

Summary Assessment

1. This report uses the indicator-led analysis to provide an integrated assessment of NWFP's PFM system against the six core dimensions of PFM performance. It forms the background basis for a further assessment of the likely impact of the indicator ratings on: budgetary outcomes, aggregate fiscal discipline, and the strategic allocation of resources and efficient service delivery. The outcome of the assessment provides a useful mechanism for charting a path towards improved PFM performance and serves as a foundation against which future PFM performance benchmarks can be based.

2. The PEFA¹ Performance Measurement Framework provides a four-grade rating mechanism for measuring the attributes of PFM against detailed operational performance benchmarks provided in the assessment guidance. The outcome of the assessment provides a useful mechanism for charting a path towards demonstrably improved PFM performance. Based on that rating scheme, the review has assessed the indicators for the Government of NWFP at this stage as set out in this report. The deficiencies identified have an impact on aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery in the province. The assessment highlights the need for reforms in specific areas of budget development, budget execution, accounting, external audit and legislative oversight. Following this snapshot-based assessment, a summary diagnostic (Appendix 1) was carried out to assess the factors that have hampered performance and to draw proposals for improvement that may be considered in designing a future PFM reform strategy. Quite a lot of the future improvement in all of these areas depends on the pace of implementation and success of PIFRA in the province, as well as on the successful implementation and completion of the devolution reforms process.

3. Based on the 'snap-shot' assessment made, the following specific performance levels have been identified for the NWFP:

- a) budget credibility, in terms of expenditure and revenue out-turns as well as expenditure composition, showed weak performance ratings, thus necessitating increased focus by the provincial government. While a few of the underlying issues, as highlighted the Appendix (summary diagnostics of weak performance areas), are exogenous to the province, there are still important elements that the provincial government would need to manage. Overall budgeted revenues have consistently been falling short of actual revenues despite the province-own assigned revenues remaining higher than budget. The impact of budgeting higher receipts from *hydel profits*, and consequently receiving lesser amounts, has been a key underlying issue that has translated into the overall weakness in the credibility and realism of the budget.
- b) the government formulates a comprehensive budget based on a well established classification system. However, the degree to which the budget information is available to the public as well as the extent to which the fiscal reports are comprehensively reported are areas requiring additional effort of the government. Of particular relevance in this area is the lack of a coherent system of determining fiscal risk arising from unreported government operations related to PLAs, government-own assignment accounts, and donor-funded investment projects, and AGAs/PEs. In addition, the lack of monitoring the stock of expenditure arrears is one area that has witnessed uneven performance.

¹ PEFA: Public Financial Management Performance Measurement Framework, June 2005, PEFA Secretariat, World Bank, Washington DC, USA - PEFA includes World Bank, IMF, European Commission, UK, France, Norway, Switzerland and SPA Strategic Partnership with Africa.

- c) while participation and orderliness in the annual budget process and the level of transparency in the fiscal transfer mechanism are key strengths of the province, the lack of widespread preparation and presentation of sectoral strategies to support a coherent multi-year budgetary planning framework undermines the whole basis for the MTBF.
- d) tax assessment, collection, reconciliation, and tax payer education are all areas that have shown weak performance. The transparency of the appeals process as well as the measures applied in determining obligations and liabilities amidst high discretionary powers of the taxation authorities (E&T and BoR) has also diluted the potential good performance in this area.
- e) although there is scope for further improvement, the management of cash balances, debts and guarantees of the provincial government and with the manner in which payroll controls are applied, are areas of good performance in the province. Funds releases, while being a function of cash availability, would need to be more timely, coordinated, and dictated by program needs.
- f) NWFP is the best performing province in the area of account reconciliations. It remains weak as far as internal controls and internal audit are concerned – a phenomenon found across all provinces.
- g) the quality of civil accounts is only beginning to improve with attempts to commence the inclusion of budget information as part of budget execution reports/civil accounts under an automated PFM environment in NWFP. Equally the timeliness of producing annual financial statements, being about 10 months after the end of the fiscal year has begun to improve by 2.5 months although a lot remains to be done to ensure that the reports are made available to audit within 4 months of the end of the year.
- h) the audit directorates (district and provincial) are performing well in terms of delivering draft audit reports for certification by the AGP within 11 months of the end of the fiscal year, despite the same reports remaining to be finalized for long periods of time at the quality control unit of the audit headquarters in Islamabad. Although audit quality has begun to improve, the audit reports and accounts are presented to the legislature over 18 months after the end of the fiscal year – a state of affairs that is unsatisfactory but expected to be remedied in the coming year when the new audit methodology shall be fully implemented.
- i) the lack of adequate time given to the legislature to review the budget documents, and the slow pace of review of audited accounts and audit reports by the PAC, combined with the lack of adequate functioning of the *Zila* Accounts Committees, are key weakness identified by the assessment.
- j) as regards the donor performances in the area of development assistance, the assessment identified key strengths. Opportunities for renewed mainstreaming by donors' use of government systems (particularly the government's chart of accounts) to design and report on investment operations is one area to be flagged under the Paris Declaration on donors' alignment with government systems.

4. Overall, NWFP has performed reasonably well since the PFAA of 2004 was conducted. This PFMA, based on the PEFA Framework, shall henceforth serve as a baseline against which the province's performance shall be tracked through province's own self-monitoring. A renewed assessment would need to be carried out after every 3 years.