RESULTS-BASED PUBLIC SECTOR MANAGEMENT ASSESSMENT FRAMEWORK

A. Rationale of Public Sector Management (PSM) Assessment

1. The objective of this exercise is to provide an assessment of the PSM system in the state of Punjab. The analysis draws on the results-based PSM framework developed by the Asia-Pacific Community of Practice on Managing for Development Results (APCoP-MfDR). The framework is premised upon five components, namely: planning, budgeting, implementation, monitoring, and evaluation. Using the identified features and core results attributes of this framework, a state's planning, budgeting, implementation, monitoring, and evaluation and their linkages are reviewed. The objective of this principles-based analytic tool is essentially to identify the strengths and weaknesses in the state's PSM cycle, highlighting the components and linkages which need further support and identify areas where future reforms are called for.

2. Application of this PSM framework is particularly relevant in the context of mixed economic system in the federal set-up of India. The current socioeconomic landscape in India has transformed much since independence, wherein the contribution of the public sector to gross state domestic product has reduced over time, local government bodies serve as important vehicles in plan implementation machinery (subsequent to 73rd and 74th amendment to Indian constitution) and public–private partnerships are strongly encouraged for infrastructure building and delivering public services like health and education. Amidst all these changes, the public sector continues to define and play a significant role in the development agenda of the state. Policy formulation backed up by sound budgeting processes are critical inputs that are instrumental in translating developmental plans from mere conceptual frameworks to frontline tools that are targeted for achieving the desired objectives. Further, given the increasing demands for better quality and more responsive services, coupled with fiscal discipline which needs to be adhered to, it has become crucial for the states and/or country to ensure that PSM practices are results-focused, directed towards common results, interdependent and integrated horizontally across sector agencies and vertically along the levels of government. In the subsequent paragraphs, we assess each of the dimensions of PSM in the state of Punjab.

B. PSM Assessment in Punjab

1. Planning

3. **National level planning.** In simple terms, planning is defined as organizing activities to achieve the desired goal. It is one of the most fundamental functions of the PSM. All other functions such as budgeting, implementation, monitoring, and evaluation stem from this. At the country level, it includes defining key development objectives and/or goals of the government and corresponding activities to achieve the same.

4. India started the planning process in 1951 with the formulation of First Five-Year Plan (FYP) for the period 1951–1956. The Planning Commission of India (PCI) was assigned the responsibility of formulation, appraisal, and monitoring of these FYPs. Each FYP outlines key development issues, objectives during the plan period along with physical targets and sectoral fund allocations to achieve the defined objectives.

5. Since planning is on the concurrent list in the seventh schedule of The Constitution of India, preparation of five year plans is also the responsibility of the state governments.

6. **National and sub-national planning linkages.** Linkages between objectives at the

national level and at the sub-national level and/or sector level are defined. The national level planning process involves extensive consultation with sector ministries (sector level linkage) and the state governments (sub-national level). National FYP preparation process involves extensive research, and consultation with various stakeholders.

7. The process starts with preparation of an approach paper. The approach paper outlines the state of the economy, social, economic, and institutional weaknesses and appraisal of past trends in production and rate of growth in relation to the long-term view of the progress of the economy.

8. After discussion at various levels, the National Development Council (NDC) consisting of the Prime Minister of India, the Chief Ministers of the state governments (sub-national linkage), and head of the sector ministries at the centre (sectoral linkage) finalizes the approach paper.

9. Post finalization of the approach paper, the Planning Commission of India constitutes various working groups specific to different domains which require greater research before finalization of the plan. These working groups include experts in respective fields from state governments, sector ministries, PCI, nongovernmental organizations (NGOs), and private sector. Based on the recommendations of these working groups, the draft FYP is formulated.

10. The Government of Punjab (GOP) has been formulating the FYP since independence. The Punjab State Planning Board (PSPB) is the nodal agency responsible for formulation, appraisal, and monitoring the successful implementation of state FYPs.

11. The process of FYP preparation at the state level is similar to the national level. Significant part of development spending at state level is financed by the Government of India (GOI) through centrally-sponsored schemes, central sector schemes, and contribution to state plan schemes. Thus, it is crucial for states to discuss with the PCI on the expected support from the centre before finalization of the state FYP (sub-national linkage). Firstly, PSPB prepares an approach paper for next FYP based on the national approach paper. The approach paper is discussed and debated with various sector departments and then at the cabinet level and then with the PCI and NDC. Post approval from NDC, the approach paper is finalized.

12. **Multi-year perspective in planning.** Post approval of the approach paper, PSPB consolidates plan proposals from various sector departments. Plan proposals include scheme-wise fund requirements to achieve the pre-defined objectives. Each department submits annual funds requirements. Planning department, in consultation with various executive departments, finalizes the FYP which defines the total plan size divided into five annual plans. These annual plans are subject to revision on an annual basis. For an effective multi-year perspective planning, revisions in annual plans should not be significant. However, it is noted that revisions in the annual plans have been large enough which has led to increase in the total FYP size by more than 40%.

13. Table 1 shows the approved and revised outlay for Punjab's 11th FYP (2007–2012). There is significant variation (42%) between approved and revised total plan size for 11th FYP. It shows that expenditure planning at the time of FYP preparation is not robust. The deviation in original and revised outlay across sectors varies between (-28%) to (+76%).

Table 1: Approved and Revised Outlay of the 11th FYP (2007–2012)
(Rs. Million)

Major Heads of Development	Approved Outlay for 11th FYP	Revised Outlay for 11th FYP*	Share (%)	Variation (%)
Power	70558	124500	24.4	76
Transport	42903	68676	14.8	60
Social security and welfare	30278	27842	10.5	-8
Rural development	25444	33018	8.8	30
Rural water supply	19736	14160	6.8	-28
General education	18989	27351	6.6	44
Irrigation and flood control	14048	32221	4.9	129
Agriculture and allied activities	11658	14102	4.0	21
Welfare of SCs, STs, and OBCs	8182	9018	2.8	10
Others	47434	58424	16.4	23
Total	289230	409312	100.0	42

FYP = five-year plan, SC = schedule cash, ST = schedule tribe, OBC = other backward class.
*Sum of annual plan outlays for the period 2007–2012.
Source: Financial Achievement of 11th Five-Year Plan, Punjab State Planning Board, Government of Punjab.

14. **Defining indicators and targets.** Planning not only requires integration of national level objectives with sub-national level objectives but also ensuring that results and/or objectives are defined in terms of physical indicators which are specific, measurable, achievable, relevant, and timebound (S.M.A.R.T).

15. Review of the latest Punjab state FYP (2012–2017) reveals that it contains clear strategy and/or roadmap for development across eleven major heads of development, i.e. (i) agriculture and allied activities; (ii) rural development; (iii) irrigation and flood control; (iv) energy; (v) industry and minerals; (vi) transport; (vii) science, technology, and environment; (viii) general economic services; (ix) social services; (x) general services; and (xi) other rural allied services. The plan also outlines roadmap for development in other areas such as non-resident Indian affairs, externally-aided projects, employment and decentralized planning, and role of NGOs in development process.

16. For each sector, the FYP outlines various schemes currently being implemented or will be implemented, key objectives of the schemes, the implementing agency (IA), and plan outlay. Details regarding the outcomes and/or outputs of the schemes are included in the plan proposal submitted by the IAs but not in the FYP document.

17. For some of the key areas of development, PCI sets physical targets for the state government to be achieved during the FYP. These targets are discussed with state governments who submit their responses. Based on discussions between PCI and state governments, the targets are finalized. Targets relates to various areas such as economic growth, health sector, social welfare, education, and employment. Table 2 shows targets fixed by the PCI for various sectors and achievement during the 11th FYP.

Table 2: 11th FYP Targets Set for Socioeconomic Indicators for Punjab by PCI

Item	Item	Baseline 10th FYP (2002–2007)	Target 11th FYP (2007–2012)	Achievement (by year 2011–2012)
Economic growth (2007–2008 to 2011–2012)	Agriculture	3.14%	2.4%	1.9%
	Industry	4.78%	8%	7.8%
	Service	7.11%	7.4%	9.0%

Item	Item	Baseline 10th FYP (2002–2007)	Target 11th FYP (2007–2012)	Achievement (by year 2011–2012)
	GSDP	5.03%	5.9%	6.7%
Health	Infant mortality rate	45	22	34
	Maternal mortality rate	178	59	172
	Total fertility rate	-	2.1%	1.9%
	Anemia among women	-	20.7%	-
	Sex Ratio	798	850	846
Social welfare	Malnutrition	28.72%	14.4%	
Education	Drop-out rate in elementary education	30.04%	6.79%	1.83%
	Literacy rates	69.69 (2001)	81.26	76.68
	Gender gap in literacy	11.87	8.49	10.14
Employment	Employment generation	-	2216615	-

FYP = five-year plan, GSDP = gross state domestic product.
Source: 11th Five-Year Plan targets.

18. State planning board are also required to conduct mid-term review of the FYP to determine if the plan is on track to achieve the set development prerogatives and to make any necessary adjustments.

19. **Linkage between planning and budgeting**. The state FYP is further broken down into annual plans which are the operational plans. The major challenge lies in aligning these annual plan targets with annual departmental budgetary process to allow implementation and delivery of planned sectoral and/or sub-sectoral objectives. Table 3 shows the total approved plan outlay during 2007–2012 and actual expenditure during the 11th FYP period. Although revised plan outlay was 42% more than the original plan outlay, actual expenditure during the 11th FYP period was lower than the approved plan outlay (less by 20%). Major spending sectors such as power and irrigation experienced low spending as against the approved outlay.

Table 3: Plan Outlay and Actual Expenditure, 2007–2012, Punjab

(Rs. Million)

Major and/or /Minor Heads of Development	Approved Outlay	Actual Expenditure	Variation
Power	124500	87718	-30%
Transport	68676	66197	-4%
Rural development	33018	37220	13%
Irrigation and flood control	32221	18656	-42%
Social security and welfare	27842	14874	-47%
General education	27351	23945	-12%
Rural water supply	14160	9841	-31%
Agriculture and allied activities	14102	10508	-25%
Welfare of SCs, STs, and OBCs	9018	4193	-54%
Others	58424	53897	-8%
Total	**409312**	**327048**	**-20%**

RS = rupees, SC = schedule cash, ST = schedule tribe, OBC = other backward class
Source: Financial Achievement of 11th Five-Year Plan, Punjab State Planning Board, Government of Punjab.

20. Planning systems in Punjab is assessed to be moderate. There are significant linkages

of levels of results at national and sub-national level. However, medium-term perspective in planning remains weak. Also, linkage between planning and budgeting is not well established.

2. Budgeting

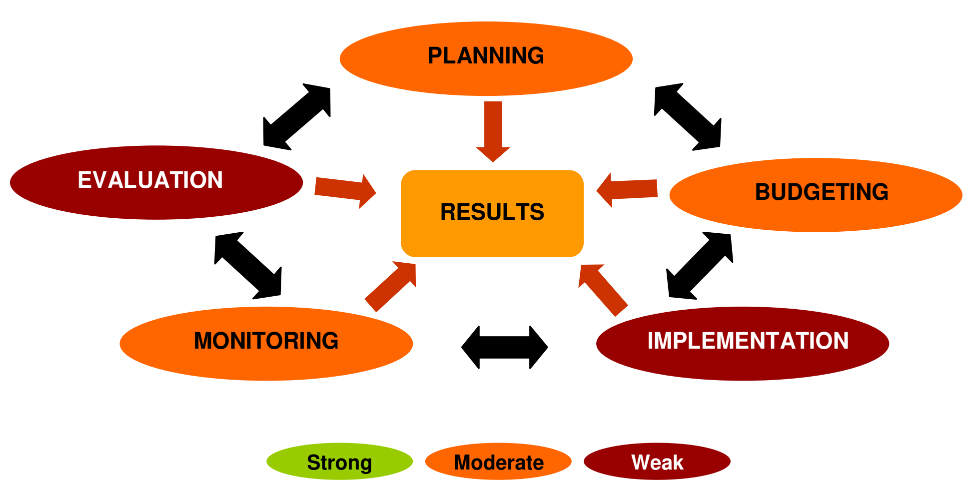
21. **Fiscal Responsibility and Budget Management (FRBM) Act.** The budget section of finance department coordinates the preparation of the state annual budget which is presented in the legislative assembly. Budgeting is linked to fiscal targets, as specified under Punjab Fiscal Responsibility and Budget Management Act 2003 (amended up to March 2011).

22. **Effective prioritization of resources.** As noted earlier, while the plan budget emerges out of the development prerogatives through a process conditioned by the availability of resources, the non-plan estimates are essentially incremental in nature and determined essentially by finance department. Prioritization between plan and non-plan expenditure is biased to the latter.

23. The plan expenditure estimates are based on the availability of resources post non-plan expenditure. Finance department estimates the state's financial resources for the ensuing financial year taking into the PCI guidelines and finalizes the plan size in consultation with PCI. The state's financial resources include three major items, i.e. state government resources, resources of public sector enterprises (PSEs) and resources of urban and/or rural local bodies. The plan size estimates are communicated to the planning department.

24. Although planning department and finance department defines the plan size. Each executive department prepares plan proposals and submits the same to the planning department. The planning department evaluates these proposals submitted by various executive departments and finalizes and allocates sector and department-wise ceilings to which all departmental expenditure estimates are required to follow. On the receipt of ceilings from planning department, each department revises its plan proposals and re-submits the same to finance department. Although the plan proposal by the executive departments are discussed with planning department and the budget finalization committees, residual nature of plan expenditure impact efficient and effective prioritization of resources.

Figure 1: Assessment of Public Sector Management in Punjab



Source: Asian Development Bank.

25. **Effective budgeting process.** Budget formulation process requires that budget proposals submitted by executive departments are submitted in timebound manner to allow for any adequate assessment of the credibility of proposals and are realistic to the expected cost to be incurred in the ensuing financial year. The budget circular for 2013–2014 highlights that executive departments do not submit their budget proposals in the required format as per the timelines fixed under the budget calendar. This reduces the time available to finance department to adequately prioritize expenditure and the budget preparation process remains limited to restricting the budget estimates within the resource envelope. Budget formulation for 2013–2014 was for the first time done online through Integrated Financial Management System (IFMS). This has reduced paperwork to a large extent but timely submission of budget proposals remains a concern. Since IFMS has been implemented only 2 years before, adequate training of the implementing staff needs to be conducted.

26. The budget circular also highlights that budget proposal submitted by executive departments are unrealistic and biased downward for easy approval at the time of budget formulation. This results in submission of additional fund requests by the line departments during the course of financial year. Moreover, once the scheme and/or proposal is approved by finance department, it becomes difficult to reject the demand for additional funds.

27. It is learnt that during negotiation between line departments and finance departments on budget proposals, there are cases of cuts on non-plan expenditure items as well which includes committed liabilities. Although, line departments agree on these cuts at the time of budget formulation, there are instances when supplementary demand for grants has been raised.

28. **Multi-year perspective in budgeting.** As mentioned before, GOP had enacted the FRBM Act in 2003. The Act calls for state government to lay a medium-term fiscal policy statement before the legislative assembly along with annual budget. GOP, as part of the annual financial statement, does present the medium-term fiscal policy statement to the legislative assembly. Under this statement, 2-year rolling targets for detailed revenue and expenditure head are provided along with key fiscal indicators such as fiscal deficit, revenue deficit, and outstanding liabilities of the government. The statement also presents state's performance on fiscal consolidation path recommended by the 13th Finance Commission. However, there are no FRBM rules. A multi-year perspective in budgeting linked to plan (e.g. in the form of departmental medium-term expenditure framework [MTEF]) is missing.

29. **Performance based budgeting**. As explained by finance department, some select department prepare performance budget which helps in the identification of physical progress against stated targets. Finance department in budget circular for 2013–2014 had called for submission of performance budget to finance department. The performance budget is not presented to the legislative assembly along with the budget documents.

30. **Budget credibility**. Budget credibility, which ensures that the budget is backed up by sufficient and predictable revenues to implement planned programs and projects, is observed to be moderate. While overall revenue receipts shows variation to the extent of -15% to -17%, certain components such as own non-tax revenue shows wide variation with respect to the budget estimates. In 2011–2012, only 45% of budgeted own non-tax revenues could be realized. Similarly, grants from the centre also show significant variation. Such variations impair the budget credibility.

Table 4: Actual v/s budgeted revenue receipts, 2008-12(Rs. Billion)

Item		2007–2008	% Variance	2008–2009	% Variance	2009–2010	% Variance	2010–2011	% Variance	2011–2012	% Variance
Revenue receipts	BE	231.6	-17	242.6	-15	260.7	-15	296.2	-7	320.3	-18
	Actual	192.4		207.1		221.6		276.1		262.3	
Own-tax revenue	BE	108.8	-9	112.5	-1	140.6	-14	163.1	3	204.1	-8
	Actual	99.0		111.5		120.4		168.3		188.4	
VAT	BE	57.8	-15	62.9	-2	83.2	-13	96.0	0.3	118.0	-9
	Actual	49.2		61.7		72.6		96.4		107.5	
State excise	BE	17.3	8	18.3	-1	20.0	5	25.2	-6	32.5	-15
	Actual	18.6		18.1		21.0		23.7		27.5	
Stamps and registration fees	BE	23.0	-32	18.7	-7	22.0	-30	24.0	-3	29.0	6
	Actual	15.7		17.3		15.5		23.2		30.8	
Taxes on vehicles	BE	4.9	2	5.8	-9	6.1	-9	6.5	1	8.0	6
	Actual	5.0		5.2		5.5		6.5		8.5	
Electricity duty	BE	5.8		6.5		9.0		9.8		14.0	
	Actual	6.0	5	6.3	-3	2.3	-74	14.2	45	9.3	-34
	Actual	4.5		2.9		3.4		4.2		4.7	
Own non-tax revenue	BE	64.2	-18	53.9	7	54.3	4	66.5	-20	31.3	-55
	Actual	52.5		57.8		56.5		53.3		14.0	
Share in central taxes	BE	18.5	7	23.3	-10	25.3	-15	29.1	5	36.7	-3
	Actual	19.7		20.8		21.4		30.5		35.5	
Grants from center	BE	34.0	-38	43.0	-61	20.5	13	27.5	-13	43.3	-44
	Actual	21.1		16.9		23.2		24.0		24.4	

BE = budget estimate, VAT = value-added tax.
Source: Various years budget at glance, 2007–2008 to 2012–2013.

31. Government's commitment to deliver the public services for the financial year, as expressed in the policy documents, is determined by its ability to implement the budgeted expenditure.

32. Table 5 shows actual and budgeted expenditure for the past 5 years. Total actual expenditure shows some minor deviation with the budgeted expenditure. However, actual capital outlay remained significantly lower than budgeted. In 2011–2012, the deviation was to the extent of more than 70%. Low capital outlay undermines sustainable high growth and employment.

Table 5: Actual v/s budgeted expenditure, 2008–12 (Rs. Billion)

Item		2007–2008	% Variance	2008–2009	% Variance	2009–2010	% Variance	2010–2011	% Variance	2011–2012	% Variance
Revenue expenditure	BE	240.32	-6	244.42	-1	293.71	-8	322.40	0	339.32	-5
	A/C	227.04		242.59		269.61		322.58		322.99	
Capital outlay	BE	41.74	-47	38.17	-25	35.50	-39	30.62	-22	54.18	-71
	A/C	21.92		28.58		21.66		23.84		15.98	
Others[a]	BE	21.07	17	32.64	-20	52.91	9	85.95	-23	91.84	6
	A/C	24.64		25.98		57.55		65.93		96.94	
Total expenditure[b]	BE	303.13	-10	315.23	-6	382.12	-9	438.97	-6	485.34	-10
	A/C	273.60		297.15		348.83		412.34		435.91	

BE = budget estimate.
[a] Total expenditure does not include loans and advances given by the state government.
[b] Others include grants to urban local bodies, discharge of internal debt, and repayment of loans to central government.
Source: Annual Financial Statements and Finance Accounts, various years.

33. Budgeting process in Punjab is assessed to be moderate. GOP has implemented various fiscal management reforms, such as IFMS, which will reduce delay in proposal submission by the IAs. However, the latest budget circular has highlighted various issues such as unrealistic proposal from IAs, and lack of adherence to guidelines prescribed in the budget circular. Also, there is no MTEF and a performance budget for the state government. While the overall expenditure outturn shows minor deviation, there are certain components of total expenditure which has significant low realization, such as capital outlay.

3. Implementation

34. **Guidelines and/or policy framework**. An enabling execution framework backed by firm controls is provided by guidance documents like the Punjab financial rules, treasury rules, and Punjab budget manual. However, these rules need revision given the new systems and procedures in place such as IFMS.

35. **Release of funds**. Post approval of the budget by the legislative assembly, it is crucial that IAs receive funds in a timebound manner. GOP, as part of the National e-Governance Program, has computerized treasuries which allow easy and timely transfer of resources to the IAs. Non-plan expenditure estimates are directly transferred to treasury under respective heads. Plan expenditure releases are based on requests submitted by the administrative departments to finance department. There are cases of delay in the transfer of funds for plan expenditure from finance department.

36. **Defined service delivery standards.** In 2009, GOP appointed Punjab Governance Reform Commission with the objective to reduce trust deficit between citizens and the government. Based on the recommendations of the commission, GOP enacted Right to Service Act in 2011 to provide 69 services in a timebound manner. About 87 more services are proposed to be added to the Act. This is a welcome initiative in improving the public service delivery in Punjab. GOP has re-constituted Punjab Governance Reform Commission which has submitted its recommendations to other critical areas of public interest such as health and medical education, technical education, employment, and, most importantly, fiscal management.

37. GOP has also undertaken various reforms aimed towards improving drug procurement processes in Punjab. All drug procurement has been centralized in Punjab Health Systems Corporation (PHSC). PHSC has finalized an essential drug list comprising 235 medicines and 46 consumables. Drug procurement is now made through tendering. PHSC has introduced rate contracts for procurement of medicines under which the empanelled firms supply medicines at a predetermined rate which is decided through tendering.

38. GOP is implementing computerized tax information system in the state. It is expected that operational efficiency and transparency in the system will improve and interface between the taxpayer and the tax officials will reduce.

39. **Accounts reconciliation.** It is crucial that expenditure and revenue estimates of the departments are reconciled with the accountant general who prepares its estimates based on invoices received directly from treasury, and works department records and information from other state or union territories. As per finance department directives, an authorized representative of each administrative department is required to visit each month the accountant general's office to reconcile its own-revenue and expenditure estimates. This is done to fix cases of misclassification, and omission and helps finance department to effectively monitor expenditure and receipts under different heads and take requisite actions in case of deviations.

However, it is observed that administrative departments do not reconcile their accounts with the accountant general in a timebound manner. The accountant general has submitted various requests to finance department on delay in reconciliation with its own figures and books with IAs. This has resulted in end of year rush in reconciliation of accounts with the accountant general.

40. **Re-appropriation and supplementary budgets.** Administrative departments (ADs) are also required to review the proposal for re-appropriations and supplementary funds. If approval for such items are beyond the powers of AD, AD submits the same to finance department, otherwise approves at his level. As highlighted before, budget proposals submitted by the executive departments are unrealistic. This has resulted in large number of requests from the executive departments for re-appropriations and supplementary funds during the year.

41. **Ways and means advances.** During the budget execution, it is crucial that, at all times, state exchequer has enough resources to meet the required expenditure. To avoid any unforeseen situation on lack of funds to meet expenditure, Reserve Bank of India allows state governments to borrow funds through ways and means advances (WMA) route for a defined period. However, the practice of accessing WMA facility should not be permanent but temporary. It is learnt that Punjab has been actively pursuing the WMA route to meet its expenditure. It has been one of the few states who have taken recourse to WMA in the last 2 years. Since 2010, Punjab has been availing WMA facility for the highest number of days. Punjab used this facility for 132 days in 2010–2011, 177 days in 2011–2012, and 163 days in 2012–2013. Similarly, Punjab availed overdraft facility for 107 days until January 2013.

42. **Cash management.** High dependency on WMA is due to poor cash forecasts. Finance department prepares monthly cash forecasts for the ensuing financial year. Cash forecasts are not based on consultation with IAs such as major revenue generating departments (excise, value-added tax, etc.) or major spending departments (irrigation and power, health, and education). Cash forecasts are made only for major items. Forecasts are revised regularly based on the actual position in the treasury. Forecasts are not based on any scientific formula but based on incremental growth rate over previous year corresponding month. For example, for the year 2013, finance department prepared monthly forecasts for the state's own-tax revenue with 10% growth rate. This highlights that cash management practices currently followed needs improvement.

43. Thus, it can be concluded that implementation machinery, at present, is though not very strong, but is progressing towards greater results orientation. It is thus graded as weak.

4. Monitoring

44. **IFMS.** With the implementation of IFMS, monitoring of annual expenditure and receipts has improved. Finance department can view fund position with any drawing and disbursing officer (DDO) in the state on a real time basis. Through IFMS, finance department as well as DDO can view status of the bill and/or invoice submitted on a real time basis. This has helped in fastening the bill clearance process. To avoid cases of end-loaded expenditure, finance department, from time to time, announces quarterly expenditure limits which are required to be adhered by each DDO.

45. **Result-based monitoring.** In May 2010, GOP, as part of governance reform measures, introduced a paperless monitoring and evaluation system for all state departments through a results framework document (RFD). Mahatma Gandhi Institute of Public Administration is the

lead IA. It has established a performance management division which conducts scientific evaluation of RFDs, and consolidate appraisal of all departments of the government. Punjab Infotech Limited, a public enterprise company, provides training to government staff in adopting information technology (IT)-based management and evaluation system in their respective departments. Each administrative department is required to submit RFDs in the prescribed format electronically through Punjab Wide Area Network (PAWAN) connectivity. Similar trainings are also provided to all nodal officers in the districts. GOP has also started an initiative through which all school data (including infrastructure details, staff records) are being computerized. This is expected to improve monitoring of education facilities in Punjab.

46. **Computerization of tax information system.** As mentioned before, GOP is implementing computerized tax information system (COTIS) which replaces the previous computerized VAT information system (COVIS). The new information system, COTIS, includes 32 modules. These are (i) dealer management, (ii) returns filing, (iii) scrutiny, (iv) assessment, (v) audit, (vi) refund, (vii) appeals, (viii) treasury, (ix) penalty, (x) revision, (xi) arrears management, (xii) information collection centers, (xiii) investigations, (xiv) comptroller and audit general (CAG) audit, (xv) internal audit, (xvi) casual traders, (xvii) rectification of mistakes, (xviii) disputed questions, (xix) dispatch and receipts, (xx) document and record management system, (xxi) institutional tax, (xxii) excise policy, (xxiii) excise licenses, (xxiv) excise labels, (xxv) permission for export, (xxvi) renewal of licenses, (xxvii) excise permit, (xxviii) excise offenses, (xxix) excise refund, (xxx) luxury tax, (xxxi) portal, and (xxxii) out of scope requirements (e-billing). These modules are at different stage of implementation (already implemented, pilot phase, waiting for amendment in the law, user acceptance testing, etc.). Modules such as audit, scrutiny, information collection centers, and document and record management system are expected to improve monitoring processes in the excise and taxation department, GOP.

47. Reforms such as RFD and IFMS are expected to improve monitoring systems in Punjab significantly. However, these reforms are yet to yield results. Hence, monitoring systems in Punjab is assessed as moderate.

5. Evaluation

48. Project evaluation system. There is no robust project appraisal and evaluation system in place in the Finance Department to conduct necessary appraisal and evaluation of projects – especially of projects which are highly capital intensive.

49. **Internal audit.** Internal audit cell was established in Punjab in 1981. Internal audit department conducts routine audit, special audit, specific fraud audit, and pre-check audit. In routine audit, the department is assigned with specific sector departments which includes stamps and registration, token tax, sales tax and/or VAT, excise, government provident fund, entertainment tax, district planning fund, grant-in-aid (specifically to schools, colleges, and technical institutes), electricity duty, passenger and goods tax, and group insurance tax. It is learnt that other major departments such as health, education, irrigation, and power have their own internal audit section (accounts officer appointee from internal audit department).

50. Internal audit department also conducts special audit instructed by finance department. Finance department, based on expected risks, instructs internal audit department to conduct special audit. For example, currently, internal audit department is conducting special audit of Punjab Infotech Private Limited.

51. It is learnt that internal audit capacity is weak. Existing staff strength is insufficient for the department to fulfill its mandate. Vacancy related to section officer and auditor is significant at 69% and 40%, respectively. There are cases where single section officer or auditor is responsible for more than one district. For example, both districts of Gurdaspur and Pathankot are under one auditor. Moreover, there is no system of risk-based auditing.

Table 6: Vacancy Position at Internal Audit Department, Punjab

Item	Sanctioned	Filled	Vacant (%)
DCFA	12	12	0 (0%)
ACFA	11	8	3 (27%)
Section officer	29	9	20 (69%)
Auditor	40	24	16 (40%)
Stenographer	15	5	10 (67%)
Assistant	20	9	11 (55%)

ACFA = Assistant Controller of Finance and Account, DCFA = Deputy Controller of Finance and Account.
Source: Internal Audit Department, Government of Punjab, as on 7 May 2013.

52. Lack of sufficient staff forces the department to conduct audit on a selective basis. There is no annual audit plan. However, the Internal Audit Department provides district wise limits on number of audit days. All internal audit reports are prepared manually in physical format in Punjabi. It is noted that there is insufficient capacity in the internal audit department to conduct assurance activities given the ongoing fiscal management reforms specifically IFMS. There is also no internal audit manual in place. Internal audit reports are shared with the auditee. However, there are not enough follow-up to internal audit findings.

53. **External audit.** CAG of India conducts four kinds of audit at the state level, i.e. state finance audit, revenue audit, commercial audit, and civil audit. State finance audit covers review of state finances, financial management and budgetary control, and compliance to financial rules and regulations. Revenue audit includes review of various revenue sources and arrears, compliance to rules and regulations relating to various tax and non-tax receipts.

54. CAG conducts results-based evaluation for select departments and/or public sector undertakings on a yearly basis as part of civil audit and/or commercial audit, respectively. The objective of performance audit is to examine the planning, financial management practices, monitoring and evaluation, and internal control mechanisms in place. Physical progress against the annual targets is also assessed.

55. Although CAG conducts results-based evaluation for select departments, it is not possible for CAG to cover all departments. This gap is required to be filled by the internal audit department. But, internal audit department capacity remain weak due to inadequate staff, absence of internal audit manual, and lack of annual audit plan. Thus, evaluation is assessed as weak.

C. Impact of Proposed Punjab Development Finance Program (PDFP)

56. While the current PSM system of Punjab exhibits results orientation in each of the five components to a significant extent, it shows significant weaknesses in its implementation and evaluation stages in particular. It is encouraging to note that GOP has succeeded in putting in place many of the components of results-based PSM and exhibits commitment to progressively embed further features.

57. In this context, it is noteworthy that the intervention areas proposed under the proposed loan of ADB aim to address some of the weaknesses across all components in the PSM framework.

58. A snapshot of intervention areas mapped with the PSM components is presented in Table 7.

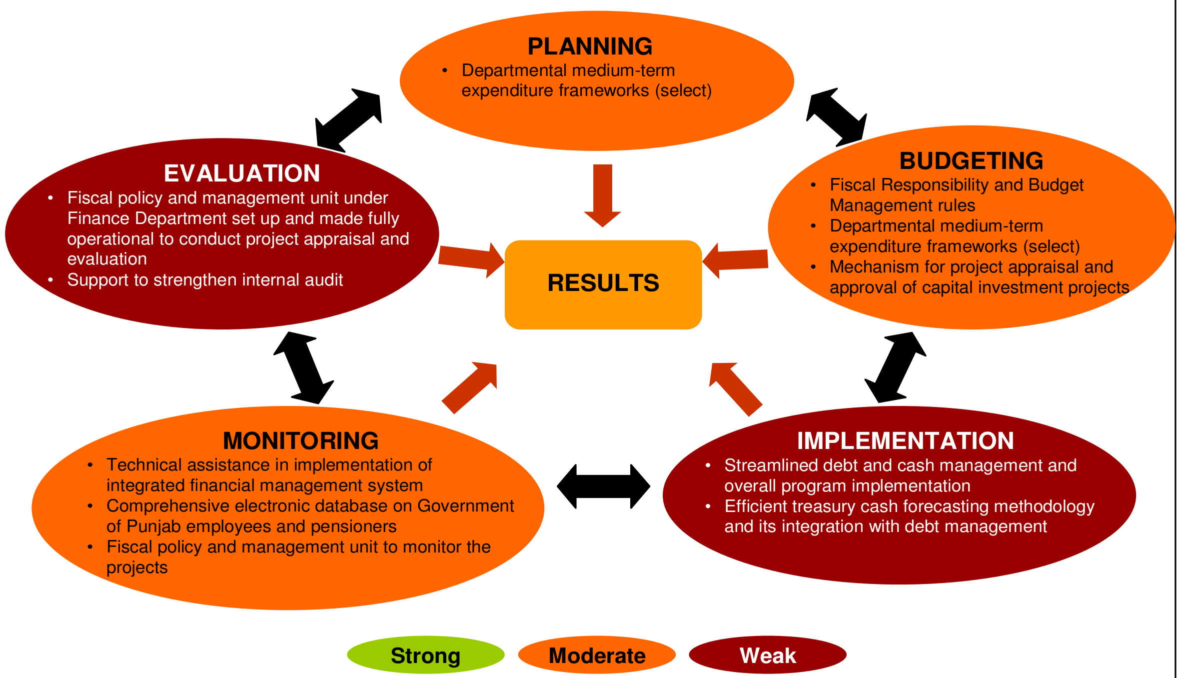
Table 7: PSM component wise intervention under PDFP

Component of PSM Framework	Measures targeted under PDFP
Planning	• An MTFF covering the period of t+3 years to ensure adherence to realistic fiscal targets • MTEFs for health, education, and public works departments which are consistent with MTFF
Budgeting	• Drafting of Fiscal Responsibility and Budget Management rules • FPMU in finance department to supervise project appraisal and approval
Implementation	• FPMU in finance department to look after debt and cash management, and overall program implementation to strengthen fiscal management and improve effectiveness of public resources • A treasury cash forecasting methodology and its integration with debt management module to reduce dependence on unplanned short-term borrowings • Normative power requirements for farming to be implemented • Threshold limit for deduction of tax at source for works contract reduced • Turnover tax rate rationalized • Profession tax in the state introduced • Complete digitization of land records for all areas to facilitate improved administration of stamp duty and registration fee collection
Monitoring	• Technical assistance in implementation of integrated financial management information system by way of integrated cash forecasting method • Comprehensive electronic database on GOP employees and pensioners prepared for better public expenditure planning and targeting • FPMU under finance department to monitor reforms envisaged under the program • FPMU under finance department to monitor projects and/or programs.
Evaluation	• FPMU under finance department set up and made fully operational to conduct evaluation of projects (especially large capital projects) • Support towards strengthening internal audit systems and practices

FPMU = fiscal policy and management unit, GOP = Government of Punjab, MTEF = medium-term expenditure framework, MTFF = medium-term fiscal framework, PDFP = Punjab Development Finance Program, PSM = public sector management.
Source: Asian Development Bank.

59. The targeting of intervention areas suggested under PDFP across five components of PSM framework of Punjab is alternately presented in Figure 2.

Figure 2: Public Sector Management Component-wise Interventions



Source: Asian Development Bank.