

**Pakistan: Report on Observance of Standards and Codes—
Fiscal Transparency Module—Update**

This update to the Report on the Observance of Standards and Codes—Fiscal Transparency Module for **Pakistan** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **November 19, 2004**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Pakistan** or the Executive Board of the IMF.

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PAKISTAN

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module—Update**

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I. INTRODUCTION

1. The original fiscal ROSC was issued in November 2000 and was subsequently updated during the 2002 Article IV consultation. During the 2004 Article IV consultations, the IMF staff reviewed developments in the areas pertaining to Pakistan's observance of the fiscal transparency practices with a view to updating, where relevant, changes in current practices, or describing the implementation of the earlier ROSC's recommendations. *Unless indicated differently below, the recommendations made in the original fiscal ROSC remain relevant.*

II. DESCRIPTION OF PROGRESS

2. *The original fiscal ROSC recommendations gave high priority to improving the timeliness and reliability of reports on federal government fiscal activity. Improved accounting standards and training in accounting were also emphasized.*

3. **Under the Project for Improvement of Financial Reporting and Auditing (PIFRA), key steps to enhance fiscal reporting and monitoring were taken recently.** The 2004/05 federal budget documents were prepared under a New Accounting Model (NAM) and new Chart of Accounts (CoA) that cater for adoption of accrual basis accounting and the likely future improvements in accounting standards. Also, for the same year, the North West Frontier Province produced its budget documents under the NAM-CoA, while the provinces of Punjab and Sindh moved to parallel production of their documents under the old and new systems. Baluchistan lags behind the other provinces in adopting the NAM-CoA, and requires more support and effort to align its reporting system with the rest.

4. **Accounting offices that process budget data are gradually being transformed to support the NAM and new information technology processes.** Nineteen sites, including two core federal accounting offices, are now online. The next stage of the PIFRA, aimed at broader implementation of the new fiscal reporting software and practices, would commence in 2005. The number of live sites is expected to reach 132 by end-2006.

5. Steps have been taken to ensure that federal accounts are produced under the NAM-CoA in 2004/05, and provincial accounts are brought under the fold in 2005/06.

For those sites that are not converting to NAM-CoA during 2004/05, they include the development and implementation of a conversion software to transfer data from the old to the new system, and training of drawing and disbursement officers. Also, new accounting and budget manuals have been prepared, and the training of staff is ongoing. The first set of federal budget execution reports produced under NAM-CoA were published by the Accountant General of Pakistan Revenues for the month of July, and the monthly publications have continued on a timely basis since then. The reports are more user-friendly, but the expenditure data are still not presented under economic classification, as previously expected.

6. *The original ROSC emphasized the need to reestablish control by developing effective internal controls and internal audit, as well as development of a general procurement law and an effective administration to oversee compliance with procurement. Additionally, establishing effective and timely public accounts processes by both federal and provincial legislatures should be given priority at the highest level.*

7. **The auditor general's office is working on developing expertise to certify the accounts under the NAM.** While certification of accounts continues under a methodology compliant with guidelines prescribed by the U.K. National Audit Office, a state of the art methodology and supporting toolkit for auditors has been developed with the help of international consultants, and training on certification methodology is being provided. The auditor general's office aims to become compliant with public sector auditing standards prescribed by the International Organization of Supreme Audit Institutions. A countrywide audit infrastructure has been established to deal with devolved budget implementation authorities at the local government level.

8. **A Public Procurement Regulatory Authority ordinance was passed in 2002, setting up an agency to regulate public procurement.** In June 2004, detailed public procurement rules covering all agencies of the federal government were published.

9. **A federal Public Accounts Committee (PAC) has been set up, and is currently dealing with the backlog of audit reports.** Provincial PACs are fully operational in two provinces and are also being made operational in the other two.

10. **Data reconciliation issues are being addressed by fiscal monitoring committees operating both at the federal and provincial levels.** Sustained efforts have improved data reconciliation at the federal level, but teething problems remain at the provincial level, especially with ongoing devolution. District and subdistrict level officials need more training and resources to carry out budget execution and reporting responsibilities.

11. *The original fiscal ROSC also recommended widening and deepening fiscal information provided in the budget process.*

12. **The ministry of finance continues to publish quarterly fiscal reports on its website** (http://www.finance.gov.pk/pak_fis/main.htm). Monthly reports are also prepared, but not published. Contingent liabilities and tax expenditures are presented in the Economic Survey (<http://www.finance.gov.pk/survey/home.htm>), published shortly before the budget and tabled in the Parliament along with other budget documents, but not formally discussed or incorporated in the budget.

13. **A budget call circular has been issued on medium-term budgeting basis to the pilot ministries of health and population welfare.** This would guide the two ministries in preparing their expenditure estimates for 2005/06–2007/08 on the prescribed medium-term budget framework (MTBF) formats. The estimates of the first of the three years would be adopted as estimates for the 2005/06 budget automatically, while the estimates for the full three year period will be published as additional information. Additional ministries are expected to join the pilot in 2005/06 for conversion to MTBF from 2006/07.

14. **The draft Fiscal Responsibility Law has been approved by the Standing Committee on Finance of the National Assembly.** The authorities expect parliamentary approval later this year. The draft of the law has been placed in the ministry of finance website (<http://www.finance.gov.pk/law/frdlo.pdf>).

III. IMF STAFF COMMENTARY

15. Staff welcome the recent progress in the areas of fiscal reporting, accounting systems, internal control, and procurement rules. While it is still too early to judge the magnitude of the impact of PIFRA, staff hope that the dividends will be substantial, both in terms of greater fiscal transparency and improved budget management.

16. Nonetheless, some recommendations from the 2000 ROSC on fiscal transparency remain to be implemented, particularly those in the areas of budget forecasting, fiscal analysis, and reporting of quasi fiscal activities.¹ In particular, efforts should be made to publish budget execution reports according to economic classification in order to improve fiscal analysis. The monthly federal fiscal reports should also be made publicly available. Staff believe that improvements in these areas would significantly enhance fiscal management and transparency.

¹ These recommendations are detailed in paragraph 37 of the 2000 ROSC document (<http://www.imf.org/external/np/rosc/pak/fiscal.htm>).