NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | July – December 2015

WORLD BANK GROUP

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ACKNOWLEDGMENTS

This progress report has been prepared by PFM MDTF Program Management comprising Manoj Jain, Franck Bessette, and Shraddha Shah on behalf of the World Bank that serves as MDTF Administrator. The report includes input and guidance from the MDTF task teams, including Luiza A. Nora, Akmal Minallah, Keith Douglas Leslie, Anjalee Maiya Thakalee, and Roshan Darshan Bajracharya.

The PFM MDTF Program Management and team is especially grateful to the PEFA Secretariat Nepal for their continued support.

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Design by Rajan Shakya

ABBREVIATIONS AND ACRONYMS

BER	Budget Execution Report
CAAT	Computer-Aided Audit Techniques
CIAA	Commission for the Investigation of Abuse of Authority
CSO	Civil Society Organization
EWP	Electronic Working Paper
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
GESI	Gender Equity and Social Inclusion
ICAN	Institute of Chartered Accountants of Nepal
ICGFM	International Consortium of Government Financial Management
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standard
ISSAI	International Standard of Supreme Audit Institutions
IT	Information Technology
LMBIS	Line Ministry Budget Information System
M&E	Monitoring and Evaluation
MDTF	Multi-Donor Trust Fund
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MoFALD	Ministry of Federal And Local Development
NAMS	National Accounting and Management Service
NFRS	Nepal Financial Reporting Standard
NPSAS	Nepal Public Sector Accounting Standard
OAGN	Office of the Auditor General (of Nepal)
PAC	Public Accounts Committee
PCC	Program Coordination Committee
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PRAN	Program for Accountability in Nepal
RMIS	Revenue Management Information System
SAI	Supreme Audit Institution
SOAG	Strengthening the Office of Auditor General of Nepal (Project)
SPFM	Strengthening PFM System (Project)
TSA	Treasury Single Account
USAID	United States Agency for International Development
VDC	Village Development Committee

CONTENTS

ACKNOWLEDGEMENTS i
ABBREVIATIONS AND ACRONYMS ii
CONTENTS iii
FOREWORD iv
INTRODUCTION 1
PART I. OVERVIEW OF RESULTS 3
- A. Component One: Strengthening PFM System and Capacities 3
- B. Component Two: Enhancing Accountability in Public Financial Management 5

PART II. SECTOR WORK 10
- A. Component Three: Deepening Knowledge Related to Nepal PFM System 10
- B. Component Four: Program Management and Administration 11

PART III: FINANCIAL REPORT 12
ANNEX A: RESULTS FRAMEWORK
ANNEX B: DEMAND SIDE
ANNEX C: PROJECT DATA

FOREWORD

The supported activities of the Public Financial Management Multi-Donor Trust Fund (PFM MDTF) continued during the July-December 2015 period with remarkable achievements, in some cases despite the challenges arising from a devastating earthquake and worsened by an economy-harming blockade. The MDTF Management has been actively engaged during this period with preparation of a newly initiated procurement project, regularly held meetings with development partners, and the appointment of a new Kathmandu-based program manager, Franck Bessette. Phase 1 of the PFM MDTF will end around January 2018.Toward this milestone, development partners have started to consult on the status of PFM reform in Nepal, the Government of Nepal's priorities, and how future phases of the PFM MDTF can be most useful in the challenging years to come.

Almost eight months after the April 25 earthquake, the Legislature-Parliament passed a bill in December 2015 setting up the Nepal Reconstruction Authority. The Authority is responsible for spending US$4.4 billion pledged by the donors at a conference in Kathmandu for Nepal's reconstruction. The pledge is an extra-ordinary mechanism that is informed by international good practice and grounded on past Nepali successes. It takes the form of a binding institutional commitment to instill confidence in a system built around efficiency, transparency, and accountability. The PFM MDTF will continue to support the Nepal Government's commitment to transparency, shared responsibility, and accountability toward immediate beneficiaries, citizens of Nepal, and international donors.

Blockade of traffic from Indian borders, which began on September 23, 2015, severely affected Nepal and its economy. It has had a negative impact on budget execution, investment management, tax collection, and more generally slowed down earthquake relief efforts. While this blockade was driven by political considerations, it also showed that the issue of service delivery to citizens is and will increasingly be at the core of the Government's mandate. It has also put the

issue of economic recovery and long-term growth at the forefront. The blockade has also shown, because of its negative impact on tax collection, that revenue collection is trade dependent and that the relative comfort in terms of cash availability enjoyed by Nepal during the recent periods might be more fragile than sometimes thought. Reform in public finance needs to be a key component of any economic policy that aims for sustainable development.

At this crucial time of national crisis, there is a greater need for the MDTF role to be consolidated and expanded to continue realization of further gains and play its role in the nation's efforts. The PFM MDTF partners have started to work on Phase 2 of the Nepal MDTF to see how it could best support the Government's priorities for the years to come. The Government of Nepal has started to frame its priorities through elaboration of the PFM Reform Plan 2 (PFMRP 2).The Government is committed to making sure PFM systems and accountability mechanisms are up to the challenges that Nepal is facing today in terms of service delivery, disaster reconstruction, and economic development. This might also entail necessary changes in the legal framework supporting the budget cycle and the fiscal responsibility structure.

Key investment to expand and sustain a treasury single account infrastructure has been finalized. Also, financing of the Public Procurement Improvement Project (PPIP) has been proposed under the Nepal MDTF program. The project will be implemented in two phases. Some donors have shown their interest and commitment to support this sub-project. Systems to improve revenue management have been implemented in 15 districts with coverage of 90 percent revenue from the start of Nepal's fiscal year, June-July 2015, which has improved the reconciliation processes and improved the control environment. The commitment module rollout has begun although the design and business process needs to be further improved upon to realize the full benefits. Structured PFM courses with a tie-in to the Association of Chartered Accountants are being finalized; the PEFA Secretariat will launch the first sessions of training in March 2016.

The MDTF continues its support to the Strengthening the Office of the Auditor General (SOAG) Project. As we know, the cataclysmic earthquake that hit Kathmandu caused irreparable damage to the main building that housed the Office of the Auditor General of Nepal. The SOAG Project activities remained suspended from May to July 2015, requiring the extension of a closing date from June 30, 2015, to June 30, 2016.

Phase 2 of the demand-side component, Program for Accountability in Nepal 2 (PRAN 2) 2015-2016, has been designed to continue strengthening the capacity of district-based civil society organizations to implement social accountability tools in alignment with the MoFALD-based Local Governance and Community Development Program of the Local Governance Accountability Facility in Nepal. PRAN 2 seeks to promote transparency, accountability, efficiency, and inclusiveness, particularly in the PFM sector.

On behalf of the PFM MDTF team, I take this opportunity to thank all development partners for their continued support.

Manoj Jain
Program Manager, PFM MDTF

INTRODUCTION

Public financial management (PFM) is a key element of the Government of Nepal's strategy for ensuring effective resource allocation, strengthening public service delivery, and creating inclusive and broad-based development. The PFM agenda has also been a top priority for development partners to promote efficient and effective public service delivery. As part of this effort, the PFM Multi-Donor Trust Fund (PFM MDTF) was established in December 2010.

The MDTF is administered by the World Bank and jointly funded by the European Union, Department for International Development (United Kingdom), Governments of Norway and Denmark, Australian Government Department of Foreign Affairs and Trade, Government of the Swiss Confederation, and the United States Agency for International Development, which became the seventh donor following the signing of the Administrative Agreement with the World Bank in February 2015.

The objective of the PFM MDTF in Nepal is to strengthen PFM performance, transparency, and accountability. The MDTF supports activities that will:

- Strengthen PFM systems and processes (supply side);
- Strengthen institutions of accountability and civil society to enhance their oversight of PFM processes and performance (demand side), and
- Deepen knowledge about current PFM practices and options for improvements (analytical assessments).

Following are the four components under the PFM MDTF.

- **Component 1, Strengthening PFM System and Capacities,** has one main operation and three sub-components: (a) supporting implementation of treasury single account system, (b) implementation of public sector accounting standards, and (c) strengthening the PEFA Secretariat.

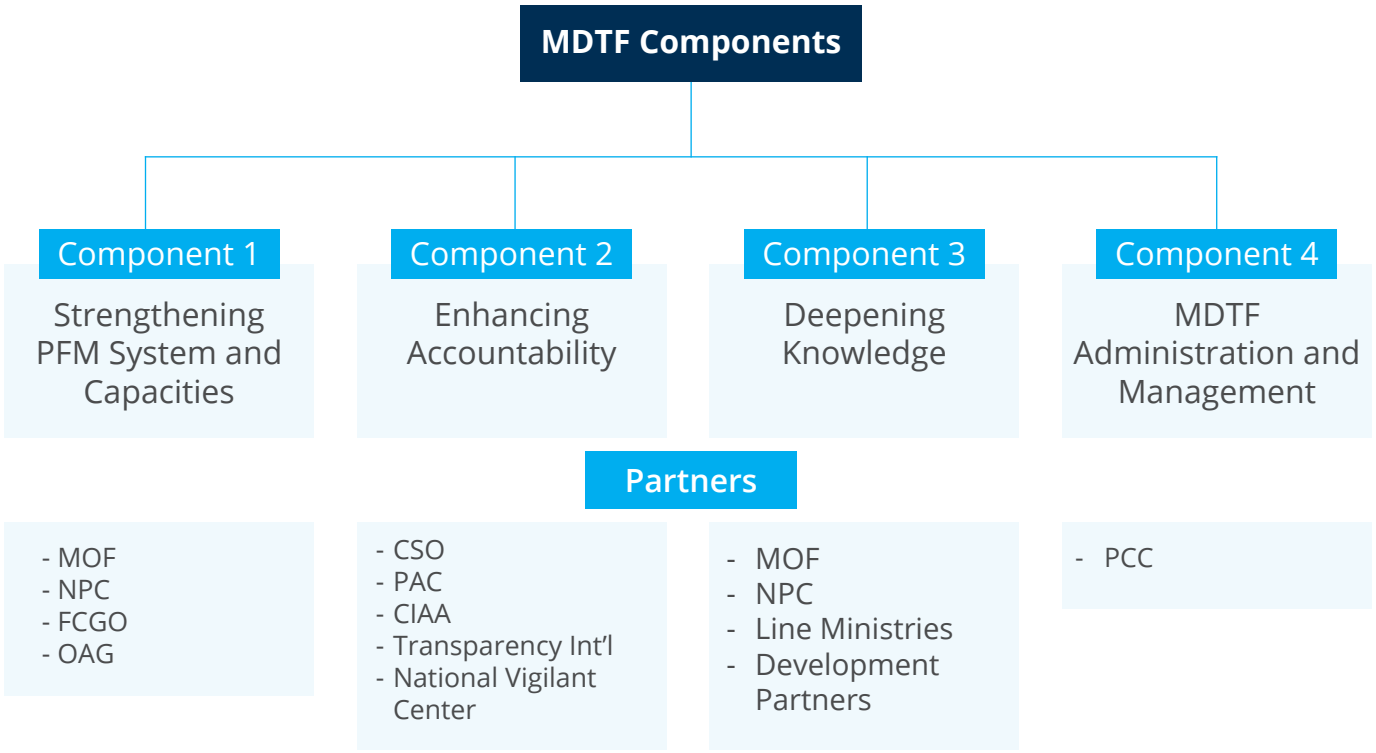
- **Component 2, Enhancing Accountability in Public Financial Management,** has two sub-project operations that relate to (a) strengthening the Office of the Auditor General in Nepal and (b) strengthening civil society organizations' use of social accountability to improve public financial management.

- **Component 3, Deepening Knowledge Related to Nepal PFM System,** carries out analytical work for knowledge dissemination. Two analytical works have been completed: the Public Expenditure Tracking Survey (PETS) in the education sector and the Operational Risk Assessment in the PFM sector.

- **Component 4** deals with program management and administration.

The four components are illustrated in Figure 1.

Figure 1: MDTF Components



PART I
OVERVIEW OF RESULTS

Part I covers progress on Component 1, Strengthening PFM System and Capacities, and Component 2, Enhancing Accountability in Public Financial Management. The first component has one main sub-project operation on strengthening PFM systems and capacities with three subcomponents. The second component comprises two sub-projects that relate to strengthening the Office of the Auditor General of Nepal (OAGN) and strengthening use of social accountability by civil society organizations (CSO) to improve public financial management. Current status of results obtained from PFM MDTF is provided in Annex A. The CSOs under the demand-side component, Program for Accountability in Nepal 2 (PRAN 2) 2015-2016, are listed in Annex B. Additional project data is provided in Annex C.

A. Component 1: Strengthening PFM (SPFM) System and Capacities

Subproject: Strengthening PFM Reform (Approved total budget, US$5.15 million)

Subcomponent 1:

The most important achievement of the Financial Comptroller General Office (FCGO) is the business continuity of the single treasury system of accounts (TSA) system following the earthquake in April/May 2015. This action truly tested the Disaster Recovery and Business Continuity Plan of the TSA system. The TSA system was able to withstand the disastrous earthquake, which hit 14 districts and severely damaged TSA infrastructure in 3 districts. The Government of Nepal resurrected the TSA system within a day after the earthquake. This was possible due to a Web-based TSA system; the fallback network access through Nepal Telecom; and use of bare-minimum computer equipment in makeshift locations, tents, rented premises, and borrowed equipment from the Nepal Army.

Key areas of progress since the last mission includes roll out of the Revenue Management Information System (RMIS) in 15 district treasury controller offices with effect from FY15-16 and rollout of the commitment-recording module in all the 75 districts. The Government is now able to have real-time, online access to 90 percent of its revenue collections in these 15 districts (as compared to three districts with 45 percent coverage in FY14-15). The TSA system continues to be sustained well in spite of poor infrastructure, frequent power cuts, staff transfers, and connectivity issues. Real-time budgetary control continues to be exercised for all expenditures across Nepal.

Successful implementation of the TSA system and its results are evident in the entire PFM cycle that contributed to an upgrade in several of Public Expenditure Financial Accountability (PEFA) II ratings. Nineteen indicators have been upgraded. Monthly budget execution reports (ministry-wise, spending district-wise, and economic classification-wise) continue to be made available, but these could be further improved.

Subcomponent 2:

After extensive consultation among several stakeholders and quality assurance review, the second PEFA assessment for Nepal was completed and a Phase 2 PFM Reform Action Plan has been drafted and is in the process of finalization by the National PFM Steering Committee.

A Commitment Module has been rolled out in all the 75

district treasury controller offices as part of the first of the three-phase implementation strategy. Phase 1 (FY14/15) involved ex post recording of procurement contracts and purchase orders above the threshold of NPR 500,000 (US$4,717). Treasury recorded commitments during FY14/15 of NPR 94 billion (US$886 million), constituting around 16 percent of the total budget outlays. The business process for commitment recoding needs to be enhanced to improve governance, control, and transparency in the functioning of the spending units. This should include, as per the original design, blocking of budget when a commitment is entered in the system to avoid over-commitment. Any cash release thereafter would reduce both the available budget and the commitment amounts. Reports should be designed accordingly. The FCGO has agreed to organize a workshop with line ministries and other stakeholders to help understanding of the concept behind this and the advantage they will have upon cash planning and budgeting.

Many of the early issues in RMIS implementation have been addressed. Commercial banks were entering revenue vouchers in the system on a real-time basis. The commercial banks would remit the collections into the revenue TSA account at the central Nepal Rastra Bank on a daily basis. Under this process, the commercial bank staff had to re-enter the revenue information into their banking systems as well. To avoid this duplication of work, it was agreed that the primary system of data entry at the collecting banks would be RMIS. The information entered would be downloaded from RMIS in electronic format and uploaded into the respective banking system.

The FCGO team has identified numerous issues in the draft accounting manual submitted by the consultant. Many of the existing procedural issues have not been fully addressed in the manual. Extensive consultations with the stakeholders are needed to prepare a holistic accounting manual.

Procurement under SPFM II has been affected by recent crises and is proceeding much slower than anticipated. Some recent actions to expedite have been taken by FCGO. Hopefully, the critical procurement as designed in the procurement project will be awarded by early April 2016.

Following successful completion of the piloting of Nepal Public Sector Accounting Standards (NPSAS) in two line departments, a certificate was received from ICGFM. On July 22, 2015, a directive was issued to all line ministries asking them to prepare NPSAS-compliant financial statements. The FCGO reactivated the NPSAS Steering Committee on September 4, 2015. Another eight ministries are likely to be certified on NPSAS by March 2016.

Subcomponent 3:

There were five studies undertaken during this reporting period: (a) study on internal audit system in Nepal; (b) feasibility study on establishing a national institute of PFM; (c) impact of government investment in public enterprises in terms of loan and share investment; (d) impact of implementation of TSA in public finance; and (e) pattern and implication of off-budget items in public financial accountability. While four studies have been finalized, the last one on off-budget items has been submitted as a draft to the PFM Steering Committee. The spirit behind the studies is to develop high-caliber reference material, recommendations of which can be applied in policy-setting improvements and designing sub-projects in these areas. These studies, especially the one on impact of TSA implementation in public finance, can showcase the success of TSA systems in promoting economic efficiency in government operations in Nepal.

The PEFA Secretariat has agreed to explore ways to further build on the findings of the studies and disseminate the findings among all stakeholders, including the National PFM Steering Committee, OAGN, Ministry of Finance, and development partners to help devise a concrete PFM reform action plan. The PEFA Secretariat also agreed to download the reports on the PEFA Website. It has been agreed that the PEFA Secretariat will prepare a strategy on the scope of work under this SPFM II component focusing on research required in pertinent areas that are relevant and contemporary such as PFM accountability implications of fiscal federalism.

The necessary preparation for the face-to-face training course with the Association of Certified Chartered Accountants has been completed and is due to start in March 2016. The course will lead to an internationally accredited degree with an initial target of 30 PFM staff within the Nepalese Government.

B. Component 2: Enhancing Accountability in Public Financial Management

Subcomponent 1. Strengthening the Office of the Auditor General of Nepal,

(Approved total budget, US$2.46 million)

The Strengthening the Office of the Auditor General of Nepal (SOAG) project achieved all major milestones during the six-months reporting period. The devastating aftermath of the earthquake of April/May 2015 had serious impact on the daily life of the Nepalese people and caused irreparable damage to the main building that housed OAGN. Project activities remained suspended from May to July 2015 preventing the SOAG project from ending on June 30, 2015, as intended. The contract with the consultant was extended to December 31, 2015. Upon approval of no cost extension of the contract with consultants, the activities resumed during August 2015. The project closing date was revised from June 30, 2015, to June 30, 2016.

Financial Audit Manual. The Financial Audit Manual was approved by the Auditor General and translated into Nepali. Several officials were trained in use of the Financial Audit Manual. Introduction of the Manual complements the improvements made in financial accounting and reporting, which includes the single TSA, a chart of accounts compliant with Government Finance Statistics, and adoption of NPSAS. With the implementation of these reforms, it is now possible for FCGO to prepare financial statements separately for the ministries.

Piloting of manual and toolkit. The Financial Audit Manual and Audit Working Paper Toolkits were field tested under the guidance of the consultants to demonstrate the applicability of the risk-based audit methodology and use of Audit Working Papers in local real-world conditions. The Audit Working Paper Toolkit is an integral part of the financial audit methodology comprising standard procedural forms and tools for conducting an audit. The audit documentation facilitates supervisory review of audit work and quality assurance. Three pilot financial audits and 10additional pilot audits in Year 1 of the SOAG project were successfully completed. In Year 2 an additional 15 pilot audits were conducted, but in this case audit teams were required to use the National Accounting and Management Service (NAMS) to manage the audit process and computer-aided audit techniques (CAAT) to conduct analysis of TSA data.

After each round of pilot audits, debriefing workshops for the pilot audit team members were held to capture the lessons learned and to further fine-tune the methodology. The OAGN is now one of the few supreme audit institutions that has successfully developed enterprise-level software that automates their entire audit business process. This includes audit planning, risk assessment, electronic working papers (EWP), and audit follow-up. The SOAG project is also supporting procurement with an upgraded server that will be installed in the new OAGN offices. The implementation of TSA by FCGO has thrown open the opportunities for accessing financial transaction-level data from TSA and perform data analysis and sampling using CAAT to vastly enhance the efficiency and effectiveness of the financial audit process. Under the SOAG project, the procedures for accessing data from TSA and analysis and sampling for financial audit were successfully developed. The CAAT analysis of TSA in conducting financial audit of ministries was demonstrated to OAGN management and staff. The CAAT analysis of TSA data was also used for the Year 2 pilot financial audits. An IT Strategic Plan was developed for OAGN to support its IT initiatives.

Performance Audit Manual. With a view to strengthening existing OAGN capacity of performance audits, the OAGN Performance Audit Manual was updated to align with ISSAIs 300, 3100, and 3200; and training on risk-based performance audit methodology was conducted in close cooperation with SAI Norway. Performance audits are increasingly regarded as important instruments for ensuring accountability of government organizations, especially in matters of utilization of public resources and implementation of public policies and programs. In year I of SOAG, three performance audits were completed. During this reporting period, three additional performance audits were completed:

a. Effectiveness of social security program and effectiveness of plan selection and implementation by local bodies (district development committees),
b. Effectiveness of health service delivery system (in selected districts), and
c. Melamche drinking water project.

Training. Extensive training activity was undertaken during the reporting period. This includes developing course material for Training the Trainers and providing training to 30 OAGN officials and 15 FCGO officials in use of the Financial Audit Manual. Just over 180 staff trained in NAMS/ EWP software, and several training sessions in performance audit were organized. Delivery of the structured training courses has resulted in enhanced knowledge and skills of OAGN staff. This will enable them to conduct audits in compliance with international standards following the guidance contained in the Financial Audit Manual. The experienced trainers will be able to use the structured training course material to conduct in-house training courses even after project closure. This is an important measure for ensuring sustainability of the reforms.

Disaster management audit. As per a request from OAGN, SAI Pakistan developed a special course on Disaster Risk Management (DRM) Audit. A team of 17 officials from OAGN visited Pakistan on DRM-related training and exposure visits in the first two weeks of January 2016. In OAGN team, 1 deputy auditor general, 4 assistant auditor generals, 6 directors, and 6 audit officers attended this program. The course was designed on the ISSAI 5000 series, Principles for Best Audit Arrangements for International Institutions, on disaster audit with focus on performance audit.
The program included one week of classroom training, meetings with key stakeholders from the National Disaster Management Authority (NDMA) in Pakistan, and field visits to some disaster-affected areas. Director Generals from SAI Pakistan served as resource persons having extensive experience and exposure with disaster-related audits. The well-developed training and field visits were informative and constructive to OAGN officials.

Subcomponent 2: Strengthening CSOs Use of Social Accountability to Improve PFM (Approved total budget: US$1.5 million)

As the second phase of the demand-side component, PRAN 2 has been designed to continue strengthening the capacity of district-based civil society organizations to implement social accountability tools in alignment with the national MoFALD-based Local Governance and Community Development Program of the Local Governance Accountability Facility. PRAN 2 seeks to promote transparency, accountability, efficiency, and inclusiveness, particularly in the PFM sector.

The implementation strategy in the new phase has been shifted from primarily empowering civil society organizations to work with communities to ensuring that these organizations are instrumental in building sustainable and functional relationships between the local government and the communities.

Local outreach. As part of its new project, PRAN 2 focuses on using Public Expenditure Tracking Surveys (PETS) in five districts to ensure social security entitlements reach the right beneficiaries, at the right time, in the right amount at the village development committee (VDC) level. Also, PRAN 2 uses the community scorecards for improving local school management, particularly in the Maithali Region, and assessing the existing government grievance redressal mechanism process at the VDC level. Technical assistance will be provided by three PRAN partners: the Center for International Studies and Cooperation (CECI), Policy Research and Development Nepal (PRAD), and New Era.

Through CECI, PRAN organized a pre-service orientation workshop for 30 CSO representatives from the 15 districts that are covered in PRAN. The three-day workshop (September 21-23, 2015) guided the social accountability practitioners through how-to steps in implementing PFM accountability tools at the local level and how best to align the work with the Local Governance and Community Development Program. The three-day workshop prepared the practitioners before they started their upcoming field-level activities. The main objectives of the workshop were to:

- Develop common understanding among social accountability practitioners about PFM MDTF and PRAN 2;
- Clarify the roles of the partners of PFM MDTF and PRAN 2;
- Orient the social accountability practitioners on reporting tools, including the finance and recordkeeping;
- Provide the basic concept of social accountability tools that are being used in the field under PRAN 2; and
- Create a familiar environment to exchange timely learning and experiences.

The workshop also offered an opportunity to discuss limitations. Among those most frequently mentioned were a lack of elected local bodies, non-responsive local service providers, and lack of meaningful citizen participation. In addition to the workshop, a three-day training course on social accountability tools was conducted in September 2015 with particular focus on the budgetary process, gender and pro-poor budget analysis, right to information, gender equality and social inclusion, public audit, public hearings, and public procurement as well as orientation on the Local Bodies Resource Mobilization and Management Guidelines 2069.

Advancing public participation in the audit process. The OAGN, together with PRAN and the Program on Advancing Public Participation in the Budget and Audit Process (PPBA), held a workshop, Advancing Public Participation in the Audit Process in Nepal, in August 2015.The main purpose of the MDTF-financed workshop was to produce a draft operational manual to guide OAGN in engaging civil society organizations to perform audits in Nepal. Around 50 participants attended the workshop representing the Ministry of Finance, Ministry of Federal and Local Development, PFM MDTF development partners, OAGN, and the World Bank Group.

The OAGN stressed its willingness in engaging civil society organizations during the execution stage, or when the audit is being conducted at the field level for project validation purposes. Both parties are fully aware that small steps need to be taken, but they both agreed on the benefits and opportunities that their partnership can achieve once the process has been laid out properly. Once audit execution starts, civil society organizations would help OAGN by (a) organizing focus group discussions at the grassroots level, (b) identifying appropriate participants for the focus groups, and (c) providing relevant information and evidence of audit topics through the focus group discussions.

With the approval of the OAGN-CSO Engagement Guidelines, a framework for better engagement is already in place and will facilitate the process for finalizing an operations manual for participatory audits as proposed in the following next steps:

- To support civil society organizations and OAGN to collectively work on performance audits, the team has come up with a draft operations manual that needs to be developed further by both OAGN and the civil society organizations.
- An agreement has been reached to work on terms of reference that would then be signed by both parties. It could clearly state who would work on the main three sectors: education, health, and local development.
- The CSO and OAG counterparts will also hold a meeting/workshop to discuss the experiences and lessons learned, and how to forge ahead in the future taking any issues into consideration.

South-South knowledge exchange. The OAGN staff, including the Honorable Auditor General Bhanu Prasad Acharya, participated in a South-South exchange with the Commission on Audits of the Philippines on November 23-27, 2015. The study visit provided the OAGN delegation with a unique opportunity to learn more about the Citizen Participatory Audit Program and to witness how citizen auditors participate and support the auditing process in key sectors such as education as well as on performance and audit of disaster risk management programs. The mission was successful in agreeing on specific actions for the short and medium term on how to implement citizen participatory audits in Nepal:

- Commitment to expedite the process of approval of an Audit Act by the Parliament. The citizen participatory audit in Nepal requires a legal mandate. The OAGN has a legal mandate to determine the form and extent of audit as well as the sources from where such information is derived. Under this mandate, OAGN has drafted a new law where citizens' participation in the audit process is clearly placed as a separate clause.
- Inclusion of citizen participatory audit as a component in the five-year OAGN Strategic Plan. The new five-year strategy paper by the OAGN clearly recognizes the importance of the citizen participatory audit and the role of civil society organizations in the audit process. As such, it is being mentioned as one such activity to improve the quality of audit report.
- Trust building between auditors and civil society organizations in Nepal. The strong belief of the benefits of the citizen participatory audit at the top level and increasing positive thinking on the part at the management level clearly signal such participation to increase in the days ahead.
- Commitment by OAGN to be included in the operational plan that citizen participatory audit will be implemented in a phased manner and the process will continue until 2020.
- Formation of a steering committee under the chairmanship of the Deputy Auditor General by March 2016.
- Approval of an Operational Manual for Citizen Participatory Audit by March 30, 2016.

The COA Chairperson, Honorable Michael Aguinaldo, hosted the OAGN delegation in Manila along with COA staff in charge of the Citizen Participatory Audit Program.

Media's role in promoting social accountability. PRAN puts special effort in strengthening the role of the media in Nepal. The media informs an active citizenry but also holds the government and other actors accountable for their actions. As a component of PRAN outreach on PFM issues at the district level, a media workshop was organized for 26

media practitioners from Kailali, Bardia, Banke, Dang, Rolpa, Bajhang, and Bajura. This media workshop is one of the two training activities at the district level.

The objective of the two-day workshop (December 28-29, 2015) in Dhangadhi was to build capacity of the local reporters on local-level budgetary issues and entitlements. The participants had the opportunity to learn about various issues directly relating to the PRAN 2 activities such as:

- Budgetary procedures not properly followed by local authorities as well as citizens,
- Gender and social inclusion in consumers groups,
- Tender processes and follow-up reporting of development projects,
- Political party influence on budgetary decisions,
- VDC secretary's capacity and workload,
- Social mobilizer's role and responsibilities,
- Social security allowance distribution and corruption control, and
- Grievance redress mechanism in VDCs and municipalities.

Another aspect of the media workshop was the provision of fellowships. The Association of Community Radio Broadcasters (ACORAB), which is responsible for organizing the media workshops, choses 15 journalists for fellowships on the basis of their performance during two media workshops: the December 2015 workshop in Dhangadhi and another in Hetauda on March 10-11, 2016. All participants and facilitators agree to focus their media reporting on the four dimensions of a PFM system: (a) budget preparation, (b) budget endorsement process, (c) budget implementation activities, and (d) financial programmatic auditing process.

Also, part of the PRAN 2 media component, CIN/ACORAB is responsible for producing and broadcasting public service announcements as well as production of radio programs on PFM, and capacity building of district-level journalists.

PART II
SECTOR WORK

Part II covers the components that deal with analytical work and program management and administration.

A. Component 3: Deepening Knowledge Related to Nepal PFM System

(Approved total budget, US$2.46 million)

Subproject: Strengthening Budgeting Process for Results

(Balance of funds is approximately US$217,089.61 out of US$905,000, with a closing date of June 30, 2016.)

This subproject is designed to leverage three outcome indicators:

Outcome (I)	Credible budget
Outcome (II)	Linkage of plan to budget, and
Outcome (III)	Program performance accountability — with an objective to strengthen budget process for results.

Outcomes I, II, and III: Overall budget transparency and monitoring

Deepening budget credibility. The synchronization of five standalone PFM information systems (PFMIS) onto one platform is complete. In these five systems, the full circle of PFM reporting is operationalized, from budget request to approval to real-time expenditure reporting of National Reconstruction Authority funds (Rs91 billion, single entity,11 percent of FY16 budget). This full circle of PFM reporting will be extended to the whole budget by end of FY16. First-phase training to 14 district treasury controller officials in earthquake-affected districts is completed and is being expanded to cover other districts. Upon PFMIS mainstreaming, informed decision-making will be strengthened in the hands of budget planners and budget managers. When PFMIS data report sets are made available in the public domain, third party monitoring of public expenditure will be facilitated, as yet still an unfinished agenda.

Fiscal devolution. The Ministry of Finance requested technical assistance in the design and implementation of a single tax code. Consultants are assisting the Revenue Secretary in completion of the first step in formulating the single tax code framework. The single tax code will anchor revenue assignment as pronounced in the Constitution. Once the on-going discussions with the Chief Secretary on expenditure assignment are completed, request to the World Bank for technical assistance is expected.

Operationalizing MTBF on an incremental coverage. The Government of Nepal is reported to have completed the medium-term economic framework anchoring the FY16 budget. To incorporate reconstruction investment, the team from the National Planning Commission revisited the medium-term economic framework and would like to continue working on the framework to anchor the proposed 14th Periodic Plan. This rehashing of the medium-term economic framework is on-going and expected to be completed in April 2016.

B. Component 4: Program Management and Administration

MDTF Phase II

A joint working team comprising development partners, PEFA officials, and World Bank staff was established to prepare Nepal Government's PFM reform strategy and action plan. The team was also given responsibility to help identify those areas where MDTF can best contribute. To assume this purpose, a consultant was hired under two distinct terms of reference: one for PFM reform strategy and action plan for the Government of Nepal and another for MDTF strategy and work plan. The Government is in the process of further developing the draft reform strategy and taking it forward for consultations with stakeholders (including development partners) and on to finalization.

Most development partners expressed readiness to continue funding for Phase 2 of the PFM MDTF. A procurement sub-project called Public Procurement Improvement Project (PIPP) has been identified as a potential sub-project for Phase 2 support.

Technical review meetings and Program Coordination Committee meetings

As established at the seventh Program Coordination Committee (PCC) meeting in September 2014, technical review meetings have been organized and conducted in an effort to provide open discussions on substantive PFM issues. Six technical review meetings have been held to date. All have been helpful in furthering the PFM MDTF agenda. The meetings are meant as a forum for more operational decision-making and less on strategic decisions such as work plan agreements and project approvals; these latter types of agenda are a mandate for PCC meetings, which are chaired by the Country Director and MDTF Program Manager as per the agreed authorization.

The technical review meetings are intended to be working-level brainstorming sessions, which feed into the PCC-level discussions. In light of these technical review meetings, the Operations Manual is being amended accordingly. As follow-up to technical review meetings on sub-project proposals, four virtual PCC review meetings were also organized to review the various sub-projects under preparation. Minutes of these meetings are available on the PFM MDTF Website: www.mdtfpfm.org.np.

PART III
FINANCIAL REPORT

As of December 31, 2015, the total pledged amount to PFM MDTF by its seven donors is US$20.41 million (Table 1). All donors have signed Administrative Agreements demonstrating their commitment to the PFM MDTF and its objectives. Current deposits — meaning funds received by the MDTF Administrator — stand at US$18.39 million, with the balance of pledged funds to be paid into the MDTF account, administered by the World Bank, as per the Administration Agreements.

The total disbursement as of December 31, 2015 is USD 10.51 million (about 51.5% of total fund receipt). For the further details refer to (Table 2) and (Figure 2).

Table 1: Donor Contribution to MDTF

Donor Name	Pledged Amount		Receipts as on December 31, 2015		Balance	
United Kingdom- Department for International Development (DFID)	GBP 3.5 m	Eqv. USD 5.57 m	GBP 3.5 m	Eqv. USD 5.57 m	-	-
Norway- Ministry of Foreign Affairs	NOK 15.0 m	Eqv. USD 2.61 m	NOK 15 m	Eqv. USD 2.61 m	-	-
Denmark- Royal Ministry of Foreign Affairs	DKK 2.0 m	Eqv. USD 0.38 m	DKK 2.0 m	Eqv. USD 0.38 m	-	-
Australia- Department of Foreign Affairs and Trade	AUD 2.85 m	Eqv. USD 2.99 m	AUD 2.85 m	Eqv. USD 2.99 m	-	-
EU- Commission of the European Communities	EUR 4.5 m	Eqv. USD 5.10 m	EUR 4.05 m	Eqv. USD 5.10 m	EUR 0.45 m	Eqv. USD 0.49 m
Swiss State Secretariat for Economic Affairs (SECO)	CHF 3.0 m	Eqv. USD 3.05 m	CHF 1.0 m	Eqv. USD 1.02 m	CHF 2.0 m	Eqv. USD 2.06 m
United States Agency for International Development (USAID)	USD 0.71 m	Eqv. USD 0.71m	USD 0.71 m	Eqv. USD 0.71m	-	-

Note:
GBP = British pound; NOK = Norwegian krone; DKK = Denmark krone; AUD = Australian dollar; CHF = Swiss franc; and USD = United States dollar

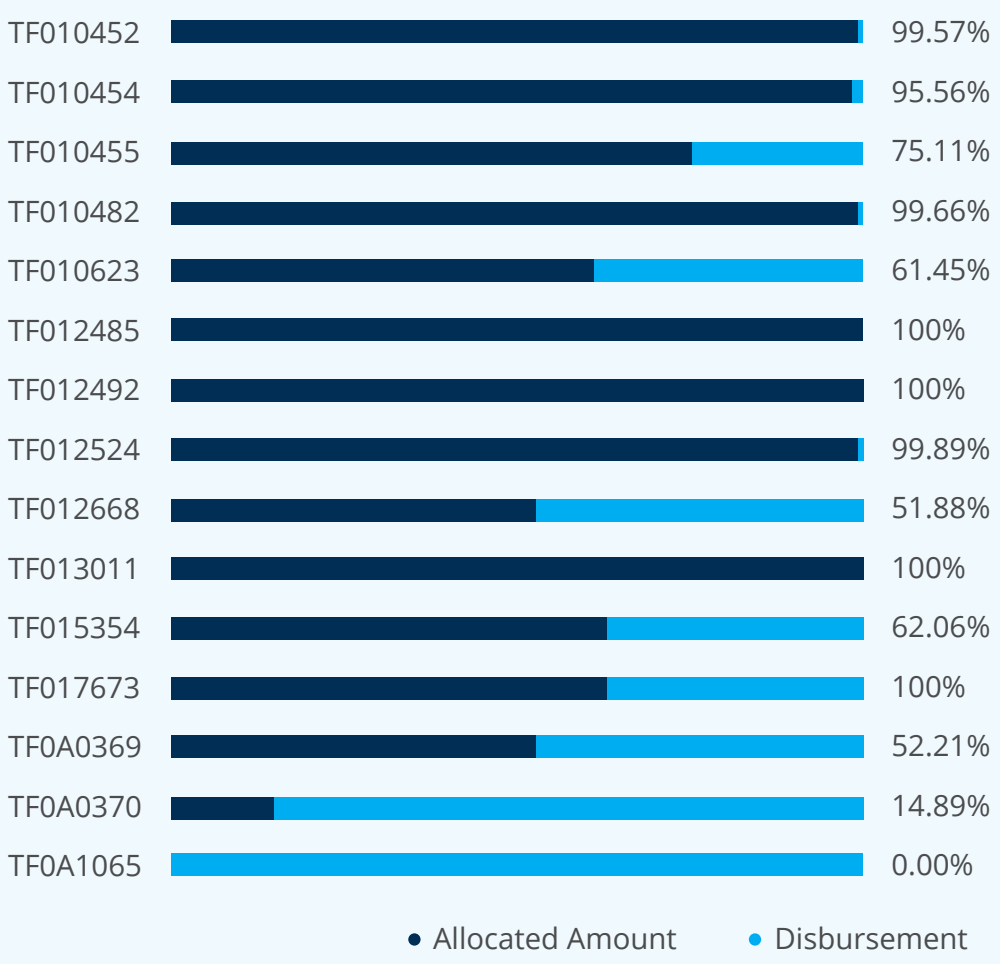
Table 2: Disbursement as of Dec 31, 2015

Grant Number	Grant Name	Grant Closing Date	Grant Amount USD	Disbursements USD	% Disbursed	Fund Balance USD	Commitments USD	Available Balance USD
TF010452	Strengthening Public Financial Management (PFM) System (Treasury System, Financial Reporting and PFM Capacity Building)	6/30/2016	4,300,000.00	4,281,528.06	99.57	18,471.94	18,471.94	0.00
TF010454	Preparation, appraisal, supervision, monitoring, reporting costs of Strengthening PFM Systems	6/30/2017	350,000.00	334,447.52	95.56	15,552.48	-	15,503.50
TF010455	Strengthening the Office of the Auditor General Project	6/30/2016	2,300,000.00	1,727,511.09	75.11	572,488.91	572,488.91	-
TF010482	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	6/30/2016	185,000.00	184,379.91	99.66	620.09	-	620.09
TF010623	Program Management and Administration Costs.	6/30/2017	585,411.39	359,723.23	61.45	225,688.16	20,205.09	205,483.07
TF012485	Strengthening Civil Society Organisations' use of Social Accountability to improve Public Financial Management in Nepal	9/30/2014	800,000	800,000	100.00	0	0	
TF012492	NP ED PETS	12/31/2014	148,346.99	148,346.99	100.00	0	0	
TF012524	Strengthening Civil Society Organisations' Use of Social Accountability to Improve Public Financial Management in Nepal	11/30/2015	700,000.00	699,217.96	99.89	782.04	782.04	0.00
TF012668	NLTA under the SPFM Project to Govt of Nepal	6/30/2017	500,000.00	259,378.76	51.88	240,621.24	31,098.28	209,522.96
TF013011	Operational Risk Assessment of PFM reform in Nepal	6/30/2013	199,983.75	199,983.75	100.00	0	0	
TF015354	Nepal: Strengthening Budgeting Process	6/30/2016	905,000.00	561,627.35	62.06	343,372.65	122,291.27	221,081.38
TF017673	Nepal ROSC A&A	6/30/2015	7,720.19	7,720.19	100.00	-	-	-
TF0A0369	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	12/31/2016	950,000.00	495,979.84	52.21	454,020.16	454,020.16	-
TF0A0370	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	12/31/2016	550,000.00	81,872.16	14.89	468,127.84	328,915.29	139,212.55
TF0A1065	Nepal : Strengthening Public Financial Management II	7/31/2017	3,680,000.00	-	0.00	3,680,000.00	3,680,000.00	-
	TF Admin Fee		367,900.12	367,900.12	100.00	0.00	0.00	0.00
	Unallocated from the Paid in Funds		3,883,213.31		0.00	3,883,213.31	0	3,883,213.31
	Total		20,412,575.75	10,509,616.93	51.5	9,902,958.82	5,228,272.98	4,674,685.84

Notes:

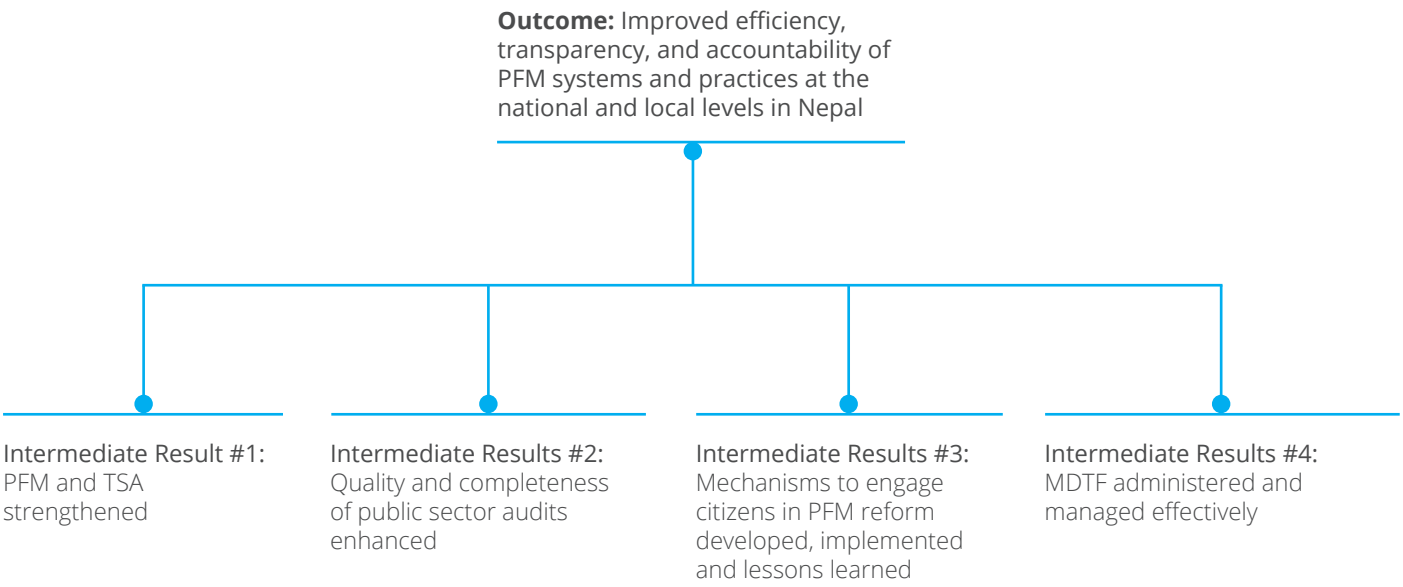
1. This statement is prepared on the modified cash basis of accounting.
2. Investment income is not credited to any trust fund where the daily fund balance is less than USD equivalent $5,000.
3. Other costs (where applicable) represent all disbursements incurred prior to July 2000.
4. Administrative fees are generally collected from the trust fund in the same month in which contributions are received, however for administrative purposes, collection of fees may occur in the month following receipt of the contribution.
5. Amounts committed relate to the amounts yet to be disbursed for active and pending recipient executed grant agreements and the undisbursed balance of bank executed trust funds.
6. Where applicable, amounts displayed against "staff costs (including benefits)" and "consultant fees" include charges to cover the cost of benefits and general communication, facilities and IT costs unless otherwise specified in the Administration Agreement for the Trust Fund.

Figure 2: Activity-wise Allocation and Disbursement



ANNEX A: **Results Framework**

Strengthening Public Financial Management of the Government of Nepal
Results Chain for the Nepal Multi-Donor Trust Fund (MDTF)
(Prepared by Nepal MDTF Program Management)



Results Chain for MDTF

Outcome	Indicators	Baselines and Targets	Status Update
Improved efficiency, transparency, and accountability of PFM systems and practices at the national and local levels in Nepal	Efficiency: Reduction in the percentage of capital budget executed in the fourth quarter of the fiscal year	Baseline: 70% (2011) Target: 60% (2015)	The major earthquake and the unofficial economic blockade after affected the flow of funds in last quarter of FY 2015.
	Transparency: Number of sectors for which information on budget allocation and expenditures are made available to the public	Baseline: No information on budget allocation and expenditure of sector ministries available to the public (2011) Target: Information on budget allocation and expenditure in 2 sector ministries made public by June 2015	FCGO has enhanced BER monthly reports to contain budget and variance information, effective late 2013; and monthly and quarterly reports are being published on the web --monthly reports before the 7th of the following month and quarterly reports before the 15th of the month following the end of the quarter.
	Accountability (a): Time for submission of audit reports to the legislature (in months).	Baseline: 12 months from the end of period covered (for audit of financial statements from their receipt by the auditors) Target: 8 months from end of period covered (in the case of financial statements from their receipt by the audit office)	The Auditor General submitted the FY2013/14 audited financial statements within 9 months of the end of fiscal year in April 2015.
	Accountability (b): Percentage of individuals getting the right amount of entitlements at the right time in 80 VDCs of the 10 targeted districts	Baseline: 0 (2013) Target: 75% (2014)	Done (Project Closed)

Intermediate Results (IR)	Indicator	Baseline and Targets	Status Update
IR #1: PFM and treasury systems strengthened	Number of districts in which TSA system is implemented.	Baseline: 8 districts (2011) Target: 75 districts (July 2014)	TSA has been rolled out across all 75 districts in Nepal with effect from July 2013 and operating on an on-line basis.
	Reduction in percentage of bank accounts maintained by spending units.	Baseline: 14,000 accounts in existence (2011) Target: At least 75% of bank accounts reduced compared to baseline (June 2015)	About 13,500 bank accounts have been closed so far. Analysis has been undertaken as to how further rationalize the bank accounts under a specific activity in the follow-up project.
IR #2: Quality and completeness of public sector audits enhanced[1]	Increase in the number of audits of Financial Statement as Per ISSAI.	Baseline: Nil (2011) Target: 7 (June 2015)	Achieved Audit of 7 Units undertaken. These include 2 DDC, 1 PE, 1 Board, 1 Committee and 2 Ministries.
	Increase in the frequency of performance audit reports meeting quality and completeness criteria set by OAG	Baseline: One per year (2011) Target: 3 per year (June 2015)	Achieved The Performance Audits include two each in Local Development Department, Health Sector and Infrastructure project sector.

[1] On March 4th, 2015, the Result Framework for the Capacity Building of OAGN Project was revised. The indicators are taken from the revised framework.

Intermediate Results (IR)	Indicator	Baseline and Targets	Status Update
IR # 3: Mechanisms to engage citizens in PFM reform developed and implemented, and lessons learned.	Increase in the number of independent budget analyses at national-level conducted and shared by social accountability grantees	Baseline: 0 (2013) Target: 3 (June 2014)	Done (Project Closed)
	Number of VDCs in which social security allowance expenditure is tracked	Baseline: 0 (2013) Target: 60 VDCs (June 2014)	Done (Project Closed)
IR #4: MDTF administered and managed effectively	Functional M&E system for the MDTF program established.	Baseline: No program results indictors in place (2011). Target: Program results indicators monitored and reported (2014).	MDTF Program Results Framework agreed on and adopted (September 2013). Program results indicators monitored and reported through 6 monthly progress reports.
	MDTF work program results and reports disseminated	Baseline: No organized system in place for the dissemination of program results and reports (2011). Target: Program results and reports uploaded and disseminated through a program website (2014).	MDTF website effective from October 2013. Website updated regularly with relevant reports, newsletters, and project documents. In future a potential Phase II will require MDTF Program Results Framework to be updated.

ANNEX B: **Demand Side**

List of CSOs under PRAN 2

1.	Bajura	Dalit Empowerment Centre	9.	Saptari	Mahuli Community Development Centre
		Human Society for Poor Upheaval Sacrifice			Janchetana Dalit Sangam
2.	Kailali	Rastriya Dalit Network	10.	Siraha	Mahila Udhhar Sewa Kendra
		Kamaiya Pratha Unmulan Samaj			Dalit Samaj Sewa Sangh
3.	Dang	Social Institution for Skill Employment and Awareness	11.	Dhanusha	Janaki Woman Awareness Society
		Society for Environment Educations Development			Rural Development Foundation
4.	Rolpa	People's Oriented Service Centre	12.	Bara	Rural Region and Agro-Forestry Development Centre
		Human Rights Awareness Centre			Jana Jagaran Youth Club
5.	Gorkha	UN Nepal	13.	Banke	Bageswori Asal Sashan Club
		Awareness Group of Oppressed Women			Human Rights Protection and Legal Service Center
6.	Kapilvastu	Shisawa Community Development Centre	14.	Bardiya	Geruwa Rural Awareness Association
		Kalika Sel-reliance Social Centre			Manpur Yuba Samaj
7.	Palpa	Libration of Oppressed Development Centre	15.	Bajhang	Sahara Nepal
		Social Resource development Centre			Saipal Bikas Samaj
8.	Dhankuta	Human Rights Social Awareness and Development Centre			
		Woman Empowerment Support Team			

ANNEX C: **Project Data**

Table C.1: Strengthening PFM System Project

Project name	Strengthening Public Financial Management Systems
Grant amount	US$ 5.15 million
Duration	October 31, 2011-June 30, 2016
Implementing agency	FCGO
Objective	The development objective is to improve expenditure control and enhance government accountability and transparency by strengthening treasury system, improving financial reporting and building up PFM capacity. The project is expected to improve controls in public expenditure management and budget monitoring of Government of Nepal. The components of this project are (a) Implementation of TSA system; (b) Enhancing government accounting and reporting practices (c) supporting capacity of the PEFA secretariat, (d) project management.
Disbursement	US$ 5.0 million
Status of disbursement	On track
Results achieved	• Most important achievement of the Financial Comptroller General Office (FCGO) is the business continuity of the single treasury system of accounts (TSA) system following the earthquake in April/May 2015. The TSA system continues to be sustained well in spite of poor infrastructure, frequent power cuts, staff transfers, and connectivity issues. • Successful implementation of the TSA system is evident in the entire PFM cycle that contributed to an upgrade in several of Public Expenditure Financial Accountability (PEFA) II ratings (Nineteen indicators have been upgraded. • Final Phase 2 PFM Reform Action Plan has been approved by the National Steering Committee with technical support from SPFM. • Key investment to expand and sustain treasury single account infrastructure has been finalized, and procurement process has begun. Critical procurement likely to be awarded by early April 2016. • Systems to improve revenue management have been implemented in 15 districts with a coverage of 90 percent revenue from the start of this year which have improved the reconciliation processes and improved the control environment. • The commitment module rollout has begun, although the design and business process needs to be further improved upon to realize the full benefits. • Following successful completion of two pilots of Nepal Public Sector Accounting Standards (NPSAS), on July 22, 2015, a directive was issued to all line ministries asking them to prepare NPSAS-compliant financial statements (NPSAS Steering Committee reactivated on September 4, 2015). Another eight ministries have prepared NPSAS based financial statements which are under review by AGO. • Five research studies have been completed in this fiscal. Work has begun to consolidate future research work and one of the option being considered is the "PFM challenges in proposed fiscal federalism in Nepal". • An MoU with Association of Chartered Accountants (ACCA) has been signed for running structured PFM courses in collaboration with National Admin Staff College (NASC). The necessary preparation for the face-to-face training course has been completed and is due to start in March 2016. The course will lead to an internationally accredited degree with an initial target of 30 PFM staff within the Nepalese Government.

Table C.2: Strengthening CSOs Use of Social Accountability to improve PFM

Project name	Strengthening CSO Use of Social Accountability to Improve PFM Nepal
Grant amount	US$ 3.0 million (Recipient executed USD 1.75 million and USD 1.25 million Bank executed)
Duration	August 30, 2012 –December 31, 2016
Implementing agency	Centre for International Studies and Cooperation(CECI)
Objective	The development objectives are to strengthen the transparency, efficiency, and inclusiveness of three specific areas of PFM in 10 districts of Nepal through fostering the use of different social accountability approaches by Nepali CSOs. The three PFM areas are (a) national budget planning, dissemination, and analysis; (b) local (district, municipal, and village) budget planning, dissemination, and analysis; and (c) local monitoring of procurement, budget execution, and service performance.
Disbursement	US$ 1.3 million
Status of disbursement	On track
Results achieved	• PRAN 2 began its demand-side public financial management activities in July 2015 in 15 districts, including Saptari, Gorkha, Bajura, Rolpa, Banke, Dhanusha, Kapilvastu, Bardiya, Palpa, Dhankuta, Siraha, Dang, Bajhang, Bara and Kailali. Multi-stakeholder Knowledge Forum on Social Accountability • Orientation workshop for 30 CSOs from the 15 districts on how to implement accountability tools in PFM at the local level and how best to align the work with the Local Governance and Community Development Program (LGCDP)/ Ministry of Federal Affairs and Local Development (MoFALD). Strengthening of CSOs Phase 2 Additional Financing Concept Note • Training of CSOs from Palpa, Rolpa, Dang, Kapilbastu, Kailali and Bajura districts on the function of the Treasury Single Account (TSA) and how this could contribute in tracking budgetary release and expenditures at the District Development Committee (DDC) and Village Development Committee (VDC) levels. • South-South Knowledge Exchange between OAGN and the Commission of Audit (COA) of the Philippines on advancing public participation in performance audit • August to November 2015 survey on the performance of Social Mobilizers from 300 VDCs • Media workshop for media practitioners to build capacity of the local reporters on budgetary issues and entitlements at the local level so that they would in turn inform the citizens about their entitlements.

Table C.3: Strengthening OAG Project

Project name	Strengthening the Office of the Auditor General Project
Grant amount	US$ 2.46 million
Duration	February 23, 2012 – June 30, 2016
Implementing agency	Office of Auditor General, Nepal
Objective	The development objectives of the SOAG Project are to enhance the quality and impact of public sector audit in Nepal.
Disbursement	US$ 1.73 million
Status of disbursement	On track
Results achieved	• Risk-based audit planning according to ISSAI framework of risk-based audit. • Financial Audit Manual and Audit Working Papers approved by OAGN and translated in Nepalese Language. • 28 Financial Audit Assignments completed and FAM, AWP, NAMS and CAATs tested on ground. • 30 officials of OAGN and 15 officials of FCGO provided ToT training in FAM. • 181 officials training in NAMS. • Performance Audit Manual updated with the help of SAI Norway. • Peer to peer Review of SAI India using the Performance Management Framework. • Strategic Plan for OAGN completed. • Three additional Performance Audits completed. • 17 official's trained in Disaster Management Audit (ISSAI 5000) in Pakistan. • Funded the visit of OAG and three senior OAGN officials to for study trip to Philippines to observe Citizen Participatory Audits. • Workshop on Financial and Performance audit methodology. • IT strategic Plan and implementation of NAMS and CAATS. • Support to OAGN in reallocating to the new office premises after destruction of the earth quakes.

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