided.
- x. Cash flow forecasting tool designed and a committee has been notified by the Finance Department for sustainability of this reform area.

PILLAR 3: BUDGET EXECUTION, REPORTING, ACCOUNTABILITY, AND TRANSPARENCY

13. Main activities under this Pillar include:
- i. Rectification of master data completed and SOPs notified.
 - ii. IFMIS connectivity is being provided to (31) Administrative Departments located within premises of Sindh Secretariat in addition to Provincial Assembly and C.M. Secretariat.
 - iii. Notification of transfer of new retirees onto the Direct Credit System/Scheme issued (DCS) has already been issued and A.G. Sindh office is transferring payments to retired employees from manual to direct credit system. Almost 100% retirees have been brought under the DCS.
 - iv. Developed Cash flow forecasting tool for better financial decisions.
 - v. Study on Contingent Liabilities has been completed in order to assess the impact on future public finance.
 - vi. Study on Commitment Accounting started. Efforts are under way to resolve the system configuration issues.
 - vii. Continued support in IFMIS for preparation of Revised Estimates, and the Final Re-appropriation Order.
 - viii. Continued support for Development of BSP and Quarterly Reports for Sindh Assembly from IFMIS.
 - ix. Analysis of budget, expenditure, and payroll issues in Schools Education & Literacy Department with subsequent correction in budget and posts.
 - x. Support to AG Sindh in final accounts.
 - xi. Continued support to FD and AG in accounting matters such as revaluation of investments and its reporting.

IMPROVEMENT OF LEGAL AND REGULATORY FRAMEWORK:

14. Government of Sindh with technical assistance of EU, PFM-SPP, Sindh has taken various initiatives to strengthen the regulatory regime. Some notable efforts are:
- i. Sindh Public Finance Administration Act, 2019 (presently under review of Standing Committee on Finance);
 - ii. Sindh Delegation of Financial Powers and Financial control Rules, 2019 notified in May, 2019 by the Finance Department;
 - iii. Sindh Financial Rules (developed and under review);
 - iv. Sindh Treasury Rules and Subsidiary Treasury Rules (under vetting process at Law Department).
 - v. Sindh Budget Manual (under review in Finance Department)
 - vi. Sindh Government's Manual for Development Projects (under approval process at P&DD)

PILLAR 4: OVERSIGHT AND EXTERNAL AUDIT

15. The following activities were carried out.
- a) A Workshop was conducted for MPAs to provide information about budget formulation and execution process.
 - b) Strengthening of PAC;
 - c) Website of FD and P&DD upgraded.
 - d) Development of Financial Dashboard is under process.
 - e) Publication of Debt bulletin and other service delivery reports on the website of Finance Department.

PILLAR 5: INSTITUTIONAL FRAMEWORK AND SUPPORT SYSTEMS

16. **Capacity Development Initiatives:**
- i. Seminar was conducted to develop consensus on the positions of Chief Financial Officer (CFO) in Public Sector.
 - ii. Training on BCC for Administrative Departments conducted.
 - iii. Training on PFM cycle and Delegation of Financial Powers & Financial Control Rules, 2019 was provided to DDOs of line departments through workshops organized at divisional level.
 - iv. Training on Pension Rules & Regulations to Administrative Departments.
 - v. BCC was modified and issued with instructions. Trainings on modified BCC were delivered at Secretariat level as well as attached departments through workshops at divisional level. More than 500 officials trained.
 - vi. MS-Excel Training has been provided to the officers/officials of Sindh Secretariat, as well as A.G. Sindh. More than 100 officials trained.
 - vii. SAP (IFMIS) hands on tailor made training is being provided to the officers / officials of Finance Department.
 - viii. PFM certification course training planned.

PFM REFORMS INTERVENTION AT DISTRICT LEVEL:

17. PFM reforms intervention at service delivery level has been initiated with Jamshoro district as a pilot for the said reforms. Under PFM reforms, Primary and Secondary Schools of the district have been facilitated in development of Procurement Plans and Cash Plans for proper budget execution, which in turn improved service delivery. This reform will be rolled out in three more districts in future.