



PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY

GOVERNMENT OF SINDH

2014/15 - 2019/20

**Economic Reforms Unit
Finance Department
Government of Sindh**

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Acronyms and Abbreviations

ADP	Annual Development Plan
AGP	Auditor General of Pakistan
AG	Accountant General
COFOG	Classification of Functions of Government
CRG	Core Reform Group
DCS	Direct Credit System
DDO	Drawing and Disbursing Officer
DMFAS	Debt Management and Financial Analysis System
EU	European Union
FBR	Federal Revenue Board
FD	Finance Department
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GoS	Government of Sindh
IA	Internal Audit
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
M&E	Monitoring and Evaluation
MTBF	Medium-Term budgetary framework
NADRA	National Database and Registration Authority
NFC	National Finance Commission
OBB	Output Based Budgeting
ORG	Operational Reform Group
PAC	Public Accounts Committee
PDD	Planning and Development Department
PEFA	Public Expenditure and Financial Accountability
PFMAA	Public Financial Management and Accountability Assessment
PFM	Public financial management
PI	Performance indicator
PPP	Public Private Partnerships
PIFRA	Project to Improve Financial Reporting and Auditing
SRB	Sindh Revenue Board
SRG	Strategic Reform Group
SPPRA	Sindh Public Procurement Regulatory Authority
STRMP	Sindh Tax Revenue Mobilization Plan

Foreword

Public Financial Management Reforms are increasingly situated in the broader agenda of development and public service. In order to achieve these ends, Government of Sindh has designed a strategy to roll out its Public Financial Management reforms to positively impact in the domain of provincial planning and budgeting, budget execution, reporting, accountability and transparency, resource mobilization, and budget control (auditing and oversight). The PFM strategy covers a period of five years (2014/15 to 2019/20) to implement the reforms in the province. As outcome, it is expected that existing public financial management systems shall be brought in consonance with the international standards being practiced internationally.

The Public Financial Management Reforms Strategy recommends core and subsidiary activities to achieve the overall goal of transparency, accountability, efficiency, and fiscal discipline in the management of public resources. The salient features of this strategy is that it is endogenous and builds on the diagnostics of Public Financial Management and Accountability Assessments (PFMAA) 2009 and 2013 conducted by Government of Sindh with the help of the World Bank. Furthermore, in comparison to previous road maps for reforms initiatives, PFM Reforms strategy advocates an integrated reforms approach.

The present provincial government is committed to these reforms so that the primary objectives of economic development and thereby improvement in service delivery are achieved. I am pleased with the pace of reforms initiative in the province to achieve economic development and improved service delivery. Here, let me acknowledge the untiring efforts of Mr. Mohammad Sohail Rajput, Finance Secretary, Syed Hasan Naqvi, Special Finance Secretary (B&E), Dr. Noor Alam, Chief Economist, Mr. Khalil-ur-Rehman Shaikh, Additional Finance Secretary (Resources), Mr. Aftab Ahmed Memon, Director ERU and Mr. Muhammad Amir Ansari, Senior Program Officer, ERU, Finance Department in the preparation of this strategy as a cornerstone of reforms agenda of the government.

(Mohammad Sohail Rajput)
Secretary to Government of Sindh
Finance Department

Karachi, June 24, 2014

A. Introduction

1. In 2011, the 18th Amendment to the Constitution of Pakistan introduced substantial changes particularly related to service delivery. As a result of this Amendment, several functions related to service delivery were devolved from the federal to the provincial level of government, increasing demand on the capacity of provincial institutions, systems and processes. This necessitated and prompted the Province of Sindh to advocate for a Public Financial Management and Accountability Assessment (PFMAA) in order to provide a record of the specific changes in performance since 2009 and to identify priority public financial management (PFM) areas for accelerated development of reforms.¹ Other changes taking place at the provincial level as a result of the Amendment and other policy changes include the requirement that all bodies established and controlled by the provincial government shall be subject to audit by the Auditor General.

2. After reviewing the trajectory of change emerging from the PFMAA 2013, the Government of Sindh Province decided to prepare a public financial management strategy to enable it to have a clear road map for improvement in the performance of PFM systems to achieve better efficiency and effectiveness in expenditures and to improve the quality of service delivery to citizens.

B. Background of Sindh Province

Introduction

3. The Public Financial Management Reform Strategy provides a guide to the future focus of PFM reforms in the Government of Sindh Province (GoS) over a five-year period from 2014/15 to 2019/20. Despite the successes and improvements that have been registered by GoS PFM systems, recent studies such as the PFMAA indicated that reform efforts do not appear to be translating into marked improvement in services delivery.

4. Sindh is known as the financial and economic hub of Pakistan. Its population is above 30m, with a population growth rate of about 2.8%. Sindh has a major urban- rural divide, which is 48.75% and 51.25% respectively. Its per capita income is approximately Rs.12,432. Historically, Sindh's contribution to the Pakistan's GDP has been in the range of 30% to 32%. Its share in the service sector has ranged from 21% to 27%, and in the agriculture sector from 21% to 27%. Performance wise, its best sector is the manufacturing sector, where its share has ranges up to 46%. Endowed with coastal access, Sindh is a major center of economic activity in Pakistan and has a highly diversified economy ranging from heavy industry, manufacturing, services sector and agriculture. Manufacturing includes machine products, cement, plastics, and various other goods.

5. In the recent past, the government of Sindh, with the assistance of development partners, has been involved in a number of reform initiatives, with the objective to accelerate the pace of the provincial economy for better service delivery to the masses. These reforms are undertaken in various sectors like health, education, revenue mobilization and revamping of the budgetary system. To improve the public financial management, the government has taken shift from the conventional annual incremental budgeting, to a medium term budgetary framework (MTBF).

6. The province of Sindh was devastated by colossal floods, in the year 2010 and again, in 2012. It destroyed its infrastructure and badly damaged the agricultural lands. Karachi, known as the lifeline of Sindh financial activities, is infested with lawlessness and terrorism in the recent past.

¹ Public Financial Management and Accountability Assessment, 2013 p.1

However, these impediments, both natural and man-made, could not deter the resolve and commitment on part of the government to improve governance.

Financial Profile of Sindh

7. Like the other provinces of Pakistan, Sindh too, is heavily dependent on federal transfers. Over the years, Sindh's fiscal position has considerably improved. This is primarily due to the increased fiscal transfers from the federal government, in the aftermath of the 7th National Finance Commission (NFC) Award. While some fiscal reforms have started resulting in a positive impact on budget reporting and formulations. However, the reform program never had continuity in technical assistance for a considerable period, due to sustainability constraints on part of the development partners. An analytical overview will reflect that in the post NFC era, Sindh has shown increase in spending, both in the recurrent and development portfolio.

8. The recurrent spending has gone up from Rs. 281 billion in 2010-11 to Rs. 342 billion in 2012-13, mainly due to the annual increase in the salaries and pension bill. But significantly so, the size of the development budget has more than doubled, from Rs 65 billion, in 2010-11 to Rs 143 billion in 2012-13. The Provincial revenue collection has also shown a healthy growth rate, in the corresponding period of 2010-11 to 2012-13. The provincial tax collection, in the aforementioned period, jumped from Rs 47 billion to Rs 70 billion. Still for around 80% of its receipts, Sindh is dependent on the federal government. The receipts outflow from Islamabad is unpredictable and uncertain, as the same depends upon the achievement of collection targets by the Federal Board of Revenue (FBR). The budget and actual of receipts and expenditures of the Government of Sindh for 2011-12 to 2013-14 are presented in Table 1 below:

Table 1

(Amount in PKR Millions)

CODE NO. HEAD OF ACCOUNTS.	Budget 2011-12	ACTUAL 2011-12	Budget 2012-13	ACTUAL 2012-13	Budget 2013-14	ACTUAL 2013-14 (11 MONTHS)
RECEIPTS						
Federal Transfers	305.307	291.421	373.619	327.893	400.062	334.044
Provincial Receipts	79.907	76.620	96.633	92.771	120.469	78.253
Capital Receipts	27.004	10.486	28.200	10.323	18.443	2.744
RECEIPTS	412.217	378.527	498.451	430.987	538.974	415.041
EXPENDITURE						
Current Revenue Expenditure	350.000	308.531	315.301	306.754	355.974	287.647
Capital Expenditure	33.309	27.646	33.309	17.810	31.302	60.549
Development Expenditure	111.000	114.174	181.000	102.329	185.000	95.983
EXPENDITURE	494.309	450.352	529.610	426.893	572.276	444.179

C. Reforms Landscape of Sindh

World Bank Education Program

9. The World Bank Sindh Education Sector Project (SEP) of Pakistan supports the Government of Sindh's Medium Term Education Sector Reform Program (SERP). The financing framework of the SERP has been integrated in the MTFF, to ensure the availability of the required financial resources, during the programme period. Education department is one of the eight pilot departments, budgeting for which is done on the MTBF format. The EU Delegation too has an education program running in Sindh.

Project for Improvement of Financial Reporting and Auditing (PIFRA)

10. The PIFRA project's objective is to improve the accuracy, comprehensiveness, reliability and timeliness of intra-year and year-end of public expenditure. This project began in 1997, with the World Bank assistance, and is extended from time to time. The main feature of this program is the introduction and implementation of the New Chart of Accounts. The SAP/R3 was designed, as software for the, integrated financial management information system (IFMIS), which has been implemented across Pakistan. Accounting Policy and Procedural Manuals (APPM) replaced the old accounting manuals, and the concept of performance and risk based audit was introduced.

Procurement Authority support

11. The Sindh Government has made remarkable achievement in streamlining transparency, competition and value for money in procurements. Procurement rules, procedures and guidelines are in place. The Sindh Public Procurement and Regulatory Authority (SPPRA) is effectively playing its statutory role of regulating procurements in the province and providing dispute resolution mechanism. The Public Procurement Regulatory Authorities led by the Federal Public Procurement Regulatory Authority has got the National Procurement Strategy drafted. The strategy draws on the following thematic areas including the action Plan delineating short, medium and long term actions:

- a) Legal framework
- b) Institutional arrangement
- c) Monitoring and oversight
- d) Capacity Building of Procuring Agency and Suppliers

The above activities would focus to achieve the following objectives:

- a) Harmonization of procurement laws and procedures;
- b) Improving and updating laws, rules and procedures and making use of technology to facilitate transparency, fairness, competition and achieve value of money;
- c) Improving governance and institutional capacity of PPRA's and procuring agencies;
- d) Strengthening monitoring and oversight capacity of procurement regulatory authorities
- e) Capacity building of procuring entities and suppliers.

USAID, WB and ADB have been providing support to the Sindh Public Procurement Regulatory Authority in terms of capacity building, and support for improved procedures, legislation and transparency. Since the SPPRA plans its engagement with donors in line with the strategy, it is therefore recommended that the European Union's technical assistance should be designed inter alia to assist SPPRA not only prepare action plan (short, medium and long term actions) but also implement short term actions to achieve some of the stated objectives.

D. Legal and Institutional Framework for Public Financial Management

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

13. Public sector bodies are well defined in rules and statutes by major types of entities, the Constitution adequately provides for laws on all subjects listed in the legislative list of the fourth schedule, including public finances. The procedure for laying bill and presenting law on subjects listed in the federal legislative list are defined in Article 70. The Constitution provides adequate enabling legal frameworks with respect to public finance, public debt management, and public sector audit through Articles 79 and 160-171.

14. The basic framework for the assignment of fiscal powers and the distribution of revenues between the federation and provinces is laid down in the Constitution. The National Finance Commission, established under Article 160, consists of the Federal and Provincial Ministers of Finance and such other persons who may be appointed by the President after consultation with the Governors. At intervals not exceeding 5 years, the National Finance Commission makes recommendations regarding the distribution of the net proceeds of defined taxes; the making of grants-in-aid by the federal government to the provincial governments; the exercise by the federal government and the provincial governments of the borrowing powers conferred by the Constitution; and any other matters relating to finance referred to the Commission by the President. The 7th NFC Award was signed in December 2009 and has been in force since FY2010/11. As a result, the provincial share in vertical distributions increased from 46.5% in 2010 to 56% in 2011 and to 57.5% for the next four years with consequential reduction in the share of the federal government. General Sales Tax on services is also recognized as a right of provincial governments from 2011 onwards.²

15. The PFM process at the provincial level starts with budget preparation. The Finance Department 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 Department is responsible for the annual development program and its monitoring. The budget is laid before the provincial legislature for review and approval. Drawing and Disbursing Officers (DDO) submit expenditure bills to the accounts offices for payment. The district- and provincial-level accounts offices process payment claims while exercising budgetary controls and compliance checks. As per the legal framework, the Controller General of Accounts, through the provincial Accountant General, maintains the accounts of financial transactions and prepares both in-year and the annual financial statements for the Province. The Auditor General of Pakistan conducts the external audit of the accounts; and the audited accounts and related management letter are submitted to the provincial Governor who then presents these before the provincial legislature for scrutiny.³

² Public Financial Management and Accountability Assessment, 2013 p.8

³ IBID, p. 9

E. Public Financial Management System – Situational Analysis

Introduction

16. In 2013, the Government of Sindh requested that a Public Financial Management and Accountability Assessment be conducted for the Province to evaluate the performance of the Government. The assessment was conducted based on the data from the last three financial years i.e. 2009-2012. The assessment was conducted against 32 PFM performance management indicators (28 for provincial government performance, 3 for donor practices and 1 for higher level government). This 2013 PFMAA was a follow-up to the 2009 assessment and provides an integrated assessment of PFM performance together with an assessment of the impact of PFM weaknesses and the prospects for reform planning and implementation.⁴ It is pertinent to note that no formal monitoring mechanisms were put in place after the conduct of the 2009 assessment to address the weaknesses identified.⁵

17. Using the PEFA assessment findings as a point of reference, the GoS indicated that it intends to prioritize areas of reform among short-, medium-, and long-term horizons. Within each of these, the PEFA assessment scores will be used as a baseline against which targets will be determined leading to the formulation of an action plan for achieving these performance levels within a defined period of time. The level of detail will vary in the short- to long-term horizon.

18. In the short- to medium-term horizon, the reform activities will largely focus on consolidating previous reforms rather than introducing a new set of reforms such as the establishment of oversight mechanisms regarding compliance with rules, policies and procedures, definition of service standards, systems audit of the Government Financial Management Information System (GFMIS) for identification of weaknesses, detailed object classification of the development budget to enable monitoring, and more. Medium- to long-term actions will entail policy reforms or development of new systems or procedures as required.

19. To consolidate the reforms and to address the weaknesses in the PFM system, the Finance Department has committed to prepare a PFM Reform Strategy for Sindh Province. Committees which included all relevant stakeholders were notified to formulate, review, and recommend PFM reform proposals. These groups were tasked with preparing the overall strategy that will include revenue mobilization, procurement reforms, debt management, information disclosure, and other relevant functions.⁶

General Conclusions

20. In comparing the PEFA Assessment for Sindh published in 2009 to the indicators from the 2013 assessment, there has been an overall deterioration in scores. In addition, there are also a significant number of scores that have remained the same, suggesting that little progress has been made. Comments regarding specific dimensions are as follows:

- *Credibility of the budget:* The aggregate expenditure out-turns in the previous three years remain below budgeted expenditures. This is attributed to lower collection of taxes and/or over estimation of resources.

⁴ IBID, p.vii

⁵ IBID, p. x

⁶ IBID, p. xiv

- *Comprehensiveness and transparency:* Key indicators for this dimension, such as that for classification of the budget, remain highly rated while the rating for transparency of inter-governmental fiscal relations has improved due to the timeliness of subnational budget allocations. The absence of debt stock details in the budget documentation led to a slight deterioration on one indicator, but otherwise performance was strong.
- *Policy-based budgeting:* Although orderliness and participation in the annual budget process has remained strong, there has been deterioration in the indicator pertaining to multi-year perspective in fiscal planning, expenditure policy, and budgeting.
- *Predictability and control in budget execution:* There has generally been a deterioration or lack of progress on the majority of indicators. A weak internal control environment, high tax arrears, and the absence of both internal audit and tax audit contribute to making this a dimension particularly in need of reform effort.
- *Accounting and reporting:* There has been a slight deterioration due to bank reconciliations and the quality of reporting issues. Nevertheless, both this dimension and the *external scrutiny and audit* dimension (which has shown improved performance) remain PFM areas of relative strength.
- *Donor practices:* A decline in the ratings was observed due to an increase in the volume of disbursements and the practices of donor agencies.

Achievements

21. Drawing on the analysis presented in the 2013 PFMAA, some of the achievements that have been realized in reforming the PFM system are:
 - *Comprehensiveness and transparency:* The state of comprehensiveness of the budget is generally observed to be satisfactory. The Government uses a new accounting model for formulating and reporting the budget which follows a robust international classification standard. In addition, all payments are processed through the Government Financial Management Information System (GFMS), which ensures no payment is executed without a budget; this eventually eliminates any chances of un-reported revenues or expenditures.
 - *Policy-based budgeting:* The budget calendar is well defined and adhered to, and the budget process is adequately guided through the issuance of the Budget Call Circular. Budget ceilings are also issued to line departments well in advance. Furthermore, there has been timely approval of the provincial budget by the legislature in each of the last three years. There is however scope to improve the links between policy-making, planning, and budgeting.⁷

Challenges

22. Using the same analysis, some of the systematic weakness and missing links in the PFM system which are:
 - *Credibility of the budget:* The credibility of the budget is severely undermined by the use of supplementary grants and re-appropriations among grants without ex-ante approvals of the budget. This management of the approved budget, through a “mechanism of releases”, significantly reduces the overall usefulness of the budget as a tool to create fiscal

⁷ IBID, p. vii

discipline, economy, and transparency. Further, there is no limitation on the Executive's power to make changes to the budget, including expansion. The actual domestic revenue of Sindh Government remained significantly below that set out in the originally approved budget in two of the last three years. This calls into question the methods used to estimate annual revenue budgets. In addition, the implementation of existing rules for recording of liabilities at commitment level has not been enforced. As a result, no consolidated record of expenditure related to payment of arrears is available for better public expenditure management. The unrecorded and undisclosed stock of arrears continues to remain an issue.

- *Comprehensiveness and transparency:* Fiscal reports do not present complete information relating to donor-funded public expenditure. This is often due to an absence of information available from donors. Public access to key fiscal information and transparency remains limited with the public only having access to two of the six types of information set out in PEFA framework criteria. The monitoring of aggregate fiscal risk is an area of concern as there is a lack of a consolidated risk assessment and reporting for autonomous government agencies and public enterprises.
- *Policy-based budgeting:* The preparation implementation and monitoring of the development budget is an independent exercise that has little synchronization with sector strategies and the availability of development funds. This leads to the risk of a sub-optimal use of resources for development purposes. The multi-year budgetary framework (MTBF) was introduced in 2009 and had been rolled out in eight departments by 2012. However, MTBF only covers recurrent expenditure, which largely consists of salary-related items. Since there is no coverage of development expenditure in MTBF, the link between the investment budget and forward expenditures is lacking. Debt sustainability analysis needs to be revived as none has taken place in the last three years.
- *Predictability and control in budget execution:* Taken in aggregate, the PEFA indicators in this area suggest that predictability and control in budget execution remains the biggest challenge to the Government. The GoS successfully established the Sindh Revenue Board (SRB) to collect sales tax on services after the introduction of the 18th Amendment in the Constitution. No survey of potential taxpayers has taken place in the recent past. This coupled with the issue of discretionary powers allowed with respect to tax assessments and the levy of penalties in agriculture income tax, property tax, etc., has contributed to a declining tax-to-GDP ratio in the province. The collection ratio however of assessed taxes, the reconciliation between revenue and treasury records, and the availability of funds to the treasury is satisfactory. The preparation of reliable a cash flow is a particular challenge for the Sindh Government as receipts from federal government cannot be predicted with accuracy.
- The GoS has shifted 95 percent of its employees onto a computerized payroll system through the office of the Accountant General Sindh and internal audit of the payroll is now being conducted on regular basis by the office of the AG Sindh. Moreover as already implemented in the main office of the Accountant General Sindh, the manual payments of pay/allowances/arrears may also be paid through the system/payroll in the Districts. It has already been communicated to the departments through Finance Department to come up with the reports required for departmental internal audit by using connectivity already provided by the PIFRA. But specific payroll audits and the regular reconciliation between payroll data and personnel records is not yet established. The internal control environment is generally not effective due to the weak implementation of existing financial rules and procedures, coupled with weak accountability when non-compliance is observed. Internal audit is absent.

- PIFRA is fully functional in the province but it lacks proper monitoring mechanism especially in pay and pension area and there are several complaints regarding misappropriation in treasuries. There is a need to introduce PIFRA on monitoring side as well so that likelihood of "Ghost recipients" may be eliminated from the system which would save several millions from the public exchequer. Along with monitoring, provision of physical audit should be made mandatory and independent bodies should be assigned this task so that there could be maximum transparency on expenditure side. Improved budgetary processes require, improved capacity of financial managers. To achieve this objective financial consultants well conversant with SAP may be engaged to help Finance Department and line department's officers/officials to enhance their technical skills from budget planning, preparation, execution to monitoring. Hand on training, increase in access of PIFRA connectivity and mapping of expenditure reports for credible budgeting may be initiated.

While remarkable progress in streamlining transparency, competition, and value for money in procurements was made, the lack of availability of data leads to poor scores as per the PEFA Framework. Procurement rules, procedures, and guidelines are in place, and the Sindh Public Procurement Regulatory Authority (SPPRA) is effectively playing its statutory role of regulating procurements in the province and providing a dispute resolution mechanism.

- *Accounting, recording, and reporting:* Despite GFMIS connectivity in place for the entire province and all line departments, weaknesses were observed in the accounting, recording, and reporting procedures. The GFMIS and associated policies and procedures are consistent with the system implemented across the country. It enables easy access to information on budgetary resources available and consumed. In-year budget reports are produced on a timely basis, as are the annual financial statements that are submitted to the Auditor General for external scrutiny. The gaps in performance are largely attributable to the lack of implementation of commitment accounting and poor reconciliation practices. Financial statements are quite comprehensive but lack information on assets and liabilities leading to poorer scores.
- *External scrutiny and audit:* External audits are completed expeditiously; but there is a significant delay in the review of external audit reports by the Public Accounts Committee (PAC) creating a backlog. There is an effective system in place to scrutinize the annual budget. This has a wide scope, which includes the scrutiny of fiscal policies, medium-term fiscal framework, and medium-term priorities as well as the details of expenditures and revenues. However, the time period given, less than a month, undermines the extent of the review.
- *Donor Practices:* The Sindh Government is receiving donor aid in three forms: foreign loan/debt, budgetary support for specific sector/program, and project-specific aid. The details of donor funds being disbursed is available from the Economic Affairs Division at the federal level, however, the same has to be synchronized with the provincial-level GFMIS. The provincial government is not receiving funding forecast information from donors on a timely basis. Furthermore, information provided is not aligned to the Sindh Government's fiscal periods or chart of accounts. There is a clear need to improve this process so that the budget can be presented on a more realistic basis.
- *Central Government Practices:* More than 80 percent of the Sindh Government funds are comprised of federal government transfers. These transfers include the Sindh Government's share in the National Finance Commission pool of federally collected taxes and straight transfers. The transfer of funds by the federal government is subject to the actual collection of

taxes. While the variation in the amount of transfers is manageable, the unpredictability in the timing of these transfers severely impacts the Sindh Government's ability to plan and release funds to departments.⁸

F. The Public Financial Management Reform Strategy 2014/15-2019/20

Objective

23. The objective of the PFM Reform Strategy is to ensure a public finance system that is based on the principles of transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development. The objective is linked to other reforms in the GoS which will target:

- Economic growth and poverty reduction to be achieved through policy based budgeting in order to realize three key strategic budgetary outcomes of aggregate fiscal discipline and sustainable budget balance; strategic allocation of resources; and the efficient use of the resources in service delivery to the province;
- Rapid improvement of service delivery through performance contracts underpinned by the introduction and enforcement of performance and output based budgets within the Medium Term Budgetary Framework; and
- Promotion of principles of good governance so as to improve transparency, accountability and efficient controls. The PFM Reform Strategy will be instrumental in the fight against misuse and wasteful public spending, and in reducing/eliminating opportunities for corruption.

Rationale for the PFM Reform Strategy

24. The strategy provides a framework to accelerate reforms in public finance management in order to enhance transparency and accountability for improved service delivery. This Strategy seeks to focus on the beneficial changes that shall be made to the existing systems and also cover support to the establishment of new systems and institutions.

25. The PFM Strategy 2014/15-2019/20 has been prepared for guiding the prioritization and sequencing of targeted PFM reforms while at the same time consolidating, deepening and widening the reforms so as to reap the full benefits of improved PFM for better service delivery. It is chiefly based on the diagnostic made by in Public Financial Management and Accountability Assessment of 2013.

26. In the recent past, the GoS had scattered programs for the improvement of public financial management. However, these could not be sustained or scaled-up in the absence of a coherent, focused PFM strategy. Currently, there is strong support and recognition at senior levels of government that Sindh province needs a functioning MTBF. The MTBF needs to deliver value and demonstrate how it can be used as a tool for enhanced budget management, monitoring, setting strategic priorities and guiding allocation of resources.

27. An integrated PFM strategy will present to the development partners a document, owned by the GoS, with clear policy directions, with resource and assistance needs identified. This will support

⁸ IBID, p. vii

a public financial management framework and systems to support the achievement of economic development, strategic and social goals, for better service delivery.

Principles of the PFM Reform Strategy

28. The PFM Reform Strategy is “to devise and implement principles of good governance, in the GoS to improve effectiveness, efficiency and attain value for money in the control and management of public resources”. The principles that will be used to guide the PFM reforms are:

- Well-structured coordination and participation by key stakeholders to ensure ownership and successful implementation of components. The key stakeholders include elected representatives, public officials, Provincial Assembly, civil society and the development partners;
- Complete understanding of designed interventions and acceptability of change within the government machinery backed by political commitment;
- The burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;
- Staff supervision and conformity with legislation and procedures to ensure strict adherence to laws, regulations and procedures to eliminate non-compliance which has the potential to degenerate into a culture of impunity;
- Consolidate what has been achieved so far as it is important that the PFM reforms build on past successes and take into account the lessons learned;
- Prioritization and sequencing of PFM reforms. It is critical to arrange and sequence the reforms in a way that ensures that they will be successfully implemented;
- Guaranteed sustainability of reforms to ensure that the next phase of PFM reforms once implemented are sustained. This will require that the institutions given the responsibility for implementing the reforms have the requisite mandate and resources to carry through and institutionalize the reforms; and
- Greater use of Public Private Partnership (PPP) to complement the limited GoS resources and to improve the efficiency of the various operating units to improve service delivery.

G. The Public Financial Management Reform Strategy of Sindh

29. The Government of Sindh (GoS) has in recent years undertaken a number of reforms to strengthen its capacity to invest in its human resources and to develop its public infrastructure with the goal of promoting the economic development of the Province. To achieve this goal, it is essential to strengthen the GoS’ public financial management (PFM) system to efficiently collect its taxes and fees and to manage and control expenditures. In order to strengthen its PFM system, GoS has implemented a number of initiatives designed to improve governance in the province and to continue to develop the capacity of its human resources and to make its institutions more efficient. Some of these programs include the strengthening of Sindh Public Procurement Regulatory Authority (SPPRA), Sindh Revenue Board (SRB), Sindh Civil Services Academy (SCSA), Sindh Tax Revenue Mobilization Plan (STRMP), and Economic Reform Unit (ERU).

30. The GoS PFM Reform Strategy has been designed to address the challenges and to build on the strengths identified by the 2013 PFMAA. The data and indicators contained in the PFMAA provide the base-line information against which to measure the government’s progress in implementing its reform program. The various elements or components of the strategy have been

grouped into four themes with each theme containing a number of activities. Within each activity there are a number of actions to be completed which will lead to the identified outputs from that theme. The thematic approach recognizes the inter-relationships of the various components and facilitates implementation.

Strategic PFM Themes

Theme one: Planning and Budgeting

Objective: To establish a clear and transparent budget presentation reflective of policy objectives and allocative efficiency after a credible budget process, improve the quality of macroeconomic and fiscal framework and to provide a sustainable overall budget ceiling.

Activities:

Multi-Term Budgetary Framework

- Document the lessons learned from the MTBF pilot in eight departments and proceed with an updated pilot program in these departments.
- Economic Reform Unit (ERU) Finance Department has since spearheaded MTBF Cell. However, it is imperative that the present staff of MTBF Cell hired through technical assistance of SERP-II and posted in ERU Finance Department should be made a permanent entity under Finance Department, GoS.
- Provide capacity building to the MTBF Cell and departments' focal groups to ensure an understanding of the basic theme of MTBF and its implications on establishing their respective budgetary priorities
- Develop procedures to ensure that annual plans reflect the physical work plan of the project and the schedule of costs/payments in order to maintain a close relationship between costs and physical progress
- Document the amount of arrears in the GoS system and develop plans to gradually reduce them
- Prepare forward estimates in order to give credible ceilings to the departments

Output Based Budgeting

- Strengthen the capacity of the MTBF Cell in the finance department to coordinate and liaison with the line departments to support them in preparation and implementation of OBB/MTBF;
- Assist the line departments to prepare credible medium-term operational plans, on the basis of which, outputs and outcomes are identified;
- Provide technical assistance to line departments to prepare OBB plans for their sectors

Integrate Current and Development Budgets

- Strengthen the capacity of the planning and finance department to develop strategic policy documents and plans to map current and development budgets;
- Develop procedures to introduce legislative review and approval of amendments to the approved ADP beyond certain parameters;
- Develop procedures for transparency and predictability in release of funds to development schemes ideally achieving a 75:25 split between ongoing and new schemes.

Participative Budgeting

- Present fiscal priorities and policies through a budget strategy paper well in advance to cabinet and the elected representatives to seek guidance in the preparation of a budget that reflects the priorities of the people

- Prioritize resource allocation through debates within legislature and in civil society toward those sectors and programmes that have the greatest impact on equity, economic growth and poverty reduction
- Consult with key stakeholders through a series of pre-budget seminars and workshops
- Ensure that budget documents, minutes of meetings of legislature, discussions in civil society organization are publicly accessible and easily understandable
- Develop comprehensive structures for public participation in decision-making on resource allocation with a feedback loop including holding seminars and workshops with key stakeholders

Legislative Review

- Develop and implement a transparent and comprehensive set of policies, rules, regulations, and procedures for the PFM system governing the roles, responsibilities, coordination mechanisms, and institutional arrangements for all bodies involved in public financial management
- Limit the executive's ability to amend the approved budget without requiring the approval of the legislature
- Expand the time available to the legislature to review budget proposals
- Develop the legal competency in the PFM institutions at both the provincial and district levels
- Inform and educate key stakeholders on the PFM legal and regulatory framework

Outputs:

- Provincial and district priorities are reflected in the budget documents and are aligned to the development priorities of the province
- The budgets reflect the active input provided as a result of public participation in the deliberations of resource allocations and policy priorities
- The budget is comprehensive and inclusive of district and autonomous and semi-autonomous agencies as well as all donor-financed expenditures
- The multi-term budgetary planning is clear and transparent in presenting the financial and non-financial information and expected achievements in the annual and medium-term budgets
- Monitoring reports compare physical progress with costs incurred
- The capacity of the finance department and the line departments to undertake MTBF budgeting is strengthened. Development of special training programmes for Focal Officers (in BS-18 & above) on PFM reform activities. This training programme may include short-term (ten days) visits of Ministry of Finance and Tax collecting agencies of developing (newly industrialized) and developed countries on bi-annual/regular basis. This would provide an opportunity for the officers to share knowledge/experience.
- The scope of the MTBF is increased to cover all the operating and development budgets

Theme two: Budget Execution, Reporting, Accountability and Transparency

Objective: *To ensure efficient and effective budget utilization, accurate and timely accounting and reporting and effective scrutiny and review of the expenditure of public resources at all levels of government.*

Activities:

Budget and Financial Reporting

- Strengthen the utilization of SAP to generate real-time reports on the status of budget execution, including original and revised budgets, releases and actual expenditures to policy makers, and timely completion of the process of reconciliation
- Maximize the utilization of SAP connectivity by all administrative departments
- Use the SAP/R3 to:
 - Provide real-time reporting of expenditures of local governments
 - Incorporate a debt management component
 - Provide for the submission of Budget Call Circular
 - Provide file tracking and management

Payroll and Pension Audit

- Verify the payroll data by matching it with the manual records to identify errors and irregularities
- Automate pensioners' data by bringing pensioners on to the Direct Credit System (DCS) by which all the pensioners will be disbursed pension through their respective bank accounts with complete detail of payments made
- Constitute a committee comprising key stakeholders to ensure the mandatory automation of pension data on the DCS and to ensure that proper budgetary and expenditure checks are performed on the payroll

Smart Government on-line Submission of Bills

- Provide training to the staff in the line agencies to make them aware that the GFMIS has the capability to process payments on-line
- Develop and publicize clear operating and control procedures for the line agencies to follow the processing of bills on-line
- Support the recording of on-line bills by the line agencies by making technical assistance available to assist in the transition
- Publicize the decision that the manual processing of payments will cease in 2-3 years and along with the destruction of all manual checks

Asset Recording and Internal Control

- Provide technical assistance and training to enable all line agencies to conduct an inventory of all fixed assets including the current location, condition and the unique identification number and record them in the GFMIS
- Ensure that the GFMIS fixed asset inventory module is consistent with IPSAS standards

Expenditure Commitment Control

- Review the implementation, of the SPPRA procedures regarding the issuance of a unique ID for all tenders awarded
- Amend system, if required to ensure that the ID contains relevant information regarding the commitment including information such as the name and address of the vendor and that this ID is automatically communicated to AG along with an interface between SPPRA and the GFMIS to record the commitment ID
- Update the GFMIS to require it to deny any payment unless the commitment is already recorded in the system against a valid SPPRA ID
- Develop an interface with GFMIS and project execution reports

- Develop and communicate clear rules and procedures regarding the requirement that a commitment must be in place before a payment can be processed

Public Procurement Practices

- Design an awareness and skill building curriculum on Procurement Management and Operations for all personnel in the procuring agencies
- Design a specialized training program in Procurement Governance and Quality Assurance for the Directors and other key functionaries of the SPPRA and major procuring agencies
- Establish and strengthen monitoring systems to ensure the quality of services, goods and works procured
- Establish mechanisms to monitor the performance of the procuring agencies vis-a-vis the regulatory policy framework, processes and the code of ethics
- Upgrade the procurement function (professionalize) by establishing minimum technical requirements and experience for all staff
- Prepare and publicize a comprehensive procurement strategy covering all aspects of procurement
- Design and develop an e-procurement module and an e-procurement information system module
- Design and create an e-link with key stakeholders

Outputs:

- Payroll and pensioners' data are updated and automated
- SAP/R3 is fully functional in GoS across all departments and districts and serves as an information hub for stakeholders and decision makers
- SAP/R3 is actively used to support decision making through the use of real-time budget execution and other financial reports for policy makers
- Capacity built in the application of the new accounting and financial reporting procedures
- Public assets register developed and updated annually
- Enhanced efficiency, value for money, transparent competition and controls in public procurement at provincial and district levels
- Improved internal control including enhanced accountability in new emerging areas of budget making, revenue collection and accounting, reporting on results and monitoring and evaluation through improved capacity
- Quality financial records, accurate and timely reports and information are available to the legislature and management for making decisions
- The commitment control system is strengthened and provides increased levels of control over the payment process

Theme three: Resource Mobilization

Objective: *To enhance collection, accounting and timely reporting of public revenues at provincial and district levels in line with macroeconomic fiscal policies*

Activities:

Public Debt Management

- Clarify the roles and responsibilities of the finance department regarding the issuance of notification of debt management
- Prepare an external debt management operations and procedures manual
- Review and implement a medium term debt strategy
- Record all receipts and payments of local and foreign debt by the AG office
- Develop debt ledgers with all underlying records reconciled with external and domestic debt records
- Ensure that the GFMIS captures data to produce reports of debt stock, servicing and debt operations on real time basis and subjected to AGP compliance and performance audit
- Develop procedures to ensure that debt sustainability analyses are conducted on a regular basis by GoS
- Establish a debt data base to be maintained by the finance department containing all relevant information on debt and debt servicing
- Provide a fully staffed debt management function in the finance department
- Update the SAP/R3 system to manage loans and reporting thereof in line with DeMFAS system already operating in Federal Government.

Revenue Mobilization

- Develop a macroeconomic data base containing key economic and sectoral variables for quarterly and annual data
- Undertake a comprehensive tax policy and administrative reform to enhance service delivery, improve compliance, broaden the tax base, reduce tax evasion and exemptions
- Enhance capacity building in tax administration and revenue collection
- Establish and execute a framework for the collection, accounting and reporting of receipts
- Promote participation of the private sector by establishing an administrative structure and operationalizing a legal and regulatory framework to guide Public Private Partnership (PPP) arrangements

Bureau of Statistics

- Strengthen the capacity of the Bureau to provide credible and reliable sub-national socio-economic data for planning
- Develop procedures requiring the Bureau to publish on a regular basis the results of surveys, poverty information and socio-economic data

Other

- Develop the Sindh Civil Service Academy to provide a range of training programs for government functionaries at all levels of government throughout the year.

Outputs:

- Enhanced tax revenue collection in accordance with projections
- Increased absorption of external resources
- Increased amount of private resources mobilized through PPPs
- Medium-term debt strategy and framework developed and operationalized,
- Data base developed for all GoS loans including those guaranteed by the Federal Government
- The capacity of the Bureau of Statistics to develop and provide critical data is strengthened

- The capacity of the finance department to manage the public debt is strengthened
- The capacity of the Civil Service Academy to provide a full range of training programs is strengthened

Theme four: Budget Control, Auditing and Oversight

Objective: *To ensure accountability of public resources and the effectiveness and lawfulness in the collection and application of public funds*

Activities:

Internal Audit Function

- Prepare and implement an Internal Audit organizational and operational structure and draft an IA charter and rules
- Establish an IA function as a pilot in the finance department and develop procedures to capture the lessons learned for the eventual roll-out to other departments
- Prepare an IA audit manual and standard operating procedures

Monitoring and Evaluation

- Synchronize the different M&E modules into a provincial framework
- Establish M&E channels for better feedbacks from the departments/districts

Enhance the Effectiveness of the Public Accounts Committee

- Re-engineer the business processes of the PAC Secretariat to enable it to examine all audit reports and prioritize those for discussion
- Prepare and maintain a data base of the PAC decisions along with soft copies of the underlying financial records and reports and update the data base with regular feedback on the compliance status
- Strengthen the PAC secretariat with technical staff with experience in public sector auditing

Public Accounts

- Establish a separate account with the State Bank for all transactions pertaining to the public accounts
- Develop tools to forecast future liabilities to be accrued under various heads of the public accounts

Public Disclosure

- Issue an analysis of the budget in tandem with budget proposals including inter alia data on current year and prior year actuals for debt stock and flow and the key macro-economic assumptions
- Prepare a citizens' budget document for issuance at the time of presentation of the budget proposals summarizing key budget proposals in a user friendly format

Effectiveness of External Audit

- Conduct regular DAC meetings for all departments at district and provincial level with monitoring by the Chief Secretary's office

- Support the AGP in Sindh (DG Audit Sindh) to implement new auditing standards and guidelines in the public sector auditing
- Provide capacity building on audit sampling and audit command language and all INTOSAI standards as adopted by the AGP

Outputs:

- Improved independent audit and oversight capacity and the timely delivery of audit reports for all government and public entities
- A more efficient and effective office of the Auditor-General
- Strengthen internal audit capacity
- Audit reports produced in a timely manner that are accessible and understood by the public and government officials
- Improved performance by the PAC in providing its PFM oversight functions
- Enhanced public access to oversight reports through timeliness, accuracy and accessibility of all reports
- Improved quality of financial records and reports
- Improved public participation

H. Managing Implementation

31. The implementation of the PFM Reform Strategy will be managed using the same organizational structure that is being used to manage and monitor the on-going Sindh Tax Revenue Mobilization Plan (STRMP). Starting in 2013, an administrative structure was put in place by the Finance Department and the various implementing agencies to design the program. Since the structure was the result of a process of dialogue between the various agencies/departments, the resulting structure would have the institutional ownership. In addition, the dialogue process was unique in that it included both operational level staff as well as the senior leadership of the concerned departments.

32. The agreed upon management structure comprises three levels and as much as possible they use existing institutional relationships and hierarchies to support the creation of workable arrangements which facilitate dialogue in support of reform as well as providing timely decisions. The structures consist of the following units:

- The Strategic Reforms Group (SRG),
- The Core Reforms Group (CRG), and
- The Operational Reform Groups (ORG).

33. The SRG is a high-level Steering Committee, chaired by the Chief Minister Sindh which oversees the implementation of the STRMP with meetings held on a quarterly basis. The CRG is chaired by the Secretary Finance and it has been given the responsibility to coordinate and to take the necessary measures to streamline and speed up implementation. These committees set performance targets and receive reports against them to promote results-oriented implementation. Separate ORGs have been established at the department and agency level comprising unit heads and functional managers with strong understanding of the operations of their respective units.

34. Since the mandate of the PFM Reform Strategy is broader than that of the STRMP, the composition of the CRG and the ORGs will vary to reflect the ministries/departments/agencies

involved with the PFM program. However, it is expected that the composition of the high-level Steering Committee (SRG) will remain largely intact and consist of the following officials:

Composition of Strategic Reform Group (SRG)

1. Chief Minister Sindh – Chairman
2. Advisor to the C.M. on Finance
3. Chief Secretary, GoS
4. Two MPAs to be nominated by C.M.
5. Senior Member BOR
6. Additional Chief Secretary (Planning & Development)
7. Secretary Finance
8. Secretary E&T
9. Accountant General, Sindh
10. Director General Audit, Sindh
11. Chairman SRB
12. Managing Director, Sindh Public Procurement Regulatory Authority (SPPRA)
13. Special Secretary Finance (Budget & Resource)
14. Chief Economist (Finance Department)

Summary of PEFA Ratings 2009 and 2013 for Sindh Province ⁹

Summary of Performance Indicators		2009	2013
A. PFM-OUT-TURNS: Credibility of the Budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	C
PI-2	Composition of expenditure out-turn compared to original approved budget	D	C
PI-3	Aggregate revenue out-turn compared to original approved budget	B	D
PI-4	Stock & monitoring of expenditure payment arrears	D+	NR
PI-5	Classification of the budget	A	A
PI-6	Comprehensiveness of information included in budget documentation	A	B
PI-7	Extent of unreported government operations	D+	D+
PI-8	Transparency of inter-governmental fiscal relations	B	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D	C+
PI-10	Public access to key fiscal information	C	C
C. BUDGET CYCLE: Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	B+	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	C	D
PI-13	Transparency of taxpayer obligations & liabilities	C	B
PI-14	Effectiveness of measures for taxpayer registration & tax assessment	D+	D+
PI-15	Effectiveness in collection of tax payments	C+	B+
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	C+
PI-17	Recording and management of cash balances, debt & guarantees	B	C+
PI-18	Effectiveness of payroll controls	C+	D+
PI-19	Transparency, competition and complaints mechanism in procurement	NA	C+
PI-20	Effectiveness of internal controls for non-salary Expenditure	C	C
PI-21	Effectiveness of internal audit	D	NR
PI-22	Timeliness & regularity of accounts reconciliation	C+	D+
PI-23	Availability of information on resources received by service delivery unit	B	A
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality & timeliness of annual financial statements	B	C+
F. External Scrutiny and Audit			
PI-26	Scope, nature & follow-up of external audit	D+	C+
PI-27	Legislative scrutiny of the annual budget law	D+	D+
PI-28	Legislative scrutiny of external audit reports	D+	D+
G. Donor Practices			
D-1	Predictability of Direct Budget Support	C+	D
D-2	Financial information by donors for budgeting & reporting on project & program aid	C+	D+
D-3	Proportion of aid that is managed by use of national procedures	B	B
H. Central Government Practices			
HLG-1	Predictability of Transfers from Higher Level of Government	A	D+

⁹ IBID, p. xii

Summary of PFM Action Plan for Sindh Province

<p>PFM Goal: to ensure a public finance system that is based on the principles of transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development</p>			
<p>PFM Reform Strategy Objective: is to ensure a public finance system that is based on the principles of transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development</p>			
Theme 1 Planning and Budgeting	Theme 2 Budget Execution, Reporting, Accountability & Transparency	Theme 3 Resource Mobilization	Theme 4 Budget Control, Auditing & Oversight
<p>Objective Establish a clear and transparent budget presentation reflective of policy objectives and allocative efficiency after a credible budget process, and improve the quality of macroeconomic and fiscal framework and to provide a sustainable overall budget ceiling</p>	<p>Objective To ensure efficient and effective budget utilization, accurate and timely accounting and reporting and effective scrutiny and review of expenditure of public resources at all levels of government</p>	<p>Objective To enhance collection, accounting and timely reporting of public revenues at provincial and district levels, in line with macroeconomic fiscal policies</p>	<p>Objective To ensure accountability of public resources and the effectiveness and lawfulness in the collection and application of public funds</p>
Outputs	Outputs	Outputs	Outputs
Provincial and district priorities are reflected in the budget documents and are aligned to the development priorities of the country	Payroll and pensioners' data are updated and automated	Enhanced tax revenue collection in accordance with projections	Improved independent audit and oversight capacity and the timely delivery of audit reports for all government and public entities
The budgets reflect the active input provided as a results of public participation in the deliberations of resource allocations and policy priorities	The PIFRA is fully functional in GoS across all departments and districts and serves as an information hub for stakeholders and decision makers	Increased absorption of external resources	A more efficient and effective office of the Auditor-General
The budget is comprehensive and inclusive of district and autonomous and semi-autonomous agencies as well as all development partner-financed expenditures	The PIFRA is a robust information management system which generates real-time budget execution and other financial reports for policy makers	Increased amount of private resources mobilized through PPPs	Strengthen internal audit capacity
The multi-term budgetary planning is clear and transparent in presenting the financial and non-financial information and expected achievements in the annual and medium-term budgets	Capacity built in the application of the new accounting and financial reporting procedures	Medium-term debt strategy and framework developed and operational	Audit reports produced in a timely manner that are accessible and understood by the public and government officials
Annual plans compare physical progress with costs incurred	Public assets register developed and updated annually	Data base developed for all GoS loans including those guaranteed by the federal government	Improved performance by the PAC in providing its PFM oversight functions
The capacity of the finance department and the line departments to undertake MTBF budgeting is strengthened	Enhanced efficiency, value for money, transparent competition and controls in public procurement at provincial and district levels	The capacity of the Bureau of Statistics to develop and provide critical data is strengthened	Enhanced public access to oversight reports through timeliness, accuracy and accessibility of all reports
The scope of the MTBF is increased to cover all	Improved internal control including enhanced	The capacity of the finance department to manage the	Improved quality of financial records and reports

developments and the operating and development budgets	accountability in new emerging areas of budget making, revenue collection and accounting, reporting on results and monitoring and evaluation through improved capacity	public debt is strengthened	
	Quality financial records, accurate and timely reports and information available to the legislature and management for making decisions	The capacity of the Civil Service Academy to provide a full range of training programs is strengthened	Improved public participation
	The commitment control system is strengthened and provides for increased levels of control over the payment process		