



NEPAL

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

PERFORMANCE ASSESSMENT REPORT- III (AS OF 2022)

April 2024



Government of Nepal
Ministry of Finance
Public Expenditure and Financial Accountability Secretariat





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Published by

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Government of Nepal

Public Expenditure and Financial Accountability (PEFA)

February 2024

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the **'PEFA CHECK'**.

PEFA Secretariat
February 20, 2024



Hon. Barsha Man Pun 'Ananta'
Finance Minister

Government of Nepal

MINISTRY OF FINANCE



SINGHADURBAR
KATHMANDU, NEPAL

Foreword

It is my profound joy to present the third PEFA assessment report of Nepal. This report has been prepared as per the global benchmark assessment framework developed to measure the performance of the public financial management. The comprehensiveness of this assessment makes it a valuable documentation and evaluation of all pertaining aspects of public financial management of the country. It also shows our commitment towards establishing a strong and robust public finance. It is evident that public finance, a significant component of the national economy, possesses the capacity to catalyze momentum within the overall economic landscape. Thus, public financial management has the power to change the people's life and livelihood. Therefore, as finance minister, I am confident that this report will add a feather in our journey for materializing the aspirations of prosperity.

Effective management of public finance is the cornerstone for realizing the government's vision and goals, especially for a resource constrained country like ours. The landscape of PFM system worldwide has been evolving into more agile and dynamic form to ensure better service delivery. Taking this into account, Nepal has been committed to transform the PFM landscape through rigorous reform initiatives and adoption of concept of digital governance in PFM.

This assessment shows our commitment towards continuity for evidence-based reforms. The findings of the first and the second assessment have induced systemic reforms in the public financial sector of the country. Introduction of new PFM laws and guidelines in alignment with global best practices, digitalization of PFM through of IT based systems, establishment of a streamlined and reengineered business process are some of the noteworthy interventions. In the same manner, this assessment will also contribute to navigate our reform initiatives towards levelling our PFM systems at par with the international standards.

This assessment is particularly pertinent during periods of economic strain within the nation. Despite our hopes for economic growth, we have encountered challenges in achieving our desired outcomes. There has been an

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Hon. Barsha Man Pun 'Ananta'
Finance Minister

Government of Nepal
MINISTRY OF FINANCE



SINGHADURBAR
KATHMANDU, NEPAL

expansion of the fiscal gap, increase in sovereign debt, and ongoing sensitivity in the external sector. These challenges have been compounded by geopolitical tensions and the persistent effects of recurring pandemics. In this backdrop, the execution of the findings of the assessment will bolster to resuscitate the national economy.

The relevance of this report has further been enhanced by the timing of its publication. Firstly, it will provide impetus to the ongoing formulation of periodic plan. Secondly, immediate reforms can be made during budgeting for the coming year to enhance the budget reliability. Lastly, it provides realistic ground to design our fiscal goals and objectives in an achievable way by continuously improvising fiscal practices.

In addition, the government has reiterated its commitment towards resilient and inclusive development by conducting the supplementary assessments related to Climate-responsive PFM and Gender-responsive PFM for the first time.

The report will serve as an instrument to enhance the confidence of the stakeholders including development partners, academia, government offices, media, and civil society in the country's public finance.

At the end, I want to acknowledge the PFM steering committee for rigorously guiding the overall assessment, assessment teams for their sincere efforts, and PEFA secretariat team Nepal for successfully coordinating the process. Special thanks are also extended to our development partners, including the PFM-MDTF and the team from World Bank country office, for their steadfast support in materializing this report. In anticipation of future endeavors, I extend my request to all the stakeholders to join hands together to reform the PFM of Nepal as needed.

Barshaman Pun 'Ananta'
2024/04/12

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**SINGHADURBAR
KATHMANDU, NEPAL**

Message

I am delighted to share that the third Public Expenditure and Financial Accountability (PEFA) Assessment of Nepal has been successfully completed. The assessment, which has been carried out after the seven years of previous assessment, is a crucial endeavor in ongoing public financial management reform journey. Along with it, we have also completed the Gender Responsive Public Financial Management Assessment (GRPFM) and Climate Responsive Public Financial Management Assessment (CRPFM) as the supplementary assessments for the first time. These supplement assessments have measured the performance of public finance from the perspective of two crucial and crosscutting areas of gender and climate.

Nepal has developed a strong legislative and institutional framework of public financial management. This setup ensures proper utilization of public purse by focusing on efficiency, transparency and accountability. The performance of Nepal's public financial management between 2015 and 2022 assessments has improved in some areas as observed in the PEFA 2011 Framework. While measuring performance using the PEFA 2016 Framework, the results are mixed. During the assessed period some critical situations such as the COVID-19 pandemic has impacted in governance system and the PFM performance. However, I am happy to note commendable reforms in the PFM legislations, systems and processes as highlighted in the report.

The PEFA assessment serves as a vital tool in evaluating the effectiveness of public financial management systems, highlighting areas of strength and identifying areas for improvement. Its completion marks a significant milestone in the PFM reform journey towards achieving greater transparency, accountability and efficiency in the management of public finances. I am pleased to note that the results of the assessment reflect the commendable efforts and reforms undertaken by the government in recent years. The assessment explicitly identifies that the focus of the reform should be oriented towards strengthening the budgeting system by making it more realistic and executable. It is a testament to our unwavering commitment to enhance fiscal discipline, strengthen budget execution, and improve the overall management of public resources.

While we demonstrate the achievements, it is imperative to recognize that the journey towards achieving excellence in public financial management is ongoing. The findings of the PEFA assessment provide valuable insights that will guide to further strengthen systems and processes.

I would like to extend my sincere thanks to all team leaders and members, institutions involved in the PEFA assessment process, including all government officials, development partners and the PEFA Secretariat Nepal, for their untiring efforts to bring this report in this shape. Their expertise and contributions have been instrumental in ensuring the success of this endeavor. I am confident that the report will be useful towards building a more robust and efficient public financial management system that delivers tangible benefits to the people of Nepal.

Madhu Kumar Marasini

Madhu Kumar Marasini
Finance Secretary
April 22, 2024



Government of Nepal MINISTRY OF FINANCE



SINGHADURBAR
KATHMANDU, NEPAL

Message

Public expenditure and financial accountability (PEFA) assessment is an evidence-based diagnostics of national public finance management (PFM). Nepal commenced this assessment endeavor in 2005. Now we have come up with the third PEFA Assessment report as an outcome of our continuous commitment towards PFM reforms. This report, also includes gender responsive public financial management assessment and climate responsive public financial management assessment for the first time with a view of making the reforms inclusive, sustainable and resilient.

The third PEFA assessment represents a significant stride in identifying the strengths and weaknesses of our PFM systems that guides us towards PFM reforms to ensure optimal utilization of public fund.

Our revenue management system has been evolving as a dynamic and comprehensive framework along with a series of reforms, mirroring the global benchmarks. These endeavors are spearheaded by dedicated revenue cadres in line with the well-framed regulations and sound ICT based systems. The taxpayer-eccentric reforms have fostered transparency and accountability of public revenue management system. We have been able to maintain a robust system for the prompt and timely transfer of revenue collections to the government treasury. Nevertheless, the assessment has shed light on some avenues for further reforms particularly to enhance compliance, improve risk management, reduce arrears and make investigative processes more effective.

A sound revenue management system helps private sector development, improve import-export dynamics, maintain debt sustainability and move towards more favorable balance of payments. It also injects vitality in overall public finance management by availing much needed fiscal space for the economy.

I believe that the findings of this assessment will be a milestone to further strengthen PFM systems and ensure efficient and effective use of public resources. We are committed to work with the concerned stakeholders to build a stronger PFM system in the country.

I extend my sincere appreciation to the PEFA secretariat team, all the steering committee members, assessment teams and the concerned public officials involved in the PEFA reform process. I am thankful the World Bank, MDTF and other development partners for their continuous cooperation and support to the entire process.

(Dr. Ram Prasad Ghimire)
Secretary (Revenue)

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Ref No.:

Acknowledgement

Nepal has been implementing PEFA initiatives since 2005 and uses the outcomes of PEFA Assessments as the foundation for PFM reforms. This is a third consecutive assessment and the first to undergo all quality assurance processes including PEFA Check. This is a self-assessment which has provided us with an extraordinary opportunity to delve into the intricacies of global Public Financial Management architecture, gaining invaluable hands-on experience and insight into best practices.

Nine assessment teams, each led by Joint Secretaries from their respective sectors, were formed to gather evidence and prepare the draft of the report. The performance score of each dimension underwent rigorous scrutiny, analysis, and revision by both the PEFA Secretariat Nepal team and the technical team from the World Bank. Peer review by experts from around the globe, including the PEFA Secretariat in Washington DC, has ensured the integrity and quality of the report.

The report has showcased several strengths of Nepal's PFM system. The legal and institutional framework of Public Financial Management is robust, ensuring the optimal utilization of resources. PFM system is embracing digital transformation in alignment with the Digital Nepal Framework, leveraging technology. The government has been proactive in aligning with the evolving global PFM landscape, including the adoption of international standards such as GFSM and COFOG. The report also acknowledges that the integration of PFM frameworks across all three tiers of government has fostered uniformity, consistency, and timeliness in our PFM functions. The availability of allocated resources for spending units at the outset of the fiscal year ensures uninterrupted public service delivery. The scope and coverage of both internal and external audits are extensive ensuring the government's commitment to enhancing accountability.

Shortcomings of our PFM systems have also surfaced with the assessment. Fiscal projections including budget estimates are deviated. Fiscal risks posed by the extra-budgetary entities and sub-national governments are not adequately assessed. The fiscal strategy is dispersed in various documents. The absence of fiscal sensitivity analysis leaves our financial management susceptible to unforeseen shocks and uncertainties. Similarly, the lack of an integrated and reliable database for procurement activities raises concerns about the transparency in procurement processes. The inadequate recording of commitments and contingent liabilities of the government poses risk to sustainable fiscal management. The delayed legislative review of the audit reports underscores challenges in ensuring public accountability.

The assessment covers all 94 dimensions and 31 indicators of the PEFA Framework 2016. The scores at the dimension level are: A for 16, B for 22, C for 27, D for 27, D* for 1, and NA for 1. At the indicator level, the scores are: A for 1, B+ for 1, B for 3, C+ for 11, C for 5, D+ for 6, and D for 4.



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Reform initiatives have been catalyzed even during the assessment process. Enhancements to our IT systems have now enabled the government to access its fiscal position with a single click. The commitment recordings are now seamlessly integrated into our accounting systems. The ongoing upgrades to our e-Government Procurement System, encompassing features such as contract management, will enhance the accountability in procurement processes. The execution of the Medium-Term Debt Management Strategy will support in prudent debt management. The parliament has enacted a calendar for effectively scheduling the business that is expected to timely review audit report.

The overall journey of crafting the report over two years was indeed fascinating. The guidance of the PFM Reform Steering Committee and oversight team was instrumental. I am delighted to thank, Finance secretary Mr. Madhu Kumar Marasini; Dr. Ram Prasad Ghimire, Secretary (Revenue) and Mr. Hari Prasad Mainali, Financial Comptroller General for their continued support and guidance. Former finance secretaries Dr. Krishna Hari Pushkar, Mr. Arjun Prasad Pokharel, Mr. Toyam Raya and; Former Financial Comptroller General Mr. Suman Raj Aryal led the assessment during their tenure and continued encouraging the assessment teams. I acknowledge the contribution of Mr. Rameshore Khanal, former Finance Secretary, for his support as an independent reviewer. My appreciation goes to the assessment team leaders and members for their tireless efforts. All the related government institutions and stakeholders are equally acknowledged for their formal and informal contribution.

Furthermore, I am grateful to the team from the PEFA Secretariat D.C; Mr. Bigyan Bahadur Pradhan, Senior Operations Officer and Mr. Syed Waseem Abbas Kazmi, Senior Financial Management Specialist including the entire team from the World Bank Country Office Nepal; and PFM-MDTF for expertise and support provided during the assessment. We are indebted to the peer reviewers for their constructive observations which have ascertained the quality of the report. Mr. Gokul Banstola, Member Secretary and Mr. Gorakh Bahadur Shahi, former Member Secretary, along with the entire team of my secretariat, including PFM consultants, deserve acclaim for their dedication and performance.

Finally, I reiterate that this report reflects the strengths and weaknesses of Nepal's PFM system in comparison to global best practices. I hope that government entities, development partners, academia, media, and other stakeholders will optimally utilize the report for future endeavors.

Pangyani

Than Prasad Pangyani
Coordinator, PEFA Secretariat, Nepal and Assessment Manager
April, 2024



Table of Contents

PEFA Check	III
Foreword from Finance Minister	V
Message from Finance Secretary	VII
Message from Secretary (Revenue)	VIII
Acknowledgement	IX
Assessment Management and Quality Assurance	XIII
Abbreviations and Acronyms	XVI
Methodology	XIX
Executive Summary	XXII
1. PFM Context	1
1.1. Financial overview	1
1.2. Institutional arrangements for PFM	3
1.3. PFM legal and regulatory arrangements	6
1.4. PFM reform process	10
2. Detailed Analysis of PFM Performance	14
PILLAR ONE: Budget Reliability	16
PI-1. Aggregate expenditure outturn	18
PI-2. Expenditure composition outturn	19
PI-3. Revenue outturn	21
PILLAR TWO: Transparency Of Public Finances	26
PI-4. Budget classification	28
PI-5. Budget documentation	30
PI-6. Central government operations outside of financial reports	33
PI-7. Transfers to subnational governments	36
PI-8. Performance information for service delivery	42
PI-9. Public access to fiscal information	49

PILLAR THREE: Management of Assets and Liabilities	54
PI-10. Fiscal risk reporting	55
PI-11. Public investment management	58
PI-12. Public asset management	64
PI-13. Debt management	67
PILLAR FOUR: Policy-Based Fiscal Strategy and Budgeting	72
PI-14. Macroeconomic and fiscal forecasting	73
PI-15. Fiscal strategy	76
PI-16. Medium-term perspective in expenditure budgeting	78
PI-17. Budget preparation process	82
PI-18. Legislative scrutiny of budgets	85
PILLAR FIVE: Predictability and Control in Budget Execution	92
PI-19. Revenue administration	94
PI-20. Accounting for revenue	101
PI-21. Predictability of in-year resource allocation	105
PI-22. Expenditure arrears	108
PI-23. Payroll controls	111
PI-24. Procurement	114
PI-25. Internal controls on non-salary expenditure	119
PI-26. Internal audit	123
PILLAR SIX: Accounting and Reporting	128
PI-27. Financial data integrity	129
PI-28. In-year budget reports	134
PI-29. Annual financial reports	138
PILLAR SEVEN: External Scrutiny and Audit	144
PI-30. External audit	145
PI-31. Legislative scrutiny of audit reports	151
3. Overall Analysis of PFM Systems	156
3.1. PFM strengths and weaknesses	156
3.2. Effectiveness of the internal control framework	168
Annex 1: Performance Indicator Summary	174
Annex 2: Summary of Observations regarding the Internal Control Framework	188
Annex 3: Sources of Information	195
Annex 4: Tracking Changes in Performance based on Previous PEFA Version (2011)	206
Annex 5: Calculations for PI-1, PI-2, and PI-3	233
Annex 6: Extra-Budgetary Units (EBUs)	239



Assessment Management and Quality Assurance

The Government of Nepal (GoN) completed this self-assessment with the technical assistance of the World Bank. The Nepal Public Financial Management Multi-Donor Trust Fund (MDTF) financed the assessment. In addition to this main Public Expenditure and Financial Accountability (PEFA) Assessment, the supplementary Gender-Responsive Public Financial Management (GRPFM) and Climate-Responsive Public Financial Management (CRPFM) Assessments have been carried out for the first time as self-assessments. The PEFA oversight team, chaired by the Finance Secretary, provided policy guidance to conduct and complete this assessment. The PEFA Secretariat (Nepal) led and coordinated the assessment, including data collection and report writing. Eleven working teams (including nine teams for the main PEFA and one each for the GRPFM and CRPFM, each headed by an official of the rank of Joint Secretary), were formed to collect data and prepare preliminary drafts of indicator-level assessments. The PEFA Secretariat (Nepal) consolidated the inputs of the working teams and prepared the final report.

PEFA Check

The quality assurance process of this report is shown in Box 1. The draft report was submitted for peer review on September 30, 2023. Peer reviewers included representatives of the World Bank, the Foreign, Commonwealth and Development Office (FCDO), Asian Development Bank (ADB), and the PEFA Secretariat. Other development partners were also invited to peer review this report, including representatives of the Australian Department of Foreign Affairs and Trade (DFAT), the European Union (EU), the International Monetary Fund (IMF), Switzerland's State Secretariat for Economic Affairs (SECO), Royal Norwegian Embassy, Kathmandu, and the United States Agency for International Development (USAID). The PEFA Secretariat issued the PEFA Check on February 20, 2024.

Box 1: Assessment Management and Quality Assurance Arrangements

■ PEFA Assessment Management Organization

- **Oversight Team:** Chaired by the Secretary of the Ministry of Finance and including the following ex officio members: Secretary, National Planning Commission; Secretary, Office of the Prime Minister and Council of Ministers; Financial Comptroller General, Financial Comptroller General Office; and Country Director, World Bank, Nepal.
- **Assessment Manager:** Than Prasad Panyani, PEFA Coordinator, PEFA Secretariat (Nepal). Hisham Waly, Practice Manager, Governance, Assessment Manager, World Bank.
- **Assessment Team Leader and Team Members:** The government formed eleven groups, including nine for the main PEFA and one each for the Gender and Climate Assessments. Each was headed by an official of the rank of Joint Secretary for collecting data and preparing preliminary drafts of indicator-level assessments (refer to Annex 3B).
- **PEFA Secretariat, Nepal Team:** Gokul Banstola, current member-secretary; Gorakh Bahadur Shahi, previous member-secretary; Chitra Bahadur KC and Kavita Regmi, Accounts Officer; Padam Sing Mauni and Narahari Ghimire, Accountants; Rajendra Bahadur Bajracharya and Saroj Acharya, PFM National Consultants.
- **World Bank Team:** Syed Waseem Abbas Kazmi, Senior Financial Management Specialist (Team Leader); Nayan Krishna Joshi, Economist (Team Leader); Timila Shrestha, Senior Financial Management Specialist; Yoshihiro Saito, Public Sector Specialist; Haider Raza, Senior Procurement Specialist; Chandra Kishor Mishra, Procurement Specialist; Victor Boakye-Bonsu, Senior Financial Management Specialist; Bishwa Raj Basaula, Financial Management Specialist; Durgesh Kumar Pradhan, PFM Consultant; Prakash Jung Thapa, PFM Consultant; Elena Morachiello, PFM Consultant; and Bogdan Constantinescu, Senior Financial Management Specialist.

■ Review of Concept Note and/or Terms of Reference

- **Draft of reviewed Concept Note:** The draft Concept Note was circulated for peer review on April 13, 2021.
- **Invited reviewers:** (a) Jose Simon Rezk, Senior Financial Management Specialist, World Bank; (b) Donald Mphande, Lead Financial Management Specialist, World Bank; (c) Manoj Jain, Lead Governance Specialist, World Bank; (d) Daniel Nogueira-Budny, Senior Digital Development Specialist, World Bank; (e) Egbert Pos, Governance Advisor, FCDO; and (f) the PEFA Secretariat, Washington DC.

- **Reviewers who provided comments:** (a) Jose Simon Rezk, Senior Financial Management Specialist, World Bank; (b) Donald Mphande, Lead Financial Management Specialist, World Bank; (c) Daniel Nogueira-Budny, Senior Digital Development Specialist, World Bank; (c) Egbert Pos, Governance Advisor, FCDO; and (f) the PEFA Secretariat, Washington DC.
- Date of final Concept Note: May 7, 2021.

■ Review of the Assessment Report

- World Bank comments on the first draft of the report were received on January 9, 2023.
- **Joint reviews** of the different versions of the draft report with the World Bank were undertaken on February 27 to March 1, 2023; April 9 to May 1, 2023; July 21 to July 28, 2023; and August 22 to August 28, 2023.
- **Independent review** of the draft report by Rameshore Khanal, former Finance Secretary, Nepal, was undertaken on May 26 and 29, 2023.
- **Date of reviewed final draft report:** September 30, 2023.
- **Invited reviewers:** (a) Jose Simon Rezk, Senior Financial Management Specialist, World Bank; (b) Donald Mphande, Lead Financial Management Specialist, World Bank; (c) Egbert Pos, Governance Advisor, FCDO; (d) Sarah Elizabeth Haddock, Senior Social Development Specialist, World Bank; (e) Iguniwari Thomas Ekeu-Wei, Climate Change Specialist, World Bank; (f) ADB; and (g) the PEFA Secretariat, Washington DC. The report was also shared with the PFM Working Group of the development partners in Nepal for review.
- **Reviewers who provided comments:** (a) Jose Simon Rezk, Senior Financial Management Specialist, World Bank; (b) Donald Mphande, Lead Financial Management Specialist, World Bank; (c) ADB; (d) SECO; (e) Royal Norwegian Embassy; (f) USAID; (g) FCDO; and (h) the PEFA Secretariat, Washington DC.



Abbreviations and Acronyms



ADB	Asian Development Bank
ADP	Annual Development Plan
AG	Auditor General
ASYCUDA	Automated System for Customs Data
BCG	Budgetary Central Government
CFS	Consolidated Financial Statement(s)
CG	Central Government
CGAS	Computerized Government Accounting System
CoA	Chart of Accounts
COFOG	Classification of the Functions of Government
COVID-19	Coronavirus Disease 2019
CRPFM	Climate-Responsive Public Financial Management
DCR	Development Cooperation Report
DFAT	Department of Foreign Affairs and Trade (Australia)
DMS	Debt Management Strategy
DOC	Department of Customs
DOMS	Debt Operation and Management System
DoNPR	Department of National Personnel Records (Civil)
DPR	Detailed Project Report
DRI	Department of Revenue Investigation
DSA	Debt Sustainability Analysis
DTCO	District Treasury Controller Office
EBP	Electronic Bill Payment
EBU	Extra-Budgetary Unit
EFT	Electronic Fund Transfer
e-GP	Electronic Government Procurement
EU	European Union
FCDO	Foreign, Commonwealth and Development Office (United Kingdom)
FCGO	Financial Comptroller General Office
FEG	Fiscal Equalization Grant
FMIS	Financial Management Information System

FPFA	Financial Procedure and Fiscal Accountability
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GoN	Government of Nepal
GRPFM	Gender-Responsive Public Financial Management
HR	Human Resources
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
IGFA	Inter-Governmental Fiscal Arrangement
IMF	International Monetary Fund
IPFMRP	Integrated Public Financial Management Reform Project
IPMS	Integrated Pension Management System
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Department
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
ITS	Integrated Tax System
LMBIS	Line Ministry Budget Information System
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments, and Agencies
MDAC	Ministerial Development Action Committee
MDTF	Multi-Donor Trust Fund
MFMIS	Ministerial Financial Management Information System
MoAL	Ministry of Agriculture and Livestock
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoHP	Ministry of Health and Population
MTBF	Medium-Term Budgetary Framework
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
MTRF	Medium-Term Results Framework
NAMS	Nepal Audit Management System
NDAC	National Development Action Committee
NGAS	Nepal Government Auditing Standards
NNRFC	National Natural Resources and Fiscal Commission
NPB	National Project Bank
NPBMIS	National Project Bank Management Information System
NPC	National Planning Commission

NPSAS	Nepal Public Sector Accounting Standards
NRB	Nepal Rastra Bank
NREC	National Resource Estimation Committee
NSO	National Statistical Office
OAG	Office of the Auditor General
OAGN	Office of the Auditor General Nepal
OPMCM	Office of the Prime Minister and Council of Ministers
PAC	Public Accounts Committee
PAMS	Public Asset Management System
PAN	Permanent Account Number
PCAO	Post-Clearance Audit Office
PDMO	Public Debt Management Office
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIS	Personnel Information System
PLGs	Provincial and Local Governments
PLGSP	Provincial and Local Governance Support Program
PMF	Performance Management Framework
PPA	Public Procurement Act
PPMO	Public Procurement Monitoring Office
PPP	Public-Private Partnership
PPR	Public Procurement Regulation
PPRC	Public Procurement Review Committee
PSC	Public Service Commission
PTCO	Provincial Treasury Comptroller Office
RAS	Revenue Administration System
RMIS	Revenue Management Information System
SAI	Supreme Audit Institution
SBD	Standard Bidding Document
SDGs	Sustainable Development Goals
SECO	Switzerland's State Secretariat for Economic Affairs
SOP	Standard Operating Procedure
TCC	Tax Clearance Certificate
TSA	Treasury Single Account
USAID	United States Agency for International Development
VAT	Value Added Tax
VERSP-MIS	Vital Event Registration and Social Protection Management Information System
WCO	World Customs Organization



Methodology

Type of assessment: The Public Expenditure and Financial Accountability (PEFA) Assessment for the Government of Nepal (GoN) was conducted using the PEFA Framework of 2016. It reviews the seven critical pillars of performance using a set of 31 performance indicators (PIs) and associated dimensions. The assessment covered all seven PEFA Pillars: budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. While tracking performance changes, the 2011 Framework was used to ascertain public financial management (PFM) progress since the last assessment in 2015. The results of this analysis are reported in Annex 4. This report has been prepared using the template recommended by 'PEFA Handbook Volume III: Preparing the PEFA Report, third edition, Revised as of September 15, 2023'.

This is the third PEFA Assessment for Nepal, and being the first that is conducted using the PEFA Framework of 2016. The two former assessments were conducted based on the PEFA Frameworks of 2005 and 2011. Similar to the previous assessments, this is also a self-assessment led by the GoN with the technical support of the World Bank. In addition, for the first time, the government has conducted its Gender-Responsive Public Financial Management (GRPFM) and Climate-Responsive Public Financial Management (CRPFM) assessments. These are supplementary assessments corresponding to the main third PEFA Assessment and have been published as separate reports. The third PEFA Assessment was conducted by the government after the promulgation of the Constitution of Nepal in 2015, as well as the switching of the country's governance system from a unitary to a federal system.

Number of indicators used: While conducting this assessment using a self-assessment methodology for PFM performance, all the 31 indicators and their associated 94 dimensions were applied across the seven pillars. It should be noted that PI-27.2 was not applicable due to the absence of any provision of a suspense account under the Financial Procedure and Fiscal Accountability (FPFA) Act, 2019.

Timeline: The assessment started when PEFA assessors (working groups) were nominated on January 13, 2022. The three-day PEFA Assessment Orientation Program was organized on March 20–22, 2022. The orientation program covered the PEFA Framework, including tools

and techniques and the field guide for the assessment. Periodic meetings and workshops were organized at different levels to proceed with and finalize the assessment reports. This was followed by the first 'Assessment Program Update', which was organized on June 24, 2022.

Draft reports were prepared and shared with the World Bank team. These drafts were revised following a series of discussions and comments from the World Bank team. The independent reviews by Mr. Rameshore Khanal, former Finance Secretary of Nepal, and Mr. Bigyan Bahadur Pradhan, Senior Operations Officer, World Bank, were conducted to enhance the quality and reliability of the report. During the review, PFM experts, government officials, and World Bank representatives were also involved. The final draft was shared with the World Bank in June 2023 for its feedback. Various meetings and consultations were held between the PEFA Secretariat for Nepal and the World Bank regarding the finalization and further quality enhancement of the report.

Years covered: The PEFA Assessment Field Guide (Volume II) has been followed to determine the applicable period for this assessment.

- (a) Years covered: last three completed fiscal years - 2018/19, 2019/20 and 2020/21.
- (b) Last completed fiscal year: 2020/21.
- (c) Last budget submitted to the legislator: FY2022/23.
- (d) At time of assessment: FY2022/23.
- (e) The 'last medium-term budget' is for the FY2021/22 and 'the current medium-term budget' is for the FY2022/23.
- (f) Pls and planned outputs and outcomes for the next fiscal year: 2021/22.

Cutoff date: The cutoff date for this assessment is December 31, 2022. The cutoff date is the last date for which data were considered for inclusion in this assessment.

Coverage: This assessment covers the federal level of Government of Nepal (also known as the central government (CG). The assessment includes budgetary central government (BCG), extra-budgetary units (EBUs), and the social security fund under CG, as required by the assessment's indicators and dimensions. The assessment also covers subnational governments and public corporations to the extent required by the PEFA 2016 Framework. This includes assessing fiscal risks associated with subnational government and public enterprise operations (PI-10.1 and PI-10.2) as well as evaluating transfers to subnational level governments (PI-7).

The GoN provides conditional grants to enable provincial and local governments (PLGs) in carrying out the devolved service delivery functions. Nevertheless, PLGs operate independently, and the provision of these services falls under their jurisdiction for both administrative and functional purposes, as mandated by the Constitution. Consequently, PLGs are not regarded as deconcentrated entities/units of the federal level of government for this assessment. However,

the EBUs responsible for providing basic services through government budgetary grants have been considered as deconcentrated units.

Sources of information: To gather the necessary information, discussions and meetings were held at various levels. The primary sources of data for this assessment include unpublished data, official correspondence, internal decision memos/minutes, relevant reports, and PFM-related systems. Secondary sources of data, such as published reports, documents, and data, were also utilized. The PEFA assessors from different entities, including relevant government officials, were grouped into nine assessment teams to carry out the task. These teams conducted rigorous assessments through diagnostic and analytical reviews and meetings with stakeholders, while also considering international good practices. Annex 3 of the report presents a detailed list of institutions and people consulted as well as documents and reports used.

Country fiscal year: July 17 to July 16.

Exchange rate:

Exchange rate effective as of December 31, 2022

Currency unit = Nepalese Rupee (NPR)

US\$1.00 = NPR 132.06



Executive Summary

Purpose and management

This report provides an in-depth analysis of Nepal's PFM systems based on the 2016 Public Expenditure and Financial Accountability (PEFA) assessment methodology. The assessment includes 31 performance indicators (PIs) (and associated dimensions), classified into seven critical pillars of performance, to capture a snapshot of the government's public financial management (PFM) systems, processes, and institutions. The assessment, based on the 2016 methodology, was undertaken by the Government of Nepal (GoN) as a self-assessment with technical support from the World Bank. At the same time, a Climate-Responsive Public Financial Management (CRPFM) assessment and a Gender-Responsive Public Financial Management (GRPFM) assessment have also been undertaken as self-assessments with technical support from the World Bank, based on the respective PEFA Frameworks. The CRPFM and GRPFM assessments are published as separate reports. These assessments were co-financed by the Nepal PFM Multi-Donor Trust Fund (MDTF).

The GoN has implemented PFM reforms since 1990s. Initially, the government made interventions at the thematic and institutional levels. After the first PEFA Assessment in 2008, the government has adopted a strategy of utilizing the outcomes of the PEFA Assessments as the foundation for its PFM reforms. Since 2008, the reforms have been guided by a PFM Reform Strategy, and the second phase of the strategy, spanning from FY2016/17 to FY2025/26, is under implementation. Several achievements have been accomplished under the PFM Reform Strategy. Implementation of information systems for budgeting, expenditure, reporting, and revenue administration has instituted fiscal discipline and financial efficiency. The Treasury Single Account (TSA) has been implemented that facilitates better cash management. The enactment of updated PFM legislation has brought more transparency and a results-oriented approach to the PFM process in all three tiers of government. Nepal has adopted international standards for accounting and auditing to improve the quality of financial reporting and auditing.

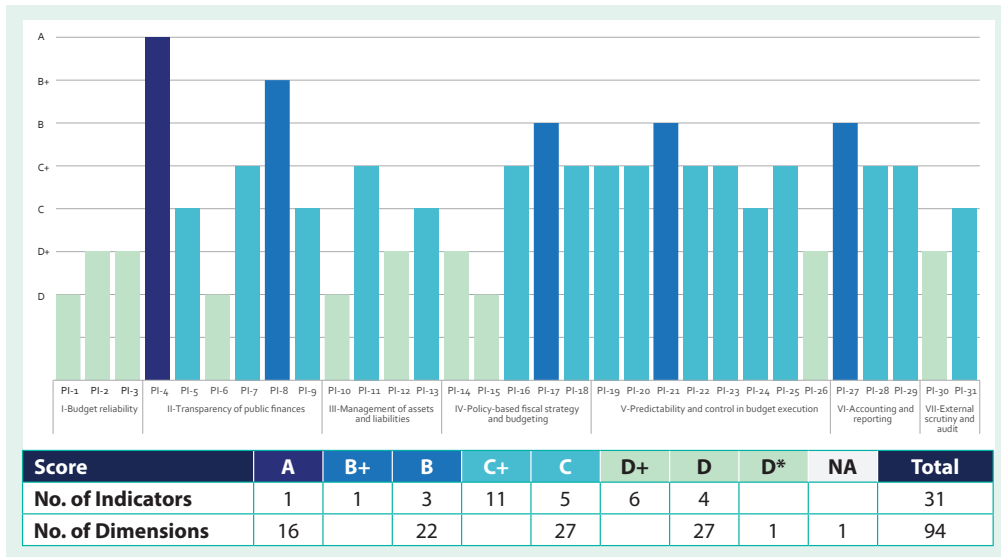
The primary objectives of the assessment are to establish a baseline for future assessments, compare the level of change in performance to previous assessments, and provide a credible foundation for the next PFM Reform Strategy. This assessment will help gain a better understanding of the PFM environment and identify areas that require further development and reform. The assessment results will serve as a basis for updating the PFM Reform Strategy for the harmonization of the reform initiatives by the government and the development partners.

Main strengths and weaknesses of the PFM systems in Nepal

Nepal possesses a robust legislative and institutional framework for PFM, which effectively regulates the utilization of public resources with a focus on transparency, accountability, and efficiency. The framework additionally incorporates explicit delineations of tasks and responsibilities for various governmental entities. The government has deployed a range of information systems to enhance the efficiency of PFM performance. The adherence to international standards (Government Finance Statistics Manual [GFSM] and Classification of the Functions of Government [COFOG]) in the budget and accounts classification ensures comparability, accuracy, comprehensiveness, and transparency in financial information. Budgets are designed with a medium-term outlook, and the majority of line ministries have developed costed sector strategies. The predictability of resource availability for spending units is at a high level. During the assessment period, the Ministry of Finance (MoF) did not initiate any in-year budget modifications, and the utilization of contingency reserves for expenditure was minimal. The fiscal transfers allocated to subnational governments exhibit transparency and adherence to established rules. The scope and coverage of both the internal and external audit are extensive.

Despite the presence of conducive conditions, the actual budget outcomes exhibit a notable degree of underperformance. One of the primary factors contributing to this issue is the ambitiousness in macroeconomic and fiscal projections, coupled with overly optimistic budgeting, and the absence of a coordinated fiscal strategy. There is currently a lack of a dependable database for monitoring procurement activities, and the procurement planning process is not sufficiently robust. The expenditure units fail to fulfill a substantial portion of their scheduled procurements within the designated time frame, leading to a reduction in the budget outturn. The existing system for monitoring public investments and fiscal outcomes has been established; nevertheless, the current reporting lacks comprehensive explanations of discrepancies and corresponding measures to rectify them. The specified framework for fiscal risk reporting and monitoring exists; however, there is a lack of documentation to substantiate the implementation of fiscal risk reporting and monitoring. Revenue entities employ a partially structured and systematic methodology to evaluate and prioritize compliance risks and are yet to develop compliance improvement plans. The examination of audit reports by the legislative body has experienced delays, resulting in the Public Accounts Committee (PAC) being unable to fully review the audit report for any fiscal year over the past three years.

Figure 1: Summary of PEFA scores by indicator



Impact of PFM performance on budgetary and fiscal outcomes

The results of the current PEFA Assessment are presented to explain how the PFM performance in Nepal has influenced the three fiscal and budgetary outcomes—aggregate fiscal discipline, strategic allocation of resources, and efficiency in service delivery.

Aggregate fiscal discipline

The GoN has demonstrated ability to control expenditure and prevent unexpected deficits, but there is still room for improvement when it comes to budget outturns. During the assessment period, the aggregate expenditure outturn was below 85 percent and the aggregate revenue outturn was below 92 percent. A combination of factors, including the COVID-19 pandemic, execution of a significant portion of the federal budget by subnational governments, inefficiencies in procurement, weaknesses in project appraisal, and ambitious budget estimates have all affected the budget outturns.

During the fiscal years affected by COVID-19, the government estimated higher economic and revenue growth, which is the main reason for lower revenue outturn. Although there is a higher predictability in the availability of resources, the spending units are still unable to execute a large portion of the approved budget. This issue is amplified for the development budget, where around 40 percent of the annual budget remains unspent. The MoF does not instigate any in-year budget adjustments, the expenditure charged to the contingency vote is almost 0 percent, and the total budget has been available for spending since the start of the fiscal year. Despite having an enabling environment, the lower budget outturns highlight the lower spending capacity of the budgetary units.

The prescribed internal control framework is detailed, and compliance rates are consistently high. The legal and regulatory framework mandates rigorous internal controls that have been integrated into the information systems used for expenditure management. According to both internal and external audit reports, the percentage of non-compliant expenditures is less than 5 percent, indicating a strong adherence to the prescribed controls. While the internal audit system has been institutionalized under the Financial Comptroller General Office (FCGO), there is room for improvement in terms of its focus. Currently, the internal audit system's primary focus is on financial compliance, lacking a risk-based approach that could address system strengthening.

Strategic allocation of resources

The PFM system modestly supports the attainment of allocative efficiency by strategically planning and effectively utilizing budgetary resources in accordance with the GoN's goals and policy objectives. The directive principles of the Constitution, the SDG framework, and the periodic plan provide the long-term framework for strategic allocation of resources. Sectoral strategies of the ministries and the Medium-Term Expenditure Framework (MTEF) offer the bases for medium-term perspectives of the resource allocation. To effectively allocate resources in a strategic manner, the PFM system incorporates various components. These include a robust system for classifying budgets, the provision of comprehensive information on public finances, the implementation of transparent and rule-based fiscal transfers to subnational governments, adherence to a clearly defined budget calendar, efficient revenue administration, and the availability of reliable financial data for the preparation of periodic budget execution reports and annual financial statements.

The deficiencies in macroeconomic forecasting and limitations in public investment management hinder the strategic allocation of resources. The MTEF lacks standardized modeling techniques for fiscal forecasting and delivering comprehensive projections for future years. In addition, an integrated fiscal strategy has not been developed to accurately estimate the fiscal consequences of revenue and expenditure policy proposals at the level of individual policies.

The inadequate implementation of contemporary budgeting procedures hampers the effectiveness of resource allocation. The budget allocation system predominantly follows an incremental approach, while the budget estimation for both recurrent and development budgets is characterized by fragmentation. Consequently, this hinders the establishment of strong connections between the chosen programs and policy priorities. The effectiveness of public investments is hampered by quality of data and analysis for project appraisal and monitoring. Significant allocations of resources have been dedicated to projects that exhibit inadequate preparation and have not undergone proper processing as per the Public Investment Management (PIM) Framework. The National Planning Commission (NPC) has issued Project Bank Guidelines to rectify the deficiencies in the current PIM Framework. However, the

execution would require a considerable amount of time, and the outcomes would gradually accumulate over the medium term.

Efficient use of resources for service delivery

The performance of the PFM system is notable at supporting the delivery of public services. Several variables contribute to the facilitation of efficient service delivery. Following federalization, a significant portion of service delivery responsibilities has been decentralized to subnational governments. The fiscal transfers to subnational governments are allocated based on criteria that are both transparent and guided by established regulations. The budget documents included key performance indicators and the anticipated output for most of the programs or services delivered by the line ministries. Furthermore, the yearly progress reports provide updates on the extent to which these targets have been achieved. The spending units have access to up-to-date information regarding annual grants, and the reliability of resource availability throughout the year is high, guaranteeing the availability of resources at the required times. Regular internal audits are undertaken to ensure compliance, while the Office of the Auditor General (OAGN) conducts annual financial and performance audits to detect inefficiencies in program implementation and service delivery.

The achievement of service delivery targets is hindered by the restricted capacity of spending units to effectively utilize funds, despite a conducive environment that incorporates performance information into budgeting and ensures the availability of resources. The planning quality is deemed less than optimal, mostly due to a heavy reliance on an incremental approach for recurrent budgets and a deficiency in conducting thorough appraisals for investment projects. The annual procurement plans, despite being a regulatory necessity, are often subject to delays in preparation or lack of updates. The initiation of procurements occurs later in the fiscal year, and the procurement process is characterized by a leisurely pace and a reliance on a competitive approach based on the selection of the lowest bid. The issue of excessive staff turnover and insufficient staffing capacity exacerbates the existing issues. The aforementioned challenges have led to substantial delays in the budget execution, affecting efficient service delivery.

Summary of the performance changes since 2015 assessment

The PFM performance has exhibited improvement between the 2015 and 2022 assessments, as observed through the lens of the PEFA 2011 Framework. There was an improvement in the scores of 30 dimensions, a deterioration in the scores of 10 dimensions, and no change in the ratings of 31 dimensions. Nevertheless, despite the enhancements observed in the dimension scores, there was no corresponding improvement in the indicator scores. Specifically, out of the total of 28 indicators, the scores of 6 indicators improved, 7 experienced a decline in scores, while 15 indicators remained the same.

The transparency of intergovernmental fiscal relations has been enhanced by the implementation of transparent and rule-based fiscal transfers. The scope of unreported government operations has improved as a result of the rise in on-budget development assistance. Various line ministries have developed costed sector strategies that align with the MTEF, improving the multi-year perspective in budgeting. Taxpayer registration and tax collection transfer to the treasury have shown notable enhancements in efficacy. Other areas that have improved include debt management, internal audit coverage and reporting, compliance with internal controls, financial statement accuracy, and legislative scrutiny applied to budget and audit reports.

The budget credibility has declined over the years as the variance between budgeted and actual expenditure and revenues increased both at the aggregate level and by composition. This led to a decrease in the scores of three indicators. The new PFM regulations now require spending units to submit their budget estimates within four weeks, which is a reduction from the previous six weeks' allowance for submission. In the past, the MTEF used to categorize expenditures based on economic and functional classifications for the subsequent two fiscal years. However, the current MTEF provides expenditure estimates categorized into recurrent, capital, and financial provisions. Some areas of performance remained unchanged, but scores deteriorated due to anticipatory scoring of some dimensions and indicators during the previous assessment. For instance, the 2015 assessment considered the cash plan developed using quarterly budget projections from the spending units, equivalent to a cash flow statement.

Table 1: Summary of PEFA scores by indicator

PFM Performance Indicator		Scoring Method	Dimension Score				Overall Score
			i.	ii.	iii.	iv.	
I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	D	A		D+
PI-3	Revenue outturn	M2	D	C			D+
II. Transparency of public finances							
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	C				C
PI-6	Central government operations outside financial reports	M2	D	D	D		D
PI-7	Transfers to subnational governments	M2	B	C			C+
PI-8	Performance information for service delivery	M2	B	B	A	B	B+
PI-9	Public access to fiscal information	M1	C				C

PFM Performance Indicator		Scoring Method	Dimension Score				Overall Score
			i.	ii.	iii.	iv.	
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	D	D		D
PI-11	Public investment management	M2	C	B	B	C	C+
PI-12	Public asset management	M2	B	D	D		D+
PI-13	Debt management	M2	C	B	D		C
IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	D	C	D		D+
PI-15	Fiscal strategy	M2	D	D	D		D
PI-16	Medium-term perspective in expenditure budgeting	M2	C	A	C	D	C+
PI-17	Budget preparation process	M2	B	A	C		B
PI-18	Legislative scrutiny of budgets	M1	C	C	A	B	C+
V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	C	D	B	C+
PI-20	Accounting for revenue	M1	B	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	D	A	A	B
PI-22	Expenditure arrears	M1	A	C			C+
PI-23	Payroll controls	M1	B	A	C	C	C+
PI-24	Procurement management	M2	D	D*	B	B	C
PI-25	Internal controls on non-salary expenditures	M2	C	D	A		C+
PI-26	Internal audit	M1	A	D	A	D	D+
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	B	NA	B	B	B
PI-28	In-year budget reports	M1	C	A	C		C+
PI-29	Annual financial reports	M1	C	B	C		C+
VII. External scrutiny and audit							
PI-30	External audit	M1	B	D	B	C	D+
PI-31	Legislative scrutiny of audit reports	M2	D	C	C	B	C



1

PFM Context



PFM Context

The objective of this section is to provide information about the core characteristics of public financial management (PFM) in the country.

1.1. Financial overview

Nepal is a federal republic with three levels of government, consisting of one GoN (federal level government), seven provincial governments, and 753 local governments. The GoN is composed of the budgetary central government (BCG), a social security fund, public enterprises (PEs), and extra-budgetary units (EBUs). The budgetary central government includes 22 ministry-level budgetary units, and there are 135¹ EBUs and 44 PEs. Additionally, there is one social security fund under the central government's purview.

Table 1.1: Structure of the public sector (number of entities)

Fiscal year: 2021/22	Public sector				
	Government subsector		Social security funds	Public enterprise subsector	
	Budgetary unit	Extra-budgetary units		Nonfinancial public enterprises	Financial public enterprises
Federal level (1)					
Ministries	22*	135	1	35	9
Constitutional bodies	8				
Other commissions	7				
Departments	28				
Agencies	31				
Provincial level (7)					
Ministries	75				
Commissions					
Local governments (753)					
Wards	6,743				
Metropolitan cities, sub-metropolitan cities, and municipalities	293				
Rural municipalities	460				
Districts	77				

Source: opmcm.gov.np.

Note: *21 Sectoral Ministries and 1 Office of the Prime Minister and Council of Ministers (OPMCM).

¹ The number of EBUs is based on the Annual Report of the Office of the Auditor General Nepal (OAGN), Annex 1A, for 2020/21, submitted in 2022.

In FY22, Nepal’s fiscal deficit was 3.2 percent of gross domestic product (GDP). This continued a three-year declining trend since the deficit peaked at 5.4 percent of GDP in FY20. The reduction in the fiscal deficit was driven by a decrease in the expenditures of 0.9 percent of GDP between FY21 and FY22. This was partially offset by a marginal decline of 0.1 percent of GDP in revenues and grants over the same period. This trend of fiscal consolidation slowed the growth of Nepal’s public debt stock, increasing only by 0.9 percent of GDP between FY21 and FY22, after almost doubling between FY17 and FY21. Total public debt at the end of FY22 stood at 40.8 percent of GDP, with an equal split between domestic and external sources. All external public debt is owed to multilateral or bilateral development partners on predominantly concessional terms.

The FY22 witnessed a slight upsurge in total revenues, which increased by 0.1 percent of GDP relative to the preceding fiscal year. This growth is attributed to the augmentation of excise taxes and non-tax revenues. However, revenues from direct taxes and value added taxes (VAT) remained the same or dwindled. Additionally, import duties plummeted due to fresh import constraints via cash margin requirements implemented in December 2021 as well as a complete ban on certain items in April 2022. Nevertheless, the overall effect on tax collection was negligible, as the escalation of excise collection counterbalanced the losses from the VAT and import duties. Consequently, the total tax collection remained constant at 20 percent of GDP between the two fiscal years.

The total central government (CG) spending declined from 27.2 percent of GDP in FY21 to 26.3 percent of GDP in FY22. This decrease was attributed to a fall in capital expenditures by 0.9 percent of GDP, as only 57.2 percent of the capital budget was executed in FY22. Conversely, there was a marginal decrease of 0.1 percent of GDP in current expenditures for the same period, as the increase in spending on goods and services and social assistance remained close to the decrease in spending on intergovernmental fiscal transfers.

Table 1.2: Aggregate fiscal data

Central Government Actuals (as a percentage of GDP)	FYT–2 2018/19	FYT–1 2019/20	FYT 2020/21
Total revenues	22.24	23.25	23.1
Own revenue (tax and non-tax revenues)	21.63	22.44	22.6
Grants	0.61	0.81	0.56
Total expenditures	27.61	27.2	26.3
Non-interest expenditures	26.94	26.45	25.40
Interest expenditures	0.67	0.80	0.92
Aggregate deficit (including grants)	–5.36	–4.00	–3.18
Primary deficit (fiscal deficit, interest on previous domestic borrowing)	–4.69	–3.20	–2.27
Net financing (debt receipt-repayment)	6.53	7.74	5.81
External	2.39	3.44	2.05
Domestic	4.14	4.30	3.76

Source: Ministry of Finance and National Statistics Office.

Note: Total expenditures include fiscal transfers to subnational governments. Total revenues include revenue sharing with subnational governments.

Table 1.3: Financial structure of Central Government (FY 2020/21, actual NPR, millions)

Description	Central Government			
	Budgetary unit	Extra-budgetary Units	Social security funds	Total aggregated
Revenues with grants	1,065,260.7	131,277.0	6,067.3	1,202,605.0
Expenditures	1,310,000.8	114,146.0	358.7	1,424,505.5
Transfers to (–) and from (+) other units of general government (all types of fiscal transfers from the GoN)	399,942.9	Not applicable	Not applicable	399,942.9
Liabilities (public debt: internal and external loans)	2,013,296.4	Not available	Not available	2,013,296.4
Financial assets	62,717.0	Not available	Not available	62,717.0
Non-financial assets	216,213.0	Not available	Not available	216,213.0

Source: Ministry of Finance and Nepal Rastra Bank.

Notes: (a) The revenues under EBUs include government grants; (b) total expenditures for budgetary units include fiscal transfers to subnational governments, and total revenues for budgetary units include the revenue sharing to subnational governments; (c) financial assets include the share and loan investments by the government.

According to the Nepal Economic Survey 2020/21, the nation's economy experienced a contraction of 2.12 percent during the fiscal year 2019/20, marking the first instance of such decline in the past two decades. This decline surpassed the economic losses incurred during the terrible earthquake in FY2014/15. During the period affected by the COVID-19 pandemic, there was a decline of around 7 percent in revenue mobilization and a fall of almost 21 percent in capital spending. FY2019/20 and FY2020/21 witnessed a noticeable impact, as seen in the reduced revenue and expenditure outturns.

1.2. Institutional arrangements for PFM

In Nepal, the Council of Ministers holds executive power according to the Constitution. The Prime Minister is responsible for driving the national plan, the sectoral policies, and the laws through various sectoral line ministries. The National Planning Commission (NPC) is the main agency for national-level plans, policies, and programs, including monitoring and evaluation (M&E). The NPC oversees the implementation of the federal, provincial, and local-level governments' three-year work programs, and it also coordinates strategic planning.

To guide and regularize the overall PFM functions, Nepal has enacted the Financial Procedure and Fiscal Accountability (FPFA) Act, 2019 and the FPFA Regulation, 2021. These legal provisions set and operationalize the PFM framework at the budgetary central government level. The Ministry of Finance (MoF) and the NPC coordinate functions for budget preparation and execution. The accounting, reporting, internal control, and internal audit functions rest with the Financial Comptroller General Office (FCGO).

The MoF is responsible for (a) formulation and monitoring of fiscal policy, (b) preparation and implementation of the budget in coordination with the NPC, (c) revenue policy implementation, and (d) revenue collection and administration through its departments. The Inland Revenue Department (IRD) and the Department of Customs (DOC) under the MoF are responsible for revenue collection and administration. The FCGO manages budget expenditure management, internal audit, and consolidated financial reporting. It is also responsible for developing internal control system directives as well as developing and operating information and communication technology (ICT)-based PFM systems.

All the budgetary entities, including the ministries and departments, are responsible for delivering their financial plans (budgets and programs) to the MoF based on the provided ceilings. All government units use the Line Ministry Budget Information System (LMBIS) for the budget preparation. There are various ICT-based systems, such as the Treasury Single Accounts (TSAs), the Revenue Management Information System (RMIS), and the Computerized Government Accounting System (CGAS), that are used to operate PFM in Nepal. Beyond the MoF, the NPC, and the FCGO, the following agencies play key roles in PFM: the Parliament and its committees, the OAGN, the National Natural Resource and Fiscal Commission (NNRFC), and the Public Procurement Monitoring Office (PPMO).

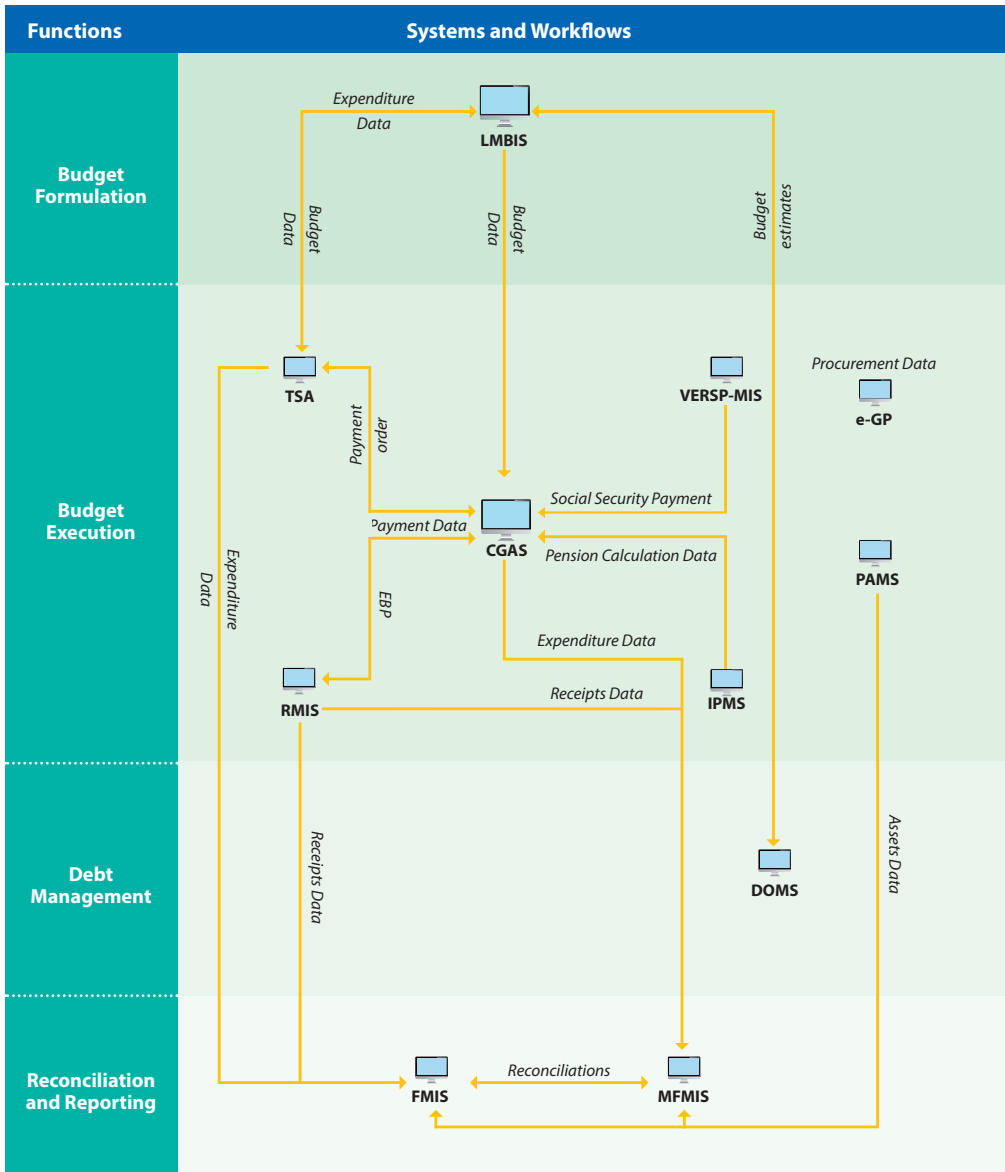
To oversee procurement activities, the PPMO was established under Clause 64 of the Public Procurement Act (PPA) of 2007. The PPMO is responsible for ensuring competition, efficiency, and transparency in all public procurement activities. It conducts capacity-building activities, monitors and facilitates the procurement process, and issues standard bidding documents (SBDs) and other regulatory documents. Furthermore, the PPMO also manages the single Electronic Government Procurement (e-GP) portal.

The OAGN, a constitutional body, conducts audits and publishes annual reports with observations and suggestions about budget and program execution. The OAGN's remit covers all government organizations for the three tiers of government, including all other beneficiaries of public funds. The Constitution also provides for the functional independence of the audit. The Public Accounts Committee (PAC) of the Parliament scrutinizes the annual report submitted by the Auditor General (AG).

The NNRFC is a constitutional body established with the objective of ensuring the just and equitable distribution of natural and fiscal resources among the federal, provincial, and local governments. The commission determines the detailed basis and modality for the distribution of revenues. It also makes recommendations regarding the distribution of equalization grants. In addition, it prepares the parameters concerning the distribution of conditional grants and recommends the ceiling for internal borrowing and sharing of royalties from natural resources among the three spheres of governments.

The GoN has developed multiple information systems to automate various PFM functions. These systems were initially developed as separate applications by different agencies but later updated to meet PFM reform requirements. The government has now interfaced and connected these systems for more effective and efficient PFM performance. However, because the systems were developed independently, there are challenges in integrating services and ensuring the smooth exchange of data. Figure 1.1 shows the different PFM information systems used by the GoN.

Figure 1.1: GoN's PFM information systems



The Line Ministry Budget Information System (LMBIS) is used by all the line ministries and budgetary entities of the federal and provincial governments for budget formulation.

The Computerized Government Accounting System (CGAS) is used for accounting and expenditure management, with functionalities to generate payment orders.

The Treasury Single Account (TSA) is the budget control and release system used by the District Treasury Controller Offices (DTCOs)/Provincial Treasury Comptroller Office (PTCOs). The Electronic Fund Transfer (EFT) system is a sub-application within the TSA. It is interfaced with bank systems to send payment instructions to banks for payment releases.

The Revenue Management Information System (RMIS) is the system for the accounting of receipts. All the partner banks have been provided with the RMIS login to enable the creation of bank vouchers when any government revenues are deposited by a remitter.

The Financial Management Information System (FMIS) is the reporting application used by the DTCOs and the FCGOs for the preparation and reconciliation of monthly and annual financial statements.

The Ministerial Financial Management Information System (MFMIS) is the reporting application used by the ministries and departments for the preparation and reconciliation of monthly and annual financial statements.

The Debt Operations Management Systems (DOMS) is used for debt management functions, and it is operated by the Public Debt Management Office (PDMO).

The Public Asset Management System (PAMS) was developed by the FCGO to capture asset details in the country.

The Integrated Pension Management System (IPMS) is used for pension management, and monthly pension scrolls are generated and sent to bank branches handling pension payments.

The e-Government Procurement (e-GP) system is a web-based portal covering various activities of the public procurement life cycle.

Vital Event Registration and Social Protection Management Information System (VERSP-MIS) system is a web-based portal to register vital events of Nepali citizens, including social security beneficiaries.

1.3. PFM legal and regulatory arrangements

The Constitution of Nepal serves as the fundamental document that defines the country as a federal democratic republic. It establishes a three-tier system of governance comprising the local, provincial, and federal levels. The Constitution has established the three branches of government: legislative, executive, and judicial branches. At the federal level, the legislative branch, comprising the House of Representative and the National Assembly is responsible for formulating legislation. The executive branch, led by the President, Vice President, Prime Minister, the Council of Ministers, and the civil services, assumes the responsibility for the implementation and enforcement of laws. Finally, the judicial branch, consisting of the Supreme Court, the High Courts, and the District Courts, is responsible for the interpretation of laws.

The framework for fiscal federalism in Nepal is enshrined in the Constitution, which delineates the powers and responsibilities for taxation and expenditure among the federal, provincial, and local governments. In addition, the Constitution establishes a revenue sharing arrangement between all levels of government as well as a system of fiscal transfers from the GoN to the provincial and local governments (PLGs). To ensure that natural and fiscal resources are distributed equitably, Nepal has established the NNRFC as a constitutional body. The primary aim of the NNRFC is to promote a just and equitable distribution of resources among the federal, provincial, and local governments, thereby ensuring a fair allocation of resources across the country.

The framework for the management of public finances is outlined in the Constitution. The federal, provincial, and local governments are vested with the power to develop and implement plans, policies, and annual budgets within their respective jurisdictions, subject to legislative approval. Nepal has established a comprehensive legal and regulatory framework for PFM, with the Parliament enacting several laws related to budget management, revenue collection, investment and debt management, procurement, accounting, and external oversight, in accordance with the Constitution. These laws grant the Government of Nepal power to establish rules and regulations, which have been thoroughly outlined by the GoN. Furthermore, the Annual Appropriation Act, which is approved by the Parliament, is the primary legislation governing the management of federal government funds in a given budget year. Table 1.4 provides a summary of the main laws and regulations related to PFM.

Table 1.4: Main PFM laws and regulations

PFM area	Law/regulation	Brief description and coverage
All	<ul style="list-style-type: none"> ■ Constitution of Nepal ■ Financial Procedure and Fiscal Accountability Act, 2019 ■ Financial Procedure and Fiscal Accountability Regulation, 2021 	<p>The Constitution, the FPFA Act, and the FPFA Regulations provide comprehensive coverage of the management of public finances. The Constitution grants government the authority to raise revenue and incur debt while also mandating the submission of an annual budget to the Parliament. Additionally, it establishes guiding principles pertaining to accounting, auditing, internal controls, and legislative oversight. The FPFA Act and the FPFA Regulations provide a comprehensive framework for planning, budgeting, accounting, reporting, internal and external auditing, budget execution, and internal controls.</p>

PFM area	Law/regulation	Brief description and coverage
Planning	<ul style="list-style-type: none"> ■ The Five-Year Periodic Plan, currently the 15th Plan ■ National Project Bank Guidelines, 2020 ■ Standard for Project Development, Selection, and Prioritization, 2023 	<p>The five-year plan provides a framework for the country’s socioeconomic development. It is a guiding document for sectoral strategies, the Sustainable Development Goals (SDGs), fiscal strategies, development programs and projects, resource mobilization, and the strategic allocation of available resources.</p> <p>The National Project Bank (NPB) Guidelines (2020) provide guidelines for identifying, appraising, selecting, and prioritizing developmental projects for inclusion in the NPB. The Standard for Project Development, Selection, and Prioritization (2023) details the guidelines for specific sectors and includes an economic analysis approach.</p>
Budgeting	<ul style="list-style-type: none"> ■ Annual Appropriation Act ■ Finance Act ■ Public Debt Act, 2002 ■ Public Debt Management Act, 2022 ■ Budget Circular and Formulation Guidelines ■ House of Representatives Regulations, 2018 (now repealed by Regulation of 2023) ■ Operational Directives 	<p>The laws and regulations noted herewith cover budgeting aspects, including revenue estimation, expenditure ceilings, budget ceilings and guidance, budget proposals and discussions, budget appropriation, principles and priorities of budgets and programs, the Medium-Term Expenditure Framework (MTEF), the consolidated fund, asset and liability management, and the legislative scrutiny of budget. The 2018 regulations passed by the House of Representatives established a comprehensive framework for the examination of appropriation and finance bills as well as other bills pertaining to the budget. The Finance Committee of the House of Representatives holds jurisdiction over matters pertaining to the MoF, including budget.</p>
Accounting	<ul style="list-style-type: none"> ■ Government Transaction Directives, 2019 ■ Government Accounting Manual (Office of the Auditor General [OAG] forms and formats), 2013 ■ Nepal Public Sector Accounting Standards (NPSAS) 	<p>These specify the policies and procedures for accounting and reporting of all BCG transactions from the consolidated fund using the cash basis of accounting.</p>
Audit	<ul style="list-style-type: none"> ■ The Audit Act, 2019 ■ Nepal Government Auditing Standards (NGAS) 	<p>The Constitution outlines the audit mandate and the procedures for the appointment and removal of the AG. The Audit Act, regulations, and standards cover matters related to audit planning, execution, reporting, and follow-up.</p>

PFM area	Law/regulation	Brief description and coverage
Intergovernmental fiscal relations	<ul style="list-style-type: none"> ■ Intergovernmental Fiscal Arrangement Act, 2017 ■ National Natural Resources and Fiscal Commission Act, 2017 ■ Federal, Province and Local Level (Coordination and Inter-relations) Act, 2020 ■ National Natural Resources and Fiscal Commission Regulation, 2019 	<p>These legislations and regulations cover intergovernmental fiscal coordination mechanisms, including revenue rights, revenue sharing, fiscal transfers, grants, loans, budget arrangements, and public expenditures.</p>
Parliament	<ul style="list-style-type: none"> ■ House of Representatives Regulations, 2018 (now repealed by Regulation of 2023) ■ National Assembly Regulation, 2018 ■ Joint Meeting of Federal Parliament and the Joint Committee (Operation) Regulation, 2018 (now repealed by Regulation of 2023) 	<p>The Federal Parliament comprises the House of Representatives and the National Assembly. The regulations noted were adopted by the Parliament. They prescribe the procedures to facilitate the transaction of parliamentary business as well as to promote cooperation and harmony. These regulations also cover the role of parliamentary procedures related to the oversight of budget and audit reports.</p>
Internal control	<ul style="list-style-type: none"> ■ Internal Control System Directives, 2018 	<p>The FPFA Act and FPFA Regulations provide a comprehensive internal control framework. The internal control system directives, issued by the FCGO, elaborate on the internal controls prescribed by different acts and regulations. These directives apply to all BCG entities.</p>
Internal audit	<ul style="list-style-type: none"> ■ Internal Audit Procedure Directives 2016 (repealed by Internal Audit Manual 2022) ■ Internal Audit Handbook, 2021 ■ Internal Audit Manual, 2022 	<p>The DTCOs, under the FCGO, execute the internal audits of all BCG entities in accordance with these procedures.</p>
Procurement	<ul style="list-style-type: none"> ■ Public Procurement Act, 2007 ■ Public Procurement Regulation (PPR), 2007 ■ Directives on procurement ■ The e-GP system operation manual ■ Development partner procurement guidelines ■ Standard Bidding Documents 	<p>The PPA is applicable to all tiers of government entities, including EBUs. The procurement is decentralized to the spending units, with the PPMO responsible for monitoring. The use of the e-GP system is mandatory for all biddings above the threshold.</p>

PFM area	Law/regulation	Brief description and coverage
Public participation	<ul style="list-style-type: none"> ■ Citizen Engagement Strategy ■ Participatory Audit Guidelines 	The government has drafted a Citizen Engagement Strategy to enhance public participation to facilitate better fiscal transparency and effective accountability. The OAGN has issued guidelines to facilitate citizen engagement in external audits.

1.4. PFM reform process

The GoN has implemented PFM reforms since the 1990s. Initially, the government made interventions at the thematic and institutional levels. After the first PEFA Assessment in FY2005/06, the government adopted a strategy of utilizing the outcomes of PEFA Assessments as the foundation for its PFM reforms. The first PEFA Assessment, released in 2008, included an Action Plan for Strengthening Public Financial Management Performance (short term and medium term), which was used as the first Integrated PFM Reform Strategy. This strategy made recommendations regarding the various PFM components. The government also made reform interventions based on the strategy.

The second PEFA Assessment in 2015 led to the formulation of the second phase of the PFM Reform Strategy spanning from 2016/17 to 2025/26. To execute this approach, a PFM Reform Steering Committee, chaired by Finance Secretary, was established to offer strategic input. The PEFA Secretariat (Nepal), operating under the MoF, was established to serve as the coordinating body for PFM reform efforts. With the support of the Nepal PFM Multi-Donor Trust Fund (MDTF), the Integrated Public Financial Management Reform Project (IPFMRP) was prepared in 2018 to implement PFM reform activities. The IPFMRP concluded its operations in July 2023 with noteworthy achievements within the PFM cycle. The IPFMRP has achieved numerous results that have helped improve efficiency of the PFM institutions, systems, and processes. Notable accomplishments include establishing the Project Bank system, implementing the NPSAS, improving and implementing various information systems, enhancing external audit quality, standardizing procurement documents, and building the capacity of civil servants in PFM and procurement.

Various development partners have also been engaged in supporting the PFM reforms in Nepal. The World Bank, through budget support operations, is supporting the government to enhance fiscal effectiveness in service delivery. This includes measures to improve revenue collection, reduce fragmentation of debt management, increase debt transparency, and enhance spending on climate-resilient infrastructure. Improved expenditure and debt management are areas of reform addressed by budget support operation of the Asian Development Bank (ADB). The ADB operation supports a range of reforms, including the establishment of a macroeconomic

framework and fiscal policy, the implementation of the debt management strategy (DMS), the restructuring of PEs, the improvement of expenditure allocation and controls systems, and the implementation of the e-GP roadmap. The three-year economic program supported by the Extended Credit Facility of the International Monetary Fund (IMF) assigns great relevance to institutional reforms and aims to (a) improve fiscal transparency, governance, and reduce susceptibility to corruption; (b) ensure fiscal sustainability and effective management of fiscal risks; and (c) enhance the implementation of capital projects outlined in the budget.

The Revenue Administration Support project, financed by the German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ*), seeks to transform the taxation system in Nepal by concentrating on three interconnected areas of assistance: enhanced digitalization, enhanced tax administration, and greater facilitation for taxpayers. The project envisages assisting Nepal toward its objective of generating sufficient own-source revenue to fund its development. The Parliamentary Support Project, funded by Norway, aims to assist parliaments and their secretariats in enhancing their parliamentary capacities to effectively implement the new Constitution and establish federalism in Nepal. Norway is also providing technical assistance to improve the fiduciary management capabilities of the Ministry of Education, Science and Technology.

The Provincial and Local Governance Support Program (PLGSP), supported by development partners, is a national initiative of the government to enhance the capabilities of institutions and organizations at the provincial and local levels. Enhancing the PFM systems of subnational governments is a primary area of emphasis for the PLGSP. The USAID² funded PFM Strengthening Project seeks to enhance PFM capacity within the federal, provincial, and municipal governments in the Madhesh and Lumbini Provinces of Nepal over the next five years. Other development partners are providing technical assistance to support PFM reforms at the subnational level. The World Bank is supporting Gandaki Province and the ADB is aiding Madhesh Province in conducting their PEFA Assessments.

The PFM Reform Strategy is being revised by the government in light of the findings from the current PEFA Assessment, with a particular focus on fiscal federalism. In addition to the core PFM systems, the government has prioritized gender-responsive and climate-responsive PFM systems for the next phase of reforms. The MoF has initiated the process of preparing a comprehensive five-year reform strategy, with the intention of commencing its implementation during FY2024/25.

² United States Agency for International Development.



2

**Detailed Analysis
of PFM Performance**



Detailed Analysis of PFM Performance

This section provides an assessment of the key elements of the PFM system as captured by the 31 performance indicators (PIs). The PFM performance for each of the PIs was assessed and assigned ratings of 'A' to 'D' according to the scoring criteria for each indicator that must be met in its entirety. The scores may be broadly interpreted as follows:

A	High level of performance that meets good international practices
B	Sound performance in line with many elements of good international practices
C	Basic level of performance
D	Less than the basic level of performance
D*	Insufficient information to score
NA	Not applicable

Most PIs have up to four separate dimensions, each of which has been assessed separately. The overall score for a PI is based on the scores for the individual dimensions. The scores for multiple dimensions are combined into the overall score for the PI using either the Weakest Link (WL) method or the Averaging (AV) method.

The Weakest Link (WL) method is employed for scoring multidimensional PIs wherein poor performance in one dimension may undermine the positive effects of good performance in other dimensions of the same indicator. First, each dimension is individually assessed and assigned a score on the four-point calibration scale (A to D). Next, the aggregate score, which is the lowest score given for any dimension, is calculated. Finally, in cases where any of the other dimensions score higher, a "+" is added to the indicator score.

The Averaging (AV) method calculates an overall score for a multidimensional PI by averaging the scores for its individual dimensions. The method is used for indicators where a low score in one dimension does not necessarily undermine the impact of a high score in another dimension. To determine the score for each dimension, each dimension is evaluated separately and given a score on a four-point calibration scale (A to D). The conversion table of the PEFA Framework is then used to identify the appropriate PI score based on the number of dimensions and scores for each dimension.



**PILLAR ONE:
Budget Reliability**



**PILLAR ONE:
Budget Reliability**



**PILLAR TWO:
Transparency of Public Finances**



**PILLAR THREE:
Management of Assets and Liabilities**



**PILLAR FOUR:
Policy-based Fiscal Strategy and Budgeting**



**PILLAR FIVE:
Predictability and Control in Budget Execution**



**PILLAR SIX:
Accounting and Reporting**



**PILLAR SEVEN:
External Scrutiny and Audit**

▶ PILLAR ONE: BUDGET RELIABILITY

What does Pillar I measure? The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Overall performance: Analysis of key PFM strengths and weaknesses

The country's budget formulation and execution are driven by a well-designed legal and institutional framework. Nevertheless, the budget execution performance during the assessment period falls short of expectations in both domains evaluated by this pillar: the government budget's realism and its planned implementation. Overall, the government's expenditure was below 85 percent of the budget over the three years being evaluated, resulting in a 'D' rating (PI-1). The composition outturn performance, as measured by functional and economic classification (PI-2.1 and PI-2.2), had a low score of 'D' due to the spending composition variance exceeding 15 percent throughout the three analyzed years. However, the amount of money spent from the contingency vote (PI-2.3) was nearly 0 percent and received a rating of 'A'. The aggregate revenue outturn (PI-3.1) had a score of 'D' due to actual revenue collection being less than 92 percent of the planned amount. The revenue composition outturn (PI-3.2) was rated as 'C' with a fluctuation of less than 15 percent (between 9 and 12 percent) during the three years analyzed.

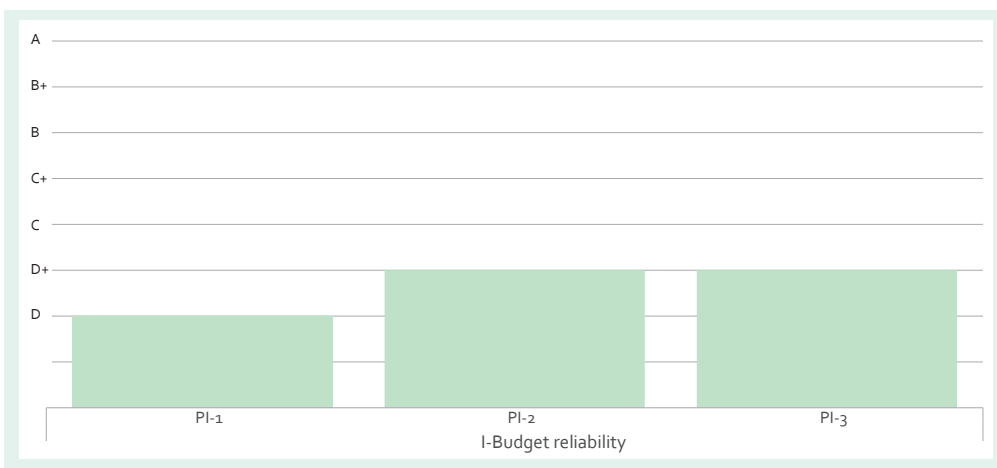
The Constitution of Nepal, the FPFA Act, 2019, and the FPFA Regulation, 2021, guide the budget formulation, budget execution, accounting, reporting, and auditing. The NNRFC provides the framework for the resource distribution among the three tiers of the government. The MTEF has been implemented to strengthen allocative efficiency. The NPB has been introduced for evidence-based selection, prioritization, and planning of the projects. Various information technology (IT) systems are used to facilitate the budget preparation, execution, and reporting processes. Despite these provisions, the absence of a well-designed tool for national revenue forecasting has remained a constraint relative to the realistic projection of revenues. The optimistic macroeconomic projection resulted in the establishment of aggressive revenue and expenditure objectives for the fiscal years affected by the pandemic. Although the budget is prepared to take a medium-term outlook, there are some deficiencies in terms of budget classification for the two outer years. Additionally, there is no clear explanation of changes in expenditure estimates and forecasts. The legislature also does not review MTEFs and priorities as part of budget scrutiny.

The primary reason for the higher deviation in budget reliability is a lack of efficiency in budget execution. Problems related to project selection, procurement management, contract management, and the capacity of the government have equal stakes in the lower capital budget outturn. Despite a higher predictability of resource availability, the presence of inefficiencies in planning and implementation resulted in a suboptimal execution of the budget. The OAGN report indicates that there is a high level of budget virement during the implementation phase by the line ministries. The effective and complete use of the National Project Bank Management Information System (NPBMIS) is yet to be realized.

The federal budget includes expenditures executed by the subnational governments, such as conditional grants and development projects. The low absorption by the subnational governments contributes to the lower budget outturn. The COVID-19 pandemic and the transition to federalism during the assessment period affected the institutional capacity to spend. In addition, some line ministries prepared ambitious budget estimates, but they were unable to execute them. Project selection, procurement management, and execution of major contracts remain the prime areas of concern.

In addition to the COVID-19 pandemic, inconsistency in the treatment of conditional grants in the functional classification between budget formulation and reporting is another reason for high expenditure composition variance for functional classification. Conditional grants are allocated to various functions in line with the Government Finance Statistics Manual (GFSM) (2014) during budget formulation. However, during reporting, they are treated as part of the subfunction 'Transfers between different levels of government of a general character' of the function 'General Public Service'. A separate fund for COVID-19 control triggered the deviations in the health sector budget.

There were contractions in economic activities due to the pandemic during the assessment period, thus resulting in lower tax payments. Trade revenues make up almost half of the total revenue collection. The national lockdown due to the COVID-19 pandemic in the last four months of FY2019/20 and the economic contraction caused a significant decline in trade, and the trade tax revenues contracted by 17.4 percent during the fiscal year. Additionally, the government announced tax exemptions for sectors affected by the pandemic. Moreover, the revenue forecasts were overly ambitious to meet the target. The government forecasted a 7 percent economic growth rate and a 22.3 percent tax revenue growth rate for FY2020/21, expecting a quick recovery of economic performance.



PI-1. AGGREGATE EXPENDITURE OUTTURN

What does PI-1 measure? This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. Coverage is BCG for the last three completed fiscal years.

Methodological notes: Source data and calculations are available in Annex 5.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-1. Aggregate expenditure outturn (M1)		D
1.1. Aggregate expenditure outturn	Aggregate expenditure outturn was below 85 percent of the approved aggregate budgeted expenditure for all three years.	D

Detailed description of the country PFM system for the assessed performance indicator:

The FPFA Act, in conjunction with the FPFA Regulation and the Annual Budget Appropriation Act, forms the legal basis for budget formulation, execution, and reporting. The MoF and the NPC provide guidelines for budget formulation and execution, while the LMBIS is used for budget formulation and approval. The Appropriation Act specifies the limits of budget transfers (virements) within line items of the approved budget, which can be made by the MoF or the line ministries. However, all supplementary budgets require Parliament’s approval. The MoF conducts a midyear budget review to evaluate the implementation. The TSA and CGAS serve as the means for budget disbursement, accounting, and reporting. The Integrated Financial Management Information System (IFMIS) is used to produce in-year and annual financial statements, which are comparable to the approved budget.

Recent or ongoing reform activities: The government is working to improve its macroeconomic and fiscal forecasting framework. The NPBMIS has been developed and the e-GP is being enhanced. Furthermore, new functionalities are being added to the information systems for better budget formulation and execution.

1.1. Aggregate expenditure outturn

Performance level and evidence for scoring: The aggregate expenditure outturn as a percentage of the approved aggregate expenditures for FY2018/19, FY2019/20, and FY2020/21 was 84.1, 70.5, and 80.8 percent, respectively (Table 1.1). For this calculation, the principal repayment is excluded from General Public Service.

Table 1.1: Aggregate expenditure outturn (last three completed fiscal years)

Aggregate expenditure	FY2018/19	FY2019/20	FY2020/21
Original approved budget (NPR, millions)	1,256,497.50	1,466,328.50	1,406,292.80
Outturn (NPR, millions)	1,056,051.01	1,033,795.90	1,136,445.70
Outturn as a percentage of original approved budget	84.1	70.5	80.8

Source: Budget Speech <https://www.mof.gov.np/site/publication-detail/2340>, Consolidated Financial Statements (CFS) <https://www.fcgo.gov.np/reporttype/1>

Note: Total expenditures exclude repayment of the principal.

The aggregate expenditure outturn was below 85 percent of the approved aggregate budgeted expenditure for all three years. **Hence, the score for this dimension is a D.**

PI-2. EXPENDITURE COMPOSITION OUTTURN

What does PI-2 measure? This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Coverage is BCG for the last three completed fiscal years. It uses the M1 (WL) method for aggregating dimension scores.

Methodological notes: Source data and calculations are available in Annex 5.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-2. Expenditure composition outturn (M1)		D+
2.1. Expenditure composition outturn by function	Variance in expenditure composition by functional classification was more than 15 percent for all three fiscal years.	D
2.2. Expenditure composition outturn by economic type	Variance in expenditure composition by economic classification was more than 15 percent in two of the last three fiscal years.	D
2.3. Expenditure from contingency reserves	Actual expenditure charged to a contingency vote was on average less than 1 percent of the original budget.	A

Detailed description of the country PFM system for the assessed performance indicator:

According to Section 10 of the FPFA Act, the government is required to provide a clear justification for proposed expenditures and ensure sufficient funding for essential expenses, such as salaries and administrative costs, before proposing a budget for a new program or project. The authority of virement, which allows for the transfer of budget within line items of the approved budget

up to the ceiling approved by the Appropriation Act, is defined in Section 20 of the PFPA Act, Rule 32 of the PFPA Regulation, and the Annual Appropriation Act. Although the budget includes contingency funds, the utilization of these funds is subject to the PFPA Act. To access the contingency budget, the MoF, through budget virement, needs to transfer the funds to the relevant budget line item based on the request from the concerned agency.

Recent or ongoing reform activities: New functionalities are being added to the information system for better budget formulation and execution. The TSA system has been enhanced to address the issue of inconsistent functional classification of conditional grants between budget formulation and reporting.

2.1. Expenditure composition outturn by function

Performance analysis and evidence for scoring: The variance in expenditure composition by functional classification for FY2018/19, FY2019/20, and FY2020/21 is 39.1 percent, 49.4 percent, and 46.2 percent, respectively. This calculation excludes the contingency reserve and interest payments from the General Public Service.

Table 2.1: Expenditure composition outturn compared to original approved budget by functional classification (last three completed fiscal years)

Variance (%)	FY2018/19	FY2019/20	FY2020/21
Functional classification	39.1	49.4	46.2

The variance in expenditure composition was over 15 percent for all three fiscal years. **Hence, the score for this dimension is a D.**

2.2. Expenditure composition outturn by economic type

Performance analysis and evidence for scoring: The expenditure composition variance by economic classification was 7.2 percent in FY2018/19, 18.9 percent in FY2019/20, and 18.6 percent in FY2020/21. For this calculation, the recurrent contingency reserve was excluded from other expenditures (economic code 28000), and the capital contingency reserve was excluded from capital expenditures (economic code 31000). The COVID-19 pandemic had a significant impact in FY2019/20 and FY2020/21, since prolonged lockdown measures disrupted economic operations and led to a significant deviation in expenditure composition.

Table 2.2: Expenditure composition outturn compared to original approved budget by economic classification (last three completed fiscal years)

Variance (%)	FY2018/19	FY2019/20	FY2020/21
Economic classification	7.2	18.9	18.6

The expenditure composition variance exceeded 15 percent in two of the last three fiscal years. **Hence, the score for this dimension is D.**

2.3. Expenditure from contingency reserves

Performance analysis and evidence for scoring: The contingency included in the budgets for FY2018/19, FY2019/20, and FY2020/21 accounted for 3.1 percent, 2.8 percent, and 0.8 percent of the total budgeted expenditures for the fiscal year, respectively. For FY2018/19, economic code 22900 represents recurrent contingencies, and 29800 represents capital contingencies. For FY2019/20 and FY2020/21, the codes 28900 and 31500 reflect recurrent and capital contingencies, respectively. To spend this contingency budget, the MoF, through the virement process, transfers the contingency budget to the relevant budget line item based on the request from the concerned agencies. Therefore, in all three years, the actual expenditure charged to the contingency vote was almost 0 percent.

Table 2.3: Expenditure from contingency reserves (last three completed fiscal years)

Percent (%)	FY2018/19	FY2019/20	FY2020/21
Actual expenditure charged to contingency vote	0.0032	0.0000	0.0005

The actual expenditure charged to a contingency vote is almost 0 percent of the original budget on average. **Hence, the score for this dimension is an A.**

PI-3. REVENUE OUTTURN

What does PI-3 measure? This indicator measures the change in revenue between the original approved budget and end-of-year outturn. Coverage is BCG for the last three completed fiscal years. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: Source data and calculations are available in Annex 5.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-3. Revenue outturn (M2)		D+
3.1. Aggregate revenue outturn	The actual revenue was less than 92 percent of budgeted revenues in all three years.	D
3.2. Revenue composition outturn	The variance in revenue composition was higher than 10 percent in two of the last three years.	C

Detailed description of the country PFM system for the assessed performance indicator:

The MoF is tasked with overseeing revenue administration in Nepal. Two major departments, the IRD and DOC, operate under the MoF and are responsible for managing taxes, customs, and duties which comprise close to 90 percent of BCG total revenue. The FCGO, the Nepal Rastra Bank (NRB), and the DTCOs are responsible for the accounting, reporting, and reconciliation of revenue receipts. To streamline the revenue collection process, all BCG revenues are collected through the RMIS, which can also generate various reports.

The National Resource Estimation Committee (NREC) under the NPC is responsible for making revenue forecasts for the next three fiscal years. As per the FPFA Act (Section 7-4), the government uses two key factors to forecast its revenue. First, it considers the aggregate data of macroeconomic variables from the last completed fiscal year and the first six months of the current fiscal year. Second, the government estimates the revenue that it expects to mobilize in the upcoming fiscal year. The revenue forecasting process is initiated by the NREC, which is supported by the Technical Committee as per the legal provision. The Technical Committee prepares revenue estimates using qualitative and quantitative methods such as Long-Term Linear Trend and Growth Rate Method, Tax Buoyancy Method, and Moving Average Rate Method³ and submits them to the NREC. The government also considers the budget resource ceiling for the coming fiscal year and the following two fiscal years during the revenue forecasting process.

Recent or ongoing reform activities: The government is implementing reforms to improve revenue management, including medium-term revenue forecasting; strategic plans for the IRD and DOC; and enhancing the RMIS to help taxpayers during revenue collection, accounting, reporting, and reconciliation.

3.1. Aggregate revenue outturn

Performance analysis and evidence for scoring: The budgeted and actual revenue data⁴ are included in the Annex of the Budget Speeches. The reporting of these data aligns with Table 5.1 of GFSM 2014. The Budget Speech contains the forecasts for revenue components for the budget year. During the assessed periods, the economic activities were highly affected due to the COVID-19 pandemic. The GoN exempted taxes particularly for businesses and tourism. The overall economy contracted due to slow performance in every sector primarily tourism, transportation, manufacturing industries, construction, and trade. The aggregate revenue outturn was 84.9 percent, 69.9 percent, and 90.7 percent for FY2018/19, FY2019/20, and FY2020/21, respectively (Table 3.1).

³ Budget Formulation Guidelines, 2019

⁴ This does not include the revenues of the EBUs.

Table 3.1: Aggregate revenue outturn (last three completed fiscal years)

Total revenue	FY2018/19	FY2019/20	FY2020/21
Original approved budget (NPR, millions)	1,004,373.50	1,170,028.50	1,072,287.90
Outturn (NPR, millions)	852,520.90	817,465.00	972,370.70
Outturn as a percentage of original approved budget	84.90	69.90	90.70

Source: Budget Speech <https://www.mof.gov.np/site/publication-detail/2340>, Consolidated Financial Statements (CFS) <https://www.fcgo.gov.np/reporttype/1>

The actual revenue was less than 92 percent of budgeted revenue in all the last three years. **Hence, the score for this dimension is a D.**

3.2. Revenue composition outturn

Performance analysis and evidence for scoring: The composition variance between budgeted and actual revenue collection was 11.2 percent, 11.5 percent, and 9.2 percent for FY2018/19, FY2019/20, and FY2020/21, respectively.

Table 3.2: Revenue composition outturn compared to original approved budget (last three completed fiscal years)

Variance (%)	FY2018/19	FY2019/20	FY2020/21
Revenue composition	11.2	11.5	9.2

The variance in revenue composition was higher than 10 percent in two of the last three years. **Hence, the score for this dimension is a C.**



**PILLAR TWO:
Transparency
of Public Finances**



**PILLAR ONE:
Budget Reliability**



**PILLAR TWO:
Transparency of Public Finances**



**PILLAR THREE:
Management of Assets and Liabilities**



**PILLAR FOUR:
Policy-based Fiscal Strategy and Budgeting**



**PILLAR FIVE:
Predictability and Control in Budget Execution**



**PILLAR SIX:
Accounting and Reporting**



**PILLAR SEVEN:
External Scrutiny and Audit**

PILLAR TWO: TRANSPARENCY OF PUBLIC FINANCES

What does Pillar II measure? Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.

Overall performance: Analysis of key PFM strengths and weaknesses

Nepal offers extensive information on many aspects of PFM operations. The budget classification is scored 'A' (PI-4). The Integrated Economic Code, Classification, and Explanation, 2017, is aligned with the GFSM/COFOG, and it has been used consistently at all levels of the government for budget formulation, execution, and reporting. Budget documentation fulfills four basic and two additional elements and provides partial information for five additional elements (PI-5 scored 'C'). The EBU revenues and expenditures are significant, that is, more than 10 percent of the BCG revenues and expenditures. The EBU revenues and expenditure are not captured in the financial reports of the government, and therefore CG operations outside financial reports are rated 'D' (PI-6). The fiscal transfers to subnational governments are transparent and rule based; however, there are a few concerns about mechanism for allocation of conditional grants and the delayed provision of information about conditional grants to subnational governments (PI-7 scored 'C+').

Majority of the federal ministries prepare performance plans for service delivery and publish annual information about quantity of outputs produced (PI-8 scored 'B+'). However, these plans and published information do not contain details about services delivered through subnational governments. The service delivery units are authorized to utilize the total allocated budget for the entire fiscal year starting from the beginning of the fiscal year. The government makes available four basic elements of fiscal information as defined by the PEFA Framework, besides one additional element. Therefore, PI-9: public access to fiscal information received a 'C' score.

The Nepal PFM Strategy Phase II (2016/17–2025/26) has prioritized enhancing the comprehensiveness and transparency of budgeting. To this end, the government has revised its chart of accounts (CoA) to align with the GFSM 2014 and the COFOG, ensuring uniformity across all three tiers of government for budget formation, execution, and reporting. By integrating the CoA with information systems, consistent reports comparable to GFSM/COFOG can be generated. The MTEF is also based on the CoA, though without economic classification for the outer years. Additionally, the CoA classification is used to report the stock of expenditure arrears. In-year and annual financial statements have been evaluated as CoA compliant and include expenditure information categorized by economic and functional classification, allowing for direct comparison with the budget.

The Constitution and the FPFA Act outline the components of the annual budget, which are mostly in accordance with international benchmarks. The budget documents fulfill all the basic elements required by the PEFA Framework. However, of the eight additional elements, the budget documents only provide complete information on two elements, while the information on the rest is either incomplete or unavailable. Although the PFM system collects data on financial assets and debt, the budget does not fully disclose this information. Certain information assessed by the additional elements is not available. This includes information regarding fiscal risks, fiscal strategies, and some macroeconomic statistics. The information about the exchange and interest rates, contingent liabilities, and the quantification of tax expenditures is not included in the budget documents.

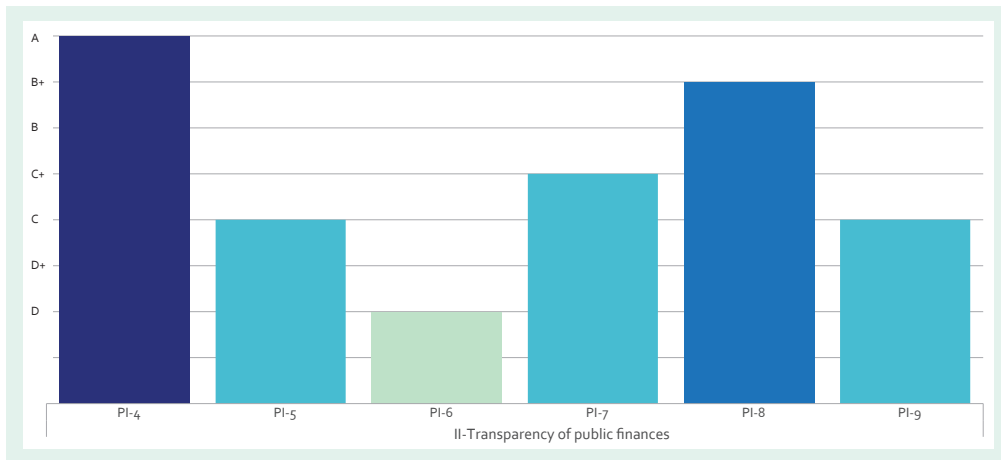
The government's EBUs generate substantial revenues and execute significant expenditures, but their financial activities are not reflected in the government's financial reports. Despite the NPSAS requiring the consolidation of EBUs in the government's financial statements, these provisions have not been fully implemented. Efforts have been made to enhance information systems to capture EBU revenue and expenditure data, but these data were not available during the assessment period. The FPFA Regulations mandate that EBUs periodically submit their financial reports to the relevant line ministries, but there are concerns regarding the documentation and effective monitoring of the timely submission of these reports. The absence of financial data on EBUs adds to diminished performance in fiscal risk reporting. Nevertheless, the OAGN conducts annual audits for all EBUs.

The GoN's fiscal transfers to subnational governments are allocated through a transparent and rule-based system that is regulated by strong constitutional requirements and legal frameworks. The NNRFCC evaluates, advises, and establishes the parameters for fiscal transfers, in compliance with the Constitution and the law. Funds are disbursed by the FCGO and the DTCOs, through information systems such as the TSA and the CGAS. Nearly 40 percent of the fiscal transfers consist of conditional grants, for which the NNRFCC only prescribes principles, and the detailed parameters are defined by the relevant federal ministries. Additionally, information regarding conditional grants is only given to subnational governments as part of the federal budget, allowing them a time frame of fewer than four weeks to finalize their budgetary planning. In contrast, for other fiscal transfers, the information is provided at least six weeks before the submission of budgets by subnational governments to their legislatures. In some years, the transfer of conditional grants was also delayed.

To enhance openness and accountability, the implementation of program budgeting mandates that service delivery ministries incorporate both expenditures and quantitative indicators into the budget. Subsequently, this information is disclosed to the public in conjunction with the Budget Speech. The budget is formulated at the service delivery unit level within the LMBIS, and spending authorization is initiated from the start of the fiscal year. According to the FPFA Act and

PFPA Regulations, it is mandatory for all line ministries to create yearly budget appraisal reports that include an assessment of progress made in achieving performance indicators and outputs. Subsequently, the MoF compiles and publishes these reports. Over the past three years, the OAGN has carried out performance audits and released reports that encompass most line ministries.

Established legal arrangements and practices ensure public access to most of the fiscal information. The PFPA Act, specifically Section 56, mandates the public disclosure of all financial reports within seven days of producing such reports. Complete budget documents, annual financial reports, and audit reports are made publicly available. However, a summary or citizen’s budget is not prepared or published. Although in-year budget reports are prepared by the line ministries on a monthly basis, the MoF only releases midyear budget reviews covering the first six months of the fiscal year. Nonetheless, the MoF publishes monthly economic bulletins that contain aggregated revenue and expenditure information. While a prebudget statement is prepared, it is not disclosed to the public. Similarly, macroeconomic forecasts are not publicly revealed.



PI-4. BUDGET CLASSIFICATION

What does PI-4 measure? This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. Coverage is BCG for the last completed fiscal year.

Methodological notes: Analyzed the components of Nepal’s CoA ‘An Integrated Economic Code, Classification and Explanation 2017 (Second Revision)’⁵ in terms of their compatibility with GFSM 2014 and COFOG for use throughout budget formulation, execution, and reporting cycle.

⁵ https://www.fcgo.gov.np/storage/uploads/publications/20210908152258_Unofficial%20Translation%20of%20Chart%20of%20Account.pdf

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-4. Budget classification (M1)		A
4.1. Budget classification	The budget formulation, execution, and reporting are based on the administrative, economic, and functional classification using the Government Finance Statistics (GFS)/COFOG standards.	A

Detailed description of the country PFM system for the assessed performance indicator:

The FCGO formulates accounting formats and economic codes and classifications for keeping accounts. It enforces this by obtaining approval from the OAG. Following this, the FCGO has developed the CoA, an Integrated Economic Code, Classification and Explanation 2017. It was implemented after the OAG approval on October 18, 2017. This CoA has been updated and revised twice, and the current version reflects the one that was approved by the OAGN on May 29, 2019. The CoA was prepared based on the GFSM 2014 and compatible with the COFOG. The economic classification aligns with Table 6.1 of the GFSM 2014 for recurrent budget and with Table 8.1 for nonfinancial assets (capital expenditures).⁶ Similarly, the functional classification is consistent with Table 6A.1 of the GFSM 2014. It is to be noted that EBUs have their own approved financial regulations, including CoA that may not adhere to GFS/COFOG. The BCG CoA does not apply to EBUs.

Recent or ongoing reform activities: The government has taken steps to improve the TSA functionalities, allowing for more accurate and timely reporting of actual expenditures under conditional grants that is compliant with GFS/COFOG. A third revision to the CoA has been completed.

4.1. Budget Classification

Performance analysis and evidence for scoring: Nepal has adopted the GFSM 2014 and COFOG standards for administrative, economic, and functional classifications. The CoA used for budget formulation, accounting, and reporting follows these standards (Table 4.1). In accordance with the CoA, the information systems can generate consistent and comparable reports for all stages of the budget cycle.

⁶ The budget formulation for FY2018/19 did not align with the GFSM 2014.

Table 4.1: CoA Structure

Segment	Sub-segment	Digits
Organizational/ Administrative classification	Identifiers for government, ministry, department, district, and office	9
Functional classification	Based on COFOG (CoA includes 10 major functions and 65 sub-functions)	4
Economic classification	Based on GFSM	5
Nature of expenditure	Current, capital, financing	1
Fund source	Specific codes for internal and external financing	7
Revenue	Specific codes for tax, non-tax, other types of revenues, and grants	5
Current expenditure	Base budget head, main head, head and sub-head for current expenditure	5
Capital budget, asset and liability	Base budget head, main head, head and sub-head for capital expenditure	5
Financial asset and liability	Main head, head and sub-head for financial assets and liabilities	5
Assets and liability balance	Main head, head and sub-head of nonfinancial assets and liabilities	7

During the assessment period, and for fiscal years up to FY2022/23, the expenditures under conditional grants were reported as the ‘Transfers of a general character between levels of government (General Public Service)’ rather than under the relevant functional codes/sub-codes. The issue was highlighted during the PEFA Assessment, and the government accordingly enhanced the TSA system. However, the error did not affect the government producing consistent documentation comparable to GFS/COFOG standard.

The budget formulation, execution, and reporting are based on administrative, economic, and functional classification, using GFS/COFOG standards. **Hence, the score for this dimension is an A.**

PI-5. BUDGET DOCUMENTATION

What does PI-5 measure? This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. Coverage is BCG for the last budget submitted to the legislature.

Methodological notes: Compared the FY2022/23 budget submitted to the Parliament and published on the MoF’s website with the corresponding aspects of this indicator.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-5. Budget documentation (M1)		C
5.1. Budget documentation	The FY2022/23 budget document provides four basic elements and two additional elements.	C

Detailed description of the country PFM system for the assessed performance indicator:

Article 119 of the Constitution and Section 14 of the FPFA Act require the Minister of Finance to present the annual estimates of revenues and expenditures to the joint session of Parliament for every fiscal year. Article 119 of the Constitution further specifies that the estimates should include an estimate of revenues, the funds needed to cover charges on the Federal Consolidated Fund, and the funds required to meet expenditures provided by a Federal Appropriation Act. Section 13 of the FPFA Act outlines the specific components of budget documents that the MoF is required to prepare and present to the Parliament. Accordingly, the following documents are submitted to the legislature as part of the annual budget: (a) Budget Statement, (b) Estimates of Revenue and Expenditures, (c) Estimates of Intergovernmental Fiscal Transfers (provincial and local), (d) Technical and Other Assistance Details, (e) Ministry-wise Progress Report, (f) Economic Survey, (g) Annual Status Review of Public Enterprises (Yellow Book), (h) Finance Bill, (i) Appropriation Bill, (j) National Debt Collection Bill, (k) MTEF; and (l) the Loan and Guarantee Bill.

5.1. Budget Documentation

Performance analysis and evidence for scoring: Table 5.1 provides a concise overview of the presence or absence of the information items required by the PEFA Framework in the budget documents of Nepal for FY2022/23.

Table 5.1. Status of information provided in the budget documentation

Element/Requirements	Included (Y/N)	Source of evidence and comments
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Yes	Annex 1 of Budget Speech for FY2022/23
2. Previous year's budget outturn, presented in the same format as the budget proposal	Yes	Annex 7 of Budget Speech for FY2022/23
3. Current fiscal year's budget presented in the same format as the budget proposal	Yes	Annex 7 of Budget Speech for FY2022/23

Element/Requirements	Included (Y/N)	Source of evidence and comments
4. Aggregated budget data for both revenues and expenditures according to the main heads of the classifications used, including data for the current and previous year—with a detailed breakdown of revenue and expenditure estimates (Budget classification is covered in PI-4.	Yes	Annexes 2 and 7 of Budget Speech for FY2022/23
Additional elements:		
5. Deficit financing, describing its anticipated composition	Yes	Annex 1 and paragraph number 384 of the Budget Speech of FY2022/23
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	No	Assumptions of GDP growth and inflation are available in paragraph number 424 of the Budget Speech of FY2022/23. Interest rate and exchange rate assumptions are not available.
7. Debt stock, including details of at least the beginning of the current fiscal year presented in accordance with GFSM or another comparable standard	No	Annex 2.1.11 of Economic Survey of FY2021/22 provides details about external debt stock only.
8. Financial assets, including details of at least the beginning of the current fiscal year presented in accordance with GFSM or other comparable standard	No	Information about the share and loan Investments of PEs available in Yellow Book (FY2021/22). However, information about other financial assets is not available.
9. Summary information of fiscal risks, including contingent liabilities, such as guarantees and contingent obligations, are embedded in structured financing instruments, such as public-private partnership (PPP) contracts	No	The annual budget documents include a few contingent liabilities, such as government guarantees against PEs, for example, Nepal Airlines. However, they do not account for other contingent obligations that may be embedded in structured financing instruments, such as PPP contracts or insurance agreements.

Element/Requirements	Included (Y/N)	Source of evidence and comments
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	No	The annual budget documents outline the estimated impact of new policy initiatives and major revenue policy changes. However, they do not provide an explanation of the budget implications of new policy initiatives, major investment projects, and revenue policy changes.
11. Documentation concerning the medium-term fiscal forecasts. In this element, the content of the documentation concerning the medium-term forecast should include, as a minimum, medium-term projections of expenditures, revenues, and the fiscal balance.	Yes	Table 2.1 of the MTEF of FY2022/23–FY2025/26
12. Quantification of tax expenditures	No	No information about quantification of tax expenditures is included in the budget documents.

The FY2022/23 budget documents fulfill 6 of the 12 information benchmarks, including the first four basic elements, as illustrated in Table 5.1. **Hence, the score for this dimension is a C.**

PI-6. CENTRAL GOVERNMENT OPERATIONS OUTSIDE OF FINANCIAL REPORTS

What does PI-6 measure? This indicator measures the extent to which government revenue and expenditure are reported outside CG financial reports. Coverage is CG for the last completed fiscal year. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: To analyze the expenditure and revenue figures of the EBUs, referred to the OAGN annual audit report for the FY2020/21. Compared these figures with the BCG expenditure for the same year, as reported in the financial statements. Solicited the MoF and other relevant line ministries to provide the financial statements of the EBUs under their authority, along with supporting documentation indicating the submission date of these financial statements. Annex 6 contains the list of 135 EBUs, along with their revenue and expenditure for FY2020/21.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-6. Central government operations outside financial reports (M2)		D
6.1. Expenditure outside financial reports	The expenditures of the EBUs for FY2020/21 that were outside of the government’s financial reports were more than 10 percent of total BCG expenditures.	D
6.2. Revenue outside financial reports	The revenue of the EBUs for FY2020/21 that were outside of the government’s financial reports were more than 10 percent of total BCG revenues.	D
6.3. Financial reports of extra-budgetary units	The date of the submission of the financial reports of the EBUs to the line ministries is not available.	D

Detailed description of the country PFM system for the assessed performance indicator:

As per the 59th report of the OAGN, there are 135 EBUs that are recognized as autonomous institutions operating under different ministries. These EBUs have been established either through acts of Parliament or through executive orders and have their own set of regulations and by-laws, including those related to financial management. According to FPFA Regulation (Rule 79), all EBUs are obligated to submit their yearly financial statements to the relevant ministry. Additionally, EBUs that receive government grants must provide quarterly reports within seven days after each quarter ends and annual reports within 35 days after the fiscal year concludes. The OAGN delivers the yearly audit reports of EBUs to the relevant ministries and incorporates them into its annual audit report.

Recent or ongoing reform activities: The government has notified EBUs to prepare and furnish their annual financial statements as per NPSAS, ensuring that they are accurate and transparent. To facilitate this process, a specialized functionality has been developed in MFMS to capture and report the financial status of EBUs. Additionally, efforts are being made to enable better monitoring of consolidated general government operations, which includes operations of extra-budgetary entities and local governments.

6.1. Expenditure outside financial reports

Performance analysis and evidence for scoring: According to the OAGN report, the expenditures of the EBUs for FY2020/21 that were outside of the government’s financial reports amounted to NPR 118,377.6 million (Table 6.1).

Table 6.1: Expenditure outside financial reports, FY2020/21 (NPR, millions)

Particulars	Estimated amount of expenditure reported outside government financial reports
Total of 135 EBUs' expenditure	118,377.6
Total BCG expenditure	1,136,445.7
EBUs' expenditure as percentage of BCG expenditure	10.4

Source: OAGN Annual Report, 2022 (Annexes 6 and 7, pages 765–773). <https://oag.gov.np/menu-category/926/en>

Type of expenditure reported outside government financial reports: salaries, operating expenses, goods, works, services, and social security payments.

In its review of audit reports for the FY 2020/21, the government's assessment team found no observations indicating that revenues and expenditures of budgetary units were not reported in the central government financial reports. As a result, there is a high level of assurance that all revenues and expenditures of the budgetary units are accurately reflected in the government's financial reports.

The EBUs' expenditure outside financial reports is 10.4 percent of the total BCG expenditure. **Hence, the score for this dimension is a D.**

6.2. Revenue outside financial reports

Performance analysis and evidence for scoring: According to the OAGN report, the revenues of the EBUs for FY2020/21 that were outside of the government's financial reports amounted to NPR 138,860.9 million (Table 6.2).

Table 6.2: Revenue outside financial reports, FY2020/21 (NPR, millions)

Particulars	Estimated amount of revenue reported outside government financial reports
Total of 135 EBUs' revenue	138,860.9
Total BCG revenue	972,370.7
EBUs' revenue as percentage of BCG revenue	14.3

Source: OAGN Annual Report, 2022 (Annexes 6 and 7, pages 765–773).

Type of revenue reported outside government financial reports: various types of fees, subscription, license fee, premium, grants, and revenue from sale of goods.

The EBUs' revenue outside financial reports is 14.3 percent of the total BCG revenue. **Hence, the score for this dimension is a D.**

6.3. Financial reports of extra-budgetary units

Performance analysis and evidence for scoring: In compliance with the PFPA Regulation (79), all EBUs are required to submit their financial statements for each quarter within 7 days of the end of the quarter, and their annual financial reports within 35 days following the end of the fiscal year to the relevant line ministries. Nevertheless, there is insufficient information regarding the submission of annual financial statements by EBUs to the respective line ministries. **Hence, the score for this dimension is a D.**

PI-7. TRANSFERS TO SUBNATIONAL GOVERNMENTS

What does PI-7 measure? This indicator assesses the transparency and timeliness of transfers from CG to subnational governments with direct financial relationships to it. It considers the basis for transfers from CG and whether subnational governments receive information on their allocations in time to facilitate budget planning. This covers CG and the subnational governments with direct financial relationships with CG for the last completed fiscal year. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: Examined the legislative and regulatory framework governing fiscal transfers by scrutinizing the Constitution, Inter-Governmental Fiscal Arrangement (IGFA) Act, PFPA Act, PFPA Regulation, as well as the principles, guidelines, and recommendations given by the NNRF and the NPC. Conducted a review of the budget and financial statements for FY2020/21, along with internal documents from the MoF, to evaluate the allocation of fiscal transfers in compliance with legal and regulatory frameworks as well as the specified timelines for such transfers. The hyperlinks to relevant publicly accessible documents are included in Annex 3C.

Summary table of scores:

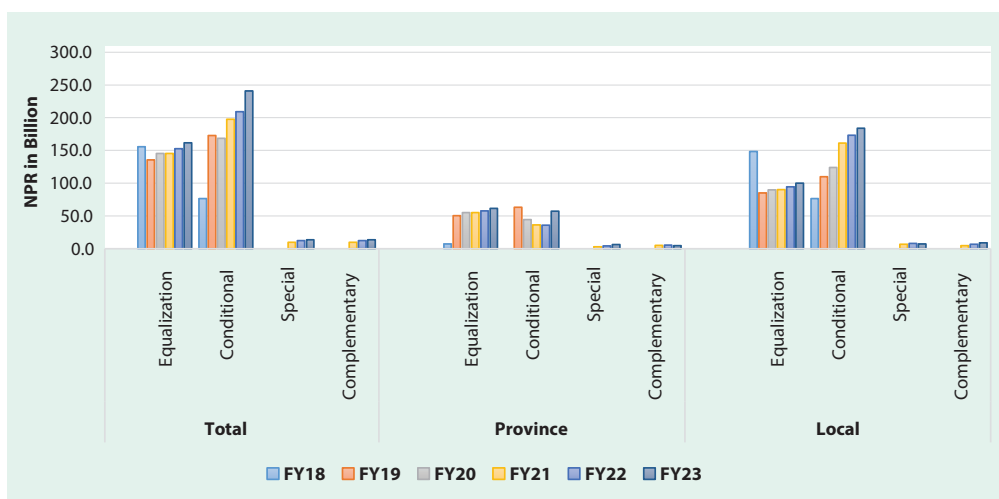
Indicator/Dimension	Assessment of performance	Score
PI-7. Transfers to subnational governments (M2)		C+
7.1. System for allocating transfers	Transparent and rule-based systems are applied to fiscal transfers to the subnational governments. However, the allocation of conditional grants is principle based and distributed by the federal line ministries based on different parameters.	B
7.2. Timeliness of information on transfers	The clear and sufficiently detailed information about transfers of all types of grants for the subnational governments is provided, allowing them at least four weeks to complete their budget planning on time. However, for some years, information about the conditional grants has been delayed.	C

Detailed description of the country PFM system for the assessed performance indicator:

The federal system of government has been fully implemented since the promulgation of the Constitution in 2015. One of the primary objectives of federalism is ensuring efficient service delivery. The Constitution outlines three levels of government: federal, provincial, and local, and it establishes clear rules for fiscal transfers. The constitutional body, the NNRFC, recommends the amounts of fiscal transfers, as mandated by Article 60(3) of the Constitution. The IGFA Act of 2017 outlines a transparent and rule-based system for allocating grants and funds to the federal, provincial, and local governments of Nepal.

In addition to sharing its revenue with PLGs, CG provides four types of grants: fiscal equalization, conditional, special, and complementary grants. The purpose of equalization grants is to equate the resources available across PLGs and allow them to meet their core functions. Conditional grants are earmarked for specific activities and complement untied resources to meet service delivery standards. Special grants are intended to support the delivery of basic services, achieve balanced development, and uplift those in need. Complementary grants are allocated for national priority infrastructure projects according to a cost-sharing model. Revenue sharing is another form of fiscal transfer, where the GoN shares its revenue with PLGs.

Figure 7.1: Budget allocations of the four types of grants from the GoN to the PLGs



Source: Ministry of Finance Budget Speeches from FY18–23.

Based on the PFA Act (Section 22), the GoN provides for fiscal transfers (revenue allocations and grants) to the PLGs from the Federal Consolidated Fund in accordance with the prevailing law. The PFA Regulation (Rule 45) provides for the return of unspent amounts of fiscal transfers (conditional, complementary, and special grants) to the Federal Consolidated Fund within the relevant fiscal year. The same rule provides for reductions from revenue allocations or equalization grants by the MoF in accordance with prevailing law if such amounts are not returned within one month from the end of the fiscal year.

Recent or ongoing reform activities: The NNRFC is implementing a five-year strategic plan (FY2022/23 to FY2026/27). The plan aims to improve intergovernmental fiscal transfers and their mechanisms, strengthen research and data analytics for fiscal transfers, and enhance coordination between the federal agencies and the subnational governments.

7.1. System for allocating transfers

Performance analysis and evidence for scoring: Table 7.1 summarizes the system of fiscal transfers.

Table 7.1: System for allocating transfers (last completed fiscal year - FY2020/21)

Type of transfer	Budget			Actual			Source of rules
	Amount (NPR, millions)	% of the total	Transparent and rule based (Y/N)	Amount (NPR, millions)	% of the total	Transparent and rule based (Y/N)	
Fiscal equalization grant (FEG)	145,250	29.96	Y	145,166	28.72	Y	Constitution, Article 60-4 and Article 251 (Clause B); IGFA Act, Section 8
Conditional grants	197,447	40.73	Partially	230,127	45.53	Partially	Constitution, Article 60-4 and Article 251 (Clause C); IGFA Act, Section 9
Special grants	9,967	2.06	Y	8,949	1.77	Y	Constitution, Article 60-6; IGFA Act Section 9
Complementary grants	9,967	2.06	Y	10,277	2.03	Y	IGFA Act Section 10
Revenue sharing	122,140	25.2	Y	110,941	21.95	Y	Constitution, Article 251 (Clause A)
Total	484,771	100.00		505,460	100.00		

Source: For Budget of FY2020/21 <https://www.mof.gov.np/site/publication-detail/2215>; Annex 5 (Page 46), CFS FY2020/21 (www.fcgo.gov.np).

FEG: According to the IGFA Act, FEGs should be based on expenditure needs and revenue capacity of the subnational governments. The interim approach that is currently being used by the NNRFC for the allocation of FEGs has three components: (a) a minimum grant component,

(b) a formula-based grant component, and (c) a performance-based grant component. The total amount of FEGs is the sum of all three components.

For FY2020/21, 25 percent of provincial and 26.3 percent of local FEG amounts were minimum grant components. Additionally, 3.8 percent of provincial and 3.7 percent of local FEG amounts were performance-based grant components. The formula-based component comprised 71.3 percent and 70.1 percent of recommended provincial and local FEGs, respectively. The formula-based component is determined based on several factors, including the human development index (10 percent), socioeconomic disparity (5 percent), the infrastructure index (10 percent), the revenue position (5 percent), and expenditure needs and revenue mobilization capacity (70 percent).

Conditional grants: These grants are allocated for certain activities and serve as a supplement to unconditional transfers to PLGs to fulfill service performance benchmarks. According to the IGFA Act, conditional grants are provided as prescribed by the NNRFC. Although the NNRFC prescribes the principles of conditional grants, their horizontal allocation is determined by federal line ministries and the MoF. During the first few years of the transition to federalism, it was not unusual for line ministries to budget equal amounts of conditional grants among PLGs, with sectoral salary resources distributed to pay the salaries of sectoral staff posted in each local government. The federal line ministries presently utilize different criteria to distribute conditional funding, such as the FLASH Report⁷ for education and the Health Management Information System (HMIS) data for health.

Special grants: The GoN provides special grants for specific projects to be operated by the provincial or local governments with any of the following objectives: (a) to develop and deliver basic services, such as education, health, and clean drinking water; (b) to achieve balanced development at the inter-state or inter-local level; and (c) to uplift or develop the class or community experiencing economic, social, or any other kind of discrimination. In line with the criteria specified in the working procedures, a committee headed by a member of the NPC selects projects that are submitted by PLGs.

Complementary grants: These grants are meant to be used by PLGs to implement infrastructure development plans and projects on a cost-sharing and competitive basis. They are distributed based on criteria, including project feasibility, expected inputs and outputs, as well as PLGs' project implementation capabilities. In line with the criteria specified in the working procedures, a committee headed by a member of the NPC selects projects that are submitted by PLGs.

Revenue sharing: According to the IGFA Act, 30 percent of VAT and internal excise duties are distributed to PLGs; 15 percent to provinces and 15 percent to local governments. The formula for this distribution was developed in FY2018/19 and is based on (a) population and demographic

⁷ <https://cehrd.gov.np/infocenter/17>

information (60 percent), (b) geographical area (15 percent), (c) human development index (5 percent), (d) expenditure needs (5 percent), (e) revenue mobilization efforts (3 percent), (f) infrastructure development (10 percent), and (g) special circumstances (2 percent). Similarly, the distribution mechanism of the natural resources⁸ royalties is specified in Schedule 4 of the IGFA Act.

Table 7.2: Revenue sharing of federal taxes among the three levels of government (percentage)

Federal taxes	Federal	Provincial	Local
VAT	70	15	15
Internal excise duties	70	15	15
Natural resources royalties	50	25	25

Source: IGFA Act (2017).

As explained, the fiscal transfers to subnational governments are governed by transparent and rule-based systems. However, while the NNRFC only provides principles for conditional grants, the federal ministries employ different parameters to allocate such grants to PLGs. **Hence, the score for this dimension is a B.**

7.2. Timeliness of information on transfers

Performance analysis and evidence for scoring: Section 18 (2) of the IGFA Act requires the GoN to consult with the NNRFC to provide the estimated source of FEGs and revenue sharing for the next fiscal year to PLGs by the end of mid-March. For FY2020/21, the NNRFC provided recommendations about revenue sharing and FEGs to the government on March 12, 2020, and April 14, 2020, respectively. The GoN communicated this information to the subnational governments on April 21, 2020, which is at least six weeks ahead of the budget presentation dates of PLGs. For the same fiscal year, the NNRFC provided recommendations to the GoN about conditional grants on May 21, 2020, and the GoN communicated the amounts of the conditional grants to the subnational governments through its budget on May 28, 2020. Regarding complementary and special grants, on December 18, 2019,⁹ the NPC requested that the subnational governments submit details of projects to be implemented by them for FY2020/21 by January 14, 2020. The correspondence about these grants took place around mid-May (Table 7.3). Provinces and local governments presented their budgets for FY2020/21 by June 15 and June 24, 2020, respectively.

The FPFA Regulation (Rule 5) allows the DTCOs to make the fiscal transfers as specified in the Federal Appropriation Act. Section 4 of the Federal Appropriation Act (2020) defines the disbursement/

⁸ It covers six categories: (a) mountaineering, (b) electricity, (c) forests, (d) mines, (e) minerals, and (f) water and other natural resources.

⁹ https://npc.gov.np/images/category/Website_Notice.pdf.

release calendar for various types of fiscal transfers for FY2020/21 (Table 7.3). The act also permits the GoN to recalculate the amount of the last three instalments of the FEG based on the actual revenue collection, should there be a shortfall in revenues due to an abnormal situation or disaster.

Table 7.3: Communication dates of budgeted fiscal transfers to PLGs (along with their budget presentation dates)

Types of fiscal transfer	Subnational governments	Date of correspondence by federal level	Date of submission of budget by subnational governments	Duration
FEGs	Province	April 21, 2020	June 15, 2020	7 weeks 6 days
	Local level	April 21, 2020	June 24, 2020	9 weeks 1 day
Conditional grants	Province	May 28, 2020	June 15, 2020	2 weeks 4 days
	Local Level	May 28, 2020	June 24, 2020	3 weeks 6 days
Special grants	Province	May 12, 2020	June 15, 2020	4 weeks 6 days
	Local level	May 14, 2020	June 24, 2020	5 weeks 6 days
Complementary grants	Province	May 14, 2020	June 15, 2020	4 weeks 4 days
	Local level	May 17, 2020	June 24, 2020	5 weeks 3 days
Revenue sharing	Province	April 21, 2020	June 15, 2020	7 weeks 6 days
	Local level	April 21, 2020	June 24, 2020	9 weeks 1 day

Source: Primary Source of Data (Unpublished). Internal decision files, MoF.

Table 7.4: Disbursement calendar for various types of fiscal transfers, FY2020/21

Grant type	Number of instalments	Instalment dates				Refund deadline for unused grants
Equalization	4	August 18	October 18	January 15	April 15	
Conditional	3	August 18	Remaining disbursements based on the submission of periodic statement of expenditures.			End-July of next fiscal year
Complementary and special		Based on the procedure approved by the GoN.				
Revenue sharing	12	Usually within seven days from the end of month.				

Source: Federal Appropriation Act, 2020.

PLGs received information about conditional grants less than four weeks before their budget presentation date. The conditional grants constitute more than 40 percent of the total fiscal transfers. For all other grants, PLGs received the information at least four weeks before their budget presentation dates. **Hence, the score for this dimension is a C.**

PI-8. PERFORMANCE INFORMATION FOR SERVICE DELIVERY

What does PI-8 measure? This indicator examines the service delivery information in the executive’s budget proposal or its supporting documentation, and in year-end reports or performance audits or evaluations, as well as the extent to which information on resources received by service delivery units is collected and recorded. Coverage is CG for all four dimensions: for PI-8.1, performance indicators and planned outputs and outcomes for the next fiscal year; for PI-8.2, outputs and outcomes of the last completed fiscal year; and for PI-8.3 and PI-8.4, outputs and outcomes of the last three completed fiscal years. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: Performance plans’ availability was assessed based on the data obtained from the annual budget, MTEF, and sector strategies. The performance achieved was reviewed by analyzing the annual reports of ministries. The LMBIS provides information about the resources received by service delivery units. The OAGN annual performance audits were considered to assess the dimension related to performance evaluation for service delivery.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-8. Performance information for service delivery (M2)		B+
8.1. Performance plans for service delivery	The information about policy or program objectives, key performance indicators, and outputs for most ministries is published annually. However, the ultimate measurable outcomes are not reported.	B
8.2. Performance achieved for service delivery	Information is published annually about the quantity of outputs produced for most ministries.	B
8.3. Resources received by service delivery units	Information regarding the resources allocated to frontline service delivery units is systematically gathered and documented for all line ministries. The information is categorized based on the source of finances, and the internal report that compiles this information is created on a yearly basis. The resources available are limited to approved budget allocated to the service delivery units.	A
8.4. Performance evaluation for service delivery	Performance audits have been carried out for the majority of the ministries within the last three years.	B

Detailed description of the country PFM system for the assessed PI: The Constitution establishes each level of government as an independent entity of governance (Articles 56 and 57) and elucidates the allocation of duties among the three levels of government (Schedule 5–9). PLGs are primarily responsible for carrying out basic service delivery activities, such as primary and secondary education as well as primary health and sanitation. However, the Constitution also assigns broad shared obligations, such as ‘Health’ and ‘Education,’ to all three levels of government. Therefore, the GoN also manages services that are provided to the general public using government resources. Various acts, such as the Local Government Operation Act 2017, the Nepal Citizenship Act 2006, the Public Health Act 2018, and the Free and Compulsory Education Act 2018, mandate delivery of frontline services to citizens.

The GoN provides conditional grants to enable PLGs in carrying out the devolved service delivery functions. Nevertheless, PLGs operate independently, and the provision of these services falls under their jurisdiction for both administrative and functional purposes, as mandated by the Constitution. Consequently, the PLGs are not regarded as a decentralized entity of the GoN. This indicator has been assessed for the program and services delivered by the GoN through its budget.

According to Sections 6 and 9 of the FPFA Act, ministries are obligated to create their projections for MTEF and annual budget by using periodic plans and sectoral strategies. The NPC, in accordance with Section 8 of the FPFA Act, provides the budget guidelines, together with the templates for MTEF and annual budget. These guidelines need detailed information regarding expected performance. The government has formulated sector strategies for the majority of service delivery sectors, and the line ministries develop their MTEF, budget, and performance targets in accordance with these strategies. According to Article 119 of the Constitution, the MoF is obligated to provide a yearly progress report. This report includes an assessment of the progress made in achieving performance targets for the fiscal year. According to Rule 28 of the FPFA Regulation, spending units are authorized to spend the entire budget after it is approved by the Parliament. The OAGN can carry out performance audits of service delivery functions as per the Audit Act. Similarly, the FPFA Regulation grants authorization to the internal audit to carry out performance audits.

Recent or ongoing reform activities: Performance plans for each of the ministries, departments, and agencies (MDAs) are prepared based on the sector strategies and the MTEF. A dedicated cadre has been created to conduct internal audits, including the performance audits, in accordance with the FPFA Regulation. Parliamentary committees are scrutinizing MDA performance on a sectoral basis.

8.1. Performance plans for service delivery

Performance analysis and evidence for scoring: Annex 14 of the FY2022/23 Budget Speech provides key performance indicators for sectoral and sub-sectoral programs. The MTEF and the Annual Development Plan (ADP) also include results indicators and targets for T+1, T+2, and T+3 years for all central agencies, grouped by six sectors: agriculture, land management, cooperatives and forest sector; economic sector; social sector; infrastructure sector; governance management and inter-related sectors; and constitutional bodies and agencies. For each program and project, the MTEF and ADP provide objectives, costs, duration, sectoral strategic pillars, expected results of the program/projects, progress to date, achievement indicators for the next three years, and the main activities to be carried out in FY2022/23. Tables 8.1 and 8.2 show that such information is published annually. The information pertains to policy or program objectives, key performance indicators, and outputs to be produced for each program by most ministries. **Hence, the score for this dimension is a B.**

Table 8.1: Performance plans (Performance indicators and planned outputs and outcomes for the next fiscal year)

	Budget allocation FY2022/23 (NPR, billions)		Performance plans for service delivery programs					
	Total	Service delivery program	No. of service delivery programs	Service delivery program objectives	Key performance indicators	Planned performance		
						Outputs	Outcomes	Activities
Total number of ministries: 22	751.4	668.1	281	Yes	Yes	Yes	NA	Yes
Percentage of budget allocated for service delivery programs and the percentage of service delivery programs with available performance data		88.9		100	100	100	NA	100

Source: Annex 8 of Budget Speech of FY2022/23 for total budget allocation and for budget allocation for service delivery programs. Ministry Annual Progress Reports and Budget Speech of FY2022/23 for performance data for service delivery programs. <https://www.mof.gov.np/site/publication-category/28>

Note: Yes: existence of data for all service delivery programs of the ministry; No: non-existence of data or data not covering all the service delivery programs of the ministry; NA: not available.

In FY2022/23 federal budget, an allocation of NPR 177.9 billion was made for conditional grants, and NPR 668.1 billion for service delivery budget programs.

8.2. Performance achieved for service delivery

Performance analysis and evidence for scoring: According to Article 119 of the Constitution of Nepal, the Minister for Finance shall provide progress statements according to objective and financial progress against budgets allocated to every ministry in the previous fiscal year, along with the annual estimate of revenues and expenditures for the coming fiscal year. Central agencies submit the budgets, expenditures, and target and progress reports to the MoF by mid-April of the current fiscal year for submission to the Federal Parliament, as required by FPFA Regulation (Rule 22). The MoF publishes ministry-wise progress reports, outlining the policies and programs for each central agency as stated in the Budget Speech. It also publishes progress reports about these programs as of mid-April of the current fiscal year. The NPC's annual development program report provides information about the quantities of outputs produced for most central agencies, grouped by six sectors. However, information about the outcomes is not available. **Hence, the score for this dimension is a B.**

Table 8.2: Performance achieved (outputs and outcomes of the last completed fiscal year)

	Budget allocations for FY2020/21 (NPR, billions)		Actual performance for FY2020/2 (Achievements)			
	Total	Service delivery program	No. of service delivery programs	Data on actual outputs	Data on actual outcomes	Information on activities
Total number of ministries : 22	643.2	593.9	191	Yes	Not available	Yes
Percentage of budget allocated for service delivery programs and the percentage of service delivery programs with available performance data		92.4t		100	Not available	100

Source: Annex 8 of Budget Speech of FY2020/21 for total budget allocation and for budget allocations for service delivery programs. Ministry Annual Progress Reports of FY2020/21 and Annual Development Program Report for performance data for service delivery programs.

For FY2020/21, the federal budget allocated NPR 197.4 billion for conditional grants and NPR 593.9 billion for service delivery programs.

8.3. Resources received by service delivery units

Performance analysis and evidence for scoring: As per Rule 28 of the PFPA Regulation, spending units/service delivery units are granted automatic authorization for expenditures through the LMBIS once the budget is approved by the Parliament. The LMBIS is interconnected with the TSA, CGAS, MFMS, and FMIS to ensure the availability of detailed data based on the source of funds for the execution, monitoring, and reporting of the budget. The authorization becomes active starting from the first day of the fiscal year upon the approval of the yearly Federal Appropriation Act. The GoN has about 6,000 spending units that are granted authorization to spend the entire approved budget for the fiscal year, starting from the beginning of the fiscal year through the LMBIS, following the adoption of the Appropriation Act. As a result, cash resources are readily available to the service delivery units for expenditure. All fees or revenue collected by BCG service delivery units are placed in the treasury and cannot be utilized by the units for expenses. However, service delivery units of EBUs, such as universities, have the authority to generate their own income through means such as fees. They are then permitted to utilize this cash in accordance with their established financial regulations.

Table 8.3 presents the planned and actual expenses for frontline service delivery offices in two major ministries, specifically the Ministry of Health and Population (MoHP) and the Ministry of Agriculture and Livestock (MoAL). The data pertain to the three fiscal years covered by the assessment. The ministries compile an annual internal report to gather the information about budget and expenditures of service delivery offices. The report additionally incorporates the sources of funding. The MoHP was chosen due to the GoN’s provision of specialized health care services through federal hospitals nationwide. Furthermore, the federal health ministry oversees specialized health services programs, such as immunization. The MoAL was chosen due to its significant role in Nepal’s economy. With around 60 percent of the population involved in agriculture, the sector contributes approximately one-fourth to the country’s GDP. The GoN oversees the implementation of national service delivery programs in the sector.

Table 8.3: Budgeted and actual expenditures of frontline service delivery offices under the MoHP and the MoAL (NPR, millions)

Major frontline agencies for service delivery	FY2018/19		FY2019/20		FY2020/21	
	Budget	Actual	Budget	Actual	Budget	Actual
Ministry of Health and Population						
Kanti Children Hospital	202	199	382.4	233.29	484.37	337.51
Shurkraraj Tropical Hospital	164	153	166.72	150.67	203.54	171.32
Paropakar Maternity Hospital	305	305	457.82	456.5	568.10	558.76
B P Koirala Cancer Hospital	316	316	382.79	252.47	242.93	242.93

Major frontline agencies for service delivery	FY2018/19		FY2019/20		FY2020/21	
	Budget	Actual	Budget	Actual	Budget	Actual
ManMohan Cardiovascular Vascular and Transplant Center	334	334	531.50	531.50	291.80	291.80
Shahid Gangalal National Heart Center	606	606	831.00	831.00	470.10	470.10
T U Cancer Center (Suresh Wagle CC)	261	261	501.61	501.61	512.30	512.30
Human Organ Transplant Center	194	193	190.50	152.1	423.30	275.89
National Public Health Laboratory	198	193	216.50	197.55	199.90	177.24
Central Hospitals	226	220	1,965.03	1,602.23	2,883.27	2,078.89
Bir Hospital	1,91	1,91	2,403.34	2,234.74	2,307.44	1,849.87
BP Koirala Institute of Health Sciences	587	587	882.05	882.05	1,045.47	1,040.00
Health Science Academics (Karnali, Patan, Rapti, Pokhara)	915	915	1,275.84	1,275.84	1,639.60	1,491.60
Ministry of Agriculture and Livestock						
Ministry of Agriculture and Livestock – Secretariat	248	197	252.16	194.85	215.92	141.63
Special Agriculture Production	9,000	8,380	10,697.26	10,529.97	11,005.00	11,000.40
Quarantine and Pesticides Management Program	203	79	178.06	113.14	145.19	92.25
Prime Minister’s Agriculture Modernization Program	2,499	1,854	3,051.23	2,037.31	2,936.90	2,207.79
Agricultural Market Development	230	210	288.2	227.77	247.8	125.64
National Potato, Vegetable, and Masala Development	299	186	226.53	124.00	113.42	81.08
Department of Animal Husbandry	559	306	670.52	523.16	1,356.67	1,328.80
Fishery Development	974	875	212.75	155.28	108.20	86.21

Source: Red Book (2018/19–2021/22).

As explained, information regarding the resources allocated to frontline service delivery units is systematically gathered and documented for all line ministries. **Hence, the score for this dimension is an A.**

8.4. Performance evaluation for service delivery

Performance analysis and evidence for scoring: Section 5 of the Audit Act (2019) authorizes the OAGN to conduct performance audits of public entities’ activities, programs, and projects to ensure their economy, efficiency, and effectiveness. In FY2018/19, the OAGN conducted twelve performance audits of programs implemented by nine ministries. The number of audits conducted for FY2019/20 and FY2020/21 was seven and six, respectively.

Table 8.4: Number of performance audits by ministries (for the last three completed fiscal years)

Ministry/Entity	FY2018/19 (No. of audits)	FY2019/ 20 (No. of audits)	FY2020/21 (No. of audits)	FY2020/21 budget (NPR, billions)
Ministry of Finance	3		1	43.1
Ministry of Agriculture and Livestock Development		1		41.4
Ministry of Culture, Tourism and Civil Aviation			1	26.6
Ministry of Education, Science and Technology	1	1		171.7
Ministry of Energy, Water Resources, and Irrigation	1	1		105.8
Ministry of Federal Affairs, and General Administration	1	1		38.9
Ministry of Health and Population	2			90.7
Ministry of Industry, Commerce and Supply			1	12.9
Ministry of Labor, Employment and Social Security	1	1		14.2
Ministry of Physical Infrastructure and Transport		1		138.8
Ministry of Urban Development		1	1	37.8
Ministry of Women, Children and Senior Citizen			1	1.1
Ministry of Youth and Sports	1		1	2.4
National Planning Commission	1			3.3
National Reconstruction Authority	1			55.0
Budget of ministries for which a performance audit was conducted				783.7
Total budget of all ministries				1,406.3
Percentage of ministries for which a performance audit was conducted				55.9

According to Table 8.4, performance audits were conducted for the majority (55.9 percent) of ministries in the last three years. **Hence, the score for this dimension is a B.**

PI-9. PUBLIC ACCESS TO FISCAL INFORMATION

What does PI-9 measure? This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. Coverage is BCG for the last completed fiscal year.

Methodological notes: The fiscal data that are publicly available on the websites of MoF, NPC, FCGO, and OAG were compared to the specific information elements and requirements that are outlined in the framework for PI-9.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-9: Public access to fiscal information (M1)		C
9.1. Public access to fiscal information	The government makes available to the public four basic elements and one additional element, following the time frames and periodicity defined by the PEFA Framework.	C

Detailed description of the country PFM system for the assessed performance indicator:

The Constitution guarantees the right to information for every citizen, except in cases where confidentiality is required by the law. The Right to Information Act 2007 establishes an information officer in each office and requires the disclosure of public information. Additionally, Section 56 of FPFA Act mandates that the relevant government office must publicly disclose the financial reports, as required by the FPFA Act and the regulations established under it, via electronic or other appropriate means, within seven days after the deadline for producing such reports. The MoF, NPC, FCGO, and OAGN publicly disclose fiscal information on their websites.

Recent or ongoing reforms: The Citizen Engagement Strategy for Nepal PFM has been developed that aims to make fiscal information more easily accessible to the public. The FCGO now publishes daily aggregate fiscal data on its website as part of its strategy.

9.1. Public access to fiscal information

Performance analysis and evidence for scoring: According to the data presented in Table 9.1, the requirements have been fulfilled for the four basic elements and one additional element. **Hence, the score for this dimension is a C.**

Table 9.1: Elements of fiscal information and public access

S. N.	Elements	Framework requirements	Assessment	Criteria Fulfilled: Yes/No
Basic Elements				
1	Annual executive budget proposal documentation	A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of the budget to the legislature.	Budget proposal for FY2020/21 submitted to the Parliament was made available on the website of the MoF, including the Budget Speech, ¹⁰ the Yellow Book, ¹¹ the Red Book, ¹² the Intergovernmental Fiscal Transfer, ¹³ the Economic Survey, ¹⁴ and the MTEF. ¹⁵ These documents were released on the same day that the budget was submitted to the Parliament, except for the MTEF, which was made public 11 days later, on June 10, 2020.	Yes
2	Enacted budget	The annual budget law approved by the legislature is publicized within two weeks of the passage of the law.	The Appropriation Act, ¹⁶ Finance Act ¹⁷ for 2020/21, Loan and Guarantee Act (Amendments), ¹⁸ and An Act for Raising National Debt (2020) ¹⁹ were enacted on June 29, 2020, and published on the same day.	Yes
3	In-year budget execution reports	The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	The MoF has published Semi-annual Budget Progress Evaluation Reports for FY2020/21 in accordance with the legal provision of the FPFA Act Section (23-5), which is included on its website. ²⁰ However, PI-28 assesses the monthly reports, which are not publicly disclosed.	Partially

¹⁰ <https://mof.gov.np/site/publication-detail/2260>

¹¹ <https://mof.gov.np/site/publication-detail/2178>

¹² <https://mof.gov.np/site/publication-detail/2213>

¹³ <https://mof.gov.np/site/publication-detail/2215>

¹⁴ <https://mof.gov.np/site/publication-detail/2174>

¹⁵ <https://npc.gov.np/images/category/MTEF.pdf>

¹⁶ <https://mof.gov.np/site/publication-detail/2378>

¹⁷ <https://mof.gov.np/site/publication-detail/2474>

¹⁸ <http://rajpatra.dop.gov.np/welcome/book/?ref=24153>

¹⁹ <http://rajpatra.dop.gov.np/welcome/book/?ref=24152>

²⁰ <https://mof.gov.np/site/publication-detail/3116>

S. N.	Elements	Framework requirements	Assessment	Criteria Fulfilled: Yes/No
4	Annual budget execution report	The report is made available to the public within six months of the end of the fiscal year.	Annual budget execution report of FY2020/21 was published on the website of the FCGO ²¹ on January 18, 2022. FY2020/21 concluded on July 17, 2021, and the subsequent six-month period ended on January 17, 2022. There was a delay of only one day.	Yes
5	Audited annual financial report, incorporating or accompanied by the external auditor's report	The reports are made available to the public within 12 months of the end of the fiscal year.	The OAGN published the FY2020/21 Audit Report ²² on July 13, 2022, which is within 12 months of the end of the fiscal year. FY2020/21 ended on July 17, 2021.	Yes
Additional Elements				
6	Pre-budget statement	The broad parameters for the executive budget proposal regarding expenditures, planned revenues, and debts are made available to the public at least four months before the start of the fiscal year.	The NPC has prepared and circulated the pre-budget statement internally, but it did not publish it on time.	No
7	Other external audit reports	All nonconfidential reports about the CG's consolidated operations are made available to the public within six months of submission.	The performance audit and special audit reports are made available on the OAGN website. These reports are presented to the legislature alongside the audited annual financial report and promptly published on the OAGN website after being submitted to the legislature.	Yes

²¹ <https://fcgo.gov.np/storage/uploads/publications>

²² <https://oag.gov.np/menu-category/926/en>

S. N.	Elements	Framework requirements	Assessment	Criteria Fulfilled: Yes/No
8	Summary of the budget proposal	Either (a) a clear, simple summary of the executive budget proposal is publicly available within two weeks of the executive budget proposal's submission to the legislature or (b) the enacted budget understandable by the non-budget experts, often referred to as a 'citizens' budget', and where appropriate, translated into the most commonly spoken local language(s), is publicly available within one month of the budget's approval.	The summary of the budget proposal for FY2020/21 was not available.	No
9	Macroeconomic forecasts	The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	The macroeconomic forecasts for FY2020/21 were not publicly available.	No



**PILLAR THREE:
Management of
Assets and Liabilities**



**PILLAR ONE:
Budget Reliability**



**PILLAR TWO:
Transparency of Public Finances**



**PILLAR THREE:
Management of Assets and Liabilities**



**PILLAR FOUR:
Policy-based Fiscal Strategy and Budgeting**



**PILLAR FIVE:
Predictability and Control in Budget Execution**



**PILLAR SIX:
Accounting and Reporting**



**PILLAR SEVEN:
External Scrutiny and Audit**

PILLAR THREE: MANAGEMENT OF ASSETS AND LIABILITIES

What does Pillar III measure? Effective management of assets and liabilities ensures that public investments provide value for money; assets are recorded and managed; fiscal risks are identified; and debts and guarantees are prudently planned, approved, and monitored.

Overall performance: Analysis of key strengths and weaknesses

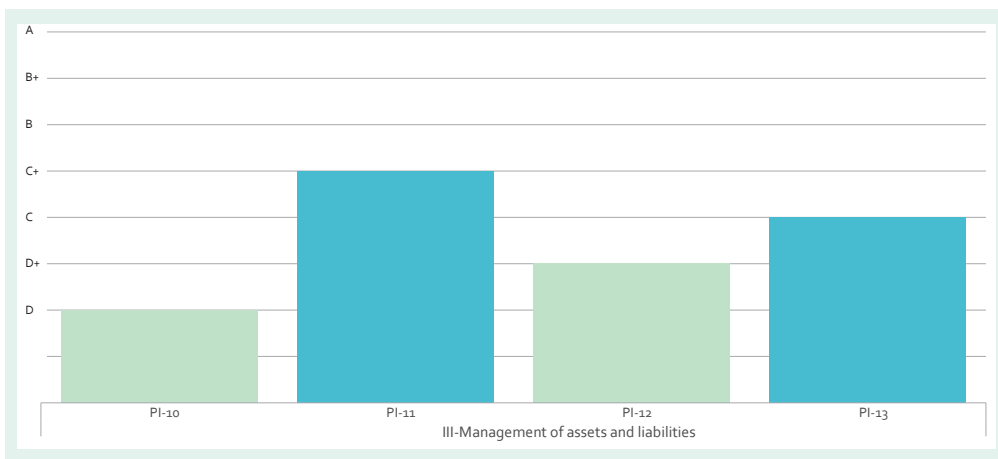
Nepal has a good legal and regulatory framework in place for managing assets, liabilities, and public investments. Nevertheless, there are concerns pertaining to their thoroughness and execution. The evidence about the timely submission of financial statements by subnational governments and PEs is lacking, and the information pertaining to contingent liabilities is incomplete, leading to a 'D' score for fiscal risk reporting (PI-10). Public investment management is at a basic level of performance, with some major investments going through economic analysis, appraisal, and selection in accordance with guidelines. The projects' capital cost and estimated recurrent cost for the next three years are included in the MTEF and annual monitoring reports are produced (PI-11 rated 'C+'). The public assets management achieved an average performance, with a score of 'D+' for PI-12. Although the government keeps thorough records of its financial assets and publishes reports on their performance, it does not collect information on the utilization of fixed assets, even though the records are largely complete. The effectiveness of debt management stems from the government's ability to maintain comprehensive, accurate, and current records of both domestic and foreign loans as well as guaranteed debts. Nevertheless, the DMS was approved in November 2021 but did not encompass the fiscal years covered by the assessment, leading to a 'C' rating for debt management (PI-13).

There are concerns regarding the availability and access to up-to-date information concerning the fiscal risks associated with PEs, subnational governments, and contingent liabilities. To monitor the performance of PEs and subnational governments, the MoF relies solely on audited financial statements, which are usually published more than nine months after the end of the fiscal year. Although the information about contingent liabilities is not entirely complete, efforts are being made by the PDMO to report such liabilities accurately and comprehensively. The budget documents only include few contingent liabilities and do not provide summary information about fiscal risks. However, the information about government investments in PEs is published annually.

The creation of the NPB, as well as the recent publication of related rules, is expected to improve the economic analysis, selection, costing, and monitoring of public investment projects. However, these reforms were not in place during the assessment period. In the past, only a subset of investment projects was fully appraised, which might be one of the reasons for the lower capital budget outturn. There are monitoring procedures in place, and monitoring reports are generated at the ministry level. However, the actions agreed upon during project monitoring appear not to be properly implemented and followed up.

The government has developed information systems to manage financial and nonfinancial assets as well as debts. Specifically, the PAMS covers the government’s nonfinancial assets, which are recorded at their historical cost. However, major infrastructure assets, such as roads, are currently not included in the PAMS, and the records of these assets are maintained separately. Although the government has asset disposal procedures in place, information about asset disposal is not included in the budget. Meanwhile, the DOMS is used to record, reconcile, and report on all government debts. The financial assets are recorded by the FCGO and the NRB in their respective information systems. The financial assets are valued at their historical cost, and information about government investments in PEs is published annually. The annual financial statements provide complete information pertaining to financial assets while providing partial information concerning nonfinancial assets.

Debt management is considered effective due to the comprehensive, accurate, and up-to-date records of domestic, foreign, and guaranteed debts. The government has a robust legal framework in place to regulate the process of approval and control of the government’s contracting of loans and issuing of guarantees. The PDMO has been established as the central agency for all debt management functions. Additionally, the government approved the first DMS in November 2021, and it was published by the PDMO in April 2022. Although comprehensive data are available, the budget documents only contain information regarding the external debt stock.



PI-10. FISCAL RISK REPORTING

What does PI-10 measure? This indicator measures the extent to which fiscal risks to CG are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the CG’s own programs and activities, including EBUs. They can also arise from other implicit and external risks such as market failure and natural disasters. For the last completed fiscal year, this indicator covers CG-controlled public corporations for PI-10.1, subnational government entities that

have direct fiscal relations with CG for PI-10.2, and CG for PI-10.3. It uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: Referred to the Yellow Book and external audit report for the list of public corporations and checked the availability of their financial reports with MoF’s Financial Sector Management and Corporation Co-ordination Division. Checked the availability of subnational governments’ unaudited financial reports with the Ministry of Federal Affairs and General Administration (MoFAGA) and reviewed the website of a few subnational governments. In addition, reviewed the budget and financial statements to identify any contingent liabilities and other fiscal risks and requested the latest information from the PDMO.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-10. Fiscal risk reporting (M2)		D
10.1. Monitoring of public corporations	The dates of the receipts of the unaudited report of the PEs by the line ministries are not available. Most PEs are audited, but the audited annual statements are not available within nine months of the end of the fiscal year.	D
10.2. Monitoring of subnational governments	The unaudited financial reports of a majority of subnational governments are not published. The audited reports of all subnational governments are published after nine months of the end of fiscal year.	D
10.3. Contingent liabilities and other fiscal risks	The CG does not annually publish the consolidated reports consisting of all significant contingent liabilities and other fiscal risks pertaining to the CG.	D

Detailed description of the country PFM system for the assessed performance indicator:

The main legislative framework for monitoring fiscal risks is the FPFA Act and its accompanying FPFA Regulation. The MoF is responsible for monitoring fiscal risks through its dedicated divisions and the PDMO. The respective line ministries control and monitor PEs. The MoF publishes the data concerning share and loan investments for PEs through its Economic Survey and Annual Performance Review of Public Enterprises (Yellow Book). The OAGN report includes information about fiscal risks relating to public corporations, subnational governments, and contingent liabilities of the CG. The primary source of monitoring fiscal risks is the annual audited financial statements submitted by these entities.

Recent or ongoing reform activities: The MoF, in collaboration with the IMF, is preparing a fiscal risk register to capture the various dimensions of major fiscal risks. A fiscal risk monitoring system for subnational governments is also planned.

10.1. Monitoring of public corporations

Performance analysis and evidence for scoring: The PEs prepare a financial report that includes information about the government's share and loan investments; government grants, assets, and liabilities; internal income; financial expenditure statements; and statements of irregularities. They then submit these reports to the relevant ministry and the MoF within three months of the end of the fiscal year. The MoF evaluates the annual status of the PEs and publishes a report based on such statements. In accordance with the law, the MoF develops and publishes the Annual Performance Review of Public Enterprises (also known as the 'SOE information: Yellow Book'). The Yellow Book, along with other budget documents, is then presented to the Parliament and published on the date of the budget presentation. The Yellow Book for FY2021/22 comprises the financial reports of 44 PEs for FY2020/21. Of the 44 PEs, 33 were established under the Company Act, 7 under the Special Act, 2 under the Communication Enterprises Act, 1 under the Cooperative Act, and 1 under the Enterprises Act.

The OAGN conducts external audits of PEs and publishes the annual consolidated report of PEs, that is, the Audit Reports of Corporate Bodies, which provide the summary of the audit of the PEs. The report, published at the end of FY2021/22, shows that 25 PEs (covering 88.7 percent of total expenditures for all PEs) had their financial statements audited for FY2020/21 (Audit Reports of Corporate Bodies OAG). However, the mentioned OAGN audit report was published after twelve months of the end of the fiscal year.

Although most PEs provide financial reports to the government, there is no evidence to confirm that they are received within nine months of the end of the fiscal year because the dates of receiving the unaudited reports are not known. Most PEs are audited, but the audited annual statements are not available within nine months of the end of the fiscal year. **Hence, the score for this dimension is a D.**

10.2. Monitoring of subnational governments

Performance analysis and evidence for scoring: The FPFA Act (Sections 4 and 5) and FPFA Regulation (Rule 10) require the local governments to send their annual financial statement to the DTCO and PTCO by mid-October. It also requires that the province send its financial statements to the FCGO by the end of October. The FCGO then prepares the CFS based on the financial statements of the Federal Consolidated Fund, the Provincial Consolidated Fund, the Local Consolidated Fund, and other governmental funds by the end of December. It submits them to the MoF and the OAGN. These CFS are made public by the MoF. In accordance with the law, the FCGO compiled and released the CFS for FY2020/21 on January 18, 2022.²³ The Local Government Operations Act (2017) (Section 76) mandates local governments to publish the report of the receipt and payments by the 7th of each month. The OAGN conducts a final audit of

²³ <https://fcgo.gov.np/storage/uploads/publications>.

the PLGs and then publishes the report for all the subnational governments after the submission of the report to the President. In FY2021/22, the external audit reports of seven provinces and 744 local governments for FY2020/21 were published.²⁴

The unaudited financial reports of the majority of subnational governments are not published by them. All subnational government audited reports are issued nine months after the fiscal year ends. **Hence, the score for this dimension is a D.**

10.3. Contingent liabilities and other fiscal risks

Performance analysis and evidence for scoring: The Loan and Guarantee Act (1968) (Section 4) authorizes the government to guarantee a loan for any project included in an approved development plan or for the acquisition of a new aircraft for the Nepal Airlines Corporation. The PFPA Act (Section 12) requires the MoF to keep a record of prospective financial responsibilities arising from a treaty, agreement, and/or court ruling or judgment. However, there are no explicit legal obligations for disclosing every potential liability.

The PDMO is responsible for compiling the consolidated report about domestic and external debts and guarantees. This report featured two government guarantees for FY2020/21: (a) a guarantee issued to a private equity firm, the Nepal Airlines Corporation (amounting to NPR 24 billion), for the acquisition of airplanes and (b) a guarantee provided to a private business, Jyoti Spinning Mills, for external borrowing from the ADB. However, this report does not contain specific contingent liabilities arising from deposit insurance, credit guarantee schemes, crop insurance, or PPPs. **Hence, the score for this dimension is a D.**

■ PI-11. PUBLIC INVESTMENT MANAGEMENT

What does PI-11 measure? This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. Coverage is CG for the last completed fiscal year. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: To assess this indicator, selected the 10 significant development projects. These projects have a total investment cost that equals or exceeds 1 percent of the annual budget expenditure for FY2020/21. To analyze performance, gathered the necessary documents from the NPC related to project analysis, selection, costing, and monitoring, as required by legislation and regulations, for the chosen projects.

²⁴ <https://oag.gov.np/en>.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-11. Public Investment Management (M2)		C+
11.1. Economic analysis of investment projects	Economic analyses are conducted to assess most major investment projects. However, the results are not published, and the analyses are not reviewed by an entity other than the sponsoring entity.	C
11.2. Investment project selection	Before their inclusion in the budget, most major investment projects are prioritized by the NPC based on standard criteria for selection.	B
11.3. Investment project costing	The MTEF includes projections of the total capital cost of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years.	B
11.4. Investment project monitoring	There is annual monitoring report covering both physical and financial progress, but the report does not provide the reason for the deviation from the original plan to identify appropriate actions.	C

Detailed description of the country PFM system for the assessed performance

indicator: Nepal has well-established legal and institutional arrangements to manage public investment projects. Nepal’s periodic plans set out development strategies and policies. The 15th Plan, published in March 2020, comprises for the first time a list of priority projects to be implemented during the planning period (FY2019/20–2023/24). The FPFA Act (Section 17) mandates that the NPC must recommend the classification of projects implemented by federal, provincial, and local governments. The classification of projects considers periodic plans, sectoral policies, strategies, and aggregate development policies, as per the FPFA Regulation (Rule 24). Recently, the NPC introduced the ‘Standard for Determination of Nationally Prioritized Project, 2022 as a project selection guideline.

To manage projects, the NPC has established an NPB, which is followed by all ministries. To operationalize the NPB, the government has developed the National Project Bank Guidelines (2020) and the Project Development, Selection, and Prioritization Integrated Standard (2023). The National Project Bank Guidelines (2020) provide the steps for identifying, appraising, selecting, and prioritizing developmental projects for inclusion in the NPB. The Project Development, Selection, and Prioritization Integrated Standard (2023) details these steps for specific sectors and includes an economic analysis approach. However, the current version of the NPB has been operationalized only from FY24. The NPB MIS has been developed to identify, appraise, analyze, prioritize, select, cost, and monitor the projects according to the guidelines.

For a project to receive a budget allocation, it must be included in the NPB as per the FPFA Regulation. The FPFA Regulation (Rules 26-5) restricts budget allocations for projects not included in the NPB. However, the NPB only applies to projects costing above NPR 500 million. The MTEF includes projections of the total capital costs of the major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years.

The National Development Action Committee (NDAC), chaired by the Prime Minister, and the Ministerial Development Action Committee (MDAC), chaired by the minister of the relevant ministry, have been in place since 1992. These committees monitor and evaluate investment projects. The MDAC focuses on identifying and resolving implementation issues of investment projects. If issues cannot be resolved at the ministerial level, then they are elevated to the NDAC. The NDAC then decides on issues elevated by the MDAC. It also identifies and resolves implementation issues in terms of investment projects for all ministries.

The NPC has developed and implemented National Monitoring and Evaluation Directives (2013, revised in 2018) to ensure uniformity in M&E. The NPC also created M&E guidelines and an action plan to effectively monitor all capital expenditures and public investment projects. In addition, the OAGN reviews the progress of the project and program and publishes detailed observations in its annual report. The MoF conducts a budget review at midterm and annually. The financial and physical progress of projects and programs are also reviewed and discussed during the budget review.

As per the PEFA Field Guide, the major investment projects for assessing this dimension are the National Pride Projects. The government declared some of the major projects as National Pride Projects through a Cabinet decision, which have the potential to uplift the quality of life of people in terms of socioeconomic, cultural, and environmental aspects. These projects are selected based on development strategies, the economy, technology, and its availability. At present, there are 24 National Pride Projects in different sectors. The National Pride Projects are related to irrigation, highways, railways, drinking water, hydropower, airports, forest sector protection, and religious and cultural heritage. Of these projects, 17 were selected in FY2011/12; 4 in FY2013/14; and 1 each in FY2018/19, FY2019/20, and FY2020/21. These projects are implemented by six ministries: the Ministry of Defense (1); the Ministry of Physical Infrastructure and Transport (6); the Ministry of Energy, Water Resources and Irrigation (10); the Ministry of Culture, Tourism and Civil Aviation (5); the Ministry of Water Supply (1); and the Ministry of Forest and Environment (1).

Recent or ongoing reform activities: The Monitoring and Evaluation Act, under consideration by the Parliament, aims to increase transparency and results-based development by implementing a system for monitoring and evaluating policies and plans. The NPBMIS is currently being launched with the development and approval of the Project Development, Selection, and Prioritization Integrated Standard of 2023.

11.1. Economic analysis of investment projects

Performance analysis and evidence for scoring: Table 11.1 includes 10 National Pride Projects whose total investment cost is more than 1 percent of the total annual budget expenditures. According to the ‘Standard for Determination of Nationally Prioritized Project, 2022’,²⁵ national prioritized projects should contain the Detailed Project Report (DPR). The DPR is prepared by the selected consultants. It is reviewed by the respective technical section of the government entity and is approved by the chief of the respective government entity. The DPR is considered to be a feasibility study report. It consists of the economic analysis of the proposed investment project. Of the 10 projects in Table 11.1, the DPRs (with economic analysis) were available for 5 projects at Sl. No. 2, 4, 5, 6, and 8. The economic analyses for these projects were conducted at approval stage (5 to 20 years ago) and covered cost-benefit analysis and economic internal rate of return. Although economic analysis/DPR is a requirement for large projects, there are no institutional practices to publish DPRs or an entity other than the sponsoring entity to review the analyses.

Table 11.1: Total investment project costs, budgets and expenditures (NPR, millions)

S. N.	Budget subheading	Name of National Pride Projects	*Total investment cost	**Project timeline (FY)	FY2020/21 (2077/78)		FY2020/21 Expenditure as a percent of total investment costs
					*** Budget	*** Expenditure	
1	30500108	Millennium Challenge Account Nepal	70,050	2010/11–2027/28	9,105.3	2,331.90	3.33
2	30800101	Budhi Gandaki Hydro-electricity Project	283,570	2012/13–2026/27	8,008.4	1,656.90	0.58
3	31300101	Melamchi Drinking Water Project	56,361	1998/99–2023/24	5,464.5	1,621.60	2.88
4	33700101	Kathmandu-Tarai-Madesh Fast Track	175,194	2016/17–2023/24	8,938.8	8,731.10	4.98
5	33701114	Pushpalal Highway (Mid-hills)	101,500	2007/08–2022/23	8,274.0	7,283.30	7.18
6	33701118	North- South Highway (Karnali, Kaligandaki and Koshi)	60,000	2008/09–2030/31	4,096.7	2,471.10	4.12

²⁵ <https://npc.gov.np/images/category/221222030055Guideline%20for%20Website.pdf>

S. N.	Budget subheading	Name of National Pride Projects	*Total investment cost	**Project timeline (FY)	FY2020/21 (2077/78)		FY2020/21 Expenditure as a percent of total investment costs
					*** Budget	*** Expenditure	
7	33701128	Hulaki Highway	65,240	2010/11–2023/24	7,015.2	10,201.50	15.64
8	33702101	Rail, Metrorail and Mono-rail Development Project	69,510	2009/10–2029/30	8,666.6	4,617.30	6.64
9	50125103	South Asian Tourism Infrastructure Development Project (Gautam Buddha International Airport)	30,910	2015/16–2021/22	4,725.0	1,711.20	5.54
10	50125104	Pokhara International Airport	21,600	2017/18–2022/23	10,750.0	3,072.90	14.23
Total			933,935		75,044.5	43,698.8	4.68

Source: *MTEF, FY2020/21), www.npc.gov.np. Page numbers 67, 149, 120, 176, 178, 179, 181, and 189).

**Project Timeline (According to NPC Brief Introduction of National Pride Project, page 5) (www.npc.gov.np).

***Annual Budget Review Progress Report, Annex 12 2020/21. (www.mof.gov.np).

Note: The table represents the data of the annual initial budget and actual expenditures.

Economic analyses are conducted to assess most major investment projects, but the results are not published. Similarly, the evidence of review of the analysis by an entity other than the sponsoring entity are not available. **Hence, the score for this dimension is a C.**

11.2. Investment project selection

Performance analysis and evidence for scoring: According to the MTEF guidelines, investment projects are prioritized as Priority 1 (P1) or Priority 2 (P2) based on five general criteria and two sector-specific criteria, with the overall weight of 65 percent and 35 percent, respectively. Investment projects with the overall score of 75 or higher are categorized as P1 and the remaining projects as P2. The general criteria include (a) contribution to the growth target of the current periodic plan; (b) contribution to the achievement of the sustainable development target; (c) participatory element; (d) contribution to inclusiveness; and (e) progress of projects, time required for the completion of project, and preparatory work for implementation. For the sector-specific criteria, the overall sector is classified into five categories (economic; agriculture, land reform, and

forestry; infrastructure; social sectors; and good governance and miscellaneous) with subsectors in each of these categories. According to the Standard for Determination of Nationally Prioritized Project, 2019,²⁶ P1 and P2 projects are categorized as national prioritized projects. The National Pride Projects are national prioritized projects, as declared by the government. They are given high priority by ensuring resource allocations and making provisions for intensive monitoring of their implementation.

The process for declaring National Pride Projects may currently lack a clearly defined set of criteria, with the Cabinet being responsible for such declarations. However, these are high-investment projects, which go through proper selection and appraisal before being declared as National Pride Projects. The Financial Procedure Act, 1999, and Financial Procedures Regulation, 2007 had clear guidelines on project selection, which applied to the projects mentioned in the Table 11.1. Rule (22) of the regulation states that project approval should be based on the feasibility study, financial, technical, environmental, and administrative propriety of the proposed project as well as the expected returns. The basis for approving the project is mentioned in Schedule-3 of this rule. For implementing the approved project, a detailed survey, drawing design, cost estimate, and corresponding annual program shall be ascertained, and the annual budget shall be prepared based on that. Furthermore, the selected projects for this dimension were prioritized based on the periodic plan and sectoral guidelines.

As explained, most major investment projects are prioritized by the NPC based on the standard criteria for project selection. **Hence, the score for this dimension is a B.**

11.3. Investment project costing

Performance analysis and evidence for scoring: The MTEF Annexes 5.1, 6.1, and 7.1 of FY2020/21 include the projections of the total capital costs of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years. However, the projections of total project life cycle costs of major investment projects are not included. **Hence, the score for this dimension is a B.**

11.4. Investment project monitoring

Performance analysis and evidence for scoring: The National Monitoring and Evaluation Directives of 2018 offer a framework to assist with national-level M&E. Each ministry has a department dedicated to carrying out M&E, with the MDAC/NDAC closely reviewing projects. However, explanations of deviations from plans for identifying appropriate actions are not documented. The NDAC and MDAC summary reports provide the reasons for the deviations at the aggregate/portfolio level.

²⁶ <https://npc.gov.np/images/category/221222030055Guideline%20for%20Website.pdf>

The NPC publishes an annual progress report about National Pride Projects. The FY2020/21 report contains information about both physical and financial progress for these projects. The report also highlights the deviation from the original cost estimates without, however, elaborating on the reasons for such a deviation. The report contains issues identified during implementation and efforts made to address those issues. Finally, it includes the activities yet to be carried out.

Different forums oversee the financial and physical progress of major investment projects, such as the responsible line ministry, NPC, MDAC, and NDAC. Annual reports on the progress of major investment projects are released each year, although they do not provide detailed explanations for any variances. **Hence, the score for this dimension is a C.**

PI-12. PUBLIC ASSET MANAGEMENT

What does PI-12 measure? This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. For the last completed fiscal year, coverage is CG for PI-12.1, BCG for PI-12.2, and both CG and BCG for PI-12.3. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: Gathered financial asset data from the PDMO and the FCGO, which included publicly available information such as the Yellow Book and financial statements. Examined information in PAMS, budget, and financial statements to evaluate the monitoring of nonfinancial assets. Examined land records maintained by the Department of Land Management and Archives as well as records of infrastructural assets maintained by the Department of Roads.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-12. Public asset management (M2)		D+
12.1. Financial asset monitoring	The government maintains a record of its holdings in major categories of financial assets, which are recognized as their acquisition costs. Information about the performance of the major categories of financial assets is published annually.	B
12.2. Nonfinancial asset monitoring	The government maintains a register of its holdings of fixed assets and collects partial information about their usage and age.	D
12.3. Transparency of asset disposal	Procedures and rules for the transfer or disposal of nonfinancial assets are established. The reports of transfer and disposal of assets are not included in the budget document.	D

Detailed description of the country PFM system for the assessed performance indicator:

According to Section 26(4) of the PFPA Act, all government ministries and agencies are required to maintain records of their current assets, fixed assets, and liabilities. They shall submit reports about the assets and liabilities to the FCGO within a specified time frame. Section 26(5) of the same act mandates that the FCGO has the responsibility for preparing consolidated reports about the government's assets and liabilities based on the received reports. The PFPA Regulation (Rule 102) further states that government-owned properties shall be recorded in an approved format for the OAGN and submitted to relevant departments, ministries, and DTCOs.

The PAMS was developed and launched in July 2020. The FCGO prepares consolidated statements of nonfinancial assets through the PAMS. A CoA for assets and liabilities was approved in May 2019, for all three tiers of government. This CoA has since been updated to include various types of assets. It serves as the basis for asset accounting and reporting.

Various agencies are responsible for the recording of financial assets. The treasury management section of the FCGO is responsible for the recording and reporting of government cash. The PDMO handles securities, such as investments and loans to public corporations and other agencies, as well as IMF contributions. Receivables that are deemed recoverable are recorded by the relevant MDAs. In case of non-recovery, the PFPA Act (Section 49) stipulates that the responsibility should be transferred to the Kumarichowk and Central Arrears Recovery Office.²⁷ The NRB is responsible for recording foreign reserves, gold, and bullion holdings.

Recent or ongoing reform activities: The government is currently improving information systems and regulations to enhance asset management. New features are being added to the PAMS and DOMS, such as the ability to record public investments. Additionally, the government approved the assets and inventory auction procedures in 2022.

12.1. Financial asset monitoring

Performance analysis and evidence for scoring: The government maintains a record of its holdings in all categories of financial assets, which are recognized as their acquisition costs. The PDMO is responsible for maintaining records of the government's share of and loan investment in PEs. The MoF annually publishes this data through the Yellow Book, which is in line with the PFPA Regulation (Rule 80). The Yellow Book also contains information about the performance of the government's share of and loan investment in terms of dividend and interest received from PEs. Performance about capital gains or loss is only provided if there is divestment during a fiscal year. There was no divestment of shares during FY2020/21, resulting in no capital gains or losses incurred. The annual CFS also provide an overview of the treasury position and any changes that occurred in share and loan investments throughout the fiscal year. Furthermore, these statements also include information on any interest or dividends received during the fiscal year.

²⁷ Kumarichowk and Central Arrears Recovery Office is a subordinate office of the FCGO.

Table 12.1: Record of financial assets

Financial assets	Agency responsible for maintaining records of holdings of financial assets	Recognized at acquisition cost	Information on performance published annually
Cash/Treasury	FCGO	Yes	Yes
Share and loan investment (securities) and IMF Contribution (Special Drawing Rights)	FCGO/PDMO	Yes	Yes
Receivables (including irregularities)	MDAs	Yes	Yes
Foreign reserves, gold, and bullions	NRB	Yes	Yes

Source: Annual financial statements and the Yellow Book.

The government entities maintain complete records of financial assets at acquisition cost. The government annually publishes information about performance of financial assets through the Yellow Book and CFS. **Hence, the score for this dimension is a B.**

12.2. Nonfinancial asset monitoring

Performance analysis and evidence for scoring: According to Rule 78 of the FPFA Regulation, the FCGO maintains accounts at the purchase price of both movable and immovable goods and assets, whether purchased, constructed, or obtained through other means. These goods and assets are classified as either expendable or nonexpendable, depending on their utility and per unit cost. Assets having a unit cost of up to NPR 5,000 or that are not durable for more than one year or cannot be reused are recorded as expendable. Additionally, the FCGO compiles a report of all assets and liabilities of the GoN. The report is based on information provided by the relevant ministries at the central level. The FCGO then submits this report to the OAGN by mid-November. According to the FPFA Rule (99), the Inventory Inspection Committee is formed for inspecting the inventory of every entity. The report of the committee is audited.

All government units maintain records of their assets and liabilities, which are recorded in the PAMS. This system is now mandatory for all three tiers of government, in accordance with a Cabinet decision made on November 5, 2020. The FCGO uses the data from the PAMS to prepare the consolidated report. However, the system does not currently include records of infrastructure (roads and bridges), land, and minerals. The relevant government departments keep records of infrastructure, such as roads and bridges, and some of the records are publicly available. The Department of Land Management and Archives keeps computerized records of all government-

owned land²⁸. The Department of Mines and Geology is responsible for leasing and granting permits for subsoil assets as well as maintaining records of these assets. The annual report published by all MDAs provides information about nonfinancial assets. Nevertheless, only partial information is available regarding the usage and age of these assets.

The government keeps the records on nonfinancial assets, such as land and infrastructure, using the PAMS and other information system as well as within each line ministry. However, only limited information regarding the age and utilization of these assets is accessible. The consolidated report of assets for FY2020/21, published by FCGO, provides a detailed overview of the total assets of the GoN. However, due to ongoing reforms and upgrades in PAMS, the report is currently unable to capture complete details of infrastructure assets such as roads, bridges, and drinking water, as well as unproductive assets like land and minerals. **Hence, the score for this dimension is a D.**

12.3. Transparency of asset disposal

Performance analysis and evidence for scoring: The process for transferring and disposing of assets is outlined in the FPFA Act and the FPFA Regulation. The sale of items through auction and the granting of remissions are detailed in Sections 45 and 49 of the FPFA Act and Rules 106–111 of the FPFA Regulation. There is a separate OAG form for recording the transfer of assets. Public entities maintain the records of their asset disposal and submit this information for auditing purposes. However, it is not published. The asset disposal figures are not reported in the budget and annual financial statements even at an aggregate level.

Although the procedures for the disposal of assets are well-established, the reports of transfer and disposal are not included in the budget document. **Hence, the score for this dimension is a D.**

PI-13. DEBT MANAGEMENT

What does PI-13 measure? This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. Coverage is CG for all three dimensions—at the time of assessment for PI-13.1, for last completed fiscal year for PI-13.2, and at the time of assessment with reference to the last three completed fiscal years for PI-13.3. This indicator uses the M2 (AV) method for aggregating scores.

Methodological notes: Examined the applicable laws and debt records kept by the PDMO and NRB to evaluate adherence to the legislation and evaluate performance based on the parameters specified under the PEFA Framework.

²⁸ <https://dolma.gov.np/>

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-13. Debt management (M2)		C
13.1. Recording and reporting of debts and guarantees	The records of both domestic and foreign debt, as well as guaranteed debt, are updated and reconciled at least annually by the PDMO.	C
13.2. Approval of debts and guarantees	There are laws that outline the process, procedures, and ceilings for managing both domestic and foreign debt. The MoF is the government’s main executive institution that is legally responsible for managing the country’s overall public debt. During the Budget Speech, the finance minister announces the sources of foreign and domestic debt, along with their amounts, for approval from the Parliament. Public debt bills, along with annual budget and appropriation bill, are presented to the Parliament for approval. A dedicated agency, the PDMO, manages the government’s debt by performing front-, middle-, and back-office functions.	B
13.3. Debt management strategy	The GoN approved the Medium-Term Debt Management Strategy (MTDS) in November 2021. However, the strategy does not cover the fiscal years relevant for this assessment.	D

Detailed description of the country PFM system for the assessed performance indicator:

According to Article 115(2) of the Constitution of Nepal, the government cannot take loans or give guarantees without following the regulations set by federal law. The issuance and management of public debt and guarantees are governed by several acts, including the Loan and Guarantee Act, 1968; the Public Debt Act, 2002; the Nepal Rastra Bank Act, 2002; and the Public Debt Management Act, 2022. The National Debt Raising Act 2019 specifies the maximum limit of public debt that the government can raise. The NNRFC recommends the upper limit of internal borrowing for all levels of government.

The Loan and Guarantee Act, 1968, and the Public Debt Act, 2002, have been replaced by the Public Debt Management Act, 2022 in FY2022/23. A dedicated agency, the PDMO, manages the government’s debt by performing front-, middle-, and back-office functions. The NRB is responsible for the front-office function regarding internal debts. The FCGO performs the back-office function for debt servicing, and the MoF oversees the overall public debt management.

The PDMO maintains records, manages data, analyzes and reports on debt. It also publishes periodic reports about domestic and foreign debts. Information about debt stock, debt service, and operations is included in budget documents, economic surveys, and CFS submitted to the legislature. These are also published. The DOMS, a web-based system, records all public debt information, including reconciliations, verifications, and reporting. This system is used to manage both external and internal debts.

Recent or ongoing reform activities: The government has enacted the Public Debt Management Act, 2022, which repealed the Loan & Guarantee Act of 1968 and the Public Debt Act of 2002. The management of internal loans, which was previously handled by the NRB, is being transferred to the PDMO. The DOMS is being upgraded to create a more comprehensive application for tracking and reporting debt statistics. The MTDS 2021/22 to 2023/24 has been approved by the GoN in 2021.

13.1. Recording and reporting of debts and guarantees

Performance analysis and evidence for scoring: According to the FPFA Regulation (Rule 125), the PDMO shall maintain accurate records and accounts of both domestic and foreign loans. The PDMO submits the statements to the FCGO for preparing CG statements. Furthermore, FPFA Regulation Rule 20 calls for the MoF to provide a copy of the loan agreement, underlying the guarantee issued by the GoN. This shall be sent to the PDMO within 30 days of such agreement for recordkeeping purposes.

The PDMO manages the records of external debt transactions through the DOMS. External loans are recorded in the DOMS after receiving a copy of the external loan agreement. All contracts and disbursements are recorded within two weeks of signing/disbursing. With regard to domestic debt, the PDMO records auction results in the DOMS within a day of publication by the NRB, which is responsible for conducting the auctions.

The PDMO publishes a consolidated annual report²⁹ of debts and guarantees. The report includes the stock of external and domestic debts, along with the disbursement and debt service by debt instruments for domestic debts as well as by creditors for external debts. Additionally, the report includes a reconciliation statement. The internal debt amount is reconciled against data provided by the NRB, while the external debt amount is cross-checked against statements received through multiple channels, including E-billing and client connections of the World Bank, LFIS of ADB, and JNOTYS of Japan. Moreover, financial statements of foreign funded projects are also reviewed to ensure accurate reconciliation. This reconciliation is conducted annually.

The establishment of the PDMO as the primary organization for debt management and implementation of the DOMS has enhanced the accuracy and transparency of debt and guarantee accounting and reporting. Although regular reconciliations are performed internally, they are made public only once a year. **Hence, the score for this dimension is a C.**

13.2. Approval of debts and guarantees

Performance analysis and evidence for scoring: The legal framework for managing public debt and issuing guarantees in Nepal consists of various laws, including the Constitution of Nepal; the Loan and Guarantee Act, 1968; the NRB Act, 2002; the Public Debt Act, 2022; the IGFA, 2017; and the Act for Raising National Debt, 2020. The Constitution of Nepal grants the

²⁹ https://pdmo.gov.np/downloadfiles/PDMO_Annual_debt_Report_2077_1650957136-1676269958.pdf.

government the authority to borrow and give guarantees, as provided for in federal law. External debt is governed by the Loan and Guarantee Acts. Domestic debt is governed by the NRB Act, the Public Debt Act, and IGFA.

The Loan and Guarantee Act provides the GoN with the power to raise external debt, offer guarantees for certain loans, and set a limit on the total amount of external debt. The government's (Work Division) Rule assigns the MoF with the responsibility for managing foreign loans, grants, and other forms of bilateral and multilateral assistance as well as public debt and control matters. The management and regulation of domestic debt is governed by the aforementioned laws.

Under the Public Debt Act, the GoN has the authority to raise domestic debt by issuing securities and delegating management to the NRB. The NRB Act's Section 72 outlines the central bank's role as a fiscal agent for the government. Section 14 of the IGFA, 2017, mandates that the federal, provincial, and local governments can raise internal loans within the limits recommended by the NNRFC. It also requires the PLGs to obtain prior consent from the GoN before obtaining internal loans. Finally, any annual domestic and external borrowing shall be approved by the legislature, as reflected in the Act for Raising National Debt and Amendments to the Loan and Guarantee Act.

The new Public Debt Management Act came into effect in October 2022, replacing the Loan and Guarantee Act, 1968, and the Public Debt Act, 2002. The Public Debt Management Act provides the legal basis for the PDMO to carry out debt management functions, including the responsibility for recording and reporting debt and maintaining records of guarantees issued by the GoN.

A robust legal and regulatory framework ensures the efficient management of debts. The Public Debt bills, in addition to the annual budget and appropriation bill, are submitted to the Parliament for authorization. The government's debt is managed by the PDMO, a specialized organization responsible for carrying out front-, middle-, and back-office functions. The NRB acts a fiscal agent of the government to manage the internal debt. **Hence, the score for this dimension is a B.**

13.3. Debt management strategy

Performance analysis and evidence for scoring: The first DMS was approved by the GoN in November 2021 and published by the PDMO in April 2022. The DMS covered three fiscal years (FY2021/22 to FY2023/24). It includes a description of the existing debt portfolio's composition and evolution over time as well as target ranges for indicators such as interest rates, refinancing, and foreign currency risks. The major components of the strategy are (a) Introduction, (b) Analysis of the Existing Debt Policy, (c) Analysis of Public Debt Portfolio, (d) Baseline Macroeconomic Assumptions, (e) Estimated Gross Financing Requirements Per Year and Debt Instruments, (f) Financing Strategy, (g) Potential Constraints to Implementation of the Strategy, and (h) Conclusion. However, the strategy does not cover the last three completed fiscal years.

The MTDS has been approved for FY2021/22–FY2023/24. This strategy could not be considered for the assessment because it does not cover the last three completed fiscal years. **Hence, the score for this dimension is a D.**



**PILLAR FOUR:
Policy-Based Fiscal
Strategy and
Budgeting**



**PILLAR ONE:
Budget Reliability**



**PILLAR TWO:
Transparency of Public Finances**



**PILLAR THREE:
Management of Assets and Liabilities**



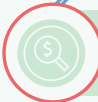
**PILLAR FOUR:
Policy-based Fiscal Strategy and Budgeting**



**PILLAR FIVE:
Predictability and Control in Budget Execution**



**PILLAR SIX:
Accounting and Reporting**



**PILLAR SEVEN:
External Scrutiny and Audit**

PILLAR FOUR: POLICY-BASED FISCAL STRATEGY AND BUDGETING

What does Pillar IV measure? The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. The pillar also examines orderliness in the budget preparation process and the legislative scrutiny of the budget proposal.

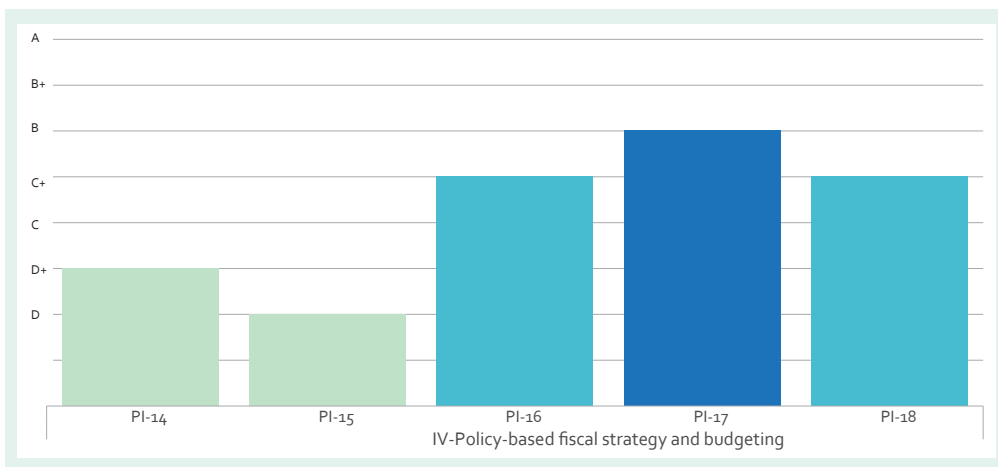
Overall performance: Analysis of key strength

The GoN demonstrates basic level of performance for policy-based fiscal strategy and budgeting. The macroeconomic and fiscal forecasting has shortcomings, including the lack of forecast for interest rates and currency rates in the budgetary documents, the absence of revenue forecast by type for the two outer years, and the absence of macro-fiscal sensitivity analysis (PI-14 graded 'D+'). Although the MTEF includes certain aspects of the fiscal strategy for the budget year, the government does not prepare a formal document that precisely delineates its fiscal strategy, encompassing distinct numerical goals, targets, and policy criteria. Thus, the fiscal strategy's performance is rated as 'D' (PI-15). The medium-term perspective in expenditure budgeting obtained a C+ score (PI-16). The MTEF is formulated as a component of the yearly budget; however, it is deficient in terms of economic classification for the next two years. Additionally, it lacks a comparison with the estimates from the previous MTEF or an explanation of changes in expenditure estimates and forecasts.

The performance on budget preparation process demonstrated good practices. The budget preparation process (PI-17 scored 'B') is systematic. The annual budget calendar allows four weeks for MDAs to prepare and submit budget proposals. A comprehensive and clear budget circular is issued to MDAs, covering ministry ceilings approved by the NPC before the circular's distribution. In each of the past three years, the MoF has presented the annual budget proposal to the Parliament at least one month before the commencement of the fiscal year. Legislative scrutiny of budgets performed reasonably, with (PI-18) a score of 'C+'. Timely approval of the budget allows MDAs to commence budget execution on time, leading to completion of planned service delivery programs. Nevertheless, the legislative review does not cover fiscal policies, and the legislative process has limited provisions for public discussions and internal organizational arrangements.

The government prepares an annual MTEF as a three-year rolling plan that provides a medium-term fiscal and budgetary framework. In addition, the MTEF bridges the periodic plan and annual budget by making major fiscal forecasts, including estimates of expenditures for three fiscal years. These are disaggregated by administrative and functional classification, strategic pillars, sector priorities, as well as by expected outputs and outcomes with the SDGs and gender and climate coding. This framework also covers aggregate revenues for three years. Since Nepal has a pegged exchange rate with Indian currency, the Indian rupee (INR), the exchange rate is not

projected in the MTEF. However, the interest rates are analyzed in the monetary policy issued by the NRB. A number of the large ministries have prepared costed sector strategies that align with the MTEF, and the annual budget-making process is robust. The economic classification of the expenditure and revenue forecasts by type for two outlier years and macro-fiscal sensitivity analysis are some of the aspects that the MTEF currently does not include.



PI-14. MACROECONOMIC AND FISCAL FORECASTING

What does PI-14 measure? This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. For the last three completed fiscal years, coverage is whole economy for PI-14.1 and CG for PI-14.2 and 14.3. This indicator uses M2 (AV) for aggregating dimension scores.

Methodological notes: Annual MTEF, prepared as part of annual budget, was analyzed to assess the indicator and dimensions. The Debt Sustainability Analysis (DSA) of 2022 was also reviewed.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-14. Macroeconomic and fiscal forecasting (M2)		D+
14.1. Macroeconomic forecasts	Macroeconomic forecasts are prepared, but they do not include forecasts of interest rates and exchange rates. The target interest rate for the budget year is provided in the monetary policy statement of that same year.	D

Indicator/Dimension	Assessment of performance	Score
14.2. Fiscal forecasts	The government prepares forecasts of revenues, expenditures, and the budget balance for the budget year. The MTEF forecasts expenditures for the two following fiscal years. However, the revenue forecast by type is not included.	C
14.3. Macro-fiscal sensitivity analysis	The MTEF does not contain a macro-fiscal sensitivity analysis.	D

Detailed description of the country PFM system for the assessed performance indicator:

The NREC makes the forecast of macroeconomic indicators for three years. These forecasts include (a) the economic growth rate, (b) productivity, (c) the incremental capital output ratio, (d) investment, (e) resource estimation and allocation criteria, (f) public resource management and expenditure estimates, (g) intergovernmental finance, and (h) expected macroeconomic impacts. This forecast is projected using a standard model. The Economic Survey published by the MoF analyzes the economic scenario of the current year based on eight months of data. It also provides a future scenario for the economy.

The NREC, led by the Vice Chair of the NPC, is responsible for preparing the medium-term macroeconomic framework. The structure, functions, duties, and powers of the committee are described in Rules 11 and 12 of the FPFA Regulation. The Technical Committee, led by the member-secretary of the NPC, supports the NREC. It analyzes the economic situation and macroeconomic and fiscal assumptions. It then provides recommendations to the NREC for making the forecasts. The MoF forms a National Revenue Advisory Board every year to analyze the existing revenue system and recommend revenue policies. This board analyzes the various underlying scenarios while also making revenue projections.

The NREC also prepares the budget ceiling and resource envelope for the current budget year and the next two fiscal years. These forecasts are based on updated macroeconomic projections and reflect government-approved expenditure and revenue policies. As guided by Section 6 of the FPFA Act, the NPC prepares an outline for the three-year MTEF every year. The MTEF includes a macro-fiscal framework, budget framework, and results framework. The MTEF document is prepared by the NPC based on the macroeconomic and fiscal forecast by the NREC. The MTEF expenditure forecasts are disaggregated by type (recurrent, capital, and financial provision), but the revenue forecasts are done at the aggregate level.

Recent or ongoing reform activities: The government is taking steps to improve its macroeconomic and fiscal forecasting. It is establishing a Policy Modelling Lab in the NPC and an Economic Lab in the MoF. It is also training employees and developing a macro-fiscal model. Additionally, there are plans to enhance and upgrade information systems to strengthen the budget and MTEF formulation process.

14.1. Macroeconomic forecasts

Performance analysis and evidence for scoring: The main macroeconomic indicators forecasted by the NREC are included in the MTEF, which is submitted to the legislature. The indicators are shown in Table 14.1. These published indicators are in line with the PFPA Regulation (Rule 23). However, the assumptions underlying these forecasts are not provided in the MTEF. The forecasts are updated annually during the budget process, but the forecasts and the underlying assumptions are not reviewed by an entity other than the preparing entity. The MTEF is published on the website of the NPC. The target interest rate for the budget year is provided in the monetary policy statement of the budget year. However, forecasts of interest rates and exchange rates are not included in the MTEFs.

Table 14.1: Forecasts of key macroeconomic indicators in the MTEFs

Macroeconomic indicator	2019	2020	2021	2022	2023
Economic growth rate at the basic price	7.0	-1.3	5.0	7.6	9.9
Economic growth rate at the current price	11.9	4.8	10.6	14.1	16.5
Inflation (percentage)	4.2	6.2	5.3	6.0	6.0
GDP at purchaser price (NPR, billions)	3,193.2	3,458.8	3,824.5	4,361.9	5,081.9

Source: MTEFs of FY2018/19–FY2020/21. https://npc.gov.np/images/category/MTEF_Final_Doc_2075.pdf

The macroeconomic forecasts, which are included in the budget documents, do not include the interest and exchange rates. **Hence, the score for this dimension is a D.**

14.2. Fiscal forecast

Performance analysis and evidence for scoring: The underlying assumptions (such as rates, coverage, and projected growth) for revenue projections are not provided in the MTEF. In addition, revenue forecasts by type for the following two fiscal years and underlying assumptions for revenue projections are not included. The MTEF expenditure forecasts are disaggregated by type (recurrent, capital, and financial provision), but the revenue forecasts are done at the aggregate level.

The MTEF lacks revenue forecasts for medium term by type. Moreover, there is no explanation of the main differences from the MTEF forecasts made in the previous year's budget. **Hence, the score for this dimension is a C.**

14.3. Macro-fiscal sensitivity analysis

Performance analysis and evidence for scoring: The MTEF does not include the macro-fiscal sensitivity analysis with alternative macroeconomic scenarios. The PDMO conducted a DSA in 2022 for its own internal purposes. The DSA consisted of two scenarios. The first is based on macroeconomic assumptions used by the MTEF (baseline scenario). The second scenario includes

modifications of these assumptions by the Economic Policy Analysis Division (MoF). The DSA did not cover the last three completed fiscal years. Also, it was not prepared at the same time as the baseline scenario used for the MTEF. **Hence, the score for this dimension is a D.**

PI-15. FISCAL STRATEGY

What does PI-15 measure? This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government’s fiscal goals. Coverage is CG for the last three completed fiscal years for PI-15.1 and the last completed fiscal year for PI-15.2 and 15.3. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: Due to the absence of a distinct fiscal strategy, an evaluation of the fiscal strategy elements mandated by different dimensions of this indicator was conducted using the MTEF.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-15. Fiscal strategy (M2)		D
15.1. Fiscal impact of policy proposals	The MTEF includes the fiscal impact of expenditure policy changes for three years and revenues policy changes solely for the budget year. However, the fiscal impact of policy changes on revenue for each policy initiative is not estimated.	D
15.2. Fiscal strategy adoption	The MTEF covers some elements of the fiscal strategy only for the budget year, but the government lacks a formal document that clearly outlines its fiscal strategy.	D
15.3. Reporting on fiscal outcomes	The Annual Progress Evaluation Report for the FY2020/21 budget compares fiscal indicators to MTEF targets but neither explains deviations from objectives nor proposes corrective actions.	D

Detailed description of the country PFM system for the assessed performance indicator:

The Periodic Development Plans present the government’s fiscal strategy for five years, whereas the MTEF provides the fiscal strategy for three years. The government presents the major components of its fiscal strategy, including revenues, expenditures, and debt principles, to the Parliament before proposing a budget. The government’s long-term fiscal strategy from 2016 to 2030 is guided by the SDG financing framework.

The GoN's fiscal strategy is based on the 15th Plan (FY2019/20 to FY2023/24). The MTEF includes the macroeconomic framework, the budget framework, and the results framework. It serves as a bridging document between the periodic plan and the budget and includes quantitative indicators, goals, and targets. In the budget year, a detailed analysis is conducted on the effects of revenue and expenditure policies. For the following two years, only the impacts of expenditure policy are assessed and presented to the Federal Parliament. These impacts are reflected in the targets for expected outcomes found in the budget document annex for one year as well as the main and sectoral chapters of the MTEF document for three years.

The Economic Survey describes the macroeconomic situation, economic activities, and progress in economic, social, infrastructure, governance, and cross-cutting sectors, including analysis for the current and past fiscal years. The progress reports of the ministries discuss the fiscal outcomes of the last completed fiscal year. However, any deviations from the objectives and targets are not explained. The MTEF and ADPs also present the progress of programs and activities for the last and current years. These documents are then submitted to the Federal Parliament.

Recent or ongoing reform activities: The government is working on developing the integrated fiscal strategy.

15.1. Fiscal impact of policy proposals

Performance analysis and evidence for scoring: The annual Budget Speech, prepared by the MoF, outlines the government's revenue policies and programs, including taxes, non-tax revenues, tax administration, and expenditure policies for various sectors. The annexes accompanying the speech provide information about revenues and expenditures for the previous year, the current year, and the upcoming year. This information is broken down by line items. Additionally, the annexes offer information about expenditures by functional and administrative classifications for the upcoming year.

The NPC estimates the fiscal impact of expenditure policy initiatives as part of the MTEF. While the fiscal impact is estimated for each policy initiative, the MTEF document only provides a breakdown of the fiscal impact of changes in expenditure policy by sectors, administrative units, programs/projects, and expenditure types for the next three years and not by individual policy. In the budget proposal, revenue rates and tax reform programs for the upcoming fiscal year are included, along with highlights of adjustments in different tax policies and tax administration reforms. The impacts on revenues resulting from new measures are quantified by revenue types only for the budget year and do not cover the outer years. However, the estimates of the fiscal impact of proposed policy changes in revenue by individual policy initiative are not prepared.

The MTEF includes information about the fiscal impact of changes in expenditure policies for three years and the fiscal impact of changes in revenue policies only for the budget year.

Nevertheless, the estimates of fiscal impact of proposed policy initiatives on revenue for each individual policy are not prepared. **Hence, the score for this dimension is a D.**

15.2. Fiscal strategy adoption

Performance analysis and evidence for scoring: The fiscal strategy of the government is scattered across various documents, and an integrated and explicit document in the form of a fiscal strategy is not available. The fiscal strategy of the government is guided primarily by the MTEF. Chapter 2 of the MTEF contains information about the Medium-Term Results Framework (MTRF) and the Medium-Term Budgetary Framework (MTBF) for the current budget year. The MTRF includes macroeconomic and sectoral indicators and targets, such as the economic growth rate and inflation. The MTBF provides projections for important fiscal indicators, including recurrent, capital, and financial provision expenditures, aggregate revenues, domestic and external borrowings, and external grants. However, the MTBF does not detail the government's fiscal objectives, such as achieving fiscal and debt sustainability and the methods to be used—including increasing revenues or decreasing expenditures. Annual fiscal objectives are declared through the budget proposals for the budget year. The NNRFC sets the domestic borrowing ceiling only for the current budget year, and this information is compiled in the MTEF. The annual domestic borrowing and the external debt stock ceilings are established through annual amendments of the Raising National Debt and Loan and Guarantee Act.

While the MTEF covers some elements of the fiscal strategy for the budget year, the government lacks a formal document that clearly outlines its fiscal strategy, with specific numerical objectives, targets, and policy parameters. **Hence, the score for this dimension is a D.**

15.3. Reporting on fiscal outcomes

Performance analysis and evidence for scoring: The government's fiscal strategy is spread across various documents, leading to difficulties in measuring the deviation from the objectives and targets. The MTEF serves as the fiscal strategy for one year and forms the basis for the annual fiscal strategy included in the budget proposal. While Chapter 2 of the MTEF provides macro indicators and a few fiscal indicators, the Annual Progress Evaluation Report for the FY2020/21 budget compares the fiscal indicators against their MTEF targets. However, the report falls short in explaining any deviations from the approved MTEF objectives and targets, along with any proposed corrective actions. **Hence, the score for this dimension is a D.**

▶ PI-16. MEDIUM-TERM PERSPECTIVE IN EXPENDITURE BUDGETING

What does PI-16 measure? This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

Coverage is BCG for last budget submitted to the legislature for PI-16.1, 16.2, and 16.3 and last medium-term budget/current medium-term budget for PI-16.4. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: Annual MTEF, prepared as part of annual budget, was analyzed to assess the indicator and dimensions. Few sector strategies were reviewed for alignment with MTEF.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-16. Medium-term perspective in expenditure budgeting (M2)		C+
16.1. Medium-term expenditure estimates	The MTEF and annual budget present estimates of expenditures for the budget year and the two following fiscal years. These are allocated by administrative classification. The economic classification for the two following years is not available in the MTEF and the annual expenditure estimate.	C
16.2. Medium-term expenditure ceilings	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved before the budget circular is issued.	A
16.3. Alignment of strategic plans and medium-term budgets	Some of the ministries have their own costed sectoral strategies/plans. The MTEF and budget proposals are broadly aligned with these sectoral strategies/plans.	C
16.4. Consistency of budgets with previous year's estimates	According to the MTEF guidelines, there is no requirement for the current MTEF to include a comparison with the estimates of the previous MTEF or an explanation of changes in expenditure estimates and forecasts.	D

Detailed description of the country PFM system for the assessed performance indicator:

Section 6 of the PFPA Act and Rule 11 of the PFPA Regulation outline the MTEF formulation process and timeline. The aggregate fiscal framework, budget framework, and outcome framework should be formulated by mid-February (*Magh*). The MDAs prepare budgets, programs, and MTEFs based on the guidelines received from the NPC. They enter the budgets and programs in the LMBIS and then submit them to the NPC and the MoF by mid-March (*Falgun*).

The NPC develops an outline for a three-year MTEF for each fiscal year by mid-February. This outline includes macro-fiscal, budget, and results frameworks necessary to maintain fiscal discipline, efficiency in allocation, implementation capacity, and macroeconomic stability. The NPC estimates the available resources and expenditure ceilings for the next three fiscal years by the end of January. It then sends the budget formulation guidelines and framework to the central public authorities by mid-February.

Based on the framework provided by the NPC, the MDAs prepare three-year medium-term expenditure estimates. These are updated as part of the annual budget process. The NPC formulates the MTEF with sectoral MTEF chapters for a three-year period. The MTEF is a part of the budget documents, and it provides expenditure estimates for the budget year and the following two fiscal years. The estimates are disaggregated by high-level administrative and program or functional classification, including the strategy of the periodic plan, the SDGs, and gender and climate (MTEF, FY2021, pp. 32–38).

Recent or ongoing reform activities: The NPC has developed and published the National MTEF Formulation Guidelines, 2022, and developed the MTEF-MIS.

16.1. Medium-term expenditure estimates

Performance analysis and evidence for scoring: For the FY2022/23 budget cycle, the MTEF includes expenditure estimates for FY2022/23, FY2023/24, and FY2024/25 according to high-level administrative and program or functional classification. Expenditure estimates are available for recurrent, capital, and financial provisions. However, the economic classifications of expenditures are not available for the following two fiscal years. **Hence, the score for this dimension is a C.**

16.2. Medium-term expenditure ceilings

Performance analysis and evidence for scoring: As guided by the FPFA Act, Section 7, the NPC, in coordination with the MoF, estimates the available resources and expenditure ceilings for the next three fiscal years by the end of January. This is done to facilitate the MTEF, the budget, and program for the next fiscal year. The budget ceiling including ministry-wise ceiling for programs and budget is prepared by the NREC in collaboration with the MoF by Magh 15 (end of January). The NPC, chaired by the Prime Minister, approves these ceilings, which are communicated as part of the budget circular by the second week of February.

For FY2022/23, the NPC approved the budget ceiling on Magh 15, 2078 (that is, January 29, 2022), which was sent to line ministries on Magh 29, 2078 (that is, February 12, 2022) as part of the budget circular. **Hence, the score for this dimension is an A.**

16.3. Alignment of strategic plans and medium-term budgets

Performance analysis and evidence for scoring: Nepal adopted the 15th Five-Year Periodic Plan from FY2019/20, along with the long-term vision of ‘Prosperous Nepal, Happy Nepali’. This plan is aimed at uplifting Nepal’s status to the level of advanced countries by 2043. Each fiscal year, the NPC prepares the outline of the three-year MTEF based on this Five-Year Periodic Plan. The NPC’s guidelines provide procedures to assess and prioritize project proposals in terms of general criteria and sector-specific criteria by aligning them to strategic plans. Using this outline, the Five-Year Periodic Plan and the sectoral policy and plan, the central public authorities (ministries and agencies) prepare an MTEF and send it to the NPC and the MoF. The MTEF

(2021–2023) was prepared by the NPC with the cost information, and the concerned ministries and central agencies comply with the NPC’s guidelines for preparing their MTEFs. The MTEF of the central public authorities includes the following details for each program/project: budget heading, relevant strategic pillar (from 15th period plan), objectives, project duration, cost, expected results, progress to date, results indicators for the next three years, and main activities in the next fiscal year.

Table 16.3: Alignment of strategic plans and medium-term budgets (last budget submitted to the legislature)

Ministry	Sectoral costed strategies	FY2022/23 budget allocation (NPR, millions)	Medium-term strategic plan prepared (Y/N)	Medium-term strategic plan costed (Y/N)	Expenditure proposals consistent with medium-term strategic plan
Ministry of Finance (including IRD and DoC)	IRD’s Strategic plan, Customs Modernization Plan of DoC	41,668	Y	Y	Most
Ministry of Industry, Commerce, and Supplies	PIP I and II	10,479	Y	Y	Most
Ministry of Agriculture and Livestock Development	ADS	48,160	Y	Y	Most
Ministry of Forestry and Environment	NAPA, LAPA	12,843	Y	Y	Most
Ministry of Education, Science and Technology	SESP	70,053	Y	Y	Most
Ministry of Health and Population	NHSS	69,380	Y	Y	Most
Ministry Drinking Water	NWSSHSDP	20,108	Y	Y	Most
Ministry of Energy, Water, and Irrigation	SE4ALL, WSS	40,844	Y	Y	Most
Ministry of Physical Infrastructure and Transport	RSMP	161,567	Y	Y	Most
Ministry of Urban Development	NUDS	38,739	Y	Y	Most
Total		513,841			

Note: Priority Investment Program (PIP); ADS (Agriculture Development Strategy); NAPA (National Adaptation Program of Action); LAPA (Local Adaptation Program of Action); SESP (School Education Support Program); NHSSP (Nepal Health Sector Strategy); NWSSHSDP (Nepal Water Supply, Sanitation and Hygiene Sector Development Plan); SE4ALL (Sustainable Energy for All); WSS (Water Supply and Sanitation Program); RSMP (Road Sector Master Plan); and NUDS (National Urban Development Strategy)

Some of the ministries (10 out of 22) have their own costed sectoral strategies/plans (Table 16.1). The MTEF and budget proposals are broadly aligned with these sectoral strategies/plans. **Hence, the score for this dimension is a C.**

16.4. Consistency of budgets with previous year’s estimates

Performance analysis and evidence for scoring: The MTEF for FY2020/21 provides estimates of expenditures by type (recurrent, capital, and financial provision) for the previous, current, and three outer years. However, no comparisons are made with the estimates from the FY2019/20 MTEF. According to the MTEF guidelines, the current MTEF does not need to include a comparison with the estimates of the previous MTEF or an explanation of changes in expenditure estimates and forecasts. Therefore, the MTEF also does not provide explanations for deviations by categories. **Hence, the score for this dimension is a D.**

PI-17. BUDGET PREPARATION PROCESS

What does PI-17 measure? This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. Coverage is BCG for the last budget submitted to the legislature for PI-17.1 and PI-17.2 and the last three completed fiscal years for PI-17.3. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: The data and documents obtained from the NPC and the MoF were verified against the pertinent records of a few line ministries. Regarding the formulation of detailed estimates, the budget guidelines’ content was examined. A comparison was made between the budget calendar’s initial dates and the actual dates of completion for various budget preparation activities.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-17. Budget preparation process (M2)		B
17.1. Budget calendar	A clear annual budget calendar exists, and it is largely adhered to. The calendar allows budgetary units at least four weeks from the receipt of the budget circular to submit their estimates. All budgetary units are able to complete their detailed estimates on time.	B
17.2. Guidance on budget preparation	The budget guidance is clear and comprehensive and includes ministry-wise ceilings.	A
17.3. Budget submission to the legislature	The annual budget proposal is submitted to the legislature at least one month - but less than two months - before the start of the fiscal year.	C

Detailed description of the country PFM system for the assessed performance indicator:

Every year in May, the Minister of Finance presents an estimate of revenues and expenditures to the Federal Parliament in accordance with Article 119 of the Constitution. Chapter 3 of the FPFA Act outlines the process for estimating revenues and expenditures, including the formulation of an MTEF and budget. The FPFA Regulation further specifies the steps for preparing the MTEF, the annual program, and the budget in accordance with the goals and objectives of relevant agencies.

All offices follow the NPC's guidelines and prepare their MTEFs, annual budgets, and programs, which they then submit to their respective ministry or agency. The responsible officer (Secretary) checks and analyzes the received MTEFs, budgets, and programs according to budget guidelines and periodic plans and sends them to the MoF and the NPC. The proposed budget and program are submitted with quarterly allocations through the LMBIS. The budget formulation process shall be completed within a defined timeline, according to the FPFA Act, rules, and guidelines. Other details of the date regarding budget discussions at the MoF are directed by the Budget Formulation Guideline or the MoF.

Recent or ongoing reform activities: Budget formulation guidelines are under review to harmonize them with the FPFA Act and the FPFA Regulation. . The January 2024 amendment of the FPFA Act mandates the Minister of Finance to submit the principles of budget, program, and priorities of projects to the federal parliament no later than three months before the submission of the Appropriation bill.

17.1. Budget calendar

Performance analysis and evidence for scoring: The budget calendar is determined by the FPFA Act and the FPFA Regulation. Table 17.1 outlines the essential actions carried out during the budget process for FY2022/23, along with their corresponding schedule. The budget ceilings for FY2022/23 were officially authorized on January 29, 2022. Subsequently, the budget ceilings and guidelines were conveyed to the line ministers on February 12, 2022, along with a deadline of March 14, 2022, for the submission of estimates. The majority of the agencies provided their estimates in time, and all agencies submitted their estimates by March 29, 2022.

Table 17.1: Budget calendar (last budget submitted at the legislature)

S. N.	Activities	Date according to the law	Actual date
1	The NPC, working in coordination with the MoF, estimates the available resources and expenditure ceiling for the next three fiscal years - FPFA Act (Section 7). The NPC chaired by the Prime Minister approves the expenditure ceilings.	January 29, 2022	January 29, 2022

S. N.	Activities	Date according to the law	Actual date
2	The NPC sends the budget formulation guidelines and framework, consisting of the budget ceiling and the outline of the MTEF, to the central public authorities (ministries and agencies) - FPFA Act (Section 8).	February 12, 2022	February 12, 2022 ³⁰
3	The central agencies request that their subordinate offices send their budgets, programs, and MTEFs for the next fiscal year, subject to the budget ceilings provided by the NPC - FPFA Regulation (Rule 16).	February 18, 2022	Varies across ministries ³¹
4	The central agencies prepare an MTEF and send it to the NPC and the MoF through the LMBIS - FPFA Act (Section 11(2)).	March 14, 2022	All agencies submitted by March 29, 2022
5	The ministry discussions at the NPC and the MoF to finalize the programs and budget estimates - FPFA Act (Section 9(3))	Not available	March 30, 2022, to April 13, 2022
6	Presentation of the statement of principles of budget, programs, and the prioritization of project or program in the Federal Parliament by the Minister of Finance - FPFA Act (Section 11)	May 14, 2022	May 17, 2022 ³²
7	Presentation of budget document in the Federal Parliament by the Minister of Finance - FPFA Act (Section 14)	May 29, 2022	May 29, 2022

Source: FPFA Act and Rules; Minutes of NPC and Line Ministries; and Budget Calendar for FY2022/23.

The FY2022/23 budget calendar allowed budgetary units four weeks and three days from the receipt of the budget circular to complete their detailed estimates. Most budgetary units were able to complete their detailed estimates on time. **Hence, the score for this dimension is a B.**

17.2. Guidance on budget preparation

Performance analysis and evidence for scoring: According to the FPFA Act, the NPC is required to provide the budget formulation guidelines and framework, which include the budget ceiling and the outline of the MTEF, to MDAs by mid-February. The term ‘ceiling’ encompasses the entirety of ministry budgets, covering both recurrent and capital expenses as well as financial provisions. The ceilings are calculated by the NREC, under the leadership of the Vice Chair of the NPC, and subsequently authorized by the NPC, which is presided over by the Prime Minister. The

³⁰ <https://npc.gov.np/en/category/guidelines>.

³¹ The sub-ordinate offices were provided seven days for the submission to the central public authorities.

³² <https://thehimalayantimes.com/nepal/budget-to-focus-on-social-justice-independent-economy>.

budget circular is comprehensive³³ and clear. The document offers guidelines for creating budget estimates that are in line with the objectives of the sectoral policies. It contains the criteria for prioritizing various recurrent expenditure categories and the standards for requesting capital expenditure. The preparation of budget as per the templates in the LMBIS is also referenced.

The budget guidance is clear and comprehensive and includes ministry-wise ceilings. **Hence, the score for this dimension is an A.**

17.3. Budget submission to the legislature

Performance analysis and evidence for scoring: The Constitution and FPFA Act have fixed *Jestha* 15 (May 29) of each Nepali calendar year as the date for the submission of the annual budget to the Federal Parliament.

Table 17.3: Actual dates of budget submissions to the Federal Parliament

Fiscal year	Fiscal year starting date	Actual date of submission
2021 (2077–78)	July 17, 2020	May 29, 2020
2020 (2076–77)	July 17, 2019	May 29, 2019
2019 (2075–76)	July 17, 2018	May 29, 2018

In the last three fiscal years, the government has submitted the annual budget proposal to the legislature at a specified date which is less than two months before the start of the fiscal year.

Hence, the score for this dimension is a C.

PI-18. LEGISLATIVE SCRUTINY OF BUDGETS

What does PI-18 measure? This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature’s procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex ante approval by the legislature. Coverage is BCG for the last completed fiscal year for PI-18.1, PI-18.2, and PI-18.4 and the last three completed fiscal years for PI-18.3. This indicator uses the M1 (WL) method for aggregating dimension scores.

Methodological notes: The authorized legislative procedures for budget scrutiny, details of budget documents submitted for legislative review, and records of legislative sessions and decisions regarding budget approvals were obtained from the Secretariat of the Federal Parliament. The mentioned documents were evaluated against the criteria prescribed by the framework for this indicator and associated dimensions.

³³ https://npc.gov.np/images/category/220227063430Budget_formulation_Guidelines_2079-80.pdf.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-18. Legislative scrutiny of budgets (M1)		C+
18.1. Scope of budget scrutiny	The legislature's budget review only covers details of revenue and expenditure. The MTEF is included in the budget submission, but it is not subject to review.	C
18.2. Legislative procedures for budget scrutiny	The House of Representatives Rules 2018 outline the detailed legislature's procedures for budget scrutiny and are adhered to. However, the legislative process has limited provisions for public consultations and internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.	C
18.3. Timing of budget approval	The legislature has approved the annual budget before the start of the fiscal year in each of the last three completed fiscal years.	A
18.4. Rules for budget adjustments by the executive	There are clear rules for in-year budget adjustments by the executive. They are complied with in most cases, but they allow for extensive administrative reallocations.	B

Detailed description of the country PFM system for the assessed performance indicator:

According to Article (97) of the Constitution, the Federal Parliament has established thematic committees for the legislative oversight of public finances. These committees also provide guidance and suggestions to the government after monitoring and evaluating their actions and activities. The House of Representatives Regulations (2018) and the National Assembly Regulations (2018) outline the procedures related to this issue. The House of Representatives Regulations (2018) provides a detailed process for reviewing appropriations and finance bills as well as other bills related to the budget.

The House of Representatives has established a Finance Committee to oversee the MoF, with the primary task of reviewing and scrutinizing the budget. The committee's duties include evaluating policies, programs, resource mobilization, and management as well as providing the necessary directives and presenting an annual report with comments, recommendations, and directives. It also monitors and evaluates the works of relevant bodies and ensures adherence to rules and regulations. The Finance Committee provides suggestions and directions regarding the modality and priorities of the budget before its submission to the Parliament. There is also a significant pre-budget discussion between the legislature and executive body.

Recent or ongoing reform activities: The Parliament has issued the House of Representative Regulation 2023, thereby repealing 2018 regulation.

18.1. Scope of budget scrutiny

Performance analysis and evidence for scoring: The Finance Committee of the House of Representatives engages in pre-budget discussions with various sectors, including the government, the private sector, the media, the cooperative sector, the banking sector, the accountancy profession, and others. Based on these discussions, the committee makes recommendations about what should be included in the budget. These discussions for the FY2020/21 budget took place from May 4 to 14, 2020.

According to the FPFA Act (Section 11), the Minister of Finance shall present a statement of principles and priorities for the budget and programs. It will also include the prioritization of projects or programs to the Federal Parliament at least 15 days before presenting the budget proposal. This statement was presented to the House of Representatives for the FY2020/21 budget on May 10, 2020. Subsequently, discussions about this statement were held in the House of Representatives from May 11 to 12, 2020.

When presenting the budget proposal for the next fiscal year, the MoF is required to provide a medium-term projection of various macroeconomic indicators in accordance with the FPFA Regulation (Rule 23). These indicators include the economic growth rate; inflation; savings and investments; monetary, financial, and capital market conditions; foreign trade; revenue mobilization; public debt; and the ratio of investments, revenues, budget deficits, and total debt to GDP. The budget documents submitted to the Parliament include (a) expenditure estimates along with expenditure heads and its sources, (b) the MTEF, (c) technical assistance details, (d) Ministry Progress Reports, (e) economic surveys, (f) the Yellow Book, (g) the Finance Bill, (h) the Appropriations Bill, (i) the National Debt Collection Bill, and (j) the Loan and Guarantee Bill.

Before the Minister of Finance presents the Finance Bill to the Parliament, there is a general discussion about the annual revenue and expenditure estimates. This takes place in accordance with the House of Representatives Rules (2018). The House of Representatives also holds discussions about the principles and priorities of the budget (excluding tax proposals) in accordance with the same rules. The meeting minutes of the debates and budget scrutiny discussions are compiled and published on the official website.³⁴ When discussing expenditures, the focus is on budget headings and subheadings, which are typically at the ministerial level. The appropriation and finance bills are thoroughly examined and debated, although only minimal proposed changes are typically incorporated into the budget. MTEFs and priorities are currently not being reviewed.

The legislature's budget review only covers details of revenue and expenditure. The MTEF is included in the budget submission, but it is not subject to review. **Hence, the score for this dimension is a C.**

³⁴ <https://hr.parliament.gov.np/np/committees/Finance-Committee-2079>

18.2. Legislative procedures for budget scrutiny

Performance analysis and evidence for scoring: The review procedure for the annual expenditure and revenue estimates is described in Chapter 16 of the House of Representatives Rule (2018). Chapter 17 describes the review procedure for the appropriation and finance bills. The existing rules are largely followed, except for the review of revenue estimates. However, the legislative process has limited provisions for public consultations and internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.

The House of Representatives Rules 2018 outline the detailed legislature’s procedures for budget scrutiny and are adhered to. Nevertheless, the legislative process only allows for a restricted number of opportunities for public input and internal administrative structures, such as specialized review committees, technical support, and negotiating procedures. **Hence, the score for this dimension is a C.**

18.3. Timing of budget approval

Performance analysis and evidence for scoring: According to constitutional provisions, the budget for the upcoming fiscal year is submitted each year to the Parliament by the end of May. This allows sufficient time for budget scrutiny before the fiscal year begins in mid-July. Over the past three fiscal years, the legislature has approved the budget before the start of the fiscal year (as shown in Table 18.3). The approval of the budget reflects the approval of the appropriation bill by the Parliament. **Hence, the score for this dimension is an A.**

Table 18.3: Dates of budget approval by the Parliament

Particulars	FY2018/19	FY2019/20	FY2020/21
Fiscal year start date	July 17, 2018	July 17, 2019	July 16, 2020
Date of approval by legislature	July 12, 2018	July 10, 2019	June 23, 2020
Approved before start of fiscal year	Yes	Yes	Yes

Source: <https://www.parliament.gov.np>.

18.4. Rules for budget adjustments by the executive

Performance analysis and evidence for scoring: The Constitution (Article 20), the PFPA Act (Sections 20 and 21), the PFPA Regulation (Rule 32), and the Appropriation Act, 2020, (Sections 3, 7, and 8) specify rules for budget adjustments by the executive. These rules outline three types of adjustments:

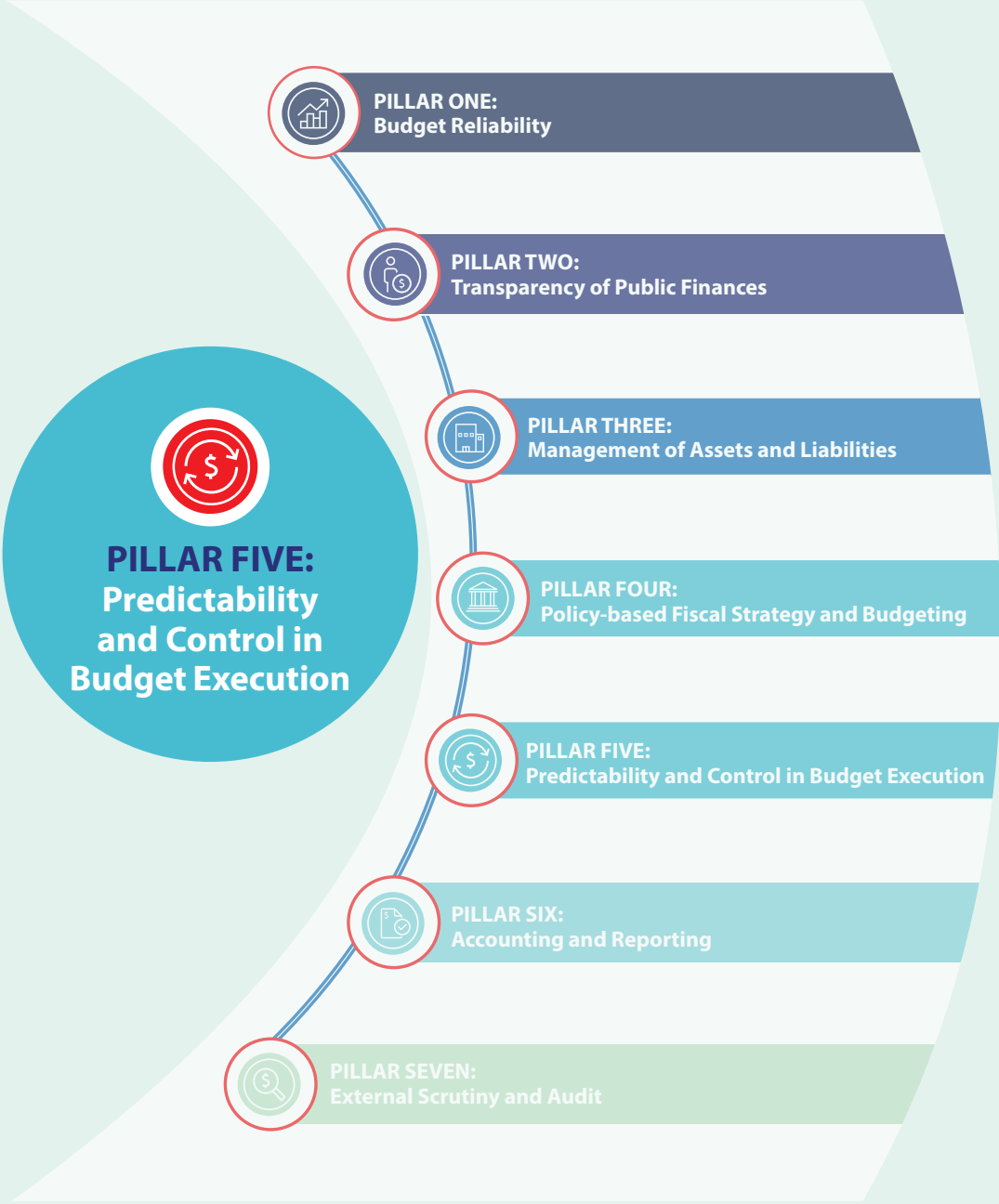
Adjustments that require approval from the legislature. The MoF can present a supplementary budget to the Federal Parliament if the amount specified in the Appropriation Act is insufficient or if there is a need for expenditures for services not provided for in the act.

Adjustments that require the approval of the MoF. If the amount specified in the Appropriation Act for a particular budget subheading is insufficient, and there is a surplus amount under any other subheading of that grant code, the MoF may transfer the budget from that surplus—subject to the ceiling specified in the Appropriation Act (10 percent for FY2020/21). The MoF is also responsible for transferring expenditures related to capital, financial provisions, loan payments, changes in financing sources, and payment methods. In addition, the MoF has the power to withhold or control appropriated funds/amounts, other than those chargeable to the Federal Consolidated Fund, based on the economic condition of the country and the funds available in the Federal Consolidated Fund.

Adjustments that require approval from the concerned Secretary. If the amount for current expenditures is insufficient in a specific budget subheading under a particular grant code of the ministries or agencies, the concerned Secretary may transfer the budget from the surplus amount of other current budget subheadings under the same grant code to current expenditure headings as prescribed, subject to the ceiling specified in the Appropriation Act without changing financing sources. However, transfers from compulsory liabilities such as salaries/remuneration, allowances, dress, food, water, electricity, telecommunications fees, rents, and capital expenditures to current expenditures are not allowed. Furthermore, the concerned Secretary is not allowed to transfer funds until the completion of the first quarterly period and not to the heading under which the budget has not been appropriated.

The rules for in-year budget adjustments are largely adhered to. However, the external audit report for FY2020/21 indicated that a few adjustments to the budget did not follow the rules. Specifically, there was a transfer of NPR 1.34 billion to 11 new programs that were not originally included in the budget.

Clearly defined rules for in-year budget adjustments are largely adhered to, and compliance is checked by external audit. **Hence, the score for this dimension is a B.**



**PILLAR FIVE:
Predictability
and Control in
Budget Execution**



**PILLAR ONE:
Budget Reliability**



**PILLAR TWO:
Transparency of Public Finances**



**PILLAR THREE:
Management of Assets and Liabilities**



**PILLAR FOUR:
Policy-based Fiscal Strategy and Budgeting**



**PILLAR FIVE:
Predictability and Control in Budget Execution**



**PILLAR SIX:
Accounting and Reporting**



**PILLAR SEVEN:
External Scrutiny and Audit**

PILLAR FIVE: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

What does Pillar V measure? The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Overall performance: Analysis of key strengths and weaknesses

The revenue administration and accounting performance is fair, with a score of 'C+' for both PI-19 and PI-20. The IRD and DOC use multiple means to inform the public about tax, including informing them about their obligations as taxpayers (such as registration, submitting accurate and complete returns, and making timely payments) and providing procedures for taxpayers to seek redress. The information provided is thorough, accurate, and reliable. Furthermore, there exists a transparent tax appeals procedure that is widely acknowledged. The IRD and DOC employ a partially organized and methodical strategy for managing revenue risk. Nevertheless, both organizations have not yet formulated compliance risk management and enhancement strategies. All revenues are deposited in government treasury and recorded utilizing the RMIS. Revenue collection agencies depend on RMIS data to update taxpayer records for revenue collection. This enables a reconciliation of revenue collection and fund transfer to the treasury. The annual reconciliation of tax assessments and arrears is a departmental practice of the IRD.

Revenue collecting entities have established systems, procedures, and facilities providing easy access to the taxpayers for fulfilling their rights and obligations. Tax codes and relevant legislation and information are published and available on the websites of revenue agencies. Under customs revenue, there are processes for risk management built in the Automated System for Customs Data (ASYCUDA). There are also arrangements for compliance of legal trade and the use of customs points, customs declarations, and regulatory compliances. Risk management processes are arranged under different taxes, but the mitigation measures are insufficient.

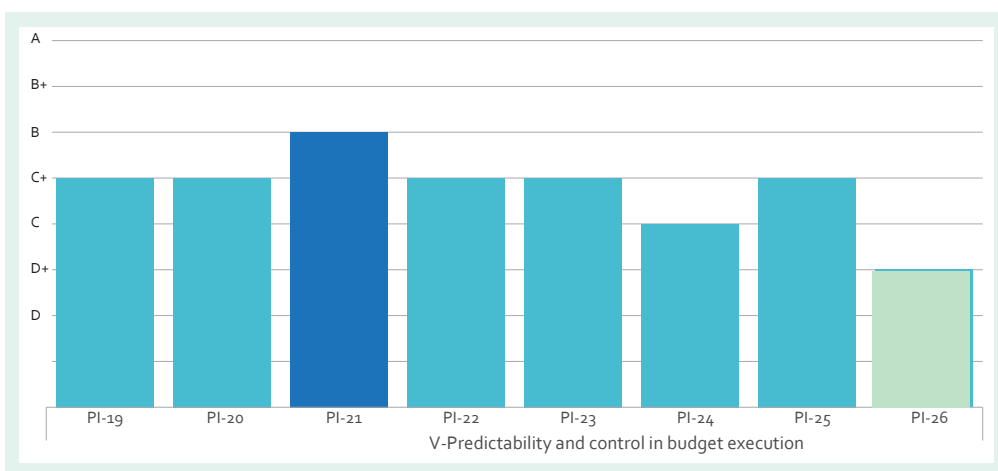
Predictability of in-year resource allocation exhibits good performance with a 'B' score (PI-21). The majority of bank balances are consolidated on a daily basis, and all of them are consolidated on a monthly basis. The spending units are granted authorization to expend the entire annual budget starting from the commencement of the fiscal year, and no in-year budget adjustments were initiated by the MoF. There is, however, no evidence suggesting that the annual cash flow plan is prepared. The stock of expenditure arrears is minimal and a report on the stock of expenditure arrears is prepared annually (PI-22 scored 'C+')

A good control system on the payroll is in place (PI-23 scored 'C+'). While there is presently no direct connection between personnel and payroll records, any payroll changes are substantiated by complete documentation for all modifications made to personnel records. The Department of National Personnel Records (DoNPR) maintains a list of approved positions in civil service to control recruitment and promotion. Changes to personnel and payroll records are updated timely and retroactive adjustments are few. The procedures for changes to personnel and payroll records are well defined, clear, and adequate. However, audit reports do not comment on the complete accuracy and reliability of both personnel and payroll data. Internal audit conducts a thorough payroll audit that encompasses all budgeting units.

The overall performance on procurement management is average (PI-24 scored 'C'). However, the performance on public access to procurement information and procurement complaints management is good with 'B' scores for both PI-24.3 and PI-24.4. The law requires the use of competitive procurement methods, and the audits found that less than 5 percent of procurements were conducted without competition. However, the absence of a dependable procurement database hinders the precise calculation of procurements made using competitive methods. The sole procurement database is managed by the PPMO in e-GP; however, it is not complete. The procuring agencies keep procurement records in separate files, which hinders the ability to monitor procurement.

The internal controls for non-salary expenditure are deemed adequate, with a rating of 'C+' for PI-25. Some MDAs have implemented segregation of duties by creating detailed Standard Operating Procedures (SOPs) and job descriptions. For others, the authority and duties are assigned by office orders, and it is necessary to precisely outline crucial responsibilities. The commitments are restricted to the existing budget, but the treasury and accounting systems lack commitment controls and only capture expenditure information at the payment stage. The noncompliant expenditures constitute less than 5 percent of the total, as indicated by both internal and external audit reports.

Internal audit is operational for all CG entities and covers both expenditure and revenue. The FCGO has established internal audit cadre, internal audit handbooks, and internal audit codes of conduct to ensure the effectiveness of internal auditing. Additionally, dedicated internal audit units have been set up in each DTCO. Annual audit programs are prepared at the DTCO level, and all programmed audits have been completed. However, the internal audit has primarily focused on financial compliance, and the implementation of internal audit recommendations has been partial. Moreover, Nepal has not formally adopted any standards for internal audit. The performance for internal audit (PI-26) is scored 'D+'.



PI-19. REVENUE ADMINISTRATION

What does PI-19 measure? This indicator covers the administration of all types of tax and non-tax revenue for CG. It assesses the procedures used to collect and monitor CG revenues. Coverage is CG at the time of assessment for PI-19.1 and PI-19.2 and for the last completed fiscal year for PI-19.3 and PI-19.4. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: The indicator was assessed using the metrics of the IRD and DOC, which account for 87 percent of the BCG revenue and 78 percent of the CG revenue. For revenue accounting and reporting, information was also collected from the FCGO. The draft report of Tax Administration Diagnostic Assessment Tool, December 2022, was consulted to verify and support the findings.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-19. Revenue administration (M2)		C+
19.1. Rights and obligations for revenue measures	The IRD and DOC collect most of the government revenues and use multiple channels which provide easy access to comprehensive and up-to-date information concerning the main revenue obligation areas as well as rights, including, as a minimum, redress processes and procedures.	A
19.2. Revenue risk management	The IRD and DOC use partly structured and systematic approaches to evaluate and prioritize compliance risks for various revenue categories, particularly for medium to large taxpayers.	C
19.3. Revenue audit and investigation	The IRD conducts annual audits and investigations based on its annual plan, thus completing the majority of its planned audits and investigations. The DOC (Post-Clearance Audit Office, PCAO) conducts post-clearance audits on a random basis, using a risk-based approach. However, both IRD and DOC have yet to develop compliance improvement plans.	D
19.4. Revenue arrears monitoring	The stock of revenue arrears at the end of the last completed fiscal year is below 20 percent (that is, 4.83 percent) of the total revenue collection of the year. The revenue arrears older than 12 months are less than 50 percent (that is, 45.49 percent) of total revenue arrears for the year.	B

Detailed description of the country PFM system for the assessed performance indicator: In accordance with Article 115 of the Constitution, the Parliament has legislated various acts that govern the levying and collection of taxes in the country. The major legislation governing tax collection and administration include (a) the Income Tax Act, 2002; (b) Income Tax Rules, 2002; (c) Customs Act, 2007; (d) Customs Rules, 2007; (e) Value Added Tax Act, 1996; (f) Value-Added Tax Rules, 1997; (g) Excise Duty Act, 2002; (h) Excise Duty Rules, 2002; (i) Liquor Act, 1974; and (j) Liquor Rules, 1974. In addition, the GoN has notified various subsidiary regulations, codes, and procedures for the implementation of the legislations.

According to the GoN (Work Division) Regulation of Nepal Government, 2007, the obligation for the operation of revenue administration falls under the MoF. Under this ministry, the IRD and DOC are the two major departments that are directly involved in the collection of taxes, customs, and excise duties. There are 84 revenue offices: 43 inland revenue offices, one large taxpayers office, one medium-level taxpayer office, and 39 taxpayer service offices. The DOC has 39 main custom offices and 133 sub-custom offices.

The IRD and DOC are the main government entities collecting revenues. They have been assessed for this indicator. They collect 87 percent of the BCG's annual revenues and 78 percent of CG's annual revenues. The remaining government revenues include fees, fines, and receipts from the sale of assets, which are collected by different entities. The EBUs also charge fees for the services delivered. They use these funds to meet their expenditures.

Table 19: Collected revenues by entity and category of revenue (FY2021/22)

Collecting entity	Category of revenue	Receipts (NPR, million)	As a percentage of total revenue (%)
IRD	Domestic VAT, Domestic excise, Income tax, Capital gain tax, Rent tax, Vehicle tax, Property tax	487,361	38.66
DOC	Custom duty, VAT (import), Excise duty (import), Road construction, Repair and maintenance Fee, Infrastructure tax	496,971	39.42
Other BCG entities (non-tax revenue)	Interest, Dividend, Rent, Royalties, Sale of goods and services, Penalties, Export Return, Grant return, Insurance claim	129,434	10.27
MoF	Foreign grants	15,515	1.23
EBUs	Various types of fees, subscriptions, license fee, premium, grants, and revenue from sale of goods	131,277	10.41

Recent or ongoing reform activities: The goal of the GoN is to implement taxpayer and investment-friendly tax policies to attract private sector investments. Currently, the IRD is working on its second strategic plan and third reform plan. The DOC is implementing its sixth customs reform and modernization plan. The reform plans focus on improving tax policies, enhancing taxpayer services, enforcing regulations, expanding the tax base, and strengthening systems. Digitization for better tax administration and taxpayer facilitation is a key element of the reform activities. In recent years, there has been a noticeable shift towards IT-based systems for various taxpayer functions.

19.1. Rights and obligations for revenue measures

Performance analysis and evidence for scoring: The rights of taxpayers are protected by the respective tax laws. The IRD’s website (www.ird.gov.np) is the primary source of information for taxpayers. The website provides information about registration, the filing of tax returns, the payment of taxes, and the appeal mechanism. The website has a dedicated section concerning taxpayer education that includes informative booklets and SOPs. In addition, the taxpayers can register to access the online portal to obtain information and file returns. The taxpayers can also obtain information and view details of their tax returns and payments through the IRD’s mobile application. A toll-free helpline is available for taxpayers to obtain specific information and guidance. The IRD also issues public notices and media announcements to inform the public about tax registration, filing, and payments. In addition, it carries out taxpayer education programs concerning laws, procedures, and administrative processes.

The IRD’s administrative review section provides guidance to the taxpayers for filing complaints and appeals. Tax administrative procedures and processes allow redress of complaints or appeals of taxpayers through administrative review, appeal in the revenue tribunal, and appeal at the appellate court and the supreme court – Section 8 (Revenue Tribunal Act, 1974). The IRD website provides specific guidance on the redress process and procedures to the taxpayers. The website includes a taxpayer handbook³⁵ with details on the redress process and procedure and specific email address³⁶ to get information about redress procedures and file appeals. A toll-free helpline is also available for the taxpayer to get information about the redress process and procedures.

An appropriate mechanism of administrative and judicial review for dispute resolution is available and is used by taxpayers. Regarding the dispute review mechanism, the taxpayer has the right to apply for an administrative review to the Director General against a decision of a tax assessment by tax officers within 30 days of its receipt. Also, if the taxpayer is not satisfied with the order of the Director General, s/he may appeal to the Independent Revenue Tribunal.

³⁵ (<https://ird.gov.np/public/pdf/1058576448.pdf>)

³⁶ (Appealird@ird.gov.np)

The taxpayers can access the latest and comprehensive information on the DOC's website. (www.customs.gov.np). It contains all the legislative documents and procedures as well as the latest data on duties, imports, and exports. Additionally, there is a mobile application for easy access to relevant information. To receive specific information and guidance, the public can use the toll-free helpline or online chat. If there are any grievances, Chapter 12 of the Customs Act outlines the procedure, thereby allowing taxpayers to file a review application and appeal against the decision of a customs officer. The law provides multiple channels for taxpayers, including the Valuation Committee, the Director General of Customs, and the Independent Revenue Tribunal. The legal time limits for filing a complaint and the verdicts on appeals by corresponding forums are also mandated by law. Effective grievance redress mechanism was a priority of the DOC's 2017–21 reform plan. Accordingly, the DOC provided information about the redress process and procedures on its website after consultation with the stakeholders.

Table 19.1. Rights and obligations for revenue measures (at the time of assessment)

Collecting entity	Category of revenue	Information available to payers on revenue rights and obligations				
		Revenue obligations (Y/N)	Redress processes and procedures (Y/N)	Comprehensive (Y/N)	Up to date (Y/N)	Source of information
IRD	Domestic VAT, Domestic excise, Income tax, Capital gain tax, Rent tax, Vehicle tax, Property tax	Y	Y	Y	Y	IRD's website, mobile app, and helpline
DOC	Custom duty, VAT (import), Excise duty (import), Road construction, Repair and maintenance fee, Infrastructure tax	Y	Y	Y	Y	DOC's website, mobile app, and helpline

Source: IRD and DOC websites, mobile app, and helpline

According to legislations and regulations, taxpayers have the right to access information. The Citizen Charter provides citizens with concise and simplified information. Technology facilitated the provision of all relevant information concerning taxpayers' rights and obligations. Both the IRD and DOC provide easy access to comprehensive and up-to-date information concerning the main revenue obligation areas, as well as rights, including, as a minimum, redress processes and procedures. **Hence, the score for this dimension is an A.**

19.2. Revenue risk management

Performance analysis and evidence for scoring: The IRD uses three methods to manage tax compliance risks: promotional, preventive, and curative. The promotional method includes activities such as tax education programs, awareness campaigns, and social media discussions. The preventive method involves measures to prevent possible risks, such as market surveys, simplification of compliance procedures, and cross-checking of related transactions. The curative method involves legal action to recover potential revenues through financial penalties, the suspension of business operations, and imprisonment.

To ensure compliance, the IRD has established a set of procedures for managing compliance risks. This involves linking compliance risks to the Tax Clearance Certificate (TCC). The TCC is a thorough assessment of taxpayer obligations, such as timely tax declarations, balanced payments, and audited financial statements. If any non-compliances are found, they shall be addressed before the TCC is issued. These certificates are mandatory for a variety of activities, including registering a business, renewing a corporate body, bidding on contracts, and buying/selling property.

Although there is no documented risk management strategy, the IRD develops an annual plan to mitigate risks. It ensures that revenue targets are met while remaining compliant. The annual plan is informed by internal data gathered from tax audits and tax declarations. The IRD prepares risk indicators for different tax offices based on various criteria such as analyzing profits, financial ratios, expenditure, tax audit history, type of transactions, and VAT/income tax amounts. The objective is to select high-risk taxpayers for tax audit. The 'Risk Engine' analyzes the integrated tax system (ITS) data to identify risk indicators, and it selects medium-to-large taxpayers for audit. The audit selection process is split between 70 percent being selected centrally and 30 percent being selected locally, using a combination of risk indicators and local knowledge. Different types of audits, such as field, desk, and refund audits, are conducted using direct and indirect methodologies.

The DOC has a risk management section that handles risk management through various processes and procedures. There is a working committee to prepare the risk register, risk profile, risk criteria, and risk indicators. A risk management team implements the selectivity module of the ASYCUDA by preparing a risk register and risk profile. To manage risks, the DOC uses measures such as the export-import (Exim) code, inter-country border administrative cooperation, border area patrolling, green/yellow/red clearing lanes, passenger clearance, World Customs Organization (WCO) valuation, reference pricing, and post-clearance audit. Individuals and firms applying for renewal or a new issuance of export and import licenses shall clear any previous dues and irregularities in their name to comply with customs regulations and avoid non-compliant transactions.

Table 19.2. Revenue risk management (at the time of assessment)

Collecting entity	Category of revenue	Approaches for assessing and prioritizing compliance risks		Coverage	
		Comprehensive (Y/N)	Structured and systematic (Y/Partly/N)	Large revenue payers (Y/N)	Medium revenue payers (Y/N)
IRD	Domestic VAT, Domestic excise, Income tax, Capital gain tax, Rent tax, Vehicle tax, Property tax	Y	Partly	Y	Y
DOC	Custom duty, VAT (import), Excise duty (import), Road construction, Repair and maintenance fee, Infrastructure tax	Y	Partly	Y	Y

Source: IRD Strategy Document 2018/19–2022/23, IRD Risk Based Selection System for Audit Document, Customs Reform and Modernization Strategies and Action Plan (CRMSAP) 2017–2021, Documents from DOC Risk Management Section.

Risk management is a priority in the strategic and reform plans of both the IRD and DOC. These organizations have practices of developing and implementing various measures to this end. However, these measures are partially structured and systematic. **Hence, the score for this dimension is a C.**

19.3. Revenue audit and investigation

Performance analysis and evidence for scoring: The IRD and DOC employ audits and investigations to minimize revenue risk. The DOC has a specialized office dedicated to post-clearance audits, but it has not developed a compliance improvement plan. Risk-based post-clearance audits are conducted annually to verify the authenticity and accuracy of declarations by examining relevant books, records, business systems, and commercial data held by relevant parties. The IRD carries out various types of audits and investigations every year, including full audits, current year audits, indirect audits, and electronic system audits. To accomplish this, 2 percent of all taxpayers are chosen annually, with 70 percent of those selected through a computer program called the revenue risk engine. The IRD’s tax audit management section sets targets for audits through the large taxpayers office, the medium taxpayers office, and inland revenue offices. The compliance is monitored through an internal management system. In the last three years, the actual audits exceeded the targets in most of the areas. Although the IRD prepares an annual plan that identifies verification activity and revenues, it is yet to develop any compliance improvement plans.

The Department of Revenue Investigation (DRI) is under the OPMCM. It has the primary responsibility of investigating revenue-related issues. The department gathers information from both internal and external sources, which it subsequently analyzes. The DRI also conducts investigations, adjudications, and case files against instances of revenue fraud.

The established process of annual audit planning and monitoring ensures the completion of audit activities as planned. The lack of a systematic approach to mitigating the most significant compliance risks confronting the tax system by preparing and implementing a compliance improvement plan is partially attributable to insufficient capacity. **Hence, the score for this dimension is a D.**

19.4. Revenue arrears monitoring

Performance analysis and evidence for scoring: The ITS has a separate ledger for each taxpayer. It contains the details about taxpayer assessments, arrears, and claims. The ledger tracks both debit and credit balances, which are created based on assessments and payments, respectively. Any difference between these balances is categorized as arrears. If taxes are not paid on time, legal provisions require interest, penalties, and/or fines to be added. Any amounts under litigation are considered ‘not collectible’ until they are written off, which means they are not included in the calculation of arrears. For customs duties, payment is required at the time of clearance. Therefore, there is typically no ledger for individual taxpayers and no arrears. However, if post-clearance audits identify additional customs duties that need to be recovered, it is recorded as arrears. Table 19.4 displays the status of revenue arrears for each agency, excluding amounts under litigation.

Table 19.4: Revenue arrears as of FY2020/21 (after deducting arrears under litigation)

Offices	Major tax	Revenue Arrears (NPR, millions)
Tax offices under IRD	VAT, Income tax, Excise duty, and others	39,406.60
Offices under DOC	VAT, Customs, Excise	442.90
Total		39,849.50
Total revenue collection during FY2020/21 (IRD and DOC)		824,946
Arrears as percentage of revenues		4.83
Percentage of arrears unsettled for 12 months with total arrears		45.49

Sources: Annual Report of IRD and Annual Progress Report of Post Clearance Audit Office, FY2020/21 and FY2021/22; CFS, FY2020/21 and FY2021/22, FCGO.

Note: The total revenue amount under litigation as per Annual Report of IRD for FY2020/21 (page 49) is NPR 131,968 million.

The IRD has published a booklet³⁷ that outlines the legal requirements and procedures for declaring and recovering tax arrears. Tax arrears refer to revenue that remains unpaid within the specified timeframe, as outlined in the taxpayer’s tax details or tax assessment. The booklet comprehensively covers tax arrears provisions for income tax, value-added tax, and excise duty. Taxpayers have the right to appeal under the law, and once the appeal is submitted, the amount in question is not included in the arrears, as specified in the aforementioned booklet. Therefore, the revenue amount under litigations is not considered as revenue arrears.

Managing revenue arrears data has become efficient with the use of the ITS. This system enables follow-up for the recovery of any outstanding revenues or taxes while also providing accurate and timely information for reporting purposes. The stock of revenue arrears at the end of the last completed fiscal year is below 5 percent of the total revenue collection of the year. **Hence, the score for this dimension is a B.**

PI-20. ACCOUNTING FOR REVENUE

What does PI-20 measure? This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and non-tax revenues collected by the CG. Coverage is CG at the time of assessment. This indicator uses M1 (WL) for aggregating dimension scores.

Methodological notes: To evaluate revenue collection and transfer to the treasury, RMIS revenue collection reports were supplemented with data from the IRD, DOC, NRB, and FCGO. For assessing the extent and timeliness of revenue reconciliation, the official records of the FCGO and revenue collecting entities were reviewed.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-20. Accounting for revenue (M1)		C+
20.1. Information on revenue collections	The RMIS captures complete data about revenue collection, and the MoF publishes monthly economic bulletins with a breakdown by revenue type. However, the EBU revenue is not captured by the RMIS and not included in the monthly economic bulletins.	B
20.2. Transfer of revenue collections	All government revenues are deposited in KA 1.1 group of bank accounts, which are the components of the central treasury.	A
20.3. Revenue accounts reconciliation	Revenue collecting entities rely on RMIS data to update taxpayer records for revenue collection, which enables a reconciliation of revenue collection and fund transfer to the treasury.	C

³⁷ The Information Booklet on the Tax Arrears and Provisions of Recovery, 2020 <https://ird.gov.np/public/pdf/2139792395.pdf>

Detailed description of the country PFM system for the assessed performance indicator:

The FPFA Act and the FPFA Regulation provide the legislative and regulatory framework for revenue accounting, reconciliation, and reporting. The OAG's forms, the Government Transaction Directives, and the Government Accounting Manual provide the procedures, forms, and formats to be used for revenue accounting, reconciliation, and reporting. The automation of these processes and procedures has been achieved through the RMIS. Tax revenue collection is the responsibility of the IRD and DOC. Non-tax revenues are collected by various government offices. Revenue accounting and reconciliation duties are assigned to the FCGO and the NRB. However, EBU's have their separate financial regulations and are allowed to keep their revenues.

Recent or ongoing reform activities: The functionality of the RMIS has been upgraded to better assist taxpayers and streamline the reconciliation and reporting process. The current system upgrades aim to incorporate digital payment options, such as mobile banking, internet banking, and digital wallets as well as integrate the RMIS with the NRB system.

20.1. Information on revenue collections

Performance analysis and evidence for scoring: The RMIS is the common platform used by all revenue collecting agencies, accounting offices, and banks. The system captures all GoN revenues, and it is connected directly to nonoperative revenue accounts. The FCGO receives real-time revenue data through the RMIS. It publishes the aggregate daily receipts and payments status on its website³⁸. The MoF conducts regular reviews of budget implementation, and it publishes monthly economic bulletins that include a breakdown by revenue types³⁹. For monthly reporting, the MoF relies on RMIS as the primary source of information, which is considered highly reliable and provides all the necessary data for reporting. Consequently, the revenue collecting entities are not required to submit data separately to the MoF. In addition, the IRD and DOC regularly release reports containing comprehensive information about the total revenues collected by their respective departments, including a detailed breakdown of revenue collection by type. However, as explained in PI-6, the EBU revenue remains outside government's financial reports and in the last completed fiscal year was equivalent to 14.3 percent of total BCG revenue. The information of EBU revenue is collected on an annual basis.

³⁸ <https://fcgo.gov.np/daily-budgetary-analysis>

³⁹ <https://www.mof.gov.np/site/publication-category/84>

Table 20.1: Information on revenue collections (at the time of assessment)

Collecting entity	Category of revenue	Collection of revenue information by a central agency (Y/N)	Frequency of data transfer to the central agency	Transferred data characteristics (Y/N):	
				Broken down by revenue type	Consolidated into a report
IRD	Domestic VAT, Domestic excise, Income tax, Capital gain tax, Rent tax, Vehicle tax, Property tax	Y	Monthly	Y	Y
DOC	Custom duty, VAT (import), Excise duty (import), Road construction, Repair and maintenance fee, Infrastructure tax	Y	Monthly	Y	Y
Other BCG entities (non-tax revenue)	Interest, Dividend, Rent, Royalties, Sale of goods and services, Penalties, Export Return, Grant return, Insurance claim	Y	Monthly	Y	Y
EBUs	Various types of fees, subscription, license fee, premium, grants, and revenue from sale of goods	Y	Annually	Y	N

The RMIS plays a vital role in collecting and compiling extensive revenue collection data, enabling the MoF to produce monthly reports containing accurate information about BCG revenue collection broken down by revenue type. The EBU revenues are not captured by the RMIS and are not included in the monthly reports. **Hence, the score for this dimension is a B.**

20.2. Transfer of revenue collections

Performance analysis and evidence for scoring: According to the Government Transaction Directives of 2018, all government revenues shall be deposited into a specific group of bank accounts known as KA 1.1, which are a part of the central treasury. Deposits can be made electronically or manually by individuals or entities through banks that are authorized to collect government revenues. At the end of each day, each revenue collecting bank generates a consolidated collection report for all its branches and submits it to the NRB. Based on the revenue collection reports from the commercial banks, the NRB settles revenue accounts and reports the collected revenues to the FCGO. The collected revenues are credited on a daily basis to the government treasury accounts (KA 1.1 group of bank accounts) maintained with the NRB.

Recording each transaction at the time of deposit through the RMIS and using specified bank accounts for revenue collection ensure the daily transfer of revenue collection to the treasury. **Hence, the score for this dimension is an A.**

20.3. Revenue accounts reconciliation

Performance analysis and evidence for scoring: According to Section 27 of the FPFA Act, it is mandatory to reconcile the revenue amounts with the revenue deposited in the bank accounts. The NRB performs daily reconciliations of revenues collected and transferred by each commercial bank with their RMIS collection report at an aggregate level. The FCGO then reconciles the total daily revenues credited to the treasury account by the NRB with the RMIS collection report. The FCGO conducts detailed revenue reconciliation on a monthly basis, which includes reviewing revenue accounting and reconciling collections and receipts. If any errors in revenue booking are identified, such as booking revenues under the wrong budget/revenue heads, joint clarification is sought from banks and revenue agencies and corrections/adjustments are made in the RMIS. The final collection figures are consolidated by the FCGO. The monthly statement is sent to the NRB, where it is reconciled with the daily and monthly consolidated forms received from all commercial banks during the month.

The IRD is responsible for maintaining taxpayer records and assessments in the Revenue Administration System (RAS) and the ITS. An annual reconciliation of tax assessments and arrears is conducted, with the results included in the IRD's annual report⁴⁰. Customs duties are assessed, levied, and collected before goods clearance, meaning that backlogs are generally not an issue. Therefore, no reconciliation is necessary between assessments and arrears. Any issues related to customs tariffs after clearance from the Customs Office are handled by the PCAO.

The revenue collecting entities retrieve the RMIS data to update taxpayer records for revenue collected inside their information systems. Any discrepancies detected are forwarded to the DTCO/FCGO for rectification. If any changes are required apart from the deposited amount and date of deposit, based on the request, the DTCO and FCGO can modify the information within one year of payment or three months after the end of the fiscal year, whichever comes earlier. This approach enables a systematic reconciliation of the collection and transfer of funds to the treasury. Nevertheless, there is no practice of a formal periodic (monthly, quarterly, or annual) reconciliation between revenue collecting entities and the treasury.

The annual reconciliation of tax assessments and arrears is a departmental practice of the IRD. Revenue collecting entities rely on RMIS data to update taxpayer records for revenue collection, which enables a reconciliation of revenue collection and fund transfer to the treasury. **Hence, the score for this dimension is a C.**

⁴⁰ <https://ird.gov.np/publication/category/annual-reports>

PI-21. PREDICTABILITY OF IN-YEAR RESOURCE ALLOCATION

What does PI-21 measure? This indicator assesses the extent to which the central MoF is able to forecast cash commitments and requirements and provide reliable information on the availability of funds to budgetary units for service delivery. Coverage is BCG at the time of assessment for PI-21.1 and for the last completed fiscal year for PI-21.2, PI-21.3, and PI-21.4. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: The TSA and RMIS provide consolidated cash balances for revenue and expenditure accounts, respectively. The FCGO includes the consolidated cash position, which includes the debts and grants accounts, in the monthly accounts. Through the LMBIS, information pertaining to budget releases and commitment ceilings is accessible.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-21. Predictability of in-year resource allocation (M2)		B
21.1. Consolidation of cash balances	The GoN has implemented the TSA and RMIS systems, and the expenditure and revenue accounts are consolidated on a daily basis. However, the bank accounts used for debts and grants are consolidated at the end of each month. The consolidated cash situation is reported in the monthly accounts.	C
21.2. Cash forecasting and monitoring	A basic cash forecasting and monitoring system has been implemented. However, a cash flow forecast that considers commitments and cash requirements is not prepared for the fiscal year.	D
21.3. Information on commitment ceilings	Starting on the first day of the fiscal year, each spending unit can spend up to the entire amount of its approved annual budget. Consequently, the MoF releases the complete budget allocation for the entire year via the LMBIS.	A
21.4. Significance of in-year budget adjustments	In the last completed fiscal year, the line ministries made budget adjustments equivalent to 13% of the overall budget. Nevertheless, the MoF did not initiate any budget adjustments.	A

Detailed description of the country PFM system for the assessed performance indicator: The implementation of the TSA and information systems for revenue and expenditure management by the GoN has resulted in efficient cash management. The accounting records are maintained by the FCGO, which also reports consolidated cash balances. Although a basic cash forecasting system is in place, spending units have the legal authority to commit the full year's budget

after its enactment. In case of unforeseen events that could affect government revenues and expenditures, the MoF is permitted to make in-year budget adjustments in accordance with the prescribed rules and criteria.

In accordance with the prescribed legal framework—the FPPA Act and FPPA Regulation—it is imperative to adhere to the particular guidelines governing cash forecasting, budgetary limits for expenditure commitments, and in-year budget changes.

Recent or ongoing reform activities: The FCGO is enhancing the TSA and CGAS to record and better track commitments. By having more accurate information about commitments, cash forecasting will be significantly improved.

21.1. Consolidation of cash balances

Performance analysis and evidence for scoring: The cash balances of revenue and expenditure accounts are consolidated on a daily basis. Since 2014, the GoN has used the TSA system, which employs a single bank account for all budget expenses. Under the TSA, zero-balance accounts have been created at authorized banks for 81 DTCOs to make payments. Each DTCO performs a ‘day close’ operation on a daily basis, and the NRB reimburses the banks for government payments. As explained in PI-20, revenue collection is consolidated and reported on a daily basis via the RMIS.

The GoN maintains other bank accounts, including Debt Accounts and Grant Accounts, which are reconciled and consolidated on a monthly basis. The debt accounts are managed by the PDMO and are used for debt repayments. The designated accounts of a few foreign-funded projects are managed by the project coordination offices. However, the balances of these accounts are included in the government’s consolidated cash position.

Table 21.1: Consolidation of cash balances (at the time of assessment)

Group of account	Transactions during FY2022/23 (NPR, millions)	Percentage of total transaction	Frequency of consolidation
KA-1 (KA 1.2.3+KA-1.1)	11,25,878.74	51.35	Daily
KA-2 (KA-2.4+KA-2.5+KA-2.7+KA-2.8+KA-2.9+KA-2.10)	2,45,575.95	11.21	Monthly
KA-2 (KA-2.3+KA-2.6)	1,72,163.72	7.85	Daily
KA-3	2.50	0.0001	Yearly
KA-4	5,35,935.52	24.45	Daily
KA-5	459.80	0.021	Monthly

Group of account	Transactions during FY2022/23 (NPR, millions)	Percentage of total transaction	Frequency of consolidation
KA-7	1,12,440.52	5.13	Weekly
Total transaction	2,192,456.75	100	

Source: FMIS (FCGO).

Implementation of the TSA and RMIS enables daily consolidation of expenditure and revenue accounts. The consolidation of debts and grants accounts is performed on a monthly basis. Based on the data provided in the table, it can be observed that the bank accounts with transaction amounts and balances equivalent to 83.7 percent are reconciled on a daily basis. The materiality for consolidation on a weekly basis is 88.8 percent (83.7 plus 5.1) and all accounts are reconciled at least on a monthly basis. **Hence, the score for this dimension is a C.**

21.2. Cash forecasting and monitoring

Performance analysis and evidence for scoring: A basic cash forecasting and monitoring system has been implemented. Each spending unit prepares a budget through the LMBIS, which is divided into four quarters. This quarterly budget serves as a cash forecast for the concerned spending units. The MoF devises a cash plan for budget execution while preparing the annual budget. The FCGO prepares and provides periodic reports concerning the treasury position to the MoF, which aids in cash flow management decisions. However, a comprehensive cash flow forecast that considers the commitments and cash requirements of spending units is currently not being prepared. The government has not yet fully met the requirements outlined in the FPFA Regulation, specifically regarding Rule 29, which mandates the preparation of an annual cash plan. **Hence, the score for this dimension is a D.**

21.3. Information on commitment ceilings

Performance analysis and evidence for scoring: The FPFA Regulation (Rule 28-1 and 2) has authorized program execution and expenditures through the LMBIS following the enactment of the Budget Appropriation Act. The LMBIS grants authorization for budget expenditures to all spending units from the first day of the fiscal year, as stated in the Red Book, the annual budget document. The spending units can plan and commit expenditures for the whole fiscal year in accordance with the approved budget appropriations.

Despite the budget being divided into four quarters, as stated in PI-21.2, the MoF releases the entire year's budget appropriation to the spending units through the LMBIS at the beginning of the fiscal year. The spending authorization for the entire annual budget is granted following the approval of the Appropriation Act, in accordance with the terms of the FPFA Act. Consequently, the spending units have the authority to commit and spend their budget for the entire fiscal

year starting from the first day of the fiscal year. There is no practice of periodic budget releases as per cash plans.

Starting on the first day of the fiscal year, each spending unit can spend up to the entire amount of its approved annual budget. Consequently, the MoF releases the complete budget allocation for the entire year via the LMBIS. **Hence, the score for this dimension is an A.**

21.4. Significance of in-year budget adjustments

Performance analysis and evidence for scoring: The Constitution and legal provisions provide a system for transparent and predictable budget adjustments. Section 21 of the FPFA Act provides the process for Budget Withheld, Control, and Surrender. Rule 34 of the FPFA Regulation outlines the procedure. In the last completed fiscal year, the MoF has not instigated any in-year budget adjustments.

The Annual Appropriation Act establishes the parameters for virements that line ministries may undertake. As per the provisions of the Appropriation Acts pertaining to FY2020/21, FY2021/22, and FY2022/23, the line ministries are authorized to make virements up to 25 percent of the original allocation under any grant code. This provision applies to the ministry-level total allocation inclusive of administrative codes, economic codes, and activities.

The budget adjustments for FY2020/21 totaled NPR 205,090 million or 13 percent of the annual budget. The line ministries initiated these budget virements, while the MoF did not initiate any budget withholdings, controls, surrenders, or virements throughout the fiscal year. Nonetheless, as part of the midterm budget review for FY2022/23, the MoF reduced⁴¹ the budgets of all ministries due to a treasury crunch.

In the last completed fiscal year, the line ministries made budget adjustments equivalent to 13 percent of the overall budget. Nevertheless, the MoF did not initiate any budget adjustments. **Hence, the score for this dimension is an A.**

■ PI-22. EXPENDITURE ARREARS

What does PI-22 measure? This indicator measures the extent of the stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. Coverage is BCG for the last completed fiscal year for PI-22.1 and at the time of assessment for PI-22.2. This indicator uses the M1 (WL) method for aggregating dimension scores.

⁴¹ <https://thehimalayantimes.com/nepal/budget-of-current-fy-reduced>

Methodological notes: Analyzed a sample of the expenditure arrears data that the spending units had submitted to the DTCOs. Utilizing CFS, the stock of expenditure arrears was evaluated.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-22. Expenditure arrears (M1)		C+
22.1. Stock of expenditure arrears	The stock of expenditure arrears for the last three completed fiscal years. (FY2018/19–FY2020/21) was less than 1 percent of the total expenditures.	A
22.2. Expenditure arrears monitoring	Data concerning the stock and composition of expenditure arrears are generated annually at the end of each fiscal year.	C

Detailed description of the country PFM system for the assessed performance indicator:

According to the FPFA Act, Section 24-3, payments shall be made within 15 days of the receipt of an invoice with the necessary documents. For deliberate nonpayment, section 57(1)(a) has provisioned penalties. Responsible officials are required to disclose payment arrears on a monthly and annual basis in accordance with the FPFA Regulation (Rule 73 and 76).

Under the FPFA Regulation (Rule 39, sub-rules 1 and 2), the office head cannot generate liability without a budget appropriation. However, sub-rules 13, 14, and 15 of Rule 39 allow expenditures that exceed the current year’s budget with sufficient reasons and appropriate justifications. Such expenditures shall be recorded as a statement of expenditure arrears on an OAG form for payment in the next fiscal year. This will require DTCO approval within seven days of the fiscal year. Financial statements with this expenditure arrears declaration are sent to superior offices, the appropriate ministry, the DTCO, and the OAGN. The CFS prepared by the FCGO includes the expenditure arrears statement.

Recent or ongoing reform activities: The FCGO is enhancing its accounting software, specifically the TSA and the CGAS, to record and monitor expenditure arrears.

22.1. Stock of expenditure arrears

Performance analysis and evidence for scoring: Every year, the spending offices are responsible for recording and reporting any unpaid expenses in compliance with the FPFA Act and FPFA Regulation. The government’s total expenditure arrears are reported in the annual CFS. Table 22.1 compares outstanding expenses to total expenses over the past three fiscal years.

Table 22.1: Stock of expenditure arrears by category (NPR, millions)

Description	Fiscal year 1 2018/19	Fiscal year 2 2019/20	Fiscal year 3 2020/21
Total stock of arrears at the end of the fiscal year (i)	866	599	1,115
Total actual expenditures for the fiscal year ⁴² (ii)	1,056,051	1,033,796	1,136,446
Ratio (i) / (ii)	0.08 percent	0.05 percent	0.09 percent

Sources: CFS (FY2018/19, FY2019/20, and FY2020/21) and FCGO (www.fcgo.gov.np).

The expenditure arrears for the last three fiscal years (2018/19–2020/21) were less than 1 percent of the total expenditures. **Hence, the score for this dimension is an A.**

22.2. Expenditure arrears monitoring

Performance analysis and evidence for scoring: According to PPFA Regulation, Rules 39, 73, and 76, each office shall report expenditure arrears periodically, including the amount, composition, and the age of the arrears to the DTCO within 21 days of the end of the fiscal year. After the review by the DTCO’s internal auditors, the expenditure arrears data are reported to the concerned ministry and the OAG. The FCGO prepares an annual statement of arrears based on certified statements from the DTCOs, which are then reported to the MoF and the OAG. The arrears are consolidated at the ministry level and reported in the annual CFS.

Table 22.2: Expenditure arrears monitoring by category

Category of arrears	Data generated (Y/N):			Frequency	Timeline
	Stock	Age	Composition		
Category as mentioned in the PPFA Regulation (Rule 39 - sub-rule 15)	Yes	Yes	Yes	Annually at the end of the fiscal year	Annual (entity reports are generated annually), Annual Financial Statement and CFS of the FCGO, Report of the OAG

The PPFA Regulation requires annual reporting of expenditure arrears by the respective offices, and the data on the stock and composition of expenditure arrears are generated annually at the end of each fiscal year. **Hence, the score for this dimension is a C.**

⁴² As described under PI-1.

PI-23. PAYROLL CONTROLS

What does PI-23 measure? This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. Coverage is CG at the time of assessment for PI-23.1, PI-23.2 and PI-23.3 and for the last three completed fiscal years for PI-23.4. This indicator uses the M1 (WL) method for aggregating dimension scores.

Methodological notes: Due to the decentralized payroll, 22 offices were randomly selected for the assessment of this indicator. The payroll and personnel records maintained in CGAS and Personnel Information System (PIS), respectively, formed the basis of the assessment. The manual records maintained at the sampled offices were also examined. Internal audits of the sampled offices, performed by the DTCOs, were utilized to evaluate the payroll audit.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-23. Payroll controls (M1)		C+
23.1. Integration of payroll and personnel records	The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Appointment and promotion of employees are controlled by a list of approved staff positions.	B
23.2. Management of payroll changes	Required changes to the personnel records and payroll are updated at least monthly, and the retroactive adjustments are less than 1 percent of salary payments.	A
23.3. Internal control of payroll	The protocols for modifying personnel records and payroll are well defined and sufficient to maintain the accuracy of data. Manual personnel files are updated with the approval of the competent authority and changes are logged. The PIS and CGAS have established workflows for changing personnel records and payroll, which also include an audit trail. However, a comprehensive assessment about the accuracy of payroll and personnel data as well as the effectiveness of the processes in ensuring the accuracy of all data is required.	C
23.4. Payroll audit	DTCOs conduct quarterly internal audits of payroll, and the OAGN audits payroll annually as part of external audits. However, both internal and external payroll audits rely on document review and do not involve on-site physical verification.	C

Detailed description of the country PFM system for the assessed performance indicator:

The Constitution’s Article 243 details the role of the Public Service Commission (PSC) in selecting civil servants. The government has enacted the Civil Service Act, 1993, and Civil Service Rules, 1993, to manage Nepal’s civil service. Additionally, specific laws govern the terms of service of Nepal’s Teachers, Army, Police, and Armed Police. The DoNPR is responsible for maintaining and updating individual records for the entire civil service. The DoNPR has implemented a PIS to electronically maintain the personnel records. Meanwhile, the Military Personnel Records Office (*Sainik Abhilekhalaya*) administers and maintains the Nepalese Army personnel records along with their payrolls.

To ensure proper payroll payments, Accounting Directives, 2016, outline the necessary procedures, documents, and internal controls. At the beginning of each fiscal year, the DoNPR and the *Sainik Abhilekhalaya* approve the annual salary sheet for each office, specifying sanctioned and actual positions. Nepal has a decentralized payroll system, with monthly payrolls prepared by individual spending units based on approved annual salary sheets. The payroll is prepared using the CGAS, a centralized software. The payroll preparation is guided by central rules, regulations, and systems.

Recent or ongoing reform activities: The DoNPR is currently upgrading the PIS to include additional security measures and introduce new functionalities that will enhance human resource (HR) management. The planned features include the ability to process HR actions through the system and generate letters for transfers, promotions, retirements, and pensions. Furthermore, the upgrades will also incorporate retirement and vacancy forecasting to improve HR planning.

23.1. Integration of payroll and personnel records

Performance analysis and evidence for scoring: The CGAS incorporates a specialized module for efficient payroll management. This module is utilized by every spending unit to prepare monthly payroll. Each permanent employee is assigned a unique identification (ID) number. There is also an internal control mechanism that ensures each employee receives his/her salary from only one office. In each spending unit, the administration section maintains the personnel records and the finance section processes the payroll. Any personnel actions, such as promotions, transfers, rewards, and retirements, are communicated on a monthly basis. They are updated by the administration section to the finance section for necessary payroll adjustments. With most offices relying on electronic attendance systems, the administration section also provides attendance reports to facilitate the calculation of payroll. All relevant details are entered into the CGAS by the finance section to generate the monthly payroll. To ensure accuracy, a monthly reconciliation is conducted between payroll and personnel records, using OAG Form 226 - Salary form (*Talabi pharam*), which is then signed by the authorized personnel responsible for the verification of payroll records.

At the start of the fiscal year, the DoNPR/DTCO approves the annual salary sheet for each office, outlining the approved, filled, and vacant positions. All new civil servants are recruited through the PSC, which is strictly based on the vacant positions. Furthermore, staff promotions are rule based and associated with the annual salary sheet.

The monthly reconciliation of payroll and personnel records is a regulatory requirement, which is reviewed as part of periodic payroll audits. The reconciliation is done manually because personnel files are manually maintained, and the HR (PIS) and Payroll (CGAS) systems are not integrated. **Hence, the score for this dimension is a B.**

23.2. Management of payroll changes

Performance analysis and evidence for scoring: According to the Civil Service Rules, it is mandatory for government offices to maintain up-to-date personnel records of each employee. Any changes made should be communicated to the DoNPR for updating to the central PIS. To ensure accurate recordkeeping, the duties of maintaining and updating personnel records and payroll changes and making payments are assigned to different sections in each office. If any payroll changes occur, these are reviewed as part of the monthly reconciliation between personnel records and the payroll (OAG Form 226). The retroactive adjustments in the 22 offices sampled for this indicator accounted for only 0.03 percent of the total payroll for the year. These retroactive adjustments were made due to errors related to the amount of grade increment and tax deductions.

Personnel records and payroll management are decentralized, which enables timely updates in accordance with applicable rules and regulations. The payroll module of the CGAS and the monthly reconciliation practice ensure that changes can be processed on a monthly basis. The retroactive adjustments in sampled offices were less than 1 percent of the total payroll for the year. **Hence, the score for this dimension is an A.**

23.3. Internal control of payroll

Performance analysis and evidence for scoring: Employee records are kept at the spending unit and the DoNPR. Each spending unit's administration department maintains physical personnel files for its employees. Any changes made to these files require approval from a competent authority and are recorded in a manual log. The DoNPR maintains electronic personnel records through its PIS. The DoNPR's job operations manual outlines the procedures for updating and approving personnel records. All data entry, verification, and approval are logged in the PIS, thus providing an audit trail. The MoFAGA undertakes annual management audits of the personnel record management and publishes reports.

The payroll module in the CGAS is linked to the EFT, the Provident Fund, the Pension Fund, the Citizen Investment Trust, and the Permanent Account Number (PAN, Tax Registration Number).

This connection guarantees that only authorized employees receive their salaries. The CGAS also ensures that deductions from payroll are remitted to the respective funds on time (Provident Fund, Pension Fund) by not allowing payroll preparation for the next month until the previous month's deductions have been remitted. The CGAS prepares payroll in accordance with the OAG Form 226, except for salary increments. The system workflow ensures the segregation of duties, with an official responsible for payroll preparation and another senior official for approval. All actions are logged in the system and have an audit trail.

The regulations clearly define the internal controls and authority for making changes in payroll. These prescribed controls have been integrated into the PIS and CGAS workflow, thus ensuring an audit trail. Regular internal audits are conducted, along with annual external and management audits, to provide oversight. The audit reports identify specific observations but do not offer a comprehensive assessment about the accuracy of payroll and personnel data, as well as the effectiveness of the processes in ensuring the accuracy of all data. **Hence, the score for this dimension is a C.**

23.4. Payroll audit

Performance analysis and evidence for scoring: According to FPFA Act, Section 33(4), internal audit of each spending unit is mandatory. These audits cover 100 percent of salary expenditures and follow the FCGO's internal audit guidelines. They involve reviewing approved positions, DoNPR-approved annual salary sheets, monthly payroll calculations, HR actions and related payroll adjustments, tax deductions, and salary transfers. Additionally, the OAGN audits payroll expenditures as part of its annual external audits. The audit reports have not identified any significant control issues, only a few calculation errors. However, both internal and external payroll audits rely on document review. As such, they do not involve on-site physical verification of employees. Most GoN offices have implemented an electronic (biometric) attendance system, which offers a more reliable way of ensuring the employees' physical presence.

Pursuant to the FPFA Act, the FCGO has notified quarterly payroll audits. DTCOs conduct quarterly internal audits of payroll, and the OAGN audits payroll annually as part of external audits. However, both internal and external payroll audits rely on document review and do not involve on-site physical verification. **Hence, the score for this dimension is a C.**

■ PI-24. PROCUREMENT

What does PI-24 measure? This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. Coverage is CG for the last completed fiscal year. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: The PPMO-maintained e-GP system served as the primary database for the assessment of this indicator. Nevertheless, incomplete information in the e-GP system prompted an examination of the records of a few procuring agencies as well. The Federation of Nepal Chamber of Commerce and Industries and Contractors Association of Nepal were also consulted.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-24. Procurement (M2)		C
24.1. Procurement monitoring	Procuring agencies maintain contract records in individual files, which include information on what was procured, the value of the procurement, and who was awarded the contract. The only procurement database is maintained by the PPMO in e-GP, which is incomplete.	D
24.2. Procurement methods	A reliable database for procurement is currently unavailable, which limits the ability to accurately determine the degree of performance for this dimension.	D*
24.3. Public access to procurement information	Government units representing most procurement activities ensure that complete and accurate information for at least four key procurement information elements is made available to the public on time.	B
24.4. Procurement complaints management	The procurement complaints system meets five of the six prescribed criteria. Since a 1 percent deposit of the bid value is necessary to make a complaint, the criterion of not charging fees that prohibit access by concerned parties is considered unmet.	B

Detailed description of the country PFM system for the assessed performance indicator:

Public procurement is governed by the PPA of 2007 and the PPR of 2007. These laws apply to all procurement activities carried out by public entities. Any procurement that violates the PPA provisions is considered null and void, according to Clause 3 of the PPA.

The PPMO has been established under Clause 64 of the PPA. It is responsible for ensuring competition, efficiency, and transparency in all public procurement activities. It conducts capacity-building training and monitors and facilitates the procurement process. It also issues SBDs and other regulatory documents. Furthermore, the single e-GP portal is also managed by the PPMO.

In accordance with Sections 47 and 48 of the PPA, an independent Procurement Review Committee has been established. If a bidder or proponent is dissatisfied with the decision of the chief of the procuring entity or if no decision has been made, s/he may file an application for review before the Public Procurement Review Committee (PPRC).

Recent or ongoing reform activities: The PPMO is updating the PPR, developing new SBDs, and upgrading the e-GP portal to include a contract management module. The FCGO has recently upgraded the CGAS by adding the feature of commitment recording, which will be able to generate the digital record of the awarded contracts, including details.

24.1. Procurement monitoring

Performance analysis and evidence for scoring: The PPMO has developed the e-GP portal to manage the whole procurement cycle. However, the procuring agencies are currently using the portal to prepare the procurement plan and advertise the procurement opportunities and electronic bid submission. Information about contract awards and implementation is partially available on the portal.

The procurement act and regulations require the procuring agencies to keep separate files for each procurement. Procuring agencies maintain contract records in the form of manual files, which include information on what was procured, the value of the procurement, and who was awarded the contract. Data for procurement monitoring are, however, compiled manually when information is required due to the lack of a comprehensive database. The only procurement database is maintained by the PPMO in e-GP, which is incomplete. **Hence, the score for this dimension is a D.**

24.2. Procurement methods

Performance analysis and evidence for scoring: The PPA, 2007, prescribes various procurement methods, each with its own specific threshold. To promote fair competition and prevent favoritism toward specific bidders, Sections 8 and 9 emphasize the importance of open competition and discourage piecemeal procurement. Section 41 permits direct procurement within a specific threshold and criteria. The 2007 PPR provides three procurement methods. The first is direct purchase, which is used for procurement values of up to NPR 1 million (PPR 85). The second is the sealed quotation, which is utilized for procurement values up to NPR 2 million (PPR 84). Lastly, open bidding is used for procurements exceeding NPR 2 million (according to PPR 31 and 70). According to Article 5 of the Electronic Procurement System Operation Directive 2023, the use of the e-GP is obligatory for all competitive bidding processes involving public funds, including tenders, pre-qualifications, and proposals. Additionally, the e-GP system can be employed for both sealed quotation and direct procurement.

According to the 59th OAGN Annual Report for FY2020/21, direct purchases account for 4.13 percent (NPR 495 million) in the sample of procurements reviewed. However, as mentioned in PI-24.1, there is no complete and accurate procurement database, which limits the ability to accurately determine the degree of performance for this dimension. **Hence, the score for this dimension is a D*.**

24.3. Public access to procurement information

Performance analysis and evidence for scoring: The government fulfills four of the six PEFA criteria, as indicated in Table 24.3, with published information meeting the time frame useful to the public. The PPMO independently verifies completeness and reliability of procurement information on a sample basis. Most of the information is available free of charge on the PPMO website or the websites of the procuring entities. Some of the information is also disseminated through print media, for example, contract awards, which is also free of charge.

Table 24.3: Public access to procurement information (last completed fiscal year)

Element/ Requirements	Met (Yes/ No)	Evidence/Comments
(1) Legal and regulatory framework for procurement	Yes	PPA, 2007, PPR, 2007, relevant directives and procedures, and SBDs are available on the PPMO's website. <ul style="list-style-type: none"> ▪ https://ppmo.gov.np/acts_and_regulations ▪ https://ppmo.gov.np/downloads
(2) Government procurement plans	No	Procuring entities create their procurement plans annually based on their approved work programs and budget allocations. To inform the public, these entities share procurement plan details through bulletins, annual progress reports, and sometimes on their websites. However, complete procurement plans may not be available within a time frame useful for the people most likely to use them. The OAGN audit report highlights the need for procuring agencies to prepare their annual procurement plans in compliance with the procurement law and regulations.
(3) Bidding opportunities	Yes	All bidding opportunities by all procuring agencies are published in national newspapers and on the e-GP portal. As mentioned in PI-24.1, the e-GP portal is the platform utilized to advertise all bidding opportunities, ensuring that information about bidding opportunities is available to the public. <ul style="list-style-type: none"> ▪ https://www.bolpatra.gov.np/egp/searchOpportunity.
(4) Contract awards (purpose, contractor, and value)	Yes	Details regarding contract awards are publicly accessible through various channels, including the e-GP portal, the National Daily Newspapers, and office notice boards. While there are concerns about completeness of procurement database maintained by PPMO, public disclosure of contract award information is a regulatory requirement. The internal and external audits only reported non-compliance with regulatory requirements in less than 5 percent of the procurements. There are no audit observations qualifying availability, completeness, or reliability of procurement records. <ul style="list-style-type: none"> ▪ https://www.bolpatra.gov.np/egp/loadContractRecordsListPublic
(5) Data concerning the resolution of procurement complaints	Yes	The public can access information about the resolution of procurement complaints through the PPMO's annual report, which is published after the end of the fiscal year. In FY2020/21, all 24 registered complaints were resolved, bringing the cumulative number of complaints to 160 as of the same fiscal year. <ul style="list-style-type: none"> ▪ https://ppmo.gov.np/reports/annual_reports

Element/ Requirements	Met (Yes/ No)	Evidence/Comments
(6) Annual procurement statistics	No	Procurement statistics of procuring entities can be found in their annual progress reports posted on their respective websites. The PPMO also includes the e-GP statistics in its published annual progress reports. However, complete procurement statistics of all procuring entities are not readily accessible.

The government publicly discloses complete and reliable information, representing most procurement activities, within a time frame useful to the public about (a) legal and regulatory framework for procurement, (b) bidding opportunities, (c) contract awards, and (d) data concerning the resolution of procurement complaints. **Hence, the score for this dimension is a B.**

24.4. Procurement complaints management

Performance analysis and evidence for scoring: The PPRC has been established in accordance with the PPA Clauses 47 and 48. The committee consists of a chair and two members, with specific qualifications required for each. The chair shall be a former judge of the appellate court or equivalent. One member should be a retired first-class officer of the Engineering Service of the GoN and the second member shall be a public procurement expert. The chair and members cannot hold a position in any public entity or be involved in any procurement activity.

Table 24.4: Procurement complaints management (last completed fiscal year)

Element/ Requirements	Met (Yes/ No)	Evidence/Comments
(1) Complaints are reviewed by a body that is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.	Yes	The procurement law stipulates that PPRC members are prohibited from occupying positions in public entities or participating in any procurement-related activities. The chair and members of the committee are not involved in any capacity in procurement transactions or in the process leading to contract award decisions.
(2) Complaints are reviewed by a body that does not charge fees that prohibit access by concerned parties.	No	The PPRC does not charge any fees. However, according to the PPR, 2007, complainants are required to deposit 1 percent of the bid price as a guarantee. This deposit is refundable if the complaint is found to be justified. However, it will be forfeited if the complaint is dismissed. The Federation of Nepal Chamber of Commerce and Industries and Contractors Association of Nepal have concerns over this deposit and consider it restrictive.

Element/ Requirements	Met (Yes/ No)	Evidence/Comments
(3) Complaints are reviewed by a body that follows processes for submission and resolution of complaints that are clearly defined and publicly available.	Yes	The process for filing complaints and resolving them has been clearly defined by the PPA and PPR and is publicly available. The PPRC has successfully addressed 24 complaints in the last fiscal year following the prescribed procedures. The details are provided in the annual report of the PPMO, including the process followed by the PPRC.
(4) Complaints are reviewed by a body that exercises the authority to suspend the procurement process.	Yes	According to Section 26 of the PPA 2007, the PPRC holds the power to suspend the procurement process. In FY2022/23, a total of 33 procurement complaints were examined, resulting in 15 suspensions, 15 continuations, and 3 reevaluation orders.
(5) Complaints are reviewed by a body that issues decisions within the time frame specified in the rules/ regulations.	Yes	According to Clause 51(2) of the PPA, 2007, the PPRC is obliged to provide decisions within 30 days of a complaint being filed. In FY2020/21, the PPRC received 24 complaints and managed to issue its decisions within the 30-day time frame for all cases.
(6) Complaints are reviewed by a body that issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).	Yes	The decisions made by the PPRC hold authority over all parties involved. If the concerned parties are dissatisfied with the decision, they may choose to file a case in a higher court of law.

It is ensured by the law that an impartial procurement complaints mechanism is established, with authority to make binding decisions within a reasonable span of time. Nonetheless, the legal provision of depositing 1 percent of the bid amount for filing a complaint is deemed as restrictive. Therefore, it might be the cause of the low number of complaints. The procurement complaints system meets five of the six prescribed criteria as explained in Table 24.4. **Hence, the score for this dimension is a B.**

PI-25. INTERNAL CONTROLS ON NON-SALARY EXPENDITURE

What does PI-25 measure? This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. Coverage is CG at the time of assessment. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: The relevant PFM legislations and regulations were reviewed to ascertain the adequacy of prescribed internal controls. Workflow-integrated prescribed controls were evaluated for their presence in the expenditure management information systems. Internal and external audit reports were utilized to determine the degree of compliance.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-25. Internal controls on non-salary expenditure (M2)		C+
25.1. Segregation of duties	The legislation requires segregation of duties throughout the expenditure cycle, which some MDAs have specified by drafting extensive SOPs and job descriptions. In the case of others, the Secretaries delegate authority and duties to officials through office orders and important responsibilities need to be more specifically defined. The information systems used for budget formulation and execution incorporate internal controls with segregated duties, roles, and responsibilities.	C
25.2. Effectiveness of expenditure commitment controls	The FPFA Act and FPFA Regulation prescribe effective expenditure commitment controls to limit commitments within annual budget allocations. However, the treasury and accounting systems lack commitment controls and only capture expenditure information at the payment stage.	D
25.3. Compliance with payment rules and procedures	All payments are compliant with regular payment procedures. The percentage of non-compliant expenditures is less than 5 percent in accordance with internal and external audits reports.	A

Detailed description of the country PFM system for the assessed performance indicator:

The Parliament and the government have put in place various legal provisions through different acts and regulations for effective public service delivery to ensure fiscal discipline. The FPFA Act sets out detailed guidelines and procedures for all aspects of PFM, including budgeting, accounting, reporting, and auditing.

Government offices are required to establish robust internal control systems to ensure accurate financial reporting, mitigate risks, and improve efficiency. To support this, the FCGO has developed an Internal Control Procedure Directive. Responsible officers and department heads are required to sign performance contracts with clear outcome indicators. Central offices and secretariats are required to monitor the internal control system biannually and provide guidance for necessary reforms.

Recent or ongoing reform activities: As part of continuous improvements, there are ongoing reform activities aimed at strengthening the internal control framework and ensuring better utilization of technology for effective controls. The FCGO is currently revising the integrated internal control guidelines that will apply to the entire government. Additionally, the MDAs are preparing their internal control system manuals, as stipulated by the FPFA Act. To capture commitments and enhance financial reporting, the FCGO is upgrading information systems, including the TSA and CGAS.

25.1. Segregation of duties

Performance analysis and evidence for scoring: The FPFA Act has established a clear division of major responsibilities. The Chief Accounts Officer (Secretary) and the Office In-charge are responsible for authorizing expenses. The spending unit's accounts section is responsible for accounting, recording, reporting, and reconciliation. Asset custody is handled by the store section of the spending unit. Internal auditing is managed by the FCGO, while external auditing is the OAG's responsibility. To assist spending units in formulating and executing yearly budget expenditures, various IT systems have been developed and used. These systems incorporate internal controls with segregated duties, roles, and responsibilities. As an illustration, the spending units handle expenditure payments by utilizing CGAS, which segregates the responsibilities of voucher preparation and approval. The PPR, 2007, prescribes the composition of different procurement committees and financial authority of officials to approve cost estimates and contract awards.

Even though laws and regulations clearly lay out most responsibilities, many GoN offices are yet to develop their SOPs. While some ministries have followed the FPFA Act, the requirement to prepare their internal control system manual (framework), including SOPs and detailed job descriptions, most MDAs have not yet done so. In the absence of SOPs, precise definition and allocation of responsibilities during the expenditure process are not available.

The Good Governance (Operation and Management) Act provides guidance on general provisions regarding the execution of governance. The act stipulates that the Secretary shall act as the chief administrative authority of the relevant ministry, constitutional body, or office at the central level and fulfill the duties associated with that role. The act also contains provisions on the procedures to be followed when performing administrative functions, with a particular emphasis on the decision-making process. Section 22 of the act specifies the types of authority that can be delegated. The Secretaries, in conformity with the act, assign financial authorities and duties to the officials via an office order.

The legislation has defined different duties and responsibilities for expenditure management, which is critical for a strong internal control system. Certain MDAs have formulated SOPs and job descriptions; however, in the case of other MDAs, the Secretaries allocate tasks and duties

among officials by means of office orders. As a result, most MDAs need to define important responsibilities more precisely in the form of SOPs. **Hence, the score for this dimension is a C.**

25.2. Effectiveness of expenditure commitment controls

Performance analysis and evidence for scoring: The PFPA Act and PFPA Regulation have established strict guidelines for controlling expenditure commitments. Section 12 of the Act and Rule 21 focus on commitment controls and the necessary compliance and assurance arrangements. The Rule 21-2 mandates the budgetary entities to submit the consolidated report of commitment amount to the MoF during budget discussion. Additionally, Rules 21-5, 21-6, and 21-7 provide budgetary entities with guidance on reporting committed amounts to the FCGO within three months of the end of the fiscal year.

In the budget proposal for the coming fiscal year, the spending units can propose a budget for new programs only after allocating the budget for committed expenditures. The MoF establishes norms for budget expenditures each fiscal year to prevent unauthorized commitments.

These controls ensure that the government's payment obligations remain within annual budget allocations, thereby avoiding the creation of expenditure arrears. However, commitment controls are not incorporated into the treasury and accounting systems, which only capture expenditure information at the payment stage. Commitments data are manually collected from spending units annually. Nonetheless, expenditure arrears remain less than 1 percent of total annual expenditures.

The commitment controls enshrined in the act and rules are effective, but the information systems only capture expenditures at the payment stage. **Hence, the score for this dimension is a D.**

25.3. Compliance with payment rules and procedures

Performance analysis and evidence for scoring: The dimension was assessed using the results of internal and external audits for FY2020/21. Quarterly internal audits are carried out for each spending unit, and the FCGO presents the annual consolidated internal audit report to the MoF. Any internal control deviation is reported as an irregularity by the internal audit. In FY2021/22, internal audits reported irregularities amounting to only 2 percent of the audited sum. The assessors also reviewed the external audit reports for the five government ministries/ departments with the largest spending during FY2020/21, which identified irregularities equivalent to only 4 percent of the audited amount.

The internal control architecture prioritizes compliance and necessitates numerous authorizations for payment processing. The internal and external audits have identified less than 5 percent of the expenditure as non-compliant with the prescribed internal controls. **Hence, the score for this dimension is an A.**

PI-26. INTERNAL AUDIT

What does PI-26 measure? This indicator assesses the standards and procedures applied in internal audit. Coverage is CG at the time of assessment for PI-26.1 and PI-26.2, for the last completed fiscal year for PI-26.3, and for PI-26.4, for audit reports that should have been issued in the last three fiscal years. This indicator uses the M1 (WL) method for aggregating dimension score.

Methodological notes: The information was collected from the FCGO and three DTCOs for the assessment of this indicator. The information about audit plans and reports was collected from the TSA system.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-26. Internal audit (M1)		D+
26.1. Coverage of internal audit	Internal audit is operational for all CG entities and covers both expenditure and revenue.	A
26.2. Nature of audits and standards applied	Internal audit activities are primarily focused on financial compliance. The government has not formally adopted any standards for internal audit.	D
26.3. Implementation of internal audits and reporting	Annual audit programs are prepared at the DTCO level. All programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.	A
26.4. Response to internal audits	According to the PFPA Regulations, auditee offices are required to settle the internal audit observations. However, evidence of the settlement (management response to audit recommendations) of internal audit observations is partially available.	D

Detailed description of the country PFM system for the assessed performance indicator:

The PFPA Act, Section 33, and PFPA Regulation, Chapter 9, outline the provision for the internal audit function. Section 33 mandates that internal audits be conducted to assess the regularity, economy, efficiency, and effectiveness of office transactions. As prescribed by law, the internal audit system is under the FCGO. It is executed through the network of the DTCOs across the country. The FCGO has created a separate internal audit cadre to ensure that the individuals involved in accounting are not allowed to conduct internal audits. Each DTCO has a separate internal audit unit responsible for conducting internal audits of the offices under its jurisdiction. In addition, the FCGO has developed and communicated a code of conduct for the internal auditors. The procedures for internal audit are prescribed in the Internal Audit Procedure Directive, 2016, and the Internal Audit Handbook. The TSA includes a separate module for internal audit planning, reporting, and monitoring.

Recent or ongoing reform activities: The FCGO has recently updated its internal auditing directives to include international standards for professional practice. The Internal Audit Manual and Handbook now incorporates various provisions from Internal Auditing Standards aimed at improving internal audit procedures and reports. Internal audit cadres have been fully separated from accounting and treasury management functions. The FCGO has integrated an internal audit module in the TSA system to record internal audit plans and reports. The spending units can access their audit reports through the CGAS.

26.1. Coverage of internal audit

Performance analysis and evidence for scoring: During FY2021/22, internal audits were conducted for all GoN entities by the DTCOs. The FCGO's consolidated internal audit annual summary report reveals that a total of 4,097 government offices were audited. In addition, the DTCOs conduct internal audits of the EBUs for the government grants they receive. Some EBUs and PEs have their own internal audit mechanisms in place, guided by their respective laws. However, if needed, these entities can request that the DTCOs conduct internal audits.

The DTCOs' internal audits are carried out by another DTCO under the FCGO's instructions. The DTCO located in Babarmahal, Kathmandu, is responsible for conducting internal audits for the FCGO. This ensures that all government offices and entities are thoroughly assessed and evaluated for their compliance with laws, regulations, and policies.

The internal audit covers all revenue and expenditure of the CG. It assesses the extent to which expenditure adheres to the prescribed rules and regulations. Regarding revenue, the internal audit primarily examines the records of entities responsible for collecting revenue and the treasury to ensure that the assessed revenue aligns with the amount collected and deposited in the treasury. Internal audits do not verify tax assessments, and hence cannot provide an opinion if the tax was assessed accurately.

Internal audit is operational for all CG entities and covers both expenditure and revenue. **Hence, the score for this dimension is an A.**

26.2. Nature of audits and standards applied

Performance analysis and evidence for scoring: According to the FPFA Act, the internal audit should examine the regularity, economy, efficiency, and effectiveness of transactions. However, the current emphasis is primarily on ensuring legal and financial compliance. Internal audits confirm the accuracy of transactions by reviewing supporting documents for adherence to financial and legal standards. Although the internal audit handbook requires evaluating the adequacy and efficacy of internal controls, the actual implementation is partial.

The government has not formally adopted any standards for internal audit. However, during the development of the internal audit handbook, the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors was consulted. In addition, there is an absence of evidence demonstrating adherence to professional standards via a quality assurance process. **Hence, the score for this dimension is a D.**

26.3. Implementation of internal audits and reporting

Performance analysis and evidence for scoring: As part of the Internal Audit Procedures Directive, an annual work plan shall be prepared. The TSA module is utilized to create internal audit plans and reports. Each year, the DTCOs submit their internal audit work plan to the FCGO. Internal audits are conducted quarterly, with findings reported in the TSA. The FCGO oversees the implementation of the plans and all planned audits for FY2020/21 were completed. After the last quarter's audits are completed, the DTCOs submit their annual internal audit reports to the FCGO. According to the PFPA Act, the FCGO submit a consolidated internal audit report to the Minister of Finance. This report is submitted in November and is published on the FCGO website (<https://www.fcgo.gov.np/reporttype/13>). The report summarizes internal audit coverage, activities, key issues identified, and observations for each of the various offices. All internal audit reports are written in Nepali.

The assessment team reviewed the internal audit programs and audit reports for DTCOs of Kathmandu, Nuwakot, and Baitadi. These DTCOs conducted internal audits of all CG entities within the district. The internal audit programs consisted solely of scheduled audits and did not encompass risk assessment or planned audit procedures. All planned audits for FY 2020/21 were completed, and the internal audit reports were submitted to the relevant office upon completion of the audit and were accessible in the TSA. This demonstrates preparation and completion of annual internal audit programs. **Hence, the score for this dimension is an A.**

Table 26.3: Implementation of internal audits and reporting- FY2020/21

DTCO	No. of Audits Planned	No. of Audits Completed	Audit report completed and distributed to appropriate parties
Baitadi	46	46	Yes
Nuwakot	43	43	Yes
Kathmandu	146	146	Yes

Source: Official records of DTCOs and data available in TSA module

26.4. Response to internal audits

Performance analysis and evidence for scoring: According to Internal Audit Procedures Directive, 2016, after completion of internal audits, the audit reports shall be submitted to the auditee for review and discussion. They are then discussed during the audit exit meeting. The auditee offices are required to settle the audit observations and report the status to their superior office and the DTCO. Any audit observations that the auditee office cannot settle shall be forwarded to the superior office for settlement.

According to the FPFA Act Section 33, before the external audit, the officer responsible for accounts shall make the settlement of the observation of the internal audit and submit the internal audit report to the external auditor. The observations and recommendations of the internal audit may be included in the external audit report.

There are legal and regulatory provisions that require auditees to settle the internal audit observations and implement audit recommendations. However, the documentary evidence of the settlement of such observations is only partially available, but the evidence is not sufficient to establish that majority of the entities provided a response. **Hence, the score for this dimension is a D.**



**PILLAR SIX:
Accounting
and Reporting**



**PILLAR ONE:
Budget Reliability**



**PILLAR TWO:
Transparency of Public Finances**



**PILLAR THREE:
Management of Assets and Liabilities**



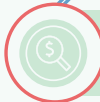
**PILLAR FOUR:
Policy-based Fiscal Strategy and Budgeting**



**PILLAR FIVE:
Predictability and Control in Budget Execution**



**PILLAR SIX:
Accounting and Reporting**



**PILLAR SEVEN:
External Scrutiny and Audit**

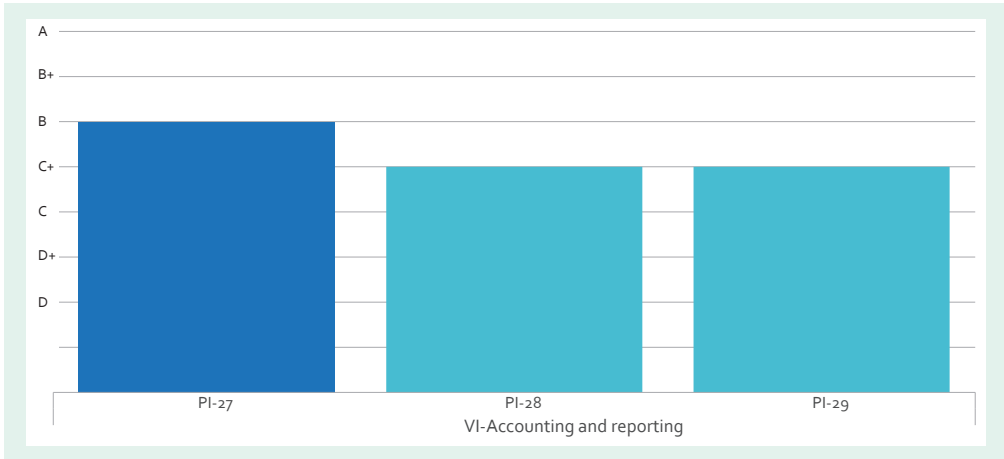
▶ PILLAR SIX: ACCOUNTING AND REPORTING

What does Pillar VI measure? Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Overall performance: Analysis of key strengths and weaknesses

Nepal has exhibited good performance in certain aspects of accounting and reporting. Processes regarding financial data integrity have been functioning well, and the country has received a 'B' score on PI-27. Access and changes to records are restricted and recorded, which helps in maintaining an audit trail. Moreover, all bank accounts and advances are reconciled every month, and there is no provision for suspense accounts. Budgetary units are preparing accurate and timely in-year budget execution reports that allow for a direct comparison of expenditure and budget by administrative and economic headings. However, the in-year reports do not capture expenditure from transfers made to deconcentrated units, only capture expenditure at the payment stage, and are not accompanied by analysis and commentary on budget execution. As a result, the in-year budget reports (PI-28) have received a 'C+' score. The annual financial reports for BCG are comparable with the approved budget and include information on revenue, expenditure, and cash balances. These statements are prepared in accordance with national standards and submitted to the auditors within three months of the close of the fiscal year. However, the consolidated financials are not compiled as required by the national accounting standards. Therefore, the annual financial reports have been scored 'C+' (PI-29).

The TSA, a solid regulatory framework, and accounting and reporting information systems ensure reconciliations and financial data accuracy. The 'day close' system in the TSA is used for daily reconciling the expenditure amounts of the DTCO and the payments from the bank. Revenues collected in the core banking system are reconciled with the RMIS on a daily basis. Because of single accounts for making expenditures (TSA) and the integrated system of revenue collection (RMIS), the suspense accounts do not exist. Spending units and line ministries prepare monthly in-year budget reports for monitoring. The MoF releases biannual consolidated in-year budget reports with thorough comparisons to the original budget, including the analysis and commentary on budget execution. The government uses the cash basis of accounting, commitment controls are prescribed but not applied, and expenditures are recognized at the payment stage. Annual financial statements are prepared according to national standards and within three months after the end of the fiscal year. Nonfinancial assets, liabilities, guarantees, and long-term obligations are disclosed in the annual financial statements, but information is incomplete.



PI-27. FINANCIAL DATA INTEGRITY

What does PI-27 measure? This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. Coverage is CG for PI-27.1 and BCG for PI-27.2, PI-27.3, and PI-27.4. Time period is at the time of assessment for all four dimensions, specifically covering the preceding fiscal year for PI-27.1, PI-27.2, and PI-27.3. This indicator uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: The information gathered from the FCGO, DTCOs, and NRB regarding reconciliations was triangulated with audit reports.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-27. Financial data integrity (M2)		B
27.1. Bank account reconciliation	Bank reconciliation for all active CG bank accounts takes place at least monthly, usually within four (4) weeks from the end of the month. The principal bank accounts of the government are reconciled on a daily basis.	B
27.2. Suspense accounts	There is no provision for suspense accounts in the government's accounting system.	NA
27.3. Advance accounts	Reconciliation of advance accounts takes place at least monthly and within a month from the end of each month. Most advance accounts are cleared in a timely way.	B

Indicator/Dimension	Assessment of performance	Score
27.4. Financial data integrity processes	Access and changes to records are restricted and recorded and results in an audit trail. Different FCGO units are responsible for prioritizing data security and integrity. However, there is currently no separate report available to confirm the verification of data integrity by these units.	B

Detailed description of the country PFM system for the assessed performance indicator:

The GoN uses the cash basis of accounting to record all transactions at the time of payment or receipt. Expenditures, deposits, and other operating fund transactions are recorded through the CGAS, while revenue transactions are accounted for and reported via the RMIS. The DTCOs make payments through the EFT system based on payment recommendation from the spending units through the CGAS. The FMIS integrates different systems to generate various financial reports.

The TSA process and procedures are outlined in TSA directives, 2016. The opening, operation, reconciliation, and reporting of government bank accounts are governed by the NRB’s Government Transaction Directive, 2019. Additionally, the Accounting Manual, 2016, outlines the accounting policies, principles, procedures, and processes for government financial transactions.

Recent or ongoing reform activities: The government is currently reviewing the FPFA Regulation and directives with the aim of enhancing practices and controls for financial data integrity. Additionally, a study has been completed, including a roadmap to implement a modern IFMIS.

27.1. Bank account reconciliation

Performance analysis and evidence for scoring: The GoN uses a TSA, which is a combination of government bank accounts to enable the consolidation and utilization of government cash resources. The TSA of the GoN comprises all the revenue and expenditure accounts maintained at five banks including the NRB. These accounts have been established in accordance with Government Transaction Directive, 2019, which also requires periodic reconciliation of all accounts.

The government’s principal bank accounts are reconciled on a daily basis, which is eased by the FMIS. To reconcile spending accounts, the TSA system is employed. Each DTCO reconciles the daily payment instructions supplied through checks or electronic cash transfers with the bank statements. The RMIS manages the daily reconciliation of revenue accounts. At the end of the day, each bank sends the collected revenues together with the RMIS report to the NRB, which credits the government account. The NRB transmits a daily revenue collection report from the RMIS to the FCGO. Other bank accounts constitute less than 10 percent of government transactions and

are reconciled on a monthly basis. Table 27.1 outlines the GoN accounts that are part of the TSA. Refer to Table 21.1 for the materiality of the transactions in each group of accounts.

Table 27.1: GoN accounts constituting TSA

Group of accounts	Government bank accounts group	Operator	Reconciliation frequency
KA-1	GoN Central Consolidated Fund Account: It includes four bank accounts: revenue receipts, financing receipts, release and expenditure, and consolidated fund reconciliation.	FCGO	Daily
KA-2	GoN Expenditure and Fund Account: There are 10 accounts in this group for government expenditure payments, repayment of deposits, designated accounts, miscellaneous, operating, payments to the EBUs, and tax refunds.	DTCOs	Daily
KA-3	Contingency Fund Account: This account is used for any contingency payments. There were no transactions in this account during the last three fiscal years.	FCGO	Infrequent; whenever there is a transaction.
KA-4	Divisible Fund Account: All revenue divisible between federal and subnational governments is deposited in this account. Monthly revenues are reconciled and distributed within subsequent month.	FCGO	Monthly
KA-5	Rescue and Relief Fund: Used for any rescue and relief payments due to a natural disaster or emergency	FCGO	Monthly
KA-7	Foreign Assistance Income Account: The receipts of foreign grants are recorded in this account. The funds are transferred to the expenditure account to incur expenditures.	FCGO	Monthly
KA-8	Adjustment Account: Maintained by the NRB	NRB	Monthly

Source: Government Transaction Directives, 2019, NRB

According to the EBU's financial regulations, it is mandatory to conduct monthly bank reconciliations, which are subject to review during internal and external audits. To assess the consistency of bank reconciliation, 10 EBUs⁴³ were randomly selected for review and all of them were found to be preparing monthly bank reconciliations. The assessors also scrutinized the internal and external audit reports of these EBUs and found no instances of non-compliance with bank reconciliation preparation.

The implementation of the TSA and the Government Transaction Directive of 2019 requires periodic bank reconciliations, which are facilitated by information systems. The FCGO oversees this process through centralized monitoring and reporting, ensuring that the reconciliations are completed within the specified timelines. All government bank accounts are reconciled at least on a monthly basis within four weeks of the close of the month. **Hence, the score for this dimension is a B.**

27.2. Suspense accounts

Performance analysis and evidence for scoring: The government makes expenditures through the TSA and collects revenue through the single platform—the RMIS. All types of receipts collected by the RMIS are directly deposited in government revenue accounts. Any errors in revenue classification and accounting found during reconciliation can be adjusted by the DTCO within the system. Therefore, the government's accounting system does not have provisions for a suspense account. **Hence, the score for this dimension is not applicable (NA).**

27.3. Advance accounts

Performance analysis and evidence for scoring: Government employees and offices can request an advance by submitting an application that outlines the required amount and purpose to the relevant office. This is in accordance with FPFA Regulation (47-1); the PPA, Section 52A; and the PPR, Rule 113, which have stated the provision and processes of the advance. The FPFA Rule (47-5) and PPR Rule (113) mandate that the concerned entity settles the advance within seven days based on the report and supporting documents submitted by the advance receive. All spending offices are required to submit monthly advance statements to the DTCO and reconcile them. Rule 52-4 states that unsettled advances shall be included in internal and external audit reports. The OAGN has created forms (207 and 211) for the advance account and monthly statements of outstanding advances, which are reconciled monthly and audited internally and externally. The CFS provides an overview of both matured and immature outstanding advance amounts. The advances released and settled within the same fiscal year are not included in the CFS.

⁴³ EBUs sampled for assessment include 1. Council For Technical Education and Vocational Training; 2. Lumbini Development Trust; 3. Kathmandu Valley Drinking Water Development Board; 4. National Tea and Coffee Development Board; 5. Road Board; 6. Nepal Telecommunications Authority; 7. Nepal Health Research Council; 8. Town Development Fund; 9. Singhadurbar Baidhya Khana; 10. Nepal Academy.

Table 27.3: Outstanding matured and immature advances for the last three fiscal years (NPR, millions)

Particular	FY2018/19		FY2019/20		FY2020/21	
	Amount	Percent	Amount	Percent	Amount	Percent
Outstanding matured advances	15,223.97	33.52	6,981.22	17.89	17,715.8	47.74
Outstanding immature advances	30,414.20	66.48	32,044.36	82.11	19,390.54	52.26
Total	45,638.17	100.00	39,025.58	100.00	37,106.34	100.00

Source: CFS 2020/21, FCGO.

The outstanding matured advances are related to long-term procurement contracts. These advances are treated as mobilization advances. The required bank guarantees are obtained as security in compliance with legal regulations and contract terms and before releasing the advance.

The data presented in table 27.3 provides an overview of the advances at the close of the fiscal year. It is important to note that these advances are subject to adjustments in the following month. For instance, at the end of FY2020-21, the outstanding matured advances totaled NPR 17.7 billion. However, according to the external audit report for the same year, a significant portion of these advances were adjusted in the subsequent months, bringing down the amount to NPR 4 billion. Furthermore, most of the matured advances that remain outstanding are associated with long-term procurements or multi-year contracts. According to the law, time extensions are permitted for adjusting these advances if the corresponding contracts are also extended. As a result, with contract extensions, the time period for advance adjustments is modified, and some matured advances are reclassified as immature advances. It is also important to note that such advances are secured against bank guarantees.

There are clear rules for approving, recording, and settling advances. In accordance with PFPA Regulations (Rule 53), the advances are settled on a monthly basis. Regular monthly reconciliations of outstanding advances, along with internal and external audits, ensure that accurate recording and timely adjustments are made. **Hence, the score for this dimension is a B.**

27.4. Financial data integrity processes

Performance analysis and evidence for scoring: Various information systems have been developed and implemented by the government for budgeting, accounting, revenue collection, and reporting purposes. These systems have not yet been certified for security using an international framework, such as the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). However, they do contain adequate controls

to maintain the integrity of financial data. Based on an independent review in 2021, the FCGO has incorporated additional authentication and access controls in various information systems. The Oracle Audit Vault and Database Firewall has been implemented to ensure that access and changes to records are restricted and recorded, thereby resulting in an audit trail. All logs are maintained at the database level, and the Secure Sockets Layer (SSL) certificate encryption has been applied.

The FCGO has three distinct sections that prioritize the maintenance of data security and integrity. The System Development and Fund Management Section is responsible for designing the business process and leading the development of information systems. Meanwhile, the IT section ensures the regular application and data backup, including strong security measures for these systems. Finally, the Financial Reporting and Publication Section prepares CFS by reconciling and verifying all the government transactions of the DTCOs, central-level ministries, and agencies. These three sections work together to reinforce each other with clearly defined roles and responsibilities. However, reports are not available to confirm the verification of data integrity by these units.

The government has taken steps to improve and update the information systems to guarantee data security and an audit trail. Additionally, the reviews conducted by various sections within the FCGO serve to further uphold the integrity of the financial data. As explained, there are adequate measures in place to limit access and changes to the records. The system enables the logging of any modifications to the records and offers an audit trail of the access and changes.

Hence, the score for this dimension is a B.

■ PI-28. IN-YEAR BUDGET REPORTS

What does PI-28 measure? This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. Coverage is BCG for the last completed fiscal year. This indicator uses the M1 (WL) method for aggregating dimension scores.

Methodological notes: For this indicator, the monthly budget execution reports generated by the budgetary units were evaluated. To assess the accuracy of the in-year budget reports, a sample of internal audit reports were reviewed.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-28. In-year budget reports (M1)		C+
28.1. Coverage and comparability of reports	The monthly budget execution allows direct comparison of expenditure and budget by administrative and economic headings and does not include expenditure made from transfers to deconcentrated units.	C
28.2. Timing of in-year budget reports	Each spending unit prepares and submits the monthly budget execution reports to its superior office within seven days of the close of the month.	A
28.3. Accuracy of in-year budget reports	There are no material concerns about accuracy of data presented in the in-year budget reports. However, expenditures are only captured at the payment stage and the monthly budget reports are not accompanied by analysis and commentary on budget execution.	C

Detailed description of the country PFM system for the assessed performance indicator:

The GoN adheres to the GFSM 2014 standard by using 'Economic codes, classifications and explanation' for government budget formulation, implementation, and reporting across all three tiers of government. After receiving the expenditure authority, relevant offices prepare their work plans for program implementation and budget expenditures, estimate monthly expenditures, and submit these plans to their superior offices and DTCOs.

As stipulated by the PFPA Regulation (Rule 73), spending offices reconcile monthly financial statements with the DTCO and submit them to the superior office within seven days of the end of each month. Spending offices submit the annual financial reports to the DTCO and get certified within 21 days of the end of the fiscal year. These reports are disaggregated by administrative and economic classification in accordance with the GFS/COFOG classification. There are specified OAG forms for the preparation of these reports. The provincial- and local-level governments also follow the same OAG form and prepare the budget execution report. The existing IT systems are used to generate these reports by the respective entities. The superior offices consolidate and reconcile the reports on a monthly basis using the reports generated through IT systems.

The Statement of Revenue, which covers revenue income by administrative and revenue heads, is prepared according to the OAG Form 110. The statement of expenditure, which covers budget allocations and expenditures by administrative and economic heads, is prepared according to the OAG Form 210. Both reports are prepared within seven days of the end of the month.

Recent or ongoing reform activities: The MoF has started publishing monthly economic bulletins on its website that detail the macroeconomic status and revenue outcomes compared to the original budget. Meanwhile, the FCGO's website discloses the daily budgetary status, including the expenditures and receipts of the GoN. Additionally, the FCGO has implemented MFMS for the line ministries to generate periodic financial and customized reports.

28.1. Coverage and comparability of reports

Performance analysis and evidence for scoring: The government uses the LMBIS to prepare and submit budget requests, with monthly execution reports being provided through the CGAS and TSA. Integration of these systems enables the generation of budget execution data based on administrative and economic heads. Spending offices regularly report (monthly, quarterly, and semiannually) through systems, such as the TSA, RMIS, CGAS, and PAMS, as mandated by the PFA Act and Regulation for effective monitoring and control. The superior offices consolidate the reports using existing IT systems.

Spending units prepare monthly reports of budget execution, including revenue receipts, expenditures, deposits, assets, and commitments. These reports provide a detailed comparison of budgets, expenditures, and revenue collection by administrative and economic heads. These reports are reconciled with the DTCO and submitted to the superior office on a monthly basis. These reports do not include the functional classification because the corresponding OAG forms do not require it. The information systems, on the other hand, consist of information for all items in the original budget, including functional classification, and can generate reports at the same degree of disaggregation as the budget.

The government implements some services and related expenditure through deconcentrated EBUs (for example, universities and tertiary care hospitals). Budget execution reports, however, only include transfers to EBUs as expenditures and not their actual expenditure. Therefore, the in-year budget reports do not include the status of EBU budget implementation.

The spending units prepare monthly budget execution reports as per the OAG forms, which do not include the functional classification of budget execution. The reports include information allowing direct comparison of expenditure and budget according to the administrative and economic headings. However, the reports do not include expenditure made from transfers to the deconcentrated units. **Hence, the score for this dimension is a C.**

28.2. Timing of in-year budget reports

Performance analysis and evidence for scoring: The in-year budget execution reports covering the BCG are prepared periodically. Each spending unit prepares the monthly reports as prescribed by the OAG forms. These reports only include the figures of budget and actual revenue and expenditure and are not accompanied by an analysis and commentary on budget

execution. The EBUs separately prepare their in-year budget reports, which are not consolidated into BCG in-year budget reports. All BCG spending entities prepare monthly statements of expenditures and revenues, reconcile with the DTCO, and then send them to the superior office within seven days of the end of each month.

In the government's annual budget, there are 49 administrative units (MDAs) at which the budget is aggregated (as mentioned in Annex 4 of the Budget Speech). These administrative units comprise almost 6,000 spending units, each of which is assigned a unique organizational/administrative code for budget planning, execution, and reporting purposes in the CoA. Within each of the 49 administrative units, there is a hierarchical structure that begins with the Secretary/Head and goes down to the spending units. For instance, the MoAL is an administrative unit and the Department of Food Technology and Quality Control is one of its departments. There are eight offices at the province level and 22 offices at the district level within this department. Each district office is a spending unit that prepares monthly reports and submits them to its superior office at the provincial level. Ministry, department and provincial offices are spending units for their internal transactions and superior offices for respective subordinate offices.

Each spending unit prepares and submits the monthly budget execution reports to its superior office within seven days of the close of the month. **Hence, the score for this dimension is an A.**

28.3. Accuracy of in-year budget reports

Performance analysis and evidence for scoring: Nepal's accounting and reporting framework is designed to ensure the accuracy of financial reports. Every transaction processed by the spending unit undergoes a review by the DTCO before authorization of payment through the TSA and EFT systems. Revenue receipts are recorded via the RMIS and reconciled by the DTCOs daily. At the end of each month, spending offices prepare their statements of expenditures and receipts, which are then reconciled with the respective DTCO. Every quarter, internal audits review the expenditures and receipts and any errors found are corrected. These controls ensure the reliability of data presented in the in-year budget reports.

The Government Accounting Directives have provisions for commitment accounting and liability. These directives encompass accounting policies, commitment procedures, accounting commitments, procedures for recording payables, and liability accounting. However, the directives are not fully implemented. Currently, expenditures are only captured at the payment stage.

The monthly budget execution reports prepared by the spending units are not accompanied by analysis and commentary on budget execution. However, the MoF publishes the Semi-annual Budget Progress Evaluation Report, in accordance with Section (23-5) of the FPFA Act, that provides a detailed analysis of the government-wide budget execution.

There are no material concerns about the accuracy of data presented in the in-year budget reports. Nevertheless, the inclusion of expenditures in these reports is limited to the payment stage (not commitment) with no accompanying analysis or commentary regarding the implementation of the budget. **Hence, the score for this dimension is a C.**

PI-29. ANNUAL FINANCIAL REPORTS

What does PI-29 measure? This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. Coverage is BCG for the last completed fiscal year for PI-29.1, the last annual financial report submitted for audit for PI-29.2, and the last three years' financial report for PI-29.3. The indicator uses the M1 (WL) method for aggregating dimension scores.

Methodological notes: The annual financial statements of the BCG, which are prepared by the FCGO and audited by OAGN, were used for the evaluation of this indicator.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-29. Annual financial reports (M1)		C+
29.1. Completeness of annual financial reports	Financial reports for BCG are prepared annually and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.	C
29.2. Submission of reports for external audit	The financial reports for the BCG are submitted for external audit within six months of the end of the fiscal year.	B
29.3. Accounting standards	Accounting standards applied to all financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.	C

Detailed description of the country PFM system for the assessed performance indicator:

All offices submit their annual reports to their superior offices in accordance with the FPFA Regulation (73-1). These reports include details of expenditures, outstanding advances, revenues, deposits, settled deposits, assets, and commitments. The central agency/ministry, according to the FPFA Regulation Rule (75-3), prepares and submits financial statements of the entire organization to the FCGO by mid-October (end of *Ashoj*). The central agencies prepare an annual report concerning the asset and liability records of their own and subordinate offices and submit it to the FCGO by mid-October as well.

Each spending office prepares an annual report of financial transactions in Annex-11 format of the FPFA Regulation. It then sends the report to the relevant DTCO within 45 days of the end of the fiscal year. The DTCO should verify this report with its records; make recommendations (if any); and submit them to the superior department, central agency, and FCGO within one month. The FPFA Regulation Rule (77) mandates the PDMO to account for and report on public debts and investments. The PDMO prepares account details and reports about the government's debts and investments and submits them annually to the FCGO and MoF.

According to the FPFA Regulation (75(4)), the FCGO prepares consolidated annual financial statements of the GoN and submits them to the OAGN by the end of October. According to Rule (10(3)), the FCGO consolidates the financial statements of the three tiers of the government and submits them to the MoF and OAGN by the end of December. Also, the FCGO is required to prepare a consolidated report of the assets and liabilities and submit the report to the OAGN by mid-November (*Kartik*) according to Rule (78-6). The central bank of Nepal (NRB) is responsible for recording and reporting currencies, deposits, and bullions. The PDMO records and prepares the report of the government loans and debts, which are also submitted to the MoF and FCGO. The share and loan investments are recorded and reported by the FCGO through the CFS.

Recent or ongoing reform activities: The FCGO is currently working on upgrading and integrating information systems to improve financial reporting from the spending units up to the CG level. The PAMS has been operational since July 2020 for recording all nonfinancial assets. Additionally, the PDMO has been established under an act of Parliament. The keeping of records and preparing of reports on government debts and investments are part of its responsibilities.

29.1. Completeness of annual financial reports

Performance analysis and evidence for scoring: The FCGO prepares 'Annual Reports of Income and Expenditures of the Government of Nepal, Part -1' and submits them to the OAGN, and they are then published. This report contains information about revenues, expenditures, financial assets, and financial liabilities. The information about guarantees, long-term obligations, assets, and liabilities is also included, but it is not complete. The financial statements allow a direct comparison with the approved budget and encompass the initial budget, revised budget, and actual figures categorized by administrative, economic, and functional classifications. **Hence, the score for this dimension is a C.**

Table 29.1: BCG financial reports

Financial report	Date of annual report submitted for external audit	Content of annual financial report (Y/N)			Reconciled cash flow statement (Y/N)
		Expenditures and revenues by economic classification	Financial and nonfinancial assets and liabilities	Guarantees and long-term obligations	
Annual Reports of Income and Expenditures of the GoN, Part-1, FY2020/21, Federal account financial reports	<i>Kartik</i> 15 2078 (November 1, 2021)	Yes	Nonfinancial assets and liabilities are partially disclosed	Partially disclosed	No. (The treasury position at the start and end of the fiscal year is disclosed.)
Annual Reports of Income and Expenditures of the GoN, Part-1, FY2020/21. Central accounts, financial reports, and all level of governments consolidated financial reports	<i>Paush</i> 15, 2078 (End of December)	Yes	Nonfinancial assets and liabilities are partially disclosed	Partially disclosed	No. (The treasury position at the start and end of the fiscal year is disclosed).

Source: Annual Reports of Income and Expenditures of the GoN, Bhag/Part-1, FY2020/21, FCGO, www.fcgo.gov.np.

29.2. Submission of reports for external audit

Performance analysis and evidence for scoring: All government spending units prepare their financial statements. These are then certified by the DTCOs and submitted to the OAGN each year. The FCGO consolidates the annual financial statements of the three tiers of the government and then submits them to the OAGN. During the last three fiscal years, the FCGO submitted the financial statements for external audit within six months of the end of the fiscal year. **Hence, the score for this dimension is a B.**

Table 29.2: Year-end financial reports submitted for external audit

Responsible offices	Timeline	Number of days	Submit to	Practice timeline
Ministry and central level agency	Within the end of <i>Aswin</i> (October 15)	90 days	FCGO and OAGN	15 days (within the end of <i>Aswin</i>)
FCGO	Within <i>Kartik</i> 15 days (November 1)	+15 days	OAGN	Annual Reports of Income and Expenditures of the Government of Nepal, Part-1, as preliminary reports of the three tiers of government.
Total number of days following the end of fiscal year that the federal report is submitted to the OAGN, total timeline		105 days		105 days (3.5 months)
FCGO	Within <i>Poush</i> 15 (end of December)	60 days	OAGN	Annual Reports of Income and Expenditures of the Government of Nepal, Part-1, with completed three levels of government financial report.
Total number of days following the end of fiscal year that Annual Reports of Income and Expenditures of Government of Nepal, Part-1 was submitted for external audit during the last year.	(105 days and additional 60 days)	165 days		165 days (5.5 months)
CFS is published on the basis of 'Annual Reports of Income and Expenditures of Government of Nepal, Part-1'				Only published by the FCGO within May

Source: Annual Reports of Income and Expenditures of Government of Nepal, Part-1, FY2020; CFS FY2020/21; CFS, FY2020/21, (www.fcgo.gov.np).

29.3. Accounting standards

Performance analysis and evidence for scoring: Nepal has been using the NPSAS accounting standard since 2009, which aligns with the cash basis International Public Sector Accounting Standards (IPSAS). To comply with this standard, new OAG forms were designed and implemented in 2019. The FCGO prepared the CFS in accordance with the NPSAS and compliance is disclosed in the financial statements. The CFS provides details about revenues, expenditures, financial assets, financial liabilities, investments, long-term obligations, gender-responsive expenditures, and climate-responsive expenditures. However, information about physical assets, liabilities, and guarantees is incomplete. The CFS also includes statements and annexes comparing revenues and expenditures with the approved budget. Section 1.6 of the NPSAS requires CFS to consolidate cash receipts, cash payments, and cash balances of all government-controlled entities, including government departments, agencies, and government business enterprises. However, the CFS does not consolidate the financial results of government business enterprises.

The financial reporting has been standardized with the implementation of the NPSAS. However, the disclosed information about assets, liabilities, and guarantees is incomplete. Moreover, the CFS does not consolidate the financial results of government business enterprises, as required by Section 1.6 of the NPSAS. Except for consolidation, all other mandatory requirements of the NPSAS are complied with. **Hence, the score for this dimension is a C.**



PILLAR SEVEN: EXTERNAL SCRUTINY AND AUDIT

What does Pillar VII measure? Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Overall performance: Analysis of key strengths and weaknesses

Nepal exhibited good performance on most aspects of external scrutiny and audit, but the indicator-level scores remain at basic level due to shortcomings noted in a few dimensions. The current assessment concludes that audit coverage was good for both CG revenues and expenditures. The audit has a wide scope and coverage, and audits are conducted according to international standards. However, the audit does not fully meet the financial independence criteria and audit reports for one fiscal year were submitted with a delay due to COVID-19 pandemic, resulting in a 'D+' score for external audit (PI-30). The PAC conducts in-depth public hearings of audit reports. However, the PAC is unable to complete the scrutiny of audit reports within 12 months of submission, thus leading to a backlog. The PAC hearings are open to the public except for sensitive issues. The PAC reports are published on the Parliament's website but there were delays in scrutiny. The legislative security is rated 'C' (PI-31).

The Constitution ensures that the OAGN is independent. It does so by outlining procedures for appointing and removing the AG and assigning audit responsibilities to the OAGN. The Audit Act provides further details regarding the audit scope, coverage, reporting, submission, and follow-up. The OAGN is required to present its annual budget to the executive for approval, but it can independently execute the approved budget. Generally, the OAGN submits audit reports to the President within eight months of receiving financial statements. These reports are presented to Parliament within nine months of the receipt of financial statements. However, due to the COVID-19 pandemic and the Parliament not being in session, the audit report for FY2020/21 was presented to the Parliament after more than 18 months of receiving the financial statements. The audit coverage of government revenues and expenditures is extensive. The OAGN has adopted the International Standards of Supreme Audit Institutions (ISSAI) and developed different audit guidelines based on these standards. The quality of the external audit has been independently verified by another Supreme Audit Institution (SAI). The OAGN has implemented an audit management system to digitize the external audit process.

The Constitution mandates that the House of Representatives of the Federal Parliament oversees public accounts. The FPFA Act has established a process for addressing any audit findings and irregularities. The PAC holds hearings on audit findings, makes recommendations, and issues directives regarding audit observations and irregularities. However, the PAC is currently facing a significant backlog of audit reports and is unable to complete the review of audit reports within 12 months of their submission. The results of audit report scrutiny are made available to the public through official websites. In addition, the PAC hearing sessions are open to the public and

sometimes broadcasted through the media. To enhance the scrutiny of audit reports and follow-up of PAC recommendations, the PAC has recently implemented a Management Information System (MIS).



PI-30. EXTERNAL AUDIT

What does PI-30 measure? This indicator examines the characteristics of external audit. Coverage is CG for the last three completed fiscal years for PI-30.1, PI-30.2, PI-30.3 and at the time of assessment for PI-30.4. This indicator uses the M1 (WL) method for aggregating dimension scores.

Methodological notes: The information collected from the OAGN was corroborated with a few line ministries and the Secretariat of the Federal Parliament. The assessors also referred to the 2021 SAI Performance Management Framework (PMF) Assessment of the OAGN.

Summary table of scores:

Indicator/ Dimension	Assessment of performance	Score
PI-30. External audit (M1)		D+
30.1. Audit coverage and standards	The OAGN audited financial statements of the government using NGAS during the last three completed fiscal years. The audit reports have highlighted any relevant material issues as well as systemic and control risks.	B
30.2. Submission of audit reports to the legislature	Audit reports for two of the three last fiscal years were submitted to the legislature within nine months of the receipt of financial statements by the SAI. However, the audit report for one fiscal year was submitted to the legislature after nine months of the receipt of financial statements by the SAI.	D

Indicator/ Dimension	Assessment of performance	Score
30.3. External audit follow-up	The PFM legislation outlines the audit follow-up process, and audited entities accordingly provide a formal and comprehensive response to audit observations and recommendations.	B
30.4. Supreme Audit Institution independence	The SAI operates independently from the executive with respect to the procedures for appointment and removal of the Head of the SAI as well as the execution of the SAI's budget. The SAI has unrestricted and timely access to the requested records, documentation, and information.	C

Detailed description of the country PFM system for the assessed performance indicator:

The OAGN is Nepal's SAI. It is headed by the AG. The AG has functional independence guaranteed by the Constitution of Nepal. As such, it is mandated by the Constitution and Audit Law to conduct audits of all entities comprising the three tiers of government.

The AG develops an annual audit plan and calendar, which is communicated to all audited agencies through the Chief Secretary of the GoN and the Principal Secretaries of the provincial governments. The audits are conducted in accordance with NGAS, which are based on the ISSAI. The OAGN has also developed and implemented Audit Guides and Manuals to provide guidance to auditors for effective and quality audits. The Nepal Audit Management System (NAMS) has been developed and has initiated operations for timely auditing and submission of reports to concerned spending offices for timely follow-up and responses.

Recent ongoing reforms: There are ongoing efforts to enhance the quality of audits, integrate technology into the auditing process, modernize guidelines, strengthen performance audit abilities, and promote citizen involvement in audits. To automate the entire audit process from planning to reporting and follow-up, the NAMS has been developed and is currently being implemented. Moreover, the OAGN has established guidelines for Citizen Participatory Performance Auditing (CPA) and is collaborating with civil society organizations to execute this initiative.

30.1. Audit coverage and standards

Performance analysis and evidence for scoring: The audits of the OAGN encompass all government revenues, expenditures, assets, and liabilities as well as financial statements prepared on a cash basis of accounting. Since the reporting framework does not include a separate statement of assets and liabilities, the OAGN has not given a formal opinion on the assets and liabilities. However, as part of the audit process, the assets and liabilities are verified. The OAGN is also mandated to conduct the audit of provinces and local levels in accordance with the Constitution. The OAGN issues audit opinion on the annual financial statements of the federal and all subnational governments.

The OAGN conducts audits according to NGAS, which align with ISSAI. In 2021, Thailand’s SAI evaluated the performance of the OAGN using the SAI PMF. The OAGN received high scores for audit planning and quality management during the assessment.

The financial audit coverage of federal ministries and agencies for FY2020/21 is presented in Table 30.1. The total audited amount was NPR 2,810.5 billion, and the external audit report identified observations totaling NPR 49.5 billion. These observations are categorized into NPR 26.4 billion in recoveries, NPR 18.8 billion in irregularities, and NPR 4.3 billion in unsettled advances. The report has also highlighted internal control weaknesses that need to be addressed for effective financial management.

Table 30.1: Audit coverage (NPR, millions)

Description	Total amount to be audited	Actual amount audited	Percentage (%) of audited amount
Appropriation	1,117,833	1,116,546	99.88
Revenue (including loans and grants)	1,102,753	1,102,686	99.99
Deposit	64,824	64,824	100.00
Others	525,114	525,114	100.00
Total	2,810,524	2,809,170	99.95

Source: 59th Annual Report, FY2020/21 OAGN (Annex-2: page 754).

Note: The figures are before the final reconciliation and eliminations.

The OAGN audits the financial statements of the government using NGAS that are compliant by ISSAI. An audit opinion is issued on the government financial statements and the audit reports highlight relevant material issues as well as systemic and control risks. **Hence, the score for this dimension is a B.**

30.2. Submission of audit reports to the legislature

Performance analysis and evidence for scoring: According to Article 294 of the Constitution, the AG submits the audit reports to the President who then presents them in the Parliament through the Prime Minister. Table 30.2 shows the time taken between the AG’s receipt of financial statements and the actual presentation of the annual report to the Federal Parliament.

Table 30.2: Timelines of audit report submissions to the legislature

Fiscal year and AG's ANNUAL REPORT Series	Date of FS submission by FCGO to AG	Date of AG report submission to the President	AG report tabled in Parliament	Time between FS submission to AG and AG report submission to President	Time between FS received by AG and AG report tabled in Parliament (in months)
(2020/21) - 59th report (Nepal 2077/78)	January 15, 2022	July 13, 2022	August 7, 2022	5 months and 29 days	6 months and 22 days
(2019/20) - 58th report (Nepal 2076/77)	January 12, 2021	August 20, 2021	September 30, 2021	7 months and 8 days	8 months and 22 days
(2018/19) - 57th report (Nepal 2075/76)	January 14, 2020	July 15, 2020	July 19, 2021	6 months and 1 day	18 months and 5 days

Sources: FCGO: Dates specified in 'Annual Statement of Income and Expenditure, Part-1' www.fcgo.gov.np, 57th, 58th, and 59th OAGN Annual Report: www.oag.gov.np , House of Representatives: www.parliament.gov.np.

Note: FS = Financial Statement.

The OAGN submitted audit reports for all three fiscal years to the President within eight months of receiving financial statements. Two of these reports were presented to the Parliament within a month and a half of being received by the President. However, the audit report for FY2019/20 was presented to Parliament more than 12 months after being received by the President due to the COVID-19 pandemic and the Parliament being out of session. **Hence, the score for this dimension is a D.**

30.3. External audit follow-up

Performance analysis and evidence for scoring: The FPFA Act (Sections 37 to 43) outlines the formal follow-up procedures for audits that require further action by the executive or audited entity. This law specifies the process of addressing the audit observations by the concerned authorities, such as the Chief Accounting Office or Secretary of the ministry/central agency. It sets forth parliamentary procedures for settling these observations.

After conducting an audit, the OAGN issues a preliminary report with observations. Within 35 days, spending units shall submit evidence to address any irregularities noted in the report. If the auditor is satisfied with the evidence, the irregularities are cleared. If not, they are recorded in the final report. The FPFA Act (Sections 39 and 40) outlines the process for settling irregularities reported in the final audit report, and all parties involved are required to follow up and settle these irregularities.

The PAC under the Federal Parliament reviews the OAGN report when it is sent to the Parliament by the President. The Irregularities Settlement Committee, chaired by a member of the PAC, is responsible for addressing irregularities that were not settled in accordance with Sections 39 and 40. The Irregularities Settlement Monitoring Committee, chaired by the Chief Secretary, monitors the settlement of irregularities across all MDAs, and it establishes a performance-based incentive system to ensure timely resolution.

In practice, the follow-up process for audits involves the audited agency taking corrective actions before submitting its annual report. This is done to ensure that the decisions and directions issued by the PAC are implemented. The AG's Annual Report provides information about the efforts made by various agencies to address audit findings and recommendations.

While all entities provide formal responses to address the audit findings and recommendations, the OAGN is concerned about the delayed implementation of audit findings. The 59th OAGN report highlights that out of the irregularities amounting to NPR 54,288 million related to the GoN pointed out by the audits, only the irregularities of NPR 4,818 million were settled within 35 days after the issuance of preliminary audit reports of FY2020/21. For the settlement of the remaining irregularities, the evidence is to be presented to the OAGN for a follow-up audit. However, the report also acknowledges that the Irregularity Settlement Monitoring and Evaluation Committee of the Government of Nepal has been formulated and implemented the Irregularity Settlement Action Plan in 2020/21. Furthermore, the report emphasizes the settlement of audit irregularities amounting to NPR 35 billion during the audit year. These irregularities were related to the audit reports of previous years.

The audit reports for FY2018/19 identified irregularities amounting to NPR 79,551 million out of which NPR 8,490 million were resolved within 35 days. Similarly, for FY2019/20, irregularities worth NPR 47,256 million were reported, and NPR 2,864 million were resolved within 35 days. It's noteworthy that the executive provides a detailed response to the audit observations as per the PFM legislation. The SAI settles some of the audit observations within 35 days based on the management response, and the remaining observations are included in the final audit report. However, the SAI continues to follow up and settle the observations even after submitting the audit report to the legislature. The updated status of audit irregularities is reported in the audit reports of subsequent year.

The PFM legislation outlines the audit follow-up process, and audited entities accordingly provide a formal and comprehensive response to audit observations and recommendations. However, the OAGN is concerned about the delayed implementation of audit findings. **Hence, the score for this dimension is a B.**

30.4. Supreme Audit Institution independence

Performance analysis and evidence for scoring: Table 30.4 depicts the various aspects of SAI independence. The SAI's independence is ensured by law, and it operates independently from the executive, except for approval of the annual budget. **Hence, the score for this dimension is a C.**

Table 30.4: SAI independence from the executive

Criteria	Met (Yes/No)	Evidence used/Comments
The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI.	Yes	Article 240 of the Constitution outlines the procedures for the appointment and removal of the AG. The President appoints the Auditor General based on the recommendation of the Constitutional Council. The article also details the procedures for removing the AG.
The SAI operates independently from the executive with respect to the planning of audit engagements	Yes	The Audit Law provides the AG with independence in planning the audit engagements (Sections 4, 5, and 6).
The SAI operates independently from the executive with respect to arrangements for publicizing reports.	Yes	The Audit Law provides that the AG shall make the annual report public after it is submitted to the President (Section 19 (7)).
The SAI operates independently from the executive with respect to the approval and execution of the SAI's budget.	No	According to the regulations, the SAI is required to present its budget proposal to the executive within the approved ceiling. The process of submission is similar to that of the other entities. It is worth noting that the government usually gives its approval to the proposed budget for the OAGN without any alterations. However, the SAI is independent in its ability to execute the approved budget. There were no budget restrictions or adjustments instigated by the executive during the fiscal years covered by the assessment.
This independence is ensured by law.	Yes	The Constitution and the Audit Act ensure SAI independence.
The SAI has unrestricted and timely access to records, documentation, and information for all audited entities.	Yes	The Audit Act allows the SAI unrestricted and timely access to the records, documents, and other information, including electronic records and information systems.

PI-31. LEGISLATIVE SCRUTINY OF AUDIT REPORTS

What does PI-31 measure? This indicator focuses on legislative scrutiny of the audited financial reports of the CG, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take actions on their behalf. Coverage is CG for the last three completed fiscal years. This dimension uses the M2 (AV) method for aggregating dimension scores.

Methodological notes: A specific PAC Secretariat within the Secretariat of the Federal Parliament maintains complete records related to legislative scrutiny of audits reports. The information was collected from the PAC Secretariat and the OAGN to assess this indicator.

Summary table of scores:

Indicator/Dimension	Assessment of performance	Score
PI-31. Legislative scrutiny of audit reports (M2)		C
31.1. Timing of audit report scrutiny	The legislature has not yet completed its review of the audit reports concerning the annual financial reports of the last three fiscal years within 12 months from the receipt of reports.	D
31.2. Hearings on audit findings	In-depth hearings concerning key findings of audit reports take place occasionally with responsible officers from most of the audited entities. However, the calendar for committee hearings was not available to verify the frequency of in-depth hearings.	C
31.3. Recommendations on audit by legislature	The legislature issues recommendations on actions to be implemented by the executive. Complete information regarding legislative recommendations for actions to be implemented by the executive, and follow-up on their implementation, is not available.	C
31.4. Transparency of legislative scrutiny of audit reports	Hearings are conducted in public with a few exceptions, including national security or similar sensitive discussions. Committee reports are provided to the full chamber of the legislature and published on the Parliament's official website.	B

Detailed description of the country PFM system for the assessed performance indicator:

The House of Representatives in Nepal has established 10 thematic committees in accordance with the Constitution of Nepal (2015), Article 97, and Rule 172 of the Rules of Procedure. One of these committees is the PAC, which is responsible for overseeing public accounts including revenues, expenditures, assets, and related issues. The PAC consists of a maximum of 27 members nominated by the Speaker with the consent of the House of Representatives.

The primary function of the PAC is to ensure that public accounts comply with the budget laws approved by the Parliament. According to Rule 170, Serial No. 10, the PAC is responsible for the public accounts and reviewing the report of the AG.

The PAC has developed an internal working procedure for the orderly operation of committee proceedings. It primarily scrutinizes the annual report submitted by the AG and conducts in-depth discussions on important issues related to the public accounts. The committee discusses the AG’s Annual Report and provides recommendations for further action. The Committee Chairperson is generally nominated from the opposition party of the House of Representatives.

Recent or ongoing reform activities: Recently, a web-based tracking system called the Public Accounts Committee Management Information System (PAC MIS) has been implemented to scrutinize audit reports, follow up on recommendations, and improve overall functions of the PAC. The idea of a digital and paperless PAC is being introduced.

31.1. Timing of audit report scrutiny

Performance analysis and evidence for scoring: Table 31.1 shows the date by which the AG’s annual report was received by the PAC and the date by which parliamentary scrutiny was completed.

Table 31.1: Timing of audit report scrutiny

Fiscal years/ AG’s report series	Dates of audit report receipt by PAC	Dates of scrutiny by the legislature
2017/18 (Nepal 2074/75) 56th Audit Report	May 16, 2019 (2076.02.06)	Started from 2019, but not yet completed
2018/19 (Nepal 2075/76) 57th Audit Report	July 19, 2021 (2078.04.08)	Started from 2020, but not yet completed
2019/20 (Nepal, 2076/77) 58th Audit Report	September 30, 2021 (2078/06/14)	Started from 2021, but not yet completed

Source: Annual Report of the PAC: <https://hr.parliament.gov.np/uploads/attachments/h8aixwirnmee3mq3.pdf>; <https://hr.parliament.gov.np/np/notices/1590838746>

The timelines to complete the legislative scrutiny of the audit reports from the date of the receipt of the reports are not defined. The PAC holds regular sessions. However, due to a backlog of audit reports and a high number of audit observations, it often takes more than 12 months to complete the review process. Despite regular sessions, the discussion about the audit reports could not be completed within 12 months of the submission of the report. **Hence, the score for this dimension is a D.**

31.2. Hearings on audit findings

Performance analysis and evidence for scoring: The PAC forms subcommittees that hold hearings where they invite the Chief Accounting Officer (Secretary), Department Heads, and responsible individuals from the audited entities. An OAGN officer is present to clarify audit observations and findings in accordance with the OAGN report. In some cases, subject experts are also invited to provide opinions. The hearings are conducted in subcommittees, focusing on key findings and observations from the audit reports with responsible officers. However,

the assessors were unable to find evidence of a predefined timetable (calendar) for committee hearings to verify the extent to which in-depth hearings on key audit findings occur. It was observed that in the majority of cases, the audit observations were thoroughly discussed in the presence of both officials from the audited entity and the OAG. **Hence, the score for this dimension is a C.**

31.3. Recommendations on audit by legislature

Performance analysis and evidence for scoring: Section 41-1 of the FPFA Act states that the Accounts Responsible Officer shall attend PAC meetings to discuss irregularities in the OAGN reports. They also submit written opinions or views regarding how to settle these irregularities. Section 41-2 also states that it is the responsibility of both the OAGN and the relevant Accounts Responsible Officer to implement recommendations submitted and discussed in the PAC.

After conducting hearings on audit findings, the committee prepares a report with recommendations for actions to be taken by the executive. This report is published on the committee's website (www.parliament.gov.np), and it is distributed in print to all relevant ministries and agencies. The PAC reviews and follows up on the implementation of these recommendations by the audited entities. If the recommendations are not acted upon in a timely manner, the PAC will follow up on their execution. However, complete information regarding legislative recommendations for actions to be implemented by the executive, and follow up on their implementation, is not available. **Hence, the score for this dimension is a C.**

31.4. Transparency of legislative scrutiny of audit reports

Performance analysis and evidence for scoring: In general, committee hearings are open to the public, with only a few exceptions where discussions about sensitive or national security topics are conducted in closed session. The committee's reports are presented to the full House. However, debates are not frequent. The official website of the House of Representatives provides easy public access to the committee reports (www.parliament.gov.np).

Table 31.4: Number of PAC hearings

S. N.	Description	FY2018/19	FY2019/20	FY2020/21
1	Number of hearings on audit reports	52	55	12
2	Number of hearings conducted in public	52	55	12
3	Audit report debated and published	Not debated in full chamber of the Parliament but published.		

Source: www.parliament.gov.np.

The PAC has introduced the idea of an open parliament and open data to increase transparency in parliamentary proceedings, and the committee reports are made public. However, discussions about these reports are infrequently held in the full chamber of the Parliament. **Hence, the score for this dimension is a B.**



3

**Overall
Analysis of
PFM Systems**



Overall Analysis of PFM Systems

The objective of this section is to present an integrated analysis on the basis of information provided in the preceding Section 2 and to state overall conclusions on the performance of PFM. In particular, the analysis seeks to assess how the PFM performance across the seven pillars drawn in Section 2 affects the government's ability to deliver the intended fiscal and budgetary outcomes and to identify the main weaknesses of PFM that need to be addressed.

3.1. PFM strengths and weaknesses

This subsection analyzes the extent to which the performance of the assessed PFM system appears to be supporting or affecting the overall achievement of three important fiscal and budgetary outcomes. The analysis is organized along the three main fiscal and budgetary outcomes.

Aggregate fiscal discipline

Nepal has implemented strong laws and regulations for PFM which provide a framework for consolidating aggregate fiscal discipline. These laws and regulations support the strengthening of fiscal discipline in all areas. Effective controls are employed during budget execution to manage expenditures within available resources, thus avoiding circumvention of the planned budget through virement and supplementary budgets. Expenditure compliance with the prescribed internal controls is high, and expenditure arrears are minimal. However, the treasury and accounting systems lack commitment controls and only capture expenditure information at the payment stage. Regular internal and external audits contribute to maintaining fiscal discipline.

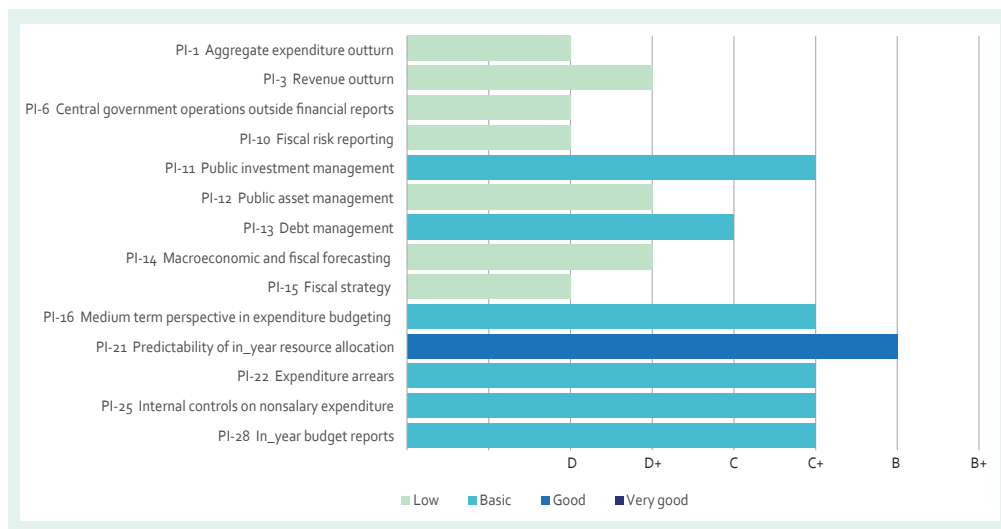
However, the assessment identified some weaknesses in the PFM system that weaken fiscal discipline. The reliability of expenditure and revenue outturns is low because of overoptimistic targets and lower spending capacity. Although macroeconomic and fiscal forecasts are generated on a yearly basis, their robustness is lacking, which in turn undermines the credibility of the budget. The government does not prepare alternative fiscal scenarios based on potential unforeseen changes in macroeconomic conditions or other external risk factors that may affect revenue, expenditure, and debt. Expenditure budgets are developed for the medium term, but the current MTEF does not include a comparison with the estimates of the previous MTEF nor an explanation of changes in expenditure estimates and forecasts. Although the MTEF covers some elements of a fiscal strategy, an integrated fiscal strategy is not prepared.

Public investment management also has some weaknesses. The economic analysis was conducted only for some major investment projects. Moreover, for the projects that underwent economic analysis, the results were not independently reviewed and published. The selection of large investment projects with a limited project appraisal process may negatively affect fiscal discipline. Public asset management has improved, but there is still room for improvement in expanding the coverage and public disclosure of asset information. The management of domestic and foreign debt and guarantees is satisfactory, with complete and accurate recording and reporting of debt and guarantees, which positively affects fiscal discipline. Additionally, a medium-term debt management strategy has been recently published, contributing positively to fiscal discipline.

Although resource availability for spending units can be predicted with a high degree of accuracy, there is a lack of organizational capacity to spend effectively. While there is a prescribed framework for monitoring and evaluation, there is insufficient documentation explaining the deviations from plans and relevant measures to address them are lacking. Spending units prepare monthly budget execution reports that enable a direct comparison of expenditure and budget by administrative and economic headings. However, these reports do not include the expenditure made from transfers to deconcentrated units and are not accompanied by an analysis and commentary on budget execution.

The government's operations outside of the budget and financial reports are quite significant and can have a notable impact on fiscal discipline. Moreover, there are shortcomings in monitoring the financial positions of subnational governments and public corporations as well as contingent liabilities from the GoN's own programs and activities, including EBUs.

Figure 3.1: Aggregate fiscal discipline



Strategic allocation of resources

Nepal has a strong budget classification system that is transparent and comprehensive, meeting international standards. This system enables the strategic allocation of resources, allowing for easy tracking of resources allocated. The annual budget documentation is detailed but lacks complete information about the budget implications of new policy initiatives related to investments, revenues, and expenditure. Despite the good budget classification system and reasonable budget comprehensiveness, there is a high level of expenditure composition variance, which suggests that resources may not be allocated to the originally approved priority areas and programs.

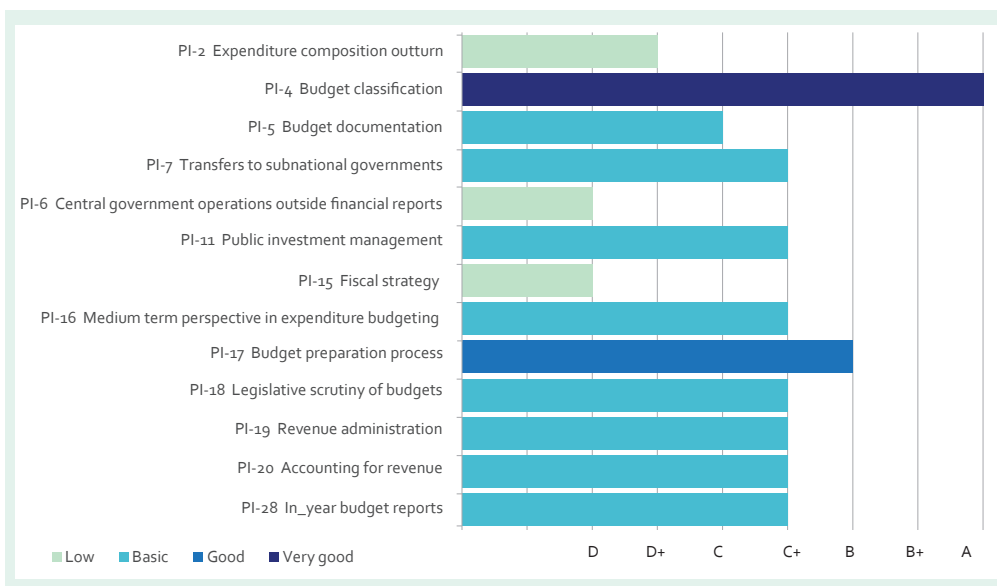
The fiscal transfers from the GoN to PLGs are largely transparent and rule based. However, there is a concern about the delays in providing reliable information to the PLGs for budget preparation, which can lead to unpredictable budgeting and affect service delivery. The EBUs provide a significant portion of services, and their revenues and expenditures account for over 10 percent of BCG's revenues and expenditures. However, the absence or delay in receiving financial reports from EBUs can affect getting a complete picture of the quality and quantity of services they provide on behalf of the government.

The Constitution's directive principles, the SDG framework, and the periodic plan provide a long-term framework for strategic allocation of resources. However, the government's inability to reliably estimate the fiscal impacts of changes in expenditure and revenue policies is a weakness in resource allocation. The medium-term perspective in budgeting is used to align strategic plans and budget estimates. However, the MTEF lacks a comparison with the previous MTEF estimates or an explanation of changes in expenditure estimates and forecasts. Major investment projects are prioritized on standard criteria and included in the MTEF, although there are shortcomings in project appraisal. The budget preparation process is smooth and comprehensive.

A clear budget circular is issued to MDAs, covering total budget expenditure for the full fiscal year and reflecting approved ministry ceilings. The timely approval of the annual budget enables spending units to commence their annual programs and activities on time, ensuring maximum utilization of allocated resources and facilitating service delivery. However, the legislature's budget review only covers the details of revenue and expenditure for the budget year. The budget submission includes the MTEF, but it is not subject to review.

The current revenue administration and accounting framework function well in terms of ensuring direct deposit of all revenues in the treasury, facilitating the availability of cash to cover service delivery expenditures. However, it lacks the strength to sustain strategic resource allocation. Revenue collecting entities lack compliance risk management and enhancement strategies. Moreover, the monthly in-year budget reports prepared by spending units include limited information regarding deconcentrated units and does not provide an analysis of the budget execution.

Figure 3.2: Strategic allocation of resources



Efficient service delivery

Effective budget classification and detailed budget documentation are essential components of the PFM system in Nepal that support efficient service delivery. The budget classification system is robust and enables tracking of transactions across the entire budget cycle based on various parameters. The budget documentation includes performance information for most ministries. However, unreliable expenditure outturn at the aggregate and composition levels, potentially impedes the effectiveness of service delivery. During the assessment period, the MoF did not instigate any in-year budget adjustments enabling the budget to be utilized as initially intended. Conversely, line ministries made significant adjustments resulting in a higher variance in expenditure composition and deviations from originally approved priority areas and programs.

Following the introduction of federalism, the federal, provincial, and local governments have taken joint responsibility for most service delivery functions. The PLGs receive fiscal transfers based on the recommendations provided by the NNRFC. Although most of these transfers are rule based and transparent, delays in receiving information about certain fiscal transfers could hinder the PLGs' ability to prepare realistic budgets to achieve service delivery targets. Nonetheless, the GoN offers significant fiscal transfers in the form of conditional grants to aid the PLGs in fulfilling their service delivery responsibilities.

The government ensures convenient public access to fiscal information, along with service delivery performance information. The executive budget proposal, enacted budget, budget execution reports, and external audit reports are made publicly available. The budget documents contain details about policy or program objectives, essential performance indicators, and outputs for most ministries. Furthermore, most ministries publish information about the quantity of outputs produced in their annual reports. Additionally, performance audit reports that assess the service delivery of most ministries are also available to the public.

The policy framework for budgeting, which focuses on service delivery, is underpinned by the periodic national development plan and sector strategies. Medium-term expenditure budgets are prepared with due consideration to the aforesaid policy framework, and the MTEF also comprises predetermined performance targets spanning over a three-year period. This process, in turn, contributes to the efficacy of service delivery. Nonetheless, there are variations between the corresponding years of each medium-term budget that remain inadequately explained and quantified. This lack of clarity may have a bearing on the success of the policy framework and efficient service delivery.

Despite the spending units' access to current information regarding annual grants and a high reliability of resource availability, the budget outturns are still poor. The lower spending capacity and procurement inefficiencies contribute to lower budget outturns. The government's ability to monitor efficiency, effectiveness, and value for money in acquiring inputs for programs and services is limited by incomplete and insufficient procurement data and information. Internal controls over salary and non-salary expenditure are satisfactory with high compliance. Commitment controls are yet to be institutionalized as required by legal provisions. Periodic reconciliations and sufficient controls ensure financial data integrity. Although spending units can generate periodic budget execution reports through information systems, these reports lack analysis or commentary on budget execution. Resultantly, the financial reports are not effectively used for efficient service delivery.

The audit and oversight functions, both internal and external, play a critical role in facilitating efficient service delivery. While the coverage of audits is satisfactory, the internal audit primarily focuses on financial compliance rather than assessing the outputs and outcomes of public investments. In addition, management responses to internal audits are not timely or complete. The OAG conducts financial and performance audits and submits reports to the legislature within 12 months of the close of fiscal years. However, the parliamentary committee's deliberations on external audit reports are overdue, and the PAC has not been able to complete the review of a single fiscal year's audit report over the last three years. These shortcomings, compounded by the lack of systematic follow-up on legislative recommendations, undermine the audit and oversight function's contribution to enhancing efficient service delivery.

Figure 3.3: Efficient service delivery

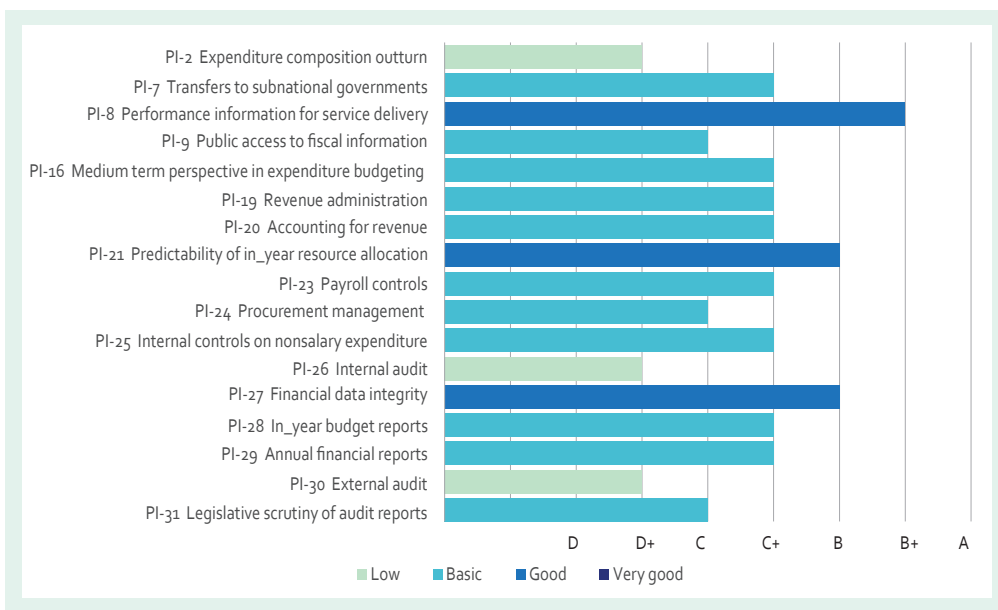



Table 3.1.1: PEFA performance indicators and the three budgetary outcomes

Indicator/ Dimension		Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
Pillar one: Budget reliability				
PI-1. Aggregate expenditure outturn	X	The aggregate expenditure outturn and aggregate revenue outturn showed a significant variance in comparison to the budget, which negatively affects fiscal discipline.	Composition of expenditures deviated significantly from the budget, indicating a lack of effective and predictable allocation toward strategic policy priorities.	The expenditures deviated significantly from budget, which could have an adverse impact on the quality and quantity of service delivery.
PI-2. Expenditure composition outturn				
PI-3. Revenue outturn	X			

Indicator/ Dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery	
 Pillar two: Transparency of public finances				
PI-4. Budget classification	EBUS generate significant revenues and execute substantial expenditures, yet their financial activities are not reflected in the government's financial reports, and the financial reports of EBUS are not submitted in timely manner to the respective line ministries. This lack of financial data on EBUS poses a challenge in obtaining complete information on government finances. Incomplete information can lead to a lack of fiscal discipline, as it becomes difficult to ascertain whether resources are being used effectively and to identify potential fiscal risks to the government.	X	The provision of performance information pertaining to plans, resources, and service delivery of budgetary units enables the public to evaluate the efficiency of the GoN's service delivery. Established legal arrangements and practices ensure public access to most of the fiscal information. Complete budget documents, annual financial reports, and audit reports are made publicly available. This information can help public better understand how resources are allocated and used for service delivery.	
PI-5. Budget documentation		X		
PI-6. Central government operations outside of financial reports		X		
PI-7. Transfers to subnational governments		X		X
PI-8. Performance information for service delivery		X		
PI-9. Public access to fiscal information		X		
		The government's CoA used for budget planning, execution, and reporting is compliant with international standards (GFS/COFOG). The information systems in place enable seamless reporting as per CoA throughout the entire budget cycle that can be used to make informed decisions about resource allocation. The budget documents contain aggregate revenue and expenditure data as well as a medium-term forecast, but they fall short in providing adequate information regarding the budgetary implications of new policy initiatives, significant investment projects, and changes in revenue policies. The absence of this information can create challenges in comprehending how resources have been allocated to support development objectives.		

Indicator/ Dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
		Although fiscal transfers are largely transparent and rule based, some concerns exist regarding the timeliness and accuracy of information provided to PLGs. The delayed provision of information about fiscal transfers to PLGs can lead to unrealistic subnational budgets, with inadequate resources being allocated to priority areas.	

 **Pillar three: Management of assets and liabilities**


PI-10. Fiscal risk reporting	X	The lack of complete and updated financial information to monitor PEs, subnational governments, and contingent liabilities has resulted in the government being unable to objectively assess the associated fiscal risks.	X	The economic analysis is only available for some of the large-scale investment projects.	Monitoring procedures for investment projects are in place, and monitoring reports are generated at the ministry level.
PI-11. Public investment management	X				
PI-12. Public asset management	X				
PI-13. Debt management	X				
		Only a subset of investment projects underwent a full appraisal, and the agreed-upon actions during project monitoring are inadequately implemented and followed up at the ministry level. These			

Indicator/ Dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
	<p>factors contribute to a lower capital budget outturn, ultimately leading to a decline in fiscal discipline.</p> <p>Information related to financial and nonfinancial assets is substantially complete.</p> <p>However, only partial information about the use of nonfinancial assets is collected. As a result, the government performance in managing and optimizing the use of its assets is at a basic level.</p> <p>The effectiveness of debt management is attributed to the comprehensive, accurate, and up-to-date records of domestic, foreign, and guaranteed debts. Moreover, in November 2021, the GoN approved the first-ever DMS.</p>	<p>This raises concerns that in the absence of proper appraisal, the resource allocation for public investments may not be fully aligned with the government’s economic and social development objectives.</p>	<p>However, it appears that the agreed-upon actions during project monitoring may not be adequately implemented and followed up, potentially leading to delays in the completion of investment projects. This, in turn, could affect service delivery.</p>

 **Pillar four: Policy-based fiscal strategy and budgeting**

<p>PI-14. Macroeconomic and fiscal forecasting</p>	<p>X The government prepares a MTEF that includes macro-fiscal framework, budget framework, and results framework.</p>	<p>The budget preparation process is systematic, with a clear budget calendar that provides four weeks</p>	<p>There is no requirement for the current MTEF to include a comparison with the estimates of the previous MTEF</p>
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Indicator/ Dimension		Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery	
PI-15. Fiscal strategy	X	However, due to significant unexplained variations and absence of few key macroeconomic forecasts, the MTEF's critical role of fostering fiscal discipline through the promotion of prudent budgeting practices and the maintenance of reasonable spending limits remains partially unfulfilled. The MTEF provides an outlook for expenditures over the medium term; however, discrepancies between the corresponding years of each MTEF budget are not adequately qualified and quantified. Interest rate, exchange rate, and macro-financial sensitivity analysis projections are not available in the MTEF. The lack of a formal fiscal strategy weakens the fiscal discipline. Although the MTEF covers some elements of the fiscal strategy for the budget year, the government lacks a formal document that clearly outlines its fiscal strategy.	X	or an explanation of changes in expenditure estimates and forecasts. This may lead to alterations in medium-term allocations for service delivery on a yearly basis without proper explanation.	
PI-16. Medium-term perspective in expenditure budgeting	X		X		
PI-17. Budget preparation process			X		Timely approval of the budget allows MDAs to commence budget execution on time, leading to completion of planned service delivery programs.
PI-18. Legislative scrutiny of budgets			X	The MTEF aids in allocating resources over a medium term, aligned with sector strategies. Conversely, the unexplained discrepancies between corresponding years of each MTEF weaken the strategic allocation of resources. The legislative budget review is limited to yearly appropriations and does not encompass MTEF and fiscal policies.	

Indicator/ Dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery	
 Pillar five: Predictability and control in budget execution				
PI-19. Revenue administration	<p>With the implementation of TSA, most bank balances are consolidated on a daily basis, while all bank balances are consolidated on a monthly basis. This ensures the provision of accurate information regarding the government's cash position to fulfill its obligations.</p> <p>The lack of commitment accounting may lead to the accumulation of uncontrolled commitments or obligations, which could hinder fiscal discipline. Nevertheless, the current stock of expenditure arrears is negligible.</p> <p>The internal controls for non-salary expenditure are largely effective, and compliance rate is high. This ensures that resources are utilized in compliance with authorized allocations.</p>	<p>X</p> <p>The revenue administration and accounting systems of the government ensure the efficient collection and deposit of taxes, duties and other levies into the treasury. This, in turn, enables the government to strategically allocate resources and reliably provide the allocated resources for service delivery.</p>	<p>X</p> <p>The spending units are authorized to spend the whole yearly budget beginning with the start of the fiscal year, and no in-year budget adjustments were initiated by the MoF, ensuring predictability of funds for service delivery.</p> <p>The government employs efficient payroll controls to ensure the timely and accurate processing of payrolls for government employees, the majority of whom are responsible for service delivery.</p> <p>The lack of comprehensive and dependable databases hinders the accurate evaluation of how public procurement facilitates service delivery by ensuring that public goods and services are provided in an efficient, effective, and transparent manner.</p> <p>The primary emphasis of the internal audit lies predominantly on ensuring financial compliance rather than assessing the efficacy and efficiency of operations and programs.</p>	
PI-20. Accounting for revenues				X
PI-21. Predictability of in-year resource allocation				X
PI-22. Expenditure arrears				X
PI-23. Payroll controls				X
PI-24. Procurement				X
PI-25. Internal controls on non-salary expenditures				X
PI-26. Internal audit				X

Indicator/ Dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery	
PI Pillar six: Accounting and reporting				
PI-27. Financial data integrity			X	The accounting and reporting systems of Nepal have proven to be effective in generating accurate and reliable financial reports. These reports can play a crucial role in facilitating performance monitoring and can assist decision-makers in adjusting budget execution to better meet objectives and achieve desired outcomes. However, the current reporting systems do not capture information about the expenditures of deconcentrated units/EBUs, which is a significant shortcoming.
PI-28. In-year budget reports	X	X	X	
PI-29. Annual financial reports			X	
	The high financial data integrity ensures the reliability of financial records. This, along with the availability of accurate in-year budget execution reports, provides dependable information for the budgetary entities to effectively execute the budgets according to the approved fiscal targets.	Each spending unit generates monthly budget execution reports, which are subsequently consolidated by central-level agencies. These reports can be used to monitor that allocated resources have been used toward the government's strategic priorities.		
PI Pillar seven: External scrutiny and audit				
PI-30. External audit			X	The OAGN conducts performance audits that assess the efficiency and effectiveness of service delivery projects and programs. While these reports are submitted to the Parliament, the delay in legislative scrutiny limits the opportunity to remedy issues and improve service delivery.
PI-31 Legislative scrutiny and audits			X	
	The external audit is effective in assisting the government to attain overall fiscal discipline. Aside from the audit opinion on the government's financial statements, the yearly audit report highlights deviations, risks, and inefficiencies and provides recommendations to enhance PFM. Nevertheless, the postponed examination of audit reports undermines the prompt implementation of corrective measures.	The external audit reviews actual expenditure and revenue against budget appropriations. It provides useful insights into the causes of deviations and identifies areas for improvement in allocative efficiency. The audit report offers recommendations to help the government optimize strategic allocation of resources.		

3.2. Effectiveness of the internal control framework

An effective internal control system plays a vital role across every pillar, particularly in addressing risks and providing reasonable assurance that operations meet the four control objectives: (a) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse, and damage.

Control environment

The control environment encompasses professional integrity and ethical values, commitment to competence, management's philosophy and operating style, organizational structure, and HR policies and practices.

The HR policies and practices are established in multiple legislations and regulations, such as the Civil Service Act and Regulations, the Teacher Service Commission Regulation, Army Act, Police Act, and the Armed Police Force Act. They encompass several aspects pertaining to merit-based recruitment, induction training, in-service training, rotation, transfer, promotion, termination, and retirement.

Nepal's civil service legislation prioritizes ethics and integrity. The recruitment process is overseen by the PSC, emphasizing merit and inclusivity. The government provides specialized training for new recruits and ongoing training for current civil servants through relevant government training institutes. The promotion process is regulated, with competence being the key factor for career advancement. The 15th Periodic Plan focuses on good governance to enhance public confidence by enhancing efficiency, result-orientation, and accountability in public administration. However, the management's philosophy and operating style prioritizes compliance over performance and result-orientation.

The Constitution assigns powers to the GoN, which are then delegated to various ministries through the Government of Nepal (Allocation of Business) Rules, 2018. The NPC formulates national vision, plans, and policies and serves as a central agency for monitoring and evaluating development programs. The MoF is responsible for budget preparation, resource allocation, public investment management, and expenditure. The FCGO under the MoF manages treasury, accounting, and internal audit. MoFAGA oversees civil service personnel management and coordination among government tiers related to federalism issues. The line ministries implement approved plans and policies. Each ministry is headed by a secretary and organized into departments, units, sections, and offices. The organizational structure is hierarchical with well-defined responsibilities. Information systems have enhanced the efficiency of PFM information flow.

Risk assessment

The risk assessment component has been evaluated based on its five key elements: risk identification, risk assessment in terms of significance and likelihood, risk evaluation, risk appetite assessment, and responses to risk.

The GoN employs a partially structured approach to risk assessment, wherein the risks are identified but not comprehensively assessed, and the strategy for risk response is lacking. The periodic plan, sector strategies, and Budget Speech identify several risks that could potentially hinder the achievement of development objectives, including high-level risks that may affect the achievement of budget outcomes. However, specific risks that could hinder the achievement of annual fiscal and performance targets have not been identified at the ministry or government level. Additionally, investment projects are not comprehensively appraised to assess relevant risks. The risks identified in the periodic plan and sector strategies are not evaluated. Approaches for assessing fiscal risks are inadequate, and information is unavailable to quantify them. Although internal audits do not employ a risk-based approach, external audits follow international standards and include risk identification as an essential component. Semi-structured approaches are used by the IRD and DOC for identifying and assessing risks related to revenue categories.

The government lacks an established process to measure the effectiveness of existing controls that can mitigate identified and assessed risks. Additionally, no risk appetite assessment has been conducted to determine the overall level of risk tolerance or willingness to take risks to achieve development objectives. There is also a lack of clarity regarding the types and levels of risks the government is willing to accept, and appropriate risk management strategies within an acceptable risk tolerance have not been identified. As a result, government officials make decisions on risk treatment and termination based on legislation, rules, and directives, in the absence of a formal risk response/management strategy. The level of risk tolerance varies subjectively among individuals in charge of an office, project, or activity, leading to varying degrees of acceptance or rejection of risks. The IRD and the DOC, on the other hand, place emphasis on risk management through the development and implementation of an annual plan, with a specific focus on large and medium taxpayers.

Control activities

The control activities component comprises eight elements: authorization and approval procedure; segregation of duties; controls over access to resources and records; verifications; reconciliations; reviews of operating performance; reviews of operations, processes, and activities; and supervision.

The authorization and approval processes are extensively covered by the PFM regulations and internal control policies and procedures. To facilitate budget formulation and execution, various IT systems have been implemented, and the authorization and approval responsibilities of officials have been configured accordingly. The FCGO manages the treasury function, and payments are made using the TSA system, with authorization and approval limits of various officials configured in the system. The segregation of duties among ministries and various units of individual ministries is based on established regulations. The PFM information systems for budgeting, treasury, accounting, and reporting are appropriately configured to support the segregation of duties. However, certain GoN offices lack SOPs for their major responsibilities and rely on office orders permitted by the Good Governance Act.

Verification controls have been prescribed and implemented for budgeting, payment processing, revenue, and financial reporting to ensure accuracy and accountability. The legal and regulatory framework for PFM requires the implementation of multiple periodic reconciliations. The FCGO manages IT systems for PFM with security features and access controls. However, the e-GP system, maintained by PPMO, has some gaps in its procurement records, particularly in the case of direct procurements, procurements that follow donor guidelines, and the information of contract awards. The DoNPR electronically maintains HR records with access controls. Other records are maintained in manual files, with retention periods defined by law. The government is striving toward a paperless system through the Digital Nepal Framework and a Government Integrated Office Management System.

Currently, there are no established parameters or key performance indicators to evaluate the operational performance of the MDAs. While reviews of operations, processes, and activities within the government are not conducted on a regular and systematic basis, they are carried out depending on specific requirements. Secretaries of the ministries have the responsibility to assign roles and responsibilities to staff and delegate powers as necessary in a hierarchical organizational structure that involves multiple layers of review and endorsement.

Information and communication

The information and communication is a critical component that supports the functioning of all other components of internal control. In combination with other components, it facilitates the achievement of the entity's objectives, including objectives related to internal and external reporting. The controls within the information and communication system help the organization to use the right information in the system of internal control and to carry out internal control responsibilities effectively.

Central agencies prescribe internal controls to government entities through official letters, orders, or directives in paper format. The government lacks an intranet to announce and share information about internal controls, and official communication of internal controls

is not conducted via email. There is no formal process to identify the information required to support other components of internal controls, but spending units can request clarifications and guidance on internal controls through official letters. The internal and external audits generate information on the functioning of internal controls. Citizen Charter Nepal provides the public with various avenues to seek information, file complaints and grievances, and provide suggestions for improving government systems and services. The government provides public access to comprehensive fiscal information in a timely manner. Information about the performance of internal controls is only publicly disclosed through external audit reports.

Monitoring

Ongoing evaluations, separate evaluations, or a combination of both are used to ascertain whether the components of internal control are present and functioning. Findings are evaluated and communicated in a timely manner, with serious matters reported to senior management and the board. Monitoring activities involve selecting, developing, and performing ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. Internal control deficiencies are evaluated and communicated in a timely manner to those parties responsible for taking corrective action.

The NPC has issued National Monitoring and Evaluation Guidelines to facilitate the M&E of development projects. The MDAC and NDAC oversee the status of programs and projects, discussing both their physical and financial progress and exploring and resolving problems that may arise. Each ministry has a separate M&E department, which performs regular monitoring of programs and budgets. During the review of investment projects, there is no documentation of explanations for deviations from plans or identification of appropriate actions. The OAGN undertakes annual performance audits to evaluate the effectiveness, efficiency, and economy of development projects in achieving their development objectives.

Internal and external audits are responsible for evaluating the existence and functioning of internal controls. However, there is no established practice of periodic evaluations by the management. The management provides responses to external audit observations within the stipulated time, but there is an increasing volume of unsettled audit observations. It also provides partial responses to internal audit reports.



Annexes

Annex 1: Performance Indicator Summary

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Budget reliability	PI-1	Aggregate expenditure outturn	D	Scoring method M1 (WL)
				Aggregate expenditure outturn was below 85 percent of the approved aggregate budgeted expenditures for all of the last three years.
	PI-2	Expenditure composition outturn	D+	Scoring method M1 (WL)
			D	Variance in expenditure composition by functional classification was more than 15 percent for all of the last three years.
			D	Variance in expenditure composition by economic classification was more than 15 percent for all of the last three years.
			A	Actual expenditure charged to a contingency vote was on average less than 1 percent of the original budget.
	PI-3	Revenue outturn	D+	Scoring method M2 (AV)
			D	The actual revenue was less than the 92 percent of budgeted revenues in all of the last three years.
			C	The variance in revenue composition was higher than 10 percent in two of the last three years.





Transparency of public finances

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Transparency of public finances	PI-4	Budget classification	A	Scoring method M1 (WL) Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using GFS/COFOG standards.
			C	Budget documentation for the FY2022/23 budget fulfills 6 elements (4 basic and 2 additional) of the total 12 elements.
	PI-6	Central government operations outside financial reports	D	Scoring method M2 (AV)
			D	The expenditures of the EBUs for FY2020/21 that were outside the government's financial reports were more than 10 percent of the total BCG expenditures.
			D	The revenues of the EBUs for FY2020/21 that were outside of the government's financial reports were more than 10 percent of total BCG revenues.
			D	The dates of submission of the financial reports of EBUs to the respective line ministries are not available.
	PI-7	Transfers to subnational governments	C+	Scoring method M2 (AV)
			B	Transparent and rule-based systems are applied to fiscal transfers to the subnational governments. However, the allocation of conditional grants is principle based and distributed by the federal line ministries based on different parameters.
			C	Clear and sufficiently detailed information about transfers of all types of grants for subnational governments is provided. This allows them at least four weeks to complete their budget planning on time. However, the information of conditional grants only allows subnational governments 2 weeks and 5 days.

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Transparency of public finances	PI-8	Performance information for service delivery	B+	Scoring method M2 (AV)
		(i) Performance plans for service delivery	B	The information on policy or program objectives, key performance indicators, and outputs to be produced or the outcomes planned for most ministries is available and is published annually. However, the ultimate measurable outcomes are not reported at the aggregate level.
		(ii) Performance achieved for service delivery	B	The information is published annually concerning the quantity of outputs produced for most ministries. However, outcomes achieved are not reported.
		(iii) Resources received by service delivery units	A	The information about resources received by frontline service delivery units is disaggregated by source of funds, and the internal report compiling the information is prepared annually.
		(iv) Performance evaluation for service delivery	B	Performance audits have been carried out for the majority of the ministries within the last three years.
	PI-9	Public access to fiscal information	C	Scoring method M1 (WL) Of the total nine elements, the government makes available to the public four basic elements and one additional element in accordance with the specified time frames.
Management of assets and liabilities	PI-10	Fiscal risk reporting	D	Scoring method M2 (AV)
		(i) Monitoring of public corporations	D	Most PEs prepare financial statements and are audited, but the statements and audit reports are not available within nine months of the end of the fiscal year.
		(ii) Monitoring of subnational governments	D	The unaudited financial reports of a majority of subnational governments are not published. The audited reports of all subnational governments are published after nine months of the end of the fiscal year.
		(iii) Contingent liabilities and other fiscal risks	D	The consolidated financial reports of the government do not include contingent liabilities of the government.



Country name: Nepal		Current assessment			
Pillar	Indicator/Dimension	Score	Description of requirements met		
Management of assets and liabilities	PI-11	Public investment management	C+	Scoring method M2 (AV)	
		(i) Economic analysis of investment projects	C	Economic analyses are conducted to assess most major investment projects.	
		(ii) Investment project selection	B	Before their inclusion in the budget, most major investment projects are prioritized by a central entity based on standard criteria for selection. However, the National Pride Projects were declared by government decision.	
		(iii) Investment project costing	B	The MTEF includes projections of the total capital costs of the major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years.	
		(iv) Investment project monitoring	C	Annual monitoring reports covering both physical and financial progress are issued. However, the report does not provide the reason for the deviation from the original plan to identify appropriate actions.	
	PI-12	Public asset management	D+	Scoring method M2 (AV)	
		(i) Financial asset monitoring	B	The government maintains a record of its holdings in the major categories of financial assets, which are recognized at their acquisition costs. Information about the performance of the major categories of financial assets is published annually.	
		(ii) Nonfinancial asset monitoring	D	The government maintains a register of its holdings of fixed assets and collects partial information about their usage and age. However, the register does not include complete details of infrastructure assets, land, and minerals.	
		(iii) Transparency of asset disposal	D	Procedures and rules for the transfer or disposal of nonfinancial assets are established. However, the reports of transfers and disposals are not included in budget documents.	

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Management of assets and liabilities	PI-13	Debt management	C	Scoring method M2 (AV)
		(i) Recording and reporting of debt and guarantees	C	The records of both domestic and foreign debt, as well as guaranteed debt, are updated and reconciled at least annually by the PDMO.
		(ii) Approval of debt and guarantees	B	There are laws that outline the process, procedures, and ceilings for managing both domestic and foreign debt. The MoF is the government's main executive institution that is legally responsible for managing the country's overall public debt. During the Budget Speech, the finance minister announces the sources of foreign and domestic debt, along with their amounts, for approval from the Parliament. Public debt bills, along with annual budget and appropriation bill, are presented to the Parliament for approval. A dedicated agency, the PDMO, manages the government's debt by performing front-, middle-, and back-office functions.
		(iii) Debt management strategy	D	The government approved the MTDS in November 2021. However, the strategy does not cover the last three completed fiscal years.
Policy-based fiscal strategy and budgeting	PI-14	Macroeconomic and fiscal forecasting	D+	Scoring method M2 (AV)
		(i) Macroeconomic forecasts	D	Macroeconomic forecasts are prepared, but they do not include forecasts of interest rates and exchange rates. The target interest rate for the budget year is provided in the monetary policy statement of that same year.
		(ii) Fiscal forecasts	C	The government prepares forecasts of revenues, expenditures, and the budget balances for the budget year. The MTEF forecasts expenditures for the two following fiscal years, but the revenue forecast by type is not included.
		(iii) Macro-fiscal sensitivity analysis	D	During the assessment period, the government did not prepare the macro-fiscal forecasts with alternative macroeconomic assumptions.



Country name: Nepal		Current assessment			
Pillar	Indicator/Dimension	Score	Description of requirements met		
Policy-based fiscal strategy and budgeting	PI-15	Fiscal strategy	D	Scoring method M2 (AV)	
		(i) Fiscal impact of policy proposals	D	The MTEF includes the fiscal impact of expenditure policy changes for three years and revenues policy changes solely for the budget year. However, the fiscal impact of policy changes on revenue for each policy initiative is not estimated.	
		(ii) Fiscal strategy adoption	D	The MTEF covers some elements of the fiscal strategy only for the budget year, but the government lacks a formal document that clearly outlines its fiscal strategy.	
		(iii) Reporting on fiscal outcomes	D	The Annual Progress Evaluation Report for the FY2020/21 budget compares fiscal indicators to MTEF targets but neither explains deviations from objectives nor proposes corrective actions.	
	PI-16	Medium-term perspective in expenditure budgeting	C+	Scoring method M2 (AV)	
		(i) Medium-term expenditure estimates	C	The MTEF and annual budget present estimates of expenditures for the budget year and the two following fiscal years. These are allocated by administrative classifications. The economic classification for the two following years is not available in the MTEF and the annual expenditure estimate.	
		(ii) Medium-term expenditure ceilings	A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved before the budget circular is issued.	
		(iii) Alignment of strategic plans and medium-term budgets	C	Some of the ministries have their own costed sectoral strategies/plans. The MTEF and budget proposals are broadly aligned with these sectoral strategies/plans.	
		(iv) Consistency of budgets with previous year's estimates	D	According to the MTEF guidelines, there is no requirement for the current MTEF to include a comparison with the estimates of the previous MTEF or an explanation of changes in expenditure estimates and forecasts.	

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Policy-based fiscal strategy and budgeting	PI-17	Budget preparation process	B	Scoring method M2 (AV)
		(i) Budget calendar	B	A clear annual budget calendar exists, and it is largely adhered to. The calendar allows budgetary units at least four weeks from the receipt of the budget circular to submit their estimates. All budgetary units are able to complete their detailed estimates on time.
		(ii) Guidance on budget preparation	A	The budget guidance is clear and comprehensive and includes ministry-wise ceilings.
		(iii) Budget submission to the legislature	C	The annual budget proposal is submitted to the legislature at least one month—but less than two months—before the start of the fiscal year.
	PI-18	Legislative scrutiny of budgets	C+	Scoring method M1 (WL)
		(i) Scope of budget scrutiny	C	The legislature's budget review only covers details of revenue and expenditure. The MTEF is included in the budget submission, but it is not subject to review.
		(ii) Legislative procedures for budget scrutiny	C	The House of Representatives Rules 2018 outline the detailed legislature's procedures for budget scrutiny and are adhered to. However, the legislative process has limited provisions for public consultations and internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.
		(iii) Timing of budget approval	A	The legislature has approved the annual budget before the start of the fiscal year in each of the last three completed fiscal years.
	(iv) Rules for budget adjustments by the executive	B	There are clear rules for in-year budget adjustments by the executive. They are complied with in most cases, but they allow for extensive administrative reallocations.	



Predictability and control in budget execution

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Predictability and control in budget execution	PI-19	Revenue administration	C+	Scoring method M2 (AV)
		(i) Rights and obligations for revenue measures	A	The IRD and DOC collect most of the government revenues and use multiple channels which provide easy access to comprehensive and up-to-date information concerning the main revenue obligation areas, as well as rights, including, as a minimum, redress processes and procedures.
		(ii) Revenue risk management	C	The IRD and the DOC use partly structured and systematic approaches to evaluate and prioritize compliance risks for various revenue categories, particularly for medium to large taxpayers.
		(iii) Revenue audit and investigation	D	The IRD conducts annual audits and investigations based on its annual plan, thus completing the majority of its planned audits and investigations. The DOC (PCAO) conducts post-clearance audits on a random basis, using a risk-based approach. However, both entities have yet to develop compliance improvement plans.
		(iv) Revenue arrears monitoring	B	The stock of revenue arrears at the end of the last completed fiscal year is below 20 percent (that is, 4.83 percent) of the total revenue collection of the year. The revenue arrears older than 12 months are less than 50 percent (that is, 45.49 percent) of total revenue arrears for the year.
	PI-20	Accounting for revenues	C+	Scoring method M1 (WL)
		(i) Information on revenue collections	B	The RMIS captures complete data about revenue collection, and the MoF publishes monthly economic bulletins with a breakdown by revenue type. However, the EBU revenue is not captured by the RMIS and not included in the monthly economic bulletins.
		(ii) Transfer of revenue collections	A	All government revenues are deposited in KA 1.1 group of bank accounts, which are the components of the central treasury.
(iii) Revenue accounts reconciliation		C	Revenue collecting entities rely on RMIS data to update taxpayer records for revenue collection, which enables a reconciliation of revenue collection and fund transfer to the treasury.	

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Predictability and control in budget execution	PI-21	Predictability of in-year resource allocation	B	Scoring method M2 (AV)
		(i) Consolidation of cash balances	C	The GoN has implemented the TSA and RMIS systems, and the expenditure and revenue accounts are consolidated on a daily basis. However, the bank accounts used for debts and grants are consolidated at the end of each month. The consolidated cash situation is reported in the monthly accounts.
		(ii) Cash forecasting and monitoring	D	A basic cash forecasting and monitoring system has been implemented. However, a cash flow forecast considering commitments and cash requirements is not prepared for the fiscal year.
		(iii) Information on commitment ceilings	A	Starting on the first day of the fiscal year, each spending unit can spend up to the entire amount of its approved annual budget. Consequently, the MoF releases the complete budget allocation for the entire year via the LMBIS.
		(iv) Significance of in-year budget adjustments	A	In the last completed fiscal year, the line ministries made budget adjustments equivalent to 13 percent of the overall budget. Nevertheless, the MoF did not initiate any budget adjustments.
	PI-22	Expenditure arrears	C+	Scoring method M1 (WL)
		(i) Stock of expenditure arrears	A	The stock of expenditure arrears for the last three completed fiscal years. (FY2018/19–FY2020/21) was less than 1 percent of the total expenditures.
		(ii) Expenditure arrears monitoring	C	Data concerning the stock and composition of expenditure arrears are generated annually at the end of each fiscal year.
	PI-23	Payroll controls	C+	Scoring method M1 (WL)
		(i) Integration of payroll and personnel records	B	The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.
		(ii) Management of payroll changes	A	Required changes to the personnel records and payroll are updated at least monthly, and the retroactive adjustments are less than 1 percent of salary payments.

Country name: Nepal		Current assessment	
Pillar	Indicator/Dimension	Score	Description of requirements met
Predictability and control in budget execution	(iii) Internal control of payroll	C	The protocols for modifying personnel records and payroll are well defined and sufficient to maintain the accuracy of data. Manual personnel files are updated with the approval of the competent authority and changes are logged. The PIS and CGAS have established workflows for changing personnel records and payroll, which also include an audit trail. However, a comprehensive assessment about the accuracy of payroll and personnel data as well as the effectiveness of the processes in ensuring the accuracy of all data is required.
	(iv) Payroll audit	C	DTCOs conduct quarterly internal audits of payroll, and the OAGN audits payroll annually as part of external audits. However, both internal and external payroll audits rely on document review and do not involve on-site physical verification.
	PI-24 Procurement	C	Scoring method M2 (AV)
	(i) Procurement monitoring	D	Procuring agencies maintain contract records in individual files, which include information on what was procured, the value of the procurement, and who was awarded the contract. The only procurement database is maintained by the PPMO in e-GP, which is incomplete.
	(ii) Procurement methods	D*	A reliable database for procurement is currently unavailable, which limits the ability to accurately determine the degree of performance for this dimension.
	(iii) Public access to procurement information	B	Government units representing most procurement activities ensure that complete and accurate information for at least four key procurement information elements is made available to the public in a timely manner.
	(iv) Procurement complaints management	B	The procurement complaints system meets five of the six prescribed criteria. Since a 1 percent deposit of the bid value is necessary to make a complaint, the criterion of not charging fees that prohibit access by concerned parties is considered unmet.

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Predictability and control in budget execution	PI-25	Internal controls on non-salary expenditures	C+	Scoring method M2 (AV)
		(i) Segregation of duties	C	The legislation requires segregation of duties throughout the expenditure cycle, which some MDAs have specified by drafting extensive SOPs and job descriptions. In the case of others, the Secretaries delegate authority and duties to officials through office orders and important responsibilities need to be more specifically defined. The information systems used for budget formulation and execution incorporate internal controls with segregated duties, roles, and responsibilities.
		(ii) Effectiveness of expenditure commitment controls	D	The FPFA Act and FPFA Regulation prescribe effective expenditure commitment controls to limit commitments within annual budget allocations. However, the treasury and accounting systems lack commitment controls and only capture expenditure information at the payment stage.
		(iii) Compliance with payment rules and procedures	A	All payments are compliant with regular payment procedures. The percentage of non-compliant expenditures is less than 5 percent in accordance with internal and external audits reports.
	PI-26	Internal audit effectiveness	D+	Scoring method M1 (WL)
		(i) Coverage of internal audit	A	Internal audit is operational for all CG entities and covers both expenditure and revenue.
		(ii) Nature of audits and standards applied	D	Internal audit activities are primarily focused on financial compliance. The government has not formally adopted any standards for internal audit.
		(iii) Implementation of internal audits and reporting	A	Annual audit programs are prepared at the DTCO level. All programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
		(iv) Response to internal audits	D	According to the FPFA Regulations, auditee offices are required to settle the internal audit observations. However, evidence of the settlement (management response to audit recommendations) of internal audit observations is partially available.



Accounting and Reporting

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Accounting and Reporting	PI-27	Financial data integrity	B	Scoring method M2 (AV)
		(i) Bank account reconciliation	B	Bank reconciliation for all active CG bank accounts takes place at least monthly, usually within four (4) weeks from the end of the month. The principal bank accounts of the government are reconciled on a daily basis.
		(ii) Suspense accounts	Not applicable (NA)	There is no provision for suspense accounts in the government's accounting system.
		(iii) Advance accounts	B	Reconciliation of advance accounts takes place at least monthly and within a month from the end of each month. Most advance accounts are cleared in a timely way.
		(iv) Financial data integrity processes	B	Access and changes to records are restricted and recorded and results in an audit trail. Different FCGO units are responsible for prioritizing data security and integrity. However, there is currently no separate report available to confirm the verification of data integrity by these units.
	PI-28	In-year budget reports	C+	Scoring method M1 (WL)
		(i) Coverage and comparability of reports	C	The monthly budget execution allows direct comparison of expenditure and budget by administrative and economic headings and does not include expenditure made from transfers to deconcentrated units.
		(ii) Timing of in-year budget reports	A	Each spending unit prepares and submits the monthly budget execution reports to its superior office within seven days of the close of the month.
		(iii) Accuracy of in-year budget reports	C	There are no material concerns about accuracy of data presented in the in-year budget reports. However, expenditures are only captured at the payment stage and the monthly budget reports are not accompanied by analysis and commentary on budget execution.

Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Accounting and Reporting	PI-29	Annual financial reports	C+	Scoring method M1 (WL)
		(i) Completeness of annual financial reports	C	Financial reports for BCG are prepared annually and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.
		(ii) Submission of reports for external audit	B	The financial reports for the BCG are submitted for external audit within 3 months of the end of the fiscal year.
		(iii) Accounting standards	C	Accounting standards applied to all financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.
External scrutiny and audit	PI-30	External audit	D+	Scoring method M1 (WL)
		(i) Audit coverage and standards	B	Financial reports of the CG entities representing most total expenditures and revenues have been audited using ISSAI or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant material issues as well as systemic and control risks.
		(ii) Submission of audit reports to the legislature	D	Audit reports for two of the three last fiscal years were submitted to the legislature within nine months of the receipt of financial statements by the SAI. However, the audit report for one fiscal year was submitted to the legislature after nine months of the receipt of financial statements by the SAI.
		(iii) External audit follow-up	B	The PFM legislation outlines the audit follow-up process, and audited entities accordingly provide a formal and comprehensive response to audit observations and recommendations.
		(iv) Supreme Audit Institution independence	C	The SAI operates independently from the executive with respect to the procedures for appointment and removal of the Head of the SAI as well as the execution of the SAI's budget. The SAI has unrestricted and timely access to the majority of the requested records, documentation, and information.



Country name: Nepal		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
External scrutiny and audit	PI-31	Legislative scrutiny of audit reports	C	Scoring method M2 (AV)
		(i) Timing of audit report scrutiny	D	The legislature has not yet completed its review of the audit reports concerning the annual financial reports of the last three fiscal years within 12 months from the receipt of reports.
		(ii) Hearings on audit findings	C	In-depth hearings concerning key findings of audit reports take place occasionally with responsible officers from most of the audited entities. However, the calendar for committee hearings was not available to verify the frequency of in-depth hearings.
		(iii) Recommendations on audit by the legislature	C	The legislature issues recommendations on actions to be implemented by the executive. Complete information regarding legislative recommendations for actions to be implemented by the executive, and follow-up on their implementation, is not available.
		(iv) Transparency of legislative scrutiny of audit reports	B	Hearings are conducted in public with a few exceptions, including national security or similar sensitive discussions. Committee reports are provided to the full chamber of the legislature and published on the Parliament's official website.

Annex 2: Summary of Observations regarding the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.	The legislative structure of Nepal's civil service incorporates the values of ethics and integrity. The Civil Service Act of 1993 and Civil Service Rules of 1993 contain explicit requirements about ethics and integrity. In addition, certain CG entities, including authorities, EBUs, and corporations, have formulated distinct codes of ethics that are influenced by government legislations and laws. The internal control framework incorporates specific control activities, and the adherence to internal controls is clearly demonstrated by both internal and external audit reports. The Commission for the Investigation of Abuse of Authority (CIAA), a constitutional body, investigates allegations of authority misuse by government officials, thereby promoting a culture that prioritizes integrity and ethical values.
1.2 Commitment to competence	Nepal's civil service comprises 12 distinct occupational groups, each based on the nature of work. The recruitment process for each of these groups is conducted by the PSC, a constitutional body that upholds the principles of meritocracy and inclusiveness, as mandated by the Constitution. Upon induction, specialized training is provided to employees of each occupational group, by relevant training institutes of the government. Performance agreements are managed by the Civil Service Act and Rules and other respective laws. Promotions are governed by legislation, where the evaluation of competence is the primary criterion. In 2018, the Nepal Administrative Staff College issued a competency framework ⁴⁴ defining its core competencies for civil servants.
1.3 The "tone at the top" (that is, management's philosophy and operating style)	The 15th Periodic Plan places emphasis on good governance, aiming to enhance public confidence in the overall governance framework. The plan acknowledges the necessity to enhance efficiency, result-orientation, and accountability in public administration. However, the management's philosophy and operating style is overly focused on compliance. This is due to the emphasis on controls within the legal and regulatory framework, which is further reinforced by frequent internal audits. As a result, while regulatory obligations may be met, performance may fall short of expectations, and there may be no accountability for failing to achieve desired outcomes. For instance, despite periodic management reviews, as mandated by the regulations, a majority of the investment projects are still completed behind schedule.

⁴⁴ <https://nasc.org.np/sites/default/files/Competency%20Framework%20of%20Civil%20Service%20of%20Nepal.pdf>.

Internal control components and elements	Summary of observations
1.4 Organizational structure	<p>The Constitution allocates functions and powers to the GoN, which are unbundled at the ministry level through Government of Nepal (Allocation of Business) Rules, 2018. NPC formulates the national vision, periodic plans, and development policies. It provides a framework for policy for all sectors and serves as a central agency for monitoring and evaluating development plans, policies, and programs. The MoF is responsible for budget preparation, mobilizing, and allocating resources, as well as managing public investments and expenditures. FCGO under the MoF is responsible for treasury, accounting, reporting, and internal audit functions of the government. MoFAGA is responsible for central and federal civil service personnel management and record keeping. It is also responsible for coordination among all government tiers related to federalism issues. The line ministries formulate sectoral policies and plans and implement the approved plans by executing approved budgets.</p> <p>The leadership of each ministry is entrusted to a secretary, who possesses complete administrative authority and is responsible for the ministry's operations. MoFAGA conducts an Organization and Management survey to determine the sanctioned strength of each ministry, and based on the approved survey a ministry is organized into different departments, units, sections, and offices. The organizational structure is characterized by a hierarchical arrangement, consisting of established reporting lines and well-defined responsibilities. With the implementation of various information systems, the efficiency of information flow about PFM matters has enhanced.</p>
1.5 Human resource policies and practices	<p>The HR policies and practices are established in multiple legislations and regulations, such as the Civil Service Act and Regulations, the Teacher Service Commission Regulation, Army Act, Police Act, and the Armed Police Force Act. The PSC has implemented regulations and procedures for the recruitment of government employees through a competitive selection process. HR policies and procedures encompass several aspects pertaining to merit-based recruitment, induction training, in-service training, rotation, transfer, promotion, termination, and retirement.</p>
2. Risk assessment	
2.1 Risk identification	<p>The periodic plan and sector strategies have identified potential risks that may hinder the achievement of development objectives. The Budget Speech has highlighted high-level risks that could affect the attainment of budget outcomes, while revenue collection entities</p>

Internal control components and elements	Summary of observations
	<p>have identified risks that may impede the attainment of revenue targets. However, at the ministry or government level, specific risks that could hinder the achievement of annual fiscal and performance targets have not been identified. Additionally, there are no risk registers maintained, and all fiscal risks have not been identified. Investment projects are not comprehensively appraised, and the risks associated with achieving project objectives are not identified. While internal audits cover a significant volume of transactions, they do not employ a risk-based approach. External audits, however, are conducted following international standards, and risk identification is an essential component of the audit process.</p>
<p>2.2 Risk assessment (significance and likelihood)</p>	<p>Despite the identification of risks in the periodic plan and sector strategies, the significance and likelihood of identified risks are not evaluated. Semi-structured approaches are used by IRD and DOC for assessing risks related to revenue categories. Fiscal risk reporting performance is inadequate, and information is unavailable to quantify fiscal risks, as evaluated by PI-10. The annual MTEF also lacks fiscal sensitivity analysis. PDMO, on the other hand, has conducted a DSA to assess the risk of debt distress. External audits include structured risk assessment, but internal audits do not assess risks.</p>
<p>2.3 Risk evaluation</p>	<p>There is no established process in place to measure the effectiveness of existing controls in mitigating identified and assessed risks, which hinders making informed decisions about risk management.</p>
<p>2.4 Risk appetite assessment</p>	<p>The government has not conducted a risk appetite assessment to determine the overall level of risk tolerance or willingness to take risks to achieve development objectives. Therefore, there is a lack of clarity regarding the types and levels of risks the government is willing to accept, and appropriate risk management strategies within an acceptable risk tolerance have not been identified.</p>
<p>2.5 Responses to risk (transfer, tolerance, treatment, or termination)</p>	<p>In the absence of a formal risk response/management strategy, government officials make decisions regarding risk treatment and termination based on legislation, rules, and directives. Issues are sometimes escalated to a higher office or central ministry for resolution, leading to the transfer of risk. The level of risk tolerance varies subjectively among individuals in charge of an office, project, or activity, leading to varying degrees of acceptance or rejection of risks. For example, they may accept a certain delay in completion of civil works by the contractor without invoking the remedial clauses of the contract. Effective risk management is a priority for both the IRD and the DOC. While there is currently no documented risk management strategy in place, the two agencies develop and implement annual plans aimed at mitigating/ treating risks, with a particular focus on large- and medium-size taxpayers.</p>

Internal control components and elements	Summary of observations
3. Control activities	
3.1 Authorization and approval procedure	<p>The process of authorization and approval is comprehensively covered in the PFM legislations and regulations, as well as in the internal control policies and procedures. At the central level, the NPC and MOF are responsible for approving policies, plans, and budgets for the government and individual ministries. The Secretary of each ministry has full administrative authority, which may be delegated to officials via office orders. Various IT systems are utilized for budget formulation and execution, and the authorization and approval responsibilities of officials have been configured accordingly. The FCGO manages the treasury function, and payments are made using the TSA system, with authorization and approval limits of various officials configured in the system. MoFAGA is responsible for HR matters, including the creation of new posts.</p>
3.2 Segregation of duties (authorizing, processing, recording, and reviewing)	<p>The responsibilities, including authorizing expenses, accounting, reporting, and asset custody are divided among different units of each entity based on legislations and regulations. The segregation of duties has been configured in IT systems used for budgeting, treasury, accounting, and reporting. However, several GoN offices lack standard operating procedures for precise definition of major responsibilities. These ministries segregate duties via an office order, as allowed by Good Governance Act.</p>
3.3 Controls over access to resources and records	<p>The FCGO has been entrusted with the responsibility of developing and managing the IT systems related to PFM. To uphold the high integrity of financial data, various security features and internal controls have been incorporated into the information systems to restrict unauthorized access and changes to records. While all nonfinancial assets are recorded in the PAMS, the usage of assets is only partially captured. Government officials are authorized to allow the use of government assets in accordance with their delegated financial authority. The DoNPR under the MoFAGA electronically maintains HR records with sufficient controls over access and changes to the records. The e-GP system includes incomplete procurement records, which are maintained by the procuring agencies in separate manual files. All other administrative records are maintained by the various government offices in manual files. The Governmental Documents Disposal Rules, 1971, defines the retention period of various government records. The Digital Nepal Framework envisions a paperless government through a single IT system. The Ministry of Communication and Information Technology is developing a Government Integrated Office Management System that includes digitization of records.</p>

Internal control components and elements	Summary of observations
3.4 Verifications	Adequate verification controls have been prescribed and implemented for budgeting, payment processing, and financial reporting. The execution of these controls is distributed between the central and line ministries. The budget estimates prepared by the line ministries are verified by NPC and MOF against development plans and budget guidelines as part of the budget review process. During payment processing, the spending units are responsible for verifying receipt of goods and services, completeness of supporting documents, and compliance with contracts and ensuring budget availability. Payment transactions are then requested through the CGAS, and the DTCOs verify the data with the TSA system before releasing the payment. Revenue collection entities verify revenue receipts with the RMIS data. The monthly financial reports of the spending units are verified by the DTCOs to ensure accuracy and compliance with financial reporting requirements.
3.5 Reconciliations	The legal and regulatory framework for PFM requires the implementation of multiple periodic reconciliations. The entities which collect revenue and make expenditure reconcile the revenue and expenditure data with DTCOs. Similarly, the DTCOs reconcile the
	data with FCGO and banks. The revenue collecting banks reconcile the revenue between RMIS, core banking system and NRB. The final reconciliations with DTCOs, ministries and banks is conducted by the FCGO through the RMIS, FMIS and MFMIS. The PDMO regularly reconciles debt records in the DOMS with lenders' records and publishes the reconciliation annually. Payroll and personnel records are reconciled monthly as required by the OAG Form. There are no suspense accounts, and advance accounts are reconciled each month. Spending agencies reconcile their expenditure numbers with the records of DTCOs monthly.
3.6 Reviews of operating performance	Currently, there are no established parameters or key performance indicators to evaluate the operational performance of the MDAs. Therefore, structured assessments of operational performance are not carried out. However, certain aspects of physical and financial performance are reviewed as a part of development project monitoring and semiannual budget review. The ministries monitor the progress of investment projects based on the M&E guidelines of NPC. The MOF conducts a semiannual budget review, and budget adjustments are made based on the physical and financial progress of the budgetary units.
3.7 Reviews of operations, processes, and activities	The reviews of operations, processes, and activities within the government are not regular and systematic. Nevertheless, reviews are carried out depending on specific requirements, and subsequent measures are implemented to enhance operations, procedures, and activities.

Internal control components and elements	Summary of observations
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	It is the responsibility of the secretaries to assign roles and responsibilities to the staff, as well as delegate powers, as necessary. The organizational structure follows a hierarchical model that involves multiple layers of review and endorsement before final approval. Currently, there is no formal guidance or training mechanism as a part of staff supervision. However, specialized government training institutes offer relevant training for government officials to enhance their skills and knowledge.
4. Information and communications	
4.1 Information and communication	Central agencies, including MOF, NPC, FCGO, MoFAGA, and OAGN, prescribe internal controls to government entities through official letters, orders, or directives in paper format. Additionally, most internal control documents are uploaded on the central agencies' websites. However, the government currently lacks an intranet to announce and share information about internal controls, and official communication of internal controls is not conducted via email.
	<p>The government does not have a formal process to identify the information required to support other components of internal controls. Nevertheless, spending units can request clarifications and guidance on internal controls through official letters. The government training institutes provide civil servants with training on internal controls.</p> <p>The internal and external audits generate information on the functioning of internal controls. While the internal audit mainly focuses on transaction reviews, it does not provide a comprehensive view of the functioning of internal controls within or across the government. On the other hand, the external audit reports provide comments on the design and effective functioning of internal controls, with recommendations for improvement.</p> <p>The Citizen Charter Nepal provides the public with various avenues to seek information, file complaints and grievances, and provide suggestions for improving government systems and services. Each ministry and department has a citizen charter focal point who attends and responds to communication from the general public. The government provides public access to comprehensive fiscal information in a timely manner. However, information about the performance of internal controls is only publicly disclosed through external audit reports.</p>

Internal control components and elements	Summary of observations
5. Monitoring	
5.1 Ongoing monitoring	<p>The NPC has issued the National Monitoring and Evaluation Guidelines to facilitate the M&E of development projects. The MDAC and the NDAC operate at a high level and oversee the status of programs and projects, discussing both their physical and financial progress, and exploring and resolving problems that may arise. Additionally, each ministry has a separate M&E department, which performs regular monitoring of programs and budgets. However, it is worth noting that the management of the MDAs do not systematically monitor the functioning of internal controls. Instead, internal and external audits are responsible for evaluating the existence and functioning of internal controls.</p>
5.2 Evaluations	<p>The OAGN undertakes annual performance audits on a sample basis, primarily for development projects, to evaluate their effectiveness, efficiency, and economy in achieving their development objectives. Internal control evaluations are also an essential component of the external audits conducted annually. Additionally, development partners evaluate the performance of government-financed projects and, at the government's request, assess government functions such as tax administration and debt management. While the government conducts ad hoc evaluations of internal controls, there is no established practice of periodic evaluations by the management.</p>
5.3 Management responses	<p>During the review of investment projects by the MDAC and NDAC, there is no documentation of explanations for deviations from plans or identification of appropriate actions. Although management provides responses to external audit observations within the stipulated time, the annual audit reports reveal an increasing volume of unsettled audit observations. Partial management responses to internal audit reports are provided.</p>

Annex 3: Sources of Information

Annex 3A: Related survey and analytical work

No.	Institution	Document title	Date	Link
1	World Bank	Nepal Fiscal Federalism Update	June 2023	https://openknowledge.worldbank.org/entities/publication/a7f759d6-10ae-4768-9cea-610e18149efe
2	World Bank	Nepal Development Update Series	Published Semiannually	https://www.worldbank.org/en/country/nepal/publication/nepaldevelopmentupdate
3	World Bank	Debt Management Performance Assessment	February 2023	Official use only
4	Asian Development Bank	Governance and Institutional Risks and Challenges in Nepal	December 2019	https://www.adb.org/publications/governance-institutional-risks-challenges-nepal
5	International Monetary Fund	Nepal Public Investment Management Assessment	November 2021	Official use only
6	International Monetary Fund	Tax Administration Diagnostic Assessment Tool	December 2022	Official use only
7	MOF Nepal	Economic Survey	Published Annually	https://www.mof.gov.np/site/publication-category/21

Annex 3B: List of government officials involved in the assessment (assessors)


Name	Institution	Post
Group 1		
Chakra Bahadur Budha	Ministry of Finance	Joint Secretary
Janak Raj Sharma	Ministry of Finance	Under Secretary
Diwakar Luitel	National Planning Commission	Program Director
Ramchandra Sharma	Financial Comptroller General Office	Deputy Financial Comptroller General
Anupama Karkee	Public Financial Management Training Center	Accounts Officer

Name	Institution	Post
Group 2		
Dhundi Prasad Niraula	Ministry of Finance	Joint Secretary
Harishchandra Dhakal	Ministry of Finance	Under Secretary
Yadunath Acharya	National Planning Commission	Program Director
Krishna Pudasaini	Financial Comptroller General Office	Deputy Financial Comptroller General
Amar Subedi	Ministry of Finance	Computer Engineer
Group 3		
Baburam Subedi	Ministry of Finance	Joint Secretary
Chudaraj Sapkota	National Natural Resources and Fiscal Commission	Under Secretary
Baburam Gyawali	Ministry of Federal Affairs and General Administration	Under Secretary
Romakanta Kafle	Financial Comptroller General Office	Deputy Financial Comptroller General
Radheshyam Dahal	Ministry of Finance	Under Secretary
Ram Prasad Pathak	Ministry of Finance	Under Secretary
Group 4		
Dilaram Panthi	Financial Comptroller General Office	Joint Financial Comptroller General
Shiva Sharma	Ministry of Finance	Under Secretary
Hira Neupane	Public Debt Management Office	Under Secretary
Mukti Raman Parajuli	Public Expenditure and Financial Accountability (PEFA) Secretariat, MoF, Nepal	Accounts Officer
Keshab Pokhrel	Financial Comptroller General Office	Accounts Officer
Group 5		
Rajendra Kumar Poudel	National Planning Commission	Joint Secretary
Mohan Singh Basnet	Ministry of Finance	Under Secretary
Narayan Prasad Adhikari	National Natural Resources and Fiscal Commission	Under Secretary
Ganesh Prasad Acharya	Central Bureau of Statistics	Director
Dr. Chakra Pani Acharya	National Planning Commission	Program Director


Name	Institution	Post
Group 6		
Bhupal Baral	Ministry of Finance	Joint Secretary
Raju Pyakurel	Inland Revenue Department	Director
Mun Kumar K.C.	District Treasury Controller Office, Lalitpur	Chief Treasury Controller
Sharad Niraula	Ministry of Finance	Under Secretary
Group 7		
Umesh Dhungana	Public Procurement Monitoring Office	Joint Secretary
Prakashjung Karki	Department of the National Personnel Records (civil)	Director
Chandra Dahal	Ministry of Finance	Section Officer
Gorakh Bahadur Shahi	Public Expenditure and Financial Accountability (PEFA) Secretariat, Nepal	Member Secretary
Govinda Ram Paneru	Public Procurement Monitoring Office	Director
Group 8		
Than Prasad Panyani	Public Expenditure and Financial Accountability (PEFA) Secretariat, Nepal	PEFA Coordinator
Bhesh Prasad Bhurtel	Financial Comptroller General Office	Deputy Financial Comptroller General
Gokul Banstola	District Treasury Controller Office, Babarmahal	Chief Treasury Controller
Rajkumar Shrestha	Public Expenditure and Financial Accountability (PEFA) Secretariat, Nepal	Accounts Officer
Laxman Jnawali	Public Expenditure and Financial Accountability (PEFA) Secretariat, Nepal	Accountant
Group 9		
Chandrakanta Bhandari	Office of the Auditor General, Nepal	Deputy Auditor General
Pradip Nepal	Public Accounts Committee	Under Secretary
Rekha Upadhya	Finance Committee	Under Secretary
Sarita Ranamagar	Public Accounts Committee	Under Secretary
Satya Narayan Thapa	Office of the Auditor General, Nepal	Director
Amrita Thapa	Institute of Chartered Accountants of Nepal	Assistant Director


Annex 3C: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data sources
 Budget reliability	
PI-1. Aggregate expenditure outturn 1.1. Aggregate expenditure outturn	<ul style="list-style-type: none"> • CFS: www.fcgo.gov.np (Data presented in the above table are based on calculation sheets as provided by the PEFA Secretariat, Washington DC) • Budget Speech: www.mof.gov.np • Red Book: www.mof.gov.np • Budget Speech: www.mof.gov.np
PI-2. Expenditure composition outturn 2.1. Expenditure composition outturn by function	
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn 3.1. Aggregate revenue outturn	
3.2. Revenue composition outturn	
 Transparency of public finances	
PI-4. Budget classification 4.1. Budget classification	<ul style="list-style-type: none"> • Unified Economic Codes and Classifications and Explanations 2074: www.fcgo.gov.np • Budget Speech: www.mof.gov.np
PI-5. Budget documentation 5.1. Budget documentation	<ul style="list-style-type: none"> • White Book: www.mof.gov.np • Economic survey: www.mof.gov.np • OAG Annual Report, (Nepal, 2079): www.oag.gov.np
PI-6. Central government operations outside financial reports 6.1. Expenditure outside financial reports	<ul style="list-style-type: none"> • Recommendation for transfer of Conditional Grant by GoN to Province and Local government (https://nnrfc.gov.np/uploads/resources/2020-07-09/) • Education have FLASH Report: (https://cehrd.gov.np/infocenter/17) • Health Information Management System: https://dohs.gov.np/information-systems/health-management-information-section/ • NNRFC Framework (https://nnrfc.gov.np/uploads/resources/2020-07-09/)
6.2. Revenue outside financial reports	<ul style="list-style-type: none"> • FCGO Annual Statements of Income and Expenditure, FY2020/21 Page 27, www.fcgo.gov.np • Primary Source of Data (Unpublished) - Internal decisions files, MoF • Constitution: https://lawcommission.gov.np/en/


Indicator/dimension	Data sources
6.3. Financial reports of extra-budgetary units	<ul style="list-style-type: none"> Ministry progress report, www.mof.gov.np Annual Development Plan (ADP), NPC (www.npc.gov.np); Budget Speech 2078/79,
PI-7. Transfers to subnational governments	<ul style="list-style-type: none"> Ministry annual progress report, 2078: www.mof.gov.np
7.1. System for allocating transfers	<ul style="list-style-type: none"> Budget Speech FY2078/79 annexes 4,8, Budget Red Book, MoF Ministry Annual Progress Report, FY2078 (www.mof.gov.np) MOF: Budget Book (Red Book) 2077/78
7.2. Timeliness of information on transfers	<ul style="list-style-type: none"> Annual Budget Progress Reports of FY2077/78
PI-8. Performance information for service delivery	<ul style="list-style-type: none"> Annual Reports of MDAs Annual Reports, FY (2018/19, 2019/20, 2020/21): www.oag.gov.np Semiannual Budget Progress Evaluation Report, 2020/21 (www.mof.gov.np)
8.1. Performance plans for service delivery	<ul style="list-style-type: none"> Annual Statement of Income and Expenditure, www.fcgo.gov.np
8.2. Performance achieved for service delivery	<ul style="list-style-type: none"> Annual report: www.oag.gov.np Conditional Grant Parameters prescribed by NNRF: https://nnrfc.gov.np/uploads/fivesectors/2023-02-17/.pdf
8.3. Resources received by service delivery units	<ul style="list-style-type: none"> Fiscal Equalization Grant Allocation Recommendation by NNRF: https://nnrfc.gov.np/uploads/resources/2023-04-12/3.pdf
8.4. Performance evaluation for service delivery	<ul style="list-style-type: none"> Revenue Sharing Recommendation by NNRF: https://nnrfc.gov.np/uploads/fivesectors/2018-06-11.pdf
PI-9. Public access to fiscal information	
9.1. Public access to fiscal information	
 Management of assets and liabilities	
PI-10. Fiscal risk reporting	<ul style="list-style-type: none"> SoE Information: Yellow Book, 2021, MoF (www.mof.gov.np); 59th Annual Report, OAG (www.oag.gov.np); consolidated report (CFS FY2020/21, www.fcgo.gov.np, page 13 and 14), https://moeap.lumbini.gov.np/downloadfile/pragati_book_2077_078_final_12_5_1623761253.pdf https://moeap.p1.gov.np/files/report/20221130174648.pdf http://moeap.sudurpashchim.gov.np/notices https://mof.gandaki.gov.np/media/publication/files-superfinal.pdf https://kathmandu.gov.np/report-type/yearly-progress-report/ https://gaumukhimun.gov.np/sites/gaumukhimun.gov.np/files/audit.pdf


Indicator/dimension	Data sources
10.1. Monitoring of public corporations	<ul style="list-style-type: none"> • https://phikkalmun.gov.np/annual-progress-report • https://gaurishankarmun.gov.np/sites/gaurishankarmun.gov.np/files/pragati%20pratibedan%20207778.pdf
10.2. Monitoring of subnational government	<ul style="list-style-type: none"> • https://uttargayamun.gov.np/sites/uttargayamun.gov.np/files/report.pdf
10.3. Contingent liabilities and other fiscal risks	<ul style="list-style-type: none"> • https://tikapurmun.gov.np/sites/tikapurmun.gov.np/files/documents/aaye%20bibaran%202077-78.pdf • https://likhumunnuwakot.gov.np/sites/likhumunnuwakot.gov.np/files/4.2.1.pdf • https://mangalsenmun.gov.np/ne/annual-progress-report
PI-11. Public investment management	<ul style="list-style-type: none"> • PDMO, www.pdmo.gov.np (https://moics.gov.np/uploads/shares/rules/the-financial-procedures-rules_1470736726.pdf)
11.1. Economic analysis of investment projects	<ul style="list-style-type: none"> • National Project Bank Management Information System (NPBMIS), NPC, www.npc.gov.np
11.2. Investment project selection	<ul style="list-style-type: none"> • Standard for Determination of Nationally Prioritized Project, 2075 (https://npc.gov.np/images/category/national_priority_guideline.pdf); MTEF, FY2020/21 www.npc.gov.np Page numbers 67,149,120,176,178,179,181,189); Project Timeline (as per NPC Brief Introduction of National Pride Project Page no 5) (www.npc.gov.np); Annual Budget Review progress report - Annex 12 2077/78 (www.mof.gov.np), MTEF, FY2020/21: annexes:4.1,4.2,5.1,6.1: page 315–334).www.npc.gov.np; https://npc.gov.np/images/category/rastriya_anugaman1.pdf https://npc.gov.np/images/category/rastriya_anugaman1.pdf
11.3. Investment project costing	<ul style="list-style-type: none"> • https://npc.gov.np/images/category/Field_Report_of_National_Pride_Projects.pdf
11.4. Investment project monitoring	<ul style="list-style-type: none"> • https://npc.gov.np/images/category/Field_Report_of_National_Pride_Projects.pdf • https://npc.gov.np/images/category/Pushpa-lal-road1.pdf • https://npc.gov.np/images/category/CIE_PAF-FINAL_REPORT_07_MAY.pdf • https://www.mof.gov.np/site/publication-detail/3153
PI-12. Public asset management	<ul style="list-style-type: none"> • Kumarichowk and Central Arrears Recovery Office (https://www.kumarichowk.gov.np), Nepal Rastra Bank (Central Bank of Nepal), NRB (www.nrb.org.np);
12.1. Financial asset monitoring	<ul style="list-style-type: none"> • SoE Information: yellow book: (https://www.mof.gov.np/site/publication-category/29)
12.2. Nonfinancial asset monitoring	<ul style="list-style-type: none"> • https://www.fcgo.gov.np/storage/uploads/publications/20220705103141_For%20Website.pdf
12.3. Transparency of asset disposal	<ul style="list-style-type: none"> • https://pdmo.gov.np/sources/9/59397493 • https://www.nrb.org.np/contents/uploads/2021/11/Financial-Statement-2077_78-1.pdf

Indicator/dimension	Data sources
PI-13. Debt management	Acts and Rules, (www.lawcommission.gov.np); Annual Report, PDMO, (www.pdmo.gov.np); Development Cooperation Report, FY2020/21, https://www.mof.gov.np/uploads/document/file/1661161034_1660713168_DCR%20Report%202021_7_2.pdf
13.1. Recording and reporting of debts and guarantees	
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	
 Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	15th Plan (FY2019/20–2023/24, page 83, www.npc.gov.np ; www.npc.gov.np/en/category/medium_term_expenditure_framework , budget speech, www.npc.gov.np).
14.1. Macroeconomic forecasts	
14.2. Fiscal forecasts	
14.3. Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	www.npc.gov.np/en/category/medium_term_expenditure , https://www.mof.gov.np/site/publication-detail/2162 , Budget Speech, FY2020/21 Annex 2 and 5 (ka), www.mof.gov.np , White Paper Implementation Work plan (https://www.mof.gov.np/site/publication-detail/1089); Annual Development Program (ADP), www.npc.gov.np ; Annual and Semiannual progress reports (https://www.mof.gov.np/site/publication-detail/3153).
15.1. Fiscal impact of policy proposals	
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	
PI-16. Medium-term perspective in expenditure budgeting	https://mof.gov.np/site/publication-category/21 https://mof.gov.np/site/publication-category/84 MTEF, FY2020/21 (2020/21–2023/24-revised), Annex 1, page 512, www.npc.gov.np ; sectoral strategies/plans: https://www.globalpartnership.org/sites/default/files/2019-05-nepal-education-sector-plan.pdf https://moest.gov.np/post/1_6376313344e1f https://www.aidsdatahub.org/sites/default/files/resource/nepal-health-sector-strategy-implementation-plan-2016-2021.pdf https://www.moud.gov.np/storage/listies/July2019/NUDS_PART_A.pdf

Indicator/dimension	Data sources
16.1. Medium-term expenditure estimates	https://moics.gov.np/public/uploads/shares/publication/NTIS_2016_1546150729.pdf ,
16.2. Medium-term expenditure ceilings	https://customs.gov.np/page/customs-reform-plan https://ird.gov.np/list/policy
16.3. Alignment of strategic plans and medium-term budgets	https://npc.gov.np/en/category/other_major_reports?page=6 (Needs Assessment, Costing, and Financing Strategy For SDGs Posted on May9, 2019), MTEF, FY2020/21 (2020/21–2023/24-revised Schedule-10, pages 364–372, MTEF, FY2022/23 (Annexes 3.1, 4.1, 5.1, 6.1, 7.1, 8.1, and 9.1), www.npc.gov.np .
16.4. Consistency of budgets with previous year's estimates	
PI-17. Budget preparation process	PFPA act and Rules, https://lawcommission.gov.np/en/ https://npc.gov.np/images/category/Budget_formulation_Guidelines_final-3.pdf
17.1. Budget calendar	
17.2. Guidance on budget preparation	https://www.mof.gov.np/site/publication-detail/2162 https://hr.parliament.gov.np/uploads/attachments/u7xqv1ckc5toi1hr.pdf
17.3. Budget submission to the legislature	
PI-18. Legislative scrutiny of budgets	https://hr.parliament.gov.np/np/parliamentary-notice?get_by=all&n_type=parliament_notices&page=12 ;
18.1. Scope of budget scrutiny	https://hr.parliament.gov.np/np/committees/Finance-Committee-2079 ; Appropriation Act, 2020/21, www.mof.gov.np ;
18.2. Legislative procedures for budget scrutiny	59th Annual Report, OAG, www.oag.gov.np .
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
 Predictability and control in budget execution	
PI-19. Revenue administration	Annual Report of IRD, www.ird.gov.np ; Annual Report of DoC, www.customs.gov.np ; Trimester wise statement of progress report regarding 'Right to Information' in its website (www.ird.gov.np); Tax bulletins, https://www.ird.gov.np/publication/category/tax-bulletins ; Annex 3 of Annual Statement of Federal Consolidated Fund, FY2021/22, www.fcgo.gov.np ; www.ird.gov.np Call Center, Toll free Number: 16600140000, complain@ird.gov.np ; Annual Report of IRD FY2021/22 Page 34 and Annual Report, FY2021/22 of DoC Page 33; Fraud and Tax Investigation. https://ird.gov.np/public/pdf/1113327828.pdf , page (27).

Indicator/dimension	Data sources
19.1. Rights and obligations for revenue measures	
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	
PI-20. Accounting for revenue	Tax arrears: Annual Report of IRD and Annual Progress Report of Post Clarence Audit Office, FY2020/21 and 2021/22 (https://ird.gov.np/publication/category/annual-reports ; CFS, FY2020/21 and 2021/22, FCGO; https://fcgo.gov.np/daily-budgetary-analysis).
20.1. Information on revenue collections	
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
PI-21. Predictability of in-year resource allocation	Government Transaction Directive, 2076, www.nrb.org.np ; Semiannual Budget Review, MoF, www.mof.gov.np .
21.1. Consolidation of cash balances	
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	CFS, FY2020/21, page no. 11, www.fcgo.gov.np ; CFS (FY2018/19, 2019/20, and 2020/21), FCGO (www.fcgo.gov.np); Annual Report (2077/78), Inland Revenue Department, MoF, GoN (page 42); Annual Report (FY2077/78), Inland Revenue Department, MoF, GoN (page 42) (www.ird.gov.np).
22.1. Stock of expenditure arrears	
22.2. Expenditure arrears monitoring	
PI-23. Payroll controls	www.mofaga.gov.np ; 59th OAGN Annual Report, www.oag.gov.np , Act and Rules, https://lawcommission.gov.np/en/ .
23.1. Integration of payroll and personnel records	
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	

Indicator/dimension	Data sources
PI-24. Procurement	Procurement act and rules: www.ppmo.gov.np ; PPMO and KSAs Official letter; Annual Report, FY2020/21, PPMO, www.ppmo.gov.np ; www.bolpatra.gov.np/egp .
24.1. Procurement monitoring	
24.2. Procurement methods	
24.3. Public access to procurement information	
24.4. Procurement complaints management	
PI-25. Internal controls on non-salary expenditure	https://www.moud.gov.np/storage/listies/July2019/Antarik-Nirdeshika-2073.pdf https://mofaga.gov.np/model-law/2533 https://www.nhssp.org.np/Resources/HPP/Internal%20Control%20System%20Guidelines-2078.pdf Internal Audit Report, FY2021/22 (Page 9), www.fcgo.gov.np ; 59th OAGN Annual Report, page 5 and 754 (excluding audit arrears), www.oag.gov.np ; CFS, Page 44 Annex 5, www.fcgo.gov.np .
25.1. Segregation of duties	
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
PI-26. Internal audit	Internal Audit Procedure Directive, 2016 and Internal Audit Handbook developed by FCGO, www.fcgo.gov.np ; FCGO's Consolidated Internal Audit Annual Summary Report (pages 11, 17, and 18, www.fcgo.gov.np).
26.1. Coverage of internal audit	
26.2. Nature of audits and standards applied	
26.3. Implementation of internal audits and reporting	
26.4. Response to internal audits	
 Accounting and reporting	
PI-27. Financial data integrity	Government Transaction Directive, 2019, www.fcgo.gov.np ; www.nrb.org.np ; Daily Report (real-time data), www.fcgo.gov.np ; Consolidated Financial Statement 2020/21, FCGO, www.fcgo.gov.np ; https://fcgo.gov.np/page/function-of-section .
27.1. Bank account reconciliation	
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	

Indicator/dimension	Data sources
PI-28. In-year budget reports	Budget Speech of FY2022/23, www.mof.gov.np ; Semiannual Budget Progress Evaluation Report, 2020/21, www.mof.gov.np ;
28.1. Coverage and comparability of reports	https://www.mof.gov.np/site/publication-detail/3148 ;
28.2. Timing of in-year budget reports	59th Annual Report, OAGN, (page 718), www.oag.gov.np ; Operation Directives, 2019 www.mof.gov.np ;
28.3. Accuracy of in-year budget reports	Nepal Public Sector Accounting Standards (NPSAS), www.fcgo.gov.np .
PI-29. Annual financial reports	Annual Report, PDMO Page 16, www.pdmo.gov.np ; Annual Reports of Income and Expenditure of Government of Nepal, Part - 1, FY2020/21, www.fcgo.gov.np ;
29.1. Completeness of annual financial reports	Consolidated Financial Statement, FY2020/21, (www.fcgo.gov.np) https://fcgo.gov.np/storage/uploads/uploads/2019-07-17/ma.le_pa.pdf
29.2. Submission of the reports for external audit	https://fcgo.gov.np/storage/uploads/uploads/2019-07-17/ma.le_pa.pdf .
29.3. Accounting standards	
 External scrutiny and audit	
PI-30. External audit	59th Annual Report, FY2020/21 OAGN (Annex 2: page 754); www.oag.gov.np ; FCGO: Dates specified in 'Annual Statement of Income and Expenditure , Part-1' www.fcgo.gov.np , 57th, 58th, and 59th
30.1. Audit coverage and standards	OAGN Annual Report: www.oag.gov.np , House of Representatives: www.parliament.gov.np .
30.2. Submission of audit reports to the legislature	
30.3. External audit follow up	
30.4. Supreme Audit Institution independence	
PI-31. Legislative scrutiny of audit reports	The Constitution of Nepal (2015), https://lawcommission.gov.np/en/ ; www.parliament.gov.np .
31.1. Timing of audit report scrutiny	
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the legislature	
31.4. Transparency of legislative scrutiny of audit reports	

Annex 4: Tracking Changes in Performance based on Previous PEFA Version (2011)

This annex provides a summary table of the PEFA performance at the indicator and dimension levels. It presents comparisons with the May 2015 PEFA Assessment that used the 2011 version of the framework. This annex has been prepared in compliance with 'PEFA 2016: Guidance on Tracking PFM Performance for Successive Assessments'. The table below specifies the scores with a brief explanation of the scoring for each indicator and dimension of the current and previous assessments.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
<p>PI-1 Aggregate expenditure outturn compared to original approved budget</p> <p>(i) The difference between actual primary expenditures and the originally budgeted primary expenditures (that is, excluding debt service charges, but also excluding externally financed project expenditures).</p>	A	D	In each of the last three fiscal years, the actual expenditures deviated from budgeted expenditure by amount equivalent to more than 15 percent of budgeted expenditure.	Considerably low expenditures compared to the original budget estimates were due to ambitious estimates, the COVID-19 pandemic, fiscal federalism, and a political transition.
<p>PI-2 Composition of expenditure outturn compared to original approved budget</p> <p>(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items</p>	C+	D+	Aggregate score using M1(WL) method	
	C	D	In the last three fiscal years, the variance in expenditure composition is higher than 15 percent, that is, 38.2 percent in FY2018/19; 45.8 percent in FY2019/20; and 41.3 percent in FY2020/21.	The performance and priorities of the government were affected by the COVID-19 pandemic and fiscal federalism.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) The average amount of expenditures actually charged to the contingency vote over the last three years.	A	A	In all three years, the actual contingency share was close to 0 percent.	No change
<p>PI-3 Aggregate revenue outturn compared to original approved budget</p> <p>(i) Aggregate revenue outturn compared to original approved budget</p>	A	D	The overall revenue was below 92 percent compared to estimated revenue in all three fiscal years, that is, 84.88 percent in FY2018/19; 69.87 percent in FY2019/2020; and 90.68 percent in FY2020/21.	Trade revenues make up almost half of the total revenue collection, which had been severely affected by the pandemic over the last two fiscal years (covered by the assessment). Additionally, the government announced tax exemptions for sectors affected by the pandemic. However, the government's economic and revenue growth forecasts did not realistically factor in the pandemic's impact.
PI-4 Stock and monitoring of expenditure payment arrears	B+	B+	Aggregate score using M1(WL) method	
(i) Stock of expenditure payment arrears and a recent change in the stock	A	A	Expenditure arrears for the last three completed fiscal years (2018/19–2020/21) are less than 1 percent of total expenditures.	No change

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Availability of data for monitoring the stock of expenditure payment arrears	B	B	Data concerning the stock and composition of expenditure arrears are generated annually at the end of each fiscal year. It is based on certified statements from the DTCOs.	No change
PI-5 Classification of the budget (i) The classification system used for formulation, execution, and reporting of the CG's budget	A	A	The CoA used for budget formulation, execution, and reporting is based on GFSM 2014, and it is compatible with COFOG.	No change
PI-6 Comprehensiveness of information included in budget documentation (i) Share of the above listed information in the budget documentation most recently issued by the CG	A	B	The recent budget documentation fulfills five information benchmarks. Partial information is provided for four information benchmarks, including macroeconomic assumptions, debt stock, financial assets, and the explanation of budget implications of new policy initiatives.	The budgetary documents presented to the Parliament do not contain any assumptions pertaining to exchange rates under the macroeconomic assumptions. It is worth noting that despite a decrease in the score, there has been no decline in performance. The budget documents evaluated in the previous assessment also did not include any assumptions about exchange rates. However, the information element 'macroeconomic assumptions, including estimates of aggregate growth, inflation, and exchange rate' was deemed to be fulfilled since the Budget Speech included estimates of growth and inflation.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
PI-7 Extent of unreported government operations	D+	D+	Aggregate score using M1(WL) method	
(i) The level of extra-budgetary expenditures (other than donor-funded projects) which is unreported, that is, not included in fiscal reports.	D	D	The expenditures of the EBUs not included in the fiscal reports are more than 10 percent of total BCG expenditures.	No change
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	C	B	The annual CFS contain complete information about income and expenditures for all projects financed by loans, including direct payments. Additionally, information about grant-financed projects that are on-budget and on-treasury is also included in these statements. The MoF publishes the Development Cooperation Report (DCR) annually, providing a thorough analysis of Nepal's international development assistance. According to the 2011 DCR, ⁴⁵ 84.29 percent of development assistance was on-budget.	The percentage of on-budget development assistance has increased. Therefore, in addition to all loan-funded projects, the financial information for a majority of the grant-funded projects is included in the financial reports.

⁴⁵ https://www.mof.gov.np/uploads/document/file/1661161034_1660713168_DCR%20Report%202021_7_2.pdf

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
PI-8 Transparency of intergovernmental fiscal relations	C+	B	Aggregate score using M2(AV) method	
(i) Transparent and rule-based systems in the horizontal allocation among subnational governments of unconditional and conditional transfers from the CG (both budgeted and actual allocations)	C	B	The horizontal allocation to subnational governments from the CG is determined by transparent and rule-based systems.	The Constitution and the subsidiary legislations and regulations prescribe a transparent and rule-based system of intergovernmental fiscal transfers.
(ii) Timeliness of reliable information to subnational governments on their allocations from the CG for the coming year	C	C	The clear and sufficiently detailed information about transfers of all types of grants for the PLGs is provided, allowing them at least four weeks to complete their budget planning on time. However, for some years, information about the conditional grants has been delayed.	No change
(iii) Extent to which consolidated fiscal data (at least on revenues and expenditures) is collected and reported for general government according to sectoral categories.	B	A	Fiscal information that is consistent with CG fiscal reporting is collected for all PLG expenditures and consolidated into annual CFS. These statements are published within 18 months of the end of the fiscal year.	The Subnational Treasury Regulatory Application at the local level and the TSA and RMIS at the central and provincial levels are capable of consolidating the budget and revenue information of the subnational governments. This is done within six months of the end of the fiscal year.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C	C	Aggregate score using M1(WL) method	
(i) Extent of CG monitoring of AGAs and PEs.	C	C	Only 25 of the 44 PEs, which represent 88.7 percent of the total expenditures of all the PEs, have conducted regular audits and submitted audited financial statements. However, the audited annual statements are not submitted within nine months of the end of the fiscal year and a consolidated overview is missing.	No change
(ii) Extent of CG monitoring of subnational government's fiscal position	C	C	Article 251 of the Constitution allows all three tiers of government to raise internal loans according to the limit recommended by the NNRF. The CFS covers federal, provincial, and local governments. However, a consolidated overview is missing. The financial statements of the subnational governments are audited by the OAGN.	No change

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
<p>PI-10 Public access to key fiscal information</p> <p>(i) Number of the above listed elements of public access to information that is fulfilled (to count in the assessment, the full specification of the information benchmark must be met).</p>	A	A	The government makes all of the six listed types of information available to the public through various means. Annual budget and in-year budget reports (mid-year budget review) are available on MoF website. Financial statements are disclosed on the FCGO website, and audit reports can be accessed from the OAG website. Information related to contract awards and resources available to service delivery units is provided electronically and through print media.	No change
<p>PI-11 Orderliness and participation in the annual budget process</p> <p>(i) Existence of, and adherence to, a fixed budget calendar</p>	A	B	Aggregate score using M2(AV) method	According to the new regulations, the MDAs now have four weeks from the receipt of the budget circular to submit their estimates, whereas previously, they were allowed at least six weeks.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Guidance on the preparation of budget submissions	A	A	The budget circular is comprehensive ⁴⁶ and clear. The document offers guidelines for creating budget estimates that are in line with the objectives of the sectoral policies. It contains the criteria for prioritizing various recurrent expenditure categories and the standards for requesting capital expenditure. The preparation of budget as per the templates in the LMBIS is also referenced.	No change
(iii) Timely budget approval by the legislature	Not applicable (NA)	A	The legislature has approved the annual budget before the start of the year in each of the last three completed fiscal years.	According to constitutional provisions, the budget for the upcoming fiscal year is submitted to the Parliament by the end of May each year. In the last assessment, there were two instances when the budget was approved through an executive ordinance. Therefore, the dimension was scored NA.

⁴⁶ https://npc.gov.np/images/category/220227063430Budget_formulation_Guidelines_2079-80.pdf.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	C	Aggregate score using M2(AV) method	
(i) Preparation of multi-year fiscal forecasts and functional allocations	B	C	The annual budget presents estimates of expenditures for the budget year and the two following fiscal years. These are allocated by administrative or economic classifications. The economic classification for the two following years is not available in the MTEF.	Previously, the MTEF included the economic and functional classification of the expenditures for the two following years. However, the expenditure estimates are available by recurrent, capital, and financial provisions in the current MTEF.
(ii) Scope and frequency of DSA	A	D	The PDMO produced a DSA in 2022 according to the standard World Bank-IMF DSA Toolkit. However, the dimension is scored a D because the DSA did not cover the last three completed fiscal years.	In previous years, international agencies, such as World Bank and IMF, conducted DSAs which were used for scoring. Therefore, the score was an A in the previous assessment. The government itself has prepared a DSA in 2022, but it did not cover the assessment period.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	C	B	Statements of sector strategies exist and are fully costed. They are broadly consistent with fiscal forecasts for sectors representing more than 50 percent of primary expenditures.	The score has improved because a majority of the ministries have prepared their own costed sectoral strategies, which are aligned with the MTEF.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(iv) Links between investment budgets and forward expenditure estimates	C	C	The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations are included in forward budget estimates (MTEF) for the sector.	No change
PI-13 Transparency of taxpayer obligations and liabilities	A	A	Aggregate score using M2(AV) method	
(i) Clarity and comprehensiveness of tax liabilities	A	A	Legislation and procedures for all major taxes are comprehensive and clear, with limited discretionary powers of the government entities involved.	No change
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	A	The IRD and DOC collect majority of the revenues and provide taxpayers with easy access to current and comprehensive information regarding their revenue-related responsibilities through various channels.	No change

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(iii) Existence and functioning of a tax appeal mechanism	B	A	A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.	The revenue tribunal and the procedure and performances have improved and are stable.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	A	A	Aggregate score using M2(AV) method	
(i) Controls in the taxpayer registration system	B	A	Taxpayers are registered in a database system with direct links to other relevant government registration systems and the financial sector regulations. The IRD has implemented the PAN to register taxpayers.	The PAN makes it easier to integrate a variety of taxpayer documents associated with tax payments, evaluations, and demands. This system allows for interlinks with other systems of the government

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	A	A	Penalties for all areas of non-compliance are set sufficiently high to act as a deterrent. They are consistently administered. Legal action is taken against taxpayers in accordance with the acts related to the VAT, income taxes, excise taxes, and customs.	No change
(iii) Planning and monitoring of tax audit and fraud investigation programs	A	A	The IRD and DOC employ audits and investigations to minimize revenue risk. The IRD carries out yearly audits and investigations based on its annual plan, thus completing the majority of planned audits and investigations. The DOC conducts post-clearance audits on a random basis, using a risk-based approach.	No change
PI-15 Effectiveness in collection of tax payments	D+	D+	Aggregate score using M1(WL) method	

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(i) Collection ratio for gross tax arrears, as the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	D	D	The IRD has the largest volume of tax arrears amounting to NPR 171 billion (including disputed). In FY2020/21, it had recovered only 5 percentage of tax arrears.	No change
(ii) Effectiveness of transfer of tax collections to the treasury by the revenue administration	B	A	All government revenues are deposited in the KA 1.1 group of accounts, which are a part of the central treasury.	Recording each transaction at the time of deposit through the RMIS and using specified bank accounts for revenue collection ensures the daily transfer of revenue collection to the treasury.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the treasury	D	C	Each month, the FCGO conducts complete reconciliation of revenue collections and transfers. The IRD conducts an annual reconciliation of tax assessments and arrears and releases the results in its yearly report.	The new PFM legislation (FPFA Act, 2029 and FPFA Regulations, 2021) requires monthly revenue collection reconciliation. The IRD has started publishing the annual reconciliation of assessments, arrears, and collections in its annual report.
PI-16 Predictability in the availability of funds for commitment of expenditures	C+	D+	Aggregate score using M1(WL) method	
(i) Extent to which cash flows are forecasted and monitored	C	D	A basic cash forecasting and monitoring system has been implemented. However, a cash flow forecast considering commitments and cash requirements is not prepared.	There is no cash flow forecasting mechanism. The previous assessment considered the cash plan prepared based on quarterly budget estimates of the spending units equivalent to a cash flow statement.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Reliability and horizon of periodic in-year information to MDAs concerning ceilings for expenditures	B	A	The spending units receive the authority to make expenditures for the whole year at the beginning of the fiscal year through the LMBIS.	The new PFM Regulation (FPFA Rules) allows the spending units to commit expenditures for the whole year after the enactment of the Budget Appropriation Act.
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of the MDAs	C	A	In the last three completed fiscal years, no in-year budget adjustments were instigated by the MoF. However, the budget adjustments, initiated by line ministries, for the FY2020/21 totaled NPR 205,090 million, or 13 percent of the annual budget.	The Constitution, FPFA Act, and FPFA Regulations provide a system for transparent and predictable budget adjustments. There are no in-year adjustments instigated by the MoF.
PI-17 Recording and management of cash balances, debt and guarantees	C+	B	Aggregate score using M2(AV) method	
(i) Quality of debt data recording and reporting	C	C	Domestic and foreign debt records are complete, updated, and reconciled at least annually. The PDMO publishes a consolidated annual report ⁴⁷ of debts and guarantees within six months from the end of the fiscal year.	No change

⁴⁷ https://pdmo.gov.np/downloadfiles/PDMO_Annual_debt_Report_2077_1650957136-1676269958.pdf

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Extent of consolidation of the government's cash balances	B	B	The government has implemented the TSA system, and the expenditure and revenue accounts are consolidated on a daily basis. However, the bank accounts used for debts and grants are consolidated at the end of each month. The consolidated cash situation is reported in the monthly accounts.	No change
(iii) Systems for contracting loans and issuance of guarantees	C	B	The primary legislation permits the borrowing for and the issuing of new debt, as well as the granting of loans and guarantees on behalf of the CG. Policies and procedures guide these transactions, which are monitored and reported regularly by a single responsible entity, that is, the PDMO. Annual borrowing requires government or legislature approval.	The new Public Debt Management Act came into effect in October 2022, replacing the Loan and Guarantee Act (1968) and Public Debt Act (2002). The Public Debt Management Act provides the legal basis for the PDMO to carry out debt management functions.
PI-18 Effectiveness of payroll controls	C+	C+	Aggregate score using M1(WL) method	

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(i) Degree of integration and reconciliation between personnel records and payroll data	C	B	Personnel data and payroll data are not directly linked, but the payroll is supported by full documentation for all changes made to personnel records each month. It is also checked against the previous month's payroll data.	Monthly payroll reconciliation using the OAG Form 226 is now a regulatory requirement.
(ii) Timeliness of changes to personnel records and the payroll	B	A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare. The retroactive adjustments in the 22 sample offices accounted for less than 1 percent of the total payroll for the year.	The implementation of the CGAS payroll module, the DoNPR's PIS, and the monthly reconciliation practice ensures that changes can be processed on a monthly basis.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(iii) Internal controls of changes to personnel records and the payroll	C	C	Authority to change records and payrolls is restricted. This results in an audit trail, and it is adequate to ensure full integrity of data. The audit reports identify specific observations but do not offer a comprehensive assessment about the accuracy of payroll and personnel data, as well as the effectiveness of the processes in ensuring the accuracy of all data.	The regulations clearly define the internal controls and authority for making changes in personnel records and payrolls. These prescribed controls have been integrated into the PIS and CGAS workflow, thus ensuring an audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	C	The DTCO conducts quarterly internal audits of payroll, and the OAG annually audits payroll as part of its external audits. However, both internal and external payroll audits rely on document review and do not involve physical verification.	No change
PI-19 Transparency, competition and complaints mechanisms in procurement	B	C+	Aggregate score using M2(AV) method	

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	B	B	The legal framework meets five of the six listed requirements. It also allows the public to access procurement information. Bidding opportunities and contract awards are accessible to the public, but there are concerns about the completeness and timeliness of procurement plans made available to the public.	No change
(ii) Use of competitive procurement methods	D	D	A reliable and complete database for procurement is currently unavailable, making it difficult to accurately determine the degree of performance for this dimension. However, based on the existing legal provision and procurement above a stated threshold, competitive bidding is mandatory.	No change

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(iii) Public access to complete, reliable, and timely procurement information	C	B	The PPMO and procuring agencies release comprehensive and dependable information in a timely manner about the legal and regulatory framework, bidding opportunities, contract awards, and the resolution of complaints. Additionally, procurement plans and annual procurement statistics are made publicly available, although there are concerns regarding their completeness and timeliness.	Most of the procurement information is now available on the PPMO's website. This information was earlier provided through multiple websites. The PPMO has also started publishing data about the resolution of complaints in its annual report.
(iv) Existence of an independent administrative procurement complaints system	A	B	The procurement complaints system meets five of the six prescribed criteria. Because a 1 percent deposit of the bid value is necessary to make a complaint, the criterion for not charging fees that prohibit access by concerned parties is considered unmet.	According to the guidance of the PEFA Secretariat, the private sector was consulted about the 1 percent deposit charged for filing the complaints. The Federation of Contractors' Association of Nepal (FCAN) has concerns over this deposit and considers it restrictive. Therefore, the criterion of not charging a fee is considered unmet. It was considered met in the previous assessment.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
PI-20 Effectiveness of internal controls for non-salary expenditure	C	D+	Aggregate score using M1(WL) method	
(i) Effectiveness of expenditure commitment controls	C	D	Expenditure commitment controls are in place and are partially effective. Controls are in place to ensure that the government's payment obligations remain within annual budget allocations, thus avoiding the creation of expenditure arrears. However, commitment controls are not incorporated into the treasury and accounting systems, which only capture expenditure information at the payment stage.	No change in performance; however, the previous assessment scored the dimension C on the premise that controls are in place to limit government's payment obligations within approved annual budget.
(ii) Comprehensive-ness, relevance, and understanding of other internal control rules/procedures.	C	B	Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood. However, they may in some areas be excessive (for example, through duplication in approvals), thus leading to inefficiency in staff use and unnecessary delays.	The internal control rules and procedures have been updated since the last assessment, and audits report high compliance. However, in some areas, the controls may be excessive.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
			The percentage of non-compliant expenditures is less than 5 percent according to internal and external audit reports. However, most line ministries are yet to develop their specific internal control framework elaborating on responsibilities, as required by the FPFA Act, 2019.	
(iii) Degree of compliance with rules for processing and recording transactions	C	A	Compliance with rules is very high, and any misuse of simplified and emergency procedures is insignificant.	The percentage of non-compliant expenditures is less than 5 percent according to internal and external audit reports.
PI-21 Effectiveness of internal audit	D+	C+	Aggregate score using M1(WL) method	
(i) Coverage and quality of the internal audit function	D	C	Internal audit is operational for all CG entities. Internal audit activities are primarily focused on financial compliance. There is no quality assurance process to confirm adherence to professional standards. Although the internal audit handbook requires evaluating the adequacy and efficacy of internal controls, the implementation is partial.	Since the last assessment, the FCGO has released the Internal Audit Procedure Directive of 2016 and the Internal Audit Handbook. These require the evaluation of the adequacy and effectiveness of internal controls. However, currently, the implementation of these directives is partial.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Frequency and distribution of reports	C	A	Reports adhere to a fixed schedule and are distributed to the audited entity, MoF (FCGO), and the SAI (OAGN).	The internal audit process is embedded in the TSA, which facilitates audit planning, reporting, and monitoring.
(iii) Extent of management response to internal audit function.	D	C	A fair degree of action is taken by many managers on major issues, but often with delay.	According to the FPFA Regulations, it is mandatory for auditee offices to settle the audit observations. In addition, external auditors are required to thoroughly review the settlement of internal audit observations, as stipulated in the FPFA Act.
PI-22 Timeliness and regularity of accounts reconciliation	C+	B+	Aggregate score using M2(AV) method	
(i) Regularity of bank reconciliation	C	B	Bank reconciliation for all active CG bank accounts takes place at least monthly, usually within four weeks from the end of each month.	The regularity of bank reconciliation increased from quarterly to monthly.
(ii) Regularity and clearance of suspense accounts and advances	B	A	There is no suspense account provision under the FPFA Act. Reconciliation and clearance of advances take place on a monthly basis.	Due to the implementation of the TSA and RMIS for expenditure and revenue collection, respectively, there is no suspense account. FPFA Regulations (Rule 53) require monthly reconciliation and settlement of advances.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
<p>PI-23 Availability of information on resources received by service delivery units</p> <p>(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common frontline service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.</p>	A	A	<p>According to the FPFA Rule, 2021 (Section 28), authorization for expenditures is automatically available to the spending units/ service delivery units through the LMBIS once the budget is approved by the Parliament. The LMBIS is also linked with the TSA, CGAS, MFMIS, and FMIS, which ensures disaggregated data by sources of funds for budget execution, control, and reporting. The authorization is activated from the first day of the fiscal year. It is based on the provision in the annual Federal Appropriation Act.</p>	No change
<p>PI-24 Quality and timeliness of in-year budget reports</p>	C+	C+	<p>Aggregate score using M1(WL) method</p>	
<p>(i) Scope of reports in terms of coverage and compatibility with budget estimates</p>	C	C	<p>Classification of data allows for direct comparison with the original budget. Information includes all items of budget estimates. However, expenditures are only captured at the payment stage.</p>	No change

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Timeliness of the issue of reports	A	A	Budget execution reports are prepared monthly, and they are issued within two weeks from the end of each month.	No change
(iii) Quality of information	B	B	There are no material concerns regarding data accuracy. However, the information about commitments is not included in the reports because the expenditures are captured only at the payment stage.	No change
PI-25 Quality and timeliness of annual financial statements	C+	C+	Aggregate score using M1(WL) method	
(i) Completeness of the financial statements	C	B	Annual CFS are prepared which include, with few exceptions, full information about revenues, expenditures, and financial assets/liabilities.	The FCGO prepares annual CFS that cover revenues, expenditures, assets, and liabilities with few exceptions.
(ii) Timeliness of submissions of the financial statements	A	A	The financial statements are submitted for external audit within six months of the end of the fiscal year.	No change
(iii) Accounting standards used	C	C	Financial statements are presented in consistent format over time with some disclosure of accounting standards.	No change

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
PI-26 Scope, nature, and follow-up of external audit	C+	C+	Aggregate score using M1(WL) method	
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	B	CG entities representing at least 75 percent of total expenditures are audited annually, covering revenues and expenditures at a minimum. A wide range of financial audits are performed and generally adhere to auditing standards, focusing on significant and systemic issues.	No change
(ii) Timeliness of submission of audit reports to the legislature	C	C	Audit reports of the last completed fiscal year (FY2020/21) were submitted to the legislature within 12 months of the end of the period covered.	No change
(iii) Evidence of follow-up on audit recommendations	C	B	A formal response is made in a timely manner, but there is little evidence of systematic follow-up.	The FPFA Act, 2019, outlines the audit follow-up process requiring audited entities to provide a response.
PI-27 Legislative scrutiny of the annual budget law	D	C+	Aggregate score using M1(WL) method	
(i) Scope of the legislature scrutiny	D	C	The legislature's review covers aggregates for the coming year, as well as details of expenditures and revenues.	In the previous assessment, there was no Parliament during two of the three years of the assessment period.

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Extent to which the legislature's procedures are well established and respected	NA	B	Simple procedures exist for the legislature's budget review and are respected.	In the previous assessment, there was no Parliament during two of the three years of the assessment period.
(iii) Adequacy of time for the legislature to provide a response to budget proposals, both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	NA	B	The legislature has at least one month to review the budget proposals.	In the previous assessment, there was no Parliament during two of the three years of the assessment period.
(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature	NA	B	Clear rules exist for in-year budget amendments by the executive, and they are usually respected. However, they allow for extensive administrative reallocations.	In the previous assessment, there was no Parliament during two of the three years of the assessment period.
PI-28 Legislative scrutiny of external audit reports	D	D+	Aggregate score using M1(WL) method	
(i) Timeliness of examination of audit reports by the legislature	D	D	The scrutiny of the OAGN audit reports takes more than 12 months from the receipt of reports by the Parliament.	No change

Indicator/Dimension	Previous assessment (2015) Score	Score current assessment (2022)	Description of requirements met in current assessment	Explanation of change since previous assessment
(ii) Extent of hearing on key findings undertaken by the legislature	NA	C	In-depth hearings on key findings take place occasionally, covering only a few audited entities or only with MoF officials.	In the previous Assessment, there was no Parliament during two of the three years of the assessment period.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	NA	C	Actions are recommended, but evidence is not available that they are generally implemented.	In the previous assessment, there was no Parliament during two of the three years of the assessment period.

Annex 5: Calculations for PI-1, PI-2, and PI-3

Calculation sheet for dimensions PI-1.1, PI-2.1, and PI-2.3

Table 1: Fiscal years for assessment

Year 1	2018/19
Year 2	2019/20
Year 3	2020/21

Table 2: Data for FY2018/19 (NPR, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General Public Service	270,570.90	418,990.40	235,608.78	183,381.63	183,381.63	77.8
Defense	44,928.50	50,014.66	39,123.01	10,891.64	10,891.64	27.8
Public Order and Safety	47,501.20	47,984.92	41,363.28	6,621.64	6,621.64	16.0
Economic Affairs	483,141.70	344,610.37	420,712.00	(76,101.64)	76,101.64	18.1
Environmental Protection	22,718.00	14,738.61	19,782.47	(5,043.86)	5,043.86	25.5
Housing and Community Amenities	66,576.10	38,438.04	57,973.39	(19,535.36)	19,535.36	33.7
Health	65,343.20	35,999.24	56,899.81	(20,900.56)	20,900.56	36.7
Recreation, Culture and Religion	7,106.40	6,042.15	6,188.14	(145.99)	145.99	2.4
Education	134,187.50	36,217.81	116,848.31	(80,630.50)	80,630.50	69.0
Social Protection	46,913.20	42,314.25	40,851.26	1,462.99	1,462.99	3.6
Allocated expenditure	1,188,986.70	1,035,350.45	1,035,350.45	(0.00)	404,715.81	
Interests	26,461.20	20,714.55				
Contingency	41,049.60	40.00				
Total expenditure	1,256,497.50	1,056,105.01				
Aggregate outturn (PI-1)						84.1
Composition (PI-2) variance						39.1
Contingency share of budget						0.0

Table 3: Data for FY2019/20 (NPR, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General Public Service	321,845.70	439,549.39	232,371.99	207,177.40	207,177.40	89.2
Defense	50,106.10	49,791.37	36,176.51	13,614.86	13,614.86	37.6
Public Order and Safety	56,118.80	51,863.77	40,517.67	11,346.10	11,346.10	28.0
Economic Affairs	541,367.00	264,436.51	390,865.96	(126,429.45)	126,429.45	32.3

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Environmental Protection	26,789.70	13,593.16	19,342.11	(5,748.96)	5,748.96	29.7
Housing and Community Amenities	78,754.50	35,189.47	56,860.60	(21,671.13)	21,671.13	38.1
Health	78,404.40	40,195.77	56,607.83	(16,412.06)	16,412.06	29.0
Recreation, Culture and Religion	7,231.60	6,848.92	5,221.20	1,627.72	1,627.72	31.2
Education	163,755.90	39,400.93	118,231.45	(78,830.52)	78,830.52	66.7
Social Protection	71,385.90	66,866.54	51,540.49	15,326.05	15,326.05	29.7
Allocated expenditure	1,395,759.60	1,007,735.80	1,007,735.80	(0.00)	498,184.25	
Interests	26,903.70	26,060.10				
Contingency	43,665.20	-				
Total expenditure	1,466,328.50	1,033,795.90				
Aggregate outturn (PI-1)						70.5
Composition (PI-2) variance						49.4
Contingency share of budget						0.0

Table 4: Data for FY2020/21 (NPR, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General Public Service	382,183.00	539,638.32	309,030.21	230,608.11	230,608.11	74.6
Defense	49,220.50	51,913.86	39,799.31	12,114.55	12,114.55	30.4
Public Order and Safety	56,285.30	57,042.92	45,511.86	11,531.06	11,531.06	25.3
Economic Affairs	389,000.70	236,022.92	314,542.95	(78,520.03)	78,520.03	25.0
Environmental Protection	11,664.60	6,595.90	9,431.91	(2,836.00)	2,836.00	30.1
Housing and Community Amenities	81,860.70	44,995.17	66,191.93	(21,196.76)	21,196.76	32.0
Health	115,062.00	49,613.12	93,038.24	(43,425.12)	43,425.12	46.7
Recreation, Culture and Religion	7,234.50	4,060.23	5,849.76	(1,789.53)	1,789.53	30.6
Education	172,192.20	37,145.76	139,233.28	(102,087.51)	102,087.51	73.3
Social Protection	97,785.70	74,670.00	79,068.76	(4,398.76)	4,398.76	5.6
Allocated expenditure	1,362,489.20	1,101,698.20	1,101,698.20	(0.00)	508,507.43	
Interests	31,805.70	34,741.00				
Contingency	11,997.90	6.50				
Total expenditure	1,406,292.80	1,136,445.70				
Aggregate outturn (PI-1)						80.8
Composition (PI-2) variance						46.2
Contingency share of budget						0.0

Table 5: Results matrix

Fiscal year	For PI-1.1	For PI-2.1	For PI-2.3
	Total expenditure outturn (%)	Composition variance (%)	Contingency share (%)
2018/19	84.1	39.1	0.0
2019/20	70.5	49.4	
2020/21	80.8	46.2	

Calculation sheet for expenditure by economic classification variance PI-2.2

Table 1: Fiscal years for assessment

Year 1	2018/19
Year 2	2019/20
Year 3	2020/21

Table 2: Data for FY2018/19 (NPR, millions)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
21000 - Compensation of employees	117,330.40	99,935.81	101,944.75	(2,008.93)	2,008.93	2.0
22000 - Use of goods and services	48,999.30	32,854.57	42,573.97	(9,719.41)	9,719.41	22.8
24000 - Interest, services, and bank commission	26,461.20	20,714.55	22,991.32	(2,276.76)	2,276.76	9.9
25000 - Subsidy	836.30	918.14	726.64	191.51	191.51	26.4
26000 - Grants	499,402.90	443,178.96	433,915.70	9,263.26	9,263.26	2.1
27000 - Social security	116,976.50	116,651.54	101,637.25	15,014.29	15,014.29	14.8
28000 - Other expenditure	3,822.60	2,124.00	3,321.34	(1,197.33)	1,197.33	36.0
31000 - Capital expenditure	304,566.90	241,562.52	264,628.74	(23,066.22)	23,066.22	8.7
32000 - Acquisition of financial assets	97,051.80	98,124.90	84,325.30	13,799.60	13,799.60	16.4
Total expenditure	1,215,447.90	1,056,065.00	1,056,065.00	-	76,537.32	
Composition variance						7.2

Table 3: Data for FY2019/20 (NPR, millions)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
21000 - Compensation of employees	145,088.30	117,831.70	105,430.21	12,401.49	12,401.49	11.8
22000 - Use of goods and services	73,550.10	34,924.00	53,446.09	(18,522.09)	18,522.09	34.7
24000 - Interest, services, and bank commission	26,903.70	26,060.10	19,549.91	6,510.19	6,510.19	33.3
25000 - Subsidy	900.30	1,277.20	654.21	622.99	622.99	95.2

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
26000 - Grants	511,911.70	454,622.30	371,986.97	82,635.33	82,635.33	22.2
27000 - Social security	157,272.50	147,303.90	114,284.01	33,019.89	33,019.89	28.9
28000 - Other expenditure	3,840.90	2,272.20	2,791.04	(518.84)	518.84	18.6
31000 - Capital expenditure	401,974.60	189,140.10	292,099.82	(102,959.72)	102,959.72	35.2
32000 - Acquisition of financial assets	101,221.20	60,364.40	73,553.64	(13,189.24)	(62,206.00)	-84.6
Total expenditure	1,422,663.30	1,033,795.90	1,033,795.90	-	194,984.53	18.9
Composition variance						18.9

Table 4: Data for FY2020/21 (NPR, millions)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
21000 - Compensation of employees	138,485.60	119,128.40	112,874.59	6,253.81	6,253.81	5.5
22000 - Use of goods and services	74,359.40	36,879.80	60,607.65	(23,727.85)	23,727.85	39.1
24000 - Interest, services, and bank commission	31,805.70	34,741.00	25,923.67	8,817.33	8,817.33	34.0
25000 - Subsidy	1,528.90	1,267.40	1,246.15	21.25	21.25	1.7
26000 - Grants	499,966.50	495,431.20	407,504.56	87,926.64	87,926.64	21.6
27000 - Social security	188,741.30	156,493.00	153,836.19	2,656.81	2,656.81	1.7
28000 - Other expenditure	3,635.70	2,276.50	2,963.33	(686.83)	686.83	23.2
31000 - Capital expenditure	351,337.10	228,829.60	286,362.13	(57,532.53)	57,532.53	20.1
32000 - Acquisition of financial assets	104,434.70	61,392.30	85,120.94	(23,728.64)	23,728.64	27.9
Total expenditure	1,394,294.90	1,136,439.20	1,136,439.20	-	211,351.68	
Composition variance						18.6

Table 5: Results matrix

Fiscal year	Composition variance (%)
2018/19	7.2
2019/20	18.9
2020/21	18.6

Calculation sheet for revenue outturn

Table 1: Fiscal years for assessment

Year 1	2018/19
Year 2	2019/20
Year 3	2020/21

Table 2: Data for FY2018/19 (NPR, millions)

Economic head		Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues		838,347.90	737,244.60				
11100	Taxes on income, profits, and capital gain	218,025.30	188,303.80	185,061.76	3,242.04	3,242.04	1.8
11200	Taxes on payroll and workforce	7,253.70	6,006.20	6,157.00	(150.80)	150.80	2.4
11300	Taxes on property	80.10	109.70	67.99	41.71	41.71	61.3
11400	Taxes on goods and services (including VAT and excise duty)	445,307.90	397,179.10	377,981.19	19,197.91	19,197.91	5.1
11500	Taxes on international trade and transactions	164,117.50	143,318.90	139,304.35	4,014.55	4,014.55	2.9
11600	Other taxes	3,563.40	2,326.90	3,024.64	(697.74)	697.74	23.1
Non-tax revenue		107,210.10	92,377.60				
14100	Property income	51,041.30	52,419.10	43,324.30	9,094.80	9,094.80	21.0
14200	Sale of goods and services	52,378.40	24,623.80	44,459.24	(19,835.44)	19,835.44	44.6
14300	Penalties, fines, and forfeitures	1,176.90	2,903.30	998.96	1,904.34	1,904.34	190.6
14400	Transfers other than grants	3.10	0.70	2.63	(1.93)	1.93	73.4
14500	Miscellaneous	2,610.40	12,430.70	2,215.73	10,214.97	10,214.97	461.0
Total tax and non-tax revenue		945,558.00	829,622.20				
13100 and 13200	Bi/Multilateral grants	58,815.50	22,898.70	49,923.10	(27,024.40)	27,024.40	54.1
Total revenue		1,004,373.50	852,520.90	852,520.90	-	95,420.64	
Revenue outturn							84.9
Composition variance							11.2

Table 3: Data for FY2019/20 (NPR, millions)

Economic head		Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues		1,009,161.70	700,055.20				
11100	Taxes on income, profits, and capital gain	272,186.00	213,233.00	190,168.47	23,064.53	23,064.53	12.1
11200	Taxes on payroll and workforce	8,164.90	6,508.10	5,704.58	803.52	803.52	14.1
11300	Taxes on property	13.50	4.30	9.43	(5.13)	5.13	54.4
11400	Taxes on goods and services (including VAT and excise duty)	533,084.80	356,412.50	372,450.90	(16,038.40)	16,038.40	4.3
11500	Taxes on international trade and transactions	195,712.50	123,790.20	136,738.65	(12,948.45)	12,948.45	9.5
11600	Other taxes	-	107.10	-	107.10	107.10	0.0
Non-tax revenue		102,871.80	93,691.00				
14100	Property income	47,207.10	38,468.10	32,982.23	5,485.87	5,485.87	16.6
14200	Sale of goods and services	39,168.70	26,090.30	27,366.04	(1,275.74)	1,275.74	4.7

Economic head		Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
14300	Penalties, fines, and forfeitures	1,370.80	2,344.90	957.74	1,387.16	1,387.16	144.8
14400	Transfers other than grants	1.70	0.50	1.19	(0.69)	0.69	57.9
14500	Miscellaneous	15,123.50	26,787.20	10,566.35	16,220.85	16,220.85	153.5
Total tax and non-tax revenue		1,112,033.50	793,746.20				
13100 and 13200	Bi/Multilateral grants	57,995.00	23,718.80	40,519.43	(16,800.63)	16,800.63	41.5
Total revenue		1,170,028.50	817,465.00	817,465.00	(0.00)	94,138.06	
Revenue outturn							69.9
Composition variance							11.5

Table 4: Data for FY2020/21 (NPR, millions)

Economic head		Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues		913,008.30	870,113.60				
11100	Taxes on income, profits, and capital gain	230,465.80	221,501.60	208,990.69	12,510.91	12,510.91	6.0
11200	Taxes on payroll and workforce	7,562.90	6,889.60	6,858.18	31.42	31.42	0.5
11300	Taxes on property	59.30	0.40	53.77	(53.37)	53.37	99.3
11400	Taxes on goods and services (including VAT and excise duty)	496,629.30	462,769.20	450,352.73	12,416.47	12,416.47	2.8
11500	Taxes on international trade and transactions	178,281.20	178,952.20	161,668.72	17,283.48	17,283.48	10.7
11600	Other taxes	9.80	0.60	8.89	(8.29)	8.29	93.2
Non-tax revenue		98,751.90	65,775.70				
14100	Property income	52,240.80	30,400.00	47,372.93	(16,972.93)	16,972.93	35.8
14200	Sale of goods and services	25,664.40	25,205.70	23,272.96	1,932.74	1,932.74	8.3
14300	Penalties, fines, and forfeitures	2,146.90	2,652.60	1,946.85	705.75	705.75	36.3
14400	Transfers other than grants	5.50	0.60	4.99	(4.39)	4.39	88.0
14500	Miscellaneous	18,694.30	7,516.80	16,952.34	(9,435.54)	9,435.54	55.7
Total tax and non-tax revenue		1,011,760.20	935,889.30				
13100 and 13200	Bi/Multilateral grants	60,527.70	36,481.40	54,887.65	(18,406.25)	18,406.25	33.5
Total revenue		1,072,287.90	972,370.70	972,370.70	(0.00)	89,761.54	
Revenue outturn							90.7
Composition variance							9.2

Table 5: Results matrix

Fiscal year	Total revenue outturn (%)	Composition variance (%)
2018/19	84.9	11.2
2019/20	69.9	11.5
2020/21	90.7	9.2

Annex 6: Extra-Budgetary Units (EBUs)

Income and Expenditure of EBUs for FY2020/21 (NPR, millions)

Source: OAG Annual Report, 2079 (Annexes 6 and 7 Page 765 to 773)

S. N.	Extra-budgetary Unit	EBU revenue outside government financial reports (excluding government grants)	EBU expenditure outside government financial reports
1	Office of The Nepal Trust	204.6	55.6
2	Policy Research Institute	616.3	616.0
3	Special Economic Zone Authority	407.5	387.7
4	Alternate Energy Promotion Center	3,116.1	2,195.8
5	National Judicial Academy, Nepal	60.8	58.3
6	Social Welfare Council	417.6	356.5
7	Council For Technical Education and Vocational Training	9,187.9	6,800.1
8	National Examinations Board	2,866.9	2,856.3
9	Nepal Academy of Science and Technology	327.9	315.3
10	Nepal Open University	252.6	83.7
11	University Grants Commission Nepal	16,190.7	16,523.5
12	Film Development Board	98.0	57.7
13	Advertisement Board Nepal	28.5	21.4
14	Security Printing Centre	837.8	776.6
15	Local Development Training Academy	94.2	78
16	National Foundation for Development of Indigenous Nationalities	74.5	73.7
17	Civil Service Hospital of Nepal	1,449.2	1,433.9
18	B.P Koirala Memorial Cancer Hospital	2,378.3	2,261.7
19	Shahid Gangalal National Heart Center	1,648.9	1,874.4
20	Pokhara Academy of Health Science	1,267.2	1,269.1
21	Ramraja Prasad Singh Academy of Health Science	1.9	1.9

S. N.	Extra-budgetary Unit	EBU revenue outside government financial reports (excluding government grants)	EBU expenditure outside government financial reports
22	Health Insurance Board	9,365.6	7,364.5
23	Nepal Revenue Advisory Board	10.4	-
24	Patan Museum Development Committee	3.9	17.9
25	Halsey Development Committee	12.0	12.0
26	Hanumandhoka Palace Museum Development Committee	81.2	133.6
27	Lumbini Development Trust	816.9	655.6
28	Bauddhanath Area Development Committee	7.9	56.5
29	Baraha Chhetra Development Board	11.6	13.6
30	Greater Janakpur Area Development Council	59.9	55.6
31	Pathibhara Area Development Board	34.0	18.7
32	Nepal Panchanga Nirnayak Samitee	3.4	3.1
33	Nepal Academy of Music and Drama	84.8	80.6
34	Nepal Academy of Fine Arts	59.0	58.6
35	Nepal Academy	297.8	265.4
36	Nepal Mountain Academy	54.8	50.3
37	Devghat Area Development Committee	35.3	40.4
38	Narayanhiti palace museum development committee	109.0	104.0
39	Buddhist Philosophy Promotion and Monastery Development Committee,	62.8	62.8
40	Ghorahi Town Development Committee Office	69.5	82.5
41	Kavre valley integrated water supply project	36.4	20.7
42	Kathmandu Valley Development Authority	174.3	141.6
43	Nepalgunj Town Development Committee Office	23.3	15.6
44	Lamahi Town Development Committee	82.8	108.6
45	Birgunj Town Development Committee	3.7	5.4

S. N.	Extra-budgetary Unit	EBU revenue outside government financial reports (excluding government grants)	EBU expenditure outside government financial reports
46	Tulsipur Town Development Committee	16.2	10.0
47	International Convention Centre	340.5	328.3
48	Manthali Town Development Committee	1.9	1.2
49	Pokhara Valley Town Development Committee	22.1	20.0
50	Nepali Army Aviation Charter Development Committee	168.8	77.6
51	Trade and Export Promotion Centre, Lalitpur	127.3	124.2
52	Trade and Export Promotion Centre, Morang	3.4	3.3
53	Trade and Export Promotion Centre, Banke	1.8	1.8
54	Nepal Intermodal Transport Development Board	1,782.9	1,358.7
55	Radio Broadcasting Service Development Committee	634.1	581.4
56	National Forensic Science Laboratory	106.1	100.4
57	BP Koirala Memorial Planetarium, Observatory and Science Museum	37.5	37.5
58	Student Financial Assistance Fund Development Board	251.8	166.9
59	Medical College Infrastructure Development Committee, Bardibas	82.6	35.2
60	Medical College Infrastructure Development Committee, Surkhet	22.2	4.3
61	Medical College Infrastructure Development Committee, Butwal	55.8	15.8
62	Human Organ Transplant Centre (Shahid Dharma Bhakta Hospital)	532.2	1,259.7
63	Sukraraj Tropical & Infectious Disease Hospital	809.4	1,613.8
64	Sushil Koirala Prakhara Cancer Hospital	102.9	101.4
65	Singha Durbar Vaidya Khana Vikas Samiti	147.4	52.9
66	Koshi Hospital	890.5	905.5

S. N.	Extra-budgetary Unit	EBU revenue outside government financial reports (excluding government grants)	EBU expenditure outside government financial reports
67	National Ayurveda Research and Training Center	131.4	129.3
68	Narayani Hospital	423.4	418.3
69	GP Koirala National Respiratory Diseases Treatment Center	125.8	136.0
70	Mental Hospital	143.4	134.4
71	Ayurveda Hospital	152.0	150.2
72	Gajendra Narayan Singh Sagarmatha Zonal Hospital	248.7	8.5
73	Dadeldhura Hospital	551.6	14.8
74	Kanti Children's Hospital	337.5	259.2
75	Bheri Hospital	904.2	808.6
76	Paropakar Maternity & Women's Hospital	1,152.3	1,122.5
77	Bharatpur Hospital	1,077.3	1,015.1
78	Millennium Challenge Account Nepal	2,332.2	2,332.2
79	Central Law Library Development Committee	6.1	6.1
80	Central Protection Development Committee	18.0	22.5
81	Secretariat of Nepal Hajj Committee	18.3	30.0
82	Institute of Foreign Affairs	13.7	13.0
83	President Chure-Tarai Madhesh Conservation Development Board	2,029.2	1,614.5
84	National Lake Conservation Development Committee	7.5	14.9
85	National Youth Council	109.7	61.0
86	Nepal National Commission for UNESCO	29.4	20.3
87	Kendriya Dhanadesh Karyalaya	1.7	0.1
88	Hulak Bachat Bank Niyam	1,311.2	1,311.9
89	Authorized Committee for Integrated Development of the Bagmati Civilization	2,405.9	2,387.0
90	Drinking Water Project Implementation Unit	4,150.4	3,359.1

S. N.	Extra-budgetary Unit	EBU revenue outside government financial reports (excluding government grants)	EBU expenditure outside government financial reports
91	Electricity Regulatory Commission	1.2	1.2
92	Foreign Employment Board	880.3	1,000.7
93	National Welfare Trust	1,256.5	1,378.6
94	Securities Board of Nepal	1,075.0	409.9
95	Deposit and Credit Guarantee Fund	3,372.3	1,221.4
96	Industrial Enterprise Development Institute	17.2	18.5
97	National Tea and Coffee Development Board	62.1	62.0
98	Nepal Veterinary Council	12.2	10.1
99	Civil Aviation Authority of Nepal	6,288.1	5,039.7
100	Cultural Corporation (National Theater)	38.0	62.1
101	Pashupati Area Development Trust	931.7	543.9
102	B P Koirala India-Nepal Foundation	16.9	16.9
103	Road Board	7,391.8	6,143.9
104	National Trust for Nature Conservation	339.2	431.9
105	Tribhuvan University	19,415.5	14,345.1
106	Purbanchal University	544.6	446.0
107	Rajarshi Janak University	218.3	56.4
108	The Agriculture and Forestry University	1,335.4	497.0
109	Pokhara University	790.1	442.0
110	Lumbini Buddhist University	323.3	203.3
111	Mid-West University	609.8	580.6
112	Far-Western University	599.6	546.8
113	Nepal Sanskrit University	555.0	535.2
114	Poverty Alleviation Fund	16.3	16.3
115	National Cooperative Development Board	91.9	79.3
116	Nepal Telecommunications Authority	4,748.7	3,871.2

S. N.	Extra-budgetary Unit	EBU revenue outside government financial reports (excluding government grants)	EBU expenditure outside government financial reports
117	Press Council Nepal	59.2	59.4
118	Rastriya Samachar Samiti	168.1	156.3
119	B.P. Koirala Institute of Health Sciences	1,910.5	2,710.9
120	Rapti Academy of Health Sciences Contact Office	341.2	318.6
121	Patan Academy of Health Sciences	1,845.1	1,877.5
122	Karnali Academy of Health Sciences	657.7	698.2
123	Nepal Health Research Council	262.5	216.9
124	Town Development Fund	649.9	361.1
125	Nepal Insurance Authority	1,961.7	1,347.4
126	Law Books Management Committee.	253.3	446.1
127	Cotton Development Board	19.1	19.1
128	Nepal Academy of Tourism and Hotel Management	231.6	390.7
129	Rural Water Supply & Sanitation Fund Development Board	647.0	647.0
130	Madan Bhandari Academy of Health Sciences	277.6	54.8
131	National Sports Council	1,208.1	873.6
132	Youth Self Employment Fund Office	175.4	194.0
133	Multi-Purpose Industries	70.6	66.0
134	Tribhuvan University Higher Education Reforms Project	329.0	329.0
135	Social Security Fund	16.3	16.3
	Total of EBUs Revenue and Expenditure for FY2020/21	138,860.90	118,377.60
	Total BCG Revenue and Expenditure for FY2020/21	972,370.70	1,136,445.70
	EBUs Revenue and Expenditure as a percentage of BCG Revenue and Expenditure	14.28	10.42

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