



# **Public Financial Management–V**

**Training Course**

**August 11– 12, 2022**

**Organized By:**  
**Executive Development Institute**

**National School of Public Policy**  
**Governement of Pakistan**

## Table of Contents

|   |    |
|---|----|
| Executive Development Institute .....                         | 2  |
| The School .....  | 2  |
| The Institute .....   | 2  |
| The Course .....  | 2  |
| The Speakers and Participants' MIX .....                      | 3  |
| Introduction to Public Financial Management-Part-1 .....      | 4  |
| Introduction to Public Financial Management-Part-II .....     | 6  |
| Introduction to Budget .....                                  | 7  |
| Fiscal Federalism and National Finance Commission Award ..... | 9  |
| Public Procurement .....                                      | 10 |
| Audit and Accounting .....                                    | 12 |
| Public Finances for Development .....                         | 15 |
| Picture Gallery .....   | 17 |

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# **NATIONAL SCHOOL OF PUBLIC POLICY**

## **Executive Development Institute**

### **The School**

The National School of Public Policy is the premier national institution for training civil servants in Pakistan. It aims at building their capacity for undertaking policy formulation and implementation tasks at tactical, operational, and strategic levels. The School's training methodology aims at an environment of intellectual freedom amongst participants for investigative analysis, a spirit of rational inquiry, and a genuine desire to seek knowledge. The overarching aim of the NSPP is to improve the quality and effectiveness of public policy and its implementation and management in Pakistan by improving the quality of in-service training and continuous professional development of officers, executives, and associated partners.

### **The Institute**

The Executive Development Institute (EDI) is an integral unit of NSPP that provides a platform for exchanging knowledge and ideas between public and private sectors. EDI focuses on critical policy issues to promote a better understanding and cooperation between various sectors of the State. The Institute is engaged in the continuous professional development of executives/officers/faculty/ of the public and private sector through training sessions, workshops, and policy dialogues. The overarching aim of EDI is to promote knowledge responsive to the contemporary economic and social challenges, which can better be dealt with robust governance response. EDI is also collaborating internationally with renowned institutions to scale the outreach of training programs nationally and internationally. It has successfully conducted a range of programs on various topical issues of national importance.

### **The Course**

Given the importance of Public Financial Management, EDI has been continuously organizing training on topics such as public financial rules, financial policies, programs, procurements, audits, accounting, and public finances for development. It holds a regular training needs assessment, which reinforces the need for a working knowledge of laws, rules, regulations, and processes utilized by the Government to mobilize resources, collect revenue and allocate public spending funds for evolving a coherent understanding of the financial matrix of public policy management. PFM is therefore critical for establishing the performance, legitimacy, and accountability of public institutions and private stakeholders engaging in business with the public sector and is, therefore, a popular Course, generating interest amongst various players of the national political economy.

## **The Speakers and Participants' MIX**

Due to its popular demand, EDI hosted the 5<sup>th</sup> consecutive PFM Training Course on August 11-12, 2022. Seasoned public service practitioners delivered lectures to acquaint participants with contemporary knowledge and essentials of various financial modules on PFM. The Course attracted a large number of participants belonging to various Ministries/Departments/Agencies ranging from Cantonment Boards, Pakistan Army & Air Force, Pakistan Civil Aviation Authority (PCAA), Ministry of Kashmir Affairs & Gilgit Baltistan, Ministry of Human Rights, Ministry of Commerce, Ministry of States and Frontier, Mines and Minerals Department, Management and Professional Development Department, Associated Press of Pakistan (APP), LESCO to WASA, and The Bank of Punjab.

### **The Speakers**



**Mr. Tariq Bajwa**

• *Former Governor State Bank of Pakistan*



**Mr. Hameed Yaqoob Shaikh**

• *Federal Finance Secretary*



**Mr. Sibtain Fazal Halim**

• *Retired Federal Secretary*



**Dr. Ishrat Hussain**

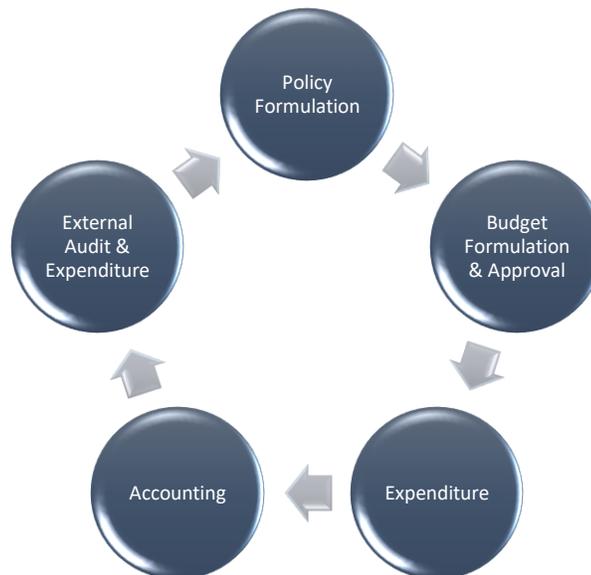
• *Chief Guest/Keynote Speakers*  
• *Former Governor State Bank of Pakistan*  
• *Former Advisor to Prime Minister of Pakistan*

## Introduction to Public Financial Management-Part-1

### Mr. Tariq Bajwa

Mr. Tariq Bajwa explained that Public Finance Management refers to a set of laws, rules, systems, and processes used by governments to mobilize resources, allocate funds, undertake public spending, account for funds, and audit results. A strong, transparent, and accountable PFM leads to effective and equitable service delivery and regulates markets more efficiently and fairly. It is important for optimal utilization of public resources, efficient provision of services, getting the most value for money spent, maintaining fiscal discipline, enhancing allocative efficiency, equity and redistribution of wealth in a transparent and accountable manner.

He stated that there are five elements of PFM<sup>1</sup>, which are as follows;



*Figure 1: Elements of Public Financial Management*

He stated that policy formulation involves the special attention of civil service and Thinks-Tanks to provide policy options to legislators debating policy based on evidence. Pakistan has a paucity of data-based decision-making primarily due to the absence of information or unreliable data for making rational decisions. Five types of policies are formulated with relevant institutional support, and the process is explained with a graphical representation.

1. Economic Policy
2. Monetary Policy (Interest and Exchange Rate)
3. Fiscal Policy (Budget)

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<sup>1</sup> Source: Presentation of Mr. Tariq Bajwa

4. Trade Policy (Import and export)
5. Investment Policy (Investment Climate and Regulations)

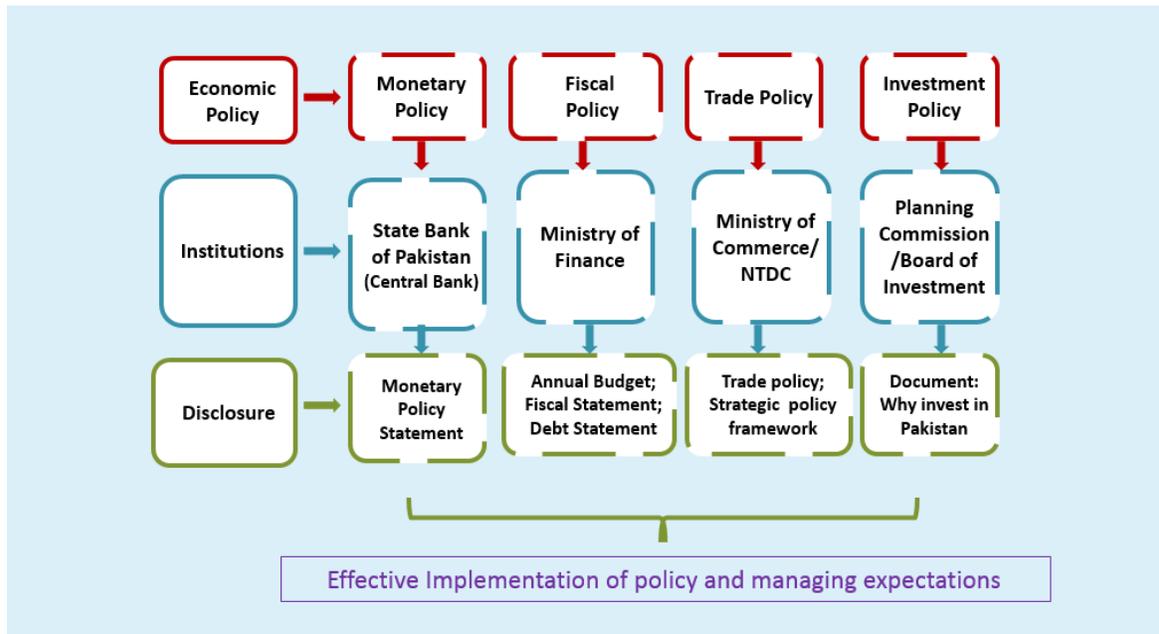


Figure 2: Institutional Arrangement in Policy Formation<sup>2</sup>

He said that the Budgetary process involves careful deliberations to assess the balance between expenditure and revenue. Similarly, third-party evaluations make the systems more efficient and transparent to identify loopholes and plug the gaps. Three macroeconomic indicators are essential to improve the economy:

- i- Saving Rates
- ii- Trade Gap
- iii- Direct Investment.

**Expenditures:** He further classified public expenditures and stated that it is important to classify public expenditure based on functions e.g. Defence, Social Safety, and Health.

**Public Revenue:** Public Revenue is an income generated by the Government to meet public expense requirements. It generally refers to revenues collected by the Government from Taxes, Levies, Duties, Sale of public goods and services, fines, and donations.

**Tax Revenue:** Tax is a mandatory imposition of duty by Government organizations to meet the requirements of public as a whole. There are two types of Taxes: i) Direct Tax, ii) Indirect Taxes.

**Direct Taxes:** These taxes are levied on the wealth and income of individuals or organizations. Generally, these are progressive in nature, i.e., they increase with an increase in income tax slabs, Whereas;

**Indirect Taxes:** Indirect taxes are imposed on sales, production, and import, which consumer pays. Such taxes are regressive in nature.

<sup>2</sup> Source: Presentation of Mr. Tariq Bajwa

## Introduction to Public Financial Management-Part-II

### Mr. Tariq Bajwa

Mr. Tariq Bajwa presented important theoretical concepts of fiscal disciplines. A brief detail is as follows;

#### **Fiscal Policy**

He explained that fiscal policy refers to the Government's choice and changes regarding the use of taxation and government spending to influence macroeconomic variables such as employment, inflation, income distribution, and growth. Its ingredients are Generation of Resources, Allocation of Resources, and Public Debt Management.

#### **Monetary Policy**

He said that monetary policy influences economic activity by manipulating the supplies of money and credit and by altering the rates of interest. The objectives of Monetary Policy are achieving full employment, maintaining a high growth rate, and stabilizing prices.

#### **Exchange Rate Policy**

He stated that since May 1999, the State Bank of Pakistan(SBP) has been theoretically following a market-determined exchange rate. Exchange Rate is determined in the foreign exchange market through the market forces of supply and demand. The supply and demand situation reflects the country's Balance of Payments position. To quell excessive volatility and to ensure the smooth functioning of the foreign exchange market, the SBP intervenes in the foreign exchange market. However, the SBP does not aim to keep the exchange rate at any pre-determined level.

#### **Inflation**

He briefed with the definition of 'Inflation'; which is the increase in prices of goods and services over a period of time. It is determined by Consumer Price Index (CPI), Core Inflation, and Social Progressive Index (SPI)

- CPI: It is one of the key indicators of inflationary change. It measures the weighted average of a basket of consumer goods and services.
- Core Inflation: Food and Energy – the volatile part – are excluded.
- SPI: Weekly index of cost of fixed basket of goods and services.

## Introduction to Budget

### Mr. Hamed Yaqoob Sheikh

Mr. Hamed Yaqoob Sheikh Federal Secretary Finance made his presentation with an explanation of constitutional provisions for the Budget. He presented Article 78-86 of the Constitution of Pakistan deals with matters related to the presentation and approval of the Budget and Supplementary Budget at the Federal level. Article 80 stipulates the Annual Budget Statement, which states: *‘the Federal Government shall, in respect of every financial year, cause to be laid before the National Assembly a statement of the estimated receipts and expenditure of the Federal Government for that year.’*

He said that the Budget cycle entails various legal and institutional framework processes. The budget cycle starts from the Strategic Planning to the Formulation Process and on to getting Approvals. The next step is Execution within Ministries and Line Departments, followed by Accounting and Monitoring with Audit and Evaluation, which again undergoes a Policy Review for finalization.



Figure 3: Budget Cycle<sup>3</sup>

He said that budget-making involves expenditure estimates in light of policies of Government and guidelines. The estimates of revenues regarding taxes, duties, levies, and other sources of sale and privatization are also important for anticipating the fiscal space for development. Resource mobilization is another important element of the Budget where all divisions and departments are

<sup>3</sup> Source: Presentation of Mr. Hamed Yaqoob Sheikh

issued instructions for reviewing existing revenue streams and finding new sources for revenue. The Resource Mobilization Committee, after extensive consultation, presents the Budget to the Cabinet for approval.

Mr. Sheikh, further explained that Recurrent and Development budgets are presented to the Assembly after approval of the Cabinet for the Financial Year. The Recurrent Budget comprises repetitive expenditures with annual increments and inflationary effects. Whereas, Development Budget covers estimates of funds proposed to be spent on development projects to improve physical infrastructure, knowledge, and skills.

He suggested that to improve fiscal performance, exploring the optimal potential of non-revenue sectors such as livestock in the Agriculture Sector is needed. There is also a need for fool-proof estimations and timely release of funds to avoid overestimation in the Budget, which generally occurs due to late release of funds and delays in the execution of projects.

## **Fiscal Federalism and National Finance Commission Award**

### **Mr. Tariq Bajwa**

Mr. Tariq Bajwa explained that Fiscal Federalism is the theory of relationships between the federal Government and provinces. It sets out principles regarding the proper division of taxing and spending powers amongst the federal and provincial governments. The Government carries out the distribution of resources according to stipulated law, particularly Article 70 of the Constitution, which restricts the Parliament to subjects mentioned the Federal Legislative List.

He highlighted that the Federal Consolidated Fund constitutes all revenues collected from the Federal Government, including all loans and their repayment. The distribution of fiscal powers and the distribution of revenues between the Federation and the provinces is laid out in Article 160 of the Constitution.

He briefed that the Divisible Pool refers to the taxes of the Federal Government that it shares with the Provincial Governments as per the recommendations of the NFC Award. All major taxes of the Federal Government except levies and cess are part of the divisible pool. These include taxes on income, wealth tax, capital value tax, taxes on the sale and purchase of goods, exports, Customs and Excise duties and any other tax be levied by the Federal Government.

He said that the President constitutes the National Finance Commission (NFC) after every 5 years, including Federal and Provincial Finance Ministers and one representative from each Provincial Government. The NFC is responsible for distribution between the Federation and the Provinces of net proceeds of taxes forming the Divisible Pool and making Grant-in-Aid to the Provincial Government. It also oversees the exercise of borrowing powers by the Federal and Provincial Governments.

## Public Procurement

### Mr. Sibtain Fazal Halim

Mr. Sibtain Fazal Halim said public procurement is the acquisition of goods, services, or the rendering of works financed wholly or partly from public funds. It includes disposal of public assets and commercial transactions between the procuring agency and private party. The private party can perform a procuring agency's assigned functions, including operations and management.

He explained that after the decentralization of Public Procurement process, PPRA Rules or Act is made to ensure good governance, management, transparency, accountability, and quality for public procurement. The procurement process follows a cycle that starts from planning in light of need assessment, budgetary planning, and market analysis. The next is the formulation of bidding documents comprising detailed specifications, a procurement method, and a criterion that further tests for prequalification to evaluate the bid in terms of its technicality and financial feasibility. The final stage is contract award and management after settling the payment schedule and then pre-shipment inspection, arbitration, and closure.

He said that the procurement process is well-defined; however, some challenges arise due to a lack of understanding regarding PPRA rules and regulations. There are also problems regarding negotiation skills, direct contracting, weak monitoring & inventory management, lack of transparency, and rent-seeking behaviour. In such a situation, getting technical expertise from qualified and experienced consultants is important to assure value for money. Procurement can become easier if procurement agencies disclose their procurement plan for the next year. Contractors are categorized according to their capabilities and by using generic specifications for maximum participation of bidding parties.

He further stated that the objective of Public-Private Partnership (PPP) is to foster enabling environment for private sector participation in development and to bridge the gap between demand and supply of public infrastructure and services. It mobilizes private sector funding, resources, and expertise. The institutional arrangement for PPP includes; Chief Minister, P&D Department, and Finance Department. Selection of a Private Party is made through competitive public tendering using prequalification and bidding.

He suggested that government support can be in the form of administration, provision of utility connections, clearance of right of way, land acquisition, viability gap funding,

Government grants in cases of changes in law, delay of agreed user levy adjustments, and Government Guarantees for other risks such as demand risks and default by authority on payments. Exemptions in following a competitive procurement process are only allowed in emergency cases with a well-defined justification. Procurement is allowed if pre-set criteria are fulfilled in case of getting a single bid. The economies of scale can be achievable by promoting e-procurement to target a larger community.

## Audit and Accounting

### Mr. Hamed Yaqoob Sheikh

Mr. Hamed Yaqoob presented a conceptual framework of accounting and auditing with constitutional provisions, which are as follows;

#### Accounting

He defined Accounting as a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting, and communicating financial information. Recording of execution of financial transactions is known as the accounts of an entity. An accounting entity is any unit of Government (e.g., ministry, division, and department) whose principal funding source is appropriation from the Federal or Provincial Government. Accounts provide information on the resources available to an entity, the means employed to finance those resources, and the results achieved through their use.

#### Legal Provisions

Article 170(1) of the Constitution:

*“The accounts of the Federation and of the Provinces shall be kept in such form and in accordance with such principles and methods as the Auditor-General may, with the approval of the President, prescribe.”*

The Auditor General of Pakistan has been assigned the responsibility of deciding the form, principles, and methods to keep the Accounts.

#### New Accounting Model

In 2004-05, the Auditor General of Pakistan, with the approval of the President of Pakistan, introduced the New Accounting Model (NAM) by replacing the legacy accounting model with the following salient features:

- Modified cash basis of accounting
- Double entry book-keeping
- Commitment accounting
- Asset accounting
- Asset register
- Chart of Accounts (CoA)

## **Modes of Payment**

He said that payments are made by Accounts Offices against budgetary allocation after pre-audit and recording in accounts.

## **Appropriation Accounts and Financial Statements.**

He explained that appropriation accounts and financial statements are compiled by the Controller General of Accounts (CGA) based on the information available in June supplementary accounts, which reflect the following entries:

- a) Original Budget
- b) Supplementary grant,
- c) Revised estimated, &
- d) Actual Expenditure

He said that the Appropriation Accounts, duly certified by the Auditor General of Pakistan, are submitted to the President by the CGA, to be laid before the National Assembly. Likewise Provincial accounts are submitted to Governor for laying down before the Provincial Assembly.

## **Auditing**

He explained that according to International Standards of Supreme Audit Institutions (ISSAI) and International Organization of Supreme Audit Institution (INTOSAI): 2013, “*Audit is a systematic and independent examination of data, statements, records, operations, and performance of a government / organization for a stated purpose like regulatory compliance, operational effectiveness and financial accuracy.*”

## **Constitutional Provisions of Audit**

### **Articles 168–171 relate to Audit**

#### **Article 169: (Functions & Powers of Auditor General)**

The Auditor-General shall, in relation to:

- a) the accounts of the Federation and of the Provinces; and
- b) the accounts of any authority or body established by the Federation or a Province, perform such functions and exercise such powers as may be determined by or under Act of Majlis-e-Shoora (Parliament) and, until so determined, by Order of the President.

#### **Auditor’s General Ordinance, 2001**

He briefed that according to the amendment in AGP Ordinance 2001, audit includes regularity audit, information technology audit, environmental audit, forensic audit, performance audit,

management audit, special audit and any other kind of audit, report or analysis, deemed appropriate by the Auditor-General. The Audit Report containing Audit Paras is placed before the Provincial Assembly and referred to the PAC. The response of the department is considered by the PAC and settled if the response is found satisfactory, otherwise, appropriate directions are issued.

He stated that PAC submits its report to the National Assembly or Provincial Assembly. This is followed by the implementation of PAC recommendations by the Government. PAC:

- i. Audit all expenditure from the Consolidated Fund of the Federation and of each Province and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it.
- ii. Audit all transactions of the Federation and the Provinces relating to Public Accounts.
- iii. Audit all trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts kept by Order of the President or of the Governor of a Province in any Federal or Provincial department; and
- iv. Audit, subject to the provisions of this Ordinance, the accounts of any authority or body established by the Federation or a Province, and in each case to report on the expenditure, transactions or accounts so audited by him.

## Public Finances for Development

### Dr. Ishrat Hussain

Mr. Ishrat Hussain said that public policy is not the exclusive domain of political leadership or civil bureaucracy but a product of different constituencies of society. Feedback from different segments of society in designing public policy is very important. Strong and effective Government and well-functioning competitive markets provide the best outcomes for majority of population. The state is supposed to distribute resources to a wide range of population.

He said that the allocation of resources in Pakistan is improper because the benefits reach a very small segment of the population. Inefficient markets and worst allocation of resources is not a sustainable proposition. He said that for forty years, Pakistan was among the top 10 countries in the developing world with a 6% growth rate and poverty reduced to 35% from 50%. In 1969, exports from manufacturing sector were higher than those of Indonesia, Thailand, and Malaysia. Since 1990, Pakistan is even behind Bangladesh and many other countries in South Asia. The market should be competitive and efficient in allocating resources. There should be no interference and influence to drive the benefit for certain people. The State should play an effective role in equitable distribution of growth benefits.

He said that income from agriculture, industry, and services (pre-fiscal income), is skewed among the top 10 to 20 percent of people. The post-fiscal income should reach even at bottom level through proper taxation and public expenditure structure of the country. The market is not earning for distribution, as the market reward those who got assets (land/property, knowledge, or education). Therefore, PFM is important to study as it helps allocate resources and care for those who do not have assets.

He said that Non-economists treat the current account deficit of external transactions separately from fiscal/ domestic accounts, but they are interrelated. Current account deficit can be calculated by subtracting savings from investment. The current account deficit will increase if the domestic savings are lower than investment. Savings can be divided into three parts: -

1. Public sector savings
2. Corporate sector savings, and
3. Household savings

He informed that a conceptual frame will help to understand the importance of PFM. If household savings are 22% of the GDP and State-Owned Enterprises have savings of -10%, the aggregate savings of country is only 12%. If 5% of the expenditure is reduced from public sector, the saving

will be equal to investments, and borrowings can be reduced. Whatever seeking from outside is the reflection of domestic financial accounts. So fiscal or public finance is a very critical factor in the development of this country.

He briefed that the unfortunate side effect of a large dose of the federal divisible tax pool being injected into the provincial finances has been a slackness by the provinces in mobilizing their own revenues. In terms of national taxes, the provinces contribute only one percent of GDP. The Indian state government contributes 35 percent of the total tax revenues or 6-7 percent of the country's GDP. Pakistan's provinces spend 40% of consolidated expenditures while collecting only 10% of national taxes.

He further said that several other revenue heads in the provincial budgets can also be streamlined, but these have not been included in this analysis. By repairing provincial finances, at least 1.6% of GDP in the form of additional taxes can be generated, pushing up the national tax-to-GDP ratio to 12%, reducing the fiscal and primary deficits by that extent, repaying and thus lowering the national debt burden. For this, the scope of the local government finances has to be enlarged.

#### **Key takeaways from Q&A session**

- 1 trillion Rs is spent every year to pay the liabilities of State-owned enterprises
- Dis-savings of Government are not limited to fiscal deficit, as many losses are kept off the book, for example, circular debt
- Fiscal account is financed by financial account; both are part of the external account
- Current account deficit can be covered jointly through trade deficit, FDI, and remittances to avoid external borrowings
- The economy of Bangladesh is better due to consistency in economic policies, irrespective of political instability.
- Manufacturing in Pakistan is vertically integrated, due to which SME sector is not developing.
- In India, defence sector has outsourced its manufacturing with certain firewalls.
- Taxation decisions are not implemented as political Government fears becoming unpopular.
- Retail trade has 18 to 19 percent contribution to the economy of Pakistan, while tax contribution is only 1 percent
- There is a bright future for revenue generation and expenditure reduction.

## Picture Gallery



*1. Participants & Organizers of PFM*



*2. Mr. Tariq Bajwa presenting on PFM*



*3. Dr. Ejaz Muneer & Dr. Ishrat Hussain*



*4. Dean EDI presenting shield to Mr. Sibtain  
Fazal Halim*



*5. Mr. Hamed Yaqoob Sheikh presenting through  
video link*