

The background of the cover features a close-up of a hand holding a gold pen over a calculator. Overlaid on this are several semi-transparent financial charts: a line graph with a peak and a dip, and a bar chart with several vertical bars of varying heights. The overall color palette is warm, with shades of orange, red, and brown.

# INTEGRATED FINANCIAL REPORTING SYSTEM FOR LOCAL GOVERNMENTS



**SAMRIDDHI**  
FOUNDATION

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Prakash Maharjan

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**Kul Prasad Pandey**  
**Navneet Jha**  
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# Executive Summary

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The Constitution of Nepal provides for an equitable distribution of revenues and fiscal equalization grants to enable sub-national governments to implement their plans and programs. Local governments are also constitutionally eligible for other complementary, conditional and special grants from the federal and province governments. As such, the local governments are required to maintain proper records of these funds and to report on their utilisation status to the federal and the province governments, constitutional bodies, ministries, and other respective agencies. Specific formats, contents and timelines for these reports are mandated by legal provisions that are scattered across various legislations.

Such financial reporting practice of local governments in Nepal has been sub-par as many local governments struggle to comply with the requirements. This paper has explored the current legislative provisions and financial reporting practices among the local governments in Nepal, and attempted to identify gaps in the current system. The method of evaluation includes a comparative analysis of federal and province legislations, relevant regulations, and various working procedures of province governments. These are then squared with the actual practices on the ground and also tested against some of the best practices in other federations of the world.

Each local government in Nepal maintains a consolidated fund that holds the accumulated receipts from federal and province divisible funds, internal revenues, grants, and revenue sharing mechanisms. It has been identified that current legal provisions perpetrate duplication of information and lack foresight in setting a streamlined path of reporting. The parameters for reporting are dispersed in various acts, regulations, directives and redundancies are common.

It has also been found that the current financial information management platform has limitations in terms of coverage of information, access, analytics, and usage. Reporting lines venture out, often redundantly, to multiple agencies at the federal and province level. Hence local governments are required to present identical reports to both federal and province agencies, and other constitutional bodies.

These phenomenon only increase the administrative and compliance cost of local governments, all the while compromising the service delivery aspect of local governance. From the taxpayers' perspective, such inefficiencies reflect lack of accountability in part of the government.

The study concludes that the Financial Procedure and Fiscal Accountability Act should be established as the umbrella legislation for financial compliance. Materialisation of this requires certain sections of the Local Government Operation Act and the Inter-Governmental Fiscal Arrangement Act to be repealed.

The study also recommends that in order to reduce the time taken and the hassles faced by the local governments, the Sub National Treasury Regulatory Application that is currently used to report the financial information should be developed as a holistic management platform covering budget execution, treasury and management control, and accounting as well as auxiliary functions such as procurement, payroll, asset management, treasury single account, debt management, public investment and planning.

The District Treasury Comptroller Offices have been acting as the field agencies of the Office of Financial Comptroller General and overseeing funds routed from the federal to local governments. Similarly, the Province Treasury Comptroller Offices oversee the funds routed from the province to local governments. Recently, the Province Treasury Comptroller Offices have started opening their own field agencies known as Province Treasury Unit Offices. This practice only makes the situation more complex for the local governments. Hence, the study suggests that the Province Treasury Comptroller Offices need to be developed as the focal agency for the local governments to coordinate with, such that they, in turn, will coordinate with all other agencies of the government of Nepal representing the local governments within the geographical boundary of the respective provinces. With a focal agency in place, the local governments will have to report to only one institution which will aid the passage of information both vertically to the federal government and horizontally to the province government and line-ministries.

Nepal is now well underway in practicing federalism with 7 provinces and 753 local governments in which revenue sharing is a major feature among all three orders. Local governments in Nepal have a long road ahead of them if they are to approach governance in its truest shape; breaking the mold set by archaic institutional practices. Local governments need to be assisted in adapting to the best practices of financial reporting by leveraging learning from other federal countries.

# List of Abbreviations

AMIS	Aid Management Information System
BMIS	Budget Management Information System
CGAS	Computerized Government Accounting System
DTCO	District Treasury Comptroller's Office
FABS	Financial Accountability and Budget System
FCGO	Financial Comptroller General's Office
FMIS	Financial Management Information System
FPFA	Financial Procedure and Fiscal Accountability
FRL	Fiscal Responsibility Law
GFMRAP	Government Financial Management and Revenue Administration Project
GoN	Government of Nepal
IFMIS	Integrated Financial Management Information System
IGFA	Inter-Governmental Fiscal Arrangement
IMF	International Monetary Fund
KOSTRA	Local Government State Reporting System (in Norway)
LG	Local Government
LGOA	Local Government Operations Act
LMBIS	Line Ministry Budget Information System
MAB	Matrix of Accounting Balances
MoEAP	Ministry of Economic Affairs and Planning
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MTEF	Mid Term Expenditure Framework
NNRFC	National Natural Resource and Fiscal Commission

NPC	National Planning Commission
OAG	Office of Auditor General
OECD	Organization of Economic Cooperation and Development
PAIS	Public Assets Information System
PEFA	Public Expenditure & Financial Accountability
PFM	Public Financial Management
PIFRA	Project to Improve Financial Reporting and Auditing
PTCO	Province Treasury Comptroller's Office
PTUO	Province Treasury Unit Office
SuTRA	Sub-national Treasury Regulatory Application

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## Chapter 1:

# Introduction

*“We, the Sovereign People of Nepal ..., do hereby pass and promulgate this Constitution, through the Constituent Assembly, in order to fulfill the aspirations for sustainable peace, good governance, development and prosperity through the federal, democratic, republican, system of governance.”*

- Preamble of the Constitution of Nepal, 2015

The Constitution of Nepal provides for three orders of government - Federal, Province, and Local - with a further subdivision of local governments into Rural Municipalities and Urban Municipalities. In its schedules (5 through 9)<sup>1</sup>, the Constitution envisages both exclusive and concurrent powers of the federal, province, and local governments. It has specified the relationship between different orders of government and has also set in place provisions for coordination between them. The powers and functions of the local governments have been further elaborated into 321 individual tasks<sup>2</sup>.

Local elections in 2017 were a major milestone in Nepal's transition towards federalism. Meanwhile, key legislations were promulgated to further elaborate on the functions, duties, and responsibilities of the local governments to decentralize the power. With key institutions and legislations in place, albeit many still at different stages of development, Nepal geared up to put the new system to test in achieving the aspirations of the Nepalese - sustainable peace, good governance, development and prosperity - as enshrined in the Constitution.

As governments set out to fundamentally function as the agents of citizens for fulfillment of the aspirations of the people as captured in the national charter, the citizens empower governments via mandate (vote) and finance (tax). As such, citizens reserve the power to hold the governments to account for their functions. Besides this, with regards to the operations of the different orders of governments in Nepal, their major source of finance are the fiscal transfers provided by the federal and the province governments.

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1 Schedule 5 lists exclusive power of the federal government  
Schedule 6 lists exclusive power of the state government  
Schedule 7 lists concurrent powers of the federal and state governments  
Schedule 8 lists exclusive power of local governments  
Schedule 9 lists concurrent powers of the federal, state, and local governments

2 Unbundling report 2017

Five years into the implementation of the Constitution, however, one can observe a deviation from “good governance” elements like transparency and accountability. This is clearly evidenced by the decrease in the number of local governments (LGs) utilizing Sub-National Treasury Regulatory Application (SuTRA) to report their budgetary activities. The number of LGs utilizing SuTRA has declined from 666<sup>3</sup> to 550<sup>4</sup> (out of 753). Similarly, the 57th Annual Report of the Office of Auditor General (OAG), 2020 provinces that none of the local governments prepared their Mid-Term Expenditure Frameworks (MTEF); 105 local governments failed to present their fiscal budget on time for the fiscal year 2018/19 (135 in 2019/20 and 38<sup>5</sup> in 2020/21); 107 local governments approved projects worth NRs. 4.49 billion outside of their budget in 2018/19; and 10 local governments did not furnish their credentials before the OAG for a final audit in 2018/19, among many such instances of failure to comply.

There is strong reason to believe, therefore, that current legislations and compliance requirements that have been put in place to make local governments accountable have in themselves been too much to handle for them at the moment given that Nepal is currently practicing a new system and local governments have neither the prior experience of exercising their powers and delivering their functions as autonomous bodies nor the required human resource and technical knowledge to deliver services and fulfill compliances. A significant portion of local governments’ time and energy would then be spent on navigating through legislative and procedural hassles if such is the case.

These findings from the Financial Comptroller General’s Office (FCGO) and the OAG report are a matter of concern from every taxpayer’s perspective. When local governments find themselves entangled in procedural hassles, and that in turn results in inefficiency, it compromises the best interest of the taxpayers as lack of accountability towards use of resources and delivery of important public services take hold. This link between financial procedures and public service thereby becomes a major governance issue.

## Objectives

This study thus attempts to understand the underlying problems associated with compliance that have in turn affected efficiency, economy and accountability of the local governments. During the course of the study, researchers have attempted:

- to explore the existing legal provisions regarding the legal mandate of financial reporting,
- to identify areas of redundancies in the reporting system of the local governments,
- to point out key areas of reform to streamline the reporting provisions for local governments.

3 As per the Mid-Term Budget Review published by the Ministry of Finance in February, 2020.

4 As per the notice issued by the Financial Comptroller General’s Office on 1st October, 2020. Available at: [https://www.fcgo.gov.np/uploads/tabnoticelist/2020-10-02/SuTRA\\_Implementation.pdf](https://www.fcgo.gov.np/uploads/tabnoticelist/2020-10-02/SuTRA_Implementation.pdf)

5 As of October 13th, 2020

## **Methodology:**

The researchers began exploration into the aforementioned topics by reviewing the Constitution of Nepal and key legislations pertaining to operations of the local governments with focus on financial compliances. International literature related to public finance and management produced by agencies such as International Monetary Fund (IMF), World Bank (WB) and Organization for Economic Cooperation and Development (OECD) were reviewed. Domestic legislative provisions were then benchmarked with the international practices. Based on these explorations, the researchers delved into the provisions set forth in domestic legislative provisions and squared them against one another to identify gaps and potential mitigation measures as informed by international practices. After drafting the first iteration of the paper based on desk research and secondary data analysis, the researchers held a series of one-on-one consultations with key stakeholders from the Ministry of Finance (MoF), Public Expenditure and Financial Accountability (PEFA) secretariat, National Natural Resource and Fiscal Commission (NNRFC), the OAG, and representatives from the local governments. After incorporating feedback from the said stakeholders, a consultation meeting was held with representatives of key stakeholder agencies from the federal, province as well as local governments across Nepal.

## **Limitations:**

As the study was being conducted, the different orders of government were still in the process of developing key legislations and institutions, hiring necessary human resources, and identifying the potentiality and challenges of local governments in terms of delivering their functions as per the Constitution. This study has following major limitations:

1. The scope of the study is limited to the financial reporting provision of local governments. The procedures and mandates followed by the LGs while reporting to the federal and province agencies were the subject matter of the study.
2. The study is based on secondary data and primary opinions as well as discussions with stakeholders and sectoral experts.
3. The suggestions are given based on desk study by benchmarking international theories and good practices in the area of financial management information system.

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## Chapter 2:

# Existing Policies and Practices

The constitution describes the relationship between the Federation, Province and Local governments, and explains the coordination mechanism to be maintained between them. The constitution also mandates that all three orders of government are eligible for equitable<sup>6</sup> share of revenues generated and further provisions that all orders of governments are required to maintain accounts and furnish reports as per the format prescribed by the FCGO. The OAG, which is the supreme audit authority of the country, conducts final audit of government accounts based on the parameters set forth by the FCGO.

In 2018/19, the FCGO commissioned a study to the PEFA secretariat, to examine the viability of updating formats of accounts used by Federal, Province, and Local governments to streamline financial transactions and administrative processes, including reporting. A nine-member committee consisting of secretaries from the government and senior members of the FCGO was formed. The committee sought to draw recommendations on standardizing the formats used for audits across all three orders of government. Based on the findings forwarded by the committee, FCGO endorsed a total of 141 accounting formats, spread over nine broader headings, to be adopted by the LGs. The commission introduced 79 new forms, and 61 existing formats were further improved upon to accommodate changes brought by the restructuring of the nation. In addition to these, as per various sections of the Financial Procedures and Fiscal Accountability Act (FPFAA), Local Government Operations Act (LGOA), and Inter-Governmental Fiscal Arrangement Act (IGFAA), LGs should produce reports on income and expenditure status, treasury position and grant utilization on a triennial basis.

Table 1: Forms to be maintained for Audit Compliance

Main Headings	Total no. of Forms	Newly Introduced	Revised from Existing
Revenue Related Formats	15	6	9
Expenditure Account Reporting Formats	36	20	16
Goods and Assets Related Formats	15	12	2
Budget Implementation Reporting Formats	18	4	14

<sup>6</sup> Article 60(2) of the constitution of Nepal 2015.

Public Construction Related Formats	14	6	8
Deposit Related Formats	8	5	3
Loan Management Formats	9	6	3
Investment Related Formats	10	10	
Audit and Arrears Related Formats	6	3	3
Internal Control Related Formats	10	7	3
<b>Total</b>	<b>141</b>	<b>79</b>	<b>61</b>

Source: Authors' calculation based on review of legislative provisions

## Mandates and Functions of Key Agencies

### At Federal level

#### a. *Financial Comptroller General's Office (FCGO)*

The FCGO, under the Ministry of Finance (MoF), is the main agency responsible for overseeing the treasury operation of the government of Nepal. It carries out functions such as tracking expenditure against budget, revenue collection, and preparation of the consolidated financial statements. In addition to this, the FCGO is also responsible for conducting internal audits of a government's books of accounts. The FCGO also develops systems and procedures necessary for the functioning of consolidated funds among all three orders of government. A local government reports to the FCGO as it receives funds from revenue sharing (Value Added Tax, Excise, and Customs duty) under the IGFA Act.

#### b. *District Treasury Comptroller office (DTCO)*

The DTCOs are the field level offices under the FCGO that are spread over all 77 districts of the country and are involved in releasing budgets to government offices, exercising budgetary controls, and reporting.

#### c. *National Natural Resource and Fiscal Commission (NNRFC)*

The NNRFC is a constitutional body that oversees the modality of revenue sharing and assignment of grants to the subnational governments out of the Federal Consolidated fund. Local governments are to report to the NNRFC to aid reforms on revenue collection, grant allocation mechanism, and the development of relevant fiscal parameters.

### At Province level

#### a. *The Ministry of Economic Affairs and Planning (MoEAP)*<sup>7</sup>

The MoEAP is responsible for economic policy formulation, implementation, and monitoring of development plans as well as maintaining fiscal health regarding the province's public expenditure. The MoEAP supports local governments within the territory of the respective province via its corresponding Province Consolidated Fund. As such, local governments to the MoEAP as well.

#### b. *Province Treasury Comptroller's Office (PTCO)*

The PTCO, in coordination with the FCGO, oversees and manages the operations of

<sup>7</sup> MoEAP is the finance ministry of the respective state.

province consolidated funds. It is responsible for tracking expenditure against budget, revenue collection, and preparation of the consolidated financial statements. The local governments report to the PTCO as they receive funds from provinces under the revenue sharing mechanism between the province and local governments.

### Existing Legal Provisions

The LGO Act, the IGFA Act, and the FPFA Act were essential in providing a binding framework to the financial operation, compliance, and reporting practices of the LGs. However, in addition to these Acts, an LG also needs to adhere to an array of complementary provisions. The table below maps out the existing provisions regarding financial reporting of an LG in Nepal and helps conceptualize the scale of legal provisions:

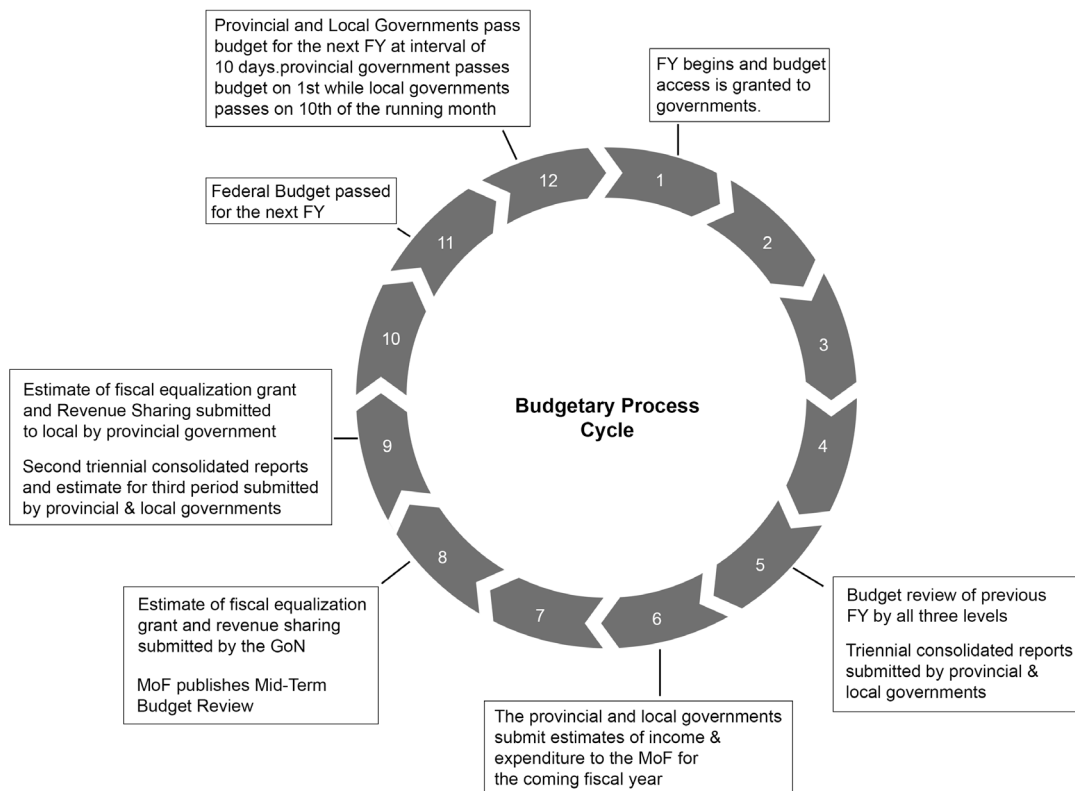
**Table 2: Reporting Provisions for Local Governments as Mandated by Law**

Nature of Report	Submitted to	Mandated By	Remarks
<b>Periodic Statements Consolidated funds</b>			
<i>Income and Expenditure</i>			
Payment (Internal Tax/ Non-tax Only)/Receipt Reports	National Natural Resource and Fiscal Commission, Ministry of Federal Affairs and General Administration, Ministry of Finance, Province Ministry of Economic Affairs and Planning, Province Government, Province Treasury Comptroller Office	Local Government Operations Act, Inter-Governmental Fiscal Arrangement Act, Financial Procedure and Fiscal Accountability Act	Local governments are required to submit their report every four months within 15 days from the completion of that period
Grant Utilization Report (Equalization and Conditional grants)	Province Treasury Comptroller Office, District Treasury Comptroller Office	Financial Procedure and Fiscal Accountability Act	Timeline is not mentioned in the act.
Receipt from Revenue Sharing	National Natural Resource and Fiscal Commission, Ministry of Federal Affairs and General Administration, Province Treasury Comptroller Office	Local Government Operation Act, Financial Procedure and Fiscal Accountability Act	Local governments are required to submit the receipt from revenue sharing every four months
Complementary Grant Utilization Report	Province Ministry of Economic Affairs and Planning	Province Complementary Grant Working Procedure	Reports must be submitted every four months.
Special Grants Utilization Report	Province Ministry of Economic Affairs and Planning	Province Special Grant Working Procedure	Reports must be submitted every four months.

<b>Periodic Estimations: For upcoming Fiscal Year</b>			
Estimated statement of Public Expenditure  (Include: Recurrent & Capital Expenditure Fiscal arrangements)	Concerned Assembly of the LG	Inter-Governmental Fiscal Arrangement Act	Each year by the first 10 days of 12th month of the fiscal year (10th of Asadh).
Mid Term Expenditure Framework (For next 3 FYs)	National Planning Commission, Ministry of Finance	Financial Procedure and Fiscal Accountability Act	Timeline not stated clearly but required to submit every year.
Projection of Income and Expenditure - estimation of Expenditure - estimate of Revenue from own source - estimate of Amount from revenue sharing - estimate of Amount from Grants - estimate of Amount to cover deficit	Ministry of Finance	Inter-Governmental Fiscal Arrangement Act, Local Government Operation Act	Each Year by the end of 6th month of the fiscal year (end of Poush)

Source: Based on authors' review of legislative provisions

**Figure 1: Timeline of Budgetary Procedure as per the legal provisions**



Note: The numbers in the figure indicate months as per the Nepalese Fiscal Year. The fiscal year in Nepal starts from mid-July.

Source: Based on authors' observation of various legal provisions

Table 3: Comparative Analysis of Existing Acts, Mandates and Provisions

S.N.	Nature of Reporting	Acts/Provisions	Observations	Remarks
1.	Consolidated Statements of Periodic Income & Expenditure	Inter-Governmental Fiscal Arrangement Act, in Section 32(3), requires local governments to submit a report of income and expenditure to the Federal Ministry of Finance and Province within 15 days after the completion of each triennial period.	Inter-Governmental Fiscal Arrangement Act requires reporting of the entire consolidated component to only two agencies. However, it fails to clarify what specific body is signified by the term Province. It does not clarify whether the statement should cover Consolidated funds only or off budgetary items as well.	Provision covered in Financial Procedures and Fiscal Accountability Act.
		Local Government Operations Act, in Section 76(5), requires local governments to submit heading wise status of income and expenditure from consolidated funds to Federal Ministry of Finance, Province Ministry of Economic Affairs and Planning, Federal Ministry of Federal Affairs and General Administration, and National Natural Resource and Fiscal Commission on a triennial basis.	The Local Government Operations Act fails to clarify the submission deadline for the reports.	Provision could be covered in Financial Procedures and Fiscal Accountability Act with an amendment such that it becomes a one stop solution for all.
		Section 26 of Financial Working Procedure Act mandates the LGs to submit a consolidated report to the Province Treasury Comptroller Office and District Treasury Comptroller Office.	The mandates as provisioned in the Financial Working Procedure Act and the Financial Procedure and Fiscal Accountability Act.	Only the Financial Working Procedure Act of Province 6 clearly states the timeline for reporting. The timeline to report is absent in the Financial Procedure and Fiscal Accountability Act as well.

2.	<p>Reports on grant utilization, expenditure from the proceeds of revenue sharing, internal revenue and loans</p>	<p>Financial Procedure and Fiscal Accountability Act, in section 4 (1), maintains that local governments need to submit their status on these headings to the District Treasury Comptroller's Office and Province Treasury Comptroller's Office.</p> <p>Section 4(2) of Financial Procedure and Fiscal Accountability Act also requires local governments to prepare a consolidated statement that is then sent to the Province Treasury Comptroller's Office.</p>	<p>Local governments send separate statements to District Treasury Comptroller's Office and Province Treasury Comptroller's Office as well as consolidated reports to Federal Ministry of Finance, Province Ministry of Economic Affairs and Planning, National Natural Resource and Fiscal Commission and other province agencies under the provision of Local Government Operations Act and Inter-Governmental Fiscal Arrangement Act every four months which also have these components.</p> <p>The provision is not clear on reporting timeline as well as submission deadline</p>	<p>These sections can be repealed. A single section in the Financial Procedure and Fiscal Accountability Act can cover all the agencies and types of reports that local governments are liable to produce.</p> <p>Double reporting as local governments have to report to the District Treasury Comptroller's Office as well as Province Treasury Comptroller's Office. Instead, a consolidated format could be used to be sent only to the District Treasury Comptroller's Office who could then integrate and send it to the Province Treasury Comptroller's Office.</p>
3.	<p>Grant Utilization Reports</p>	<p>Appropriation Acts of various provinces have a provision binding local governments to report on their grant utilization status to the Province Treasury Comptroller's Office.</p>	<p>The provisions of various Appropriation Acts are repetitive since local governments already report to the Financial Comptroller General's Office on their grant utilization status as mandated by the Local Government Operations Act and Financial Procedure and Fiscal Accountability Act</p>	<p>Need to amend the model Acts regarding provisions that cover grant utilization</p>

4.	Complementary and Special Grant utilization reports	Provinces have drafted and put into effect Complementary and Special Grant Procedure manuals and maintain a clause dictating submission of this report component to the Province Ministry of Economic Affairs and Planning	The Inter-Governmental Fiscal Arrangement Act partially covers the component in its provision (Section 32) but does a poor job indicating to Ministry of Economic Affairs and Planning as the specific recipient at Province level	Amendments to the model Act endorsed by the federal government on the clause pertaining to reporting status of complementary and special grants can be streamlined via a joint provision in the Financial Procedures and Fiscal Accountability Act.
5.	Estimated statement of Public Expenditure (Recurrent & Capital Expenditure Fiscal arrangements as well)	Section 16 of the Inter-Governmental Fiscal Arrangement Act maintains that local governments are to prepare a periodic estimation of public expenditure for the third triennial period while submitting second triennial report	The provision does not affect agencies who will be the recipient of this component. The Mid Term Expenditure Framework in itself is built in a way to accommodate both estimation and projection of local governments' expenditure. With that in mind, the provisions are repetitive.	An amendment to the Inter-Governmental Fiscal Arrangement Act to bind both these components via a single provision can be useful to eliminate repetitive nature of the statutes.
6	Mid-term Expenditure Framework	The Inter-Governmental Fiscal Arrangement Act, in pursuant to section 16 (detailing the preparation of estimation regarding public expenditure), elaborates in section 17 and 17(2) that local governments will have to prepare the Mid Term Expenditure Framework.		

7	Projections: Estimation of Expenditure Estimation of revenue from own source Estimation of amount from revenue sharing Estimation of amount from grants Estimation of amount to cover deficit	The Inter-Governmental Fiscal Arrangement Act, in section 18 elaborates that local governments will have to submit these projections to the federal Ministry of Finance by the end of Poush (sixth month in Nepali fiscal year).	The nature of these projections is such that it is related to the operational and governance practice of a local government. Thus, the Inter-Governmental Fiscal Arrangement Act that is concerned with revenue rights, revenue sharing, grants, loans, budget arrangements, public expenditures and fiscal discipline, seems to be overstepping its own spirit with this arrangement.	A blanket provision in the Local Government Operations Act can cover the aspect of fiscal discipline and governance practice of local governments. The mandate can be further strengthened with an elaborate mention of the details of provision, accountable and receiving agency as well as the timelines in the Financial Procedure and Fiscal Accountability Act.
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Source: Based on authors' review of legislative provisions

In the case of failure of reporting, following provisions for penalties are mentioned in the legislations:

- If any local government fails to report their financial position to the respective concerned agency, then the Government of Nepal may hold the grants to be provided as per section 32(5) of the Inter-Governmental Fiscal Arrangement Act and as per the Financial Working Procedure Act of respective provinces.
- Similarly, as per section 29 of the Financial Procedure and Fiscal Accountability Act and the provisions as per the Financial Working Procedure Act of respective provinces, the local governments are required to present the financial statements to the Office of Financial Comptroller General and the Office of the Auditor General. If any local government fails to submit their financial statements within the stipulated time and discloses the reasons for the failure, the local government can request for additional time.
- If the local government fails to provide the financial statements within the additional time or does not request for additional time then the Auditor General may request the officer above the responsible officer to present the financial statements.
- If the financial statements are yet again not presented, the Office of the Auditor General can write to the concerned ministry to condemn the responsible officer as per the legal provisions.

## Review of Existing Systems

As per the Mid-Term Budget Review the MoF (2019/20), the absence of an integrated information system is one of the major challenges facing local governments. The FCGO has therefore been implementing changes in the Sub-national Treasury Regulatory Application (SuTRA) to develop it as the Financial Management Information System (FMIS)<sup>8</sup> of the country and bring in all local governments under a single web-based platform.

The web-based platform developed under the leadership of PEFA Secretariat has envisioned the following features:

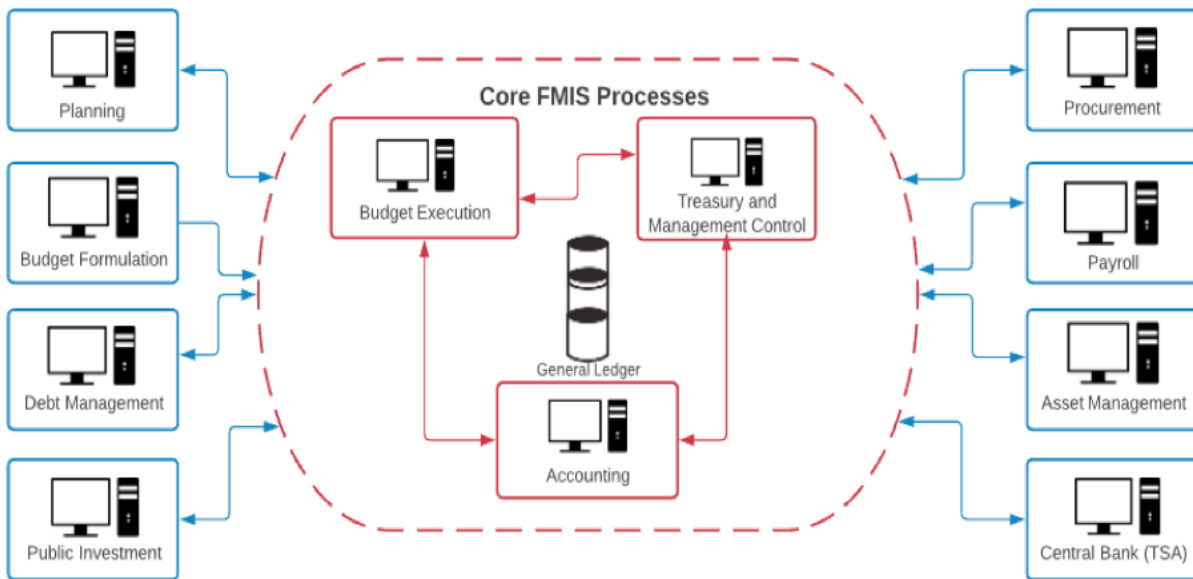
- a. Estimation and recording of revenue/expenditure (for internal revenue, receipt from the revenue sharing as well as grants)
- b. Creation of appropriation tranches for local governments
- c. Preparation of budget estimation (Red Book)
- d. Sectoral and sub-sectoral budget head creation (both recurrent and Capital expenditure)
- e. Mid Term Expenditure Framework preparation
- f. Automated report generation for all components (treasury and deposit)

Considering how the local governments are currently subject to reporting requirements from a multitude of agencies and key legislations pertaining to fiscal operations and accountability, a strong case can be made in the need of an Integrated Financial Management Information System (IFMIS)<sup>9</sup>. The IFMIS could feature regular data classification for recording financial transactions, internal controls over data entry, transaction processing and reporting, and common processes for similar transactions checking and rejection of redundant replication of data entry (Yaokumah & Biney, 2020). As per the International Monetary Fund (IMF), a complete IFMIS must include the functions as shown in the figure in next page:

8 Hashim & Fünfkirchen (2018), defined Financial Management Information Systems (FMIS) as the basics to facilitate, support and manage public sector budgetary, accounting, treasury, and public debt management processes as well as a system to generate corresponding reporting documents by using a set of automation solutions that allow government finance and accounting staff to carry out their day-to-day operational tasks. Similarly, Hashim, et al., (2019) identifies that an FMIS must include transactions handled by the central ministry of finance, debt servicing, fiscal transfers and subsidies, transfers to state-owned enterprises, and must ensure that the system covers all sub-national units. Thus, an FMIS must be a system that integrates expenditures and revenues of all governments, and provide a detailed report to the concerned stakeholders.

9 An IFMIS is an information system that tracks financial events and summarizes financial information. It supports adequate management reporting, policy decisions, fiduciary responsibilities and the preparation of auditable financial statements (ibid.).

Figure 2: Skeleton of an Integrated FMIS System



Source: How to Design a Financial Management Information System? IMF, 2019

The World Bank’s study titled ‘Financial Management Information System and Open Budget data’ in 2012 attempted to unravel the global trend in usage and presentation of meaningful open budgetary data, expenditure, and revenue figures and access to reliable, and accurate information from underlying FMIS solutions. The paper defines fiscal transparency instruments; key and informative indicators that are then compared to PEFA scores of respective countries to depict how several economies are handling the growing demand for accountability amidst heightened democratic pressure. In Nepal, the PEFA report of 2015 was the latest exercise in this regard. Thus, an exhaustive picture of Nepal’s current practices in reporting cannot be had in absence of a benchmark. The question remains on how Nepal fares when compared to these best practices. A summarized comparison of both Key and Informative indicators can help shed light on the concern.

Table 4: Comparison of Nepal’s FMIS with the World Bank Indicators

World Bank Indicators	Observations on functionality of Nepal’s FMIS	Remarks
Existence of dedicated website for publishing Public Finance Data (PFD)	Though each local government has its own website for producing public finance information, they are not all updated in real time.  Nepal’s FMIS platform website does not hold sufficient information for the public to understand the functionalities of the system.	A timely update of sufficient financial information for the public is a necessity.

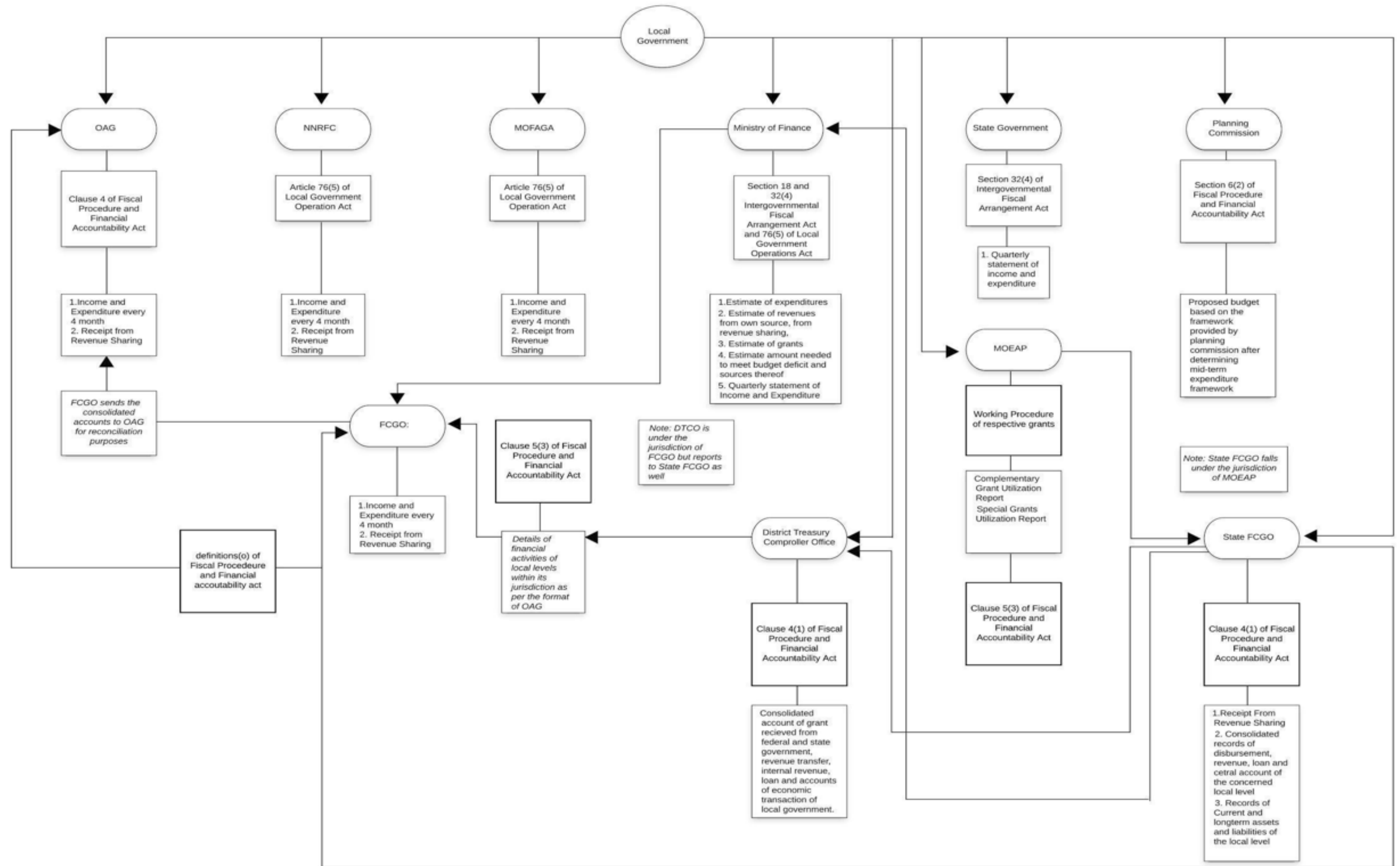
Is there a web-based application supporting the public financial management needs of state/provincial governments or municipalities as part of the FMIS?	SuTRA is a web-based financial management system that is designed to be used by the governments. The FCGO identifies the need for an integrated FMIS in order to support the needs of governments from a single system.	The website of SuTRA holds a login option only for local governments despite describing it to be used by the province as well as local governments. As such the province bodies are out of web-based systems.
Is there a harmonized public accounting system supporting all budget levels?	Nepal does not have a harmonized public accounting system however, the implementation of SuTRA can be seen as an attempt at harmonization.	SuTRA can be implemented at all budget levels to achieve a harmonized public accounting system.
Are there duplicate government budget reporting websites other than that of the Finance Ministry?	Though there are no other budget reporting websites other than that of the Finance Ministry, there is a presence of mainly two systems namely, Line Ministry Budget Information System (LMBIS) and SuTRA run by the MoF and the FCGO respectively.	The LMBIS and SuTRA both do not hold options to disclose information to the public.
Is there a web page explaining the policy/ regulations for access to Public Finance (PF) information, web publishing standards, or frequency of PF reporting?	Currently, there is an absence of a dedicated website explaining the policies /regulations for access to PF information, web publishing standards, or frequency of PF reporting; however, there is a presence of Right To Information (RTI) Act and the website of the Law Commission can be accessed that records the Acts and Regulations prepared by the government.	There is a need for a dedicated website that holds acts and regulations mandating an easy access of PF information.
Is there a web page with links to regulations for clarifying the Public Financial Management (PFM) roles and responsibilities?	The website of MoFAGA holds links to the regulations that clarify the PFM roles and responsibilities.	MoFAGA looks after the federal affairs and general administration of the country so it might not be the suitable organization to hold links to the regulations clarifying the PFM roles and responsibilities.
Is there a web page for receiving feedback on PF information / user satisfaction, or for presenting web statistics?	There is a provision of giving/ receiving feedback in most of the government websites.  A dedicated website for presenting web statistics has been created.	The website currently named as Whole National Reporting Portal is still in a rudimentary stage of development and does not hold any option for receiving feedback on PF information / user satisfaction. The website currently lacks sufficient data for the visualization of statistics and real time linkages with SuTRA which avoids the public to obtain PF information.

<p>What languages are used to publish the PF information online for external viewers?</p>	<p>The reports published in Nepalese language.</p>	<p>Reports could be published in other languages too. Particular care will have to be given to the translation process. As it stands today, Nepal's legislations are first drafted in Nepali and the translation is outsourced. There are live cases of erroneous translations in many Acts and statutes which would give misinformation to non-natives.</p>
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Source: Authors' observation of Nepal's FMIS based on indicators adopted from the World Bank, 2010

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Figure 3: Summary of Existing Reporting Mechanism



Source: Based on author's review of legislative provisions

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## Chapter 3:

# Reporting Processes

## Gaps on Reporting Processes

### a. Myriad legislations guiding local governments.

Key pieces of legislation were brought into effect to help LGs operationalize their finance and regulate their workings by setting compliance parameters. However, upon review of existing legislations and practices, the need of an umbrella act to guide the reporting function and one that details the use, generation, and rationale behind determining agencies that receive the reports can be felt. The financial reporting function of an LG is guided by the LGO Act and IGFA Act, while the FPFA Act also dictates financial as well as performance and compliance-related functions for the LGs. The IGFA has been designed to provide a legal mandate for revenue sharing mechanisms and grant allocation. The LGO Act, in that sense, details the assignment of LG's responsibility and operation while the FPFA Act deals with financial as well as performance reporting. Local governments have a plethora of regulations on financial reporting like appropriation procedures, financial working procedures/grant procedures relating to grant utilization, and province legislations just to perform their reporting function efficiently.

#### Case Box:

The Financial Management Reform Committee in Indonesia, laid the foundation for the State Finances Law 17/2003, the State Treasury Law 1/2004, and the State Accountability and Audit Law 15/2004 that drew up provisions for budget process together with the general principles on the management and accountability and marked a way for transparent and accountable government institutions. The formation of new laws with provisions of specific activities helped tackle the problems regarding budget preparation and execution, revenue administration as well as public accounting and auditing by focusing on accountability to the Parliament and the people.

(The World Bank, 2018) See Annex for more.

### b. Dispersed, convoluted, and repetitive parameters.

The FPFA Act covers, in detail, the planning, budgetary and financial compliance aspect necessary for the local governments. The IGFA Act and LGO Act also cover some part of the

PPFA Act. Further, these provisions do a bare minimum job to explain the rationale for a report and often seem to be repetitive; dictating LGs to submit a report that is already covered in other provisions with an adage term to assign an agency. It was also observed that the National Planning Commission (NPC) is concerned with development of impact reporting systems while the MoFAGA is also focusing on financial as well as compliance and output indicators. These line agencies do not seem to have close coordination among themselves while developing integrated reporting systems. This in turn leads to the reporting function of an LG lacking clarity.

### c. **Overlap of reporting lines**

LGs report to the MoF, the FCGO, MoFAGA, the NNRFC, the province ministries and the PTCO. In addition to this, LGs submit the same report to line agencies and the OAG. An LG also submits the status of consolidated funds to the DTCO, and the OAG for audit purposes. Similarly, a separate report on the standing of grant utilization (which in an ideal case is already covered in the consolidated report) is sent to the NNRFC. Upon further review of the Financial Working Procedures (FWP) Act of all seven provinces, it was found that the officer accountable for an LG has to submit an integrated and a separate financial report to the PTCO and the OAG while the District Coordination Committee (DCC) reports the same to the PTCO and the OAG for the LGs under its purview and on their behalf. In addition to this, a separate grant utilization report is sent to the PTCO and the MOEAP along with estimation and periodic status of use of funds. There is a lack of a single integrated reporting format that serves the need of specific agencies at both federal and province level.

#### **Case Box:**

MoFAGA spokesperson said the government was preparing to make necessary amendments to the LGO act after some of the provisions in it contracted other federal and provincial laws. “We are also holding consultations with the stakeholders. The act was made before enactment of many federal and provincial laws and hence, it contracted the provisions of the other laws now,” he said.

(The Himalayan Times, 2020)

### d. **Redundant reporting lines created by Province government laws**

Review of the Financial Working Procedure (FWP) Act of all seven provinces (which are based on the model law shared by the MOFAGA), shows that all PTCOs should prepare integrated as well as individual financial statements of LGs under their jurisdiction. Each LG should also submit an integrated financial report to the PTCO and the DTCO (which is a field level functional unit of the FCGO) as per the same FWP Act.

In Karnali (Province 6), the PTCO has established Province Treasury Unit Offices (PTUO) in every district as its field offices. As of late, all other provinces except Gandaki (Province 4) are working towards establishing their own field offices i.e. PTUO in districts under their

jurisdiction which means the local governments will have to report to an additional agency. Hence, there seems to be significant lapse in uniformity of mandates between the province and local governments.

**e. The Financial Information Management system at a basic stage of development.**

Firstly, SuTRA, which is designed as an FMIS for all sub-national governments, is currently accessible to local governments only. Secondly, it features only limited coverage of budgetary and financial indicators to aid the LGs in preparation of line-item budget, tracking expenditure, and assigning estimated revenue/expenditure for the preparation of a red book. SuTRA is yet to cover the sectoral, geographical and detailed component of an LG's finances. The platform has also been calibrated to generate reports. Amidst all this, an LG needs to adhere to the parameters set by the FCGO and furnish reports arbitrarily as and when needed. SuTRA lacks a single dynamic interface that maintains the consolidated status of all three orders of governments, reports on sub-components, and individual data from block to the federal level. This has created a significant gap at the local level in terms of making information available in a public-friendly manner, thus hindering the spirit of accountability.

**f. Preference to compliance over efficiency.**

LGs are required to conduct an internal audit under the supervision of the FCGO followed by a final audit under the leadership of the OAG. However, when compared with international practices, it can be observed that financial reports generated by the LGs in Nepal lack benchmarking against performance indicators. There is a specific gap from an efficiency and accountability perspective since the reports generated are framed to serve an institutional purpose and have no outlook on the performance of the local governments.



## Chapter 4:

# Recommendations

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Various federal agencies have been working to build capacities of local governments in terms of duly performing fiscal functions and instilling fiscal discipline. The Public Expenditure and Financial Accountability (PEFA) secretariat has been leading the development of FMIS and carrying out training for local level personnel. The MoF has been operating the Budget Management Information System (BMIS), Line Ministry Budget Information System (LMBIS), and Aid Management Information System (AMIS) while the FCGO is operating Financial Management Information System, Treasury Single Account, Revenue Management Information System, Computerized Government Accounting System (CGAS), Public Assets Information System (PAIS), and Budget Control System. Similarly, the FCGO as well as the NNRFC have been capacitating the LGs via separate training modules on accounting standards, estimation/reporting of revenues, and managing the operational aspect of public expenditure at the local level.

Development Partners have also been working closely with the GoN to develop platforms regarding financial reporting, accountability mechanisms and to enhance the operative capacity of the LGs via integration of ICT. The support of the Multi-Donor Trust Fund in the development of SuTRA is one of the cases in point in this regard.

However, as evidenced by the gaps identified in the preceding chapter, while these efforts have been well intentioned, they have not been well coordinated.

To ensure accountability, Andrews and Shah (2005) suggest that local governments should prepare reports that answer the citizens on the matter of public expenditure made from taxes, need for intervention, achievements made in terms of goals, sourcing revenue and responsibility. This observation is made even more pertinent given the autonomous feature of the local, province and federal governments in a federal setting like Nepal where each tier enjoys autonomy over legislation, has the ability to generate revenue and makes use of public funds at their disposal to cater to specific needs at various levels.

At the same time, the concept of new public management marks a shift in the focus of management systems and effort from inputs and processes to outputs and outcomes. A specialized, lean,

flat, and autonomous organization is preferred compared to large, multipurpose, hierarchical bureaucracies from the point of view of new public management (Pollitt, 2007).

Based on review of these literatures, current policies and practices in Nepal, and the gaps identified therein, this study finds that following interventions are required in order to ensure due regard to compliance while at the same time upholding accountability towards the public.

## Policy Recommendations

There is a strong need for an umbrella act to negate the complications brought on by the scattered and repetitive nature of provisions. The FPFA Act will be an ideal place to start incorporating myriad provisions made in other legislations into one single legislation. For instance, three pieces of legislation were formulated in Indonesia that tied all budgetary processes and related provisions of the government. In Nepal's context, further amendments are required to bring all provisions regarding financial reporting for local, province, and federal governments under respective single sections of the act.

- Section 76(5) of the LGO Act (*which requires local governments to submit heading wise report of income and expenditure from consolidated funds to Federal Ministry of Finance, province Ministry of Economic Affairs and Planning, Federal Ministry of Federal Affairs and General Administration, and National Natural Resource and Fiscal Commission on a triennial basis*) should be repealed.
- Provisions related to local governments in Section 32 (1, 3 & 4) of the IGFA Act (*that require local governments to submit periodic statements of income and expenditure in a framework as prescribed by the Government of Nepal, and set the timeline for the submission of such reports*) should be repealed.
- Provisions related to local governments in Section 16 and 17 of the IGFA Act (*that require local governments to prepare and submit estimated statements of public expenditure on the subjects of local governments' domain, and prepare a Mid-Term Expenditure Framework*) should be repealed.
- In place of the repealed provisions in the preceding recommendations, a new provision should be added in the respective legislations which dictates local governments to follow provisions in the section 4(1) of the FPFA (*i.e. submit their report on grant utilization, expenditure from the proceeds of revenue sharing, internal revenue and loans to the DTCO and the PTCO*) and 4(3) of the FPFA (*i.e. the format of the reports should be as prescribed by the OAG*) such that the local governments submit the reports to only the DTCO and PTCO.
- A new provision should be added in the FPFA Act to dictate local governments to prepare and submit estimated statements of public expenditure on the subjects of local governments' domain, and prepare a Mid-Term Expenditure Framework and submit them. After making changes prescribed above, the FPFA Act will be established as the umbrella Act for all local governments with regards to financial reporting.

- Currently, local governments are reporting to both the PTCO (province body) and the DTCO (federal body). Recently, the PTCOs have started establishing their own Province Treasury Unit Offices (PTUOs). Either the function of the DTCO, in the long term, must be merged with that of the field offices of the PTCO, or the DTCO in itself must be dissolved. Currently, the DTCO operates under the purview of federal MoF and exercises control over the operation of treasury accounts for each LG across 77 districts. With this existing system in place, LGs can simply submit their report to the PTCO which will forward the integrated report to respective province and federal agencies. The PTUO can act as a point of contact between the LGs and the PTCO and facilitate passage of information as and when necessary.
- A single focal agency thus maintained then must be made responsible to furnish all information necessary both vertically to the federal government and horizontally to the province government and line-ministries.

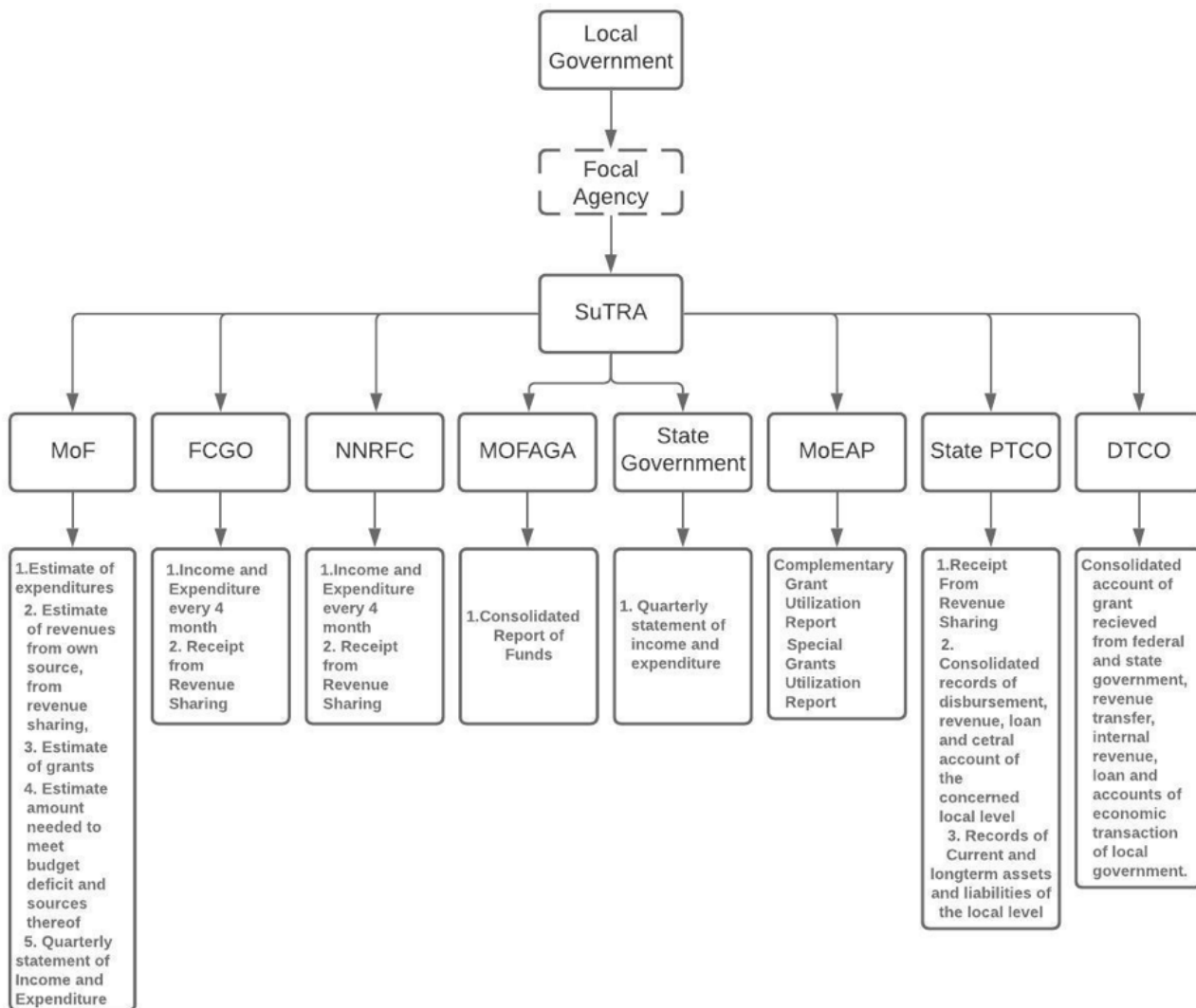
### **Recommendations related to financial system reform:**

- It is also recommended that an integrated information management system be formed. To this effect, the FCGO has realized the need and has worked to develop SuTRA as a holistic platform. However, there are some serious concerns over the efficacy of this platform. The Auditor-General's 57th Annual report for FY 2019/20 mentions that only 418 out of 753 local levels have used SuTRA to submit financial reports. In addition to this, there are questions regarding the features, coverage, and applicability of the system itself. The following recommendations are made to remedy these concerns:
- SuTRA, as it is now, does not facilitate reporting of debt transactions. While the legal provisions require LGs to report their debt position, SuTRA does not include features to report the same. As in Pakistan, when the Financial Accountability and Budget System (FABS)<sup>10</sup> did not include non-budgetary items in the system, almost 90 percent of the federal reporting was missed. The platform must incorporate features that ensure the reporting of non-budgetary items as well as the excluded government agencies to ensure accountability towards the taxpayers.
- Section 80 of the LGO Act gives authority to MoFAGA to develop an ICT system to ensure transparency and accountability in the operations of LGs. MoFAGA, in this sense, needs to play a proactive role in the development of SuTRA by coordinating with the FCGO to develop a full-fledged IFMIS and implementing it in one single attempt compared to the actions currently being undertaken (i.e. in a phase-wise basis). The implementation of the system in phases will only increase the budgetary costs, training costs, etc. for the government.
- When compared to the World Bank indicators (as discussed in chapter 2), an absence of real-time updates on the website was recognized. SuTRA must be linked to the national reporting portal (that disseminates financial information of sub-national governments to the public) and be equipped with the function to reflect the real-time updates of each government agency.

<sup>10</sup> Please refer to the Annex for more on the implementation of FABS in Pakistan.

- In Brazil, the implementation of Matrix Account Balances<sup>11</sup> (MAB) helped generate a standardized report for all stakeholders solving the issue of differences in reporting. The legislative autonomy granted by the constitution of Nepal to each government may bring similar problems in the future. Nepal can learn from Brazil and develop SuTRA as a system that streamlines the reporting mechanism and produces a standardized report catering to the needs of each stakeholder.
- In the long term, SuTRA must be developed as a tool for measuring performance of the local governments as well. In Norway, information produced by KOSTRA, an accounting system used to report to the central government by local governments, is used to facilitate assessment of the local economic situation and transfer of resources to municipalities (OECD, 2008). While developing SuTRA as an IFMIS, the indicators required to measure performance must be integrated to foster incentive and reward mechanisms.

Figure 5: Ideal reporting framework for the local governments



Source: Based on author’s review of legislative provision

11 Please refer to the Annex for more on the MAB system implemented in Brazil.

## Chapter 5:

# Conclusion

In a federal structure, networks of committed professionals belonging to different organizations can offer individual citizens more direct accountability for government services than is provided through a standard center-led hierarchical structure, provided they are given sufficient autonomy (Mulgan, n.d.). The close engagement of the local governments with their communities fosters quick and effective response to individual needs without having to negotiate for instructions with the bureaucratic superiors.

Nepal was established as a federal structure with an aim of identifying the grievances of the public and providing efficient service delivery. With the vision of achieving the goal of federalism through a bottom up approach, the government developed mechanisms to enable internal control through legal documents that help in maintaining accountability and good governance. However, the institutionalization of these legislations have increased the administrative, compliance and thus opportunity cost of the local governments. Reporting requirements, for example and as we have seen in this study, are creating duplication of work for the local governments. The current financial position reporting framework creates procedural hassles for local governments which lead to inefficiencies and low accountability. This can be eliminated through reforms in the Public Financial Management system.

The OAG, with regards to the local governments, clearly mentions three types of audit: compliance, financial, and performance. However, the paper is limited to the financial reporting of the local government which is a fraction of the work required to ensure accountability. The paper also does not consider new concepts of governance such as the network governance<sup>12</sup> and collaborative governance<sup>13</sup> that help in sharing of policy tools, knowledge, and experience between local governments. Thus, a further study on the matters mentioned by the OAG and new concepts of governance is required to hold the public bodies further accountable in terms of their efficiency and working procedures.

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12 Network governance is described as a form of organizational alliance in which relevant policy actors are linked together as co-producers where they are more likely to identify and share common interests. Because they develop a culture of trust, the relationship tends to be more interdependent (Kim, 2006). See References for more.

13 Batory and Svensson quoting Emerson et. al describes collaborative governance as processes and structures of decision-making that involve stakeholders from a variety of sectors and levels 'in order to carry out a public purpose that could not otherwise be accomplished'. See References for more.

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# Annex

## **Implementation of Matrix of Accounting Balances in Brazil**

The 2000 Fiscal Responsibility Law (FRL) adopted by Brazil established guidelines, rules, limits, and transparency standards for responsible fiscal management. However, the problems in the definitions adopted and liberality in the interpretation by the states and their courts of accounts necessitated the need for accounting standardization. Due to this difference in interpretation of accounting practice and lack of standardization, irresponsible fiscal management and impaired transparency, has been a problem for Brazil. Brazil initiated the Matrix of Accounting Balances (MAB) which is an innovative step forward to accounting standardization. The accounting and fiscal information from all levels of government helped in producing automated standardized reports with the use of MAB. (OECD, 2018).

## **Public Financial Management Reforms in Indonesia and Implementation of an Integrated FMIS**

PFM systems in Indonesia were a trouble for the country as it was attributed by inadequate accountability, lack of control on state money, overlapping audit institutions, and low capacity human resources. The Financial Management Reform Committee, formed by the MoF to tackle the problems, recommended extensive PFM reforms covering budget preparation and execution, revenue administration as well as public accounting and auditing by focusing on accountability to the Parliament and the people. The reform committee laid the foundation for the State Finances Law 17/2003, the State Treasury Law 1/2004, and the State Accountability and Audit Law 15/2004 that drew up provisions for budget process together with the general principles on the management and accountability and marked a way for transparent and accountable government institutions. Immediately after the adoption of these PFM regulations, Indonesia launched the “Government Financial Management and Revenue Administration Project” (GFMRAP) and implemented an Integrated Public Financial Management Information System (IFMIS) which is visualized as an integrated state treasury and budget preparation system.

The full implementation of the IFMIS and accrual accounting since 2015 has contributed to quality and timely financial reporting, restraining opportunities for corruption, improving transparency in payments, and improving predictability of budget execution and reduction of payment errors (The World Bank, 2018)

## **Pakistan's FABS Implementation**

In the early 1990s, the Auditor General of Pakistan realized that the accounting and reporting system did not meet adequate standards for either financial or fiscal reporting after a diagnostic study. The accounting and auditing were carried out by the Auditor General and budget reports by the Ministry of Finance but were not reconciled with accounting reports by the Auditor General. The charts of accounts were not compliant with the IMF Government Finance Statistics standards for fiscal reporting and neither financial nor fiscal reports were timely or reliable. To meet these challenges, Pakistan launched a critical countrywide integrated system as part of the PIFRA project, called the Financial Accountability and Budget System (FABS) in two phases.

Even after the implementation of FABS, the system could not credibly affect the aggregate expenditure control or expenditure targets. At the federal level only about 10% of the budget fell under the system for internal ex-ante budget control while the remaining 90% was handled outside the system. The majority of salaries and pension payments and the defense and railway expenditure were handled outside the system at the federal level.

At the provincial level the coverage was significantly larger ranging from 44% to 65%. However, provincial level loans/transfers and debt service transactions were not routed through the FABS and development spending was transacted through assignment accounts.

# Experts Consulted

S.N.	Name	Designation
1.	Gopi Nath Mainali	Financial Comptroller General
2.	Mr.Mahesh Bhattarai	Joint-Secretary,Fiscal Management Division, National Natural Resources and Fiscal Commission
3.	Mr. Jaya Narayan Acharya	Joint-Secretary, Local Level Capacity Building Division, Ministry of Federal Affairs and General Administration
4.	Mr.Kishore Joshi	Joint-Secretary, Research & Evaluation Division, National Planning Commission
5.	Mr. Mahesh Paudel	Director, Office of the Auditor General
6.	Mr. Resham Kandel	Under-Secretary,Local Government Strengthening Project, Ministry of Federal Affairs and General Administration
7.	Mr. Kapil Subedi	Under-Secretary,Financial Sector Management & Corporation Coordination Division, Ministry of Finance
8.	Mr. Janardhan Paudel	Under-Secretary,Ministry of Economic Affairs and Planning, Province-5
9.	Dr. Arjun Kumar Neupane	Under-Secretary,Ministry of Economic Affairs and Planning, Province-2
10.	Mr. Dhurba Prasad Pandey	Under-Secretary,Ministry of Economic Affairs and Planning, Province-4
11.	Mr. Gangadhar Gautam	Deputy Director, Kathmandu Metropolitan City
12.	Mr. Sudharshan Raj Pandey	Senior Partner at S. R. Pandey & Co. Chartered Accountants
13.	Mr. Balram Subedi	Officer, Ministry of Federal Affairs and General Administration
14.	Mr.Suresh Sharma	Officer, Office of the Financial Comptroller General

Various reports published by the Government of Nepal identifies that the financial reporting practice of the local governments are sub-par. These reports reveal that most of the local governments have failed to utilize their budget effectively and did not comply with the legal and institutional requirements. So, it was quintessential to detect the reasons for such substandard performance by the local governments as well as identify the ways through which their financial performance could be improved which would ultimately increase their accountability and efficiency in service delivery for the taxpayers.

This paper, “Integrated Financial Reporting System for Local Governments”, explores the financial reporting practices the local governments are required to adhere to. The current legislations that were put in place to increase the compliance and accountability of the local governments and the Sub-national Treasury Regulatory Application (SuTRA) were the subject matter of the study. The study discovered that the existing legislations mandating the local governments to report their financials were confusing and contributed in increasing duplication of work which affected the efficiency of the local governments. Likewise, SuTRA, an information system used by the local governments for planning, budgeting and accounting as well as communicating financial information was found to be rudimentary and lacking integration as every agency to whom local governments are required to report to were not incorporated.

Thus, a need for amendments in the existing legislations and the current reporting system is necessary so that the financial performance of the local governments and their efforts for compliance can be improved to achieve better efficiency and accountability.



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