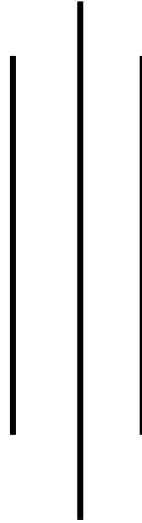
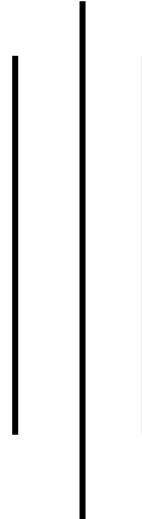


**Nepal Integrated Public Financial Management Reform Project
(IPFMRP)**



Project Operation Guidelines



Public Expenditure and Financial Accountability Secretariat

September 17, 2018

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Nepal Integrated Public Financial Management Reform Project (IPFMRP) Project Operations Guideline

Introduction

1. The primary objective of this Project Operation Guidelines is to define the governance structure, operating principles, guidelines and procedures for the day-to-day operations of the Integrated Public Financial Management Reform Project (IPFMRP). The document intends to provide implementation guidelines to relevant implementing agencies (IAs) of the project to manage all the sub-projects efficiently and effectively, thereby paving the path to achieve the targeted results in a sustainable way. This Operations Guidelines is not a legal document. In case of conflict, the terms set out in the Legal Agreement take precedence over the Operations Guidelines.
2. The Guideline will serve as a reference to implement any task identified under the project, in line with the overall procedures set up by the Government of Nepal. All IAs will use this document for all major activities and sub components in line with procedures and systems of GoN and the World Bank.

Context of IPFMRP

3. Public financial management (PFM) is key to the Government of Nepal's strategy for ensuring effective resource allocation, strengthening public service delivery, and creating inclusive and broad-based development. Aligned with these objectives, in August 2009 the government prepared Phase I of a PFM Reform Program. After the second PEFA Assessment conducted in 2014/15 the second phase PFM Reform Strategy/Program (FY16/17-25/26) that aims to achieve 8 outcomes.¹ To implement this strategy GoN has prepared a concept of integrated project focusing its downstream PFM processes and system. These were undertaken with the objective of ensuring a transparent, efficient, economical and accountable use of public resources. As part of its reform effort, the Government of Nepal in 2009 established a PFM Steering Committee as an apex body and set up a PEFA Secretariat after the first PEFA assessments in 2008.
4. The PFM agenda has also been a top priority for development partners to promote efficient and effective public service delivery. A World Bank-administered Multi-Donor Trust Fund (MDTF) was established in 2010.² Underscored by the government's strategy, MDTF focuses on 3 priority outcomes at the three levels of government. These outcomes are (a) strengthened efficiency and results orientation of the budget cycle at federal and subnational levels, evidenced by improvement in the capital budget execution rate and tax collection and supported by improved tax administration processes and efficient PFM-related IT systems; (b) increased professional capacity of key PFM stakeholders, improving capacity-building institutions, and enhancing capacity of the PEFA Secretariat to design, manage, and coordinate PFM reform; and (c) enhanced PFM accountability by means of a strengthened external audit function, increased

¹ Outcome 1, Improved budget credibility; Outcome 2, Improved comprehensiveness and transparency of the budget; Outcome 3, Improved policy-based budgeting; Outcome 4, Predictability and control in budget execution; Outcome 5, Improved accounting, recording, and reporting; Outcome 6, External scrutiny and audit; Outcome 7, Improved human resource management for PFM; and Outcome 8: Improved donor practices.

² Currently there are 6 MDTF donors: European Union (EU), UK Department for International Development (DFID), Government of the Swiss Confederation, Government of Norway, Australian Government Department of Foreign Affairs and Trade (DFAT), and United States Agency for International Development (USAID).

transparency and citizen participation in the budget process, and increased involvement of relevant Parliamentary committees and oversight bodies. Project activities closely align with these priority areas.

5. With the objective of implementing the second phase reform strategy, GoN has proposed IPFMRP implemented through multiple agencies and the World Bank agrees to finance the project through the MDTF fund aligned with PFM MDTF Strategy (2017-2020). The project aims to provides technical assistance to help to implement new policy framework, builds the capacity of key PFM institutions and establishing basics systems, processes, and capacity at the subnational level. The GoN and WB signs an agreement of the project on 24th of August 2018.

Project Objectives

6. Strengthening the effectiveness of selected PFM institutions and procurement institutions, systems and procedures at the federal and subnational levels.

PDO Level Results Indicators

7. The project consists of four major result indicator as follows linked with PDO;
 - (i) Contracts awarded within the initial bid validity period by 5 key sector agencies and selected SNGs
 - (ii) Improved aggregate capital budget out-turns at the federal level
 - (iii) Comprehensive accounting and reporting procedures in place in Federal and SNGs
 - (iv) Improved audit planning and quality management for audit of federal and sub-national entities.

Project Overview

8. The project supports high-priorities of PFM, procurement and external audit as mentioned in the PFM II (2016/17-2025/26) and its design is anchored on the principles of (a) basics first, focusing on core reforms to build a strong foundation and address fundamental weaknesses in the core PFM architecture; (b) instrumentalism, whereby the design will build on the successes of MDTF-funded projects in a logical sequence; (c) flexibility in resource allocation to support emerging PFM areas in the new federal structure that could result in high fiscal risks, if unaddressed; and (d) functional and behavioral improvements in PFM areas of continuous reforms. The project is organized around four complementary components: (a) strengthening public expenditure and revenue management in federal and subnational government; (b) strengthening the office of the auditor general; (c) Improving the public procurement; and (d) PFM reform management and coordination.

Project Description

9. **Component 1: Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments (US\$7 million):** This component aims to (a) establish the fundamental processes that will improve the reliability and credibility of both the annual budgeting framework and medium-term expenditure framework (MTEF); (b) establish a coherent

and improved PFM framework across all three tiers of government; (c) enhance knowledge and build a roadmap to strengthen the taxation institutions and the systems to enhance transparency and effectiveness of assessments and collection; and (d) establish sustainable PFM training arrangements. The main coordinating agency for this component will be the PEFA Secretariat that will coordinate with responsible government agencies to implement this component.

9.1 *Subcomponent 1.1, Enhance budgeting and revenue management (US\$1,790,000)*. Unless the federal and subnational budgets are closely aligned with the Government development plans, the desired development outcomes will fail to materialize. This subcomponent aims to establish the overall framework, processes, and analytical models for a structured approach to annual and medium-term budgeting and expenditure framework at the federal and subnational levels. The subcomponent also aims to carry out the groundwork necessary to enhance revenue management in the federal structure.

- a. The activities under this subcomponent focuses on (a) top-down support to establish an MTEF at the federal level; (b) preparation of basic MTEF templates and guidance notes, budgeting; and planning model guidelines and manuals, including gender-responsive budgeting procedures for the subnational level; (b) improvements in the budget ceiling-setting process; (c) updating the budget calendar to bring consistency across the three level of government; (d) improvements in revenue forecasting processes; and (e) introducing policies and procedures for extra-budgetary activities with an aim to reduce them.
- b. This subcomponent will also support an assessment to be carried out to identify the steps required to (a) strengthen the taxation institutions and systems; (b) enhance transparency and effectiveness of tax assessments and tax collection; (c) improve communication to taxpayers; (d) enhance tax investigation; and (e) improve knowledge of the types of revenue and bottlenecks for effective revenue management at subnational governments; As part of the study, the legal framework will also be revisited; and expanding the use of IT systems for revenue administration will be explored.
- c. The lead coordinating agency for this subcomponent will be the PEFA Secretariat that will facilitate the agencies responsible for the technical work (examples, the National Planning Commission, Budget and Revenue Divisions of Ministry of Finance) and coordinate with Ministry of Federal Affairs and General Administration for subnational-level activities.

9.2 *Subcomponent 1.2, Strengthen fiscal reporting and controls (US\$4,080,000)*. The aim of this subcomponent is to establish uniform processes and systems and build on existing reforms to improve financial reporting, internal controls, and internal audit; and strengthen the IT foundation.

- a. To strengthening fiscal reporting, the subcomponent supports (a) preparing consolidated financial statements at the federal level following the national accounting standards prescribed for the public sector (aligned with international standards) in a timely manner by developing policies and procedures to improve the consolidation process; (b) revising ICAN curriculum to include public sector reporting aspects; (c) improving and simplifying chart of accounts for greater alignment with the Government Financial Statistics Manual 2014 and introducing a uniform chart of accounts to all levels of government; (d) supporting NFRS implementation in autonomous government agencies and state-owned

enterprises (SOEs); (e) strengthening ICAN training capacity to deliver NFRS training; (g) preparing analytical framework on use of financial/management reporting, generating information for decision-making, and training decision-makers on use of management report as a decision support tool; (h) introducing reporting formats, model accounting and reporting manuals, and developing a basic accounting and reporting IT system for subnational governments where roll-out will use largely government funds.

- b. The subcomponent will support the Government of Nepal to develop and implement robust internal control rules and guidelines and modernize the internal audit function by (a) preparing federal internal control guidelines; (b) preparing SNG internal control model manuals; (c) carrying out an internal audit capability assessment and designing an internal audit institutional framework; (d) preparing and implementing internal audit standards; and (e) training of internal auditors on the job and professionalize internal auditors.
- c. To strengthen fiscal reporting and improve controls, the subcomponent also supports strengthening the currently fragmented IT systems and infrastructure. Toward this objective, the subcomponent will (a) review the entire PFM IT architecture and develop a roadmap toward establishing IFMIS, underpinned by the review; (b) support implementation of this roadmap to develop IFMIS and pilot test in a couple of sites; (c) train end-users on manuals, procedures, and systems; (d) provide ongoing technical support; (e) improve IT security systems; (f) develop PFM related IT policies and a sustainability plan; (g) acquire hardware, including servers, to enhance the primary and secondary data center operations, disaster recovery, and network connectivity; (h) consolidate TSA architecture across all tiers of government; and (i) introduce reporting tools and support use of fiscal information by decision-makers and citizens. The review of the PFM IT architecture and coverage of IFMIS will have a wide scope, including PFM systems used in main service delivery units in health and education, reconstruction activities, and systems for enhancing PAC oversight functions.
- d. A phased approach will be used to develop IFMIS, focusing on core systems as an immediate priority. The IFMIS will either entail integrating and interfacing existing systems or implementing a new commercial off-the-shelf package as determined by an IFMIS study. This subcomponent will be led by PEFA and coordinated with FCGO. Support to subnational governments will be coordinated through Ministry of Federal Affairs and General Administration.

9.3 *Subcomponent 1.3, Strengthen PFM training capacity (US\$1,130,000)*. Several institutions are carrying out PFM training on a piece-meal basis and in an unsustainable manner. This subcomponent aims to introduce a structured and sustainable approach to PFM training. This subcomponent supports the other subcomponents of the project by mainstreaming one-off on-the-job training to roll out reforms. Activities include (a) preparing a comprehensive training strategy and priority-based plan underpinned by a training needs analysis with both the strategy and the analysis having a gender focus; (b) establishing and implementing a sustainable organizational mechanism for delivering training in a coherent manner guided by good practices from other countries; (c) building training capacity; (d) developing training plans, training courses, and training material; (e) instructing resource persons; (f) strengthening institutions to deliver PFM training; and (g) entering memoranda of understanding with specialized training institutions, such as ICAN, to offer professionally accredited courses. Coverage for needs assessment and possible courses will offer upstream PFM training to MoF staff on MTFF, MTBF, financial reporting, controls, internal audit, as well as training of PAC members on scrutiny of audit reports and use of IT systems for close monitoring of public finances.

- a. Strengthening PFM training arrangements at subnational level will be integrated under this broad umbrella of overall PFM training. The SNG-level training institutions will be strengthened, SNG-suitable training courses will be developed, and training-of-trainers will be carried out. The PEFA Secretariat will implement the subcomponent with support from Ministry of Finance, FCGO, and the PAC Secretariat. Ministry of Federal Affairs and General Administration will play a role for subnational-level interventions.

10. **Component 2. Strengthening the Office of the Auditor General (US\$4 million):** The SOAGN Component will follow up and build on results obtained from phase I, which closed on June 30, 2016. The component is aimed at (a) enhancing audit quality and reliability through implementation of ISSAI and its extension to financial audit of subnational governments; (b) sustaining reforms through enhanced use of IT tools for planning, execution, and follow-up of audits; and (c) supporting in-depth citizen participatory performance audits. Because of SOAGN I, best practice guides and tools have been developed. For phase II, sufficient groundwork has been completed to move forward with activities that demonstrate effectiveness and efficiency of OAGN.

10.1 Subcomponent 2.1, Enhancing audit quality and reliability in federal government and subnational entities (US\$1,450,000). Under this subcomponent, OAGN will be supported in a shift from entity-level audits to ministry-level financial statement audits through a risk-based planning approach aligned with ISSAI. OAGN will prioritize audits in accordance with an ISSAI-compliant, risk-based model, which will therefore assist OAGN to meet the expanded scope and cope with the new challenges of auditing of subnational governments. Groundwork has been laid for risk-based annual audit cycle planning methodology as it is fully incorporated in the software for the Nepal Audit Management System (NAMS). It is expected that with support from activities under subcomponent 1.2 most ministries and agencies will be able to prepare their own NPSAS-based financial statements. Support will be provided to OAGN to set up a Center of Excellence for continuous training of auditors. The curriculum and learning modules will aim to comply with the International Education Standards issued by the International Accounting Education Standards Board. Training tools will be developed as well as a quality assurance review process for training delivered. Manual and guidelines to strengthen audit planning, execution, reporting, and quality assurance will be updated and tailored to suit risk-based SNG audits.

10.2 Subcomponent 2.2, Enhancing the sustainability and use of IT tools for audit management (US\$1,527,000) The NAMS has been designed to enhance efficiency and effectiveness of the audit management process; however, its sustainability depends on many factors such as proper management and organization of the OAGN IT function, IT governance, security management, and allocation of adequate resources. This subcomponent will (a) build IT policies and functions of OAGN that ensures NAMS sustainability; (b) enhance capacity of federal-level auditors on use of computer-assisted auditing techniques (CAAT); and (c) expand use of NAMS and CAAT in provincial audit offices. The NAMS provides for creating a database of audit findings and observations, which would be constantly populated by ongoing field audits using electronic working papers. To ensure NAMS sustainability, support will under this subcomponent will strengthen its IT infrastructure, governance, and controls.

- a. The subcomponent will also support a CAAT center in OAGN to support auditors training in use of CAAT for data analysis, sampling, and identification of exceptions. This will build staff knowledge and skills capacity in conducting audits in IT environments such as

TSA as part of financial statement audit procedures. Use of CAAT and NAMS will be extended to provincial audit offices. Given the wide scope of work, such factors as economy, efficiency, and effectiveness can only be ensured through use of technology and adopting innovative approaches. The OAGN plans to establish a two-way citizen feedback system through innovative use of IT solutions. Software will also be developed to enhance collaboration with stakeholders. This will include up-grading the OAGN website to enable citizen engagement and implementing a grievance redressal system and a monitoring system of field auditors at the center and in provinces.

10.3 Subcomponent 2.3, Citizen participatory performance audits (US\$1,023,000). The OAGN Strategic Plan includes citizen participatory audit as a priority area. Under this subcomponent, necessary steps will be taken to increase the share of performance audits as compared to financial and compliance audits with the aim of gradually meeting INTOSAI requirements. The subcomponent will support the development and implementation of intensive training in citizen participatory performance audit, both at federal and subnational levels, for OAGN staff, citizen-based organizations, and Public Accounts Committee. The subcomponent will leverage the performance audit methodology already developed with a view toward aligning it with the risk-based practices and ISSAI and applied to conduct in-depth performance audits on OAGN-chosen topics.

11. **Component 3: Public Procurement Improvement (US\$4 million):** The component aims to improve the performance of public procurement in five key sector agencies (KSAs) and basic processes in subnational governments. Main implementing agency for Component 3 is the PPMO. Where required, implementation will take place in close coordination and consultation with the 5 KSAs and subnational governments as appropriate.

11.1 Subcomponent 3.1, Public procurement governance and oversight (US\$974,000). This subcomponent aims to improve governance, accountability, and oversight of the public procurement system. Major activities are (a) strengthening PPMO to make better use of advanced procurement technologies such as e-GP and to improve research and analytical functions through substantial enhancement in its structure and operational model, including set up, type of staffing, capacity, skills mix, and inputs from consultants as and when necessary; (b) implementing complaints-handling mechanism; (c) supporting post-procurement review by OAGN; (d) introducing public disclosure of bid invitations and bidding outcomes with brief reasons for bid rejection as well as disclosure of procurement processes and plans, validity of contract data, and red flags in procurement; (e) implementing demand side of good governance, including citizen engagement, and possible third party monitoring; (f) influencing policy by updating secondary legislations; (g) standardizing procurement procedures; (h) updating standard bidding documents, including preparation of remaining model documents; and (i) preparing bid evaluation guidelines, contract management manual, and technical notes, including specific to sectoral needs. Main SNG-level activities will include developing guidelines, manuals, and appropriate small-value procurement documents; and drafting regulations, as necessary.

11.2 Subcomponent 3.2, Procurement capacity development and professionalization (US\$ 2,602,000). This subcomponent will help mainly the five KSAs and selected subnational governments, identified in consultation with PPMO, to improve organizational capacity with a view toward enhancing their performance in conducting and managing procurement. The focus would be on progressive institutionalization and professionalization with greater sustainability of the capacity development program.

- a. This subcomponent would help improve KSA-level procurement management by (a) operationalizing dedicated and functional procurement units; (b) strengthening procurement units with qualified staff and equipment; (c) reinforcing KSAs internal review of procurement; (d) institutionalizing procurement management capacity by designing and implementing long- and short-term training courses to targeted audiences (i.e., policy-level and entry civil servants, procurement officers, auditors and accountants, bidding community, journalists, e-procurement learning); (e) introducing international procurement accreditation programs and establishing other testing and certification programs; (f) engaging citizens in monitoring of public procurement; (g) introducing behavioral change and improving communication with stakeholders by formation of citizen engagement forum; and (h) developing a communications strategy and awareness program for agencies/beneficiaries, education program, advocacy campaign at decentralized grass-root levels, social media campaign, engagement of beneficiary groups, and possible government-contractors forum.

- b. In addition, the sub component will build SNG capacity by (a) framing local government procurement regulations; (b) extending discourse on effective procurement practices; and (c) building local-level training capacity by making certified public procurement trainers available at local levels. Capacity building of public procurement will also extend to other key stakeholders and on e-GP training to bidders involved at local level. The sub component will promote the use of standard bidding documents in Nepali language.

- c. The subcomponent will support (a) main professionalization and capacity development programs; (b) operationalization of procurement units in KSAs; (c) twinning arrangements and exposure visits of key PPMO and KSA officials to the International Training Center of the ILO (ITC-ILO) in Turin, Italy, or similar institution to learn innovative and proven practices; and (d) international procurement accreditation program by the Chartered Institute of Procurement and Supply, UK. The main professionalization and capacity development program (four types) will be managed by PPMO through a contracting arrangement with ITC-ILO in collaboration with Nepal Administrative Staff College for participants from KSAs, other sector agencies, sub nationals, and private sector (if appropriate). Remaining 14-type training courses will be either directly managed by PPMO or through contracting arrangement with potential local institutes. The main four courses with ITC-ILO covers major training for procurement officials in goods, works, non-consulting, and consultant services (8-11 days); and procurement management training of PPMO and KSAs' key officials (two weeks). Remaining 14 types of training (1-5 days) including e-GP, will include class I/II/III officials; sub-national government officials; auditors/accountants; OAG officials; media/journalists; bidding community; etc.

11.3 Subcomponent 3.3, Performance monitoring with e-GP platform (US\$420,000). This subcomponent would help introduce enhanced features in the existing e-GP system of PPMO combined with monitoring and evaluation (M&E) of performance of the public procurement system. The performance measurement modules will be developed and integrated within the e-GP framework, including enhanced e-GP features and updating of existing contract management module, as may be necessary. The focus would be on performance measurement by developing a set of indicators. Indicators will measure efficiency, transparency, effectiveness, and value-for-money aspects of the public procurement system, including integrity aspects, particularly in five KSAs. Also, PPMO would have a dedicated wing for

research and analysis of those indicators, and the performance reports at national agency and SNG level would be published on the PPMO website.

12. **Component 4: PFM reform management and coordination (US\$3 million):** The aim of component 4 is to build the capacity of the PEFA Secretariat with required technical and project management skills to implement their broad mandate, carry out change management activities, form a clear citizens engagement strategy that cuts across all components, and finance day-to-day project management costs.

12.1 *Subcomponent 4.1, Strengthening the PEFA Secretariat and supporting project management (US\$1,600,000).* The aim of this subcomponent is to strengthen the PEFA Secretariat as the overall PFM reform coordinator and support project-specific administration, coordination, and M&E. Activities include (a) building PFM knowledge of PEFA Secretariat staff aligned with overall PFM training strategy; (b) supporting the Secretariat to carry out key research to inform PFM policy and institutional building; (c) strengthening project management skills of the PEFA Secretariat; (d) supporting the Secretariat to implement and update the PFM Reform Plan and implement a change management strategy; and (e) funding operating costs to coordinate project activities. The PEFA Secretariat will implement this subcomponent.

12.2 *Subcomponent 4.2, Citizens engagement in PFM reforms (US\$250,000).* The subcomponent will support the development and implementation of a citizen's engagement strategy on PFM-related activities. Entry points for citizen's engagement across the PFM system will be identified and formulated into a holistic strategy on citizen's engagement. OAGN and PPMO will have citizen engagement in their respective areas under component 2 and 3. The PEFA Secretariat will incorporate these activities in the overall strategy while the implementation responsibility of these citizen engagement activities will rest with OAGN and PPMO. The PEFA Secretariat will implement this subcomponent with support from the other implementing agencies.

12.3 *Subcomponent 4.3, Just-in-time interventions for federalization of PFM functions (US\$1,150,000).* The PFM rules, systems, and processes of subnational governments both at provincial and local levels are not comprehensively defined yet in the new federal structure. This subcomponent aims to support both federal and subnational governments with evolving institutional needs in performing PFM functions aligned to the project objective. A flexible approach will be adopted to align the operation to be in sync with a rapidly changing environment as the country transitions to a federal structure. Two primary categories of activities will be supported under this subcomponent: (a) developing systems, processes, and guidance to strengthen PFM at SNG level; and (b) providing urgent direct technical assistance through training and one-on-one guidance to subnational governments on a targeted basis. The Government of Nepal has already started deploying resources for regular training to subnational governments. This will be continued as the federal government rolls out the model laws and systems that the project will develop and support. Implementation will be led by the PEFA Secretariat and closely coordinated with the Ministry of Federal Affairs and General Administration and Ministry of Finance. Ministry of Federal Affairs and General Administration will provide the link between the federal government and subnational government while Ministry of Finance will provide the technical inputs and the PEFA Secretariat will coordinate and facilitate the work.

Implementation Arrangement

13. **Governance Structure:** The Ministry of Finance will be the recipient and executing agency for the project. The project will have three-layer governance structure: (a) PFM Steering Committee at strategic level, (b) PEFA Secretariat at coordination level, and (c) implementing agencies and their project teams at operational level. The structure is based on a broader implementation arrangement for the national integrated PFM reform program.
14. **PFM Steering Committee.** It is chaired by the MoF Secretary and comprises:
- | | |
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| 1. Secretary (Finance), Ministry of Finance | Chairman |
| 2. Secretary (Revenue), Ministry of Finance | Vice-Chairman |
| 3. Deputy Auditor General, Office of the Auditor General | Member |
| 4. Secretary (Responsible for Finance and Planning), Office of the Prime Minister and Council of Ministers | Member |
| 5. Financial Comptroller General, Financial Comptroller General Office | Member |
| 6. Secretary, National Natural Resource and Fiscal Commission | Member |
| 7. Secretary, National Planning Commission | Member |
| 8. Secretary, Public Procurement Monitoring Office | Member |
| 9. Secretary, Ministry of Federal Affairs and General Administration | Member |
| 10. Secretary, Ministry of Physical Infrastructure and Transport | Member |
| 11. Secretary, Ministry of Education, Science and Technology | Member |
| 12. Secretary, Ministry of Health and Population | Member |
| 13. Joint Secretary, Budget and Program Division, MOF | Member |
| 14. Joint Secretary. IECCD, MoF | Member |
| 15. Chairman, Transparency International Nepal | Member |
| 16. Chairman, FNCCI | Member |
| 17. Coordinator, PEFA Secretariat | Member Secretary |
15. The main functions of the PFM Steering Committee will be as following:
1. To adopt the one door policy for the Public financial Management Reform Programs for government of Nepal;
 2. To develop and to implement the policy, strategy, work-plan for overall and sectoral development of Public Financial Management;
 3. To provide necessary directions and policy guidance for effective and overall reform of Public Financial Management;
 4. To lead at policy level and to coordinate for the reform of Public Financial management of three tiers of government including public enterprises;
 5. To update the recent PFM performance assessment indicators and to make PFM reform development action plans relevant to date with monitoring its implementation;
 6. To design and implement or cause to design or implement programs necessary for Public Financial Management reforms;
 7. To approve reform projects, programs and budget for reforms as prepared and forwarded by the Secretariat;
 8. To facilitate and guidance the subnational PFM functions and process with uniform systems and procedures with policy level directions;

9. To monitor PFM reform programs funding from internal and development partners;
10. To perform any other required functions for assisting the policy, planning and programs for overall reforms in PFM related areas.

16. **PEFA Secretariat.**

The PEFA Secretariat will coordinate and facilitate the implementation of all components of the project. The Secretariat is led by Coordinator with a dedicated team of Member Secretary and project management staffs deputed by FCGO for overall coordination of the project activities. The Secretariat will coordinate the project implementation as follows;

- (a) **Prepare Budget and consolidate reports:** The operation of project will run through regular budgetary process of GoN. For this purpose the MOF has provided a dedicated budget sub-head no. 305320 as Public Financial Management Reform. This budget sub-head has included GoN funds and World Bank's MDTF reimbursable grant fund as of the ratio defined by project agreement. The Secretariat will consolidate annual work plans, proposed budget and will enter into the LMBIS system of MoF. The Secretariat will also consolidate procurement plans from other implementing agencies and communicate to the World Bank as required.
- (b) **Designated Account operation and Spending from this account:** The PEFA Secretariat will operate a Designated Account at Nepal Rastra Bank and maintained its accounts. This account will be operated by joint signature of PEFA Coordinator and Member Secretary. The account will be used for any required direct payments and transfer government treasury reimburse as per the provision of agreement. The IA needs to submit a request letter to the Secretariat for direct payments from the designated account.
- (c) **Reimbursement Request (Withdrawal Application) by the PEFA secretariat:** The Secretariat will be responsible for operation and payment from designated account and reimbursement to consolidated fund accounts for this project. The Secretariat will submit the withdrawal application to the World Bank supplementing with all the necessary testimonials for the expenditure made by all the IAs for program implementation complying with the project agreement and spending or payments under fixed ratio of GON source and MDTF grant source funding. In due process to carry out the arrangements for reimbursement, it will be the sole responsibility of the sub-entities to submit timely the details of programs, progress and the achievement details including other necessary documents related to expenditure on activities to the Secretariat.
- (d) **Preparation of Project Accounts:** The Secretariat will be responsible for preparing and submitting a consolidated project accounts of all the sub-projects implemented by IAs in annual basis (pre and post audited). For the same purpose, all the implementing agencies will assist the Secretariat through timely submission of their statements and documents.

17. **Role of implementing agencies:** The Implementing agencies should implement the respective activities as included in the PAD and annual budget and program by their own. For this purpose these agencies needs to function as follows;

- (a) **Budget Preparation:** All the concerned implementing agencies have to enter their own programs into LMBIS system. For this purpose each implementing agencies will have a subhead under the budget subhead 305120 for the project.

For the accounting purpose of budget release and expenditure management TSA system will be used for each implementing agencies through the designated DTCO.

- (b) **Operation of Approved budget and Program:** The programs included under the approved

budget should be implemented through approved procurement plan and plan of action. The operation of budget and program will be implemented complying the acts and rules of GoN and also following the World Bank guidelines as applicable. Each implementing agencies should prepare procurement plan and entered into the STEP (Systematic Tracking of Exchanges of Procurement) system governed by World Bank and provide updates of procurement steps as happened in the system. In case of the programs that required of getting no objection/approval of the World Bank, the process will be followed as stated in the project agreement. For this purpose the respective IAs can request directly to the bank or they may request to PEFA Secretariat for this. For such request, the Secretariat will coordinate with the World Bank with the appropriate means.

- (c) ***Comply agreement for incurring expenditures:*** All the Implementing agencies will have to comply the provision of grant agreement of IPFMRP and applicable World Bank guidelines as well as GoN rules and regulations. While making expenditure for the activities included in the project, the implementing agencies should follow the component/sub-component maintaining the ratio between GoN source and MDTF grant source. No program and activities can be performed which does not comply the agreements or WB/MDTF does not allow to perform from the fund..
- (d) ***Maintaining accounts and preparing reports:*** All the IAs should keep and maintain updated books of accounts of operation of programs and activities and expenditures incurred as per the GoN acts, rules, accounting guidelines and World Bank guidelines as provisioned in the IPFMRP agreement. In addition, these agencies will have to provide periodic expenditure reports to PEFA Secretariat, their own superior entities and concerned DTCO with performed reconciliation.
- (e) ***Reimbursement of the expenditure to GoN treasury account:*** All the implementing agencies should provide necessary statements and documents to PEFA Secretariat for timely realizing reimbursable expenditures incurred therein implementing activities included in the project agreement.
- (f) ***Internal control mechanism:*** All sub-project executing or implementing agencies are required to manage the proper internal control mechanism as per the current financial procedures of GoN towards the achievement of results mentioned in the project document and the intended result of second phase PFM reform strategy.
- (g) ***Internal Auditing:*** All the sub-project implementing agencies except OAGN are required to submit and presented their accounts and records related to sub-project implementation to the concerned DTCO for internal auditing. Any suggestions or recommendations of internal audit should be cleared immediately. Internal audit of OAGN will be carried out as of set practice of OAGN.
- (h) ***Final Auditing:*** All the sub-project are required to submit and presented their accounts and record related to sub-project implementation to the office of the Auditor General final for auditing and they should follow and execute the recommendations and suggestions thereby doing timely actions to clear the audit observations.
- (i) ***Conduction of project implementation units meeting:*** Each implementing agencies requires conducting project implementation meeting as required achieving the stated objectives under the project. The Secretariat will organize monthly PCC meeting attended by the chief of each implementation units.

Provision of Monitoring, Supervision and Evaluation:

18. The following provisions will be applicable for project monitoring and evaluations:
- (i) The PEFA Steering Committee will monitor and evaluate the project implementation status to ensure its progress as of the objectives and provide guidance and direction if required. In addition, the sub-projects implementation status will be monitored and supervised by the concerned accounts responsible officer of the implementing entity.
 - (ii) The supporting development partner, World Bank, could monitor, supervise and evaluate the project implementation status based on their assistance policy and procedures through their implementation review missions. At the end of the project, the World Bank may conduct ICR of the project by which the project can be evaluated and provide feedback for reform. The monitoring, supervision and evaluation will be coordinated by the PEFA Secretariat.
 - (iii) The result monitoring and evaluation framework laid out by the project document will measure the achievement of the project. The results framework of the project includes PDO result and intermediate results indicators. For each indicator, the results framework provides the baseline, end line, frequency of data collections, data source and methodology, and responsible institutions for data collection.

PEFA Secretariat will consolidate all M&E reports prepared by each IA and prepare a quarterly consolidated implementation progress report and will be shared with WB as agreed. Results monitoring and evaluation reports may also be discussed at the steering and working committee. The reports will highlight project achievements against the PDO, implementation progress and constraints, report on the progress of risk mitigation measures and propose measures to improve project performance. Each implementing agency may develop a monitoring strategy and use different methods such as routine monitoring or periodic reviews to closely monitor the progress towards achieving intended results. Each IA will manage reporting regularly to the Secretariat on implementation progress to facilitate the M&E coordination function of the Secretariat.

Responsible Implementing Agency and the Project Team:

19. Project teams will be formed (or a project focal person appointed if the volume of work is small) in each implementing agency consisting of their existing officials from planning, administration, finance and M&E sections. The role of the project team will be to provide keen attention to project work, liaise with the PEFA Secretariat on the respective project components and tasks and Plan, implement and regularly monitor activities. The following project team has been formed in each implementing agencies;

| Implementing Agency | Project Team Composition | Component |
|---|--|-----------|
| Office of the Auditor General | (1) Coordinator - Deputy Auditor General (2) Members (three) – Directors (3) Member Secretary – Director internal administration section | 2 |
| Public Procurement Monitoring Office | (1) Coordinator – Joint Secretary (Planning Division) (2) Members (5) – Directors (3) Member Secretary – Accounts Officer | 3 |
| Ministry of Finance | (1) Coordinator – Joint Secretary (Budget) (2) Member – Under Secretary (Budget) (3) Member – Under Secretary (Revenue) (4) Member – Under Secretary (IECCD) (5) Member Secretary – Under Secretary (Accounts) | 1 |
| National Planning | (1) Coordinator – Joint Secretary (Governance & Social | 1 |

| | | |
|--|---|-------|
| Commission | development division) (2) Member – Program Director (Administration section) (3) Member – Program Director (Economic analysis and planning section) (4) Member – Program Director (Monitoring and Evaluation section) (5) Member Secretary – Under Secretary (Accounts) | |
| Public Accounts Committee | (1) Coordinator – Joint Secretary (PAC Secretariat) (2) Member (3) – Under Secretary (PAC Secretariat) (3) Member Secretary – Under Secretary (Accounts) Parliament secretariat | 1 |
| FCGO | (1) Coordinator – JFCG (Administration and Planning division) (2) Member – DFCG (HRD, planning and monitoring section) (3) Member – DFCG (Internal audit section) (4) Member – ICT Director (IT section) (5) Member Secretary – DFCG (Internal administration) | 1 |
| Ministry and Federal Affairs and General Administration | (1) Coordinator – Joint Secretary (Planning Governance & Social development division) (2) Members (3) – Under Secretary (3) Member Secretary – Under Secretary (Accounts) | 1 & 4 |
| PEFA Secretariat | (1) PEFA Coordinator (PIU Coordinator), (2) PEFA Member Secretary (3) Accounts Officer (4) –(Program Officer), (4) Accountant-(Logistic Officer) (5) PFM Consultant | 1 & 4 |
| ICAN | (1) Coordinator – President (2) Member – Executive Director (3) Member Secretary – Deputy Director Coordinator and Member Secretary of PEFA Secretariat will also be part of the committee as per the MOU signed between PEFA Secretariat and ICAN. | 1 & 4 |

20. **Role of the Component Coordinators:** The PEFA Coordinator with the team mentioned above will coordinate for all components and implement the related activities of component 1 and 4 and will have hand-on-role of monitoring. One Deputy Auditor General of OAGN will play the role of Component Coordinator for component 2 and will serve as primary focal point and liaison person for day-to-day operations and implementation of the audit reform program. The Joint Secretary of PPMO Planning Division will be Component Coordinator for Component 3 and will function under the guidance of the PPMO Secretary. PPMO activities with KSAs and subnational governments and other project beneficiaries and day-to-day project implementation activities will be managed by a separate project team.
21. **Role of the World Bank:** The project will be monitored by a Task Team headed by a task team leader. The role of the Bank will be to:
- (i) To compliance with World Bank policies and procedures;
 - (ii) Hold consultation with stakeholders;
 - (iii) Provide close implementation support to government efforts to achieve the project’s intended results. These will be complemented with technical visits from individual World Bank task team members and sector experts as required.

- (iv) Monitor implementation progress and procurement and fiduciary requirements.
- (v) Hold regular reviews including a midterm review to take stock of project implementation and take midcourse corrective action as necessary.
- (vi) Prepare an Implementation Completion and Results Report at the end of the project, which will evaluate the project and draw lessons.

Project Financial Management Procedures

- 22. The financial management and disbursement arrangements will be based on the country systems with the PEFA Secretariat overseeing and coordinating financial management. The main implementing partners such as FCGO, PEFA Secretariat, and OAGN have experience in Bank-financed projects. The PFM Steering Committee will provide strategic direction and guidance particularly on annual work program and budget for the project. Each responsible implementing agency will carry out its own financial management activities. The dedicated project teams in all implementing agencies, which include finance staff, will ensure effective financial management in line with government procedures and the Project Operations Guidelines. A dedicated finance officer at the PEFA Secretariat will ensure effective coordination and monitoring. The computerized government accounting system (CGAS) will ensure timeliness, quality, and transparency of financial information. The disbursement will continue to be report based using the existing reporting formats.
- 23. A separate budget line will be provided in the federal budget for the project. One each sub-lines will be provided in the budget pertaining to each key implementing agency. This will authorize the respective implementing agencies to spend on their respective components/subcomponents from the Government Treasury on reimbursable mode of payment. The PFM Steering Committee will oversight the budget preparation process of IPFMRP related activities for each implementing agency commensurate with their respective work programs and will closely monitor the implementation of the work program, the release, and utilization of the budget.
- 24. Based on periodic reporting by all the implementing agencies, PEFA Secretariat will request reimbursement to the Government Treasury from the Designated Account or directly from the World Bank. Direct payments can also be made from the Designated Account or directly from the World Bank. Each implementing agency will request the PEFA Secretariat with supporting documents for such direct payments to vendors, consultants, contractors etc. Expenses required for ICAN implementing activities will be made through PEFA Secretariat in the advance and its settlement mode.
- 25. The implementing agencies will provide report of expenditures to the PEFA Secretariat no latter than 30 days of each quadrimester-end. All expenditures incurred under the project will be subject to internal audit as per government procedures. PEFA Secretariat will monitor timely and periodic internal audits of all implementation agencies. The IUFRs will be consolidated by PEFA Secretariat and submitted to the World Bank within 45 days from the end of each quadrimester. Annual consolidated project financial statement will be prepared by the PEFA Secretariat and provided to the World Bank after audited by OAGN within 6 months of the fiscal year ends. For the timely reporting of such financial reports the PEFA Secretariat will depute one dedicated account officer who will visit and coordinate the implementing agencies financial administration related section and officials timely. The annual audit reports and audited project financial statements will be disclosed on the World Bank website.

Project Procurement Procedures and Guidelines

26. Procurement will be carried out in accordance with the World Bank's Procurement Regulations for Borrowers and the provisions stipulated in the Legal Agreements. Given the limited experience of the implementing agencies, project skill enhancement of existing staff, selective support using consultants' services, and strengthening monitoring are key features of the projects procurement arrangements.
27. Key procurement activities include goods and consultancy services. This will include IT equipment, software, and furniture in the category of goods. Consultancy services will primarily be for technical assistance; and preliminary consultancies include the following: (a) develop and roll out guidelines for efficient budgeting; (b) design a roadmap and PFM processes for efficient PFM in a federal structure; (c) strengthen financial reporting practice and design; (d) implement a framework for sustainable PFM training; (e) maintain hardware and software; (f) enhance audit quality management and citizen's participatory performance audit; (g) develop procurement management capacity; and (h) strengthen performance measurement including e-GP system enhancement.
28. The PEFA Secretariat will coordinate project procurement activities. Each responsible implementing agency will prepare its own procurement plans and carry out their respective procurement activities independently. For this purpose the World Bank will provide access of STEP to at least one user in each implementing agencies.
29. As per the requirement of the Procurement Regulations, a Project Procurement Strategy for Development (PPSD) has been agreed with the World Bank. Extensive market analysis has been carried out for different packages of procurement. Consultancy contracts are also framed on basis of market research; and packaging of the same, in terms of scope of services and period, has been decided. Based on PPSD, the procurement plan for the first 18 months of project period has been prepared to set out the selection methods to be followed by the borrower during project implementation in the procurement of goods and consulting services financed by the Bank.
30. **Safeguards:** The project does not envisage any resettlement or additional land requirement. Furthermore, there will be no civil works under the project.
31. **Citizen engagement.** As the Citizen engagement is a cross-cutting theme in the project design, development and implementation of a citizen engagement strategy on PFM-related activities will be carried out. The project will provide technical assistance to develop principles of citizen participation in various stages of the budgeting process. Detailed guidelines will include preparing and implementing a communications strategy (e.g., annual budget forum, focused budget dialogue). Moreover, the disclosure of information on the use of public funds to facilitate citizen participation and awareness on key financial information are potential entry points in the PFM arena. These entry points will be adequately addressed in the holistic strategy for citizen engagement.
32. **Gender considerations.** The project will leverage and support the government's ongoing gender-mainstreaming activities. Capacity-building activities will be used as the tool for such support whereby the project will promote equal opportunity for both men and women employees to participate. Furthermore, the training strategy will explore the inclusion of targeted training of female officials employed in participating departments, especially in the training-of-trainers' programs. The project will try to include at least a minimum percentage of female officials in proportion to the female employees in participating departments for the planned training. Nepal has built a solid ground on gender-responsive budgeting (GRB). The project will lay the foundation to extend GRB to subnational government through unified budget processes that include GRB and citizen engagement processes. The project will train citizen, of which 50 percent will be female, on participatory performance audits.

33. **Environment:** The project does not have any adverse environmental and social impact. The project does not include any civil works such as construction or disposal of IT equipment. For the same reasons, there are no risks associated with climate change and disaster risks.

Results Monitoring and Evaluation

34. A systematic result M&E framework will be followed to measure the defined indicators included in PAD. The project results framework, which includes PDO results and intermediate results indicators, will set the basis for continuous tracking of progress. For each indicator, a results framework with the baseline, target, frequency of data collections, data source and methodology, and responsible institutions for data collection (as mentioned in the PAD) will be implemented.
35. The PFM Steering Committee will have overall M&E responsibility to ensure that the project meets its objectives and will provide guidance and directions when required. The PEFA Secretariat will consolidate all M&E reports prepared by each implementing agency and generate and submit a quadrimester consolidated progress report to the PFM Steering Committee and World Bank for their review and information. Results M&E reports will highlight project achievements in relation with the PDO and PDO indicators and intermediate indicators, implementation progress and constraints. The reports will also note the progress of risk mitigation measures and propose measures to improve project performance. Each implementing agency will develop an M&E strategy and use different methods such as routine monitoring and periodic reviews to closely monitor their progress toward achieving results. To facilitate its coordination function, the PEFA Secretariat will design a common reporting format and process of reporting regularly by each implementing agency on its implementation progress.
36. The World Bank will, on a regular basis, provide close implementation support to government efforts to achieve the project's intended results. These will be complemented with technical visits from individual World Bank task team members and sector experts as required. The World Bank team will hold a midterm review to take stock of project implementation and take midcourse corrective action as necessary. At the end of the project, the World Bank team will prepare an Implementation Completion and Results Report, which will evaluate the project and draw lessons. This report will also include a project assessment by the Government of Nepal.
37. The format for financial reporting will be in the format as included in the agreement document signed.