

Gandaki Province



PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

PERFORMANCE ASSESSMENT REPORT

April 2025



Ministry of Economic Affairs
Government of Gandaki Province



Gandaki Province

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Government of Gandaki Province**



GANDAKI PROVINCE
PUBLIC EXPENDITURE AND FINANCIAL
ACCOUNTABILITY ASSESSMENT
PERFORMANCE ASSESSMENT REPORT

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T: +977-61-457697

E: mof@gandaki.gov.np

W: www.mof.gandaki.gov.np

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T: +977-01 5341355, 5344148

E: info@printcommunication.com.np

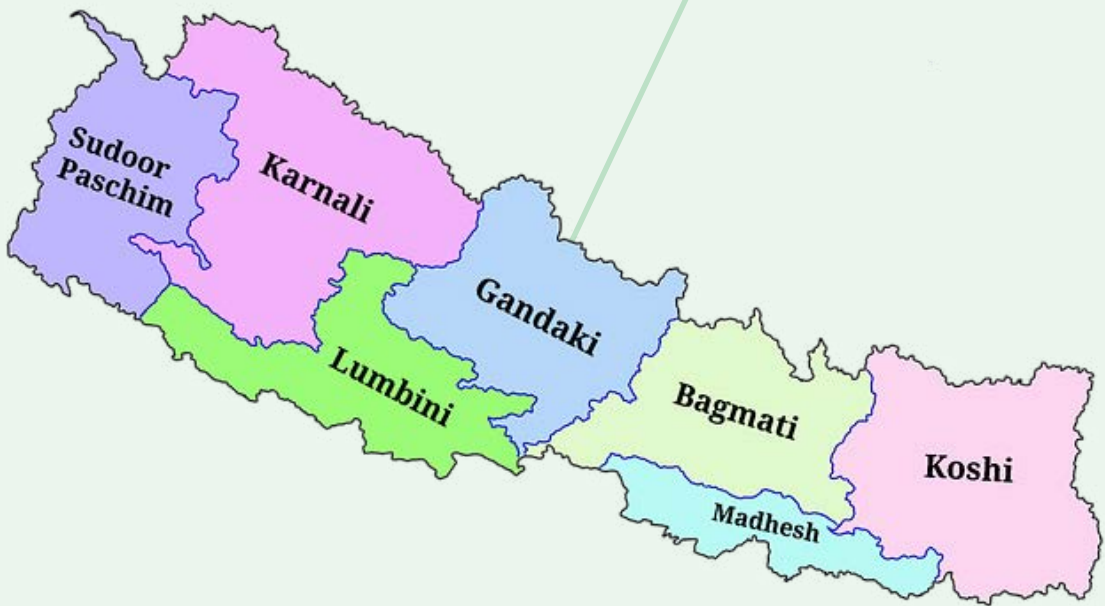


Nepal: Government of Gandaki Province
Public Expenditure and Financial Accountability (PEFA)

April 2025

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

PEFA Secretariat
April 10, 2025





Government of Gandaki Province
Pokhara, Nepal

Foreword

It is my distinct pleasure to present the PEFA Assessment Report of Gandaki Province. This comprehensive assessment marks a significant milestone in our ongoing efforts to enhance the Public Financial Management (PFM) systems within our province. This also represents a significant milestone as the first sub-national PEFA Assessment Report in Nepal, and I take great pride in Gandaki Province being the pioneer in this important endeavor.

The report has been meticulously prepared in accordance with the PEFA framework, which is the globally recognized framework for assessing the PFM performance across various dimensions including planning, execution, reporting and evaluation. I am confident that this report will serve as a valuable guide, illuminating the path forward toward more effective and appropriate practices in public financial management. It offers insights that will aid us in our efforts to enhance governance and ensure greater accountability in our financial systems.

The paradox of unlimited wants versus limited resources presents a continuous challenge, compelling us to strive for the most efficient use of resources at our disposal. Robust PFM offers a proven pathway to foster prosperity within the existing economic and fiscal landscape. Recognizing this, governments worldwide are embracing innovative ideas to strengthen their public finance systems. The PEFA framework has emerged as a key tool in this reform process. This PEFA report is a direct reflection of this global movement towards evidence based and results oriented PFM, showcasing our commitment to implementing best practices that drive accountability and efficiency.

Just as the majestic Fish-Tail Himalaya oversees Gandaki Province, its people look towards the future with a sense of curiosity and hope, seeking good governance, aspiring for economic growth, and yearning for effective service delivery. In this context, public finance is integral to transforming these aspirations into measurable realities. Therefore, a robust

☎061-457683

Google PUS Code: 6X4F+62X, Pokhara 33700

Email: ocmcmsachibhalaya@gmail.com

Office of the Chief Minister and Council of Ministers

Gandaki Province, Pokhara, Nepal



Government of Gandaki Province
Pokhara, Nepal

PFM system is essential to drive the province's economic landscape towards the desired and necessary direction. This report provides a roadmap to help the province to better manage its public finances for achieving policy objectives.

As Chief Minister of the province, I would like to express my sincere gratitude to the Oversight Committee for diligently guiding the assessment, as well as to the dedicated assessment teams for their tireless work. Additionally, I extend my appreciation to the Ministry of Economic Affairs, Gandaki Province for expertly leading and coordinating the entire process.

I would also like to offer special thanks to our development partners, particularly the PFM Multi Donor Trust Fund and the World Bank for their unwavering support in bringing this report to fruition. Your collaboration has been instrumental in advancing our goals for effective public financial management.

Looking ahead, I invite all stakeholders to join forces on our ongoing journey to reform and strengthen public financial management. Together, we will build a more transparent, accountable, and efficient public financial management system that serves the best interests of our citizens.

Surendra Raj Pandey
Chief Minister

April 29, 2025

☎061-457683

Google Pus Code: 6X4F+62X, Pokhara 33700

Email: ocmemsachibalaya@gmail.com

Office of the Chief Minister and Council of Ministers

Gandaki Province, Pokhara, Nepal



पत्र संख्या :
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गण्डकी प्रदेश सरकार
आर्थिक मामिला मन्त्रालय
पोखरा, नेपाल



Message

Public Financial Management (PFM) is the lifeblood of national development. It provides a framework for the government to allocate resources, implement policies, and ensure accountability. Effective PFM enables the government to achieve desired outputs and outcomes while aligning with the aspirations of the people. Ultimately, PFM not only manages finances but also fosters equitable growth, reduces poverty, and contributes economic growth as well as a stable and prosperous society.

Nepal, in 2018, embarked on a significant transition from a unitary to a federal system of governance, establishing three tiers of government: federal, provincial, and 753 local governments. Among the seven provinces, the Government of Gandaki Province is diligently pursuing initiatives aimed at fostering peace and prosperity, with a commitment to demonstrate the effectiveness and fairness of federalism. A credible PFM system is a foundational pillar for ensuring accountable governance within evolving framework, playing a vital role in promoting transparency and enhancing public trust.

As we navigate the early stages of our federal system, it is important to recognize that assessing PFM performance comes with certain complexities. However, assessing where our province stands in the realm of public financial management is essential, as strong PFM is the cornerstone of all aspects of development. In this spirit, I am pleased to announce the successful completion of the Public Expenditure and Financial Accountability (PEFA) Assessment Report for Gandaki Province. This milestone not only reflects our commitment to improving PFM practices but also sets the foundation for sustainable growth and effective governance.

I am particularly pleased to highlight that this marks the first PEFA assessment conducted at the sub-national government level in Nepal. The report provides a comprehensive assessment of the current PFM practices and legal framework of Gandaki Province against internationally recognized PEFA benchmarks. By identifying key strengths, weaknesses, and



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areas for improvement, the assessment offers valuable insights into our current standing and outlines important steps forward for enhancing governance and accountability in the province.

While there are areas that require improvement, I am encouraged to see the progress that we have made in establishing a PFM system that lays a strong foundation for enhanced transparency and financial accountability. This achievement is significant, especially considering the short time since the implementation of our federal system. The insights gained from this assessment will pave the way for targeted PFM reforms, enabling us to effectively address the identified gaps and continue advancing our development objectives. I am confident that this report will not only serve as a valuable reference for our initiatives but also inspire other sub-national governments across Nepal as they embark on similar evaluations and reform efforts. It is our hope that the insights gained will facilitate a collective advancement in PFM practices throughout the country.

I extend my sincere appreciation to the PEFA Team, members of the Steering Committee, and all the officials who contributed to the preparation and completion of this important report. I would especially like to acknowledge Mr. Keshab Raj Dhakal, Secretary (OCMCM), Mr. Dilliram Rijyal, Under Secretary and PEFA Team members, for their leadership and dedication in bringing this report to a successful conclusion. Finally, I express my heartfelt gratitude to the World Bank for unwavering support and collaboration throughout this process, which has culminated in successful completion of this report in alignment with international benchmarks. Your commitment to our collaborative efforts has been instrumental in achieving this important milestone.

Dr. Tak Raj Gurung
Minister of Economic Affairs

April 29, 2025

प्रशासन तथा अनुगमन मूल्याङ्कन महाशाखा

वित्त व्यवस्थापन तथा आर्थिक विश्लेषण महाशाखा

बजेट तथा कार्यक्रम महाशाखा

फोन नं.: ०६१-४५७६९६, ४५७६९७

Website:- mof.gandaki.gov.np, E-mail: mof@gandaki.gov.np, moeap.gandaki@gmail.com



गण्डकी प्रदेश सरकार

मुख्यमन्त्री तथा मन्त्रिपरिषद्को कार्यालय

पत्र संख्या : २०८१/८२
चलानी नं.:



पोखरा,
नेपाल ।

Message

Gandaki Province, with its diverse population and vibrant economy, stands at the forefront of Nepal's development. Our commitment to transparency, accountability, and efficient resource management is unwavering, which are the prerequisites for sustainable development. While policies are well-intentioned, their success depends on effective implementation. As Public Financial Management (PFM) plays a critical role in the implementation of government policies, it is crucial to evaluate the provinces' performance in this area to ensure tangible results.

The PEFA assessment, coordinated by the Ministry of Economic Affairs (MoEA) and supported by the World Bank, provides a detailed and objective analysis of our PFM capacities. This report evaluates Gandaki Province's PFM legal framework, systems, procedures, and practices against globally recognized PEFA benchmarks. It highlights both the strengths and areas needing improvement, offering valuable insights that will guide our future reform initiatives.

The assessment reveals several strengths in our PFM system, including the solid budget classification system, the comprehensiveness of our annual budget documentation, and the transparent and rule-based system for fiscal transfers. These elements are crucial for ensuring that our financial resources are managed effectively and that our budgetary processes are transparent and accountable.

However, the assessment also identifies critical areas where we must focus our efforts. The shortcomings in budget execution, the need for a reliable procurement database, and the importance of strengthening fiscal risk reporting, challenges which we are determined to address well. The findings offer valuable guidance to prioritize reforms to strengthen PFM systems, paving the way to achieve policy objectives efficiently and effectively.

टेलिफोन नं. : ०९१-४४७६४८, ४४७६५४, ४६८००३, हेल्पलाइन नं. : १०९४ वेबसाइट: ocmcm.gandaki.gov.np ईमेल: ocmcm.gandaki@gmail.com, ocmcm@gandaki.gov.np



पत्र संख्या : २०८१/८२
चलानी नं.:



गण्डकी प्रदेश सरकार

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पोखरा,
नेपाल ।

I am confident that this report will mark a significant milestone in strengthening PFM systems of Gandaki Province. As the first-ever subnational PEFA Assessment in Nepal, it sets a precedent for other provinces and local governments to objectively assess and reform their PFM systems. Furthermore, this report will serve as a useful resource for practitioners, researchers, and stakeholders interested in public financial management.

Finally, I extend my sincere gratitude to all team leaders, members, officials, and facilitators involved in the PEFA assessment process. Special thanks to the Gandaki Province PEFA Committee, Gandaki MoEA, PEFA Secretariat Nepal, the World Bank, and PFM Multi Donor Trust Fund for their unwavering dedication in successfully completing this report.

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Raghuram Bista
Principal Secretary

April 29, 2025

टेलिफोन नं.: ०६१-४४७६४८, ४४७६६४, ४६८००३, हेल्पो CM टेलिफोन नं.: १०९४ वेबसाइट: ocmcm.gandaki.gov.np ईमेल: ocmcm.gandaki@gmail.com, ocmcm@gandaki.gov.np



पत्र संख्या :
चलानी नं.:

गण्डकी प्रदेश सरकार
आर्थिक मामिला मन्त्रालय

पोखरा, नेपाल



Acknowledgement

The Gandaki PEFA Assessment has truly been a journey of learning, reflection, and strategic foresight. Throughout this process, we not only embraced the PEFA framework but also took a close look at our challenges, which sparked important conversations about how we can enhance our PFM systems to achieve better development outcomes. We feel a deep sense of pride in being the first subnational government in Nepal to complete the PEFA Assessment and to receive the PEFA Check, confirming our commitment to meet international standards.

The entire process spanned approximately two years. Throughout this time, despite the challenges brought by frequent transfers, including changes in leadership, the oversight committee remained a steadfast pillar of support, guiding the assessment with dedication and resolve. I would like to express my heartfelt gratitude to Mr. Raghuram Bista, Principal Secretary and the chair of the oversight committee for his compassionate leadership. My sincere thanks to Mr. Tank Prasad Pandey, Secretary (PPPC), and Mr. Suresh Subedi, Province Financial Comptroller, who as members of the oversight committee provided unwavering support and direction.

I would also like to take a moment to extend my sincere thanks to former Principal Secretary, Ms. Laxmi Kumari Basnet, along with the dedicated former Secretaries of MOEA (Mr. Baikuntha Aryal, Mr. Bishnu Prasad Sharma, Mr. Balaram Rijyal, and Mr. Purusottam Sharma) as well as former Secretaries of PPPC (Mr. Rishiram Tiwari and Mr. Badrinath Adhikari) and former Province Financial Comptroller, Mr. Kishor Kumar Shrestha. Their support and guidance throughout their respective tenures were invaluable in shaping the assessment, and I am deeply appreciative of their wisdom and guidance.

My deepest appreciation to Mr. Keshab Raj Dhakal, Secretary (OCMCM), and Mr. Dilliram Rijyal, Under Secretary (MoEA), for their outstanding contributions to the successful completion of this PEFA report. Their hard work, dedication, and passion truly made a difference, and I am grateful for their unwavering commitment to this important assessment.

My sincere thanks also extend to the entire team at the PEFA Secretariat and Ministry of Finance, Government of Nepal, for selecting Gandaki Province for the assessment and providing essential facilitation and support throughout the process.

Finally, I would like to express my heartfelt gratitude to the World Bank for being such a reliable partner throughout our journey. The incredible team, led by Mr. Waseem Kazmi (Senior Financial Management Specialist) and Mr. Nayan Krishna Joshi (Country Economist), has truly been a beacon of support for us. Their genuine dedication and expertise seamlessly integrated with our working teams, guiding us through every step of the assessment and helping us navigate the complexities of the PEFA indicators. I am also thankful to Mr. Shreeram Ghimire (Program Associate) for the exceptional administrative support.

The commitment of World Bank Consultants, Mr. Prakash Jung Thapa, Mr. Saroj Acharya, Mr. Rajendra Bajracharya, and Mr. Peter Jensen played a crucial role in successfully navigating the PEFA indicators. A special thank you goes to Mr. Durgesh Kumar Pradhan, the World Bank Consultant, whose tireless efforts were instrumental in completing 14 out of 32 indicators and in effectively bridging the communication between the Bank and the government.

The completion of the Gandaki PEFA Assessment is not merely an endpoint, but rather a significant step towards continuous improvement in our PFM systems. The lessons learned, the relationships built, and the insights gained throughout this process will serve as a foundation for our future endeavors. We look forward to working collaboratively to ensure that our PFM systems lead to impactful and sustainable development outcomes for the people of Gandaki Province.

Thank you all for your unwavering support and dedication.



Rajendra Dev Pandey
Secretary, Ministry of Economic Affairs

April 29, 2025

PEFA Check, Assessment Management and Quality Assurance



The objective of the Public Expenditure and Financial Accountability (PEFA) public financial management (PFM) assessment is to provide an informed and objective indicator-led assessment of the PFM capacities at the subnational (provincial) level focused on Gandaki Province in a standardized manner, to form an understanding of the overall provincial PFM system, and to assist in identifying those parts of the PFM system in need of further reform and development.

Gandaki Province's Ministry of Economic Affairs (MoEA) coordinated the PEFA assessment, which was supported by the World Bank. The Nepal Public Financial Management Multi-Donor Trust Fund (MDTF) and the World Bank financed the assessment. The MoEA nominated an assessment team with four groups, each overseeing a number of performance indicators (PIs), to conduct the assessment with the support of consultants engaged by the World Bank. The management and quality assurance arrangements are presented below.

Box 1: Assessment Management and Quality Assurance Arrangements

■ PEFA assessment Management Organization

- **Oversight Team:** Comprising the following ex officio members:

Principal Secretary, Gandaki Province – Chair

- Laxmi Kumari Basnet
- Raghuram Bista

Secretary, OCMCM, Gandaki – Member

- Keshab Raj Dhakal

Secretary, MoEA, Gandaki – Member

- Baikuntha Aryal
- Bishnu Prasad Sharma
- Balaram Rijyal
- Purusottam Sharma
- Dilliram Rijyal
- Rajendra Dev Pandey

Secretary, Provincial Policy and Planning Commission (PPPC), Gandaki – Member

- Rishiram Tiwari
- Badrinath Adhikari
- Tanka Prasad Pandey

Head, Provincial Financial Comptroller Office (PFCO), Gandaki – Member

- Kishor Kumar Shrestha
- Suresh Subedi

Task Team Leader, World Bank – Member

- **Assessment Manager:** Hisham Waly - Governance Global Practice Manager, World Bank
- **Assessment Team Leaders and Team Members:** The assessment was carried out by a core team comprising officials from Gandaki Province, the World Bank, and consultants.
- **World Bank**
 - Waseem Kazmi - Senior Financial Management Specialist, Task Team Leader
 - Nayan Krishna Joshi - Country Economist, Task Team Leader

- Victor Boakye-Bonsu, Senior Financial Management Specialist
- Donald Mphande, Lead Financial Management Specialist
- Haider Raza, Senior Procurement Specialist
- Chandra Kishor Mishra, Procurement Specialist
- Yoshihiro Sashi, Public Sector Specialist
- Shruti Dhungel, Financial Management Specialist
- Bishwa Raj Basaula, Financial Management Specialist
- Shreeram Ghimire, Team Assistant
- Prakash Jung Thapa, Financial Management Consultant
- Durgesh Kumar Pradhan, PFM Consultant
- Saroj Acharya, Consultant
- Rajendra Bahadur Bajracharya, Consultant
- Peter Jensen, Consultant

■ **Gandaki Province**

Group 1 - Provincial Financial Controller Office (PFCO)¹

- Lal Prasad Acharya (Lead), Account Officer
- Sudip Gautam, Account Officer
- Chandra Shekhar Sapkota, Account Officer
- Raghu Nath Paudel, Account Officer
- Padam Bahadur Thapa Magar, Account Officer
- Kedar Prasad Adhikari, Accountant
- Binod Regmi, Account Officer
- Narayan Raj Paudel, Accountant

Group 2 - Ministry of Economic Affairs (MoEA)²

- Shree Prasad Adhikari (Lead), Under Secretary
- Gita Ghimire, Under Secretary
- Kalpana Sapkota, Revenue Officer, Level VIII
- Gyan Prasad Bhusal, Administrative Officer, Level VIII
- Srijana Khanal, Administrative Officer, Level VIII
- Saraswoti Subedi, Officer, Level VI
- Indra Kumari G. C., Officer, Level VI

¹ Group 1 covered Performance Indicator (PI)-22 Expenditure arrears; PI-23 Payroll controls; PI-24 Procurement; PI-25 Internal controls on non-salary expenditures; PI-26 Internal audit; PI-27 Financial data integrity; PI-30 External audit; and PI-31 Legislative scrutiny of audit reports.

² Group 2 covered Higher Level Government (HLG)-1 Transfers from higher levels of government; HLG-2 Fiscal rules and monitoring of fiscal position; PI-6- Subnational government operations outside financial reports; PI-7 Transfers to subnational governments; PI-10 Fiscal risk reporting; PI-12 Public asset management; PI-13 Debt management; PI-19 Tax administration; PI-20 Accounting of revenue; and PI-21 Predictability of in-year resource allocation.

Group 3 - Ministry of Economic Affairs (MoEA)³

- Dilliram Rijyal (Lead), Under Secretary
- Rajendra Bandhu Aryal (Lead), Under Secretary
- Devendra Pandeya, Section Officer
- Giridhari Upadhyaya, Account Officer
- Basant Raj Dhakal, Revenue Officer, Level VII
- Govinda Rijal, Computer Officer, Level VI
- Tejendra Prasad Dhakal, Legal Officer
- Dadhiraj Paudel, Officer, Grade VI
- Chin Bahadur Ranabhat, Section Officer
- Ramesh Bahadur Basnet, Officer - Level VI

Group 4 - Provincial Policy and Planning Commission (PPPC)⁴

- Dhaka Prasad Sharma (Lead), Under Secretary
- Dilliram Sigdel (Lead), Under Secretary
- Ram Prasad Wagle, Statistics Officer, Level VIII
- Nawaraj Paudel, Statistics Officer
- Sagar Khanal, Officer, Level VIII
- Santosh Dhungana, Section Officer
- Prakash Gautam, Account Officer
- Santhosh Devkota, Computer Officer
- Ram Chandra Paudel, Officer, Level VI

Review of Concept Note

- **Date of reviewed draft Concept Note:** February 24, 2023

Invited reviewers

- Maxwell Bruku Dapaah - Senior Financial Management Specialist, World Bank
- Jose Luis Syquia - Principal Public Management Specialist, Asian Development Bank (ADB)
- Ramesh Adhikari - Election, Legislative and Political Processes Specialist, United States Agency for International Development (USAID)
- Nicoletta Feruglio - Senior Economist, International Monetary Fund (IMF)
- PEFA Secretariat, Washington DC
- Development Partners of the Nepal PFM MDTF

³ Group 3 covered PI-1 Aggregate expenditure outturn; PI-2 Expenditure composition outturn; PI-3 Revenue outturn; PI-4 Budget classification; PI-5 Budget documentation; PI-28 In-year budget reports; and PI-29 Annual financial reports.

⁴ Group 4 covered PI-8 Performance information for service delivery; PI-9A Public access to fiscal information; PI-9B Public consultation; PI-11 Public investment management; PI-14 Medium-term budget strategy; PI-17 Budget preparation process; and PI-18 Legislative scrutiny of budgets.

■ Reviewers who provided comments

- Maxwell Bruku Dapaah - Senior Financial Management Specialist, World Bank
 - Jose Luis Syquia - Principal Public Management Specialist, ADB
 - Ramesh Adhikari - Election, Legislative and Political Processes Specialist, USAID
 - Department of Foreign Affairs and Trade (DFAT), Government of Australia
 - PEFA Secretariat, Washington DC
- Than Prasad Pangyani, Joint Secretary/PEFA Coordinator and Gokul Banstola, Member-Secretary of the PEFA Secretariat at the Ministry of Finance, Government of Nepal reviewed the concept note on behalf of the government.
- Date of final Concept Note: March 21, 2023

■ Review of the Assessment Report

- **Date of reviewed draft report:** January 14, 2025

■ Invited reviewers

- Maxwell Bruku Dapaah - Senior Financial Management Specialist, World Bank
- Jan Hansen - Principal Economist, ADB
- Amol Acharya - Governance and Accountability Specialist, USAID
- PEFA Secretariat, Washington DC
- Development Partners of the Nepal PFM MDTF

■ Reviewers who provided comments

- Maxwell Bruku Dapaah - Senior Financial Management Specialist, World Bank
 - Jan Hansen - Principal Economist, ADB
 - Foreign, Commonwealth, and Development Office (FCDO), United Kingdom
 - PEFA Secretariat, Washington DC
- Ramesh Sharma, Under Secretary, Fiscal Federalism Coordination Division, Ministry of Finance, Government of Nepal reviewed the PEFA report on behalf of the government.
- Final report sent to PEFA Secretariat incorporating comments and suggestions on April 10, 2025
- PEFA Check received on April 10, 2025
- Final report endorsed/approved by Gandaki Province: April 29, 2025

Main Facts about the Sub-National Government (SNG) of Gandaki Province



Government of Gandaki Province	
Tier of government	The Government of Gandaki Province is the 2nd tier of government beneath the Government of Nepal.
Population	According to the 2021 census, the total population of the Gandaki Province is 2,466,427 of which the number of males is 1,170,833 (47.5 percent) and the number of females is 1,295,594 (52.5 percent).
Area	<p>21,733 square kilometers (sq km) (14.7 percent of the total country's area)</p> <ul style="list-style-type: none"> ■ Mountains - 5,819 sq km (26.8 percent) ■ Hills - 14,604 sq km (67.2 percent) ■ Terai (plain lands) -1,310 sq km (6 percent)
Main characteristics	<p>The Gandaki Province, located in midwestern part of Nepal, comprises 11 districts, 1 metropolitan city, 26 municipalities and 58 rural municipalities. Pokhara is a metropolitan city and Gandaki's provincial capital. The Gandaki Province features a diverse population distribution, characterized by a blend of rural and urban areas. According to the 2021 census, the population residing in urban municipalities has reached 65.8 percent, and those in rural municipalities constitute 34.2 percent. The urban centers serve as vital hubs for economic activities, trade, and tourism. In contrast, the rural regions, which cover a significant portion of the province, primarily depend on agriculture, underscoring its role as the backbone of the local economy.</p>

Government of Gandaki Province

Economy	<p>Provincial nominal gross domestic product (GDP) as of fiscal year FY2022/23 amounted to NPR 484,127 million (US\$ 3,613 million). The services sector is the major sector of Gandaki (50.2 percent of its GDP), followed by the agriculture sector (22.5 percent) and the industrial sector (16.0 percent). The key economic sectors are agriculture, industrial production, tourism, infrastructure development, manufacturing, hydropower, and trade and commerce.</p>
Services provided by the SNG	<p>According to the Constitution, the provincial government is exclusively responsible for a wide range of services. These services include maintaining law and order through the provincial police administration, managing financial institutions and cooperatives, and overseeing media operations, such as radio and television. They also handle various taxes and fees, such as vehicle and entertainment taxes. Further, they provide essential services, such as electricity, irrigation, drinking water, and transportation. Additionally, the provincial government manages higher education institutions, health services, and infrastructure projects. Finally, they are also involved in land management, cultural preservation, and the development of agriculture and industry within the province.</p> <p>In addition to its exclusive responsibilities, the provincial government shares concurrent service responsibilities with the federal government, as delineated in Schedule 7 of the Constitution, and with both federal and local governments, as specified in Schedule 9. While these provisions promote collaboration among the three tiers of government in areas such as education and health, they may also lead to con-fusion as the divisions of responsibilities are not clearly articulated through subsequent regulatory frameworks.</p>

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Abbreviations and Acronyms



ADB	Asian Development Bank
AFS	Annual Financial Statements
APP	Annual Procurement Plan
BCG	Budgetary Central Government
CBS	Core Banking System
CFS	Consolidated Financial Statements
CGAS	Computerized Government Accounting System
CIT	Citizen Investment Trust
CoA	Chart of Accounts
COFOG	Classification of Functions of Government
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPA	Citizen Participatory Audits
CPI	Consumer Price Index
DOMS	Debt Operation and Management System
DTCO	District Treasury Controller Office
EBU	Extra-Budgetary Unit
EFT	Electronic Fund Transfer
e-GP	Electronic Government Procurement
EPF	Employees Provident Fund
FCGO	Financial Comptroller General Office
FDI	Foreign Direct Investment
FMIS	Financial Management Information System
FPFA	Financial Procedure and Fiscal Accountability
FS	Financial Statements
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GoN	Government of Nepal
GPPR	Gandaki Province Personnel Record

GPTA	Gandaki Province Training Academy
HLG	Higher Level of Government
IAU	Internal Audit Unit
ICT	Information and Communication Technology
IEC	International Electrotechnical Commission
IGFA	Intergovernmental Fiscal Arrangement Act
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INGO	International Nongovernmental Organization
IPFMS	Integrated Public Financial Management Service
IPFRMP	Integrated Public Financial Management Reform Project
IPPF	International Professional Practices Framework
IPSAS	International Public Sector Accounting Standards
ISO	International Organization for Standardization
IT	Information Technology
KPI	Key Performance Indicator
LMBIS	Line Ministries Budget Information System
M&E	Monitoring and Evaluation
MDPAC	Ministry-level Development Problem Action Committee
MDTF	Multi-Donor Trust Fund
MFMS	Ministry Financial Management Information System
MPP	Master Procurement Plan
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
MoEA	Ministry of Economic Affairs
MoF	Ministry of Finance
NAMS	Nepal Audit Management System
NGAS	Nepal Government Auditing Standards
NNRFC	National Natural Resource and Fiscal Commission
NPB	National Project Bank
NPC	National Planning Commission
NPSAS	Nepal Public Sector Accounting Standards
NRB	Nepal Rastra Bank
NSO	National Statistics Office
OAG	Office of the Auditor General
OCMCM	Office of the Chief Minister and Council of Ministers
PAC	Public Accounts Committee
PAMS	Public Asset Management System
PAN	Permanent Account Number
PDMO	Public Debt Management Office

PDPAC	Provincial Development Problem Action Committee
PEFA	Public Expenditure and Financial Accountability
PFCO	Provincial Financial Comptroller Office
PFM	Public Financial Management
PFMRP	PFM Reform Program
PFMRS	Public Financial Management Reform Strategy
PI	Performance Indicator
PIS	Personnel Information System
PLGSP	Provincial and Local Governance Support Program
PLMBIS	Provincial Line Ministries Budget Information System
PPA	Public Procurement Act
PPB	Provincial Project Bank
PPBMIS	Provincial Project Bank Management Information System
PPMO	Public Procurement Monitoring Office
PPP	Public-Private Partnership
PPPC	Provincial Policy and Planning Commission
PPPR	Provincial Public Procurement Rules
PPR	Public Procurement Regulation
PPRC	Public Procurement Review Committee
PPRCCS	Provincial Personnel Record and Communication Coordination Section
PSC	Public Service Commission
PSMEC	Provincial Secretary-level Monitoring and Evaluation Committee
PTCO	Provincial Treasury Controllers Office
PTU	Provincial Treasury Unit
RMIS	Revenue Management Information System
SAI	Supreme Audit Institution
SBD	Standard Bidding Document
SDGs	Sustainable Development Goals
SIS	Supervisory Information System
SNG	Subnational Government
SOP	Standard Operating Procedure
SuTRA	Subnational Treasury Regulatory Application
TMO	Transport Management Office
TMS	Transport Management System
TNA	Training Need Assessment
TSA	Treasury Single Account
USAID	United States Agency for International Development
VAT	Value Added Tax
VFG	Vertical Fiscal Gap
VRS	Vehicle Registration System

Methodology



Type of assessment: This is a standalone baseline assessment for the Gandaki Province. It has been conducted as a self-assessment. It applies the Public Expenditure and Financial Accountability (PEFA) Framework of 2016, PEFA Handbook Volume II: PEFA Assessment Field Guide (Second Edition, December 2018), and the PEFA Secretariat's Guidance for Subnational Government PEFA Assessments issued in May 2022.

Number of indicators used: All 32 performance indicators (PIs) and 98 dimensions of the PEFA Subnational Government (SNG) Framework were assessed. Six dimensions were assessed as Not Applicable (NA) to the PFM system (with justifications provided in Chapter 2), which meant that one PI was scored 'NA'.

Timeline: The assessment was conducted from November 2023 to June 2024. A training workshop regarding the PEFA methodology was organized for provincial stakeholders from November 30 to December 2, 2023, with a refresher training workshop from February 6 to 8, 2024.⁵ The data collection process was conducted between March and June 2024, and the initial draft of the report was finalized in July 2024. The World Bank and the government assessment team had a joint review of the draft report on August 20-26, 2024, and the validation workshop was held on December 25-26, 2024. The oversight committee approved the draft report for peer review on December 26, 2024.

Years covered: The last three fiscal years (FYs) covered are 2020/21, 2021/22, and 2022/23. The last budget submitted to the legislature is for FY2023/24.

Cutoff date: July 15, 2024

⁵ The stakeholders comprised provincial government officials, the Minister of Economic Affairs, the Chair of the Public Accounts Committee (PAC), the Chair of the Finance Committee, and group members of the Assessment Team.

Coverage: The PEFA Assessment covers the budget of the Gandaki's provincial government, which is comprised of provincial government spending units and extra-budgetary units (EBUs) in accordance with the PEFA Framework and guidance. The assessment considers that some federal-level entities (such as the Financial Comptroller General Office (FCGO), the Office of the Auditor General (OAG), and the Public Procurement Monitoring Office (PPMO)) have specific functions in relation to the provincial governments. The 85 local levels within the Gandaki Province are not covered in the assessment, except for their relations with the provincial level (through PI-7 and PI-10.2). Gandaki Province has 20 EBUs, which are assessed, as required under different PIs. There are no public corporations.

Sources of information: Data and information used in the assessment are drawn from legal and regulatory documents, fiscal and budget data obtained from the public domain, non-disclosed data supplied by the provincial government and federal entities, citations from various reports, and interviews with officials across the provincial government and federal-level entities. A complete list of information sources is provided in Annex 3.

Country fiscal year: July 16/17 – July 15/16 (Shrawan 1- Ashadh 31).

The country's fiscal year is based on the Nepali calendar, which is about 57 years ahead of the Georgian calendar. The start and end dates of the fiscal year may vary by one day between the fiscal years when converted to the Georgian calendar.

Exchange rate: The national currency is the Nepalese Rupee (NPR). The official exchange rate of the Nepal Rastra Bank (NRB) as of January 1, 2025 was: US\$1 = NPR 136.99.⁶

⁶ <https://www.nrb.org.np/forex/>.

Executive Summary



In 2015, Nepal commenced a pivotal transition from a unitary governance structure to a federal system, leading to the establishment of three tiers of government: federal, seven provincial, and 753 local levels, as articulated in the 2015 Constitution. The provincial governments, formally established in 2018 following the 2017 elections, are entrusted with the responsibility of delivering an array of services to the population. An objective analysis of the provinces' standing in the domain of public financial management (PFM) is essential, as effective PFM constitutes a fundamental element for fostering developmental outcomes.

Purpose and management

The purpose of this PEFA Assessment is to develop a better understanding of PFM at the subnational level. The assessment was undertaken by the Government of Gandaki Province as a self-assessment with technical support from the World Bank. The findings provide Gandaki's provincial government with a diagnostic regarding the performance of its PFM system, processes, and institutions, which can help to identify priority areas for PFM reform activities. As such, the findings of this subnational PEFA Assessment will provide policy makers and stakeholders with valuable data and evidence to support provincial-level PFM reform decision-making processes.

The Assessment will also help prioritize reforms, allocate resources efficiently, and design interventions tailored to the specific needs and challenges faced by subnational entities. It also provides a baseline for the subsequent evaluation of PFM performance. Furthermore, it highlights the importance of strengthening PFM systems at the subnational level, thereby supporting the federalism process and empowering provincial governments in Nepal. Given that the PFM characteristics are largely similar throughout the subnational level, the findings are expected to be relevant for other provincial governments. Hence, it should also help calibrate other subnational PFM reform programs.

Main PFM Strengths and Weaknesses in the Gandaki Province

The legal and regulatory framework for PFM is robust, and the institutional framework provides clearly established roles and responsibilities between the different entities. There are also well-defined reporting lines. Furthermore, several PFM information systems are in place to manage the utilization of resources, support control functions, and enhance accountability. The PFM system has elementary, but adequate, foundational functions in place for transparency of public finances, predictability and control in budget execution, and accounting and reporting. PFM performance is sound and in line with many or all elements of good international practices in the following areas: budget classification, budget documentation, transfers to subnational governments, and predictability of in-year resource allocation. In other areas, however, performance is at a basic or below basic level.

The PFM system exhibits several deficiencies, particularly in the realms of budget reliability, the management of assets and liabilities, policy-driven fiscal strategy and budgeting, as well as external scrutiny and auditing. The actual outcomes of the budget reveal a significant degree of underperformance. Currently, there is an absence of a reliable database for monitoring procurement activities, and the procurement planning process lacks the necessary robustness. Although a framework for fiscal risk reporting and monitoring has been established, there exists a deficiency in documentation to substantiate its implementation. Furthermore, the medium-term perspective in budgeting is considerably inadequate. Public investment management faces critical shortcomings in the project selection, appraisal, and monitoring processes. The performance of payroll controls and internal audits is below the basic level. Additionally, delays have been encountered in the submission of external audit reports to the provincial assembly, as well as the legislative review of audit reports.

The PFM performance of Gandaki's provincial government averages a score close to a 'C'. Overall, the PFM system has a basic level of performance. Figure ES.1 shows the pillar-level scores. The distribution of 32 indicators and 98 dimensions across scores is shown in the subsequent table. The full set of scores is shown in Tables ES.1 and ES.2.

Figure ES. 1: Summary of PEFA Scores by Indicator

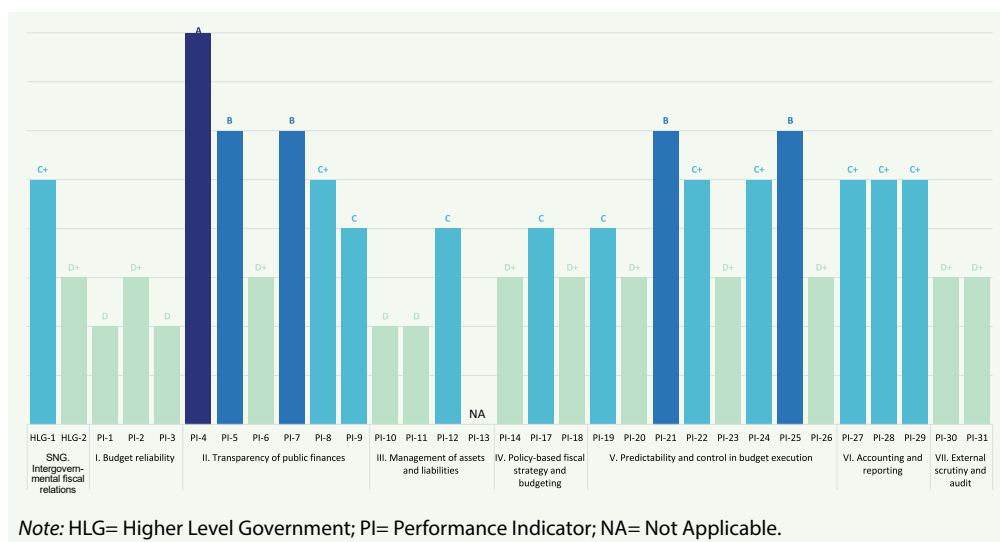


Table ES. 1: Summary of PEFA Scores

Score	A	B	C+	C	D+	D	D*	NA	Total
No. of indicators	1	4	8	3	10	5	—	1	32
No. of dimensions	17	12	—	23	—	38	2	6	98

Impact of PFM performance on budgetary and fiscal outcomes

The PFM system's performance relative to the three budgetary and fiscal outcomes is as follows:

Aggregate fiscal discipline. The existing PFM system in the Gandaki Province supports minimal aspects in achieving aggregate fiscal discipline. Significant discrepancies between budgeted and actual expenditures and revenues reflect a lack of realism in budgeting and present notable challenges to effective budget implementation. Such deviations have the potential to undermine fiscal discipline, resulting in unplanned borrowing or reductions in essential services. Furthermore, deficiencies in public investment management, characterized by the absence of established guidelines for economic analysis and inadequate monitoring of projects, undermines fiscal discipline and may lead to inefficient resource allocation.

In addition, inadequate fiscal risk reporting creates substantial oversight challenges, as unaudited annual financial statements from local governments remain unpublished and contingent liabilities are reported as “non-available.” This deficiency hampers the government’s capacity to effectively oversee and manage potential fiscal risks, thereby increasing the likelihood of unexpected fiscal pressures. While Gandaki Province currently has no outstanding debt, the lack of a medium-term debt management strategy could lead to suboptimal borrowing decisions and increased debt servicing costs over time.

Despite these challenges, certain PFM elements exhibit robustness in supporting aggregate fiscal discipline. The predictability of in-year resource allocation enables spending units to effectively plan and commit expenditures for a minimum of six months in advance, ensuring alignment with budget appropriations. Additionally, the generation of monthly budget reports enhances governmental oversight and facilitates timely corrective actions, which are critical for controlling expenditures and preventing unplanned fiscal deficits. Internal controls governing non-salary expenditures also demonstrate a high level of compliance, ensuring that expenditures adhere to budgetary provisions and minimizing the risk of overspending. Moreover, the government’s maintenance of minimal expenditure arrears significantly contributes to a lower fiscal risk profile.

Strategic allocation of resources. The PFM system modestly supports the attainment of allocative efficiency. The provincial government’s budget classification system is robust and comprehensive, facilitating clear resource allocation across sectors and programs. The transparent and rule-based transfer system for local governments ensures equitable distribution of resources, enabling effective budget planning and implementation. Additionally, procedures to inform taxpayers enhance compliance and revenue predictability. The revenue accounting systems deliver accurate and timely information on revenue streams, while in-year budget execution reports support effective monitoring and corrective actions. Together, these components strengthen the government’s strategic resource allocation.

The assessment also noted deficiencies in the PFM system that could impair strategic resource allocation. Higher variances in expenditure composition indicate that budget execution is not effectively aligned with planned objectives, which may hinder the government’s ability to achieve its policy goals. The lack of established guidelines for economic analysis and project selection limits the targeted allocation of resources to high-impact investment projects. Additionally, the restricted scope of the Provincial Assembly’s budget scrutiny diminishes the effectiveness of the budget approval process. Moreover,

the revenues and expenditures of the EBU remain outside financial reports, potentially leading to incomplete oversight and ineffective planning. Delays in fiscal transfers from higher levels of government, as well as the delayed availability of collected revenues for expenditure, can lead to cash flow challenges. These challenges may necessitate mid-year budget adjustments, which may undermine strategic resource allocation and hinder the effective implementation of fiscal policies.

Efficient service delivery. The PFM system supports the efficient delivery of services comparatively well. The government publishes information regarding performance plans, resource allocation for frontline service delivery units, and results achieved. This transparency enables legislators, government officials, and the public to evaluate whether budgetary resources are being utilized for service delivery as intended. Furthermore, rule-based fiscal transfers enhance local governments' ability to allocate resources consistently. Predictability in resource availability allows budgetary units to implement service delivery plans effectively, while the use of competitive procurement methods and adequate internal controls ensures value for money. Reliable financial information and timely reporting allow the government to monitor service delivery progress and make necessary corrections promptly.

Despite these strengths, several challenges need to be addressed to improve service delivery efficiency. A higher expenditure composition variance indicates that resources allocated for service delivery may not have been used effectively, with the lack of performance evaluations representing a missed opportunity to assess their appropriateness and efficiency. Additionally, the absence of public consultations during the budget-making process further limits the optimization of resource allocation. Weaknesses in personnel data and payroll management may contribute to inaccuracies in salary payments and hinder effective personnel administration, thereby diminishing service delivery efficiency. Furthermore, the Gandaki provincial government's lack of a procurement database restricts its ability to monitor public procurement efficiency and value for money. Inadequate internal audit practices and delays in legislative scrutiny of external audit reports undermine accountability. Consequently, systemic weaknesses identified during audits may remain unresolved for protracted periods that may adversely affect the quality and efficiency of public service delivery.

Performance changes since the previous PEFA assessment

Not applicable, since this is the baseline assessment for the Gandaki Province.

PFM Reform Agenda

The first Five-Year Plan of the Gandaki Province (FY2019/20–FY2023/24) outlined a PFM strategy with priority activities. Similarly, an Approach Paper for the second Five-Year Plan (FY2024/25–FY2028/29) highlights PFM as a key reform area. Since the provincial governments were formed in 2018, the Provincial Assembly has enacted several laws and regulations relating to PFM. These include the Financial Procedure and Fiscal Accountability (FPFA) Act in 2022 and the FPFA Regulation in 2023. Numerous directives and guidelines across different PFM areas have also been issued. The provincial government is explicitly working to ensure that the regulatory framework is followed by all spending units.

Ongoing or planned provincial PFM reform activities include increasing own-source revenues; enhancing systems to improve the management of the motor vehicle tax; preparing cash forecasting procedures to assure the availability of cash for timely payments; consolidating transactions of extra-budgetary units (EBUs) in financial statements; establishing the Gandaki Province Personnel Record (GPPR) Unit as a separate unit; and updating personnel records in the Personnel Information System (PIS).

The provincial government participates in the GoN reform programs, such as the Provincial and Local Governance Support Program (PLGSP), which aims to enhance the capabilities of institutions and organizations at the SNG level. Joint federal–provincial reform initiatives include fiscal federalism, budgeting, accounting, reporting, and oversight functions.

Furthermore, the federal Ministry of Finance (MoF) is implementing reform initiatives that will also benefit SNGs. For example, these include upgrading to PFM information systems (improvements to reconciliation of banks, payments, revenue, and advances); the development of a fiscal risk monitoring system; and the preparation of a commitment management system. Similarly, improvements to external audit procedures undertaken by the OAG will help to improve external accountability procedures in relation to the provincial and local governments.

The federal MoF is finalizing the PFM Reform Strategy (PFMRS) for 2025–30. This is the first PFMRS being prepared within a federal context in consultation with provincial and local governments. During consultations, the Government of Gandaki Province identified several key challenges, including issues related to budget realism, unrealistic budget allocations, deficiencies in project initiation and appraisal, inadequate equalization grants, misalignment and delays in conditional grants, inconsistent tax rates, and limitations in mobilizing natural resources. To address these, the PFMRS proposes reforms to enhance the effectiveness and efficiency of PFM at the provincial level. The strategy will be finalized and implemented from the start of FY2025/26.

Table ES. 2: PEFA PFM Assessment 2024 - summary of scores

PFM performance indicator		Scoring method	Dimension score				Overall score
			i.	ii.	iii.	iv.	
SNG. Intergovernmental fiscal relations							
HLG-1	Transfers from higher level of government	M2	A	B	D	D	C+
HLG-2	Fiscal rules and monitoring of fiscal position	M1	D	C	B		D+
I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	D	A		D+
PI-3	Revenue outturn	M2	D	D			D
II. Transparency of public finances							
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	B				B
PI-6	Subnational government operations outside financial reports	M2	C	C	D		D+
PI-7	Transfers to subnational governments	M2	A	C			B
PI-8	Performance information for service delivery	M2	B	B	B	D	C+
PI-9A	Public access to fiscal information	M1	C				C
PI-9B	Public consultation	M2	D	D	D		D
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	NA	D	D		D
PI-11	Public investment management	M2	D	D	D	D	D
PI-12	Public asset management	M2	A	D	D		C
PI-13	Debt management	M2	NA	NA	NA		NA
IV. Policy-based fiscal strategy and budgeting							
PI-14	Medium-term budget strategy	M2	C	D	C	D	D+
PI-17	Budget preparation process	M2	C	C	C		C
PI-18	Legislative scrutiny of budgets	M1	D	D	A	B	D+
V. Predictability and control in budget execution							
PI-19	Tax administration	M2	A	NA	D	D*	C+
PI-20	Accounting for revenue	M1	A	D	C		D+
PI-21	Predictability of in-year resource allocation	M2	C	D	A	A	B
PI-22	Expenditure arrears	M1	A	C			C+
PI-23	Payroll controls	M1	D	D*	D	C	D+
PI-24	Procurement	M2	D	A	C	B	C+
PI-25	Internal controls on non-salary expenditure	M2	C	C	A		B
PI-26	Internal audit	M1	A	D	A	D	D+
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	B	NA	D	B	C+
PI-28	In-year budget reports	M1	C	A	C		C+
PI-29	Annual financial reports	M1	C	B	B		C+
VII. External scrutiny and audit							
PI-30	External audit	M1	A	D	D	C	D+
PI-31	Legislative scrutiny of audit reports	M2	C	C	D	D	D+





PFM CONTEXT IN THE GANDAKI PROVINCIAL GOVERNMENT

PFM Context in the Gandaki Provincial Government



1.1. Gandaki Provincial Government Financial Overview

Governance arrangements

Nepal adopted a federal system of governance after promulgating its new Constitution in 2015. It consists of a federal level, seven provinces, and 753 local Levels (including urban and rural municipalities). Each level has an elected executive, legislative, and judicial structure. The Constitution authorizes all three levels to legislate, formulate plans and policies, and mobilize resources within their jurisdictions. The provinces are governed by provincial governments, which form the second level of governance in the country.

Provincial governments were first formed in early 2018 following elections of the Provincial Assemblies held in late 2017. Several federal laws were adopted to allow provincial units to exercise their powers in accordance with the Constitution. The Constitution requires provinces to adopt laws that do not contradict federal laws.

Country economic situation⁷

Nepal's economy slowed significantly to 2 percent in FY2022/23, marking the lowest growth rate since FY2019/20. The slowdown was primarily attributed to monetary tightening, sluggish capital expenditures, and import restriction measures. A 150-basis-point increase in the monetary policy rate in July 2022 coupled with import restrictions aimed at curbing foreign exchange losses under the fixed exchange rate regime subdued growth in the industrial and services sectors, which grew by 1.4 percent and 2.4 percent in FY2022/23,

⁷ The following paragraphs draw on: Joshi, Nayan Krishna, Abdoul Ganiou Mijiyawa, Prabin Dongol, and Anima Maharjan. *Nepal Development Update: Economy on a Recovery Path but Private Investment Remains Low*. (Washington, DC: World Bank Group, 2024).

respectively. However, the manufacturing, construction, and wholesale and retail trade sectors all experienced a contraction.

Despite the economic slowdown, average consumer price inflation accelerated to a seven-year high of 7.8 percent in FY2022/23. Cereals, housing, and utilities prices, which comprise over 30 percent of the Consumer Price Index (CPI) basket, saw rapid price increases. Despite tighter monetary policy, inflation could not be contained below the 7 percent ceiling of the Nepal Rastra Bank (NRB), partly due to India's ban on wheat and flour exports.

The current account deficit narrowed from 12.5 percent to 1.3 percent of gross domestic product (GDP) between FY2021/22 and FY2022/23, reflecting a significant decline in the imports of goods, as well as a strong rebound in remittance inflows. Exports and foreign direct investment (FDI) are relatively small compared to remittance inflows and imports. With external debt repayments being relatively low, reserves continued to increase, reaching 10 months of import coverage as of the end of FY2022/23.

The fiscal deficit almost doubled from 3.6 percent of GDP to 6.2 percent of GDP between FY2021/22 and FY2022/23. Over half of all fiscal revenues are trade related. As imports declined, fiscal revenues contracted in nominal terms for the first time since FY1970/71, falling from 22.9 percent of GDP to 19.3 percent of GDP between FY2021/22 and FY2022/23. Expenditures also declined, but by much less (1 percentage point of GDP), reflecting lower transfers to the subnational governments (SNGs). The deficit was financed through external concessional borrowing, domestic borrowing, and the prior year's cash balance.

Public debt remains moderate and sustainable due to a largely concessional external debt stock and prudent fiscal management. Although it reached 43 percent of GDP in FY2022/23, it is deemed to still be moderate and sustainable, with concessional public and publicly guaranteed external debt accounting for 50.9 percent of the total public debt in FY2022/23. The other half is domestic public debt denominated in local currency and mainly comprising development bonds and Treasury bills. The May 2023 Joint World Bank–International Monetary Fund (IMF) Debt Sustainability Analysis finds the risk of debt distress for Nepal to remain low.

Table 1.1: Selected National Economic Indicators

	FY2020/21	FY2021/22	FY2022/23
Nominal GDP (NPR, billions)	4,353	4,977	5,349
Nominal GDP per capita (US\$)	1,277	1,411	1,378
Real GDP growth, at constant market prices (%)	5.6	2.0	3.9
Unemployment rate (%)	12.6	10.9	11.0
Inflation (CPI, %)	3.6	6.3	7.8
Public finance (% of GDP) / budget			
Revenues	23.3	22.9	19.3
Expenditures	27.2	26.6	25.6
Fiscal balance (including grants)	−4.0	−3.6	−6.2
Debts	39.9	40.4	43.0

Sources: International Labour Organization Modeled Estimate, (<https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=NP>)

Note: CPI= Consumer Price Index; GDP= Gross Domestic Product; NPR= Nepalese Rupee.

Main facts and economic indicators of the Gandaki Province

The main facts and selected economic indicators for the Gandaki Province are summarized in Tables 1.2, 1.3, 1.4, and 1.5.

Table 1.2: Summary of Main Facts about the Gandaki Province

Gandaki Province	Details
Tier of government	Provincial government
Population	2.47 million inhabitants, including 1.17 million males and 1.3 million females.
Main characteristics	Gandaki Province is located in the midwestern part of Nepal, encompassing 11 districts across three zones, covering all three terrains: mountains, hills, and Terai (plain) land. The province comprises 85 local Levels, with Pokhara serving as its capital. The key economic sectors are agriculture, industrial production, tourism, infrastructure development, manufacturing, hydro power, and trade and commerce.
Economy	
GDP components	The services sector is the major sector of Gandaki (50.2 percent of its GDP), followed by the agriculture sector (22.5 percent) and the industrial sector (16.0 percent). About two-thirds of the population lives in urban municipalities.

Source: National Statistics Office (NSO).

Table 1.3: Structure of the Gandaki Province's Public Sector

	Budgetary Units	Extrabudgetary Units	Subnational Public Corporations	Subnational Governments
Number of entities	198	20	None	85
Financial turnover	23,607 ^a	1,604 ^a	Not applicable (n.a.)	50,163 ^a
Ten largest entities (name)	<ol style="list-style-type: none"> Office of the Chief Minister and Council of Ministers Provincial Policy and Planning Commission Ministry of Economic Affairs Ministry of Social Development and Health Ministry of Physical Infrastructure Development and Transport Management Ministry of Energy, Water Resources and Water Supply Ministry of Agriculture and Land Management; and Ministry of Industry, Tourism, Forest and Environment. 	<ol style="list-style-type: none"> Dhaulagiri Hospital, Baglung Beni Hospital, Myagdi District Hospital Syangja Parbat Hospital, Parbat Madhya Bindu Hospital, Nawalpur Gorkha Hospital, Gorkha Infectious and Communicable Disease Hospital, Pokhara Matri Shishu Miteri Hospital, Kaski Damauli Hospital, Tanahun Mustang Hospital, Mustang 	n.a.	<ol style="list-style-type: none"> Pokhara Metropolitan City Devchuli Municipality Kathekholra Rural Municipality Putali Bazar Municipality Walling Municipality Madhyabindu Municipality Gaindakot Municipality Barpak Sulikot Rural Municipality Arjun Chaupari Rural Municipality Beni Municipality

Note: a. Amount in NPR, millions, for FY2022/23.

Table 1.4: Aggregate Fiscal Data for the Gandaki Province, FY2020/21–FY2022/23

Particular	FY2020/21		FY2021/22		FY2022/23	
	NPR, millions	Share of provincial GDP (%)	NPR, millions	Share of provincial GDP (%)	NPR, millions	Share of provincial GDP (%)
A. Total revenues and grants	23,640	6.1	25,517	5.7	22,048	4.6
o/w: Own-source revenues	780	0.2	959	0.2	1,063	0.2
o/w: Revenue sharing from GoN	8,895	2.3	10,685	2.4	9,214	1.9
o/w: Fiscal transfer from GoN	13,964	3.6	13,873	3.1	11,772	2.4
B. Total expenditures	25,623	6.6	22,045	5.0	23,615	4.9
B.1 o/w: Recurrent expenditures	7,572	2.0	7,054	1.6	6,462	1.3
o/w: Fiscal transfer to LGs	455	0.1	527	0.1	1,892	0.4
o/w: Interest expenditures	0	-	0	-	0	-
B.2 o/w: Capital expenditures	17,597	4.6	14,464	3.3	15,261	3.2
C. Aggregate balance (including grants) (A – B)	-1,984	-0.5	3,472	0.8	-1,567	-0.3
D. Primary balance	-1,984	-0.5	3,472	0.8	-1,567	-0.3
Public debt	0	-	0	-	0	-
o/w: Owed to the GoN	0	-	0	-	0	-
o/w: IFIs	0	-	0	-	0	-
o/w: Province bonds	0	-	0	-	0	-
Ratio of public debt to GDP	0	-	0	-	0	-
Provincial GDP	385,432	-	444,236	-	484,127	-

Source: Budget Speeches (fiscal data) and National Statistics Office (NSO) (GDP data).

Note: a. Excludes revenue sharing between the provincial government and local governments. GDP= Gross Domestic Product; GoN= Government of Nepal; IFI = International financial institution; LG = Local government; o/w= of which.

Table 1.5: Selected Economic Indicators for the Gandaki Province

	FY2020/21	FY2021/22	FY2022/23
Nominal GDP (NPR, millions)	385,432	444,236	484,127
<i>Sector shares</i>			
Agriculture (NPR, millions)	92,225	100,342	109,146
Industry (NPR, millions)	58,727	70,780	77,229
Services (NPR, millions)	177,988	208,965	242,804
Net tax (NPR, millions)	56,492	64,149	54,948
Nominal GDP per capita (US\$)	1,329	1,488	1,499
Real GDP growth rate (market prices) (%)	4.2	5.9	3.3

Source: NSO.

Note: GDP= Gross Domestic Product.

Fiscal and budgetary trends of the Gandaki Province⁸

Only 8 percent of own spending by all seven provinces was financed by their own revenues in FY2022/23, which was a marginal increase compared to FY2021/22. Defined as the gap between own spending (total spending minus transfers paid) and own revenues (total revenues minus transfers received), the vertical fiscal gap (VFG) stayed at 92.5 percent, close to the historic average of 93 percent. However, the VFG varies across provinces, ranging from 85 percent in Bagmati Province to 99 percent in Sudurpashchim Province, reflecting differences in own source revenues.

The Gandaki Province's real GDP growth decreased to 3.3 percent in FY2022/23, from 5.9 percent in FY2021/22. The wholesale and trade, manufacturing, and construction subsectors were the leading contributors to this pace of growth, the lowest since FY2019/20. The services sector contributed close to 50 percent of the province's GDP, and the provincial GDP accounted for 8.9 percent of the national GDP in FY2022/23.

Gandaki's provincial government registered its second fiscal deficit in less than three years in FY2022/23. The deficit stood at 0.3 percent of GDP, a shift from the surplus of 0.8 percent of its GDP in FY2021/22. This was due to the decline in revenues and grants by more than 1.1 percentage points of its GDP. Intergovernmental revenues⁹ led to a decline in overall revenues and grants. However, expenditures remained relatively unchanged at 4.9 percent of GDP in FY2022/23. The deficit was financed by opening cash and bank balances from the previous fiscal year.

Lower own-source revenues led to a continuously elevated VFG. In FY2022/23, nearly 5 percent of the provincial government's own spending (excluding fiscal transfers to local Levels) was covered solely by own-source revenues, with intergovernmental revenues making up close to 94 percent of the total revenues and grants. Capital spending comprised over 70 percent of the provincial government's own spending and 65 percent of its total expenditures for the year. Fiscal transfers to local Levels, as well as wages and salaries, comprised 40 percent of the provincial government's recurrent spending in FY2022/23.

⁸ The following paragraphs draw on: Joshi, Nayan Krishna, Abdoul Ganiou Mijiyawa, Prabin Dongol, and Anima Maharjan. *Nepal Development Update: Economy on a Recovery Path but Private Investment Remains Low*. (Washington, DC: World Bank Group, 2024).

⁹ This includes revenue sharing and intergovernmental grants.

Intergovernmental fiscal arrangements

The powers and responsibilities for taxation and expenditure among the federal, provincial, and local governments are governed by the Constitution. The National Natural Resource and Fiscal Commission Act (2017), the Intergovernmental Fiscal Arrangement Act (IGFA 2017), and the Local Government Operation Act (2017) outline the legal framework for fiscal decentralization in Nepal. They delineate the powers, functions, and responsibilities of the SNGs, including revenue mobilization, expenditure management, and development planning. The SNGs have access to various revenue sources, including property tax, land registration fees, vehicle tax, business registration fees, tourism tax, and local service charges. They can also receive grants from the GoN. In addition, the Constitution establishes a revenue-sharing arrangement between all levels of government, as well as a system of fiscal transfers from the federal government to the provincial and local governments.

To ensure that natural and fiscal resources are distributed equitably, Nepal has established the National Natural Resource and Fiscal Commission (NNRFC) as a constitutional body. The primary aim of the NNRFC is to promote a just and equitable distribution of resources among the federal, provincial, and local levels, thereby ensuring a fair allocation of resources across the country. The GoN provides fiscal transfers to the SNGs in the form of equalization grants, conditional grants, and special and matching grants. These transfers aim to address vertical fiscal imbalances and promote equitable development across regions. Despite constitutional provisions and legal frameworks, fiscal decentralization in Nepal faces several challenges, including capacity constraints at the local level, inadequate revenue mobilization, uneven distribution of resources, and overlapping roles between different tiers of government.

In terms of fiscal transfers, provincial governments receive four types of grants: fiscal equalization, conditional, special, and complementary grants. Parallel to the grants from the GoN, local governments also receive such grants from their provincial governments. In accordance with the IGFA, provincial governments provide fiscal grants to local governments within their jurisdiction.

1.2. Institutional Arrangements for PFM

In the case of the Gandaki provincial government, the Office of the Chief Minister and Council of Ministers (OCMCM) holds executive power according to the Constitution. The Chief Minister is responsible for driving the provincial plans, policies and laws through various line ministries. The Provincial Policy and Planning Commission (PPPC) of the Gandaki Province is the main agency for provincial-level plans, policies, and programs, including monitoring and evaluation (M&E). It oversees the implementation of the provincial and local governments' 3-year work programs and coordinates strategic planning.

The Constitution provides the overarching legislative framework for financial procedures at all government levels. To guide and regularize the overall PFM functions, the GoN has enacted the (federal) FPFA Act (2019) and FPFA Regulation (2021), which are applicable to all three tiers of government. Further, the Gandaki provincial government has enacted the (provincial) FPFA Act (2022) and (provincial) FPFA Regulation (2023). Various rules, guidelines, and directives support the implementation of these laws. In the area of external audit and oversight, the OAG is mandated to undertake audits as provisioned under the Audit Act (2019). These legal and regulatory provisions establish and operationalize the PFM framework at the budgetary provincial government level.

The Ministry of Economic Affairs (MoEA) and the PPPC coordinate functions for budget preparation and execution. The MoEA is responsible for: (a) the formulation and monitoring of provincial fiscal policy, (b) the preparation and implementation of the budget in coordination with the PPPC, (c) revenue policy implementation, and (d) revenue collection and administration through its directorates and offices. The MoEA is also responsible for revenue/tax collection and administration. Treasury, accounting, reporting, internal control, and internal audit functions rest with the Provincial Financial Comptroller Office (PFCO), which has 10 district-level Provincial Treasury Units (PTUs). Arrangements are in place whereby staff of the federal FCGO's District Treasury Controller Offices (DTCOs) conduct some provincial treasury functions, including the internal audit of provincial spending units.

All spending units, including ministries and directorates, are responsible for delivering their financial plans (budgets and programs) to the MoEA based on the ceilings provided. All spending units use the Provincial Line Ministries Budget Information System (PLMBIS) for budget preparation. There are various other information and communication technologies (ICT) systems, such as the Treasury Single Accounts (TSAs), the Revenue Management Information System (RMIS), and the Computerized Government Accounting System (CGAS), which are used to operate PFM. Beyond the MoEA, the PPPC, and PFCO, the following entities play key roles in PFM: the Provincial Assembly and its committees, the OAG, the NNRF, and the federal PPMO.

The federal PPMO was established under Clause 64 of the Public Procurement Act (PPA) (2007) to oversee procurement activities. It is responsible for ensuring competition, efficiency, and transparency in public procurement activities. The PPMO conducts capacity-building activities, monitors and facilitates the procurement process, and issues Standard Bidding Documents (SBDs) and other regulatory documents. Furthermore, the PPMO manages the Electronic Government Procurement (e-GP) system.

The OAG, a constitutional body, conducts audits and publishes annual reports with observations and suggestions about budget and program execution. Its audits cover all spending units of the provincial government, including all beneficiaries of public funds. The Constitution also provides for the functional independence of the audit. The Public Accounts Committee (PAC) of the Provincial Assembly scrutinizes the OAG's annual report.

The federal FCGO has developed multiple information systems to automate various PFM functions in all three tiers of the government. The GoN has now interfaced and connected these systems for more effective and efficient PFM performance. However, because the systems were developed independently, there are challenges in integrating services and ensuring the smooth exchange of data. Table 1.6 shows the different PFM information systems used by the provincial government.

Table 1.6: Information Technology (IT) Systems used by the Provincial Government

System	Description	Established
Revenue Management Information System (RMIS)	The provincial RMIS is a web-based software that tracks provincial governments' revenue collection.	2018
Computerized Government Accounting System (CGAS), including Electronic Fund Transfer (EFT)	Government spending offices use the CGAS for accounting and reporting budget expenditures. It is also linked with the TSA and PLMBIS.	2019
Provincial Line Ministries Budget Information System (PLMBIS)	The PLMBIS supports the major functions required for provincial government budget allocation and execution. It also provides budget authorization. Once budgets are approved, programs are entered into the PLMBIS for authorization, including for expenditures.	2020
Public Asset Management System (PAMS)	The PAMS is used to record and report public assets. It has been mandatory for provincial governments from FY2020/21.	2020
Treasury Single Account (TSA)	The TSA system is a unified structure of government treasury operations that gives a consolidated view of government cash resources at any point in time.	2022

System	Description	Established
Provincial Project Bank Management Information System (PPBMIS)	The PPBMIS is a web-based platform that facilitates the functioning of the National Project Bank (NPB) at the provincial level by assisting data capture, validation, analysis, interpretation, as well as the sharing of project information to assist decision-making while preparing and developing projects.	2022
Financial Management Information System (FMIS)/ Ministry Financial Management Information System (MFMIS)	<p>The FMIS is a web-based software used for integrated financial reporting purposes, including budgets, revenues, and expenditures.</p> <p>The MFMIS allows line ministries to track financial information and reports of spending units under the line ministry.</p>	2022

The Integrated Public Financial Management Service (IPFMS) is an integrated platform to access the IT systems. Depending on the login protocol, it directs users to a specific system (for example, to the CGAS, the TSA, or the MFMIS).

Provincial governments may borrow with the GoN's consent. According to Section 23 of the IGFA Act, provincial governments may propose deficit budgets to the provincial assembly in accordance with their requirements for which the financing source(s) must be defined. The Federal Public Debt Management Office (PDMO) is responsible for managing public debt, as well as recording, accounting, and reporting through the Debt Operation and Management System (DOMS). However, the Gandaki Provincial Government has not borrowed any loans so far.

1.3. Legal and Regulatory Arrangements for PFM

The PFM Framework is outlined in the Constitution. The federal, provincial, and local governments are vested with powers to develop and implement plans, policies, and annual budgets within their respective jurisdictions, subject to legislative approval. The Gandaki Provincial Assembly has enacted laws related to budget management, revenue collection, procurement, accounting, and oversight, which are in accordance with the Constitution. Furthermore, the annual Appropriation Act, once approved by the Provincial Assembly, is the primary legislation governing the management of provincial funds in a given budget year. Table 1.7 summarizes the main laws and regulations related to PFM.

Table 1.7: Main PFM Laws and Regulations

PFM Area	Law/Regulation	Description and Coverage
All	<ul style="list-style-type: none"> ■ Constitution of Nepal (2015) ■ FPFA Act (2019) ■ Provincial FPFA Act (2022) ■ FPFA Regulation (2019) ■ Provincial FPFA Regulation (2023) 	<p>The Constitution, federal FPFA Act, FPFA Regulation, and Provincial FPFA Act and Regulations provide comprehensive coverage of the management of public finances. The Constitution grants the provincial government the authority to raise revenue and incur debt while also mandating the submission of an annual budget to the Provincial Assembly. Additionally, it establishes guiding principles pertaining to accounting, auditing, internal controls, and legislative oversight. The FPFA Act and FPFA Regulation provide a comprehensive framework for planning, budgeting, accounting, reporting, internal and external auditing, budget execution, and internal controls.</p>
Planning	<ul style="list-style-type: none"> ■ The first periodic five-year plan FY2018/19–2023/24) ■ Medium-Term Expenditure Framework (MTEF, rolled out every year for a three-year term) ■ Provincial project development directives ■ Provincial Project Bank (PPB) Guidelines (2022) 	<p>The five-year plan is a guiding document for sectoral strategies, the Sustainable Development Goals (SDGs), fiscal strategies, development programs and projects, resource mobilization, and the strategic allocation of available resources and provides a framework for Gandaki Province's socioeconomic development.</p> <p>The PPB Guidelines (2022) provide guidelines for identifying, appraising, selecting, and prioritizing developmental projects for inclusion in the PPB. The project development directives provide guidelines for specific sectors and include an economic analysis approach.</p>

PFM Area	Law/Regulation	Description and Coverage
Budgeting and revenue	<ul style="list-style-type: none"> ■ Provincial Annual Appropriation Act ■ Provincial Finance Act ■ Public Finance Management Act (2018) ■ Budget Preparation and Implementation Guidelines (Annual) ■ Provincial Financial Procedure and Fiscal Accountability (FPFA) Act and Regulation ■ Expenditure Norms (Standard) (2022) ■ Infrastructure Development Program Implementation Directives (2022) 	These laws and regulations cover budgeting, including revenue estimation, expenditure and budget ceilings and guidance, budget proposals and discussions, budget appropriations, principles and priorities of budgets and programs, the Medium-Term Expenditure Framework (MTEF), the consolidated fund, and the legislative scrutiny of budget.
Accounting	<ul style="list-style-type: none"> ■ Government Transaction Directives (2019) ■ Government Accounting Manual (Office of the Auditor General [OAG] forms and formats) (2013/2022) ■ Nepal Public Sector Accounting Standards (NPSAS) 	These specify the policies and procedures for the accounting and reporting of all budgetary central government (BCG)/ provincial government transactions from the consolidated fund using the cash basis of accounting.
External audit	<ul style="list-style-type: none"> ■ The Audit Act (2019) ■ Nepal Government Auditing Standards 	The Constitution outlines the audit mandate and the procedures for the appointment and removal of the Auditor General. The Audit Act, regulations, and standards cover matters related to audit planning, execution, reporting, and follow-up.
Inter-governmental fiscal relations	<ul style="list-style-type: none"> ■ Intergovernmental Fiscal Arrangement Act (IGFA) (2017) ■ National Natural Resources and Fiscal Commission (NNRFC) Act (2017) ■ Federal, Province and Local Level (Coordination and Inter-relations) Act (2020) ■ NNRFC Regulation (2019) ■ Public Finance Management Act (2018) ■ Public Debt Management Act (2022) ■ Public Debt Management Regulations (2023) 	These legislations and regulations cover intergovernmental fiscal coordination mechanisms, including revenue rights, revenue sharing, fiscal transfers, grants, loans, budget arrangements, and public expenditures.

PFM Area	Law/Regulation	Description and Coverage
Provincial Assembly	<ul style="list-style-type: none"> ■ Gandaki Province Assembly Regulations (2018), now repealed by the Regulation of July 2023 ■ Operational manual for thematic committees 	The Provincial Assembly prescribes the procedures to facilitate the transaction of assembly business, as well as to promote cooperation and harmony. These regulations also cover the role of assembly procedures related to the oversight of budgets and audit reports.
Internal control	<ul style="list-style-type: none"> ■ Internal Control System Directives (2018) (federal) 	The FPFA Act and Regulations and the Provincial FPFA Act and Regulations provide a comprehensive internal control framework. The internal control system directives, issued by the federal Financial Comptroller General Office (FCGO), elaborate the internal controls prescribed by different acts and regulations. These directives apply to all government entities of the three tiers of government.
Internal audit	<ul style="list-style-type: none"> ■ Internal Audit Procedure Directives (2016) (repealed by Internal Audit Manual 2022) ■ Internal Audit Handbook (2021) ■ Internal Audit Manual (2022) 	The Provincial Financial Comptroller Office (PFCO) conducts internal audits of all provincial government entities in accordance with internal audit procedure directives issued by the FCGO, that is, until the provincial government introduced its own Internal Audit Directive in 2024.
Procurement	<ul style="list-style-type: none"> ■ Public Procurement Act (PPA) (2007) ■ Public Procurement Regulation (2007) ■ Provincial Public Procurement Regulations (2022) ■ Directives on Procurement ■ Electronic Government Procurement (e-GP) System Operations Manual ■ Standard Bidding Documents (SBDs) 	The PPA is applicable to all tiers of government entities, including extra-budgetary units (EBUs). Procurement is decentralized to the spending units, with the Public Procurement Monitoring Office (PPMO) responsible for monitoring. The use of the electronic government procurement (e-GP) system is mandatory for all bidding above the threshold.

PFM Area	Law/Regulation	Description and Coverage
Public participation	<ul style="list-style-type: none"> ■ Citizen Engagement Strategy ■ Participatory Audit Guidelines 	The Government has issued a Citizen Engagement Strategy to enhance public participation to facilitate better fiscal transparency and effective accountability for all three tiers of government. The OAG has issued guidelines to facilitate citizen engagement in external audits.

1.4. PFM Reform Process

The federal programs have been supporting the strengthening of the PFM systems at the provincial level. The Provincial and Local Governance Support Program (PLGSP), supported by development partners, is a national initiative of the government to enhance the capabilities of institutions and organizations at the provincial and local levels. Enhancing the PFM systems of subnational governments is a primary area of emphasis for the PLGSP. The World Bank-supported Integrated Public Financial Management Reform Project (IPFMRP) was implemented from 2018 to 2023. It contributed to strengthening PFM at the provincial and local levels. The IPFMRP supported the establishment of the Provincial Project Bank System, the implementation of the NPSAS, and the improvement of the PFM information systems that are also used by provinces, thus enhancing external audit quality, standardizing procurement documents, and building the capacity of civil servants in PFM and procurement. Various development partners have also been engaged in supporting the PFM reforms at the federal and subnational levels in Nepal.

The federal Ministry of Finance (MoF) is finalizing the PFM Reform Strategy (PFMRS) for 2025-30. This is the first PFMRS being prepared within a federal context. The MoF is preparing the strategy using a consultative approach. The Government of the Gandaki Province identified several key challenges during the consultation sessions, including lower budget realism; unrealistic budget allocations; shortcomings in project initiation and appraisal; insufficient equalization grants; misaligned and delayed conditional grants; varying tax rates; and restricted natural resource mobilization. To address these, the strategy proposes reforms to enhance the effectiveness and efficiency of public financial management at the provincial level. The strategy will be finalized and implemented from the start of FY2025/26.





ASSESSMENT OF PFM PERFORMANCE

Assessment of PFM Performance

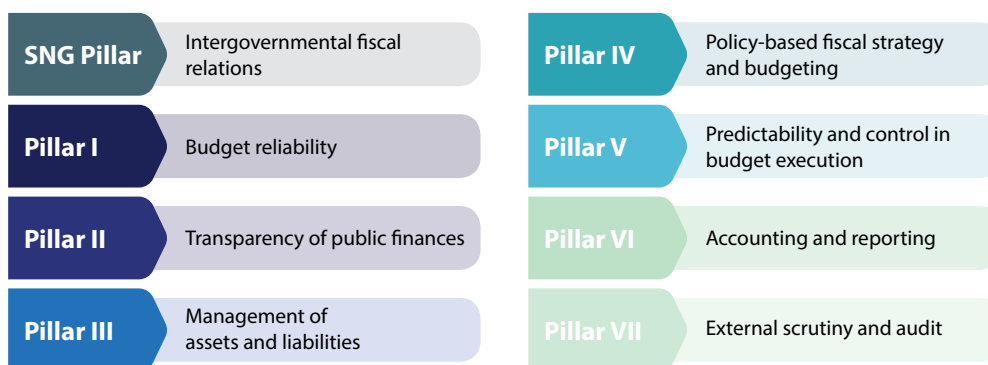


Chapter 2 provides an assessment of the key elements of Gandaki Province's PFM system, as captured by the pillars, indicators, and dimensions of the Public Expenditure and Financial Accountability (PEFA) SNG Assessment framework.

The PFM performance of each dimension and performance indicator (PI) has been assessed and assigned ratings of 'A' to 'D' according to the PEFA framework criteria. The ratings may be broadly interpreted as follows:

A	High level of performance that meets good international practices
B	Sound performance in line with many elements of good international practices
C	Basic level of performance
D	Less than the basic level of performance
D*	Insufficient information to score ¹⁰
NA	Not applicable ¹¹

The structure of this chapter is based on the eight pillars, as follows:



¹⁰ A score of a D due to insufficient information is distinguished from D scores for low-level performance by the use of an asterisk.

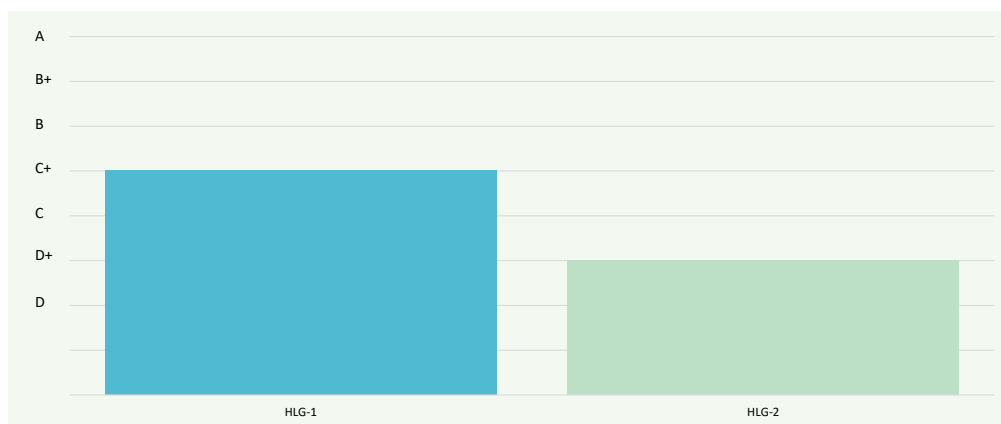
¹¹ See PEFA Framework, page 7, or Volume II of the PEFA Handbook, subsection 2.1.2. The term 'not applicable' and its abbreviation 'NA' are to be used in tables where an indicator, dimension, or evidence sought is not applicable to the government system being assessed. When 'NA' is used, an explanation should be included in the narrative.

» SNG PILLAR: Intergovernmental Fiscal Relations

What the pillar measures. The SNG Pillar assesses whether the SNG receives reliable and timely information about transfers from the central government. This helps SNG to prepare meaningful budgets as well as to determine which fiscal and debt rules are in place for SNGs, and if there is financial monitoring of SNGs.

Overall performance: Analysis of key strengths and weaknesses. In this pillar, one indicator shows a basic level of performance (C+), while the performance of the other indicator is below the basic level (D+). The GoN's actual transfers to the Government of the Gandaki Province during the past three fiscal years were close to the original budget estimates, both in aggregate and in composition (HLG-1.1, scored A, and HLG-1.2, scored B). Also, the provincial governments submitted their financial statements to the GoN within six months of fiscal year-end (HLG-2.3, scored B), exhibiting sound performance. What adversely affected performance, however, was that the GoN's transfers were less timely and predictable, which resulted in a low score (HLG-1.3 and HLG-1.4, both dimensions scored a D). The additional reason for the low score is that the GoN's fiscal and debt rules for the SNGs do not set a ceiling on the primary fiscal balance or the operating balance, and less clearly state exemptions for specific circumstances, sanctions, and enforcement mechanisms (HLG-2.1, scored D, and HLG-2.2, scored C). The lack of clarity in fiscal rules may prevent the provincial government from implementing consistent fiscal policies, leading to volatility, reduced private sector investment, and slower economic growth. Thus, clear and transparent fiscal frameworks are essential for promoting responsible fiscal management, protecting against fiscal risks, and fostering sustainable economic development at the subnational level.

Figure 2.1: Indicator Scores under the SNG Pillar



HLG-1. Transfers from Higher Level of Government

What the indicator measures. It measures the extent to which transfers to the SNGs from higher levels of government (HLG) are consistent with original approved budgets of the HLG, and that such transfers are provided according to agreed time frames.

Methodological notes. Source data and calculations for HLG-1.1 are available in Annex 4, and for HLG-1.3 in Annex 7. Published data was used to assess the extent to which requirements are met for the specific scores.

Table 2.1: Summary of Scores for HLG-1 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
HLG-1. Transfers from higher level of government	C+	Scoring method M2.
HLG-1.1. Outturn of transfers from higher level of government	A	Actual transfers were between 99 and 105 percent of the original budget estimates in two of the last three fiscal years.
HLG-1.2. Transfers composition outturn	B	The variance in transfer composition was less than 10 percent in each of the last three fiscal years.
HLG-1.3. Timeliness of transfers from higher level of government	D	A disbursement timetable is implicitly agreed by the GoN and SNGs for the fiscal transfers; however, actual disbursements were generally not made in accordance with the timetable during the last three fiscal years. Also, actual transfers were not distributed evenly across each year or front-loaded.
HLG-1.4. Predictability of transfers	D	The GoN provides information about transfers for the fiscal year and the following fiscal year at the aggregate level for all provinces, but not separately for each province.

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

The Constitution's Part 5 (Structure of State [Province] and Distribution of State [Province] Power) provides equal power to federal, provincial, and local governments. The expenditure responsibilities are devolved and enshrined in the Schedules of the Constitution. Article 60 (3, 4, and 6) provides for the distribution of fiscal equalization grants, conditional grants, complementary grants, and special grants by the federal government to the provincial and local governments. Article 60 (3) requires the fiscal transfer amounts to be as recommended by the NNRFC. Article 60 (2, 7, and 8) provides for the distribution of revenues between the

three tiers of government. Hence, fiscal transfers from the GoN to the SNGs comprise four grants and revenue sharing.

Recent or ongoing reform activities. The GoN and the provincial governments are working to incorporate the province-wise composition of transfers into the federal Medium-Term Expenditure Framework (MTEF). Efforts are also ongoing to provide information about transfers using the functional classification.

HLG-1.1. Outturn of transfers from higher level of government

Performance level and evidence for scoring of the dimension. The total amounts of budgeted and actual transfers from the GoN to the Gandaki's Provincial Government from FY2020/21 to FY2022/23 are shown in Table 2.2.

Table 2.2: Outturn of Transfers from the GoN (NPR, millions)

	FY2020/21	FY2021/22	FY2022/23
Approved budget	20,934	20,657	25,782
Actual received transfers	20,865	21,638	19,602
Outturn (%)	99.7	104.7	76.0

Sources: PFCO's Consolidated Financial Statement (CFS) and FCGO's Financial Management Information System (FMIS) for FY2020/21, FY2021/22, and FY2022/23.

The actual total transfer was almost similar to the budget for FY2020/21, somewhat above the budget for FY2021/22, but significantly below the budget for FY2022/23.

The transfers involved in the deviation in FY2021/22 were mainly the revenue sharing and, to a lesser extent, the conditional grant. For FY2022/23, the deviation involved all four grants, as well as revenue sharing. The specific reason for the low outturn in FY2022/23 was the fiscal challenges encountered by the GoN during that year (see Chapter 1). However, there is also a systemic issue in the form of an information-timing mismatch that follows from the legal requirements regarding when budget proposals must be submitted. The SNGs will only know the final grant estimates once the GoN submits its annual budget proposal to Parliament, by which time the provincial governments must also submit their annual budget proposals to the respective provincial assemblies.

Actual transfers were between 99 and 105 percent of the original budget estimates in two of the last three fiscal years. Hence, the score for the dimension is an **A**.

HLG-1.2. Transfers composition outturn

Performance level and evidence for scoring of the dimension. The variance in transfers composition for FY2020/21 to FY2022/23 is shown in Table 2.3.

Table 2.3: Transfers Composition Outturn

	FY2020/21	FY2021/22	FY2022/23
Composition variance (%)	6.4	6.0	9.4

Sources: PFCO's CFS and FCGO's FMIS for FY2020/21, FY2021/22, and FY2022/23.

The variance in transfer composition was less than 10 percent in each of the last three fiscal years. There were different reasons for the variances for each year. In FY2020/21, they were mainly caused by differences between the budgeted and actual amounts of the conditional grant and revenue sharing; in FY2021/22, they involved mainly the fiscal equalization and conditional grants; and in FY2022/23, they were mainly due to the fiscal equalization grant and revenue sharing.

The variance in transfer composition was less than 10 percent in each of the last three fiscal years. Hence, the score for the dimension is a **B**.

HLG-1.3. Timeliness of transfers from higher level of government

Performance level and evidence for scoring of the dimension. The GoN has set timetables for disbursements of all transfers (four types of grants and revenue sharing) to the SNGs through the IGFA Act and the federal and provincial Appropriation Acts, as well as procedures. The baselines, criteria, and formulas for the fiscal equalization and conditional grants and revenue sharing are recommended by the NNRFC, whereas the baselines and criteria for the complementary and special grants are set in procedures established by the National Planning Commission (NPC). All stakeholders implicitly agree on the disbursement timetable for the fiscal year. The FCGO is the responsible entity for distributing the transfer amounts. The actual transfer dates are reflected in the RMIS reports. The timeliness and amounts for all transfers to the Gandaki Provincial Government for the last three fiscal years are shown in Table 2.4.

Table 2.4: Timeliness of Transfers (NPR, millions)

Types of Fiscal Transfers	Actual Timeline (received between the DTCO and PFCO units at the district level)	Actual Transferred Amounts		
		FY2020/21	FY2021/22	FY2022/23
Fiscal equalization grant	Same day	–	1,856	1,982
Conditional grant		147	1,289	1,861
Special grant		–	–	3,099
Complementary grant		500	291	480
Revenue sharing and royalty		4,769	5,667	4,140
Total transfer received on same day		5,416	9,103	11,562
Share (%)		33	43	70
Actual transfers during 1st quarter		4,132	3,210	2,595
Actual transfers during 2nd quarter		2,992	5,211	6,317
Actual transfers during 3rd quarter		3,748	4,418	3,062
Actual transfers during 4th quarter		5,659	8,382	4,542
Total annual transfer		16,531	21,221	16,516

Sources: IPFMS (CGAS)-PFCO and RMIS-PFCO, Gandaki Province.

Note: DTCO= District Treasury Controller Office; PFCO= Provincial Financial Comptroller Office.

The actual disbursement rate in accordance with the implicitly agreed disbursement timetable (same day), was 33 percent in FY2020/21; 43 percent in FY2021/22; and 70 percent in FY2022/23. Also, actual transfers were neither evenly distributed across each year nor front-loaded. Hence, the score for the dimension is a **D**.

HLG-1.4. Predictability of transfers

Performance level and evidence for scoring of the dimension. The federal MTEF, prepared by the NPC, provides information about the total grant transfers for the budget year and the two following fiscal years to the provincial governments and local governments, respectively. However, it was not broken down by grant type or by individual SNG.¹² Also, the federal MTEF is available to the SNGs only after the GoN has submitted its annual budget proposal to the Parliament (that is, by the end of May each year).

The GoN provides information about transfers for the fiscal year and the following fiscal year at the aggregate level for all provinces, but not separately for each province. Hence, the score for this dimension is a **D**.

¹² In practical terms, this means that the SNGs do not know the grant amounts in advance. Thus, they are not predictable, which affects the SNGs' annual and medium-term budgeting, including multiyear projects.

HLG-2. Fiscal rules and monitoring of fiscal position

What the indicator measures. It measures the extent to which the central government sets fiscal rules framing the budget and granting SNGs the right to borrow. It also assesses the extent to which the central government monitors the financial position of the SNGs.¹³

Methodological notes. The source data (sampled), along with the calculations and information for HLG-2.3, have been provided in the narrative. For each dimension, the relevant constitutional provisions, legislations and their associated regulations were reviewed and analyzed to evaluate the extent to which the requirements are met for the specific scores.

Table 2.5: Summary of Scores for HLG-2 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
HLG-2. Fiscal rules and monitoring of fiscal position	D+	Scoring method M1.
HLG-2.1. Fiscal rules for subnational governments	D	Fiscal rules established by the GoN are followed by all provincial governments. However, the rules do not set a ceiling on the primary fiscal balance or the operating balance for subnational governments.
HLG-2.2. Debt rules for subnational governments	C	The NNRFC has established SNG debt ceilings, and the IGFA Act prescribes enforcement mechanisms. However, they do not provide clear time-limited exemptions for specific circumstances.
HLG-2.3. Monitoring of subnational governments	B	All provincial governments submitted their annual financial statements to the federal government within six months of the end of FY2022/23.

Note: IGFA= Intergovernmental Fiscal Arrangement Act; NNRFC= National Natural Resource and Fiscal Commission; SNG= Subnational Government.

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

The Constitution's Part 16, Articles 203–213, provide for 'State [Province] Financial Operation Procedures'. This is a primary fiscal provision that clearly mentions the financial procedures established for all provincial governments. Also, the NPC's 15th Plan (FY2019/20–FY2023/24), which aimed to internalize the SDGs, is considered guidance on

¹³ Although the HLG-2 is an optional indicator, it can be used to provide conclusions regarding the system of fiscal decentralization in a country. It is applied here specifically to describe the fiscal rules for the Gandaki Province.

fiscal policy for all three tiers of government. Relevant major legal acts established by the GoN include the IGFA Act (2017); the NNRFC Act (2017); the federal FPFA Act (2019) and its Regulations (2021); the Loan and Guarantee Act (1968); the Public Debt Management Act (2022); and the Public Debt Management Regulations (2023).

Recent or ongoing reform activities. None observed.

HLG-2.1. Fiscal rules for subnational governments

Performance level and evidence for scoring of the dimension. The IGFA Act of 2017 has been formulated and enacted by the GoN for all three tiers of government with arrangements for revenue rights, revenue allocations, grants, loans, budget management, public expenditures, and fiscal discipline. The Act provides for revenue and expenditure budget preparation; MTEF preparation; fiscal equalization grant ceilings; and revenue sharing with provincial and local governments by the NNRFC before the budget preparation process starts. However, the Act does not clearly state exemptions for specific circumstances, sanctions, and enforcement mechanisms. The budget ceilings for conditional grants, special grants, and complementary grants are known to the provincial and local governments by the end of May through the GoN's budget proposal submitted to Parliament. Information about these fiscal transfers is provided through the Line Ministries Budget Information System (LMBIS), which is linked with the PLMBIS to the provincial governments.

All provincial governments have legislated PFM acts and formulated PFM regulations as required by Article 213 of the Constitution. These acts and regulations guide budget formulation and approval, as well as the implementation of the budget and overall fiscal policies. The provincial governments have also enacted Tax and Non-Tax Revenue-Related Acts to regulate revenue management. The PFM and Revenue legislation and regulations of all provincial governments are listed below.

- i. **Bagmati Province:** Provincial Financial Procedures Act, 2018; Provincial Financial Procedures Regulations, 2018; Provincial Tax and Non-Tax Revenue Act, 2018.
- ii. **Gandaki Province:** Provincial FPFA Act, 2022; Provincial FPFA Regulations, 2023; Provincial Tax and Non-Tax Revenue Act, 2018.
- iii. **Koshi Province:** Provincial FPFA Act, 2021; Provincial FPFA Regulations, 2022; Provincial Tax and Non-Tax Revenue Act, 2018.
- iv. **Karnali Province:** Provincial Financial Procedures Act, 2018; Provincial Financial Procedures Regulations, 2018; Provincial Finance Act, 2022.
- v. **Lumbini Province:** Provincial FPFA Act, 2019; Provincial FPFA Regulations, 2020; Provincial Tax and Non-Tax Revenue Act, 2018.
- vi. **Madhesh Province:** Financial Transactions Regularization Act, 2018; Provincial Tax and Non-Tax Revenue Act, 2022.
- vii. **Sudurpashchim Province:** Provincial FPFA Act, 2018; Provincial FPFA Regulations, 2023; Provincial Tax and Non-Tax Revenue Act, 2018.

The proposed annual budget, the Appropriation Bill, and Finance Bill are passed by the Provincial Assembly following detailed debates considering the budget ceiling provided by the GoN, the inputs from the provincial Resource Estimation Committee, as well as the deficit budget financing (internal debt) limit recommended by the NNRFC. For FY2022/23, the NNRFC recommended a ceiling of NPR 61,432 million for the fiscal equalization grant from the federal government to all seven provinces. The NNRFC also set an internal (domestic) debt ceiling for each provincial government at 12 percent of the total of internal revenues plus revenue sharing from the federal government, which can only be mobilized for approved capital projects or programs. The budget deficit is not proposed for any administrative expenditure by law. After their approvals, the Appropriation Act and the Finance Act become enforcement mechanisms, and the annual budget and programs are implemented. Hence, fiscal rules established by the federal government have been fully followed by the provincial governments by maintaining fiscal balance in budgeting.

The IGFA Act includes clear statements about public expenditure management; revenue and expenditure estimation; the maintenance of fiscal discipline; as well as the sanction and enforcement mechanism in the budgeting of provincial governments. However, it does not set a ceiling on the primary fiscal balance or the operating balance for the SNGs. Also, it does not clearly state exemptions for specific circumstances. Hence, the score for this dimension is a **D**.

HLG-2.2. Debt rules for subnational governments

Performance level and evidence for scoring of the dimension. The Constitution's Article 203 (2) states that no loan shall be raised and guarantee given by the provincial government except in accordance with federal law. The management of a budget deficit of the federation, provinces, and local governments, and the arrangements regarding fiscal discipline, must be in accordance with federal law, as provisioned in Article 59 (7) of the Constitution.

Based on the constitutional provision, the IGFA Act notes that the federal, provincial, and local governments can raise internal (domestic) loans within the limitations recommended by the NNRFC for the annual budget. However, the provincial and local governments may raise internal loans only with the approval of the GoN. Section 23 of the IGFA Act notes that the federal, provincial, and local governments may submit a deficit budget proposal to their legislature. Also, the respective government must define the source to fulfill the deficit budget. There are no exemptions to the ceiling recommended by the NNRFC, and all provincial governments adhered to the debt ceiling, as evidenced by their approved annual budgets for FY2022/23.

According to the Public Debt Management Act (2022), Section 5, the GoN can acquire external loans to implement projects of the federal, provincial, and local governments or to implement projects and programs approved by the federal government. Supplemental to the provisions of this act, the Public Debt Management Regulations (2023), rules 41 and 42 include detailed and well-defined processes and procedures for acquiring and managing internal debt. The PDMO of the federal MoF is the responsible agency for dealing and managing public debt of all three tiers of government. This includes monitoring subnational debt, where such exists.

According to Section 15 of the IGFA Act, the GoN may extend loans to the provincial or local governments. The provincial and local governments may submit requests to the MoF for loans stating the purpose of the loan amount, mode of payment, and time frame. The GoN may, if it deems the request reasonable, approve the loans, following which the MoF enters into an agreement with the concerned provincial or local government. In case of default on repayment of internal loans, the GoN can, in accordance with the IGFA Act, deduct the default loan amount from the fiscal transfer grant amounts.

For FY2022/23, the NNRFC recommended the internal debt ceiling for provinces to be 12 percent of the total internal revenues, plus revenue sharing from the federal government. The two provincial governments, Gandaki and Lumbini, proposed deficit budget financing based on internal loans. Thus, the Gandaki and Lumbini provincial governments budgeted

internal (domestic) loans of NPR 1,000 million each. In addition, the FY2022/23 Gandaki budget provisioned a loan of NPR 1,000 million from the GoN. However, both the provincial governments did not raise budgeted loans. Therefore, they did not proceed to seek approval from the GoN's MoF for the loans. Had the provincial governments raised the loans, they would also have had to propose and obtain GoN approval for a project plan to be executed based on the internal debt.

The NNRFC has established SNG borrowing ceilings, and the IGFA Act prescribes the enforcement mechanisms (Section 14). However, they do not provide clear time-limited exemptions for specific circumstances. The PDMO monitors subnational debt, and all the provincial governments adhere to the established borrowing ceiling. Hence, the score for this dimension is a **C**.

HLG-2.3. Monitoring of subnational governments

Performance level and evidence for scoring of the dimension. The federal FPFA Act (2019), Section 4 (1), requires local governments to prepare and submit to the concerned PFCO and DTCO (under the FCGO) their annual CFS. These CFS should include total income and expenditures, including all fiscal transfers from the federal and provincial governments, received revenue sharing, internal revenue income, and received loans and grants. The federal FPFA Regulation's Rule 10 states that the local government shall submit its CFS to the PFCO and DTCO (of the FCGO) by October 19. Similarly, Section 4 (2) and Rule 10 (2) require all the provincial governments and the MoEA's PFCO to prepare annual CFS for the incomes and expenditures of its underlying entities and agencies, including all local governments within its jurisdiction based on their financial statements. This CFS must be submitted to the FCGO by November 1.

Supporting this, the Province Fiscal Management Act (2018), Section 8, requires local governments to prepare and submit quarterly statements of income and expenditures to the MoEA's PFCO within 15 days of the end of each quarter. In case of noncompliance, the provincial government has the right to withhold fiscal transfers (grants) to the concerned local government. This is one of the major mechanisms of monitoring local governments. The provincial government shall submit these CFS to the FCGO in prescribed OAG formats. The FPFA Act's Section 5 and the Regulation's Rule 10 (3) make the FCGO responsible for preparing whole-of-government CFS covering the federal, provincial, and local governments. These must be submitted to the MoF and the OAG by December 31, and they must be published by the MoF by January 15. All three tiers of government are required to prepare their financial statements based on the GoN-approved accounting standards (NPSAS).

Table 2.6 shows the budgeted and actual expenditures of the seven provincial governments as reported in the respective CFS, including the dates of CFS submission to the FCGO, and the dates of CFS submission to the OAG.

Table 2.6: FY2022/23 CFS of Provincial Governments (NPR, millions)

Provincial Government	Budgeted Expenditures	Actual Expenditures	Outturn (%)	CFS Submission to the FCGO	CFS Submission to the OAG
1. Gandaki	35,909	23,615	66.8	Nov 5, 2023	Jan 2, 2024
2. Koshi	39,928	30,758	77.0	Nov 1, 2023	Dec 29, 2023
3. Madhesh	47,025	26,870	57.1	Nov 13, 2023	Jan 2, 2024
4. Bagmati	70,939	46,862	66.1	Nov 3, 2023	Jan 15, 2024
5. Lumbini	42,636	30,244	71.9	Nov 5, 2023	Jan 1, 2024
6. Karnali	32,616	22,267	68.3	Nov 6, 2023	Dec 15, 2023
7. Sudurpaschim	36,834	24,063	65.7	Nov 11, 2023	Jan 15, 2024
Total of 7 provincial governments	305,687	204,679	67.4		

Note: FCGO= Financial Comptroller General Office; OAG= Office of the Auditor General.

All local governments submitted their annual financial statements to the respective PFCOs and the DTCOs (under the FCGO) within the stipulated timeframe after the end of FY2022/23. The PFCOs submitted provincial (unaudited) CFSs to their respective MoEAs and the FCGO within four months of the close of the fiscal year, and to the OAG within six months after the fiscal year-end. The provincial CFS covered the fiscal positions of, and transactions made by, the provincial governments, including underlying local governments during FY2022/23.

The FCGO prepared (unaudited) CFS of FY2022/23 covering all federal, provincial, and local governments. The statements reflect the fiscal position of, and transactions made, by all three tiers of governments during FY2022/23. They were submitted to the OAG and published on December 29, 2023, that is, within six months of the fiscal year-end.

All financial statements were prepared according to the legal and regulatory provisions (FPFA Act, Section 5 (1 and 2) and FPFA Regulation, Rule 56 (1)) based on cash-basis, double-entry accounting, as well as NPSAS based on the International Public Sector Accounting Standards (IPSAS). The LMBIS, PLMBIS, TSA system, the CGAS, and the Subnational Treasury Regulatory Application (SuTRA) applied were interlinked with the IPFMS of the FCGO, which is also accessible to the PFCO in verifying and preparing the CFS.

This dimension assesses the monitoring of financial performance of the same tier of the SNGs related to the national government through the annual financial statements. The annual financial statements of all provincial governments were submitted to the federal government, that is, the FCGO, within six months of the close of the fiscal year. Hence, the score for the dimension is a **B**.



PILLAR ONE:
Budget Reliability



PILLAR TWO:
Transparency of Public Finances



PILLAR THREE:
Management of Assets and Liabilities



PILLAR FOUR:
Policy-based Fiscal Strategy and
Budgeting



PILLAR FIVE:
Predictability and Control in Budget
Execution



PILLAR SIX:
Accounting and Reporting



PILLAR SEVEN:
External Scrutiny and Audit



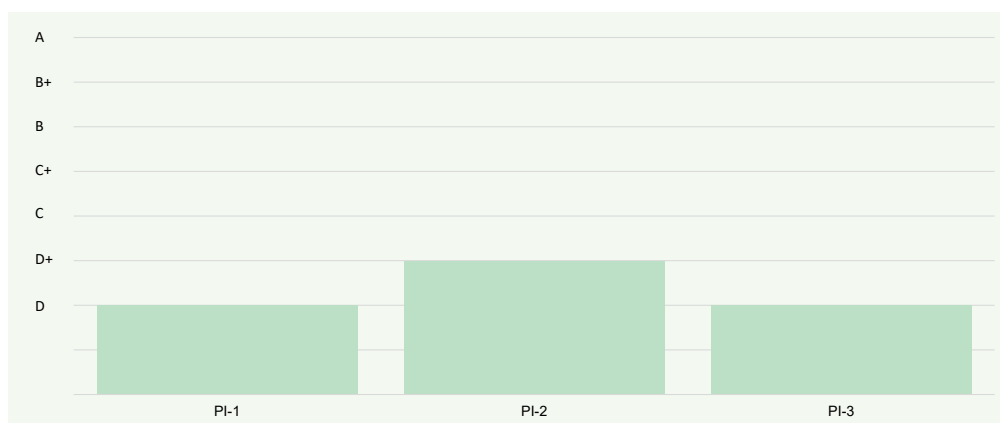
PILLAR ONE:
Budget
Reliability

» **PILLAR I: Budget Reliability**

What the pillar measures. Pillar I assesses whether the government budget is realistic and implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Overall performance: Analysis of key PFM strengths and weaknesses. The performance of the three PIs under Pillar I is the lowest among all eight pillars of the PEFA PFM Assessment (averaging a 'D'). This is because the aggregate and composition expenditure outturn (PI-1 and PI-2), as well as the revenue outturn (PI-3), during the past three fiscal years differed significantly from the budgeted amounts. This may also be due to the impact of the coronavirus pandemic (COVID-19) pandemic in FY2020/21 and FY2021/22. Thus, the provincial government was not able to prepare estimates of the fiscal impact of the proposed changes in revenue and expenditure policies (PI-14.2). In addition, there was no monitoring of expenditure arrears (PI-22.2). Despite a higher predictability of resource availability (PI-8.3), the presence of inefficiencies in planning and implementation resulted in a suboptimal execution of the budget. However, it is noted that, although the budget for each of the last three fiscal years included a contingency, no expenditure was incurred in this regard during any fiscal year.

Figure 2.2: Indicator Scores under Pillar I



PI-1. Aggregate expenditure outturn

What the indicator measures. It measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in the SNG budget documentation and fiscal reports.

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

Table 2.7: Summary of scores for PI-1 and performance table

Indicator/Dimension	2024 Score	Justification for Score
PI-1. Aggregate expenditure outturn	D	Scoring method M1
1.1. Aggregate expenditure outturn	D	The aggregate expenditure outturn of the provincial government was below 75 percent of the approved aggregate budgeted expenditures in all of the last three fiscal years.

Detailed description of the country PFM system for the assessed performance indicator. The provincial government prepares its budget as guided by the FPFA Act, along with the FPFA Regulation and the PPPC's Budget Guidelines.¹⁴ The MoEA controls the PLMBIS, which is used by all line ministries and agencies for entering program activities and estimated amounts corresponding to the budget line items. The first Five-Year Plan of the Gandaki Province (FY2019/20–FY2023/24) and the MTEF are the documents that provide the budgetary framework. The FPFA Act's Section 8(5) requires a Budget Committee to be established under the Account Responsible Officer or the officer specified by him/her. The committee plays a vital role in coordinating budget- and program-related activities and fixing expenditure norms, as well as in facilitating budget prioritization and resource allocation to make the budget more pertinent.

The main reasons for the deviation are the following:

- A participatory budget formulation approach is lacking, which causes inadequate budget allocations for some projects and overfunding for other projects.
- Implementation capacity is weak and ineffective due to a lack of effective and efficient plans and procedures.
- The budget is heavily overprogrammed, particularly its development component, which includes projects that lack sufficient analysis.
- Budget allocations for capital investments neglect major readiness activities, such as land acquisition, compensation, design, and detailed feasibility reports. As a result, expenditures could not be made as anticipated.

¹⁴ 'Budget Ceiling, Format of MTEF, and Guidelines and Format on the Budget Formulation for the next Fiscal Year'.

- Unavailability of skilled manpower in a timely manner adversely affecting implementation and, thereby, budget execution.
- A lack of sound coordination among government institutions hampers budget formulation and implementation.
- There is no proper mechanism for the monitoring and evaluation (M&E) of project performance.

Recent or ongoing reform activities. The provincial government is working to ensure that the regulatory framework for budget formulation is followed by all spending units, as well as to end the use of keeping lump-sum amounts during budget preparation.

1.1. Aggregate expenditure outturn

Performance level and evidence for scoring of the dimension. The original budget is the total budget expenditure in the form approved by the Provincial Assembly. The original budgets and actual expenditures for the last three fiscal years are shown in Table 2.8 together with the calculated deviation. The underlying data are available in Annex 5.

Table 2.8: Total Budget and Actual Expenditures

	FY2020/21	FY2021/22	FY2022/23
Original budget (NPR, millions)	34,342	29,817	35,409
Actual expenditures (NPR, millions)	25,623	22,044	23,615
Actual expenditures / original budget (%)	74.6	73.9	66.7

Sources: Annex 5 of Budget Speeches for the original budgeted expenditure and CFS of FY2020/21, FY2021/22, and FY2022/23 for actual expenditure.

Note: Total expenditures exclude financing.

In the past three fiscal years, actual expenditure outturn as a share of the approved aggregate original budgeted expenditure was 74.6 percent, 73.9 percent, and 66.7 percent, respectively. Hence, the score for the dimension is a **D**.

PI-2. Expenditure composition outturn

What the indicator measures. It measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition.

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

Table 2.9: Summary of Scores for PI-2 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-2. Expenditure composition outturn	D+	Scoring method M1
2.1. Expenditure composition outturn by function	D	Expenditure composition variance by function was more than 15 percent in two of the last three fiscal years.
2.2. Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification was more than 15 percent in two of the last three fiscal years.
2.3. Expenditure from contingency reserves	A	The budget for each of the last three fiscal years included a contingency, but no expenditure was incurred in any fiscal year.

Detailed description of the country PFM system for the assessed performance indicator. According to Section 9 of the FPFA Act, the provincial government shall provide a clear justification for any proposed expenditures. Section 9.2 of the FPFA Act stipulates that the provincial government shall propose a budget for new projects and programs only after allocating sufficient funding for liabilities to be borne as per Section 11, as well as for essential expenses such as salaries and administrative costs.

The authority for budget transfers, which permits the movement of funds between line items of the approved budget up to the limit set by the Appropriation Act, is outlined in Section 19 of the FPFA Act, Rule 29 of the FPFA Regulation, and the Annual Appropriation Act. Although the budget includes contingency funds, their use is regulated by the FPFA Act. To access the contingency budget, the MoEA transfers funds to the appropriate budget subheading associated with a specific grant number in the Appropriation Act, based on a request from the relevant agency.

Recent or ongoing reform activities. The provincial government published the Civil Service Regulation in September 2023, which allows for additional spending on employee benefits.

2.1. Expenditure composition outturn by function

Performance level and evidence for scoring of the dimension. Table 2.10 shows the variance in expenditure composition by functional classification.¹⁵

Table 2.10: Functional expenditure composition variance by functional headings

Fiscal Years	Composition Variance (%)
2020/21	24.5
2021/22	22.1
2022/23	12.2

Sources: Budgeted expenditure from the Budget Speeches and actual expenditure outturn from the CFS.

Deviation is particularly high in the functional heading for social protection, which accounts for between 33 percent and 45 percent of absolute deviation across the three fiscal years. According to the MoEA and the PFCO, the main reason for underspending under this heading is related to employee benefits. Provincial employees enjoy contributory pension/gratuity (instead of the defined benefit system). Also, a percentage of salary payments is required to be contributed and deposited in a provincial fund; however, this has not been possible due to a legal provision that has not yet been finalized.

Expenditure composition variance by function was more than 15 percent in two of the last three fiscal years. Hence, the score for the dimension is a **D**.

2.2. Expenditure composition outturn by economic type

Performance level and evidence for scoring of the dimension. Table 2.11 shows the variance in expenditure composition by economic classification.¹⁶

Table 2.11: Expenditure Composition Variance by Economic Classification

Fiscal Years	Composition Variance (%)
2020/21	16.3
2021/22	16.2
2022/23	4.0

Sources: Budgeted expenditure from the Budget Speeches and actual expenditure outturn from the CFS.

¹⁵ The recurrent contingency reserve is excluded from other expenditure (28000), and the capital contingency reserve is excluded from capital expenditure (31000). In each of the last three fiscal years, the provincial government has allocated significant amounts to contingencies (18.48 percent, 13.09 percent, and 11.15 percent of the annual budget, respectively), which are excluded from the calculations of PI-2.

¹⁶ Other expenditure (28000) and capital expenditure (31000) do not include contingency reserves.

Deviations are especially high in the economic heads of interest and social benefits across all three fiscal years. Although interest expenses were budgeted in all of the last three fiscal years, there was no spending on interest, as no loan was taken. The underspending on social benefits related to employee benefits was not spent as allocated (as discussed under PI-2.1). Also, the lack of spending on accumulated leave and medical treatment of retired employees was due to the absence of the Civil Service Act.

Variance in expenditure composition by economic classification was more than 15 percent in two of the last three fiscal years. Hence, the score for the dimension is a **D**.

2.3. Expenditure from contingency reserves

Performance level and evidence for scoring of the dimension. The contingency budget is for non-budgeted expenditures (for example, unforeseen and natural disaster events). Spending cannot be done through this head. For spending, such a contingency budget is first transferred through the virement process (as defined in the FPFA Act's Section 19) to the relevant budget line item based on the request from the spending units. According to Section 3 of the Appropriation Act (2022), the authority for virement to the MoEA is provisioned as follows:

- The MoEA can vire (transfer/reappropriate) surplus amounts of any budget heading to another (deficit) budget heading.
- The MoEA can vire, release, and spend up to 10 percent from one or more budget headings to other budget headings, and virement can be done from one source of financing to another to cover spending for recurrent, capital, and financing spending. However, a budget appropriated for capital or financing expenditure cannot be vired into a recurrent expenditure economic head, except for principal and interest payment(s).
- The MoEA can vire, not exceeding 100 percent of the initially appropriated budget, within the same budget heading.

The contingency in the budgets for FY2020/21, FY2021/22, and FY2022/23 was 18.5 percent, 13.1 percent, and 11.1 percent of the budgeted expenditure, respectively. However, no expenditure was incurred from the budgeted contingency in any of the three fiscal years. Hence, the score for the dimension is an **A**.

PI-3. Revenue outturn

What the indicator measures. It measures the change in revenue between the original approved budget and end-of-year outturn.

Methodological notes. Source data and calculations are available in Annex 6.

Table 2.12: Summary of Scores for PI-3 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-3. Revenue outturn	D	Scoring method M2
3.1. Aggregate revenue outturn	D	Actual revenue ranged from 28 to 57 percent of budgeted revenue during the last three fiscal years.
3.2. Revenue composition outturn	D	The variance in revenue composition was more than 15 percent in two of the last three fiscal years.

Detailed description of the country PFM system for the assessed performance indicator. The provincial government can levy taxes in accordance with the law, that is, according to Article 203 of the Constitution. Section 2 (3) of the IGFA (2017) specifies the tax and nontax revenues that can be levied by provinces within their jurisdiction based on the Finance Act approved by the Provincial Assembly. In addition to this, the major revenue sources are revenue sharing and fiscal transfers (grants) from the GoN, although these are not included in the underlying calculations for PI-3. Information on how the provincial government undertakes revenue forecasting has not been available to the assessors, including whether it has been based on detailed analysis and uses sound forecasting methods.

Recent or ongoing reform activities. Activities are ongoing to increase own-source revenue collection, including motor vehicle tax, entertainment tax, and advertisement tax as well as tourism fees, service charges, and house and land registration fees.

3.1. Aggregate revenue outturn

Performance level and evidence for scoring of the dimension. Aggregate revenue outturn was 28.4 percent of the original budget in FY2020/21; 51.9 percent in FY2021/22; and 56.6 percent in FY2022/23 (Table 2.13). The underlying data and calculations are shown in Annex 6.¹⁷

¹⁷ According to the PEFA guidance for PI-3, the revenues assessed are own-source revenues of the SNG. Hence, PI-3 does not include grants/transfers from the GoN or shared revenues, which are both assessed under HLG-1.1.

Table 2.13: Total Budget and Actual Revenue

Total Revenue	FY2020/21	FY2021/22	FY2022/23
Budget (NPR, millions)	2,750	1,847	1,879
Actual (NPR, millions)	780	959	1,063
Outturn (%)	28.4	51.9	56.6

Source: Budgeted and actual revenues from Budget Speeches.

The provincial government did not meet its targets for own-source revenue collection during the last three fiscal years. The deviations were very significant in all three fiscal years. The assessors did not receive information about the provincial government's revenue forecasting methods, and whether they were based on detailed analysis and reliable techniques. Also, the provincial government has weak administrative capacity.

Actual revenue was below 90 percent of budgeted revenue during the last three fiscal years. Hence, the score for the dimension is a **D**.

3.2. Revenue composition outturn

Performance level and evidence for scoring of the dimension. Composition variance was 56.9 percent in FY2020/21, 16.7 percent in FY2021/22, and 11.9 percent in FY2022/23. The underlying data and calculations are in Annex 6.

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



PILLAR ONE:
Budget Reliability



PILLAR TWO:
Transparency of Public Finances



PILLAR THREE:
Management of Assets and Liabilities



PILLAR FOUR:
Policy-based Fiscal Strategy and
Budgeting



PILLAR FIVE:
Predictability and Control in Budget
Execution



PILLAR SIX:
Accounting and Reporting



PILLAR SEVEN:
External Scrutiny and Audit



PILLAR TWO:
Transparency
of Public
Finances

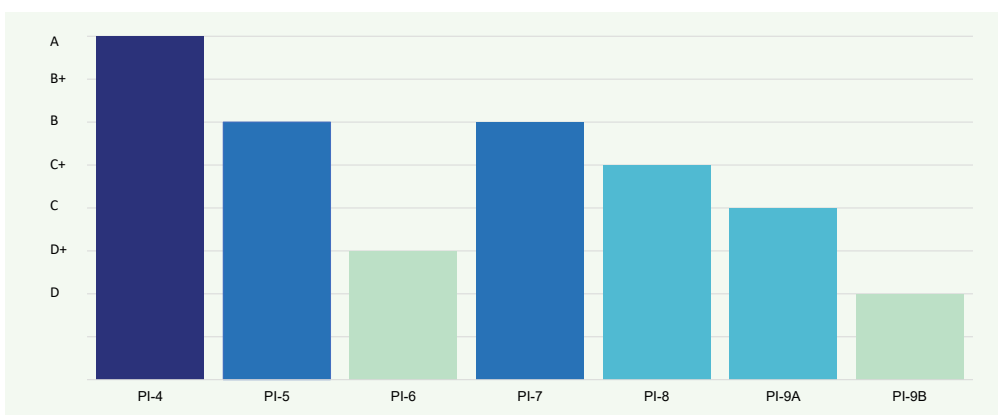
PILLAR II: Transparency of Public Finances

What the pillar measures. Pillar II assesses whether information about PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification; transparency of all government revenue and expenditure, including intergovernmental transfers; published information about service delivery performance; and ready access to fiscal and budget documentation.

Overall performance: Analysis of key PFM strengths and weaknesses. Overall, the performance of the seven PIs under Pillar II is at a basic level (averaging a 'C+'). This is a result of the solid budget classification system (PI-4); the comprehensiveness of the annual budget documentation (PI-5); and the transparent and rule-based system for allocating grants to local governments (PI-7.1). However, performance information for service delivery (PI-8) and public access to fiscal information (PI-9A) are only at a basic level. Three out of four dimensions (PI-8.1, PI-8.2, and PI-8.3, all scored B) related to performance information for service delivery exhibited a strong performance; however, the overall indicator performance is at a basic level due to the absence of a performance evaluation for service delivery (PI-8.4 scored D). The EBU expenditures and revenues outside of the provincial government's financial reports (PI-6.1 and PI-6.2) are relatively high and the EBUs do not submit financial reports to the provincial government (PI-6.3). There are no public consultations in preparing budgets, designing service delivery programs, or planning investments (PI-9B). Therefore, the performance for subnational government operations outside of financial reports (PI-6) and public consultations (PI-9B) is below the basic level.

The performance of PI-9A (Element 9) is affected by the medium-term budget forecasting (PI-14.1), which both have low scores. The same is seen for the performance of PI-7.2 (timeliness of information to local governments on transfers) and PI-17.1 (the use of a budget calendar during the annual budget formulation process). Also, the performance of PI-9 is affected by the in-year and annual financial reporting processes (PI-28 and PI-29), and the performance of PI-9A is affected by the external audit arrangements (PI-30).

Figure 2.3: Indicator Scores under Pillar II



PI-4. Budget classification

What the indicator measures. It assesses the extent to which the budget and accounts classification used by the SNG are consistent with international standards.

Methodological notes. The components of the Chart of Accounts (CoA) were analyzed in terms of their compatibility with the Government Finance Statistics Manual (GFSM) of 2014 and the Classification of Functions of Government (COFOG) for use throughout budget formulation, execution, and the reporting cycle.

Table 2.14: Summary of Scores for PI-4 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-4. Budget classification	A	Scoring method M1
4.1. Budget classification	A	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using the Government Finance Statistics (GFS) and the Classification of Functions of Government (COFOG).

Detailed description of the country PFM system for the assessed performance indicator. The legal and regulatory framework for budget classification is defined at the federal level and applies to all sectors of Nepal's general government. Article 241 (4) of the Constitution requires that the accounts to be audited are maintained in a format prescribed by the OAG. The FCGO formulates the accounting formats, as well as the economic codes and classifications for keeping accounts, including by SNGs. This is enforced by obtaining approval from the OAG.

Recent or ongoing reform activities. None observed.

4.1. Budget classification

The FCGO has developed ‘An Integrated Economic Code, Classification and Explanation’ (2017)¹⁸, which has been approved by the OAG (2019). The (federal and the provincial) FPFA provide for the accounting and reporting framework for the three tiers of government. According to the recommendations made by the NNRFC, additional codes and classifications were included to manage the process of fiscal federalization and were approved by the OAG (2019). The CoA structure is outlined in Table 2.15.

Table 2.15: The CoA Structure

Segment	Subsegment	Digits
Organizational/ Administrative classification	Identifiers for government, ministry, department, district, and office.	9
Functional classification	COFOG (CoA includes 10 major functions and 65 sub-functions). Gandaki Province uses only 9 functional classifications since Defense is not applicable.	4
Economic classification	Based on Government Finance Statistics Manual (GFSM).	5
Nature of expenditure	Current, capital, and financing.	1
Fund source	Specific codes for internal and external financing.	7
Revenue	Specific codes for tax, nontax, and other types of revenues and grants.	5
Current expenditure	Base budget head, main head, head, and subhead for current expenditure	5
Capital budget, asset and liability	Base budget head, main head, head, and subhead for capital expenditure.	5
Financial asset and liability	Main head, head, and subhead for financial assets and liabilities.	5
Assets and liability balance	Main head, head, and subhead of nonfinancial assets and liabilities.	7

The CoA is based on the GFSM 2014 of the International Monetary Fund (IMF). The *economic classification* aligns with Table 6.1 of the GFSM 2014 for recurrent budget, as well as with Table 8.1 for nonfinancial assets (capital expenditures). Economic categories are classified under three broad headings of Recurrent, Capital, and Financing. The *functional classification*

¹⁸ https://www.fcgo.gov.np/storage/uploads/publications/20210908152258_Unofficial%20Translation%20of%20Chart%20of%20Account.pdf

is consistent with Table 6A.1 of the GFSM 2014, which is based on the COFOG. *Revenues* are classified according to their sources and are classified into two base heads (tax revenue and nontax revenue), with the main heads under each base head, and other heads under the main heads. The revenue classification aligns with Table 5.1 of the GFSM 2014.

Budget documents and the CFS follow complete administrative, economic, and functional classification for the budget allocation. However, provincial governments use nine out of the ten two-digit functional classifications since the defense category is not applicable to the provincial level.

The CoA is used for budget formulation, accounting, and reporting. The CoA is incorporated into the information systems.¹⁹ Thus, consistent reports can be generated for all stages of the budget cycle in line with the GFS and COFOG standards.

The government's CoA does not apply to the EBUs, which have their own approved financial regulations and CoA that do not adhere to the GFS/COFOG standards.

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

PI-5. Budget documentation

What the indicator measures. It assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.

Methodological notes: The current analysis is based on the FY2023/24 budget submitted to the Provincial Assembly and published on the MoEA's website with the corresponding aspects of this indicator.

Table 2.16: Summary of Scores for PI-5 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-5. Budget documentation	B	Scoring method M1.
5.1. Budget documentation	B	The provincial government's budget documentation for FY2023/24 fulfills six elements: four basic elements and two additional elements. Four elements are not fulfilled, and two elements are not applicable.

¹⁹ The budget is formulated and executed through PLMBIS and the TSA system, whereas accounting and reporting are executed through the FMIS, which are similar to the systems used at the federal level.

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

Article 207 of the Constitution requires the Finance Minister to present to the Provincial Assembly annual estimates, including an estimate of revenue, the funds required to meet the charges on the Provincial Consolidated Fund, and the funds required to meet the expenditure of the Provincial Appropriation Act for every fiscal year.

According to Section 13 of the FPFA Act (2022), the following documents are submitted to the Provincial Assembly as part of the annual budget: (a) the Budget Speech, (b) the Statement of Budget Estimation (Red Book), (c) the Fiscal Transfers to the Local Level, (d) the Ministry-wise Annual Development Program, (e) the Appropriation Bill, (f) the Finance Bill, (g) the Economic Survey, and (h) the MTEF.

Recent or ongoing reform activities. The provincial government is in the process of quantifying the expenditure related to land tax exemptions.

5.1. Budget documentation

Performance level and evidence for scoring of the dimension. The elements included in the FY2023/24 budget proposal, submitted to the Provincial Assembly on June 16, 2023, are shown in Table 2.17. As indicated, there are two elements that are not applicable to the provincial government.²⁰

Table 2.17: Budget Elements included in the Budget for FY2023/24

Element/Requirements	Met (Yes/No)	Evidence used/Comments
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Yes	Annex 1 of the Budget Speech (p. 39) given by the Economic Affairs (Finance) Minister to the Provincial Assembly on behalf of the Provincial Government.
2. Previous year's budget outturn, presented in the same format as the budget proposal	Yes	Previous two years' line-item-wise budgets (actual and revised) are presented in Annex 7 of the Budget Speech (pp. 50-54) and in the Red Book.

²⁰ According to the PEFA guidance, this means that the scoring of PI-5 must be done on a pro rata basis: Two non-applicable elements mean that an 'A' score requires that four basic elements and four additional elements are fulfilled; a 'B' score requires that three basic elements and two additional elements are fulfilled; and a 'C' score requires that three basic elements are fulfilled.

Element/Requirements	Met (Yes/No)	Evidence used/Comments
3. Current fiscal year's budget presented in the same format as the budget proposal	Yes	The FY2023/24 budget was presented in the same format as the FY2022/23 budget proposal in the Budget Speech and in the Red Book.
4. Aggregated budget data for both revenue and expenditure	Yes	The aggregated budget data for both revenue and expenditure are included in the annexes of the Budget Speech and the Red Book.
Additional elements		
5. Deficit financing, describing its anticipated composition	Yes	The deficit financing is presented in paragraph 175, p. 32, of the Budget Speech.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	NA	Element 6 is not applicable at the SNG level as macroeconomic data are already included in the GoN's budget documentation. Also, the collection and analysis of such data are not feasible or appropriate given the size and scope of the SNGs in Nepal. The provincial government also publishes an annual economic survey, but it is not mandatory according to section 13(2) of the FPFA Act.
7. Debt stock, including details for at least the beginning of the current fiscal year are presented in accordance with the GFS or other comparable standard	NA	Gandaki's provincial government has no debt. ²¹
8. Financial assets, including details for at least the beginning of the current fiscal year are presented in accordance with the GFS or other comparable standard	No	Information about financial assets is not available for the beginning of the fiscal year.
9. Summary information about fiscal risks	No	Fiscal risk information was not prepared. Contingent liabilities and contingent obligations were not included in the budget documents.

²¹ The Provincial Government's FY2023/24 budget is provisioned for internal borrowing. Although this was approved by the Provincial Assembly, a Debt Collection Bill was not submitted to the Assembly; hence, debt cannot be raised.

Element/Requirements	Met (Yes/No)	Evidence used/Comments
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or changes to expenditure programs	No	The annual budget documents outline the estimated impact of new policy initiatives and major revenue policy changes. However, explanations of the budget implications of new policy initiatives, major investment projects, and revenue policy changes were not provided.
11. Documentation on the medium-term fiscal forecasts	Yes	An MTEF is published by the PPPC annually and then submitted to the Provincial Assembly as well.
12. Quantification of tax expenditures	No	Information about the quantification of tax expenditure is not available in the budget documents.

Note: FPFA= Financial Procedure and Fiscal Accountability; GDP= Gross Domestic Product; GFS= Government Finance Statistics; MTEF= Medium-Term Expenditure Framework; NA = not applicable; SNG= Subnational Government; PPPC= Provincial Policy and Planning Commission.

The budget documentation fulfills six elements: four basic elements and two additional elements. It does not fulfill four additional elements, and two additional elements are not applicable. In accordance with Guidance for the SNG PEFA Assessments of May 2022, the indicator has been scored on a pro rata basis because two additional elements are not applicable. Hence, the score for the dimension is a **B**.

PI-6. Subnational government operations outside financial reports

What the indicator measures. It measures the extent to which government revenue and expenditure are reported outside of the SNG financial reports.

Methodological notes: To analyze the expenditure and revenue figures of the EBUs, referred to in the OAG annual audit report for FY2022/23. These figures were compared with the Budgetary Central Government (BCG) expenditure for the same year, as reported in the financial statements. The MoEA and other relevant line ministries were asked to provide the financial statements of the EBUs under their authority, along with supporting documentation indicating the submission date of these financial statements.

Table 2.18: Summary of Scores for PI-6 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-6. Subnational government operations outside financial reports	D+	Scoring method M2.
6.1. Expenditure outside financial reports	C	Expenditures of EBUs for FY2022/23 amounted to 8.2 percent of the provincial government's total expenditures in FY2021/22.
6.2. Revenue outside financial reports	C	Revenues of EBUs for FY2022/23 amounted to 7.4 percent of the provincial government's total revenues in FY2021/22.
6.3. Financial reports of extra-budgetary units	D	There is no evidence of the submission of financial reports by the EBUs to the provincial government for FY2022/23.

Detailed description of the country PFM system for the assessed performance indicator. The Gandaki Province presently has 20 EBUs, which are autonomous institutions established by the provincial government based on Section 3 of the Provincial Development Authority Act (2020) and operating under different ministries. The OAG's 6th Annual Report for Gandaki Province includes expenditure and revenue data for FY 2022/23. All EBUs have their own regulations and bylaws, including financial management. The 20 EBUs covered by the analysis of PI-6 are shown in Table 2.19.

Table 2.19: EBUs and Their Parent Ministries

S. No.	Extra Budgetary Unit	Parent Ministry
1	District Hospital, Gorkha	Ministry of Social Development and Health
2	District Hospital, Parbat	
3	Beni Hospital, Myagdi	
4	Dhaulagiri Hospital, Baglung	
5	Damauli Hospital, Tanahun	
6	Jomsom Hospital	
7	District Hospital, Syangja	
8	District Hospital, Manag	
9	Matri Shishu Miteri Hospital, Kaski	
10	Madhya Bindu Hospital, Nawalpur	
11	Lamjung Hospital, Lamjung	
12	Gandaki Academy	
13	Gandaki Technical Education and Vocational Training Academy	
14	Gandaki University, Pokhara	
15	Tribeni Ganjendra Moksha Divyadhaam Sector Development Committee	
16	Gandaki Province Academy of Science and Technology	
17	Infectious and Communicable Disease Hospital, Pokhara	
18	Lake Conservation and Development Authority, Kaski	Ministry of Forest and Environment
19	Gandaki Province Training Academy, Kaski	OCMCM, Gandaki
20	Province Sports Council	Ministry of Youth and Sports

Source: The OAG's 6th Annual Report for Gandaki Province for FY2022/23, Annex-4, Page 96

Note: OCMCM= Office of the Chief Minister and Council of Ministers.

The FPFA Regulation's Rule 68 (1) requires the EBU's to submit their trimester income and expenditure reports, as well as an annual report to their parent ministries. Trimester reports

must be submitted within seven days from the end of the trimester, and annual reports are to be submitted within 35 days from the end of the fiscal year. Furthermore, the FPFA Regulation's Rule 68 (2) requires the provincial government's central agencies²² to prepare CFS, including with income and expenditure data from the EBU, and then submit these to the PFCO and the OAG.

There is no social security fund in the Gandaki Province, as such funds are directly mobilized at the federal level. Also, there are no financial records regarding externally funded projects.²³

Recent or ongoing reform activities. The provincial government has initiated the preparation of the Nepal Public Sector Accounting Standards (NPSAS)-based CFS and has requested the EBU to report according to the legal provisions.

6.1. Expenditure outside financial reports

Performance level and evidence for scoring of the dimension. The expenditures of the 20 EBU for FY2022/23 are shown in Table 2.20.

Table 2.20: Expenditure Outside of the Financial Reports, FY2022/23

	Expenditure outside of the provincial government financial reports
Total of 20 EBU's expenditure in FY2022/23 (NPR, millions)	1,935
Total provincial government expenditure in FY2022/23 (NPR, millions)	23,615
EBU's expenditure as percentage of SNG expenditure (%)	8.2

Sources: OAG's 6th Annual Report for Gandaki Province for FY2022/23, Annex 4, p. 96; CFS FY2022/23 (p.24).

Note: EBU= Extra-Budgetary Unit; NPR= Nepalese Rupee; SNG= Subnational Government.

Salaries, operating expenses, goods, and works were the types of EBU expenditures outside of provincial government financial reports. In a review of audit reports for FY2022/23, the government assessment team found no observations indicating that revenues and expenditures of budgetary units were not reported in the provincial government financial reports. As a result, there is a high level of assurance that all revenues and expenditures of budgetary units are accurately reflected in the government's financial reports.

²² This includes the MoEA, the OCMCM, the Ministry of Physical Infrastructure and Transport Management, and so on.

²³ The exception is Lamjung Hospital, which was managed by an international nongovernmental organization (INGO) before being handed over to the provincial government in FY2022/23.

The EBU's expenditures outside of the financial reports were 8.2 percent of the total provincial expenditures in FY 2022/23. Hence, the score for the dimension is a **C**.

6.2. Revenue outside financial reports

Performance level and evidence for scoring of the dimension. The 20 EBUs receive grants from the provincial government and also generate revenue from different sources, such as fees and charges (for example, educational, as well as medical registration by hospitals operating at the district and province levels). The revenues of the 20 EBUs for FY2022/23 are shown in Table 2.21.

Table 2.21: Revenue Outside Financial Reports, FY2022/23

	Revenue outside provincial government financial reports
Total of 20 EBU's revenue in FY2022/23 (NPR, millions)	1,992
Total provincial government revenue in FY2022/23 (NPR, millions)	27,104
EBU's revenue as percentage of SNG expenditure (%)	7.4

Sources: OAG's 6th Annual Report for Gandaki Province for FY2022/23, Annex 4, p. 96; Provincial Annual Evaluation Report of Budget, FY 2022/23 (P. 44)

Note: EBU= Extra-Budgetary Unit; NPR= Nepalese Rupee; SNG= Subnational Government.

Various types of fees, subscriptions, license fees, grants and revenues from the sale of goods are the type of revenues reported outside of the government financial reports.

The EBU's revenues outside of the financial reports were 7.4 percent of the total provincial revenues in FY2022/23. Hence, the score for the dimension is a **C**.

6.3. Financial reports of extra-budgetary units

Performance level and evidence for scoring of the dimension. As noted, the EBUs are required to submit trimester income and expenditure reports, as well as an annual report to their parent ministries. Also, the provincial government's central agencies are required to prepare annual CFS, including income and expenditure data from the EBUs, which are then submitted to the PFCO and the OAG. Despite this, there is no evidence that the EBUs have submitted financial reports for FY2022/23 to the relevant ministries,²⁴ except for reports pertaining to internal audits and external audit, which are carried out each year.

²⁴ The reason for the noncompliance may be a lack of awareness, including as the internal and external auditors (PFCO and OAG, respectively) have not commented about the legal requirements to submit financial reports in their reports.

The CFS includes actual revenues and expenditures, assets and liabilities with tangible assets and guarantees, and long-term obligations.²⁵ However, the financial data of the EBU are not reported/consolidated in the NPSAS-based CFS for FY2022/23.

There is no evidence that the EBU have submitted their financial reports for FY2022/23 to the relevant ministries. Hence, the score for the dimension is a **D**.

PI-7. Transfers to subnational governments

What the indicator measures. It assesses the transparency and timeliness of transfers from the assessed SNG to lower-tier SNGs with direct financial relationships to it. It considers the basis for transfers from the assessed SNG and whether lower-tier SNGs receive information concerning their allocations in time to facilitate budget planning.

Methodological notes: The legislative and regulatory framework governing fiscal transfers was examined by scrutinizing the Constitution; the Inter-Governmental Fiscal Arrangement (IGFA) Act; the FPFA Act; the FPFA Regulations; as well as the principles, guidelines, and recommendations given by the NNRFC and the NPC. A review of the budget and financial statements for FY2022/23 was conducted, along with internal documents from the MoF. This was done to evaluate the allocation of fiscal transfers in compliance with the legal and regulatory frameworks, as well as the specified timelines for such transfers.

Table 2.22: Summary of Scores for PI-7 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-7. Transfers to subnational governments	B	Scoring method M2.
7.1. System for allocating transfers	A	The horizontal allocation of all transfers to the local governments in the Gandaki Province is determined by transparent, rule-based systems.
7.2. Timeliness of information on transfers	C	Information about fiscal equalization grants to local governments is issued 9 weeks before their budget preparation deadlines. For the other three grants, representing more than 40 percent of fiscal transfers, local governments receive the information less than two weeks before their budget preparation deadline.

²⁵ Two documents are being prepared, including the CFS and the CFS based on the NPSAS.

Detailed description of the country PFM system for the assessed performance indicator. Article 60 (3 and 7) of the Constitution mandates the distribution of revenues between the federal, provincial, and local levels in a balanced and transparent way. The Article also requires that the amount of fiscal transfers to the provincial and local levels shall be as recommended by the NNRFC. Article 60 (5) mandates provincial governments to distribute the fiscal equalization grants received from the GoN and the revenue generated from its sources in accordance with the relevant legislation. The IGFA Act (2017) has legal provisions for transfers of all four types of grants, as well as revenue sharing (Sections 8, 9, 10, and 11) from the province level to the local level.

The NNRFC has set benchmarks (formula, criteria, and bases) for fiscal equalization and conditional grants, as well as suggestions for grants and the distribution of revenues, considering the performance of provincial and local governments. The NPC has approved procedures based on Section 10 (5) of the IGFA for complementary and special grants, which have been implemented since November 2018. The procedures include benchmarks (criteria/sectors, bases, and objectives) to implement infrastructure-related projects and programs at the provincial and local levels, as well as projects and programs that are to be implemented by them.

The Government of the Gandaki Province has also enacted Unified Procedures related to Budget and Program Implementation (2021), based on Section 63 (a) of the FPFA Act, as well as the Province Fiscal Management Act (2019) for transfers to be provided to the 85 local governments. On this basis, the provincial government makes fiscal transfers under four grants (fiscal equalization, conditional, complementary, and special) to each local government.

Recent or ongoing reform activities. The NNRFC is implementing a five-year strategic plan (FY2022/23 to FY2026/27). The plan aims to improve intergovernmental fiscal transfers and their mechanisms, strengthen research and data analytics for fiscal transfers, and enhance coordination between the federal agencies and the subnational governments. The provincial government has approved amendments to the Unified Procedures related to Budget and Program Implementation on February 15, 2024.

7.1. System for allocating transfers

Performance level and evidence for scoring of the dimension. During the Gandaki Province's budget formulation process, the NNRFC proposes the total amount of the fiscal equalization grant to be allocated by the Gandaki Province to the local governments within its jurisdiction. Based on the estimated fiscal equalization grant to be received by

the Gandaki Province from the federal level, as well as considering its estimated internal revenues, the provincial government estimates the grant amount and submits it to the NNRFC. The NNRFC then decides on the horizontal distribution among local governments based on a formula that is provisioned in the NNRFC Act's Section 16 (1). The provincial government then sets the ceiling and informs the local governments about the size of the fiscal equalization grant.

According to the Province Fiscal Management Act's Section 4, the size of the fiscal equalization grant is determined based on the own-source revenues, as well as the fiscal equalization grant received from the GoN. The local government's revenue capacity and expenditure requirement are also considered in accordance with the Constitution's Article 60 (5) and the IGFA Act's Section 8 (2). Guidance for conditional grants is provided in the Constitution's Article 251 (1C) and the IGFA Act's Section 9 (3). The latter also provides directions for the complementary and special grants.

Based on the Province Fiscal Management Act, the Unified Procedures related to the Budget and Program Implementation details the rules-based system for determining the horizontal allocation of transfers for all types of grants, including the fiscal equalization grant, to local governments with clear parameters. This includes timelines and ceilings from NPR 10 million to NPR 100 million based upon local government requirements, cost sharing, implementation capacity, and the beneficiary population for projects and programs. Furthermore, there are clear requirements for the local governments to submit project and program proposals to the MoEA regarding the implementation of special and complementary grants. The procedure also requires sectors to be identified for special and conditional grants.

A project and program selection committee is established based on the Unified Procedures related to the Budget and Program Implementation (Section 11). It selects projects and programs based on specific criteria. The Provincial Government must transfer 50 percent of conditional, special, and complementary grant amounts into the consolidated fund account of each local government for projects and programs to be implemented. The remaining 50 percent is based upon the work completion reports and requests received from the local governments, as well as the final evaluations, project and program agreements, and cost estimates (Section 12).²⁶

²⁶ Furthermore, local governments are required to follow approved directives, procedures, or criteria when implementing projects and programs under federal conditional grants (Section 14). Specific requirements regarding the liability of grant receivers are in case of any loss or damage caused by non-completion of work within the stipulated timeline (Section 22).

The budgeted and actual transfers from the provincial government to the local governments in FY2022/23 are shown in Table 2.23.

Table 2.23: Transfers to Local Governments, FY2022/23

Category of Horizontal Transfer	Budget			Actual		
	Amount (NPR, millions)	Share (%)	Transparent and Rule-Based (Yes/No)	Amount (NPR, millions)	Share (%)	Transparent and Rule-Based (Yes/No)
Fiscal equalization grants (Budget Head 26331)	1,160	55.0	Yes	1,007	64.0	Yes
Conditional grants (Budget Head 26332)	181	8.6	Yes	156	9.9	Yes
Special grants (Budget Head 26333)	263	12.5	Yes	125	7.9	Yes
Complementary grants (Budget Head 26334)	507	24.0	Yes	285	18.1	Yes
Total	2,111	100.0	–	1,573	100.0	–

Source: PFCO's CFS for FY2022/23.

The provincial government's transfer of grants to the local governments was affected by fiscal transfers it received from the GoN. Due to shortfalls in the expected transfers from the GoN, there was a significant difference between the budgeted and actual transfers to the local governments.

The fiscal transfers to local governments are governed by a transparent and rule-based system. Hence, the score for the dimension is an **A**.

7.2. Timeliness of information on transfers

Performance level and evidence for scoring of the dimension. The 'Budget Formulation and Implementation Guideline' (2023) includes a budget calendar in which the timeline for the budget formulation and implementation process is defined. The 'Unified Procedures related to Budget and Program Implementation' (2021) include different provisions regarding the timeline for information to be provided to the local governments about the allocation for the four grants.

The provincial government sets the ceiling (amount) of the fiscal equalization grant and provides information to the local governments only after receiving the recommendation

from the NNRFC. For FY2022/23, the NNRFC made its recommendation for the fiscal equalization grant to the provincial government on April 12, 2023, which was the basis for the provincial government to set the ceilings (amounts) of the fiscal equalization grants to be provided. This information was circulated to the local governments on April 13, 2023, following a decision of the MoEA.

The ceilings (amounts) for the other three grants (conditional, complementary, and special) are set by the provincial government in the annual budget proposal, which is submitted to the Provincial Assembly in mid-June. Hence, the information is available at the same time to the local governments.

According to the 'Unified Procedures related to Budget and Program Implementation', Section 9, the fiscal equalization grant has four fixed installment dates (September 11, November 11, February 8, and May 8) (Table 2.24). If the GoN's fiscal equalization grant to the Provincial Government is delayed, the transfers to the local governments must be made within 15 days of receipt. The Appropriation Act also sets the timeline each year for the transfers of fiscal equalization and conditional grants, which is the same timeline as for the fiscal equalization grant. However, the conditional grant must be transferred by September 11 or within two months from the appropriation date. Section 9 (12) furthermore states that 50 percent of the conditional, complementary, and special grant amounts must be provided to the local governments by September 11, and the remaining 50 percent must be provided after receiving a request together with cost estimations, project and program agreements, final evaluations, and work completion reports from the local governments.

Table 2.24: Timelines for Information about the Transfers for the FY2023/24 Budget

Type of Fiscal Transfer	Date of NNRFC Information for Fiscal Equalization (FY2022/23)	Date of Information by the Provincial Government to the Local Governments	Date of Provincial Government Budget Submission to the Province Assembly	Date of Local Government Budget Submission to the Local Assembly	Timeline
Fiscal equalization grant	April 12, 2023	April 13, 2023	Mid-June (June 15)	Around the end of June (June 25)	9 weeks, 5 days
Conditional, complementary, and special grants	–	June 15, 2023	–	Around the end of June (June 25)	1 week, 3 days

Sources: NNRFC (www.nnrfc.gov.np), Unified Procedures related to Budget and Program Implementation (2021), and Gandaki Province Budget (Red Book).

Regarding FY2023/24, the provincial government provided ceilings for the fiscal equalization grant to the local governments 9 weeks and 5 days before their budget preparation deadline. In contrast, the ceilings for the other three grants were made available just 1 week and 3 days before the budget preparation deadline of the local governments. Therefore, the local governments receive complete information about the fiscal transfer less than four weeks before their budget preparation deadline. Hence, the score for the dimension is a **C**.

PI-8. Performance information for service delivery

What the indicator measures. It examines the service delivery performance information in the executive's budget proposal or its supporting documentation and year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information about resources received by service delivery units is collected and recorded.

Methodological notes: Performance plans' availability was assessed based on the data obtained from the annual budget, the MTEF, and sector strategies. The performance achieved was reviewed by analyzing the annual reports of the ministries, the CFS and the PFCO's annual evaluation report of the budget and program of the MoEA. The PLMBIS provides information about the resources received by the service delivery units. The OAG's annual performance audits were considered in assessing the dimension related to the performance evaluation for service delivery.

Table 2.25: Summary of Scores for PI-8 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-8. Performance information for service delivery	C+	Scoring method M2.
8.1. Performance plans for service delivery	B	Information is published annually about policy or program objectives, key performance indicators (KPIs), and outputs to be produced for each program of most of the ministries.
8.2. Performance achieved for service delivery	B	Information is published annually about the activities performed for most of the ministries.

Indicator/Dimension	2024 Score	Justification for Score
8.3. Resources received by service delivery units	B	Information on resources received by frontline service delivery units is collected and recorded for at least four large ministries (the Ministry of Agriculture and Land Management, the Ministry of Infrastructure & Transport, the Ministry of Energy, Water Resources & Drinking Water and the Ministry of Social Development and Health). However, it is not disaggregated by source of funds. An internal report compiling the information is prepared annually.
8.4. Performance evaluation for service delivery	D	Performance evaluations of service delivery have not been carried out for some ministries at least once within the last three years.

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

The Constitution establishes each level of government as an independent entity of governance (Articles 56 and 57) and elucidates the allocation of duties among the three levels of government (Schedule 5–9). The Constitution (Schedule 6) also stipulates the responsibilities of the provincial governments, which include law and order, the operation of banks and financial institutions in accordance with NRB policy, cooperatives, provincial civil service, land and house registration, land management, community trust (*Guthi*), the collection of tourism revenues, agricultural income taxes, and vehicle taxes. Additionally, the provincial government manages higher education institutions, health services, and infrastructure projects. However, the front-line service delivery responsibilities are assigned to the local governments. Hence, the provincial governments' responsibilities are limited regarding the provision of services.

Provincial governments provide conditional grants to local governments within the province to carry out service delivery functions. The local governments operate independently for both administrative and functional purposes, as they are not decentralized entities. Additionally, some service delivery programs are conducted through the EBUs. Where local governments and EBUs deliver services financed by provincial governments, the relevant performance information is included in the respective ministerial performance details.

The MTEF, which is mandatory to prepare, includes results indicators and targets for the budget year and the next two fiscal years for all provincial government entities grouped by five divisions: Economic, Social, Infrastructure, Governance Management, and Interrelated

Divisions. The MTEF provides objectives, costs, durations, sectoral strategic pillars, expected results of programs/projects, progress by dates, achievement indicators for the next three years, and main activities to be carried out in the budget year. The Annual Development Program, which provides program costs with economic codes, as well as a breakdown of activities, is published and uploaded on the MoEA's official website. The Annual Budget (Red Book) provides the budget head of programs, including economic subheading breakdowns of the allocation.

As provided for by the Provincial Appropriation Act, which is in accordance with Article 207 of the Constitution, the MoEA, as a part of the budget proposal, shall submit a statement of the expenditure allocated to each ministry in the preceding fiscal year, including achievement of the objectives of the expenditure, along with the yearly estimates of revenue and expenditures, specifying the amount of funds needed to cover the charges on the Provincial Consolidated Fund.

The central offices (ministries and constitutional bodies) review the physical and expenditure progress of subordinate offices by preparing progress reports according to a specified format. The MoEA publishes ministry progress and evaluation reports, outlining the projects and programs for each central office, as stated in the Budget Speech. This also includes progress attained on these projects/programs after the completion of the fiscal year. However, information concerning outcomes is not produced. Likewise, the PPPC publishes an Annual Report, which provides information about target/indicator progress achievements. However, information about outcomes is not produced.

The Gandaki Province has eight ministries, including the Policy and Planning Commission. In the fiscal year 2023/24, these eight ministries have a combined budget of NPR 27,756 million. Among them, four ministries (the Ministry of Agriculture and Land Management²⁷, the Ministry of Physical Infrastructure Development and Transport²⁸, the Ministry of Energy, Water Resources and Drinking Water, and the Ministry of Social Development and Health²⁹) deliver most of the frontline services to the citizens of the province. These four ministries

²⁷ The Ministry of Agriculture and Land Management provides services relating to agriculture extension. It was referred to for FY2022/23 as the 'Ministry of Land Management, Agriculture and Poverty Alleviation' and for FY2023/24 as the 'Ministry of Agriculture and Land Management'.

²⁸ The Ministry of Physical Infrastructure Development and Transport provides services relating to urban development. It was referred to for FY2022/23 as the 'Ministry of Physical Infrastructure Development, Urban Development and Transport Management'.

²⁹ The Ministry of Social Development and Health provides services relating to education and health. It was referred to for FY2022/23 as the 'Ministry of Education, Culture, Science Technology and Social Development' and for FY2023/24 as the 'Ministry of Social Development and Health'.

collectively hold a budget of NPR 24,796 million, accounting for approximately 90 percent of the total budget allocated to the eight ministries. Given their significant budgetary share and role in service delivery, these four ministries were selected for review in relation to PI-8.1 and PI-8.2. The availability of performance plans (PI-8.1) was assessed using data from the Annual Budget (Red Book), the Annual Development Program, and the MTEF. Performance achievement (PI-8.2) was evaluated by analyzing the Annual Budget and annual budget and program evaluation reports prepared by the MoEA. Additionally, PI-8.3 was assessed using data about budget allocations to service delivery units from the Annual Budgets and Annual Budget and Program Evaluation Reports. Finally, PI-8.4 was reviewed based on the annual performance audit conducted by the Office of the Auditor General.

Recent or ongoing reform activities. The provincial government is pursuing the collection and publication of detailed performance data for frontline service delivery units. The aim is to allow for more effective M&E of public services, thus ensuring that resources are utilized efficiently to meet the needs of the citizens.

8.1. Performance plans for service delivery

Performance level and evidence for scoring of the dimension. Table 2.26 shows information about the ministries delivering frontline services to citizens based on the Annual Budget (Red Book) for FY2023/24. About 88 percent of the budget for these four ministries is allocated to service delivery programs. The budget documents provide information about performance plans for service delivery programs to be executed by most of the ministries. Hence, the score for the dimension is a **B**.

Table 2.26: Service Delivery Performance Plans under Four Ministries, FY2023/24

Service Delivery Ministry	Budget Allocation (NPR, millions)		Performance plan for service delivery programs					
	Total	Service Delivery Program	Number of Programs	Objectives (Yes/No)	KPIs (Yes/No)	Planned Performance		
						Outputs (Yes/No)	Outcomes (Yes/No)	Activities (Yes/No)
Ministry of Agriculture and Land Management	2,217	1,969	13	Yes	Yes	Yes	No	Yes
Share of budget allocated for service delivery (%)		89						
Ministry of Physical Infrastructure Development	12,510	12,017	9	Yes	Yes	Yes	No	Yes
Share of budget allocated for service delivery (%)		96						
Ministry of Energy, Water Resources and Drinking Water	5,012	4,698	12	Yes	Yes	Yes	No	Yes
Share of budget allocated for service delivery (%)		94						
Ministry of Social Development and Health	5,057	3,154	29	Yes	Yes	Yes	No	Yes
Share of budget allocated for service delivery (%)		62						
Total	24,796	21,838	63					
Total budget allocated for service delivery programs (%)		88						

Source: Annual Budget (Red Book).

8.2. Performance achieved for service delivery

Performance level and evidence for scoring of the dimension. Table 2.27 shows information about actual service delivery of frontline services based on the CFS for FY2022/23 and the Annual Budget and Program Evaluation Review Report for FY2022/23.

Table 2.27: Service Delivery Performance Achieved under Four Ministries, FY2022/23

Service Delivery Ministry	Budget Allocation (NPR, millions)		Performance Plan for Service Delivery Programs					
	Total	Service Delivery Program	Number of Programs	Objectives (Yes/No)	KPIs (Yes/No)	Achieved Performance		
						Output (Yes/No)	Outcomes (Yes/No)	Activities (Yes/No)
Ministry of Agriculture and Land Management	1,566	1,362	13	Yes	Yes	Yes	No	Yes
Share of budget allocated for service delivery (%)		87						
Ministry of Physical Infrastructure Development	12,348	7,867	16	Yes	Yes	Yes	No	Yes
Share of budget allocated for service delivery (%)		64						
Ministry of Energy Water Resources and Drinking Water	4,815	4,990	14	Yes	Yes	Yes	No	Yes
Share of budget allocated for service delivery (%)		104						
Ministry of Social Development and Health	4,544	3,895	32	Yes	Yes	Yes	No	Yes
Share of budget allocated for service delivery (%)		86						
Gross Total	23,273	18,114	75					
Total budget allocated for service delivery programs (%)		78						

Source: Budget Speech and Annual Budget (Red Book).

Information is published annually about the activities performed and outputs delivered for most of the provincial ministries. Hence, the score for the dimension is a **B**.

8.3. Resources received by service delivery units

Performance level and evidence for scoring of the dimension. According to Rule 26 of the FPFA Regulation, once the Appropriation Act begins, the authorization for expenditures

is automatically available to the spending units through the PLMBIS. This provision assures that no expenditure is stopped due to the absence of authorization. The details of budget items, including program activity breakdowns automatically go through the PLMBIS to the PFCO and spending units. Moreover, the details of the Annual Budget (Red Book) are also published and uploaded on the MoEA's website before commencement of the fiscal year. Thus, once the budget is announced at the Provincial Assembly, the budget and program are opened and easily accessible for budget execution by the spending units. Additionally, the MoEA circulates budget implementation guidelines to all central agencies. The PLMBIS is also linked with the TSA system, the CGAS, and FMIS. However, the Annual Evaluation Report of the Budget and Program of the MoEA and the PFCO are not included in the breakdown of subhead financing sources for budgets and expenditures. However, budgets are approved with the allocation of financing from federal/province/foreign sources.

The Annual Program and Budget Evaluation Report of the MoEA is the reference for the detailed comparison of the previous three fiscal years. Table 2.28 shows the budgeted and actual expenditures for frontline service delivery offices within the four large ministries for the last three completed years.

Table 2.28: Budgeted and Actual Expenditures of Service Delivery Units (NPR, millions)

Service Delivery Programs	FY 2020/21		FY 2021/22		FY 2022/23	
	Budget	Actual	Budget	Actual	Budget	Actual
Total of Agriculture and Land Management	1,585	1,437	1,593	1,401	1,566	1,362
Agriculture Resource Center	0	0	82	65	85	70
Agriculture Development Directorate	267	20	68	109	78	151
Agriculture Business Promotion Support Training Center	30	24	25	21	21	18
Soil and Fertilizer Test Laboratory	21	16	18	17	18	16
Seeds Laboratory	17	13	12	10	16	15
Crop Protection Laboratory	22	19	18	16	22	19
Agriculture Knowledge Centers	693	573	419	457	559	484
Livestock and Fishery Development Directorate	168	91	35	24	66	48
Livestock Service Training Center	21	16	26	22	22	20

Service Delivery Programs	FY 2020/21		FY 2021/22		FY 2022/23	
	Budget	Actual	Budget	Actual	Budget	Actual
Fishery Development Center	22	18	16	12	25	16
Veterinary Hospital and Livestock Service Expert Centers	561	411	606	468	581	446
Agriculture Development Strategy, Monitoring and Coordination Program	0	0	6	4	4	2
Prime Minister Agriculture Modernization Program	0	0	261	176	71	58
Ministry of Physical Infrastructure Development	11,317	11,787	7,723	6,795	12,348	7,867
Infrastructure Development Offices	7,442	7,242	6,664	5,678	9,247	6,948
Transport Management Offices	112	63	136	121	132	120
Water Resource and Irrigation Development Division Offices	1,341	1,388	0	0	0	0
Ground Water Resource and Irrigation Offices	192	281	0	0	0	0
Urban Development and Building Construction Division Office	258	103	206	160	217	115
Drinking Water and Sanitation Division Offices	1,641	2,376	0	0	0	0
Drinking Water, Water Resources and Irrigation Development	331	335	0	0	0	0
Baglung Beni	0	0	30	26	28	7
Byas Marg-Budhi Singh Road	0	0	10	8	70	113
Mirdi-Myakmi-Bhimad	0	0	40	90	80	112
Potential Strategic Roads	0	0	135	350	166	110
Potential Provincial Roads	0	0	156	84	166	95
Accommodation Arrangement Program	0	0	150	73	171	4
Suspension Bridges	0	0	10	5	8	5
Local Level Road Bridges and Community Access Project	0	0.0	186	201	157	79

Service Delivery Programs	FY 2020/21		FY 2021/22		FY 2022/23	
	Budget	Actual	Budget	Actual	Budget	Actual
Settlement Development Program	0	0	0	0	360	0
Rural Road Network Reform Project	0	0	0	0	120	0
Intensive Urban Development Program	0	0	0	0	378	0
Alternative Subsidiary Highway Development Program	0	0	0	0	663	5
Road Infrastructure Development Program	0	0	0	0	386	155
Total Ministry of Energy, Water Resources and Drinking Water	3,505	0	4,276	4,973	4,815	4,990
Water Resources and Irrigation Development Directorate	1,341	0	1,094	1,076	1,237	1,382
Water Resources, Irrigation Drinking Water Offices	331	0	359	299	333	375
Ground Water Resources and Irrigation Offices	192	0	166	165	95	101
Drinking Water and Sanitation Divisional Offices	1,641	0	1,580	2,176	1,368	1,817
National Rural Renewable Energy	0	0	8	8	10	10
Community Managed Irrigation Agricultural Area	0	0	4	4	0	0
River Training	0	0	14	21	364	216
Periodic Maintenance Project	0	0	50	57	103	123
Prosperous Tarai Madhesh Irrigation	0	0	4	3		
Ground Shallow Tube-well Irrigation Project	0	0	12	13	36	30
Medium Irrigation Projects	0	0	399	290	397	305
Drinking Water Quality Reform	0	0	5	2	0	0
Climate-adapted Large Drinking Water Project	0	0	579	853	587	556

Service Delivery Programs	FY 2020/21		FY 2021/22		FY 2022/23	
	Budget	Actual	Budget	Actual	Budget	Actual
Sewage Construction and Treatment Program	0	0	3	7	5	5
River Training Based on New Technology Program	0	0	0	0	52	54
Integrated Energy and Irrigation Special Program	0	0	0	0	101	16
Drinking Water Extension and Restoration Program	0	0	0	0	127	0
Ministry of Education, Culture, Science Technology and Social Development (Health)	1,311	1,200	3,707	3,213	4,544	3,895
Employment Information Centre	8	3	6	2	6	2
Vocational and Skill Development Program	63	51	57	48	57	56
Education Development Directorate	83	63	34	22	58	35
Education Training Center	30	20	31	26	35	30
Gandaki University	321	109	190	167	240	200
Gandaki Technical Academy	107	12	40	11	40	17
Gandaki Province Science and Technology Academy	0	0	29	27	31	24
Gandaki Academy	0	0	0	0	32	27
Social Development Offices	0	0	613	493	950	966
Social Development Program	0	0	3	7	0	0
Education for all Child Development	0	0	0	0	0	0
School Sector Development Program (District Level)	0	0	100	60	102	80
National Examination Board	0	0	43	25	43	35
Technical Education and Vocational Training Academy (Special Program)	0	0	665	462	679	529
Employment Promotion Program	0	0	0	0	2	3

Service Delivery Programs	FY 2020/21		FY 2021/22		FY 2022/23	
	Budget	Actual	Budget	Actual	Budget	Actual
Health Directorate	74	35	41	25	39	28
Health Training Center	69	38	44	35	60	54
Public Health Laboratory	32	18	34	20	29	21
Health Supplies Management Centers	155	182	80	63	80	77
Hospitals	614	594	646	576	928	793
Health Offices	237	207	211	233	275	287
Ayurveda Centers	77	60	114	88	139	112
Monitoring, Evaluation and Program Improvement	0	0	15	65	0	0
Tuberculosis Control	0	0	17	12	20	14
Aids and Sexual Disease Control	0	0	15	10	14	10
Integrated Women Health and Fertility Health Program	0	0	420	293	0	0
Epidemic and Disease Control Program	0	0	56	271	44	24
Health Management Program	0	0	31	22	31	22
National Health Education, Information and Communication Center	0	0	8	4	8	3
National Training Program	0	0	6	5	8	5
Curative Service Program	0	0	43	35	43	29
Nursing and Social Security Service Program	0	0	60	42	63	46
Ayurveda Service / Sector Program	0	0	59	64	61	55
Prevention of Disability and Leprosy Control	0	0	0	0	7	1
Family Welfare Program	0	0	0	0	402	238
Health Sector Reform Program	0	0	0	0.	21	70
Grand Total	17,717	14,425	17,299	16,381	23,273	18,114

Sources: Annual Budget (Red Books) for FY2020/21, FY2021/22, and FY2022/23. Also, for FY2021/22 Annual Budget and Program Evaluation Review Report (2022 and 2023). One reason actual expenditure for some service delivery programs exceeded the original budget could be the revision of the original budget through the transfer of surplus funds from some programs to others with budget shortfalls, in line with Clause 5 of the Appropriation Act.

Information about resources allocated to frontline service delivery units is accessible through the PLMBIS and budget documents for all line ministries. However, a report disaggregating the budget and expenditures by financing source for these service delivery units has not been prepared. Hence, the score for the dimension is a **B**.

8.4. Performance evaluation for service delivery

Performance level and evidence for scoring of the dimension. Pursuant to Section 5 of the Audit Act (2019), the OAG conducts performance audits of spending units in accordance with the principles of economy, efficiency, and effectiveness. However, during the selected period for the PEFA Assessment (FY 2020/21, 2021/22, and 2022/23) the OAG did not conduct any performance audits for the Gandaki Province.³⁰ The relevant details are shown in Table 2.29.

Table 2.29: Performance Audit by Ministries for the Last Three Completed Fiscal Years

Entity	Performance Audits			FY2021/22 Budget (NPR, millions)
	FY2020/21	FY2021/22	FY2022/23	
No	0	0	0	0
Total number of ministries where a performance audit was conducted				0
Total budget of all ministries				-
<i>Share (%)</i>				NA

Source: OAG's 58th Performance Audit Report.

No performance audit or evaluation of the efficiency or effectiveness of service delivery has been carried out. Hence, the score for the dimension is a **D**.

PI-9A. Public access to fiscal information

What the indicator measures. It assesses the comprehensiveness of the fiscal information available to the public based on the specified elements of information to which public access is considered critical.

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

³⁰ Extension and Strengthening of the Home-Stay Project.

Table 2.30: Summary of Scores for PI-9A and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-9A. Public access to fiscal information	C	Scoring method M1.
9A.1. Public access to fiscal information	C	The four basic elements are made available to the public, but not the one basic and three additional elements.

Detailed description of the country PFM system for the assessed performance indicator. The Constitution guarantees the right to information for every citizen, except in cases where confidentiality is required by law. The Right to Information Act (2007) establishes an information officer in each spending unit and requires them to disclose public information. Moreover, Section 53 of the FPFA Act mandates that the concerned spending unit must publicly disclose financial reports via electronic or other appropriate means. This should occur within seven days after the deadline for producing such reports.

Recent or ongoing reform activities. Since FY2021/22, the MoEA has published daily aggregate fiscal data on its website as part of its efforts to promote the right to information.³¹

9A.1. Public access to fiscal information

Performance level and evidence for scoring of the dimension. The extent to which there is public access to key fiscal information, across eight specific elements, is covered in Table 2.31.

³¹ <https://mof.gandaki.gov.np/>.

Table 2.31: Public Access to Fiscal Information

Element/Requirements	Met (Yes/No)	Evidence Used/Comments
Basic elements		
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the SNG in PI-5) is available to the public within one week of the executive's submission of the documents to the subnational council.	Yes	The documentation of the FY2023/24 budget proposal comprises eight documents: (a) the Budget Speech, (b) the Statement of Budget Estimation (Red Book), (c) the Fiscal Transfers to the Local Level, (d) the Ministry-wise Annual Development Program, ³² (e) the Appropriation Bill, (f) the Finance Bill, ³³ (g) the Economic Survey, ³⁴ and (h) the MTEF. ³⁵ The Economic Survey was released before the budget proposal was submitted to the Provincial Assembly. Three documents (the Budget Speech, the Red Book, and Fiscal Transfers to the Local Level) were submitted to the Provincial Assembly on the day that the budget was announced (June 16, 2023). The Annual Development Program was released within five working days after the budget proposal was submitted to the Provincial Assembly.
2. Enacted budget. The annual budget law approved by the subnational council is publicized within two weeks of the passage of the law.	Yes	The Appropriation Act and the Finance Act for FY2023/24 were enacted on July 16, 2023, and were published on the same day. ³⁶
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	Partially	Six-month budget execution data are published in the Semi-Annual Evaluation Report of Budget of FY2022/23, which is made available to the public immediately after approval. The Semi-Annual Evaluation Report of the Budget of FY2023/24 was published on February 12, 2024 (within one month). ³⁷ However, PI-28 assesses the monthly reports, which are not publicly disclosed.

³² <https://mof.gandaki.gov.np/publication/budget-programs/>.

³³ <https://mof.gandaki.gov.np/publication/law-and-regulation/>.

³⁴ https://mof.gandaki.gov.np/media/publication/files/%E0%A4%86%E0%A4%B0%E0%A4%A5%E0%A4%95_%E0%A4%B8%E0%A4%B0%E0%A4%B5%E0%A4%95%E0%A4%B7%E0%A4%A3_v2.pdf.

³⁵ <http://ppc.gandaki.gov.np/sources/29/37745966>.

³⁶ <https://mof.gandaki.gov.np/publication/law-and-regulation/>.

³⁷ https://mof.gandaki.gov.np/media/publication/files/%E0%A4%85%E0%A4%B0%E0%A4%A7_%E0%A4%B5%E0%A4%B0%E0%A4%B7%E0%A4%95_%E0%A4%AE%E0%A4%B2%E0%A4%AF%E0%A4%99%E0%A4%95%E0%A4%A8_%E0%A4%AA%E0%A4%B0%E0%A4%A5%E0%A4%B5%E0%A4%A6%E0%A4%A8_%E0%A4%86%E0%A4%B0%E0%A4%A5%E0%A4%95_%E0%A4%B5%E0%A4%B0%E0%A4%B7_2080-81.pdf.

Element/Requirements	Met (Yes/No)	Evidence Used/Comments
4. Annual budget execution report. The report is made available to the public within six months of the fiscal year-end.	Yes	Annual budget execution data are made available with the CFS. The CFS for FY2022/23 was published on November 5, 2023, ³⁸ that is, within four months of the fiscal year-end.
5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within 12 months of the fiscal year-end.	Yes	The OAG submitted its 5th Annual Report for the Gandaki Province for FY2021/22 to the Province Chief on April 13, 2023. The OAG issued a press release and published the report on its website on the same day. ³⁹ The 6th Annual Report for the Gandaki Province for FY2022/23 was issued on May 26, 2024.
Additional elements		
6. Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditures, planned revenues, and debts are made available to the public at least four months before the start of the fiscal year.	No	The pre-budget document is not prepared.
7. Other external audit reports. All non-confidential reports concerning the SNG consolidated operations are made available to the public within six months of submission.	NA	The OAG has not conducted any performance audits on the Gandaki provincial government during FY2022/23 (or FY2023/24 so far).

³⁸ <https://pco.gandaki.gov.np/%e0%a4%85%e0%a4%a8%e0%a5%8d%e0%a4%af/>.

³⁹ <https://www.oag.gov.np/uploads/files/7qA>.

Element/Requirements	Met (Yes/No)	Evidence Used/Comments
8. Summary of the budget proposal. Either a clear, simple summary of the executive budget proposal is publicly available within two weeks of the executive budget proposal's submission to the subnational council or the enacted budget is presented in a format understandable by non-budget experts. This is often referred to as a 'citizens' budget', and where appropriate, it translated into the most commonly spoken local language(s). It is publicly available within one month of the budget approval.	No	A summary of the FY2023/24 budget proposal is not available.

Note: NA = Not applicable.

The requirements are met for four of the five basic elements. Of the three additional elements, one is not applicable, and the requirements are not met for the two remaining elements. Hence, the score for the dimension is a **C**.

PI-9B. Public consultation

What the indicator measures. It assesses the extent to which the SNG conducts public consultations in preparing the budget, designing service delivery programs, and planning investments.

Table 2.32: Summary of Scores for PI-9B and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-9B. Public consultation	D	Scoring method M2.
9B.1. Public consultation in budget preparation	D	Public consultation regarding budget preparation are not conducted.
9B.2. Public consultation in the design of service delivery programs	D	Public participation processes in designing service delivery programs are not carried out.
9B.3 Public consultation in investment planning	D	Public consultations are not conducted during the preparation of major investment projects.

Detailed description of the country PFM system for the assessed performance indicator. Clause 13.1 in the Budget Formulation and Execution Relating Guideline (2023) stipulates that the MoEA must consult with the PPPC to decide the date, time, and place for discussing the budget with the line ministries. It must send the information to the line ministries by the second week of April. To prepare the budget, line ministries confer with representatives of subordinate bodies (Clause 13.2) as well as with PPPC, MoEA, and Secretariat representatives (Clause 13.3). However, there are no rules, procedures, guidelines, or norms regarding public consultations.

Recent or ongoing reform activities. According to the MoEA, consultations with officials of local governments, District Coordination Committees, and economic experts started in FY2023/24.

9B.1. Public consultation in budget preparation

Performance level and evidence for scoring of the dimension. There are no mechanisms for consulting with civil society in the budget preparation process. As a result, no public consultations took place in preparing the budget for FY2023/24. Hence, the score for the dimension is a **D**.

9B.2. Public consultation in the design of service delivery programs

Performance level and evidence for scoring of the dimension. The provincial government's purview is restricted when it comes to areas of service delivery. Also, there are no legal or regulatory provisions for public engagement or participation in the design of service delivery programs. Similarly, public engagement or consultation is not considered when creating service delivery plans that really satisfy the general population's requirements and desires.

No public consultations took place during the last three completed fiscal years in the design of service delivery programs. Hence, the score for the dimension is a **D**.

9B.3. Public consultation in investment planning

Performance level and evidence for scoring of the dimension. In the Gandaki Province's first Five-Year Plan (FY2018/19–FY2023/24), 18 projects were designated as major investment projects, reflecting the priorities of the provincial government. Thirteen of these are Province Pride Projects and five are Game-Changer Projects. The Province Pride Projects do not have information about total costs. Only three of the five Game-Changer Projects are currently being implemented. As stated in the OAG's 5th Annual Report for the Gandaki Province for FY2021/22 (pp. 13–14), there was no coordination or even cooperation between agencies regarding the projects. Under such circumstances and given the absence of a legal provision requiring public consultations, no public consultations took place regarding investment planning, including during FY2022/23.

Based on the analysis and supporting evidence, no consultations are conducted for major investment projects managed and decided by the Gandaki Provincial Government. Hence, the score for the dimension is a **D**.



PILLAR ONE:
Budget Reliability



PILLAR TWO:
Transparency of Public Finances



PILLAR THREE:
Management of Assets and Liabilities



PILLAR FOUR:
Policy-based Fiscal Strategy and
Budgeting



PILLAR FIVE:
Predictability and Control in Budget
Execution



PILLAR SIX:
Accounting and Reporting



PILLAR SEVEN:
External Scrutiny and Audit



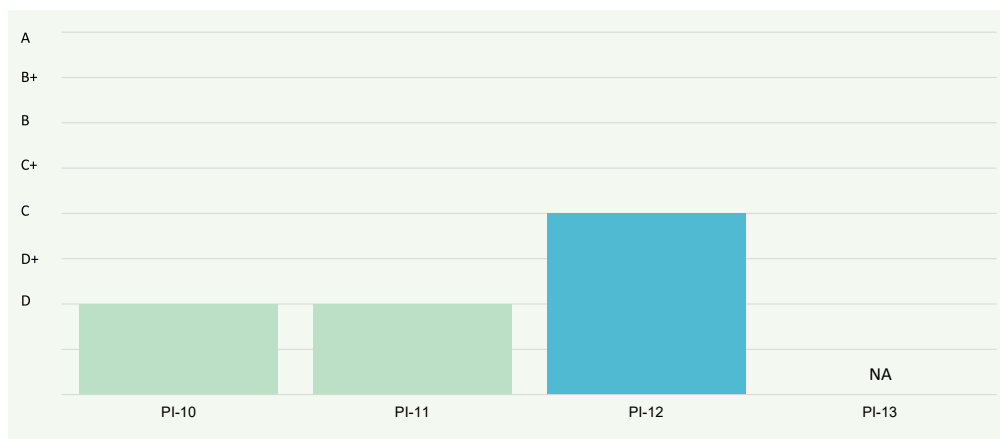
PILLAR THREE:
Management
of Assets and
Liabilities

PILLAR III: Management of Assets and Liabilities

What the pillar measures. The effective management of assets and liabilities ensures that: (i) investments provide value for money; (ii) assets are recorded and managed; (iii) fiscal risks are identified; and (iv) debts and guarantees are prudently planned, approved, and monitored.

Overall performance: Analysis of key strengths and weaknesses. Under this pillar, the performance of the two PIs is below the basic level (PI-10 and PI-11, scored D); one PI is at the basic level (PI-12 scored C); and one PI is not applicable (PI-13 scored NA). The performance below the basic level is due to the unaudited annual financial statements of the local governments within the Gandaki Province that have not been published (PI-10.2), and the provincial government not reporting on contingent liabilities (PI-10.3); and the absence of an economic appraisal, selection, costing, and monitoring of public investment projects (PI-11). Although there is a legal and regulatory framework in place for debt management, the provincial government has not developed a debt management strategy. However, as the Gandaki Province does not have debt stock, PI-13 is scored 'NA'. Cash and receivables are the only financial assets of the provincial government that are recognized at historical cost. Therefore, PI-12.1 is scored 'A'. However, both PI-12.2 and PI-12.3 have low scores.

Figure 2.4: Indicator Scores under Pillar III



PI-10. Fiscal risk reporting

What the indicator measures. It measures the extent to which fiscal risks to the SNGs are reported. Fiscal risks can arise from financial positions of lower tier(s) of SNGs, public corporations and/or contingent liabilities and other fiscal risks.

Methodological notes. For assessing PI-10.2, the 10 local governments of the Gandaki Province with the actual expenditures in FY2022/23 have been selected as a sample. They comprise high-value expenditures for Pokhara Metropolitan City, six urban municipalities,⁴⁰ and three rural municipalities.⁴¹

Table 2.33: Summary of Scores for PI-10 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-10. Fiscal risk reporting	D	Scoring method M2.
10.1. Monitoring of public corporations	NA	The provincial government does not control or own any share in any public corporations.
10.2. Monitoring of subnational governments	D	There is no evidence that unaudited FY2022/23 financial statements for the local governments within the Gandaki Province were published. A consolidated report concerning the financial position of all local governments in the form of the provincial government's CFS is published annually. The FY 2022/23 audited financial statements of the local governments were published more than nine months after the end of the fiscal year.
10.3. Contingent liabilities and other fiscal risks	D	The provincial government has contingent liabilities, but reports contingent liabilities as 'non-availability'. No other fiscal risks are reported.

Detailed description of the country PFM system for the assessed performance indicator. The federal FPFA Act (2019), Section 4, is the basic legal provision for provincial governments to monitor fiscal risks of local governments, including the requirement for the latter to prepare CFS that include all revenues and expenditures. These CFS must be submitted to the relevant PFCOs and DTCOs. The federal FPFA Regulation's Rule 10 specifies

⁴⁰ These include the Walling Municipality, Gaidakot Municipality, Devchuli Municipality, Besisahar Municipality, Sahid Laxman Municipality, and Bhimsen Thapa Municipality.

⁴¹ These include the Kaligandaki Rural Municipality, Rupa Rural Municipality, and Tarakhola Rural Municipality.

the processes and timelines for preparing and submitting the CFS. The PFCOs under the MoEA of Gandaki provincial government and the DTCOs under the FCGO, and thus ultimately the FCGO and the MoF, are the responsible entities for monitoring fiscal risks regarding the SNGs.

Article 203 (2) of the Constitution provisions that, “No loan shall be raised and guarantee given by the State Government except as provided for in the Federal law.” Section 4 of the Loan and Guarantee Act (1968) allows taking a loan from any foreign government or agency, or other institution, and giving a guarantee for the loan for any project included in any approved development plan (or for the purchase of a new aircraft for the Nepal Airlines Corporation).

The federal FPFA Act, Section 12 (1, 2, and 3), requires the recording of contingent liabilities created by federal law, contracts and agreements, financial liabilities caused by court decisions or orders, and liabilities created by commitments on tax exemptions. No expenditure can be created with multiyear liabilities by any office without the prior approval of the GoN’s MoF. The provincial FPFA Act, Section 109 (h), requires pre-approval of the Secretary of the MoEA when formulating any policy and law that creates a financial liability to the provincial government. Section 116 provisions call for obtaining pre-approval from the MoEA concerning the subject of creating financial liabilities. It states that, except for the approved budget appropriation, no spending unit can construct, order construction, or require to have any work done that creates additional liabilities to the provincial government without the pre-approval of the MoEA. The Appropriation Act also clearly mentions that no resource shall be provided for any decisions made that create financial liabilities to the government without the consent of the MoEA.

Recent or ongoing reform activities. The MoF and GoN, in collaboration with the IMF, are planning to develop a fiscal risk monitoring system for the SNGs. Also, the FCGO plans to make changes to the SuTRA to enhance provincial government monitoring of local governments.

10.1. Monitoring of public corporations

Performance level and evidence for scoring of the dimension. The provincial government does not control or own any share in any public corporations. Hence, the score for the dimension is **NA**.

10.2. Monitoring of subnational governments

Performance level and evidence for scoring of the dimension. Gandaki Province has 85 local governments comprising rural municipalities, urban municipalities, and one metropolitan city. The provincial government provides budgetary transfers to the local governments in the form of four fiscal grants and revenue sharing. As noted, 10 local governments were selected as a sample to assess PI-10.2.

According to the federal FPFA Act (2019), Section 4 (1 and 3), and the FPFA Regulation's Rule 10, all local governments under a province should prepare CFS showing all revenues, grants, loans, and expenditures. These are to be submitted to the relevant PFCOs and DTCOs,⁴² as well as the FCGO according to the applicable OAG formats. All local governments shall prepare and submit their financial statements to the PFCO and DTCOs by mid-October, based on which the PFCO must prepare CFS and submit these to the FCGO by mid-November. Table 2.34 shows the date that the 10 sampled local governments submitted their FY2022/23 financial statements to the PFCO, as well as the date of the OAG's audit of the financial statements.

Table 2.34: FY2022/23 Financial Statements of the Sampled Local Governments

10 Sampled Local Governments	Expenditure (NPR, millions)	Share of All Local Governments (%)	Date of Submission to the PFCO	Date of Audit by the OAG ^a	Number of Months after FY-end
Pokhara Metropolitan City	5,453	10.9	August 22, 2023	April 5, 2024	8.4
Walling Municipality	892	1.8	July 26, 2023	August 28, 2023	1.1
Gaindakot Municipality	997	2.0	July 17, 2023	February 28, 2024	7.4
Devchuli Municipality	747	1.5	August 13, 2023	February 23, 2024	6.3
Besisahar Municipality	691	1.4	August 12, 2023	January 21, 2024	5.3
Sahid Lakhan Municipality	640	1.3	August 5, 2023	October 17, 2023	2.4

⁴² Section 5 of the federal FPFA Act requires the DTCOs to prepare CFS of the local governments within their area and submit them to the PFCO and the FCGO. The specified timelines have been met by the concerned agencies.

10 Sampled Local Governments	Expenditure (NPR, millions)	Share of All Local Governments (%)	Date of Submission to the PFCO	Date of Audit by the OAG ^a	Number of Months after FY-end
Kaligandaki Rural Municipality	562	1.1	July 26, 2023	October 14, 2023	2.6
Bhimsen Thapa Municipality	492	1.0	July 26, 2023	October 06, 2023	2.3
Rupa Rural Municipality	392	0.8	August 6, 2023	December 24, 2023	4.6
Tarakhola Rural Municipality	355	0.7	July 28, 2023	November 29, 2023	2.0
<i>Average time for 10 sampled local levels</i>					4.1
Total expenditures of the 85 local governments	50,163	22.4			

Note: a. The date of audit by the OAG refers to the (preliminary) audit report for each local level. Once the OAG receives responses, the final audit reports are prepared and submitted to the local assembly.

The 10 sampled local governments submitted their annual financial statements to the PFCO within 36 days after the end of FY2022/23. The PFCO submitted its (unaudited) CFS to the MoEA, the FCGO, and the OAG on November 5, 2023, that is, 3.5 months after the fiscal year-end. According to the FPFA Act's Section 56, financial statements must be published through electronic or other appropriate means within 7 days of their preparation. However, there is no evidence of publication of the unaudited annual financial statements of the 10 sampled local levels.

As mandated by the Constitution and the Audit Act (2019), the OAG audits the annual financial statements of all provincial governments and local levels and submits the audit reports to the Province Chief and the local government assemblies. The OAG published the audited FY2021/22 financial statements of the local governments on its website on April 13, 2023, that is, within nine months of the fiscal year-end.⁴³ However, the audited FY2022/23 financial statements of the local levels were published more than nine months after the end of fiscal year.

⁴³ <https://oag.gov.np/local-level/search-report/en>.

The PFCO published the (unaudited) CFS for FY2022/23, which covers the annual financial statements of the provincial and local levels on November 17, 2023 (that is, within four months of the fiscal year-end). The FCGO published its (unaudited) CFS for FY2022/23, which covers the annual financial statements of all three tiers of governments, on December 29, 2023, that is, within six months of the fiscal year-end. Thus, both (unaudited) CFS were published within the legally stipulated timelines.

The SuTRA, developed by the FCGO for local governments, is used by all 85 local levels of the Gandaki Province for budgeting, expenditures, and reporting. It produces annual financial reports of all the local levels, as well as CFS. The PFCO has access to the SuTRA system for monitoring the local levels' financial statements.

The consolidated financial statements of the provincial and all local levels are published annually. However, the unaudited financial reports of the local levels are not published. Additionally, the audited financial statements of the local levels for the last completed fiscal year were published more than 9 months after the close of the fiscal year. Hence, the score for the dimension is a **D**.

10.3. Contingent liabilities and other fiscal risks

Performance level and evidence for scoring of the dimension. There are policies and priorities in the Budget Speech regarding agriculture products (*Bali Beema*) insurance, and veterinary insurance. However, relevant procedures for implementation were not formulated. The provincial government has no contingent liabilities in the form of subsidies, guarantees, or public-private partnership (PPP) financing, or in relation to litigation or court cases, investment disputes, or arbitration. However, the FY2022/23 budget provisions for gratuity/pension and other liabilities are not recorded and reported. This is because the legal provisions for these have not been finalized. The CFS prepared and published by the PFCO includes a table of contingent liabilities (Table 2.35), wherein contingent liabilities are reported as 'non-available.' Similarly, there are no contingent liabilities for the EBUs reported. In terms of the significance of contingent liabilities, they are reported as 'not available.' No other fiscal risks are identified and reported.

Table 2.35: Contingent Liabilities and Fiscal Risks

Coverage	Loan Guarantees (Central Government)/ Business Life Safeguarding Fund	State Insurance Scheme	Public-Private Partnerships (PPPs)
Spending units	–	–	–
EBUs	–	–	–

Sources: PFCO's CFS for 2022/23; Accounting Memo No. 42.

The CFS reports 'nil' contingent liabilities of the provincial government, but no other fiscal risks are identified and reported. Hence, the score for the dimension is a **D**.

PI-11. Public investment management

What the indicator measures. It assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the SNG, with an emphasis on the major investment projects.

Methodological notes: The Gandaki Province has only six major projects under implementation, all of which were selected to assess this indicator. To analyze performance, the necessary documents from the PPPC related to project analysis, selection, costing, and monitoring were gathered, as required by legislation and regulations.

Table 2.36: Summary of Scores for PI-11 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-11. Public investment management	D	Scoring Method M2.
11.1. Economic analysis of investment proposals	D	There are no guidelines in place for economic analysis of investment projects.
11.2. Investment project selection	D	There are no standard criteria in place for selecting major investment projects.
11.3. Investment project costing	D	Projections of the total capital costs of major investment projects are not included in any budget document.
11.4. Investment project monitoring	D	There is no available information to indicate that project monitoring related to physical progress or costs is undertaken.

Detailed description of the country PFM system for the assessed performance

indicator: The federal system of governance was introduced only in 2018; hence, much of the public investment management system for the provincial governments is still in the transition stage. There are presently only a few major investment projects under implementation in the Gandaki Province. Therefore, all six Province Pride Projects and Game-Changer Projects currently being implemented have been selected for assessing PI-11.

There are no provincial guidelines for economic analysis and appraisal of major investment projects. However, there is a provision in Section 9 (c) of the FPFA Act that project budgets may be proposed for approval only after completion of a feasibility study. According to Rule 10 (2a) of the FPFA Regulation, projects need to document activity details, unit costs, implementation periods, and expected returns. When classifying a project, it is necessary to follow the basis of the entire development policy adopted by the GoN; the development policy and plan of the province; provincial laws; and the decision of the Intergovernmental Fiscal Council for the project classification (according to Rule 22 of the FPFA Regulation).

There are no explicit standard criteria for project selection, although there is some guidance for entering projects into the budget. For example, Section 16 of the FPFA Act specifies the need to undertake project classification and use a project bank.⁴⁴ Furthermore, Section 9 (b) of the FPFA Act specifies the need to submit budget proposals for new projects on the basis of feasibility studies, as well as technical and financial justifications of incurring expenditures in the coming fiscal year(s). However, a project bank has not yet been established by the PPPC.

Section 22 of the FPFA Act makes the respective minister and secretary responsible for monthly and quarterly M&E of the implementation of projects under their jurisdiction. Rules 101, 102, 103, 105, and 109 of the FPFA Regulation outline the monitoring responsibilities of the Minister of Economic Affairs, ministers of line ministries, the PPPC Vice-Chairman, the Accounts Responsible Officers (Secretaries), and the Secretary of the MoEA, respectively. The MoEA's 'Integrated Procedures for Budget and Program Implementation' (2020) outlines the preparation of an annual action plan based on the M&E of projects.

⁴⁴ Ministries are required to include a list of projects to be implemented over a five-year period with the ministry-specific MTEF and annual development program, which is submitted to the PPPC and the MoEA. Thereafter, it is entered into the project bank. However, as this a new requirement (following the enactment of the FPFA Act in 2022), the concept of the project bank is yet to be implemented in practice.

M&E involves the following committees: the Provincial Development Problem Action Committee (PDPAC); the Ministry-level Development Problem Action Committee (MDPAC); and the Provincial Secretary-level Monitoring and Evaluation Committee (PSMEC) under the chairmanship of Chief Minister; ministers of line ministries; and the Chief Secretary. Each ministry has a section/unit to monitor and evaluate budget implementation. The basic function of the committees, at their different levels (policy, ministry, and administration), is to resolve issues identified during M&E.

The M&E section/units of the ministries carry out M&E in practice. The MDPAC closely reviews and monitors the status of programs and projects and conducts meetings with concerned stakeholders on a quarterly basis. However, the total costs and physical progress of investment projects are not monitored by the implementing SNG units or by the MDPACs.

Recent or ongoing reform activities. An approach paper was recently launched for the provincial government's second Five-Year Plan (FY2024/25–FY2028/29). Also, the PPPC is working to implement the project bank.

11.1. Economic analysis of investment proposals

Performance level and evidence for scoring of the dimension. The Gandaki Province's first Five-Year Plan (FY2018/19–FY2023/24) identified 18 investment projects. Of these, 13 were Province Pride Projects. Three are under implementation, and 5 were Game-Changer Projects, of which 3 are under implementation. The Five-Year Plan provided total investment costs of the Game-Changer Projects (as well as descriptions, durations, goals, objectives, activities, economic impacts, implementation modalities, and beneficiaries). However, the total investment costs were not provided for the Province Pride Projects.

Table 2.37: Economic Analysis of Major Investment Projects

Investment Project	Total Investment Cost (NPR, millions)	Share (%)	Expenditures as of FY2022/23 (NPR, millions)	Expenditures as of FY2022/23 versus Total Investment Cost (%)	Economic Analysis			
					Completed (Yes/No)	Consistent with Guidelines (Yes/No)	Published (Yes/No)	Reviewing Entity
Province Pride Projects								
Link Road Construction from Pokhara to Local level Capital Project	3,918	23.2	1,886	48.1	No	No	No	Ministry of Infrastructure, Provincial Policy and Planning Commission (PPPC)

Investment Project	Total Investment Cost (NPR, millions)	Share (%)	Expenditures as of FY2022/23 (NPR, millions)	Expenditures as of FY2022/23 versus Total Investment Cost (%)	Economic Analysis			
					Completed (Yes/No)	Consistent with Guidelines (Yes/No)	Published (Yes/No)	Reviewing Entity
Home-Stay Extension and Strengthening Project	550	3.3	470	85.5	No	No	No	Ministry of Industry/PPPC
Province Cricket Stadium Construction Project	1,630	9.6	2	0.1	No	No	No	Ministry of Education/PPPC
Game-Changer Projects								
Pokhara, Dedgaun, Dumkibas, Tribeni Road Construction Project	4,400	26.0	537	12.2	No	No	No	Ministry Infrastructure/PPPC
Fewa Lake Beautification Project	4,920	29.1	161	3.3	No	No	No	Lake Conversation & Development Authority, Respective Ministry (Forest)/PPPC
Heart, Kidney and Cancer Integrated Hospital Construction Project	1,500	8.9	20	1.3	No	No	No	Ministry of Social Development and Health/PPPC
Total	16,918	100.0	3,076	18.2				

Sources: Gandaki Province's Five-Year Plan (FY2018/19–FY2023/24), Annex 2 and Chapter 10; OAG's 5th Annual Report of Gandaki Province for FY2021/22, pp. 13–14 (for total investment cost); Annual Progress Reports from the MoEA, MoIP and LCD Authority, 2023, for expenditure.

The six projects were implemented after being prioritized based on their inclusion in the Five-Year Plan (FY2018/19–FY2023/24). Detailed economic analysis, such as feasibility studies or cost-benefit analysis, were not conducted. Hence, the score for the dimension is a **D**.

11.2. Investment project selection

Performance level and evidence for scoring of the dimension. The OAG has observed that the Gandaki's provincial government does not have in place guidelines for project identification and selection.⁴⁵ There is no information available to suggest that the six major investment projects currently being implemented were selected based on standard norms, such as project scope, geographic need, feasibility studies (technical, financial, social, or environmental), beneficiaries, cost, time period, and employment generation.

There is no evidence to prioritize major investment projects by an entity based on standard criteria for project selection. Hence, the score for the dimension is a **D**.

11.3. Investment project costing

Performance level and evidence for scoring of the dimension. The MTEF prepared in 2023 includes a brief description of the programs/projects, including project costs and three-year result indicators. However, it does not include total life-cycle costs for capital and recurrent costs. It also lacks a year-by-year breakdown of the costs for any of the coming fiscal years.

The budget does not include projections of the total capital costs of major investment projects. It only provides capital costs for the forthcoming budget year. Hence, the score for the dimension is a **D**.

11.4. Investment project monitoring

Performance level and evidence for scoring of the dimension. The PPPC publishes an annual progress report. The FY2022/23 report contains information about present issues and challenges, as well as the progress status of the result framework for the Five-Year Plan. Likewise, the MoEA publishes an annual evaluation report of the budget and program. The MoEA's FY2022/23 report contains information about financial progress relative to the original budget estimates, as well as physical progress of some major investment projects. However, explanations about deviations from implementation plans and corrective actions are not included.

The annual evaluation report includes budget utilization for all, as well as the physical progress for some investment projects. However, it does not provide any explanation of variances and deviations. Evidence of project monitoring by an entity of the government is not available. Hence, the score for the dimension is a **D**.

⁴⁵ OAG, 5th Annual Report for Gandaki Province for FY2021/22. p. 14. (OAG, 2023).

PI-12. Public asset management

What the indicator measures. It assesses the management and monitoring of SNG assets and the transparency of asset disposal.

Methodological notes: Financial asset data gathered from the MoEA and the PFCO included data maintained in the Integrated Public Financial Management Service (IPFMS) and publicly available information, such as the OAG report (Table 2.38). Information in the Public Asset Management System (PAMS), budget, and financial statements were examined to evaluate the monitoring of non-financial assets.

Table 2.38: Summary of Scores for PI-12 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-12. Public asset management	C	Scoring method M2.
12.1. Financial asset monitoring	A	The provincial government maintains a record of its holdings of financial assets (mainly cash and receivables) in line with IPSAS based the NPSAS, which are recognized at their acquisition (historical) cost. Information about performance is published annually.
12.2. Non-financial asset monitoring	D	The provincial government maintains a fixed asset register, which has information on usage, but not age. Annual reports about fixed assets are prepared. The records of infrastructure and subsoil assets are not maintained.
12.3. Transparency of asset disposal	D	Procedures and rules for the transfer and disposal of non-financial assets are established. Information about the transfer or disposal of assets conducted by the provincial government is not available, and neither the CFS nor budget documents include information.

Note: CFS= Consolidated Financial Statements; IPSAS= International Public Sector Accounting Standards; NPSAS= Nepal Public Sector Accounting Standards.

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

The FPFA Act (2022), Section 25 (5), provides for the maintenance of records of movable and immovable (current and fixed) assets of all the offices of the provincial government, as well as the preparation of a consolidated report by the PFCO. The FPFA Regulation (2023), Rule 87, provides for maintaining registers of assets and inventories of goods by all the provincial offices. Rules 88 and 89 provide for the preparation of a consolidated annual statement of

assets and inventory goods, as well as records of land and buildings by all the line ministries and agencies. These are to be submitted to the PFCO and the OAG.

The FPFA Regulation's Rules 82–85 state the responsibility of all spending units regarding record keeping, safeguarding, maintaining, and reporting of all assets and inventory goods. Records of all assets and inventories should be updated annually with the balances stated as of the previous year, considering assets purchased, received, transferred, auctioned, and disposed during the year and providing their fair value or revised value as of fiscal year-end (Rules 87 and 88). A register of land and buildings must also be maintained (Rule 89). At least once a year, assets and inventory must be physically verified by a three-member committee (Rule 86) and a report submitted in a prescribed OAG format, which is also presented for auditing.

Sections 43 and 44 of the FPFA Act as well as Rules 90, 91, 92, 93, 94, 95, 97, and 98 of the FPFA Regulation provide detailed procedures for the handover, transfer, auction, and disposal of non-financial assets. Also, the FCGO has issued the 'Government Assets and Inventory Goods Auction Sale-related Procedures' (2022) to ensure transparent and uniform procedures. There is no legal or regulatory requirement that the annual report about the handover, transfer, auction, and disposal of non-financial assets be submitted to the Provincial Assembly.

Recent or ongoing reform activities. The FCGO plans to enhance the PAMS to capture infrastructure assets.

12.1. Financial asset monitoring

Performance level and evidence for scoring of the dimension. The CFS for FY2022/23 were prepared as per NPSAS, based on International Public Sector Accounting Standards (IPSAS), and OAG-approved formats. The CFS disclosed financial assets, such as cash balances as of fiscal year-end and receivables (mainly royalties, revenue sharing, and recoverable irregularities); and other investments, along with the balances at the end of the previous fiscal year (Table 2.39). The records of financial assets (cash and bank balances and receivables) are maintained in the IPFMS. There were no investments made by the provincial government during FY2022/23. The FPFA Act, Section 3, requires that cash is maintained and reported in the consolidated fund account by the PFCO. Performance change in the cash/treasury position and movement in receivables are prepared and submitted by the PFCO on an annual basis to the MoEA and the OAG, as well as published through the CFS.⁴⁶

⁴⁶ <https://pfco.gandaki.gov.np/अन्य/>.

Table 2.39: Financial Assets, FY2022/23

Asset Type	Holding of Financial Assets Maintained	Recognized at Acquisition Cost	In Line with (IPSAS-based) NPSAS	Performance Information Published Annually	Source of Information
Cash/treasury	Yes	Yes	Yes	Yes	PFCO Report/OAG Report
Share investment	NA	NA	NA	NA	NA
Loan investment	NA	NA	NA	NA	NA
Receivables (royalties and revenue sharing) including recoverable irregularities)	Yes	Yes	Yes	Yes	OAG Report/PFCO Report

Sources: PFCO's CFS for FY2022/23; <https://pfco.gandaki.gov.np/wp-content/uploads/2024/01>.

Note: IPSAS= International Public Sector Accounting Standards; NA= Not Applicable; NPSAS= Nepal Public Sector Accounting Standards; OAG= Office of Auditor General; PFCO= Provincial Financial Comptroller Office.

Table 2.40 shows the value of the financial assets as of the end of FY2022/23.

Table 2.40: Financial Assets, FY2022/23

Class	Responsible Office/Unit	Value as of End FY2022/23 (NPR, millions)	Remarks
Cash/treasury	PFCO	2,928	Consolidated fund account
Equity/share investments	PDMO	—	—
Loan investments	PDMO	—	—
Recoverable Irregularities	PFCO	219	OAG audit report/CFS
Receivables (revenue sharing)	PFCO	344	Received and accounted for in FY2023/24.

Source: PFCO's CFS for FY2022/23.

Note: CFS= Consolidated Financial Statement; OAG= Office of the Auditor General; PDMO= Public Debt Management Office; PFCO= Provincial Financial Comptroller Office.

Cash and receivables are the only financial assets of the Gandaki provincial government that are recognized as historical costs. The annual CFS includes information about the performance of these assets. Hence, the score for the dimension is an **A**.

12.2. Non-financial asset monitoring

Performance level and evidence for scoring of the dimension. The web-based Public Asset Management System (PAMS), developed and provided by the FCGO, is used by the provincial government to maintain records and report on all nonfinancial assets (land and buildings, machinery and equipment, vehicles and furniture, as well as inventories of spendable and non-spendable goods and supplies). The PAMS includes detailed descriptions of non-financial assets. An Operations Manual, developed based on the FCGO's CoA, is available for all spending units. The seven-digit code starts from 6111101 for expendable goods, whereas ten-digit codes are provided for non-expendable goods for different types of assets. Based on the data in the PAMS, the FCGO prepares and publishes an annual consolidated statement of assets.⁴⁷ Although use of the PAMS is mandatory, all spending units under the provincial government are yet to fully implement it; hence, the PAMS does not yet include all details of usage and age of the non-financial assets.

All spending units prepare an annual financial report, including assets and inventories. The report is then submitted to the concerned ministries, the PFCO, and OAG. The PFCO's CFS for FY2022/23 covers the status of the non-financial assets of the provincial government (Chapter 4, pp. 32–33).⁴⁸ Inventories and non-produced assets are not mentioned in the CFS. Regarding the non-financial assets of the EBUs, the CFS states that the details of the EBUs are not available.

Although Nepal's provincial governments were established in February 2018, not all non-financial (fixed) assets, such as land and buildings, have yet been formally transferred from the federal government to the provincial governments.⁴⁹ The provincial government also does not maintain records of infrastructure (roads, bridges) or a register of subsoil assets.

Table 2.41 shows the purchase value of the non-financial assets at the end of FY2022/23.

⁴⁷ <https://pams.fcgo.gov.np>.

⁴⁸ <https://pfco.gandaki.gov.np/अनुय/>.

⁴⁹ For example, in relation to cooperative agriculture and veterinary, transport, health and hospitals, drinking water, energy and irrigation, the skills development training center, and industry and tourism offices.

Table 2.41: Categories of Non-financial Assets for FY2022/23

Categories	Subcategories	Asset Code	Acquisition Cost (NPR, millions)
Fixed assets	Building and structures	6111000	531
	Machinery and equipment	6115000	2,931
	Produced biological equipment	6113100	55
	Other structures	6115000	3
	Precious goods	6130000	0
	Unproductive assets	6140000	83
Inventories	Office equipment	—	n.a.
Non-produced assets	Land	—	n.a.
	Subsoil assets	—	n.a.
	Intangible non-produced assets	—	n.a.
Total			3,603

Note: n.a. = Not available.

The register of nonfinancial (fixed) assets includes information about their usage, but not their age. Moreover, the records of infrastructure and subsoil assets are not maintained. Hence, the score for the dimension is a **D**.

12.3. Transparency of asset disposal

Performance level and evidence for scoring of the dimension. According to the PFPA Act, an annual report of the handover, transfer, auction, and disposal of non-financial assets should be included in the CFS. It should also be presented to the OAG for audit. However, there is no information about transfer or disposal of assets having been conducted by the provincial government; hence, no such information has been included, either fully or partially, in the CFS or budget documents. Also, the CFS does not include a template or format for this purpose.

Neither the budget nor the financial statements include information about disposals and transfers of non-financial assets. Hence, the score for the dimension is a **D**.

PI-13. Debt management

What the indicator measures. It assesses the management of domestic and foreign debts and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective debt management arrangements.

Table 2.42: Summary of scores for PI-13 and performance table

Indicator/Dimension	2024 Score	Justification for Score
PI-13. Debt management	NA	Scoring method M2.
13.1. Recording and reporting of debt and guarantees	NA	There is no debt stock, and no guarantee issued.
13.2. Approval of debt and guarantees	NA	The Constitution and federal laws allow provincial governments to borrow and issue debt. Internal debt is managed by the NRB until the PDMO takes over this function; hence, debt transactions are presently reported to and monitored by two entities. Borrowing proposed in the FY2022/23 budget was approved by the Provincial Assembly, but it was not availed by the provincial government. However, the provincial government has no debt stock.
13.3. Debt management strategy	NA	The provincial government has not prepared a medium-term debt management strategy (MTDS). However, there is no debt stock, and the provincial government does not plan to incur substantial debt in the current budget year.

Detailed description of the country PFM system for the assessed performance indicator. The IGFA Act's Section 12 allows the GoN to obtain foreign assistance in terms of grants and loans. The GoN can also obtain foreign grants and loans for implementing provincial and local government projects. The provincial and local governments require consent from the GoN in acquiring or implementing any kind of programs or projects with foreign assistance.

The federal, provincial, and local governments can acquire internal (domestic) loans within limitations recommended by the NNRF. However, provincial and local governments may acquire such loans only after approval by the GoN. The IGFA Act's Sections 14 and 15 give provincial and local governments the right to obtain internal loans by issuing bonds or taking loans from the GoN, as and when fulfilling specific procedures and processes in accordance with the law.

The IGFA Act's Section 23 states that the federal, provincial, and local governments may propose or submit a deficit budget to their respective legislature in accordance with their requirements, for which the respective governments must define the source(s) to fulfill such a deficit budget.

The Public Debt Management Act (2022) is the main law for managing public debt and covers all three government tiers. Similarly, the Public Debt Management Regulations (2023) have been implemented to regularize the processes and procedures of public debt for all levels of government. Likewise, the federal PDMO is responsible for managing public debt, as well as accounting, recording, and reporting through its DOMS for all three tiers of the government. The PDMO has a MTDS for managing federal debt, but the provincial government has not formulated a MTDS.

Recent or ongoing reform activities. None observed.

13.1. Recording and reporting of debts and guarantees

Performance level and evidence for scoring of the dimension. In FY2022/23, the Gandaki's provincial government received approval for a proposed deficit budget of NPR 2,000 million from the Provincial Assembly. Of this amount, NPR 1,000 million was to be raised through internal borrowing and NPR 1,000 million from the GoN, as recommended by the NNRFC.⁵⁰ However, the provincial government did not contract any debt, and no debt records were kept. Also, the provincial government has not issued any guarantees. Hence, there is no debt stock. This may have been due to the low budget execution rate for FY2022/23 (66.7 percent of the original budget for PI-1.1).

The Gandaki provincial government does not hold any debt stock, nor has it issued any guarantees. Hence, the score for the dimension is **NA**.

13.2. Approval of debts and guarantees

Performance level and evidence for scoring of the dimension. The authority to approve and contract debts and guarantees for all three tiers of government remains under the federal MoF. The provincial government did not seek approval from the GoN for the planned loans during FY2022/23.

⁵⁰ Based on a ceiling for provinces of 12 percent of their total internal revenue, plus revenue sharing from the GoN.

The Public Debt Management Act came into effect in October 2022 when it replaced the Loan and Guarantee Act (1968) and the Public Debt Act (2002). It provides the legal basis for the PDMO to carry out the debt management functions for all three tiers of the government, including recording and reporting debts and guarantees.⁵¹ The PDMO became the sole, specialized agency responsible for carrying out front, middle, and back office functions only after the enactment of the Public Debt Management Act in October 2022. However, until now, the NRB acts as the GoN's fiscal agent for managing internal debt (according to the NRB Act and the IGFA Act). Hence, even though the provincial government did not obtain loans in FY2022/23, there was no single entity responsible for debt management.

According to the Guidance for SNG PEFA Assessments of May 2022, this dimension applies when a SNG is authorized to borrow or issue guarantees, and when the amount of debts and guarantees is considered significant. Although the Gandaki Provincial Government has the authority to borrow, it currently has no debt stock. Therefore, this dimension is not applicable.

The Gandaki provincial government does not hold any debt stock, nor has it issued any guarantees. Hence, the score for the dimension is **NA**.

13.3. Debt management strategy

Performance level and evidence for scoring of the dimension. The MoF's PDMO is the agency responsible for dealing with and managing the public debts of all three tiers of government. The PDMO has developed and implemented the MTDS for FY2021/22–2023/24. However, it does not cover the SNGs. Similarly, the provincial government has not prepared any debt management strategy, including a MTDS, although the Province Assembly has approved domestic borrowing of NPR 1,700 million for FY2023/24 (NPR 2,000 million for FY2022/23).

According to the Guidance for SNG PEFA Assessments of May 2022, this dimension is relevant when a SNG is authorized to borrow or issue guarantees, particularly when the level of debt and guarantee is considered significant, or when the SNG plans to incur substantial debt in the current budget year. Although the Gandaki Provincial Government has the authority to borrow, it currently has no outstanding debt. For FY 2023/24, the government has budgeted

⁵¹ Before the PDMO was established, monitoring was conducted by the NRB and the MoF. Whenever the GoN publishes (weekly or monthly) financial data, borrowing is reviewed and monitored, noting that the Gandaki's Provincial Government has not made any loans so far.

for domestic borrowing of NPR 1,700 million, which represents less than 10 percent of total receipts. Therefore, it is regarded as insignificant. Moreover, the provincial government did not raise any debt during FY2023/24. As a result, this dimension is not applicable.

The Gandaki provincial government does not hold any debt stock, and it has not issued any guarantees. Hence, the score for the dimension is **NA**.



PILLAR ONE:
Budget Reliability



PILLAR TWO:
Transparency of Public Finances



PILLAR THREE:
Management of Assets and Liabilities



PILLAR FOUR:
Policy-based Fiscal Strategy and
Budgeting



PILLAR FIVE:
Predictability and Control in Budget
Execution



PILLAR SIX:
Accounting and Reporting



PILLAR SEVEN:
External Scrutiny and Audit



PILLAR FOUR:
Policy-
based Fiscal
Strategy and
Budgeting

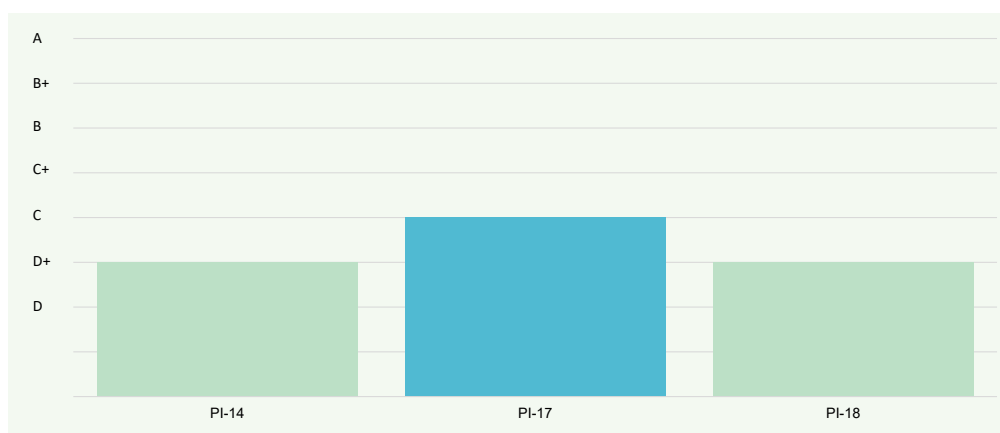
► PILLAR IV: Policy-based Fiscal Strategy and Budgeting

What the pillar measures. Pillar IV assesses whether the government fiscal strategy and the budget are prepared with due regard for government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Overall performance: Analysis of key strengths and weaknesses. The performance of two of the three PIs under Pillar IV is low (PI-14 and PI-18 scored a 'D+'). This is due to weaknesses in the medium-term budget preparation approach (PI-14), especially the absence of fiscal impact assessments of policy proposals. Also, the budget documents do not explain changes to expenditure estimates between years. In addition, there are limitations in the scope and procedures of the Provincial Assembly's budget scrutiny (PI-18.1 and PI-18.2). Nevertheless, the legislative approval of the annual budget is timely, occurring before the start of the fiscal year (PI-18.3), and there are clear rules for in-year budget adjustments (PI-18.4). The annual budget preparation process, however, is at a basic level of performance regarding the existence and use of a budget calendar, guidance on budget preparation, and timely budget submission to the Provincial Assembly (PI-17 scored a C).

There is interdependence between several PIs of this pillar and other PIs, including for the medium-term budget strategy (PI-14) with the aggregate expenditure outturn (PI-1) and revenue outturn (PI-3), which all have low scores. The scores for the budget preparation process (PI-17), the aggregate expenditure outturn (PI-1), and the timeliness of information provided to local governments regarding fiscal transfers (PI-7.2) are similarly low.

Figure 2.5: Indicator Scores under Pillar IV



PI-14. Medium-term budget strategy

What the indicator measures. It measures the ability of the SNGs to prepare budget estimates regarding the basis of a fiscal strategy, sectoral strategies, information transfers, and the impact of economic context and policy changes. It assesses the ability of a SNG to develop a medium-term budget that is aligned with the strategic plans for service delivery. It also examines the extent to which annual budgets are derived from medium-term estimates.

Methodological notes: The annual MTEF, prepared as part of the annual budget, was analyzed to assess the indicator and dimensions.

Table 2.43: Summary of Scores for PI-14 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-14. Medium-term budget strategy	D+	Scoring Method M2.
14.1. Underlying forecasts for medium-term budget	C	The FY2023/24 budget documentation includes revenue and expenditure estimates for the budget year and the next two fiscal years.
14.2. Fiscal impact of policy proposals	D	The provincial government does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policies at the level of individual policy initiatives.
14.3. Medium-term expenditure and revenue estimates	C	The MTEF presents estimates of expenditure and revenue (by type) for the budget year and the next two fiscal years.
14.4. Consistency of budget with previous year's estimates	D	There are no comparisons of the estimates with the previous year's MTEF, and no explanations are provided regarding changes or deviations.

Detailed description of the country PFM system for the assessed performance indicator. The provincial government's Five-Year Plan FY2019/20–FY2023/24 includes a fiscal strategy for five years, whereas the MTEF provides the fiscal strategy for three years. According to Section 5 of the FPFA Act (2022), the MTEF is prepared each fiscal year by the PPPC in coordination with the MoEA as part of the annual budget documentation. Line ministries are also required to prepare a ministry-specific MTEF, which must be aligned with the Five-Year Plan and sectoral policies/strategies/plans.⁵² It should then be submitted to

⁵² The only sector policy/strategy/plan presently in place is the Province Health Policy (2022).

the PPPC and the MoEA. The latest MTEF was prepared in 2023 and covers the budget year (FY2023/24) and the next two fiscal years (FY2024/25 and FY2025/26). According to Section 6 (2) of the FPFA Act, a Resource Estimation Committee is formed in coordination with the PPPC Vice-Chairman. It prepares revenue estimates for the next three fiscal years and, based on the MTEF, determines aggregate and ministry-wise budget ceilings.

Recent or ongoing reform activities. The provincial government is seeking to integrate the MTEF with its second Five-Year Plan. The goal is to involve all spending units in the MTEF preparation process to ensure that financial planning is strategic and aligned with long-term development goals. This should promote fiscal sustainability, as well as foster a more stable and predictable fiscal environment.

14.1. Underlying forecasts for medium-term budget

Performance level and evidence for scoring of the dimension. The MTEF includes a macroeconomic framework, a budget framework, and a results framework. It serves as a bridging document between the periodic plan and the annual budget. As such, it includes quantitative indicators, goals, and targets. It also includes revenue projections by revenue source and type for the budget year and the following two fiscal years. In addition, it includes expenditure projections by priorities, Sustainable Development Goals (SDGs), gender, climate change, ministries, and fiscal transfers to local governments with a breakdown of recurrent, capital, and financing expenditures for the budget year and the following two fiscal years. However, it does not include projections based on economic and functional classifications, nor does it provide information about the underlying assumptions.

The impacts of expenditure policies are reflected in the targets for expected outcomes found in the sectoral chapters of the MTEF document. The key macroeconomic forecasts (targets) are also presented for the budget year and the following two fiscal years. The MTEF is presented as a rolling budget of three years budget projections.

Table 2.44: Key Macroeconomic Forecasts (targets) in the MTEF, FY2023/24–2025/26

Macroeconomic Indicators	FY2023/24	FY2024/25	FY2025/26
Annual economic growth at consumer price (%)	6.5	8.5	9.0
GDP at market price (NPR, millions)	5,191	5,591	6,021
Inflation (%)	7.0	6.5	6.0
Per capita income (US\$)	1,658	1,956	2,258
Gandaki Province contribution to the national GDP (%)	9.0	9.0	9.0

Source: MTEF for FY2023/24–2025/26, p. 10.

The MTEF comprises forecasted revenues, fiscal transfers, revenue sharing, grants, and expenditures for the budget year and two subsequent fiscal years. The Constitution defines revenue and expenditure assignments among the three tiers of the government, and the federal government provides estimates of fiscal transfers (assessed in HLG-1). The MTEF is prepared based on the revenue and expenditure assignments of the provincial government and the estimated fiscal transfers from the federal government. The MTEF projects are categorized under broad headings, and the MTEF does not include projects based on economic and functional classifications. Also, the underlying assumptions are not available in the MTEF. Hence, the score for the dimension is a **C**.

14.2. Fiscal impact of policy proposals

Performance level and evidence for scoring of the dimension. The MTEF estimates the fiscal impact of expenditure policy initiatives. It provides a breakdown of the fiscal impact of changes in expenditure policy by sector, expenditure types, priorities, and administrative units for the budget year and the next two fiscal years. However, this is done at an overall level and not for individual policy initiatives. In the Budget Speech, revenue rates and their impact on the revenue budget, including adjustments in different tax policies and tax administration reforms, are shown for the budget year only. However, this is done at an overall level because estimates of the fiscal impact of proposed revenue policy changes by individual policy initiatives are not prepared.

The provincial government does not prepare estimates regarding the fiscal impact of changes in revenue and expenditure associated with individual policy initiatives. Hence, the score for the dimension is a **D**.

14.3. Medium-term expenditure and revenue estimates

Performance level and evidence for scoring of the dimension. The latest MTEF consists of expenditure projections by main programs, sectors, ministries, priorities, SDGs, gender, climate change, and fiscal transfers to local governments for the budget year and the next two fiscal years. It includes recurrent, capital, and financing expenditures, but no functional and economic classifications. Likewise, revenues are projected by sources and by type for the budget year and the next two fiscal years.

The MTEF includes expenditure and revenue forecasts disaggregated by type for the budget year and the following two fiscal years. Hence, the score for the dimension is a **C**.

14.4. Consistency of budget with previous year's estimates

Performance level and evidence for scoring of the dimension. The budget documents do not at any level explain changes to expenditure estimates between the last MTEF, prepared in 2022 for the FY2022/23 budget, and the current MTEF, prepared in 2023 for the FY2023/24. Hence, the score for the dimension is a **D**.

PI-17. Budget preparation process

What the indicator measures. It measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

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

Table 2.45: Summary of Scores for PI-17 and Performance Table

Indicator/ Dimension	2024 Score	Justification for Score
PI-17. Budget preparation process	C	Scoring method M2.
17.1. Budget calendar	C	A clear annual budget calendar exists, and the overall timeline is adhered to. However, the timelines for individual activities prescribed in the budget circular are not followed. The calendar allows budgetary units at least four weeks from the receipt of the initial budget circular to submit their estimates. All budgetary units completed their detailed estimates on time.
17.2. Guidance on budget preparation	C	Budget guidelines were issued covering ministry-wide total budget expenditures for the full fiscal year. Before circulation, the budget ceilings were approved by the Provincial Policy and Planning Commission (PPPC) at a meeting chaired by the Chief Minister. However, PPPC issued supplementary budget guidelines with a breakdown of budget ceilings between recurrent and capital expenditures.
17.3. Budget submission to the subnational council	C	The annual budget proposal is presented every year to the Provincial Assembly one month before the start of the new fiscal year.

Detailed description of the country PFM system for the assessed performance indicator. The Constitution's Part 16 outlines the overall financial procedures, including budgetary arrangements, for the provinces. The FPFA Act's Section 12 lists the documents to be included with the estimates of revenues and expenditures. Section 13 requires the Minister of Economic Affairs to present an estimate of revenues and expenditures, including the Appropriation Bill and Finance Bill, to the Provincial Assembly by June 16 of each fiscal year. The FPFA Regulation's Rules 10–16 outline requirements and processes for preparing the MTEF, the roles of the Resource Estimation Committee and the Budget Committee, and the annual program and budget formulation processes. The MoEA has prepared 'Guidelines relating to Budget Formulation and Implementation',⁵³ which were approved by the Cabinet in April 2023.

Recent or ongoing reform activities. The provincial government has adopted an inclusive and participatory budget preparation process by setting budget ceilings based on extensive consultations with stakeholders to help ensure that budgetary allocations are well informed and broadly supported.

17.1. Budget calendar

Performance level and evidence for scoring of the dimension. The FPFA Act and FPFA Regulation specify the timing of most budget formulation activities. The 2023 guidelines prepared by the MoEA (step no. 5) are comprehensive and detail the key steps of the budget formulation process along with timelines and responsible entities as seen in Table 2.46.

Table 2.46: Budget Calendar for the Last Budget Submitted to the Provincial Assembly

S.N.	Tasks	Status/ Responsibility	Submission Date
1	Projection of available resource ceiling for preparing the MTEF, annual budget, and program.	PPPC in consultation with the MoEA	By mid-February of the current fiscal year
2	Report with recommendations from the Resource Estimation Committee to the Minister of Economic Affairs	Resource Estimation Committee	End of February
3	Guidelines and formats for preparing the MTEF and the annual budget, including the budget expenditure ceiling determined by the Resource Estimation Committee to the line ministries and the secretariats	PPPC	End of February

⁵³ The guidelines are sometimes referred to as the Circular.

S.N.	Tasks	Status/ Responsibility	Submission Date
4	Budget and program proposal of own and subordinated offices to be sent to the MoEA and the PPPC	Line ministries	First week of April.
5	'Guidelines relating to Budget Formulation and Implementation', including ceiling, to be sent to subordinated offices	Line ministries	Within seven days from the receipt of the expenditure ceiling
6	Preparation of the draft MTEF	PPPC	Second week of April
7	Budget discussion date, time, and place to be sent to the line ministries	MoEA consulting with PPPC	Second week of April
8	MTEF to be sent to the PPPC and MoEA	Each line ministry	End of April
9	Progress report on the budget, expenditures, and target achievements for the first nine months of the current fiscal year to be sent to the MoEA	Central agencies (ministries/ secretariats)	Mid-May
10	Submission of principles and priorities of the budget and program of the proposed Appropriation Bill for the Provincial Assembly	Minister of Economic Affairs	At least 15 days before the submission of the Appropriation Bill
11	Presentation of province policies and programs from the Province Chief to be sent to the Provincial Assembly	OCMCM	1st week of June (in general)
12	Finalization of the budget and program	MoEA	Mid-June
13	Presentation of the budget (estimates of revenue and expenditure) to the Provincial Assembly	MoEA	Before June 16
14	Circulate the budget implementation guidelines to the central agencies (line ministries)	MoEA	Within three days from commencement of the Appropriation Act or the Advance Act
15	Sending letter of authority to subordinate offices (by the Secretary of line ministries)	Line ministries	Within seven days from the receipt of the letter of authority from the MoEA
16	Submitting monitoring indicators with budget implementation schedule of own and subordinated offices to the OCMCM, PPPC, and MoEA	Line ministries	Before the end of June

S.N.	Tasks	Status/ Responsibility	Submission Date
17	Preparing annual implementation plan for implementing the annual program of approved budget and program of own and subordinated offices	Every ministry	Before the end of July

Source: Guideline relating to Budget Formulation and Implementation (2023), Annex.

Note: MTEF= Medium-Term Expenditure Framework; MoEA= Ministry of Economic Affairs; OOCMCM= Office of the Chief Minister and Council of Ministers; PPPC= Provincial Policy and Planning Commission.

Hence, a clear annual Budget Calendar for FY2023/24 was in place. The budget ceilings were officially authorized on April 3, 2023, and (together with the 'Guidelines relating to Budget Formulation and Implementation') sent to the line ministers on April 4, 2023. The budget proposal submission date (deadline) was not stated in the guidelines. On May 21, 2023, additional guidelines were circulated to the line ministries and spending units submitted their estimates by the end of May. Therefore, the spending units were generally provided about one month to prepare their budget proposals. However, most of the activity timelines mentioned in the budget calendar were not met. The Minister of Economic Affairs submitted the FY2023/24 estimates of revenue and expenditure, including the Appropriation Bill and Finance Bill, to the Provincial Assembly by the deadline of June 16; considering this, the Budget Calendar was overall adhered to.

Though the overall timeline for presenting the budget to the provincial assembly was met, the activity-wise timeline mentioned in the budget calendar was not followed. Hence, the score for the dimension is a **C**.

17.2. Guidance on budget preparation

Performance level and evidence for scoring of the dimension. The budget formulation process for FY2023/24 was conducted based on the MoEA's 'Guidelines relating to Budget Formulation and Implementation' sent by the PPPC to the line ministries on April 4, 2023 (Letter Ref. # 426). It covered the total budget expenditures for the whole fiscal year. The guidelines covered the total expenditure ceilings by ministry, but without disaggregating recurrent and capital expenditures for the full FY2023/24 budget. They outlined the criteria, standards, terms, and conditions for the budget formulation process and were thus considered comprehensive. The budget circular includes the ceilings for administrative units, that is, the line ministries. The PPPC issued supplementary guidelines to the line ministries on May 21, 2023 (letter Ref. # 500) with a breakdown of ministry-wise expenditure ceilings that included both recurrent and capital expenditures.

Budget guidelines, including budget ceilings, were approved by the PPPC on April 4, 2023, and were issued to the line ministries on the same day. The PPPC released supplementary guidelines with a breakdown of budget ceilings for recurrent and capital expenditures quite late in the budget preparation cycle. The cabinet approved the budget on June 16, prior to its submission to the provincial assembly. Hence, the score for the dimension is a **C**.

17.3. Budget submission to the subnational council

Performance level and evidence for scoring of the dimension. According to Section 13 of the FPFA Act (2021), June 15/16 of each fiscal year is the fixed date for the submission of the annual budget proposal to the Provincial Assembly. In the last three fiscal years, the provincial government submitted the annual budget proposal, including the Appropriation Bill, to the Provincial Assembly exactly one month before the start of the fiscal year. However, the principles and priorities of the budget were presented to the Provincial Assembly about 40 days before the start of the fiscal year (Table 2.47).

Table 2.47: Actual Dates of Budget Submissions for the Last Three Completed Fiscal Years

Fiscal Year	Fiscal Year Starting Date	Date of Budget Submission	Time between Fiscal Year Start and Budget Submission
2021/22	July 16, 2021	June 15, 2021	One month, one day
2022/23	July 17, 2022	June 15, 2022	One month, two days
2023/24	July 16, 2023	June 16, 2023	One month

In the last three fiscal years, the government has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year. Hence, the score for the dimension is a **C**.

PI-18. Legislative scrutiny of budgets

What the indicator measures. It assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the subnational council⁵⁴ scrutinizes, debates, and approves the annual budget, including the extent to which the subnational council's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the subnational council.

⁵⁴ The Council is a reference to the law-making body of the SNG. In the context of this PEFA PFM assessment, it is the Provincial Assembly of the Gandaki Province.

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

Table 2.48: Summary of Scores for PI-18 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-18. Legislative scrutiny of budgets	D+	Scoring method M1.
18.1. Scope of budget scrutiny	D	The Provincial Assembly's review of the FY2023/24 budget proposals covered aggregate and detailed expenditures, but not revenues.
18.2. Legislative procedures for budget scrutiny	D	The Provincial Assembly Regulation was approved in 2022 and was in place before the scrutiny of the FY2023/24 budget proposal took place. The procedures are largely adhered to, except for the review of revenue estimates.
18.3. Timing of budget approvals	A	Budget approvals for FY 2021/22, FY2022/23, and FY2023/24 were made before the start of each fiscal year.
18.4. Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget adjustments by the executive. These were adhered to in most instances for FY2023/24. Extensive administrative reallocations are permitted.

Detailed description of the country PFM system for the assessed performance indicator. Based on Article 193 of the Constitution, the Provincial Assembly has established thematic committees for the legislative oversight of public finances. According to the Provincial Assembly Regulation, the Finance and Development Committee may provide suggestions and directions regarding the modalities and priorities of the budget before its submission to the Provincial Assembly. Such pre-budget discussions may be held between the Provincial Assembly and the representative of the provincial government, including experts.

According to Section 10 of the FPFA Act, the Minister of Economic Affairs must present a statement of principles regarding the budget and programs, as well as the prioritization of programs to the Provincial Assembly at least 15 days before presenting the budget proposal. The Provincial Assembly may provide advice and suggestions within seven days.

Before the Minister of Economic Affairs presents the Finance Bill to the Provincial Assembly, a general discussion takes place about the annual revenue and expenditure estimates (according to Rule 137 of the Provincial Assembly Regulation). The Provincial Assembly also holds discussions about the principles and priorities of the budget, although this does not cover tax proposals (Rule 140).

According to Rule 21 of the FPFA Regulation, the MoEA is required to submit information about the economic growth rate, inflation, savings and investments, financial conditions, and revenue mobilization based on the Five-Year Plan and the MTEF, and in consultation with the PPPC at the time of the presentation of the budget proposal for the next fiscal year.

According to Article 184 (2) of the Constitution, the Province Chief addresses the principles and priorities of the provincial government in the first session of the Provincial Assembly of every fiscal year (Rule 35 of the Provincial Assembly Regulation, 2022). The discussion is held with political party representatives, as well as the Chief Minister (or a minister assigned by him/her), who answers the questions raised in the discussion (Rule 38).

Recent or ongoing reform activities. In 2023, after the process of scrutinizing the FY2023/24 budget proposal, the Provincial Assembly issued the Provincial Assembly Regulation, thereby repealing the previous regulation.

18.1. Scope of budget scrutiny

Performance level and evidence for scoring of the dimension. Although the Provincial Assembly Regulation includes provisions for a pre-budget consultation, no evidence is available to substantiate that pre-budget discussions were held between the Provincial Assembly and the provincial government for the FY2023/24 budget. The statement for the FY2023/24 budget was presented on May 26, 2023, and discussions were held by the Provincial Assembly from May 27 to May 30, 2023.

The Minister of Economic Affairs presented the budget proposal for FY2023/24 on June 16 to the Provincial Assembly (as required in Section 13 of the FPFA Act). The documents included with the budget proposal were the (a) Budget Speech, (b) Statement of Budget Estimation (Red Book), (c) Fiscal Transfers to the Local Level, (d) Ministry-wise Annual Development Program, (e) Appropriation Bill, (f) Finance Bill, (g) Economic Survey, and (h) MTEF.

The MTEF and the underlying priorities are currently not being reviewed by the Provincial Assembly. However, the Appropriation Bill and the Finance Bill are examined and debated, except for the revenue details. Meeting minutes documenting the discussions and scrutiny

of the FY2023/24 budget by the Provincial Assembly are available. It is important to note that the legislative scrutiny primarily focuses on expenditures at the ministerial level.

The legislative review only covers expenditure details. Hence, the score for the dimension is a **D**.

18.2. Legislative procedures for budget scrutiny

Performance level and evidence for scoring of the dimension. The procedures for the Provincial Assembly's budget scrutiny are outlined in the Provincial Assembly Regulation (2022). Thus, they were in place before the scrutiny process for the proposed FY2023/24 budget started. The review procedure for the annual expenditure and revenue estimates is described in Rule 129 of the Provincial Assembly Regulation. Rule 130 describes the review procedure for the Appropriation Bill and the Finance Bill. The existing rules for budget scrutiny are largely followed, except for the review of revenue estimates.

The Provincial Assembly constitutes thematic committees or special committees according to the need to manage the work and functioning of the Provincial Assembly (according to Article 193 of the Constitution). Rule 146 of the Provincial Assembly Regulation provides for creation of the Finance and Development Committee.

The Provincial Assembly Regulation does not include any provision for public consultations. Also, there are no provisions for internal organizational arrangements, such as specialized review committees, technical support, or negotiating procedures.

The Provincial Assembly Regulations (2022) were in effect prior to the budget hearings. Although these regulations are generally adhered to, the Provincial Assembly did not review the revenue estimates. Hence, the score for the dimension is a **D**.

18.3. Timing of budget approvals

Performance level and evidence for scoring of the dimension. As provisioned in Section 13 of the FPFA Act, the budget for the upcoming fiscal year must be submitted to the Provincial Assembly at least one month before the start of the fiscal year to allow for sufficient time for budget scrutiny before the fiscal year begins in mid-July.

Over the past three fiscal years, the Provincial Assembly approved the budget before the fiscal year's start (as shown in Table 2.49). The approval of the budget reflects the approval of the Appropriation Bill by the Provincial Assembly.

Table 2.49: Actual Dates of Budget Approval for the Last Three Completed Fiscal Years

Fiscal Year	Date of Fiscal Year Start	Date of Approval by the Provincial Assembly	Approved before Start of Fiscal Year Start (Yes/No)
2021/22	July 16, 2021	July 15, 2021	Yes
2022/23	July 17, 2022	July 16, 2022	Yes
2023/24	July 16, 2023	July 15, 2023	Yes

Source: Appropriation Acts.

The Provincial Assembly approved the budget before the start of the fiscal year in each of the last three fiscal years. Hence, the score for the dimension is an **A**.

18.4. Rules for budget adjustments by the executive

Performance level and evidence for scoring of the dimension. According to Article 213 of the Constitution, “Matters relating to the transfer of moneys appropriated by the State [Province] Act from one head to another and other financial procedures shall be as provided for in the State [Province] Act.” Section 19 (1) of the FPFA Act provides budget adjustment authority to the MoEA. Using underspent amounts, it may make virements (transfers) from one or more budget subheads of that grant code to any other subheads of the grant code for which additional funds are needed. The Appropriation Act stipulates a ceiling in this regard (that is, 10 percent for FY2023/24).

According to Section 19 (2) of the FPFA Act, the Secretary (Responsible Accounts Officer) of a line ministry has the authority to transfer recurrent budgets from one budget subhead to another budget subhead for the ministry budget, subject to the ceiling specified in the Appropriation Act. However, salary, remuneration, allowances, uniform, food, water and electricity, communication fees, and house rent, including the capital budget, are restricted in terms of transfers, even in the recurrent budget. Likewise, the source of financing cannot be changed. Adjustments to the budget provisioned for capital, financing, and debt payments may be amended only by the MoEA.

According to Section 3.4 of the Appropriation Act (2023), the MoEA can make transfers (not exceeding 100 percent of the budget allocated to a program) within the budget head and subhead of the same grant code. However, there are no limitations for transferring the required amounts to programs for resources committed, disasters, natural disasters, the control of an epidemic, the construction of a government structure, and a payment for obligatory liabilities.

Article 213 of the Constitution, Section 19 of the FPFA Act, and Rule 29 of the FPFA Regulation include general stipulations with regard to in-year adjustments of the budget. The Appropriation Act includes stipulations for in-year adjustments of the budget for a particular fiscal year. These laws clearly outline conditions, rights, and authorities of in-year budget adjustments.

The MoEA is required to present a supplementary budget in the following situations (according to Article 209 of the Constitution):

- (a) If the sum authorized to be spent on a particular service by the provincial Appropriation Act for the current fiscal year is insufficient
- (b) If a needed expenditure on new services is not provided for in the provincial Appropriation Act for that year
- (c) If the expenditure is more than the amounts authorized by the provincial Appropriation Act during that fiscal year.

Compliance is assessed as part of the external audit process. According to the OAG's 6th Annual Report for Gandaki Province, the budget was adjusted by NPR 2,766 million in FY 2022/23. Of this amount, NPR 2,042 million was adjusted in the final month of the fiscal year alone. Furthermore, in violation of Rule 29 of the Financial Procedure and Fiscal Accountability (FPFA) Rules, NPR 146 million was adjusted under economic headings for which no budget had been appropriated originally.

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



PILLAR ONE:
Budget Reliability



PILLAR TWO:
Transparency of Public Finances



PILLAR THREE:
Management of Assets and Liabilities



PILLAR FOUR:
Policy-based Fiscal Strategy and
Budgeting



PILLAR FIVE:
Predictability and Control in Budget
Execution



PILLAR SIX:
Accounting and Reporting



PILLAR SEVEN:
External Scrutiny and Audit



PILLAR FIVE:
Predictability
and Control
in Budget
Execution

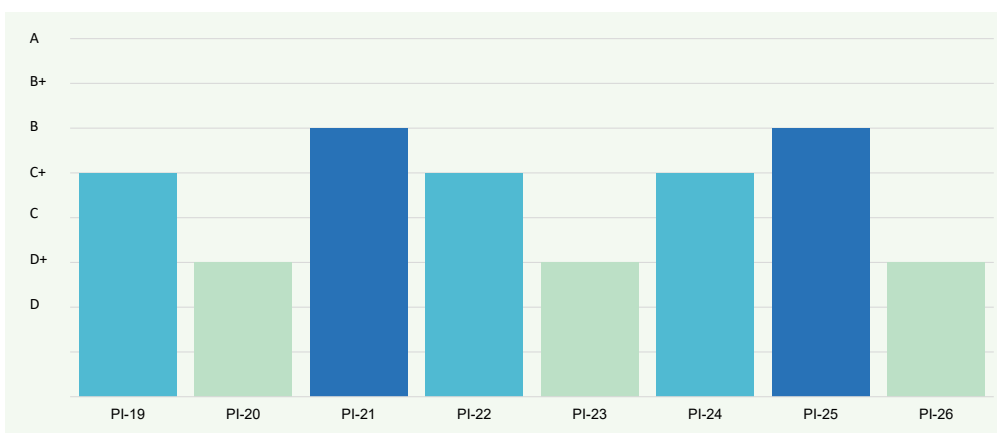
PILLAR V: Predictability and Control in Budget Execution

What the pillar measures. Pillar V assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, thus ensuring that resources are obtained and used as intended.

Overall performance: Analysis of key strengths and weaknesses. The performance of the eight PIs under Pillar V is overall at a basic level (averaging a 'C+'). The motor vehicle tax is the only core tax of the provincial government for which comprehensive information is available to the taxpayers. However, the systems for tax risk management and tax arrears monitoring do not exist (PI-19, scored C+). Although timely and accurate information about revenue collection is compiled, the collected revenues are only available for spending after the end of the month, thus leading to a below basic level performance regarding the accounting for revenues (PI-20, scored D+). The predictability of in-year resource allocation (PI-21.3) and compliance with internal controls (PI-25.3) are high and expenditure arrears are minimal (PI-22.1), which contributes to better predictability and control in budget execution. Most of the procurement is conducted through competitive methods (PI-24.2). Public access to procurement information meets a basic level of performance (PI-24.3). The procurement compliant system is in place (PI-24.4). However, payroll controls (PI-23) are weak; internal controls over non-salary expenditures are at a basic level (PI-25.1 & PI-25.2); and procurement monitoring is significantly lacking (PI-24.1). Although internal audit includes complete coverage and all planned internal audits are conducted, there are no internal audit standards. Also, the response from auditees concerning audit findings is not occurring in practice (PI-26.4).

There is an interdependence between PIs within Pillar V, for example, regarding PI-19 and PI-20, as well as between these and the coverage of internal audit (PI-26.1). Links with PIs outside Pillar V include how the rules for budget adjustments by the executive (PI-18.4) affect the significance of in-year budget adjustments (PI-21.4), which both have high scores.

Figure 2.6: Indicator Scores under Pillar V



PI-19. Tax administration

What the indicator measures. It focuses on the administration of the core taxes of the SNGs. This indicator assesses the procedures used to collect and monitor the core taxes of the SNGs.

Methodological notes: The tax and non-tax-related act of the provincial government, the Finance Act, and the Appropriation Act were analyzed for this indicator. The indicator was assessed using the table of tax revenues administered by the provincial government, which accounts for 60.5 percent of the provincial government revenue. For revenue accounting and reporting purposes, information was also collected from the Transport Management Office (TMO) and PFCO (RMIS and CFS).

Table 2.50: Summary of Scores for PI-19 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-19. Tax administration	C+	Scoring method M2.
19.1. Rights and obligations for tax measures	A	For the single core tax of the provincial government (motor vehicle tax), taxpayers are given access to comprehensive, up-to-date information concerning the main tax obligation areas and on rights, including redress processes and procedures.
19.2. Property tax register and value assessment	NA	Property tax is administered by local governments.
19.3. Tax risk management, audit and investigation	D	There is no structured and systematic approach for assessing and prioritizing compliance risk.
19.4. Tax arrears monitoring	D*	The data is not available to monitor the stock motor vehicle tax arrears at the end of the last completed fiscal year.

Detailed description of the country PFM system for the assessed performance indicator. The Constitution's Part 16 (State [Province] Financial Procedures), Article 203, states that, "No tax shall be levied and collected except in accordance with law." The Constitution's Schedule 6 lists the provincial tax revenue authority as covering (a) house and land registration fees; (b) motor vehicle tax; (c) entertainment tax; (d) advertisement tax; and (e) tax on agriculture income and nontax revenue. The nontax revenue covers (a) tourism fees, (b) service charges, and (c) fees and penalties. The house and land registration fees, motor vehicle tax, entertainment tax, and advertisement tax fall under the concurrent list of the provincial and local governments.

The tax and nontax revenues are regularized and administered in accordance with the IGFA Act (2017), Chapters 2 and 3. Section 3 (2) provides the provincial government with the authority, through province law, to levy taxes, nontax revenues, and royalties, as prescribed in Annex 2. According to Section 5, the motor vehicle tax is considered as a single tax administration of the provincial governments, which is identified as a core tax. The other taxes (house and land registration fees, entertainment tax, and advertisement tax) are levied by the provincial governments, but collected by the local governments and shared with the provincial government using a 40/60 percent split.

Based on this constitutional authority, Gandaki's Provincial Assembly has enacted the Tax and Non-Tax Revenue Related Act (2018) to set and raise tax and nontax revenues. It provides for tax administration, personnel management, rights and duties of tax officers, the delegation of authority and responsibilities in defining tax and nontax revenues, and the deposit of collected revenues in the consolidated fund account of the provincial government. Taxpayer registrations and rights and obligations are also included in the act. A Finance Act is enacted on an annual basis to implement finance-related proposals, including the annual budget, with the provision of administration for collecting revenues, setting tax and nontax rates, as well as provisions for tax exemptions.

There are four categories of royalties (mountaineering, electricity, forests and mines, and minerals), which are classified as nontax revenues. They are collected by the relevant line ministries of the provincial government and allocated/transferred in accordance with the IGFA Act's Section 7 (2) and Annex 4. The sharing of royalties is prescribed as 50 percent to the federal government, 25 percent to the provincial government, and 25 percent to the local governments. In addition, the provincial government sets procedures for levying and collecting stone and river-based material charges (*Dahatar Bahattar*) by the local governments, which is shared, with 60 percent to the local governments and 40 percent to the provincial government.

All collected tax and nontax revenues are deposited in the provincial government's consolidated fund account, as prescribed by the NRB's Government Transactions Directives (2015). The accounts are established with the tax and nontax source codes and classifications incorporated in the RMIS, which is managed by the FCGO. All revenue data are shown in the RMIS.

In FY2022/23, Gandaki's provincial government raised tax and nontax revenues under the abovementioned legal provisions, procedures, and systems as shown in Table 2.51.

Table 2.51: Details of Tax and Nontax Collection, FY2022/23

Revenue Type	Amounts (NPR, millions)	Share	
		Including Fiscal Transfers/Grants (%)	Excluding Fiscal Transfers/Grants (%)
Tax revenues	1,788	7.5	16.5
Nontax revenues	1,384	5.8	12.8
Royalty sharing	318	1.3	2.9
Value-added tax (VAT) and excise duty sharing	7,342	30.9	67.8
Fiscal transfers/grants	12,926	54.4	
Total revenues	23,758	100.0	100.0

Source: PFCO's CFS for FY2022/23 (Annex 1, pp. 45–47).

Only 14.7 percent of the total revenues in FY2022/23 were locally collected (tax revenues, nontax revenues, and royalty sharing), while 30.9 percent related to revenue sharing arrangements (VAT and excise duty), and 54.4 percent were fiscal transfers from the GoN. Thus, Gandaki's provincial government relies to a very significant extent on fiscal transfers and revenue sharing.

Recent or ongoing reform activities. The provincial government is considering the preparation of provincial tax and nontax regulations to improve tax administration.

19.1. Rights and obligations for tax measures

Performance level and evidence for scoring of the dimension. As noted, the tax and nontax revenue-related rights and obligations are regularized and administered in accordance with the IGFA Act (Chapter 2) and the Tax and Non-Tax Revenue Related Act. The latter includes detailed procedures regarding the setting of tax and nontax rates, authorized collecting agencies, the timing of collection and depositing, the allocation or sharing, and transfers to provincial and local governments.

According to the PEFA guidance, only tax revenues of the Gandaki's provincial government are considered in assessing this dimension. According to the IGFA Act's Section 5, the motor vehicle tax is considered as a single tax administration of the provincial government. Thus, it is identified as a core tax. Table 2.52 shows that there are five categories or revenue codes of tax revenues administered and collected under the provincial government.

Table 2.52: Tax Revenues Administered by the Province Government

Revenue Code	Collecting Units	Category of Revenue Heads	Collected Amounts (NPR, millions)	Share (%)
33341	Transport Management Office (TMO) (four offices in Kaski, Tanahun, Baglung, and Nawalpur) and License Office (Kaski District)	Motor vehicle tax	1,081	60.5
11315	Malpot office and local governments	House and land registration fees	704	39.4
11471	Local governments	Entertainment tax (for movies and documentaries)	1	0.1
11479	Local governments	Other entertainment tax	0	0.0
11472	Local governments	Advertisement tax	0	0.0
Total tax revenues			1,788	100.0

Source: PFCO's CFS for FY2022/23 (Annex 1, pp. 45–47).

The Transport Management Offices (TMOs) of the provincial government collect motor vehicle tax using the Vehicle Registration System (VRS) and the Transport Management System (TMS). The tax is calculated and declared at the time of taxpayer payment and is payable annually. Nonpayment may result in fines and penalties.

The website maintained by the federal Department of Transport Management (www.dotm.gov.np) is the primary source of information for taxpayers. The website provides information about vehicle registration, tax rates, payment of taxes, as well as relevant legislation, regulations, and rules. Any vehicle owner can also physically consult the related TMS for details of their motor vehicle tax obligations.

To implement the finance-related proposal of the provincial government, a Finance Act is enacted by the Province Assembly. It is based on the Finance Bill tabled by the Minister of Economic Affairs. The bill includes details of rates and exemptions of tax and non-tax revenues and fees, duties, and charges provided according to their types and categories. They are then reviewed on a yearly basis. All information is provided and available to the taxpayers, including information about their tax obligation areas, as well as rights, rates,

timelines for payments, exemptions, simplified processes and procedures for payment, and resolutions (Annexes 1–6).

With regard to the redress mechanism, Sections 35–39 of the Tax and Non-Tax Revenue Related Act provide for the tax officer to issue a pre-order in cases of confusion about taxes, fees, duties and charges, as well as tax calculation (except litigation cases) for resolution thereof. The tax authority will make a final decision about such pre-orders. In case of dissatisfaction with a tax declaration prepared by a tax officer, the taxpayer may appeal to the Chief Tax Officer as the Administrative Appellate by enclosing a required deposit within 30 days of the decision made. The decision regarding an appeal will be made and provided within 60 days of the appeal being registered. If the taxpayer is dissatisfied with the decision made by the Administrative Appellate, an appeal can be filed with the High Court.

The Gandaki Province's EBU's do not have any rights of levying and raising tax revenues. They can only raise fees and charges.

For the motor vehicle tax, the taxpayers have easy access to information concerning their revenue obligations and rights, including redress processes and procedures. Hence, the score for the dimension is an **A**.

19.2. Property tax register and value assessment

Performance level and evidence for scoring of the dimension. The property tax register is administered and maintained, and property taxes are levied and collected by the local governments in accordance with the authority provided by the Constitution. This tax revenue is an important source of funding for the SNGs and is used for various public services and infrastructure development at the subnational level.

The property tax is levied and collected by the local governments. Hence, the score for the dimension is **NA**.

19.3. Tax risk management, audit and investigation

Performance level and evidence for scoring of the dimension. The Tax and Non-Tax Related Act provides for tax audit, tax calculation, and tax collection under Chapter 7, Sections 27–30. According to this Act, a tax officer can check or audit the statements of taxpayers. If there is any deviation in the tax calculation and payment, the tax officer can ask the taxpayer to present justifications within 30 days. In case of mismatch in the tax calculation or tax evasion by the taxpayer, the tax officer can revise the tax and issue orders to the taxpayer to remit the tax payment. The taxpayer is obliged to pay and deposit such

tax in the prescribed revenue head and accounts of the provincial government within a stated time. In case of violations, for example, diminishing one's tax liabilities, the tax officer can impose a 10 percent penalty on the tax liability, as well as 10 percent interest on the tax liability per year. In the case of non-submission of the tax statement on a timely basis, the taxpayer is obliged to pay NPR 1,000 for each statement, and for not maintaining books of account of tax, the taxpayer shall be fined NPR 5,000.

There is no structured and systematic approach for assessing and prioritizing compliance risk, compliance improvement plans are not prepared, and no audit and investigation plan is being developed. Hence, the score for the dimension is a **D**.

19.4. Tax arrears monitoring

Performance level and evidence for scoring of the dimension. The Vehicle and Transport Management Act (1992) and its Regulations (1997) guide the motor vehicle tax. The act and regulation provide for vehicle registrations, renewals, vehicle owners (with transfers of ownership), route permits, licenses, and so on as the basis for levying and collecting the motor vehicle tax. For this purpose, the VRS and TMS are operated by the TMO and contain vehicle registration data, as well as information about the assessment or calculation and collection of the motor vehicle tax. The motor vehicle tax, which is also a core tax, is assessed or calculated and declared upon taxpayers' request at the time of payment. The motor vehicle tax is payable on an annual basis. The VRS and TMS do not maintain individual motor vehicle tax arrears assessments on an annual basis with accumulated payable tax assessments, including penalties. Also, a consolidated statement of the outstanding stock of motor vehicle tax is not prepared at the end of the fiscal year.

There is no data of arrears available for FY2022/23 regarding the motor vehicle tax (or in other sources of tax revenues). Hence, the score for the dimension is a **D***.

PI-20. Accounting for revenue

What the indicator measures. It assesses the procedures for recording and reporting revenue collections, consolidating revenue collected, and reconciling revenue accounts.

Methodological notes: To analyze revenue collection, the RMIS revenue collection reports were supplemented with data from the TMOs, the PFCO and other relevant agencies. For revenue transfers to the treasury (consolidated fund), the RMIS data and rule-based practices were analyzed. For assessing the extent and timeliness of revenue reconciliation, the official records of the PFCO and revenue collecting entities were reviewed.

Table 2.53: Summary of Scores for PI-20 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-20. Accounting for revenue	D+	Scoring method M1.
20.1. Information on revenue collections	A	The PFCO (under the MoEA) obtains revenue data at least monthly from all entities collecting SNG revenues. This information is broken down by revenue type and is consolidated into a report.
20.2. Transfer of revenue collections	D	Entities collecting most SNG revenues transfer the collections directly into accounts controlled by the Treasury (PFCO). However, the provincial revenue share is transferred to the provincial consolidated fund on a monthly basis. Only then are the funds available for use.
20.3. Tax account reconciliations	C	For the core tax, that is, the motor vehicle tax, of the Gandaki Provincial Government assessments, collections and transfers to the Treasury are reconciled at least within 10 days of the end of the month. However, aggregate information for tax arrears is not available.

Detailed description of the country PFM system for the assessed performance indicator. The FPFA Act's Sections 24 and 25 require that revenue accounts are maintained in accordance with the double-entry bookkeeping system and in line with the NPSAS (as prescribed by the FCGO). Chapter 8 of the Accounting Manual (2016) requires revenue accounting and reporting procedures to be followed by all government offices. The FPFA Act's Section 26 requires all revenues collected by authorized banks to be deposited into the provincial government's consolidated fund account on the same day or the next day. The officer in charge is responsible for keeping revenue accounts, conducting reconciliations, and preparing financial statements (and presenting these for external audit). The FPFA Regulation's Rule 51 provides further details regarding the revenue collection process.

Recent or ongoing reform activities. Enhancements to the TMS and VRS are planned to make the management of the motor vehicle tax more effective.

20.1. Information on revenue collections

Performance level and evidence for scoring of the dimension. Revenues are collected under different revenue heads (10000–15000), as specified in the 'Unified Economic Codes, Classifications and Explanations' (2017), and recorded in the RMIS. Tax and nontax

revenues, including revenue sharing and grants, are accounted for and recorded in the KHA-1 consolidated fund account. The main users of the RMIS are the PFCO; ministries, departments, and agencies; the NRB; and authorized banks, as well as revenue-collecting offices and payees. The PFCO is responsible for the daily accounting, recording, and reporting of the KHA-1 consolidated fund account with verifications and reconciliations. It collects monthly revenue statements in the prescribed OAG formats from all revenue-collecting offices and banks and reconciles them with the RMIS data. Based on this arrangement, it prepares monthly and annual statements of these revenue collection data with detailed breakdowns and categories, which are then submitted to the MoEA. The CFS prepared by the PFCO include detailed revenue collection statements. Table 2.54 shows information about revenue collection by different entities according to the revenue codes and frequency of revenue transfers and consolidation of revenue data.

Table 2.54: Information on Revenue Collections, FY2022/23 (NPR, millions)

Collecting Entity	Category of Revenues	Amount Collected	Collection of Revenue Information by Collecting Entities (Yes/No)	Frequency of Data Transfer to the RMIS	Transferred Data Characteristics (Yes/No)	
					Broken Down by Revenue Type	Consolidated into a Report
Malpot Office	11315, House and land registration fees	705	Yes	KA 2–6 or 7 Daily	Yes	Yes
TMO	33314, Motor Vehicle Tax	1,081	Yes	Daily	Yes	Yes
Local government	11471, Entertainment Tax	1	Yes	Monthly	Yes	Yes
Local government	11472, Advertisement Tax	0	Yes	Monthly	Yes	Yes
Local government	14157, Fees on Stone and River-Based Materials	158	Yes	Monthly	Yes	Yes

Source: www.pfco.gandaki.gov.np.

The PFCO prepares monthly and annual statements of revenue collection with detailed breakdowns and categories, which are then submitted to the MoEA. Hence, the score for the dimension is an **A**.

20.2. Transfer of revenue collections

Performance level and evidence for scoring of the dimension. According to the Government Transaction Directives of 2018, all the provincial revenues shall be deposited into a specific group of bank accounts (KHA 1.1, 4 and 5), which are a part of the provincial treasury. Revenues collected by provincial offices are deposited into the Treasury on a daily basis and recorded in the RMIS on a real-time basis. At the end of the month, revenue shares of each government (federal, province and local) are calculated as prescribed in the legislation. After transferring the share of federal and local government revenues, the share of the provincial government's revenues is available for spending.

Individual taxpayers can directly deposit the motor vehicle tax as assessed and declared by the TMO to the authorized bank, located in the relevant TMO, under revenue head 33341 (with the voucher being created through the RMIS). The Province Fiscal Management Act (2018), Section 3, states that the motor vehicle tax collected by the TMO shall be deposited first in the Province Divisible Fund account (KHA-4) on a daily basis. The authorized bank first collects the vehicle tax in its Core Banking System (CBS) and then deposits the daily collected amount in the Province Divisible Fund account, after verifying all vouchers and collected amounts. At month-end, 60 percent of the tax collected is transferred to the provincial government's consolidated fund account (KHA-1.1) and 40 percent to the Local Divisible Fund account of the provincial government. The provincial share of motor vehicle tax collected is available for spending after the month-end transfer to the consolidated fund account.

The royalties for mountaineering, forests, electricity, mines, and minerals are collected and deposited by the provincial government in the Province Divisible Fund account on a daily basis. Of this amount, 50 percent is then transferred to the federal consolidated fund account, 25 percent to the provincial consolidated fund account, and 25 percent to the Local Divisible Fund account.

Table 2.55 presents revenue-collecting entities and revenue categories, as well as the frequency of transfers of revenue collection.

Table 2.55: Transfer of Revenue Collection (NPR, millions)

Collecting Entities	Category of Revenue	Revenue Amount	Frequency of Transfers to the Treasury of the Provincial Government
The Transport Management Office (TMO) of the Gandaki's Provincial Government (four offices in Kaski, Tanahun, Baglung, and Nawalpur) and one License Office (Kaski District)	33341 Motor Vehicle Tax	1,081	Daily
Malpot office under the Federal Government/local government	Building and Land Registration Fees	705	Daily
Owner of entertainment sites or organizers to local government	Entertainment Tax	1	Monthly (by the 25th of the next month to be deposited in the local government account)
Local government	Advertisement Tax	0	Monthly
Local government	Stone and River-Based Materials Fees	158	Monthly

All (90 percent or more by value) revenues are deposited into the Gandaki Provincial Treasury on a daily basis. However, the revenue collected is only available for spending after the provincial share is transferred to the provincial consolidated fund at the end of each month. The PEFA Field Guide emphasizes considering the earliest availability of collected revenues to support cash management and spending when assessing this dimension. The provincial revenue share is transferred to the provincial consolidated fund on a monthly basis, only after which the funds are available for use. Hence, the score for the dimension is a **D**.

20.3. Revenue accounts reconciliation

Performance level and evidence for scoring of the dimension. The motor vehicle tax is administered and collected directly from the individual owners of motor vehicles by the four TMOs in different districts and one License Office. With the help of the TMS and VRS, the individual motor vehicle taxes are assessed on a yearly basis along with payable outstanding arrears and penalties. These are then charged to the owner of the motor vehicle (owner of the blue book) through produced vouchers thereof. The collected motor vehicle tax amounts are deposited in the KHA- (revenue, grants, and miscellaneous) account under the

CBS. These are maintained in the name of the PFCO in the authorized commercial banks. For reconciliation to confirm the collected revenue amounts, the PFCO completes Form No. 1 and sends it to the head office of the concerned, authorized commercial bank and the NRB on a daily basis (via e-mail and the Supervisory Information System [SIS], respectively). Similarly, the revenue-collecting commercial bank is required to send information about the revenue amounts following cross-verification (reconciliation) of the amount shown (deposited) in the RMIS and the revenue receipt in the CBS. For this purpose, there is an Adjustment Account (KHA-5.2) in the name of each revenue-collecting commercial bank maintained by the NRB. In case of deviation, immediate correction is required, with clear justifications to be provided to the NRB. An adjustment of revenue accounts is made within 10 days of the month-end. These mandatory provisions of verifications or reconciliations are fulfilled by the PFCO, NRB, and revenue-collecting commercial banks in the Gandaki Province.

Table 2.56 presents information about motor vehicle tax revenue collection, as well as the frequency of transfers and reconciliation.

Table 2.56: Transfer of Revenue Collection

Collecting Entity	Category	Frequency	Timeline	Types of Reconciled Data		
				Assessment	Collection	Transfer to the Treasury
	–	–	–	Yes/No	Yes/No	Yes/No
Patake/ collection	33341, Motor Vehicle Tax	Daily	Daily or next day (T+1)	Y	Y	Y
Vehicle Registration System (VRS)/ assessment and collection	33341, Motor Vehicle Tax	Daily	Daily	Y	Y	Deposited in Province Divisible Fund Account on a daily basis

For the core tax, that is, the motor vehicle tax, of the Gandaki Provincial Government, assessments, collections, and transfers to the Treasury are reconciled within 10 days, at least, of the end of the month. However, aggregate information about tax arrears is not available. Hence, the score for the dimension is a **C**.

PI-21. Predictability of in-year resource allocation

What the indicator measures. It assesses the extent to which the central MoF is able to forecast cash commitments and requirements, as well as provide reliable information about the availability of funds to budgetary bodies for service delivery.

Methodological notes: Analyzed the categorized, consolidated fund accounts through the FCGO's IPFMS (FMIS/TSA /RMIS). The PTSA and RMIS provide consolidated cash balances for revenue and expenditure accounts, respectively. The FCGO/PFCO includes the consolidated cash position in the monthly accounts. The PLMBIS includes information pertaining to budget releases and commitment ceilings.

Table 2.57: Summary of Scores for PI-21 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-21. Predictability of in-year resource allocation	B	Scoring method M2.
21.1. Consolidation of cash balances	C	A total of seven consolidated fund accounts, representing 94 percent of transactions during FY2022/23, were consolidated on a daily or monthly basis.
21.2. Cash forecasting and monitoring	D	A consolidated cash flow forecast was not prepared for FY2022/23.
21.3. Information on commitment ceilings	A	Spending units are able to plan and commit expenditures for at least six months in advance, in accordance with the budgeted appropriations and cash/commitment releases.
21.4. Significance of in-year budget adjustments	A	Except for virements within approved limits, there were no in-year budget adjustments instigated by the Ministry of Economic Affairs (MoEA) in FY2022/23.

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

The FPFA Act's Sections 3 and 4⁵⁵ provide for a TSA in the form of a set of consolidated fund accounts that are operated by the PFCO in accordance with the 'Gandaki Province Consolidated Fund Operation Procedures' (2018) and Chapter 3 of the NRB's Government Transaction Directive (2019). The latter requires accounts to be opened in the NRB and

⁵⁵ The two sections are based on the Constitution's Part 15 (State [Province] Legislative Procedures), Article 198.

authorized commercial banks in the name of the PFCO. On this basis, a group of categorized consolidated fund accounts (KHA-1, KHA-2, KHA-3, KHA-4, and KHA-5) are established in the NRB, for which the responsible officers of the PFCO are authorized signatories (as certified by the Secretary of the MoEA). The PFCO is responsible for regularly consolidating, reconciling, and reporting on the accounts to the MoEA, FCGO, and OAG. The consolidated fund accounts are maintained on a cash basis using double-entry bookkeeping in accordance with the NPSAS. The provincial TSA system, RMIS, and FMIS capture all receipts (revenues) and expenditures of the provincial government in the consolidated fund accounts.

Rule 109 of the FPFA Regulation requires the Secretary of the MoEA to prepare an annual cash flow forecast for the fiscal year. Specifically, it is required to update the cash flow forecast based on the monthly cash requirements of the spending units. It should obtain this information from monthly cash flow projections that the spending units are required to prepare for the implementation of programs and the annual budget (Section 18 (4) of the FPFA Act).⁵⁶

According to Rule 26 of the FPFA Regulation, the authorizations for program and expenditure implementation are automatically deemed to be provided through the PLMBIS to the authorized officials immediately after the enactment of the provincial Appropriation Act. Specifically, it grants full authority to commit and spend from the beginning of the fiscal year. According to the same rule, the MoEA issues the Budget Implementation Guidelines to the ministries and agencies within three days of the enactment of the Appropriation Act. After receiving the budget authorization, spending units prepare and submit a budget implementation work plan, a monthly expenditure estimation statement, an Annual Procurement Plan (APP), and a commitment statement to be sent to the superior officers and the PFCO.

Recent or ongoing reform activities. The FCGO has enhanced the TSA system with an additional consolidated treasury module to enable real-time cash/treasury reconciliation.

21.1. Consolidation of cash balances

Performance level and evidence for scoring of the dimension. The KHA-1.1 nonoperating account is used for the collection and deposit of revenues and other receipts of the provincial government. It is based on an authorized commercial bank collecting provincial

⁵⁶ The FPFA Regulation's Rule 26 (6) states that all the spending units are required to prepare and submit their monthly expenditure estimation statements to the PFCO in accordance with the program and budget implementation schedule or work plan.

revenues and other receipts in its CBS in the name of the PFCO. It then transfers these funds to the KHA-1.1 account on a daily basis through the RMIS, with information sent to the NRB through the SIS. The PFCO conducts monthly reconciliations between the statements of the CBS and the RMIS.

The KHA-2 budget release expenditure (payment) account, maintained in the NRB, is used to incur expenditures in the KHA-2.1 (odd years) and the KHA-2.2 (even years). These expenditures are accounted for as reimbursements to authorized commercial banks for payments made through the TSA system on a daily basis/close of day arrangement. The accounting and reporting updates are reflected in the FCGO's FMIS/TSA. The details are presented in Table 2.58.

Table 2.58: Categorized Consolidated Fund Accounts

Group of Account(s)	Transactions during FY2022/23 (NPR, millions)	Share (%)	Frequency of Consolidation	Cash Balance as of End of FY2022/23 (NPR, millions)
1. KHA-1.1 Revenue Grants and Miscellaneous Receipts	22,773	28.2	Monthly	4,784
2. KHA-1.3 Budget Release Expenditure Account	23,615	29.2	Daily	0
3. KHA-1.4 Consolidated Treasury Adjustment Account (Income Debited)	4,520	5.6	Annually	2,928
4. KHA-2.1/2.2 Budget Expenditure Account (Even/Odd)	23,615	29.2	Daily	0
5. KHA-4-1 Province Divisible Fund Account	1,879	2.3	Monthly	0
6. KHA-4.2 Local Divisible Fund Account	721	0.9	Monthly	0
7. KHA-3.1 Province Contingency Fund Account	10	0.0	Annually (if necessary)	30
8. KHA-2.3 Dharauti (Deposit) Account	1,694	2.1	Daily	1,530
9. KHA-2.6 Miscellaneous Account	2,063	2.6	Daily	802
Total transactions	80,889	100.0		

Source: PFCO's CFS for FY2022/23.

The status of consolidation is shown in Table 2.59.

Table 2.59: Consolidation of Cash Balances

Frequency	Group of Account(s)	Transactions during FY2022/23 (NPR, millions)	Sum (NPR, millions)	Share (%)
Daily	2. KHA-1.3 Budget Release Expenditure Account	23,615	50,986	63.0
Daily	4. KHA-2.1/2.2 Budget Expenditure Account (Even/Odd)	23,615		
Daily	8. KHA-2.3 Dharauti (Deposit) Account	1,693		
Daily	9. KHA-2.6 Miscellaneous Account	2,063		
Monthly	1. KHA-1.1 Revenue Grants and Miscellaneous Receipts	22,773	25,373	31.4
Monthly	5. KHA-4-1 Province Divisible Fund Account	1,879		
Monthly	6. KHA-4.2 Local Divisible Fund Account	721		
Annually	3. KHA-1.4 Consolidated Treasury Adjustment Account (Income Debited)	4,520	4,530	5.6
Annually (if necessary)	7. KHA-3.1 Province Contingency Fund Account	10		
Total		80,889	80,889	100.0

During FY2022/23, four accounts representing 63 percent of transactions were consolidated on a daily basis, and three accounts representing 31 percent of transactions were consolidated on a monthly basis, as shown in Table 2.59. Therefore, a total of seven accounts representing 94 percent of transactions during FY2022/23 were consolidated on a daily or monthly basis. Hence, the score for the dimension is a **C**.

21.2. Cash forecasting and monitoring

Performance level and evidence for scoring of the dimension. There is no evidence to suggest that the MoEA prepared a cash flow forecast for FY2022/23, or that the spending units prepared monthly cash flow projections. Hence, the score for the dimension is a **D**.

21.3. Information on commitment ceilings

Performance level and evidence for scoring of the dimension. The proposed budget for FY2022/23 was approved by the Provincial Assembly on July 15, 2022, and signed by the Speaker of the Provincial Assembly on the same day. The Appropriation Act for FY2022/23 was approved on the same day. Thus, for FY2022/23, all ministries, agencies, and spending units had budget and program implementation authority through the PLMBIS from the first day of the new fiscal year.⁵⁷

The Provincial FPFA Regulation allows spending units to execute approved budgets through the PLMBIS after enactment of the Appropriation Act. The PLMBIS grants authorization from the first day of the fiscal year, and the spending units can plan and commit expenditures for the entire fiscal year in accordance with the approved budget appropriation. The budget is divided into four quarters, which is for cash flow monitoring. It does not restrict the spending units to commit the total annual budget from the start of the fiscal year.

Starting on the first day of the fiscal year, each spending unit has the authority to plan and commit expenditures for the entire fiscal year in accordance with the approved budget appropriation. Hence, the score for the dimension is an **A**.

21.4. Significance of in-year budget adjustments

Performance level and evidence for scoring of the dimension. Article 209 of the Constitution provides for supplementary estimates to be prepared in cases where there are insufficient estimates authorized in the Appropriation Act; where expenditures are required for new services not covered in the Appropriation Act; or where expenditures have exceeded the amount authorized in the Appropriation Act. The supplementary estimates shall be specified under separate heads in a Supplementary Appropriation Bill to be presented to the Provincial Assembly for approval. No Supplementary Appropriation Bill was prepared and proposed for FY2022/23.

⁵⁷ According to the PLMBIS, there are 12 line ministries, 4 provincial government-level central agencies, and 154 spending units. Information on the approved budget ceiling for fiscal transfers (fiscal equalization, conditional, complementary, and special grants) for FY2022/23 was provided to the 85 local governments under the Gandaki Province. Hence, budget expenditure authorization and information were provided to 239 spending offices through the Statement of Budget Estimation (Red Book) and the PLMBIS.

Article 213 of the Constitution allows for the transfer of appropriated amounts from one budget head to another budget head. Based on this provision, the provincial FPFA Act's Section 19 provides for virement of budget from one head to other heads or subheads by the MoEA, for which the Appropriation Act for FY2022/23 (Section 3) provided a ceiling of 10 percent. Similarly, the FPFA Act's Section 20 covers budget withheld, controlled, and surrendered, which is further elaborated in the FPFA Regulation's Rule 31. Virements from one line ministry to another line ministry may not exceed 10 percent of the approved budget. Such virements can be done only by the MoEA. Virements initiated by the line ministries during FY2022/23 were undertaken according to the provisions made in the Appropriation Act 2022 and within the stipulated ceiling in a transparent way. No budget adjustments other than virements were undertaken in FY2022/23.⁵⁸ However, it is noted that no virement data for FY2022/23 have been available to verify.

As noted, although in-year budget adjustments have been legally provisioned, in the last completed fiscal year, FY2022/23, there is no case of in-year budget adjustment instigated by the MoEA. Hence, the score for the dimension is an **A**.

PI-22. Expenditure arrears

What the indicator measures. It measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control.

Methodological Notes: Source data and calculations for PI 22.1 and PI 22.2 are available in Table 2.60. For each dimension, the legal and regulatory framework has been established. Published data is then used to assess the extent to which requirements are met for the specific scores.

⁵⁸ In accordance with the PEFA guidance, budget adjustments to be considered for PI-21.4 are only those instigated by the subnational MoF, and not virements within the approved limits (in accordance with arrangements established according to PI-18).

Table 2.60: Summary of scores for PI-22 and performance table

Indicator/dimension	2024 Score	Brief justification for score
PI-22. Expenditure arrears	C+	Scoring method M1.
22.1. Stock of expenditure arrears	A	The stock of expenditure arrears is no more than 2 percent of the total expenditures in two of the last three completed fiscal years.
22.2. Expenditure arrears monitoring	C	Data about the stock and composition of expenditure arrears are generated annually at the end of each fiscal year.

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

According to the provincial FPFA Act, Section 23 (3), payments are required to be made within 15 days of the receipt of an invoice with the necessary documents. For deliberate nonpayment, Section 54 (1-a) provides for penalties. Responsible officials are required to disclose payment arrears on monthly and annual bases in accordance with the FPFA Regulation Rules 64 (3) and 66.

Under the FPFA Regulation's Rule 36 (1 and 2), an office chief cannot generate a liability without a budget. However, Rule 36 (12, 13, and 14) does allow for expenditures that exceed the current year's budget for certain acceptable and sufficient causes.⁵⁹ Such expenditures shall be recorded as a statement of expenditure arrears on an OAG Form (No. 221) for payment in the next fiscal year and require PFCO approval within seven days. Financial statements with an expenditure arrears declaration are sent to the appropriate ministry and the OAG. The PFCO prepares an annual statement of arrears based on certified statements from the DTCOs, which are then reported to the MoF and the OAG. The arrears are consolidated at the ministry level, included in the FMIS, and reported in the annual CFS prepared by the PFCO.

Recent or ongoing reform activities. The provincial government has recently initiated recording and reporting of commitments. Also, the preparation of cash forecasting procedures for assuring the availability of cash for timely payment is under process, including to ensure that the Electronic Fund Transfer (EFT) System is used for all types of payments.

⁵⁹ The reasons for arrears are mainly insufficient budget allocations; delays in decision-making processes; payment liabilities created late in the fiscal year; delays in the receipt of budget allocations; delays in time extensions; and salary arrears due to unapproved leave applications (for example, for study leave and maternity leave).

22.1. Stock of expenditure arrears

Performance level and evidence for scoring of the dimension. The expenditure arrears, as recorded in the FMIS and reported in the CFS for FY2020/21, FY2021/22, and FY2022/23, are shown in Table 2.61, including as a share of the actual expenditures.

Table 2.61: Stock of Expenditure Arrears by Category

Fiscal Year	Total Stock of Arrears at Fiscal Year-End (NPR, millions)	Total Actual Expenditures for the Fiscal Year (NPR, millions)	Share (%)
2020/21	91	25,623	0.4
2021/22	344	22,044	1.6
2022/23	922	23,615	3.9

The stock of expenditure arrears was less than 2 percent of the total expenditures in two of the last three completed fiscal years. Hence, the score for the dimension is an **A**.

22.2. Expenditure arrears monitoring

Performance level and evidence for scoring of the dimension. According to the FPFA Act's Section 64 (1, 2, and 3), spending units shall report expenditure arrears periodically, including composition and age, to the PFCO within 21 days of the end of the fiscal year. According to the FPFA Regulation's Rules 64 and 65, each responsible official shall report payment arrears annually.

According to the FMIS records and the CFS, expenditure arrears mainly relate to infrastructure development (construction), salary payments, and payments related to consumer committees (Table 2.62).

Table 2.62: Expenditure Arrears Monitoring by Category

Category of Arrears ^a	Data generated (Yes/No)			Frequency	Timeline
	Stock	Age	Composition		
Salary, allowances, travel, house rent, uniform, food, medical expenses, gratuity, and amount according to the agreement with individual, firm, or company that are included in the approved annual budget program	Yes	Yes	Yes	Annually at the end of the fiscal year.	Annual reports and annual financial statements (by entities). as well as the CFS (PFCO) and report (OAG).

Note: CFS= Consolidated Financial Statement; OAG= Office of the Auditor General; PFCO= Provincial Financial Comptroller Office. a. FPFA Regulation's Rule 36 (14).

The stock of arrears is recorded. However, the age of the incurred arrears (according to the date) and its composition is only generated annually at the end of each fiscal year. Hence, the score for the dimension is a **C**.

PI-23. Payroll controls

What the indicator measures. It concerns only the payroll for public servants: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25.

Methodological notes. To assess the provincial government's payroll management, the assessors sampled 20 spending units.

Table 2.63: Summary of Scores for PI-23 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-23. Payroll controls	D+	Scoring method M1.
23.1. Integration of payroll and personnel records	D	There is no systematic reconciliation between personnel and payroll data. The approved staff list is used as the basis for the salary budget.
23.2. Management of payroll changes	D*	Information about the timing of changes to personnel records and payroll, as well as data on retroactive adjustments, are not available.
23.3. Internal control of payroll	D	There are insufficient controls in place to ensure the integrity of the payroll data of the greatest importance.
23.4. Payroll audit	C	Partial payroll audits have been undertaken within the last three completed fiscal years.

Detailed description of the country PFM system for the assessed performance indicator. The Civil Service Act (2023), Section 3, assigns the overall responsibility for personnel management, along with the formation and implementation of the provincial civil service, to the OCMCM. The total number of approved civil service positions is 3,287, of which 1,409 are filled from federal adjustment and 1,666 from the provincial Public Service Commission (PSC). Currently, 212 positions are vacant.

The Constitution's Article 243 details the role of the PSC in selecting and recommending civil servants. Article 243 (5) states that no permanent appointment to any pensionable position chargeable to the Government shall be made except in consultation with the PSC. According to Article 244, the federal Parliament determines by law the basis and standards for the functions, duties, and powers of the provincial PSCs.

The Provincial Assembly has enacted the Civil Service Act (2023). On that basis, the provincial government has adopted the Civil Service Rules (2023) and the Gandaki Province Personnel Record (GPPR) Implementation Procedure (2024). In Section 3, the latter provides for the roles, responsibilities, and rights related to the GPPRs, including the responsibility for payroll and personnel record management. A GPPR Unit is in the process of being established. The Provincial Personnel Record and Communication Coordination Section (PPRCCS), under the OCMCM, functions according to Section 3 (2) of the procedure. As such, it is responsible for maintaining and updating the records of the entire civil service of the provincial government. However, in order to function more fully, the PPRCCS is currently in the process of establishing itself as a separate GPPR Unit.⁶⁰

The GoN has enacted the Personnel Adjustment Act (2019) for adjusting personnel in the three tiers of government. According to the Act's Section 4, an adjustment will be made based on the records maintained by the federal Department of Personnel Records (Civil), as well as records maintained by relevant provincial entities or ministries, if any. Government officials in the Gandaki Province are adjusted from the federal level according to this Act.

According to Rule 3 of the provincial PSC Regulation (2023), relevant offices can make requests to the provincial PSC for vacant posts to be filled. Based on this, the PSC makes recommendations for selected candidates to be authorized for appointments.

The payroll system is decentralized with monthly payrolls prepared by each spending unit based on approved annual salary sheets. These are prepared at the beginning of each fiscal year by the PFCO and the DTCO for each spending unit within its jurisdiction, specifying sanctioned and actual positions. The IPFMS/CGAS is applied for personnel record and payroll management. The provincial government is using the FCGO's Government Accounting Manual (2006) for payroll management.

Recent or ongoing reform activities. The provincial government is working to establish the GPPR Unit. The PPRCCS is in the process of updating the personnel records in the PIS.

⁶⁰ One of the practical consequences of the PPRCCS not yet being fully operational is that civil servants hired by the provincial PSC have yet to be assigned unique identification numbers, despite this being required by the Civil Service Act.

23.1. Integration of payroll and personnel records

Performance level and evidence for scoring of the dimension. Rule 12 of the Civil Service Regulation (2023) provides for each ministry and entity to maintain personnel records, which are required to be provided for verification with the records maintained in the GPPR within a stipulated timeline. The PPRCCS is operationally responsible for personnel management, including maintaining an approved staff list. To ensure budget control, the budget for salary is proposed based on the approved staff list (O & M based).

Most spending units have two separate sections for personnel and payroll management. The Administrative Section maintains personnel records and is responsible for updating leave records, promotions, transfers, and rewards. It communicates on a monthly basis with the Accounts Section, which processes the monthly payroll (in accordance with the Accounting Directives) using the IPFMS/CGAS. Changes such as promotions, transfers, rewards, and retirements are communicated through official letters to relevant offices, including the PPRCCS.

The Civil Service Rules require all spending units to maintain up-to-date personnel records for each employee. Spending units do so using manual records; however, the PPRCCS should maintain records electronically in the provincial Personnel Information System (PIS) in the form of a personnel database. However, this remains a work in progress. Civil servants from federal adjustment who should be included in the provincial PIS and have to be fully established are for now still recorded in the federal PIS (currently the same PIS applied in the Gandaki Province, albeit with limited access). The province is responsible for updating all records of the federal-adjusted personnel who are assigned after adjustment in the provincial PIS.

The spending units use annual salary sheets as the basis for preparing the monthly payrolls in the IPFMS, which incorporates a payroll management module.⁶¹ The PFCO prepares a monthly salary sheet (*Talabi Pharam*), using the OAG's Form No. 226, which is signed by the authorized personnel (Office Chief of relevant entity) responsible for the verification of payroll records. According to the GPPR Implementation Procedure, Section (10), the salary report and other information (previous year's approved payroll, as well as official letters of appointment, transfer, and promotion) should be submitted to the GPPR Unit for approval. In the absence of the GPPR Unit, the payroll is managed by the PFCO.⁶²

⁶¹ Where electronic attendance systems are in place, attendance reports are used to facilitate payroll calculations.

⁶² This is in accordance with the provincial Civil Service Regulation's Section 80 (4).

There is currently no systems integration or data interface and hence no electronic data exchange between the PIS and the IPFMS. Thus, there is no manual, systematic reconciliation between personnel and payroll data.

Payroll and personnel management at the EBU is done separately by each unit (administration and accounts) based on their legal and regulatory provisions. There is no information about any EBU having an integrated system for personnel and payroll management.

There is no systematic reconciliation between personnel and payroll data. Hence, the score for the dimension is a **D**.

23.2. Management of payroll changes

Performance level and evidence for scoring of the dimension. According to the Civil Service Act and Regulation, it is mandatory to maintain up-to-date personnel records for each employee, verifying it with the records maintained in the GPPR (once established). All changes to personnel records are communicated through an official letter, which is issued by a spending unit's Administration Section. It is then sent to the concerned offices, including the Provincial Personnel Record and Communication Coordination Section (PPRCCS) and PFCO, and copied to the Employees Provident Fund (EPF) and Citizen Investment Trust (CIT). Changes are also communicated to the Accounts Section for necessary payroll adjustment. These are reviewed as part of the monthly reconciliation between personnel records and the payroll (OAG Form 226).

The EBUs manage personnel records and payroll separately according to their specific rules and regulations. Information regarding how the EBUs make payroll changes is not available.

Information about the timing of changes to personnel records and payroll, as well as data on retroactive adjustments, was not available to the assessors. Hence, the score for the dimension is a **D***.

23.3. Internal control of payroll

Performance level and evidence for scoring of the dimension. The GPPR (Implementation) Procedure states the requirements for updating and approving personnel records. As the provincial PIS is currently in the process of systematically updating personnel records, all changes to personnel records (appointments, transfers, promotions, leaves, disciplinary actions, absences, and salary deductions) are presently updated in the manual records maintained by the Administration Section of the spending units. Any changes made to

personnel records require approval from a competent authority and are recorded in manual logs, which are kept by both the spending units and the PPRCCS.

Section 10 of the GPPR (Implementation) Procedure outlines the payroll process (salary report), which is required to be updated and sent by the spending units to the GPPR Unit for approval. In the absence of the GPPR Unit, the PFCO manages these tasks, including payroll approval. The payroll module in the IPFMS is linked to the EFT system (a sub-system of the TSA), the EPF, the Pension Fund, the CIT, and the Permanent Account Number (PAN).⁶³ This connection guarantees that only authorized employees can receive salaries, and that deductions from payroll are remitted to the respective funds on time (as payroll preparation for the next month cannot be initiated until the previous month's deductions have been remitted). The system workflow ensures the segregation of duties, with an official responsible for payroll preparation and another (senior) official responsible for approval.

The Civil Service Act's Section 49 restricts payment of salary without approval of payroll (salary report). The Civil Service Regulation's Rule 80 provides approval authority of payroll to the PFCO (until the separate GPPR Unit is established). The GPPR (Implementation) Procedure defines internal controls and authority for making changes in payroll, but these prescribed controls are not (yet) integrated into the PIS and IPFMS workflow, and there is no audit trail.

The PFCO's internal audit report for FY2022/23 includes observations about salary payments made without approval of the required salary report. However, neither internal nor external audit reports offer an assessment about the accuracy of payroll and personnel data, as well as the effectiveness of the processes in ensuring the accuracy of all data.

The EBU's are separately managing their payroll and personnel records according to their own rules and regulations. Information regarding how the EBU's manage their payroll changes is not available.

There is currently no assessment available regarding the accuracy of payroll and personnel data, nor is there an evaluation of the effectiveness of the processes in place to ensure the integrity of this information. Internal audit has reported instances of salary payments without requisite approvals. Hence, the score for the dimension is a **D**.

⁶³ The PAN is a Tax Registration Number (TIN).

23.4. Payroll audit

Performance level and evidence for scoring of the dimension. The FPFA Act's Section 30 requires that internal audits of each spending unit are conducted. The audits cover all salary expenditures and are conducted on a trimester basis based on the provincial government's internal audit guidelines. They involve reviewing approved positions, annual salary sheets, monthly payroll calculations, human resource actions and related payroll adjustments, tax deductions, and salary transfers. The OAG audits the payroll expenditures as part of its audit of the annual financial statements.

Both internal and external payroll audits rely on document review, but do not involve on-site physical verification of spending units. It is noted that most of the provincial government's spending units have implemented an electronic (biometric) attendance system, which aims to ensure the staff's physical presence. The internal and external audit reports prepared for the EBUs do not include any observations related to payroll management.

The payroll audits rely on document reviews and do not involve on-site physical verification. Hence, the score for the dimension is a **C**.

PI-24. Procurement

What the indicator measures. It examines the key aspects of procurement management. It focuses on the transparency of arrangements, open and competitive procedures, monitoring procurement results, and access to appeal and redress arrangements. The scope of this indicator covers all procurements of goods, services, civil works, and major equipment investments, whether classified as recurrent or capital investment expenditure.

Methodological notes. PI-24 has been assessed based on a sample of seven procuring agencies that include (a) the five spending units of the provincial government with the highest level of capital budget and expenditure (five District Infrastructure Development Offices), (b) the Water Resources and Irrigation Development Office, and (c) the Province Health Supply Management Center (Table 2.64).

Table 2.64: Sample used for PI-24, FY2022/23 (NPR, millions)

Spending Unit	Sector	Capital Expenditures (budget)	Capital Expenditures (actual)
Top five spending units - District Infrastructure Development Office	Infrastructure development	8,660	5,081
Water Resources and Irrigation Development Office	Water resources and irrigation	497	432
Province Health Supply Management Center ^a	Health	188	114
Total of seven offices sampled		9,345	5,627
Total budget and expenditures of the provincial government		23,003	15,356
% Sampled		40.6	36.6

Note: a. Including recurrent expenditures for goods.

Table 2.65: Summary of Scores for PI-24 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-24. Procurement	C+	Scoring method M2.
24.1. Procurement monitoring	D	Procuring agencies maintain contract records in individual files that include information about what was procured, the value of procurement, and who was awarded contracts. The database for procurement using competitive methods is maintained in an electronic government procurement (e-GP) system, which is incomplete. A complete database for procurement using noncompetitive methods is not readily available.
24.2. Procurement methods	A	Based on the data collected from sampled spending agencies, 80.3 percent of the procurements were made through competitive methods in the last completed fiscal year.
24.3. Public access to procurement information	C	Three of the six key procurement information elements are complete and reliable for all procuring agencies, representing most procurement operations. These are made available to the public in a timely manner.
24.4. Procurement complaints management	B	The procurement complaints system meets five of the six criteria. Although there are no fees for filing a complaint, a 1 percent deposit of the bid value is necessary to file a complaint, which prohibits easy access by the parties concerned.

Detailed description of the country PFM system for the assessed performance indicator. Public procurement is governed by the federal PPA, 2007, and the federal Public Procurement Regulation (PPR), 2007. The provincial government approved the Provincial Public Procurement Rules (PPPR) in 2019, which has provisions mainly relating to the approval of procurement thresholds. However, other than these, the federal PPA and PPR are applied. This framework applies to all procurement activities carried out by public entities, including the EBUs. Any procurement that violates the PPA provisions is considered null and void, according to Section 3 (2) of the PPA.

The federal PPMO, which has purview of all public entities across the three government tiers, has been established under the PPA's Section 64. It is responsible for ensuring competition, efficiency, and transparency in all public procurement activities. The PPMO conducts capacity building/training, monitors and facilitates procurement processes, and issues SBDs and other regulatory documents. Furthermore, the single e-GP portal is managed by the PPMO and is used by the three tiers of government.

Almost all the provincial government's spending units, as well as the EBUs, are involved in procurement for programs and activities planned and budgeted through the PLMBIS. Procurement is made through the procurement entity of the concerned procuring agency (according to Section 7 (3) of the PPA and Rule 16 of the PPR). The PPA (Section 8) provides different methods for the procurement of goods, public works, consulting services, and other services. Methods include competitive methods, such as tenders and sealed quotations, as well as noncompetitive methods, such as direct procurement and procurement through the user committee.

Recent or ongoing reform activities. The PPMO regularly updates the PPR and develops new SBDs. It is presently upgrading the e-GP system to include a contract management module. The FCGO has recently upgraded the CGAS/FMIS by adding the feature of commitment recording, which will be able to generate digital records of awarded contracts, including details, such as contract/work planned; contract awarded with value and awardee; payments made; and amount of contract payable.

24.1. Procurement monitoring

Performance level and evidence for scoring of the dimension. The PPMO has developed the e-GP portal to manage the whole procurement cycle. However, the procuring agencies are currently using it to prepare procurement plans, advertise tenders, and receive electronic bids. Partial information about contract awards and implementation is available in the e-GP system.

The PPA's Section 6 requires every procuring agency to prepare a Master Procurement Plan (MPP) and an APP.⁶⁴ These should be recorded in the e-GP system for procurement using competitive methods only at the time of processing the procurement (instead of being prepared in advance at the time of planning annual programs and the budget for the next fiscal year). Only one out of the seven procuring agencies sampled has prepared the APP as required by the PPA.

The PPA's Section 72 requires procurement-related documents to be kept safe. The PPR's Rule 149 requires the maintenance of a separate file for every procurement, including minutes, agreements, and other documents. Also, records are maintained in a prescribed format. The PPR has prescribed formats, mainly for cost estimates, contracts, and the listing of vendors. Procuring agencies maintain contract records in the form of manual registers (for competitive methods procurement only)⁶⁵ and files (for both competitive and noncompetitive procurement).⁶⁶ These include information about what was procured, the value of the procurement, and who was awarded the contract. Due to the lack of a comprehensive database,⁶⁷ the data for procurement monitoring is compiled manually when information is required.

A contract register is maintained for procurement through competitive methods, but not for direct procurement. However, details of procurement (what has been procured with value and who has been awarded the contract) are not accumulated in a database. Whenever data are required, they are compiled manually. The agencies sampled maintain (and have provided) data for procurements through competitive methods (e-bidding/tenders) from the database maintained by the PPMO in the e-GP system, but it is incomplete. Furthermore, data about other procurement methods, such as direct procurement and procurement utilizing user committees, have not been readily available. Third-party assessments of the provincial government's procurement procedures include the PPMO's Annual Report FY2021/22⁶⁸ and the OAG's 5th Annual Report for Gandaki Province.⁶⁹ However, neither comment specifically about the accuracy and completeness of the procurement data.

⁶⁴ The MPPs are prepared for multiyear programs/projects or where procurement is in excess of NPR 100 million (Rule 6 of the PPR), whereas APPs are prepared for procurement of more than NPR 1 million during the fiscal year. This information is to be submitted to the MoEA, PFCO, and PPMO (Rule 7 of PPR).

⁶⁵ Registers are manually kept in books with information, such as contract title, contractor, date of contract, cost estimate, contract amount, date signed, and completion date.

⁶⁶ Files contain all paper documents, such as notices, estimates, contracts, and payments.

⁶⁷ None of the seven offices sampled maintain a comprehensive database for procurement information, although some data are available in the e-GP system for procurement using the competitive method.

⁶⁸ Chapter 2.2 of the PPMO's report covers the monitoring of 21 public entities, including two offices in the Kaski and Gorkha districts of Gandaki Province. It indicates noncompliance with the PPA and PPR, including that of MPPs, which are not prepared. It also notes the absence of databases.

⁶⁹ The OAG notes the non-preparation of APPs and noncompliance in the use of procurement methods.

The EBUs are required to comply with the PPA and the PPR. Similar to government spending units, the EBUs maintain databases for procurement through open competitive methods (e-bidding/tenders) and databases for other procurement methods (such as direct procurement, although they are incomplete; thus, full information is not readily available).

None of the seven offices sampled maintain a database for procurement information. Although some data is available in the e-GP system, which constitutes a database, it does not contain complete data. Hence, the score for the dimension is a **D**.

24.2. Procurement methods

Performance level and evidence for scoring of the dimension. The PPA prescribes various procurement methods, each with its specific threshold. To promote fair competition and prevent favoritism toward specific bidders, Sections 8 and 9 emphasize the importance of open competition and discourage contract splitting. Section 8 of the PPA provides for 10 methods for the procurement of goods, works and other services including: (a) open bidding (international), (b) open bidding (national), (c) sealed quotations, (d) direct procurement, (e) procurement through participation of a user committee or beneficiary group, (f) procurement through force account, (g) total fixed rate method, (h) catalogue shopping, (i) limited tender, and (j) buyback method. Section 41 permits direct procurement for specified procurements within a specific threshold. Two procurement methods are available for consultancy services: competitive offer and direct negotiation (Table 2.66).

The PPR and the PPPR provide thresholds for applying different procurement methods: (a) direct procurement may be used up to NPR 1 million,⁷⁰ (b) sealed quotation may be used up to NPR 2 million,⁷¹ and (c) open bidding may be used above NPR 2 million.⁷² Open competition is the default method for all procurement of all goods, services, and works above NPR 2 million. However, the PPA allows for exceptions relating to direct procurement in accordance with Section 41 of the PPA.⁷³

According to Clause 5 of the Electronic Procurement System Operation Directive (2023), the use of the e-GP system is obligatory for all competitive bidding processes involving public funds, including tenders, pre-qualifications, and proposals. Additionally, the e-GP system can be employed for both sealed quotations and direct procurement. However, procuring

⁷⁰ PPR Rule 85 and PPPR Rule 7.

⁷¹ PPR Rule 84.

⁷² PPR Rule 31 and Rule 70.

⁷³ Procurement of food items (Section 42), of leased premises (Section 43), through user committee (Section 44), of petty and repair items (Section 45), and of training awareness activities through nongovernmental organizations (Section 46). In addition to these, Section 66 of the PPA provides for special circumstances to avoid losses to a procuring agency.

agencies in the Gandaki Province have not (so far) used the e-GP system for conducting procurement using the direct method and through user committees.

Table 2.66 Procurement Methods and Corresponding Values (based on sampled seven entities)

Total Value of Procurement (NPR, millions) (1)	Total Value of Contracts Procured through Noncompetitive Method (NPR, millions) (2)	Total Value of Contracts Procured through Competitive Method (NPR, millions) (3)	Percentage of the Competitive Method by Value (3) / (1) (%)
5,368	1,056	4,313	80.3

Note: Competitive methods include open bidding, e-bidding, and sealed quotation, and noncompetitive methods include direct purchase, quotation, and procurement using user committees.

Data maintained by the agencies sampled required compilation for this PEFA Assessment. A contract register is maintained for procurement through competitive methods, but not for procurement through direct procurement, which has been compiled manually for assessment purposes. Details of procurement (what has been procured with value, and who has been awarded the contract) have been maintained at the file level for each procurement, but not accumulated in a database.

The sampled seven agencies awarded more than 80 percent of the contractors through competitive procurement methods. Hence, the score for the dimension is a **A**.

24.3. Public access to procurement information

Performance level and evidence for scoring of the dimension. Public access to public procurement information for Gandaki Province is analyzed in Table 2.67.

Table 2.67: Key Procurement Information to be Made Available to the Public

Elements/ Requirements	Met (Yes/No)	Evidence Used/Comments
(a) Legal and regulatory framework for procurement	Yes	The PPA, PPR, directives and procedures, ⁷⁴ and SBDs are available on the PPMO's website. ⁷⁵ The PPPR is available on the OCMCM's website. ⁷⁶

⁷⁴ Electronic Procurement System Directives, Tenders through Engineering Procurement, and Construction Method Directives.

⁷⁵ <https://ppmo.gov.np>

⁷⁶ <https://ocmcm.gandaki.gov.np/list/regulation>

Elements/ Requirements	Met (Yes/No)	Evidence Used/Comments
(b) Government procurement plans	No	Procuring agencies develop their APPs based on their approved work programs and budget allocations. ⁷⁷ Only one of the sampled seven procuring agencies prepared and published an APP for FY2022/23. The others prepared selected APP details, which were available in the e-GP system when procurement processes were initiated. ⁷⁸
(c) Bidding opportunities	Yes	Section 9 of the PPA requires procuring agencies to follow open bidding, except as permitted by the PPA. Equal opportunities are to be given to all eligible bidders. Bidding opportunities by all procuring agencies for public procurement conducted during FY2022/23 are published in the national newspapers and on the e-GP portal (as required by Sections 14, 15, and 16 of the PPA). ⁷⁹
(d) Contract awards (purpose, contractor, and value)	Partially	According to Section 60 of the PPA and Rule 137 of the PPR, the outcome of bid evaluations and contract awards (purpose, contractor, and value) for procurements conducted during FY2022/23 were published through various channels, including national daily newspapers, notice boards and the e-GP system. ⁸⁰ The information is available for procurement through competitive methods only, and not for procurement through non-competitive methods, such as direct procurement and procurement through user committees. Moreover, the availability of information has not been reviewed by auditors.
(e) Data about resolution of procurement complaints	Yes	Rule 108 of the PPR requires records of complaints lodged and resolved, along with the remedial actions taken by procuring agencies, to be maintained and submitted to the PPMO annually. A 'Complaint Lodge After Technical Evaluation' Module, introduced by the PPMO in FY2021/22, did not receive any complaints relating to procurement conducted during FY2022/23 in Gandaki Province. The public can access information about the resolution of procurement complaints through the PPMO's annual report, which is published after the end of the fiscal year. ⁸¹ According to the sampled seven procuring agencies, no complaints were received during FY2022/23.

⁷⁷ The APPs should also consider the MPPs. However, as mentioned under PI-24.1, the MPPs are not being prepared by the procuring agencies.

⁷⁸ In the 5th Annual Report for the Gandaki Province, the OAG highlights the need for procuring agencies to prepare their APPs in compliance with the PPA's Section 6.

⁷⁹ <https://www.bolpatra.gov.np/egp/searchOpportunity>.

⁸⁰ <https://www.bolpatra.gov.np/egp/loadContractRecordsListPublic>.

⁸¹ https://ppmo.gov.np/reports/annual_reports

Elements/ Requirements	Met (Yes/No)	Evidence Used/Comments
(f) Annual procurement statistics	No	Procurement statistics of procuring agencies can be found in their annual progress reports posted on their respective websites or progress reports. However, complete procurement statistics for all procurement methods adopted by all procuring agencies are not readily available.

Note: APP= Annual Procurement Plan; e-GP= Electronic Government Procurement; OCMCM= Office of the Chief Minister and Council of Ministers; PPA= Public Procurement Act; PPMO= Public Procurement Monitoring Office; PPPR= Provincial Public Procurement Rules; PPR= Public Procurement Regulation; SBD= Standard Bidding Document.

The EBU's are required to comply with the PPA and the PPR. However, the EBU's' APPs and complete annual procurement statistics for all types of procurement methods were not readily available. However, it is noted that the volume of procurement by the EBU's is negligible compared to the procurement undertaken by the provincial government.

The requirements for maintaining key procurement information available to the public are met for three of the six elements. Hence, the score for the dimension is a **C**.

24.4. Procurement complaints management

Performance level and evidence for scoring of the dimension. Public access to public procurement information for the Gandaki Province is analyzed in Table 2.68.

Table 2.68: Requirements of the Body that Reviews Complaints

Elements/ Requirements	Met (Yes/No)	Evidence Used/Comments
(a) The body is not involved in any capacity in procurement transactions, or in the process leading to contract award decisions.	Yes	<p>According to Section 47 of the PPA and Rule 100 of the PPR, an application can be made to the chief of the concerned procuring agency to review procurement decisions made (for procurements up to an amount of NPR 20 million, as well as about any perceived wrongdoing or noncompliance with rules and regulations.⁸² Although the chief of a procuring agency has overall responsibility for all tasks of the agency, including in relation to procurement, complaints can be made to a higher authority or to the Public Procurement Review Committee (PPRC).⁸³</p> <p>Section 48 (2) of the PPA stipulates that PPRC members are prohibited from occupying positions in procuring agencies or participating in any procurement-related activities. According to the PPRC, the chair and the members are not involved in any capacity in procurement transactions or in processes leading up to contract award decisions.</p>
(b) The body does not charge fees that prohibit access by concerned parties.	No	<p>The PPRC does not charge any fees. However, according to Section 50(6) of the PPA and Rule 104 of the PPR, complainants are required to deposit 1 percent of the bid price as a guarantee. This deposit is refundable if the complaint is found to be justified. However, it will be forfeited if the complaint is dismissed. Deposits related to low-value procurement may not prohibit access by concerned parties. Yet, it may prohibit access in cases of high-value procurement in the absence of required funds for deposits to be made, even if the deposits are refundable if a complaint is found to be justified.</p>
(c) The body follows processes for the submission and resolution of complaints that are clearly defined and publicly available.	Yes	<p>The process of filing complaints and resolving them is clearly defined in Section 50 of the PPA and Rule 103 of the PPR, and both documents are publicly available.</p>

⁸² According to the PPA's Section 47 (2), the application can only be made if the contract for the procurement in question has not been signed.

⁸³ The PPRC consists of a chair and two members, with specific qualifications required for each position.

Elements/ Requirements	Met (Yes/No)	Evidence Used/Comments
(d) The body exercises the authority to suspend the procurement process.	Yes	According to Sections 47 (6) and 50 (5) of the PPA, the chief of a procuring agency and the PPRC hold the power to suspend the procurement process.
(e) The body issues decisions within the time frame specified in the rules/regulations.	Yes	<p>Section 47 (6) of the PPA requires that the chief of a procuring agency provides a decision within five days of receipt of complaint. According to the sampled procuring agencies, no complaints were received during FY2022/23.</p> <p>According to Section 50(2) of the PPA, the PPRC is obliged to provide a decision within 30 days of a complaint being filed. According to the PPRC's annual report for 2021/22, it received 224 complaints and managed to issue decisions within the 30-day timeframe for 222 cases.</p>
(f) The body issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).	Yes	The decisions made by the PPRC hold authority over all parties involved. If the parties concerned are dissatisfied with the decision, they may choose to file a case in a higher court of law.

Note: PPA= Public Procurement Act; PPR= Public Procurement Regulation; PPRC= Public Procurement Review Committee.

The requirements for the functioning of the complaint resolution mechanism are met for five of the six elements in the case of government procurement agencies, including the EBU. Hence, the score for the dimension is a **B**.

PI-25. Internal controls on non-salary expenditures

What the indicator measures. It measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23.

Methodological Notes: For each dimension, the legal and regulatory framework was established. Published data were then used to assess the extent to which requirements were met for the specific scores. Source data and calculations for PI 25.3 are available in Table 2.70, 2.71 and 2.72

Table 2.69: Summary of Scores for PI-25 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-25. Internal controls on non-salary expenditures	B	Scoring Method M2.
25.1. Segregation of duties	C	Although the legal framework prescribes the segregation of duties throughout the expenditure process, the responsibilities are not yet clearly laid down at the level of the spending units.
25.2. Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist, but they provide only partial coverage. As such, they are partially effective because cash flow plans are not prepared by the spending units during the fiscal year.
25.3. Compliance with payment rules and procedures	A	All payments are compliant with the established payment procedures. There are no rules in place that allow for exceptions to the payment procedures.

Detailed description of the country PFM system for the assessed performance indicator. The Gandaki province has put in place various legal provisions through different act and regulations for effective public service delivery to ensure fiscal discipline. The FPFA Act and Regulation are enacted that sets out detail guidelines of all aspects of PFM, including budgeting, accounting, reporting and auditing. Ministries are required to establish effective internal control systems to ensure effective operation of the system for budgeting, accounting and reporting. Gandaki Province has followed the Internal Control Procedures, 2022 developed by the FCGO. The provincial ministries/offices are required to monitor the internal control system.

Recent or ongoing reform activities. Preparation of the SOP based on the Gandaki Province Government (Work Division) Regulation is ongoing. Also, as required by the FPFA Act's Section 8 (4), a cash flow plan to link expenditure commitment controls with the IPFMS (CGAS) is ongoing.

25.1. Segregation of duties

Performance level and evidence for scoring of the dimension. The Provincial Assembly and the provincial government have put in place various legal provisions through acts and regulations for effective public service delivery to ensure fiscal discipline. The provincial government has enacted the Gandaki Province Government (Work Division) Regulation (2023),⁸⁴ which has ministry-wise details of work division for seven ministries.

⁸⁴ <https://ocmcm.gandaki.gov.np/list/regulation>.

The FPFA Act and FPFA Regulation, as well as the Finance Management Act, set out detailed guidelines and procedures for all aspects of PFM, including budgeting, accounting, reporting, auditing, and scrutiny. The FPFA Regulation (Rule 69) defines the preparation of the internal control system to operationalize all PFM aspects, including economy, effectiveness, and efficiency. The system also the ability to mitigate risks.

The FPFA Act establishes a clear division of major responsibilities. The Accounts Officer (Secretary) and the Office in Charge (Office Chief) are responsible for authorizing expenses. The spending unit's Accounts Section is responsible for accounting, recording, reporting, and reconciliation. Asset custody is handled by the store section of the spending units. To assist spending units in formulating and executing budget expenditures, IT systems (including the PLMBIS, TSA, CGAS, PAMS, and RMIS) incorporate internal controls, such as segregated duties, roles, and responsibilities. The PPR (2007) prescribes the composition of procurement committees and the financial authority of officials to approve cost estimates and contract awards.

Even though laws and regulations clearly lay out most responsibilities, including for the segregation of duties, many provincial government offices have yet to develop standard operating procedures (SOPs). This is because the Gandaki Province Government (Work Division) Regulation was only introduced in 2023. In the absence of SOPs, the precise definition and allocation of responsibilities during the expenditure process are not available. Hence, the score for the dimension is a **C**.

25.2. Effectiveness of expenditure commitment controls

Performance level and evidence for scoring of the dimension. The FPFA Act and FPFA Regulation have established strict guidelines for controlling expenditure commitments. Section 11 of the Act and Rule 19 of the Regulation focus on commitment controls, as well as compliance and assurance arrangements. Rule 19 (2) mandates spending units to submit a consolidated report of commitments to the MoEA during budget negotiations. Additionally, Rules 19 (5), 19 (6), and 19 (7) provide spending units with guidance about reporting the committed amounts to the PFCO within three months of the end of the fiscal year.

In their budget proposal for the coming fiscal year, spending units can propose a budget for new programs only after allocating the budget for committed expenditures. The MoEA establishes norms for budget expenditures each fiscal year to prevent unauthorized commitments, for example, in the Unified Procedures for Budget and Program Implementation (2024).

The FMIS, which is integrated between the federal and provincial levels, has recently been enhanced with a commitment module. Since the start of FY2023/24, the provincial government's PFCO has used the TSA system, which is linked to the FMIS, to record commitments. Commitment data are automatically collected from spending units in this software. Recording is done to ensure that payment obligations are within the (revised) annual budget allocations, thereby avoiding expenditure arrears. The reported commitments for FY2023/24 amounted to NPR 935 million.

These controls ensure that the provincial government's payment obligations remain within annual budget allocations to avoid creating expenditure payment arrears. However, the provincial government does not prepare forecasts of projected cash availability; thus, the control procedures may only provide partial coverage and be partially effective. Hence, the score for the dimension is a **C**.

25.3. Compliance with payment rules and procedures

Performance level and evidence for scoring of the dimension. Several laws and regulations are in place, which outline the requirements and procedures for payments.⁸⁴ The laws enacted by the provincial government are in accordance with the authority provided by the Constitution's Article 213.⁸⁵ The implementation of the laws and regulations is supported by the IT systems.⁸⁶

Table 2.70 shows the overall results of the internal audits conducted by the PFCO during FY2022/23 in terms of identifying irregularities.⁸⁷

⁸⁵ This includes the FPFA Act, FPFA Regulation, Appropriation Act, Province Fiscal Management Act, and Unified Procedures for Budget and Program and Budget Formulation and Implementation.

⁸⁶ Article 213: 'Act relating to financial procedures: Matters relating to the transfer of moneys appropriated by the State Act from one head to another and other financial procedures shall be as provided for in the State Act.'

⁸⁷ This includes the PLMBIS (budget management, such as estimation, aggregation, distribution, and reallocation); the TSA (electronic fund transfers (EFTs)); the CGAS (expenditure management, such as bill preparation, approval, payment, and reconciliation); and PAMS (asset management).

Table 2.70: Irregularities Identified in the Internal Audit Reports, FY2022/23

Categories	Total Number of Audited Spending Units	Audited Expenditures (NPR, millions)	Irregularities Identified (NPR, millions)	Share (%)
Appropriation (excluding salary)	198	22,666	677	3.0
Deposit		533	2	0.4
Miscellaneous		892	19	2.2
Revenue		24,556	19	0.1

Source: PFCO, Provincial Internal Audit Report FY2022/23.

Note: Salary expenditures amounted to NPR 949 million have been deducted from the total audited expenditures.

The irregularities identified in the internal audit reports amounted to 1.4 percent of the audited non-salary expenditures in FY2022/23.

Table 2.71 shows the coverage and findings of the OAG as presented in the 5th Annual Report for Gandaki Province for FY2021/22.

Table 2.71: Irregularities identified in the external audit report for FY2021/22

Provincial Government	Audited Amount (appropriations, revenues, deposits, and other transactions) (NPR, millions)	Salary (NPR, millions)	Non-salary (NPR, millions)	Irregularities (non-salary) Identified (NPR, millions)	Share (%)
All Spending Units	37,045	949	36,096	494	1.4

Source: OAG's 5th Annual Report for Gandaki Province for FY2021/22.

The irregularities identified by the OAG amounted to 1.4 percent of the audited non-salary expenditures in FY2021/22.

The share of non-salary irregularities for the provincial government's five largest spending units, as identified by the OAG for FY2021/22, is shown in Table 2.72.

Table 2.72: Share of Irregularities Among Five Major Spending Units

Ministries	Audited Amount (NPR, millions)	Salary (NPR, millions)	Non-salary (NPR, millions)	Irregularities (non-salary) Identified (NPR, millions)	Share (%)
Ministry of Energy, Water Resources, and Irrigation	5,623	101	5,523	66	1.2
Ministry of Physical Infrastructure and Transport	10,145	108	10,037	255	2.6
Ministry of Social Development and Health	1,940	143	1,797	48	2.7
Ministry of Agriculture and Land Management	2,784	11	2,773	33	1.2
OCMCM	800	37	763	35	4.6
Total/average	21,293	400	20,893	438	2.1

Sources: OAG's 5th Annual Report for Gandaki Province for FY2021/22; PFCO's FMIS.

The irregularities identified by the OAG vary between 1.2 percent and 4.6 percent percent of the audited non-salary expenditures for the five spending units in FY2021/22, with an average of 2.1 percent.

There are no rules in place that allow for exceptions to the established payment procedures. The internal and external audits have identified less than 5 percent of the expenditures as non-compliant with the prescribed internal controls. Hence, the score for the dimension is an **A**.

PI-26. Internal audit

What the indicator measures. It assesses the standards and procedures applied in the internal audit.

Methodological notes. The information was collected from the PFCO and its district-level units for the assessment of this indicator. The information about audit plans and audit reports were collected from TSA system.

Table 2.73: Summary of scores for PI-26 and performance table

Indicator/Dimension	2024 Score	Justification for Score
PI-26. Internal audit	D+	Scoring method M1.
26.1. Coverage of internal audit	A	Internal audit is operational for all provincial government spending units and covers 100 percent of budgeted expenditures and budgeted revenues for FY2023/24.
26.2. Nature of audits and standards applied	D	Internal audit activities are primarily focused on legal and financial compliance. The provincial government has not formally adopted any internal audit standards.
26.3. Implementation of internal audits and reporting	A	Annual internal audit plans are prepared by the PFCO and its district-level units. All planned internal audits were completed as evidenced by the internal audit reports being distributed to the appropriate parties.
26.4. Response to internal audits	D	According to the FPFA Regulation, auditees are required to settle internal audit observations within the prescribed time frame and inform the PFCO/units. However, there is no requirement for the auditees to provide formal replies, and there is no evidence available that the auditees provided a response.

Detailed description of the country PFM system for the assessed performance indicator. The FPFA Act, Section 32, and FPFA Regulation, Rule 72, outline the provisions for the internal audit function. Section 32 mandates that internal audits assess the regularity, economy, efficiency, and effectiveness of office transactions. The internal audit system is under the PFCO. It is executed through its network, including its district units. The PFCO has created a separate Internal Audit Unit (IAU) to ensure that individuals involved in accounting do not conduct internal audits (Section 32(10)). Each PFCO Unit has a separate IAU responsible for conducting internal audits of the spending units under its jurisdiction. The district-level PFCO units have used federal government employees of the DTCOs as internal auditors to carry out internal audits of provincial government offices. The TSA system includes a separate internal audit module used for planning, reporting, and monitoring.

Recent or ongoing reform activities. On February 12, 2024, the provincial government introduced the Gandaki Province Internal Audit Procedure Directive, which incorporates various provisions aimed at improving internal audit procedures and reporting. Internal audit staff have been separated from accounting functions as mandated by the FPFA Regulations (Rule 71). An internal audit module was embedded in the TSA system to record internal audit plans and reports from FY2023/24.

26.1. Coverage of internal audit

Performance level and evidence for scoring of the dimension. An internal audit plan for FY2023/24 (at the time of this assessment) is in place for all 194 spending units, and is disseminated to internal auditors and recorded in the TSA module. Although the FPFA Act mandates internal audits to be carried out quarterly, in practice, it is mainly conducted annually, covering only receipts and expenses. For spending units where internal audit is done quarterly, reports are issued only annually. According to the FPFA Regulation (Rule 73(1)), internal audit observations need to be settled before the OAG's external audit commences, which is otherwise noted in the external audit reports. The internal audit of all provincial government offices is generally completed annually within two months from the end of the fiscal year.

The expenditure and revenue coverage of the internal audit in FY2023/24 (at the time of this assessment) is shown in Table 2.74.

Table 2.74: Expenditure Coverage of Internal Audit, FY2023/24

	Number of Spending Units	Budgeted Expenditures (NPR, millions)	Budgeted Revenues (NPR, millions)
Provincial Assembly	1	165	
Public Service Commission	1	123	
Office of the Attorney General	1	17	
Office of Chief Minister and Council of Ministers	2	1,191	
Ministry of Economic Affairs	13	5,272	33,427 ^a
Ministry of Industry, Tourism, Forest and Environment	29	1,606	
Ministry of Agriculture and Land Management	36	2,244	
Ministry of Physical Infrastructure Development and Transport Management	19	12,542	
Ministry of Energy, Water Resources and Water Supply	17	5,017	
Ministry of Social Development and Health	73	5,185	
Provincial Planning and Policy Commission	1	66	
Total	194	33,427	33,427
Provincial government's budgeted expenditures and budget revenues		33,427	33,427
<i>Share of budgeted expenditures subject to internal audit (%)</i>		<i>100.0</i>	<i>100.0</i>

Sources: Internal audit plan for FY2023/24; TSA/PFCO; and Budget Book FY2023/24.

Note a: Total revenue comprises grants (NPR 14,104 million); revenue sharing (NPR 9,454 million); own-source revenues (NPR 5,169 million); and reserves and borrowing (NPR 4,700 million).

The total budgets of the spending units covered by internal audit comprise 100 percent of the total budgeted expenditures and 100 percent of the budgeted revenues of the provincial government for FY2023/24. Hence, the score for the dimension is an **A**.

26.2. Nature of audits and standards applied

Performance level and evidence for scoring of the dimension. According to the FPFA Act and the Gandaki Province Internal Audit Directive (2024), internal audit should examine the regularity, economy, efficiency, and effectiveness of transactions. However, in practice, the current emphasis is primarily on ensuring legal and financial compliance by checking the accuracy of transactions based on supporting documents to confirm adherence to legal and financial provisions, as well as ensuring that revenues align with the amounts collected and deposited in the Treasury.

Until February 2024, internal audit was based on the FCGO's guidance. However, it now applies the directive adopted in February 2024. As it does not include internal audit standards, the provincial government reviewed and utilized the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) and the FCGO's guidance. Hence, although no internal audit standards are in place, the requirements of standards were considered for planning, execution, reporting, and follow-up. There is no quality assurance process in place.

The provincial government has not formally adopted any internal audit standards. Hence, the score for the dimension is a **D**.

26.3. Implementation of internal audits and reporting

Performance level and evidence for scoring of the dimension. The internal audit plan for FY2022/23 comprised 198 spending units. The PFCO oversees implementation based on the district-level units submitting their annual internal audit reports. The internal audit reports for all entities audited are recorded in the TSA module and printed copies are submitted to the audited entities, with copies to the PFCO and the OAG. The FPFA Act's Section 32 (11) requires the PFCO to submit a consolidated internal audit report to the Minister of Economic Affairs within four months of fiscal year-end (that is, by November 16). The FY2022/23 report was submitted on November 5, 2023, and published on the PFCO website. The report summarizes internal audit coverage and activities (evidencing that all planned 198 internal audits were conducted), as well as key issues identified and observations (mainly on irregularities) for each office. Similarly, Rule 72 (9) of the FPFA Regulations requires the PFCO to submit the annual internal audit report of the province to the FCGO by mid-October of the following fiscal year.

The coverage of the internal audit plan for FY2022/23 is shown in Table 2.75.

Table 2.75: Completion of Planned Internal Audits, FY2022/23

Government Agency/Ministry	Planned Internal Audits	Completed Internal Audits
Provincial Assembly	1	1
Public Service Commission	1	1
Office of the Attorney General	1	1
Office of Chief Minister and Council of Ministers	2	2
Ministry of Economic Affairs	12	12
Ministry of Industry, Tourism, Forest and Environment	32	32
Ministry of Agriculture and Land Management	35	35
Ministry of Physical Infrastructure Development and Transport Management	19	19
Ministry of Energy, Water Resources and Water Supply	17	17
Ministry of Social Development and Health	77	77
Provincial Planning and Policy Commission	1	1
Total	198	198
<i>Completion rate (%)</i>	<i>100.0</i>	

Sources: Internal audit plan for FY2023/24; TSA/PFCO; and Budget FY2023/24 (Red Book).

The PFCO's consolidated internal audit report for FY2022/23 shows that a total of 198 government offices with a budget expenditure of NPR 23,615 million were audited by the PFCO and its district-level units. In addition, the PFCO conducted internal audits of federal government units, where provincial program budgets have been allocated to and spent by 11 District Coordination Committees, 15 Land Registration Offices, 1 Gandaki Province Police Office, and 26 local levels. The EBU's are subject to internal audit for the government grants they receive. They have their internal audit mechanisms in place, guided by their respective laws.

The assessment team reviewed the FY2022/23 internal audit plans for the PFCOs for Kaski (69), Baglung (17), Gorkha (18), Lamjung (13), and Syangja (19), which were completed under their jurisdiction. They also reviewed the reports submitted through the TSA module (OAG Form No. 4408), along with printed copies of the reports for two districts (Kaski and Baglung). The internal audit plans consisted solely of scheduled audits and did not

encompass risk assessment or planned audit procedures. The Internal Audit Directive was used, and a separate checklist was prepared as a guide for the internal audit. The internal audit reports for all audited entities were recorded in the TSA module, and printed copies were submitted to the audited entities with copies to the PFCO and the OAG.

Internal audit completed all planned audits for FY2022/23. Hence, the score for the dimension is an **A**.

26.4. Response to internal audits

Performance level and evidence for scoring of the dimension. According to FPFA Regulation Rule 73 (1), auditees are required to settle and/or regularize quarterly internal audit observations before the end of the following quarter, and before the commencement of the OAG's external audit in case of annual internal audit observations. The PFCO and the superior office shall be notified about them, including evidence of settlement/regularization. Internal audit observations that are not settled shall be forwarded to the superior office for settlement. According to the FPFA Act, Section 32 (8), before the OAG's external audit commences, the Accounts Responsible Officer shall settle the internal audit observation and submit the internal audit report to the OAG. The internal audit observations and recommendations may be included in the OAG's external audit report.

There is no requirement for auditees to provide a formal response to the internal audit reports, and there is no evidence available that the auditees provided a response. Hence, the score for the dimension is a **D**.



PILLAR ONE:
Budget Reliability



PILLAR TWO:
Transparency of Public Finances



PILLAR THREE:
Management of Assets and Liabilities



PILLAR FOUR:
Policy-based Fiscal Strategy and
Budgeting



PILLAR FIVE:
Predictability and Control in Budget
Execution



PILLAR SIX:
Accounting and Reporting



PILLAR SEVEN:
External Scrutiny and Audit



PILLAR SIX:
Accounting
and Reporting

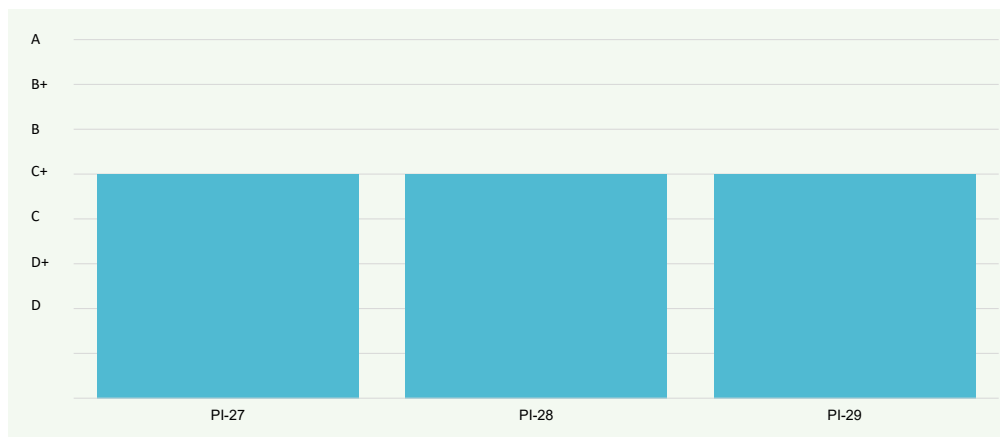
► PILLAR VI: Accounting and Reporting

What the pillar measures. Pillar VI assesses the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Overall performance Analysis of key strengths and weaknesses. Overall, the performance of the three PIs under Pillar VI is at a basic level (averaging a 'C+'). This is the result of several dimensions characterized by high performance including bank account reconciliation (PI-27.1); the financial data integrity processes (PI-27.4); the timing of in-year budget reports (PI-28.2); and the submission of reports for external audit (PI-29.2). However, others have a low performance including the advance account (PI-27.3); the coverage and comparability of reports (PI-28.1); and the accuracy of in-year budget reports (PI-28.3).

Interdependence is seen between PI-28.1 (coverage and comparability of reports) and PI-4 (budget classification), which both have high scores, and similarly between PI-28.2 (timing of in-year budget reports) and Element 3 of PI-9A (in-year budget execution reports). There are also links between PI-29 (annual financial statements) and PI-30.1 (audit coverage), PI-30.2 (submission of audit reports to the legislature), PI-31.1 (timing of audit report scrutiny), and PI-31.2 (hearings on audit findings).

Figure 2.7: Indicator Scores under Pillar VI



PI-27. Financial data integrity

What the indicator measures. It assesses the extent to which the treasury bank accounts, the suspense accounts, and the advance accounts used by an SNG are regularly reconciled, as well as how the processes in place support the integrity of financial data.

Methodological notes. PI-27.1 has been assessed based on a sample comprising three of the eleven PFCO units, that is, 27 percent of the total.

Table 2.76: Summary of Scores for PI-27 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-27. Financial data integrity	C+	Scoring method M2.
27.1. Bank account reconciliation	B	Bank reconciliation for all active provincial government bank accounts takes place at least monthly, usually within four weeks from the end of the month.
27.2. Suspense accounts	NA	There is no provision for suspense accounts in the provincial government's accounting system.
27.3. Advance accounts	D	Reconciliation of advance accounts takes place at least monthly and within a month from the end of each month. Most advance accounts are not cleared on a timely basis.
27.4. Financial data integrity processes	B	Access and changes to records are restricted and recorded, and this results in an audit trail. Different PFCO units are responsible for prioritizing data security and integrity. However, there is currently no separate report available to confirm the verification of data integrity by these units.

Detailed description of the country PFM system for the assessed performance indicator. The provincial government uses the cash basis of accounting to record all transactions at the time of payment or receipt. Expenditures, deposits, and other operating fund transactions are recorded through the CGAS, whereas revenue transactions are accounted for and reported using the RMIS. The PFCO units make payments through the EFT module in the TSA system based on payment recommendations from the spending units, which are linked with the PLMBIS and CGAS. The IPFMS integrates different systems to generate various financial reports.

The TSA process and procedures are outlined in a TSA directive (2016) issued by the FCGO, which is also used at the province level. The opening, operation, reconciliation, and reporting of bank accounts are governed by the NRB's Government Transaction Directive (2019). The provincial government uses the federal-level Accounting Manual (2016) for accounting policies, principles, procedures, and processes for financial transactions.

Recent or ongoing reform activities. The federal government has amended the FPFA Act (2019) through the Financial Procedure and Fiscal Accountability (First Amendment) Ordinance (2024) and is reviewing directives with the aim of enhancing practices and controls for PFM and financial data integrity. An upgrade to the Integrated Financial Management Information System has been initiated to achieve improvements in reconciliation (banks, payments, revenue, advances, and so on) and reporting. Also, a commitment management system has been implemented that aligns advances and payments. Furthermore, system security and controls have been updated to ensure financial data integrity.

27.1. Bank account reconciliation

Performance level and evidence for scoring of the dimension. The provincial government uses a TSA, which is a combination of government bank accounts, to enable the consolidation and utilization of provincial government cash resources. These accounts have been established following the Government Transaction Directive (2019), which also requires periodic reconciliation of all accounts.

The provincial government's revenue and expenditure transactions are reconciled daily based on daily transaction listings sent by the banks to the PFCO, along with the nature of transactions (expenditures, revenues, or deposits). This is checked by the PFCO (and its units at the district level) and reconciled at 'day close'. Based on a sample,⁸⁸ two PFCO units have not been regularly performing daily reconciliation 'day close' actions since September 2023. To reconcile spending accounts, the TSA system is used. Each PFCO Unit is supposed to reconcile the daily payment instructions supplied through electronic cash transfers with bank statements.

The RMIS reports are used to manage the daily reconciliation of revenue accounts (KHA-1.1) maintained with four banks. At the end of the day, each bank sends the collected revenues together with the RMIS report to the NRB, which then credits the provincial government account. The NRB should transmit a daily revenue collection report from the RMIS to the PFCO, although this is not done. In the case of the Deposit Account, maintained with commercial banks, the reconciliation is done daily.

Table 2.77 outlines the provincial government accounts that are part of the TSA (for revenues and expenditures).⁸⁹

⁸⁸ The sample comprises three of the eleven PFCO units, that is, 27 percent of the total. At the end of FY2022/23, the Deposit Account balances of two PFCO units amounted to NPR 213 million out of NPR 1,530 million (14 percent), and the Miscellaneous Account balances for the two PFCO units amounted to NPR 76 million out of NPR 802 million (9 percent).

⁸⁹ Refer to Table 2.11 for the materiality of the transactions in each group of accounts.

Table 2.77: Provincial Government Bank Accounts

Group of Account Numbers	Group of Account Titles	Operator	Reconciliation Frequency
KHA-1.1	Provincial government revenues, grants, and other receipt accounts are maintained with the NRB.	PFCO	Monthly ^a
KHA-1.1	Provincial government revenue accounts are maintained with commercial banks at the district level.	PFCO	Daily
KHA-1.2	Financial Receipt Account. There are four separate accounts for receipts of foreign and domestic loans, the refund of loan (principal) account, and sale of shares account recorded in this account. The funds are transferred to the expenditure account to incur expenditures.	PFCO	n.a. (not in use as there are no loans and investments in shares)
KHA-1.3	Provincial government release (expenditure) account is maintained with the NRB (for release of budget expenditures).	PFCO	Monthly
KHA-1.4	Provincial Government Adjustment Account is maintained with the NRB.	PFCO	Annual, as this account is operated only once a year
KHA-2.1/2.2	Budget expenditure account is maintained with commercial banks and used for payment of expenditures by district-level units of the PFCO.	PFCO Units	Daily
KHA-2.3	Deposit account used for recording deposit receipts and payments. It is maintained at commercial banks.	PFCO Units	Daily
KHA-2.4/2.5	Special account (loans and grants) is maintained at the NRB for recording the special nature of loans and grants, if any.	PFCO	n.a. (not in use, as there are no such grants and loans)
KHA-2.6	Miscellaneous account is maintained at commercial banks for deposits and payments, other than the above (specific).	PFCO Units	Daily
KHA-3.1	Provincial Contingency Fund Account, used for any contingency payments, is maintained at the NRB.	PFCO	Annual (whenever there is a transaction)

Group of Account Numbers	Group of Account Titles	Operator	Reconciliation Frequency
KHA-4.1	Provincial Divisible Fund Account is maintained at the NRB. The provincial revenue share (which is divisible between the provincial and local levels) is deposited in this account. Monthly revenues are reconciled and transferred to the Revenue Account (KHA-1.1).	PFCO	Monthly
KHA-4.2	Local-level Divisible Fund Account is maintained at the NRB, and the revenue divisible between local levels is deposited in this account until it is remitted to the local levels on a monthly basis (within subsequent months).	PFCO	Monthly

Sources: *Government Transaction Directives*. Kathmandu (NRB, 2019); PFCO. *Integrated Annual Financial Statement FY2022/23*. (Pokhara, PFCO 2023).

Note: a. According to the FCGO, the KHA-1.1 accounts are reconciled on a daily basis, but it has not been possible to verify this. NRB= Nepal Rastra Bank; PFCO= Provincial Financial Comptroller Office.

EBUs: According to the EBUs' financial regulations, it is mandatory to conduct monthly bank reconciliations, which are subject to review during internal and external audits. To assess the consistency of bank reconciliation, four EBU⁹⁰ of the twenty were selected for review. However, it was found that monthly reconciliations had not been prepared. The assessors also scrutinized the internal and external audit reports of these EBU and found such noncompliance with bank reconciliation preparation.

The implementation of the TSA system and the Government Transaction Directive requires periodic bank reconciliations, which are facilitated by the information systems. The PFCO oversees this process through centralized monitoring and reporting, ensuring that the reconciliations are completed within the specified timelines.

The provincial government's main bank accounts maintained with the NRB are reconciled monthly. The deposit bank accounts and accounts maintained by the EBU constitute less than 10 percent of the balances, which have not been reconciled monthly. Thus, all bank accounts are reconciled at least monthly within four weeks of the close of the month. Hence, the score for the dimension is a **B**.

⁹⁰ These include the Gandaki University, Gajendra Mokshya Dham, Gorkha District Hospital, and Tanahun District Hospital.

27.2. Suspense account

Performance level and evidence for scoring of the dimension. The FPFA Act and the FPFA Regulation do not provide for the establishment of suspense accounts. This is also not included in the CoAs. Hence, the government's accounting system does not have suspense accounts. The government makes expenditures through the TSA system and collects revenue through the RMIS. All types of receipts collected by the RMIS are directly deposited in government revenue accounts. Any errors in revenue classification and accounting found during reconciliation can be adjusted by the PFCO units within the system.

The provincial government's accounting system has no provision for a suspense account. Hence, the score for the dimension is **NA**.

27.3. Advance account

Performance level and evidence for scoring of the dimension. Provincial government employees and spending units can request an advance by submitting an application that outlines the required amount and purpose to the relevant spending unit. This follows the FPFA Regulation Rule 47(1) and the PPA's Section 52A. The PPR does not have specific provisions relating to advances. There are clear rules for approving, recording, and settling advances. In accordance with the FPFA Regulations (Rules 41–47), advances are settled within 7 days, 15 days, and 21 days depending on the nature of the advances. The FPFA Regulation, Rule 47 (5), and PPR, Rule 113, mandate the concerned entity to settle the advance within the prescribed period based on the report and supporting documents submitted by the advance recipient. All spending units are required to submit monthly advance statements to the PFCO and reconcile them. The FPFA Regulation's Rule 46(4) states that unsettled advances shall be included in internal and external audit reports. The OAG has created forms (207 and 211) for the advance account and monthly statements of outstanding advances, which are reconciled monthly and audited by both the internal auditor (PFCO) and the external auditor (OAG). The CFS provides an overview of both matured (overdue) and not overdue outstanding advance amounts. The advances released and settled within the same fiscal year are not included in the report. The advances categorized by maturity/due can be found in Table 2.78, as follows:

Table 2.78: Outstanding Mature and Immature Advances during the Last Three Fiscal Years

	FY2020/21		FY2021/22		FY2022/23	
	Amount (NPR, millions)	Share (%)	Amount (NPR, millions)	Share (%)	Amount (NPR, millions)	Share (%)
Outstanding matured (overdue) advances of the year	448	46.2	262	35.4	621	64.7
Outstanding regular (not overdue) advances of the year	521	53.8	478	64.6	339	35.3
Total	969	100.0	741	100.0	961	100.0

Source: FMIS Report/PFCO.

The total consolidated advances outstanding at the end of FY2022/23 were NPR 2,076 million. It is noted that accumulated data of matured (overdue) advances and regular advances are not available annually; instead, they are maintained for annual advance transactions only. Of the total advances provided and outstanding in FY2022/23, of the NPR 961 million, NPR 621 million (64.7 percent) was overdue.

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

The OAG's 6th Annual Report for the Gandaki Province for FY2022/23 reported outstanding advances of NPR 734 million, of which NPR 610 million has been carried forward from previous years. The PFCO's internal audit report of FY2022/23 reported overdue advances of NPR 632 million, and advances have not been settled within the prescribed time.

Regular monthly reconciliations of outstanding advances, along with verification from internal and external audits, ensure accurate recording and reporting; however, delays have been noted where 64.7 percent of advances for FY2022/23 have been overdue and not cleared. Hence, the score for the dimension is a **D**.

27.4. Financial data integrity processes

Performance level and evidence for scoring of the dimension. Section 58 of the FPFA Act outlines the use of IT systems with the approval of the FCGO. According to the FPFA Act (Section 62), the FCGO shall develop and use an IT system for the recording and management of budget and accounting. Various IT systems have been developed and

provided by the federal government for provincial-level budgeting (PLMBIS); accounting (IPFMS); revenue collection (RMIS); asset management (PAMS); and reporting (MFMS/FMIS, and so on). Payroll is also managed by the CGAS/IPFMS. The FCGO has provided all support related to IT systems, including storage of hardware/server and software without any cost to the provinces.

The systems have not yet been certified for security using an international framework, such as the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). However, they do contain adequate controls to maintain the integrity of the financial data. Based on an independent review in 2021,⁹¹ the FCGO has incorporated additional authentication and access controls in various information systems. The Oracle Audit Vault and Database Firewall have been implemented to ensure that access and changes to records are restricted and recorded, thereby resulting in an audit trail.⁹² All logs are maintained at the database level, and the Secure Sockets Layer certificate encryption has been applied. Integrated operating manuals, such as SOPs, are yet to be introduced for the users of the various systems to address both operational guidelines, as well as system security and integrity-related matters.

The FCGO has dedicated sections that prioritize the maintenance of data security and integrity. The System Development and Fund Management Section is responsible for designing the business process and leading the development of information systems. The IT Section ensures the regular application and data backup, including strong security measures for these systems. Monitoring of the system and support services is provided through 'service desk' applications.

The Treasury Administration and Budget Implementation Section of the PFCO prepares the CFS by reconciling and verifying all provincial government transactions of the PFCO units at the 11 districts, province-level ministries, and directorates/agencies. However, evidence to confirm the verification of data integrity is not available in the province.

⁹¹ Review and Recommendation for the Replacement of Old Servers and Establishment of Disaster Recovery Center.

⁹² According to the FCGO, an audit trail is enabled at the database level to track whether any changes are initiated (including at the database level). An application access log is maintained through the syslog server. FortiAnalyzer records all traffic traversing from public and local networks with security features enabled, such as Antivirus, Web Filter, Application filter, Web Application Firewall (WAF), Digital Network Solution (DNS) filter, Intrusion Prevention System (IPS), and Email filter. Furthermore, only authorized users can access the database. Real-time replication of the database is maintained using Active Data Guard. An automatic recovery manager (RMAN) backup is configured for daily backup, which is then sent to two different locations (disaster recovery site, as well as where the automatic restore process is performed) to remediate any storage-level failure. Furthermore, daily offline backup is copied to an external drive.

The GoN has taken steps to improve and update the IT systems to guarantee data security and an audit trail. As explained by the PFCO, there are adequate measures in place to limit access and changes to the records. The system enables the logging of any modifications to the records and offers an audit trail of the access and changes. Hence, the score for the dimension is a **B**.

PI-28. In-year budget reports

What the indicator measures. It assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

Methodological notes. The monthly budget execution reports generated by spending unit were evaluated for this indicator and corroborated with a few internal audit reports.

Table 2.79: Summary of Scores for PI-28 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-28. In-year budget reports	C+	Scoring method M1.
28.1. Coverage and comparability of reports	C	The in-year budget execution reports allow for direct comparisons to the original budget for administrative and economic headings. The EBU's expenditures are not included.
28.2. Timing of in-year budget reports	A	Spending units prepare and submit monthly budget execution reports to their superior offices within seven days of the close of the month.
28.3. Accuracy of in-year budget reports	C	There are no material concerns about the accuracy of data presented in the in-year budget reports, but expenditures stated in the reports are limited to the payment stage.

Detailed description of the country PFM system for the assessed performance indicator. Under FPFA Regulation Rules 64 and 32, spending units must submit monthly statements of revenues, expenditures, advances, retentions, assets, and liabilities, and quarterly progress reports (Annex 2 format) to their superior ministry and the PFCO. These reports align with the original budget and program, enabling ministries to assess subordinate offices and take necessary actions. In-year budget execution reports are generated through TSA, RMIS, and CGAS but are not consolidated at the provincial level.

The MoEA publishes daily treasury positions and quarterly revenue and expenditure reports on its website. These quarterly reports detail income (own-source and transfers), expenditures (recurrent, capital, financing), and compare figures to the original budget. They include all transfers from the GoN and to local governments, and are posted within a week after each quarter ends. As required by FPFA Regulation Rule 33(5), the MoEA also publishes a semiannual review covering income and expenditure by administrative and economic subheadings, sources of financing, and ministry-wise virements. However, it excludes functional expenditure outturns. The EBU are the deconcentrated units of the provincial governments, and transfers to the EBU are included in the reports as expenditures. However, the actual expenditures of the EBU are not captured.

Recent or ongoing reform activities. The MoEA's website now discloses the monthly budgetary status against the target, including for expenditures. These include a breakdown of recurrent, capital, and financing, as well as receipts with a breakdown of sources of funds.

28.1. Coverage and comparability of reports

Performance level and evidence for scoring of the dimension. Daily budget execution is done through the CGAS and the TSA system. The FMIS enables the generation of budget execution data in line with budget allocations. The RMIS then captures the revenue data.

The in-year budget execution reports allow for a direct comparison to the original budget for administrative and economic headings. Expenditures made from the transfers to the deconcentrated units (EBU) are not captured. Hence, the score for the dimension is a **C**.

28.2. Timing of in-year budget reports

Performance level and evidence for scoring of the dimension. As noted, the MoEA uploads the daily treasury position, as well as the quarterly revenue receipts and expenditures on its website.

The monthly reports prepared by the spending units must be submitted to the superior office within seven days of the end of each month (FPFA Regulation's Rule 64). The quarterly reports are submitted to the superior office after the end of each quarter (no specified deadline). The spending units' monthly and quarterly reports are not published.

⁹³ <https://mof.gandaki.gov.np/>; https://mof.gandaki.gov.np/media/publication/files/सवत_परकशन__२०८०_करतक-पष_yn7Qr2K.pdf.

⁹⁴ <https://mof.gandaki.gov.np/publication/proactive-disclosure>.

⁹⁵ https://mof.gandaki.gov.np/media/publication/files/%E0%A4%85%E0%A4%B0%E0%A4%A7_%E0%A4%B5%E0%A4%B0%E0%A4%B7%E0%A4%95_%E0%A4%AC%E0%A4%9C%E0%A4%9F_%E0%A4%B8%E0%A4%AE%E0%A4%95%E0%A4%B7_%E0%A5%A8%E0%A5%A6%E0%A5%AD%E0%A5%AF%E0%A5%AE%E0%A5%A6_.pdf.

The quarterly reports prepared by the MoEA are uploaded on its website within one week of the quarter-end.⁹⁶ The Semi-Annual Evaluation Report of the Budget FY2022/23, covering mid-July 2022 to mid-January 2023, was published in the month of Magh 2079 (January–February 2023).⁹⁷

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

28.3. Accuracy of in-year budget reports

Performance level and evidence for scoring of the dimension. Before authorizing payments, the PFCO reviews the payment advice received from the spending units. Likewise, the PFCO reconciles revenue receipts recorded daily. This framework indicates that the system is designed to ensure the accuracy of financial transactions and, ultimately, the financial records, including reports. According to Rule 64 of the FPFA Regulation, spending units are required to provide a monthly statement of expenditure to the respective superior office only after verifying it with the PFCO. This also shows the focus on ensuring the reliability of financial data.

In the last completed fiscal years (FY2022/23), the expenditures were only captured at the payment stage and accordingly reported in the monthly budget execution reports of the spending units. Also, the monthly budget execution reports prepared by the spending units were not accompanied by analysis and commentary about budget execution.

The MoEA's Semi-Annual Evaluation Report of Budget for FY2022/23 provides revised estimates for the current fiscal year regarding revenue collection for the main categories and expenditure allocations (recurrent, capital, and financing). It also includes the basis for the revised estimates. Additionally, the ministry-/entity-wise main achievements are stated briefly in the report. Finally, the report provides a detailed analysis of the provincial government's budget execution in accordance with Rule 33(5) of the FPFA Regulation.

There are no material concerns about the accuracy of the data presented in the in-year budget reports. However, expenditures as stated in the reports are limited to the payment stage, with no accompanying analysis or commentary regarding the implementation of the budget. Hence, the score for the dimension is a **C**.

⁹⁶ <https://mof.gandaki.gov.np/publication/proactive-disclosure/> परकशेन_२०८०_करतक-पष_yn7Qr2K.pdf.

⁹⁷ <https://mof.gandaki.gov.np/publication/periodic-reports/>.

PI-29. Annual financial reports

What the indicator measures. It assesses the extent to which annual financial reports are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for the accountability and transparency in the PFM system.

Methodological notes. The annual financial statement prepared by the PFCO and audited by OAG were used for the evaluation of this indicator.

Table 2.80: Summary of Scores for PI-29 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-29. Annual financial reports	C+	Scoring method M1.
29.1. Completeness of annual financial reports	C	The Consolidated Financial Statement (CFS) are prepared annually and allow for comparison between the original approved budget and actual expenditures. The CFS for FY2022/23 include information about revenues, expenditures, financial assets, financial liabilities, retentions, the status of consolidated funds, and intergovernmental fiscal transfers.
29.2. Submission of reports for external audit	B	The CFS for FY2022/23 were submitted for audit approximately 3.5 months after the fiscal year-end.
29.3. Accounting standards	B	The applied accounting standards are consistent with the legal framework and ensure consistency of reporting over time. The standards and limitations were disclosed in the notes to the CFS for the last three fiscal years. However, the formats and classification were prepared following the Nepal Public Sector Accounting Standards (NPSAS) standards from FY2022/23, which align with the cash basis International Public Sector Accounting Standards (IPSAS).

Detailed description of the country PFM system for the assessed performance indicator. Rule 64 (3) of the FPFA Regulation requires all accountable persons of spending units to submit annual financial reports (including statements of appropriations, revenues, retentions, outstanding advances, outstanding payments, other funds, assets, and liabilities) to their superior office within 21 days of the fiscal year-end. The reports must be certified by the PFCO/PFCO Unit at the district level, before submission to the superior office.

According to Rule 65 (3) of the FPFA Regulation, an accountable officer of a ministry/central office is required to prepare the central account and financial statement of income and expenditure of own and subordinated offices and submit it to the PFCO by mid-September.

Based on these reports, the PFCO prepares the CFS and submits them to the FCGO and the OAG during the month of October.

Each spending unit prepares an annual report of all transactions made in the fiscal year covering all cash, inventory, and other income and expenditure in the specified format (Schedule 6). It then submits it to the PFCO within 45 days after the fiscal year-end. The PFCO verifies it with its own records and sends it to the superior office of the respective unit, the central office, and the FCGO, including with suggestions and comments, if any, within one month (Rule 66).

Rule 67 (6) of the FPFA Regulation requires central offices to prepare and submit an annual report of assets and liabilities (covering the central office and subordinate units) to the PFCO by mid-October.

The CFS prepared by the PFCO includes a budget execution report and the financial statements of the provincial government. An annual budget evaluation report is also prepared and made available to the public.⁹⁸

Recent or ongoing reform activities. The PFCO currently works on improving the availability of data from the PAMS and the RMIS for more reliable and comprehensive reporting.

29.1. Completeness of annual financial reports

Performance level and evidence for scoring of the dimension. According to Section 28 (1) of the FPFA Act, the PFCO is responsible for submitting the annual CFS to the OAG. The CFS for FY2022/23 were submitted to the OAG and published on November 5, 2023,⁹⁹ that is, approximately 3.5 months after the fiscal year-end. The CFS contains information about revenues, expenditures, financial assets, financial liabilities, retentions, status of consolidated funds, and intergovernmental fiscal transfers. Information about guarantees, long-term obligations, assets, and liabilities are not included. The CFS also includes cash balances, but it does not include a reconciled cash flow statement, which would allow for a direct comparison between the approved original budget, revised budget, and actual expenditures categorized by administrative, economic, and functional classifications.

⁹⁸ https://mof.gandaki.gov.np/media/publication/files/Budget_ko_Barsik_Mulyankan_2080-07-24_final_Cover_Added.pdf.

Table 2.81 summarizes the information included in the CFS for FY2022/23.

Table 2.81: CFS for FY2022/23

Consolidated Financial Statement (CFS)	Date Annual Report Submitted for External Audit	Content of Annual Financial Report			Reconciled Cash Flow Statement (Yes/No)
		Expenditures and Revenues by Economic Classification (Yes/No)	Financial and Non-financial Assets and Liabilities (Fully/Partially/Not)	Guarantees and Long-term Obligations (Yes/No)	
FY2022/23	November 5, 2023	Yes	Partially	No	No

Annual financial reports of the budgetary units allow for direct comparison with the approved budget. They include information about revenues, expenditures, and cash balances. Hence, the score for the dimension is a **C**.

29.2. Submission of reports for external audit

Performance level and evidence for scoring of the dimension. All spending units of the provincial government prepare financial statements that are certified by the PFCO, or the PFCO Unit at the district level, which are then submitted to the OAG each year. The PFCO consolidates the CFS and submits them to the OAG. The details of the last CFS submitted by the PFCO to the OAG for audit are included in table 2.82.

Table 2.82: Submission of CFS for FY2022/23

Fiscal Year	Report	Fiscal Year-end date	Date of Submission to the OAG	Number of Months
2022/23	CFS	July 16, 2023	November 5, 2023	3 months and 20 days

The financial statements of the provincial government are submitted for external audit within six months of the end of the fiscal year. Hence, the score for the dimension is a **B**.

⁹⁹ <https://pfco.gandaki.gov.np/%e0%a4%85%e0%a4%a8%e0%a5%8d%e0%a4%af/>.

29.3. Accounting standards

Performance level and evidence for scoring of the dimension. The provincial government's CFS for FY2020/21, FY2021/22, and FY2022/23 were prepared based on the FPFA Act and Rule 49 (1) of the FPFA Regulation in accordance with the cash-based double-entry bookkeeping system.

The provincial government applies accounting formats, as well as economic codes and classifications, according to the requirements stated in the Integrated Economic Code, Classification and Explanation (2017) approved by the OAG on May 29, 2019,¹⁰⁰ which helps ensure consistency of reporting over time. The formats and classification were prepared in line with the NPSAS, which aligns with the cash-basis International Public Sector Accounting Standards (IPSAS). The NPSAS based formats are applicable from FY 2022/23. The Secretary of the MoEA specifies in the CFS that they are prepared based on the NPSAS and in accordance with the legal framework. The data is complete and reliable. However, the CFS does not consolidate the EBU, as required by Section 1.6 of NPSAS. The EBU's revenues and expenditures constituted less than 10 percent of the total revenues and expenditures of the provincial government.

The provincial government's financial statements are prepared applying accounting standards consistent with the country's legal framework. The standards used in preparing financial statements are disclosed. Hence, the score for the dimension is a **B**.

¹⁰⁰ https://www.fcgo.gov.np/storage/uploads/publications/20201111093022_COA_book_edited_compressed.pdf.



PILLAR ONE:
Budget Reliability



PILLAR TWO:
Transparency of Public Finances



PILLAR THREE:
Management of Assets and Liabilities



PILLAR FOUR:
Policy-based Fiscal Strategy and
Budgeting



PILLAR FIVE:
Predictability and Control in Budget
Execution



PILLAR SIX:
Accounting and Reporting



PILLAR SEVEN:
External Scrutiny and Audit



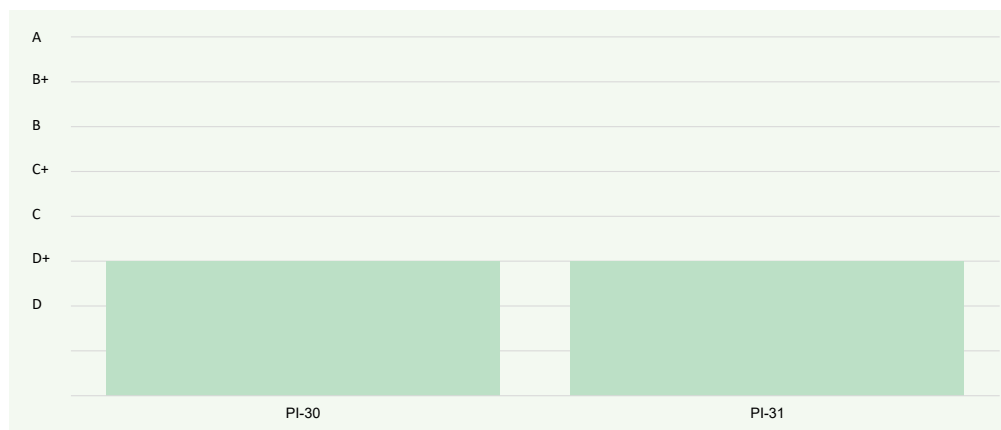
PILLAR SEVEN:
External
Scrutiny and
Audit

» PILLAR VII: External Scrutiny and Audit

What the pillar measures. Pillar VII assesses whether public finances are independently reviewed and whether there is external follow-up regarding the implementation of recommendations for improvement by the executive.

Overall performance. The performance of PI-30 and PI-31 is shown below in figure 2.8.

Figure 2.8: Indicator Scores under Pillar VII



The performance of PI-30 and PI-31 under Pillar VII is among the lowest of the eight pillars of the PEFA PFM Assessment (averaging a 'D+'). The audit coverage (PI-30.1), independence of the public audit institution in charge of subnational governments (PI-30.4), timing of audit report scrutiny (PI 31.1) and hearing on audit findings (PI 31.2) perform well. However, other dimensions of these indicators remain below a basic level of performance.

Interdependence between PI-30 and PI-31 includes PI-29, PI-9 Element 5 (audited annual financial report, incorporating or accompanied by the external auditor's report), and PI-9 Element 7 (other external audit reports).

PI-30. External audit

What the indicator measures. It examines the characteristics of external audit.

Methodological notes. The information was collected from OAG and corroborated with a few line ministries and audited entities. Information were also collected from the Office of the Province Chief, OCMCM, Provincial Assembly and PAC.

Table 2.83: Summary of Scores for PI-30 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-30. External audit	D+	Scoring method M1.
30.1. Audit coverage	A	The OAG has audited the provincial government's CFS, as well as the financial statements of the EBUs, for the last three fiscal years. The audit reports highlight relevant material issues, as well as systemic and control risks.
30.2. Submission of audit reports to the subnational government	D	The audit reports for the last three fiscal years were submitted to the Provincial Assembly about 20.8 months, 8.8 months, and 8.3 months after receipt of the financial statements by the OAG for FY2020/21, FY2021/22, and FY2022/23, respectively.
30.3. External audit follow-up	D	Formal responses concerning the OAG's audit findings were provided by about 70 percent of the auditees for FY2020/21 and FY2021/22, and for about 18 percent only for FY2022/23.
30.4. Independence of the public audit institution in charge of subnational governments	C	The OAG operates independently from the executive with respect to the procedures for the appointment and removal of its Head and the execution of its budget. It has unrestricted and timely access to most of the requested records, documentation, and information.

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

The OAG is Nepal's Supreme Audit Institution (SAI). It is mandated by the Constitution (Article 241) and the Audit Act 2019 (Section 3) to conduct audits of the annual financial statements of all entities comprising the three tiers of government. It is headed by the Auditor General who has functional independence guaranteed by the Constitution. The Auditor General develops an annual audit plan and calendar, which is communicated to all auditees through the Principal Secretary of the provincial government. Audits are conducted following the Nepal Government Auditing Standards (NGAS), which are based on the International Standards of Supreme Audit Institutions. The OAG has developed audit guidelines and manuals to assist auditors in conducting effective and quality audits. The Nepal Audit Management System (NAMS) has been used since FY2020/21 to streamline the audit process and help ensure timely auditing, reporting, and follow-up.

Recent or ongoing reform activities. Efforts to enhance the quality of audits include using IT to improve the audit process from planning and reporting to follow-up, updating guidelines and standards, strengthening performance audit functions, and promoting citizen involvement through Citizen Participatory Audits (CPAs).

30.1. Audit coverage

Performance level and evidence for scoring of the dimension. The annual CFS of Gandaki Province, which are prepared based on the cash basis of accounting, cover the provincial government's receipts and payments, fixed assets, cash and bank balances, investments, advances, and payables (liabilities). However, they do not cover guarantees and long-term commitments. The OAG issues an audit opinion concerning the CFS, that is, not separate audit opinions for each spending unit. Since the financial reporting framework does not include a separate and comprehensive statement of assets and liabilities, the OAG does not give an audit opinion on assets and liabilities. However, as part of the audit process, the assets and liabilities are generally verified. The CFS does not include the income and expenditures of the EBU, except for budgetary grant disbursements from the provincial government to the EBU. The EBU prepare separate annual financial statements, which are audited by the OAG.

The OAG's annual financial audits cover all revenues and expenditures. Audit observations are categorized as recoveries, irregularities, and unsettled advances. The audit reports highlight relevant material issues, as well as systemic and control risks that need to be addressed by the provincial government for effective financial management.

The financial audit coverage of Gandaki Province for the last three fiscal years is presented in Table 2.84.

Table 2.84: External Audit Coverage, FY 2020/21–2022/23

Units	Audit of Financial Reports		
	2020/21	2021/22	2022/23
Government spending units			
Audit of financial reports (Yes/No)	Yes	Yes	Yes
Number of spending units	155	173	195
Extra-Budgetary Units (EBUs)			
Audit of financial reports (Yes/No)	Yes	Yes	Yes
Number of EBUs	12	14	20
Expenditures			
Total expenditures to be audited	27,281	24,908	25,545
Total expenditures audited	27,281	24,908	25,550
Percentage of expenditures audited	100	100	99.9

Units	Audit of Financial Reports		
	2020/21	2021/22	2022/23
Revenues			
Total revenues to be audited	10,980	12,779	11,870
Total revenues (including grants) audited	10,980	12,779	11,870
Percentage of revenues audited	100	100	100

Sources: OAG's 4th, 5th and 6th Annual Reports for Gandaki Province and Financial Statements for FY2020/21, FY2021/22, and FY2022/23.

The OAG audits **all** budgetary and extrabudgetary units of the provincial government. The audit reports have highlighted relevant material issues and systemic and control risks. Hence, the score for the dimension is an **A**.

30.2. Submission of audit reports to the legislature

Performance level and evidence for scoring of the dimension. According to Article 294 of the Constitution, the Auditor General submits the audit reports to the Province Chief who presents them in the Provincial Assembly through the Chief Minister. Table 2.85 shows the time taken between the OAG's receipt of financial statements and the actual presentation of the latest three annual audit reports to the Provincial Assembly.

Table 2.85: Timing of Submission of Audit Reports to the Provincial Assembly

Fiscal Years	Date of Receipt of the Financial Statements by the External Auditor (A)	Date of Issuance of the Audit Reports by the External Auditor (B)	Months Taken to Prepare the Audit Reports (C = B – A)	Date of Submission of Audit Reports to the Provincial Assembly (D)	Months Taken to Submit Audit Report from Receipts of Financial Statements (E = D – A)	Months Taken to Submit Audit Report from Issuance Date (F = D – B)
2020/21	January 4, 2022	July 13, 2022	6.3	September 28, 2023	20.8	14.7
2021/22	January 4, 2023	April 13, 2023	3.3	September 28, 2023	8.8	5.6
2022/23	5 November 2023	May 26, 2024	6.7	July 15, 2024	8.3	1.7

Sources: Annual Financial Statements and the OAG's , 4th, 5th and 6th Annual Reports for the Gandaki Province for FY2020/21, FY2021/22, and FY2022/23 (OAG website <https://oag.gov.np/menu-category/965/en>); the PFCO website <https://pfco.gandaki.gov.np/>; and correspondence from the Province Chief and Provincial Assembly concerning the receipt of annual audit reports.

The OAG prepared and submitted the audit reports for FY2020/21 and FY2022/23 to the Province Chief within nine months of receiving the financial statements, while the same was submitted for FY2021/22 within just over three months of receiving the annual financial statements.¹⁰¹ However, the submission of the annual audit reports to the Provincial Assembly from the date of receipt of the financial statements by the external auditors took place with delays. This resulted in 20.8 months, 8.8 months and 8.3 months between the receipt of annual financial statements by the OAG for FY2020/21, FY2021/22, and FY2022/23, respectively. This included delayed submissions of annual audit reports to the Provincial Assembly. The delays were mainly due to the COVID-19 pandemic. However, in the case of FY2020/21, a significant delay was also observed due to the Provincial Assembly general election held in November 2022, which was followed by a long period before the assembly convened.

In the last three completed fiscal years, the OAG issued the audit reports within nine months of receiving the financial statements. However, the audit reports were submitted to the provincial assembly with a significant delay; for FY2020/21, it was only after more than nine months that the OAG received the financial statements for audit. Hence, the score for the dimension is a **D**.

30.3. External audit follow-up

Performance level and evidence for scoring of the dimension. After conducting an audit, the OAG issues a preliminary report with observations. According to Section 35 of the FPFA Act, the spending units must submit evidence to address irregularities noted in the report within 35 days. If the OAG is satisfied with the evidence, the irregularities are cleared. However, if not, they are recorded in the (final) annual audit report. Sections 36–38 of the FPFA Act outline the process for settling irregularities reported in the (final) annual audit report. All parties involved are required to follow up on and settle the irregularities.

Sections 37–41 of the FPFA Act outline the follow-up procedures for audits that require further action by the executive or audited entity. The Act specifies the process of addressing audit observations by the concerned authorities, such as the Accounts Responsible Officer or officer involved with accounts. It sets forth procedures for discussing the report at the Provincial Assembly's PAC and settling audit observations/irregularities.

¹⁰¹ The reason for the longer time for the FY2020/21 audit report was mainly the impact of the restrictions that followed from the COVID-19 pandemic. For FY2022/23, the delay was due to a change (appointment) in the auditor general position.

Table 2.86 shows the status for the last three fiscal years regarding the formal (written) responses provided by the auditees for which the OAG had identified audit irregularities (that is, auditees for which follow-up was expected).

Table 2.86: Timing of Submission of Audit Reports to the Provincial Assembly

Fiscal Years	Total Audited Units having Audit Irregularities	Audited Units Providing Formal (written) Responses to the OAG (% responded)	Timely Follow-up by the Executive or the Audited Entity (Yes/No)
2020/21	94	68 (72.3)	No
2021/22	95	66 (69.5)	No
2022/23	148	27 (18.2)	No

Sources: OAG's 4th, 5th and 6th Annual Reports for Gandaki Province for FY2020/21, FY2021/22, and FY2022/23 (OAG website <https://oag.gov.np/menu-category/965/en>, correspondence from the OAG).

Regarding FY2020/21 and FY2021/22, approximately 70 percent of auditees provided formal (written) responses, whereas for FY2022/23, it was approximately 18 percent only. However, many of the audit reports repeat the same audit observations every year. At the same time, though, the amount of irregularities has increased over time. There are also delays in the implementation of audit recommendations. The OAG's 6th Annual Report for the Gandaki Province highlights that out of the irregularities amounting NPR 2,685.5 million (including unsettled advances of NPR 734 million), irregularities of NPR 146 million were only settled within 35 days after the issuance of the preliminary audit reports of FY2022/23. For the settlement of the remaining irregularities, the evidence is to be presented to the OAG for a follow-up audit.

The PAC reviews the OAG's annual reports, and the Irregularities Settlement Monitoring Committee, chaired by a member of the PAC, is responsible for addressing irregularities that were not settled. The committee, chaired by the Principal Secretary, is required to monitor the settlement of irregularities across all spending units. However, evidence of such monitoring was not available.

The PFM legislation outlines the audit follow-up process, and audited entities are required to provide a formal response to audit observations. However, only 18 percent of audited entities provided responses for FY2022/23, and around 70 percent provided formal responses for FY2020/21 and FY2022/23, evidencing the follow-up of the observations by the audited entities is not timely, thus resulting in significant unsettled audit observations. Hence, the score for this dimension is a **D**.

30.4. Independence of the public audit institution in charge of subnational governments

Performance level and evidence for scoring of the dimension. Table 2.87 depicts the various aspects of the OAG's independence.

Table 2.87: SAI Independence

Element/Requirements	Met (Yes/No)	Evidence Used/Comments
1. The OAG operates independently from the executive with respect to the following:		
■ Procedures for the appointment and removal of the head of the SAI;	Yes	Article 240 of the Constitution outlines the procedures for the appointment and removal of the Auditor General. The President appoints the Auditor General based on the recommendation of the Constitutional Council. The Article also details the procedures for removing the Auditor General.
■ The planning of audit engagements;	Yes	The Audit Act provides the Auditor General with independence in planning the audit engagements (Sections 4, 5, and 6).
■ Arrangements for publicizing reports; and	Yes	The Audit Act provides that the Auditor General shall make the annual report public after it is submitted to the Province Chief (Section 19 (7)).
■ The approval and execution of the OAG's budget.	No	According to the FPFA Act (Section 9), the OAG is required to present its budget proposal through the LMBIS to the executive within the approved ceiling. The executive may make changes to the proposed budget (Sections 9 and 21). However, the SAI is independent in its ability to execute the approved budget.
2. This independence is assured by law.	Yes	The Constitution and Audit Act assure SAI independence.
3. The OAG has unrestricted and timely access to records, documentation, and information.	Yes	The Audit Act (Section 12) allows the SAI unrestricted and timely access to the records, documents, and other information, including electronic records and information systems.

Note: FPFA= Financial Procedure and Fiscal Accountability; OAG= Office of the Auditor General.

It is noted that, according to Section 18 (3) of the Audit Act, the organizational structure and positions of employees of the OAG shall be, as approved by the GoN on the recommendation of the Auditor General. The provincial governments have no role in the approval of the OAG's staff and budget.

The SAI's independence is ensured by law, and it operates independently from the executive, except for approval of the annual budget. Hence, the score for the dimension is a **C**.

PI-31. Legislative scrutiny of audit reports

What the indicator measures. It focuses on legislative scrutiny of the audit reports of the SNG, including institutional units, to the extent that either they are required by law to submit audit reports to the subnational council or their parent or controlling unit must answer questions and take action on their behalf.

Methodological notes. The information was collected from the PAC Secretariat, Provincial Assembly and OAG to assess this indicator. The PAC Secretariat within the Provincial Assembly maintains the records related to legislative scrutiny of audit reports and PAC activities.

Table 2.88: Summary of Scores for PI-31 and Performance Table

Indicator/Dimension	2024 Score	Justification for Score
PI-31. Legislative scrutiny of audit reports	D+	Scoring method M2.
31.1. Timing of audit report scrutiny	C	The Public Accounts Committee (PAC) completed its scrutiny of audit reports within twelve months from the receipt of the reports for FY2020/21 and FY 2021/22. The PAC received the audit report for FY2022/23 only on July 15, 2024, which is the assessment cut-off date.
31.2. Hearings on audit findings	C	In-depth hearings concerning key findings of audit reports for FY2020/21 and FY2021/22 took place occasionally for most audited entities. However, no pre-arranged schedule (calendar) for committee hearings in the last three completed fiscal years was available.
31.3. Recommendations on audits by the subnational council	D	The PAC did not issue recommendations to be implemented by the executive during the last three completed fiscal years.

Indicator/Dimension	2024 Score	Justification for Score
31.4. Transparency of legislative scrutiny of audit reports	D	The PAC meetings are open to the media. The PAC has published reports of the last three completed fiscal years. However, these reports do not cover the legislative review of the audit reports.

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

The Provincial Assembly has established four thematic committees in accordance with Rules 152 and 153 of Provincial Assembly Regulations (2023). One of these is the PAC, established under Rule 146, which is responsible for overseeing public accounts including revenues, expenditures, assets, and related issues. The PAC was formed for the first time on March 20, 2018. It consists of a maximum of 15 members nominated by the Speaker with the consent of the Provincial Assembly. The Committee Chairperson is generally nominated from the opposition party of the assembly. The PAC developed an internal working procedure, the 'Public Accounts Committee Procedures of Gandaki Provincial Assembly 2018', for the orderly operation of committee proceedings, which were revised in February 2024. The PAC plays a crucial role in overseeing financial matters and ensuring transparency and accountability. It primarily scrutinizes the annual report submitted by the OAG and conducts in-depth discussions on important issues related to public accounts. The PAC discusses the OAG's Annual Report and provides recommendations for further action.

Recent or ongoing reform activities. In February 2024, the PAC revised the 'Public Accounts Committee Procedures of the Gandaki Provincial Assembly' for the orderly operation of committee proceedings. Three sub-committees were formed on January 28, 2024 to hold in-depth, sector-wise/ministry-wise hearings. The PAC has been meeting regularly to review the audit reports. The PAC submitted its annual report¹⁰² for FY2024 to the provincial assembly on June 11, 2024.

31.1. Timing of audit report scrutiny

Performance level and evidence for scoring of the dimension. Table 2.89 shows the date by which the OAG's annual report was received by the PAC and the date by which parliamentary scrutiny was completed.

¹⁰² <https://pradeshsabha.gandaki.gov.np/list/activities/annual-report-of-public-account-committee-fiscal-year-2080-81>

Table 2.89: Timing of Audit Report Scrutiny

Audited AFS for fiscal year (OAG's Annual Report Series)	Date - annual report received by PAC	Date - scrutiny by the legislature (PAC)
2020/21 (4 th Annual Report 2022)	September 28, 2023*	It started from October 2023 and was completed on June 11, 2024.
2021/22 (5 th Annual Report 2023)	September 8, 2023*	It started from October 2023 and was completed on June 11, 2024.
2022/23 (6 th Annual Report 2024)	July 15, 2024*	Not commenced yet, as report was received on July 15, 2024.

Sources: OAG reports (<https://oag.gov.np/menu-category/965/en>), Secretariat of Provincial Assembly correspondence dated November 15, 2023 and Annual Report of the PAC (<https://pradeshsabha.gandaki.gov.np/committees/public-accounts-committee>)

Note: * Report was received by the PAC Secretariat.

The first Provincial Assembly was dissolved on August 24, 2022, and the Provincial Assembly election for the second term was held on November 20, 2022. From August 24, 2022 to October 8, 2023 (about 14 months), there was no PAC in place. Since then, however, the PAC has held regular sessions. According to Rule 163 of the Provincial Assembly Regulation, committees of the Provincial Assembly shall prepare an annual calendar to complete the work on time. Similarly, the PAC procedures require preparing an annual calendar to ensure that the work of the committee is completed on time. However, no such annual calendar has been prepared by the PAC; hence, the timelines to complete the legislative scrutiny of audit reports are not defined. On January 28, 2024, the PAC formed three subcommittees to discuss the audit reports with specific due dates to complete the review.¹⁰³

Discussions about the audit report and identified irregularities have been held several times. Discussions concluded with the publication of an annual report on June 11, 2024, covering up to FY2021/22. As the audit report for FY2022/23 was received only on July 15, 2024, the same has not been concluded yet.

The PAC has completed its review of the audit reports concerning the annual financial reports of FY 2020/21 and FY2021/22 within 12 months from the receipt of reports. The report for FY2022/23 was received only on July 15, 2024. Hence, the score for the dimension is a **C**.

¹⁰³ The due date for the scrutiny of the OAG's 5th Annual Report was set as February 27, 2024.

31.2. Hearings on audit findings

Performance level and evidence for scoring of the dimension. The OAG's annual reports for the Gandaki Province cover the spending units audited under each ministry/entity. The OAG issues an audit opinion on the CFS of the provincial government transactions, but not an audit opinion for each ministry/entity. The audit reports include observations/findings, as well as irregularities for each ministry and other entities (for example, the PPPC, Secretariat of the Provincial Assembly, and Provincial PSC).

The three subcommittees formed on January 28, 2024 hold in-depth, sector-wise/ministry-wise hearings where the Responsible Accounting Officer (Secretary), Directorate Heads, and responsible staff from the audited entities participate. The OAG officers are also present at the PAC meetings to discuss audit observations and findings (Table 2.90). According to the PAC Procedures, subject experts can also be invited to provide opinions, although it is not clear whether such experts have so far participated in meetings. The PAC meetings held on January 9, 11, 14, and 21, 2024, discussed all ministries/entities, but not the EBU, reported in the 5th Annual Report in the presence of provincial government and OAG officials. Despite due dates having been set for the completion of the scrutiny of the three annual reports, there is no evidence of pre-defined meeting schedules. However, hearings for FY2020/21 and FY2021/22 have been completed with the publication of the PAC annual report on June 11, 2024.

Table 2.90: Hearings on Audit Findings and Issuance of Recommendations

Audited AFS for Fiscal Year	Hearings on Audit Reports that Received a Qualified or Adverse Opinion or Disclaimer (Yes/No)	Hearings Conducted - Entities with Qualified Audit A = All M = Most F = Few N = None	Legislative Hearing Completed (Yes/No)	Number of Spending Units Reported with Audit Irregularities
2020/21	Yes	M (not EBUs)	Yes	94
2021/22	Yes	All ¹⁰⁴	Yes	95
2022/23	No	No	No	148

Sources: Annual Report of the PAC for FY2020/21 and FY2022/23 (<https://pradeshsabha.gandaki.gov.np/committees/public-accounts-committee>), Minutes of the PAC and Correspondence for Follow-up from PAC and Provincial Assembly Secretariat, Annual Reports for FY2020/21–2021/22.

¹⁰⁴ The Minutes of the PAC show that all provincial ministries and commissions/agencies, except for the EBUs, were discussed in the meetings in January 2024, based on the OAG's 5th Annual Report for the Gandaki Province for FY2021/22.

In-depth hearings of the PAC for FY2020/21 and 2021/22 were conducted occasionally for most of the entities. However, they did not follow a prearranged schedule, or at least a consistence pattern from year to year. Hence, the score for this dimension is a **C**.

31.3. Recommendations on audit by the subnational council

Performance level and evidence for scoring of the dimension. Section 39 (1) of the FPFA Act states that the Accounts Responsible Officer shall attend PAC meetings to discuss irregularities in the OAG reports and submit written opinions or views about the audit irregularities and their settlement. Section 39(2) also states that it is the responsibility of both the OAG and the relevant Accounts Responsible Officer to implement recommendations submitted by the PAC and as approved by the Provincial Assembly (Table 2.91).

Table 2.91: Dates of Recommendations and Reviewing Recommendations Issued

Audited AFS for Fiscal Year	Legislature Issues Recommendations (Yes/No)	Recommendations Followed Up S = Follow-up systematically F = Follow-up partially N = No evidence	Date of Recommendations (Yes/No/NA)	Date of Review of Recommendations S = Follow-up systematically F = Follow-up partially N = No evidence
2020/21	No	N	NA	N
2021/22	Yes	F	January 31, 2024	F (February 4, 2024)
2022/23	No	No evidence	NA	No evidence

Sources: Correspondence from the Secretariat of Provincial Assembly (Ref 132–137, 080/81 dated January 31, 2024) and Correspondence from PAC (Ref 167–172, 080/81 dated February 4, 2024).

The PAC's annual reports for FY2020/21 and FY2021/22 outline agenda discussions and decisions taken during the year. However, neither report included recommendations concerning the actions to be implemented by the executive relating to the audit reports.¹⁰⁵ The annual report of PAC for FY2022/23 had yet to be prepared and submitted to the Provincial Assembly. Although no recommendations/instructions to audited entities regarding the settling of audit observations and financial matters were issued during FY2020/21–FY2022/23, in its meetings in January 2024, the PAC did issue such recommendations/instructions (although scrutiny and discussion of the annual reports is still in progress). Based on this decision, on January 31, 2024, the Provincial Assembly issued instructions to implement the recommendations/instructions of the PAC.

¹⁰⁵ <https://pradeshsabha.gandaki.gov.np/committees/public-accounts-committee>.

On February 4, 2024, the PAC sent a follow-up letter to the OCMCM and line ministries. However, there is no formal system in place for tracking the implementation of recommendations and corresponding actions taken. Hence, information concerning the follow-up on legislative recommendations for actions to be implemented by the executive related to audits is not available for the last three completed fiscal years.

The PAC did not issue recommendations to be implemented by the executive during the last three completed fiscal years. Hence, the score for the dimension is a **D**.

31.4. Transparency of legislative scrutiny of audit reports

Performance level and evidence for scoring of the dimension. In general, committee hearings are open to the public. According to Clause 10 of the PAC Procedures, the Chair has the right to allow media personnel and stakeholders to attend meetings. The PAC Secretariat sends information to the media focal group about such meetings. Media personnel have been attending the PAC meeting for news coverage whenever they wish, as evidenced by the photos saved in the PAC Cloud (*URL: 103.175.192.206*). However, there is no practice of formally recording the attendance of media and other stakeholders (public). From FY2023/24, the PAC activities and decisions are also posted on the PAC Cloud, with access given to media personnel and other interested stakeholders on demand.

The PAC's reports are presented to the full chamber of the Provincial Assembly by the Chair of the PAC. However, evidence of debates that occurred is not available. The official website of the Provincial Assembly provides access to the PAC reports.¹⁰⁶

The PAC meetings are open to the media. The PAC has published reports for two (FY2020/21 and FY2021/22) of the last three completed fiscal years. However, these reports do not cover legislative reviews of the audit reports, and the annual report for the last completed fiscal year (FY2022/23) has not been published. Hence, the score for the dimension is a **D**.

¹⁰⁶ <https://pradeshsabha.gandaki.gov.np/committees/public-accounts-committee>.







3

OVERALL ANALYSIS OF THE PFM SYSTEM

Overall Analysis of the PFM System



This chapter provides an integrated analysis and summary of the overall conclusions concerning the PFM performance of the Gandaki's provincial government based on the information provided in Chapters 1 and 2. It focuses on PFM strengths and weaknesses (Section 3.1), as well as the effectiveness of the internal control framework (Section 3.2).

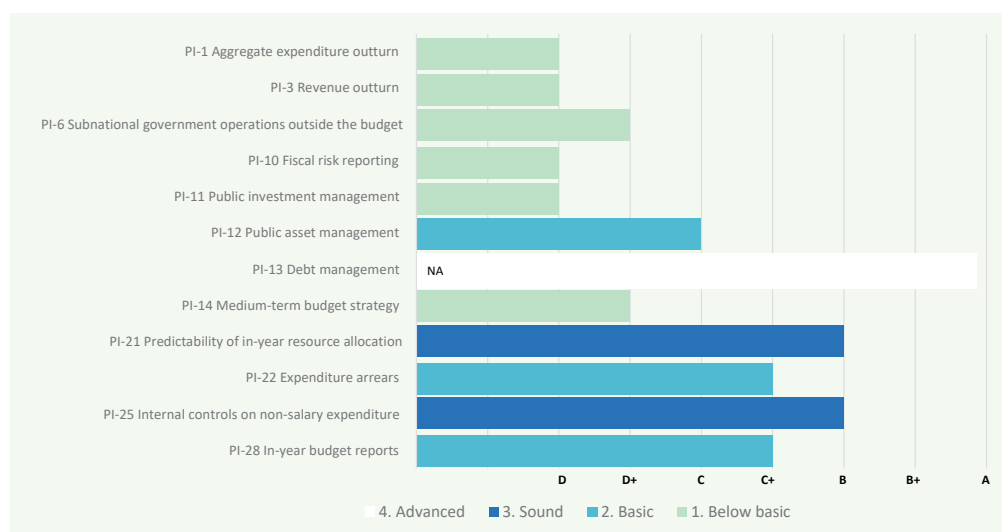
3.1. PFM Strengths and Weaknesses

This section analyzes the extent to which the performance of the PFM system is supporting the achievement of the three main fiscal and budgetary outcomes.

A. Aggregate fiscal discipline

The PFM system supports the provincial government in achieving aggregate fiscal discipline to some extent because of weaknesses in many of the PFM elements important for this outcome. Figure 3.1 shows the scores for the relevant PIs.

Figure 3.1: Aggregate Fiscal Discipline



The achievement of aggregate fiscal discipline is supported by a relatively high level of predictability of in-year resource allocation (PI-21), as well as the overall well-functioning internal controls concerning non-salary expenditures (PI-25). Also, financial assets monitoring (PI 12.1), stocktaking of expenditure arrears (PI-22.1), and the timely preparation of in-year budget reports (PI-28.2) support this fiscal and budgetary outcome.

The high level of predictability in in-year resource allocation enables the spending units to effectively plan and commit expenditures for a minimum of six months in advance, aligning with budgeted appropriations and releases. Additionally, these spending units generate monthly in-year budget reports, which facilitate government oversight of budget performance and allow for timely corrective actions, when necessary. This predictability in resource allocation, coupled with timely reporting, plays a crucial role in maintaining control over expenditures and mitigating the risk of unplanned fiscal deficits.

The internal controls governing non-salary expenditures are generally adequate, with a high level of compliance observed. Adherence to internal controls ensures that expenditures are aligned with budgetary provisions, thereby minimizing the risk of overspending and ensuring funds are allocated for their intended purposes. Additionally, the government maintains minimal expenditure arrears, a critical factor in sustaining a lower fiscal risk profile.

However, weaknesses in other PFM elements—aggregate expenditure outturn (PI-1); revenue outturn (PI-3), operations outside financial reports (PI-6); monitoring local governments and fiscal risk reporting (PI-10.2 and PI-10.3); public investment management (PI-11); monitoring of non-financial assets (PI-12.2); and medium-term budgeting (PI-14)—adversely affect the provincial government’s efforts to achieve fiscal discipline.

Significant variances between budgeted and actual expenditures and revenues highlight a lack of budget realism and challenges to effective budget implementation. Such deviations undermine fiscal discipline and may lead to unplanned borrowing or reductions in essential services. The inability to accurately forecast and adhere to budget estimates can create fiscal imbalances, jeopardizing the financial stability of the province.

Weaknesses in public investment management further exacerbate challenges to fiscal discipline. The absence of established guidelines for the economic analysis of investment projects, along with non-standardized criteria for project selection and costing, contributes to inefficiencies. Additionally, the monitoring of investment projects is insufficient. Suboptimal investment management can result in inefficient allocation of resources and heightened fiscal risks, as projects may fail to deliver the anticipated economic benefits.

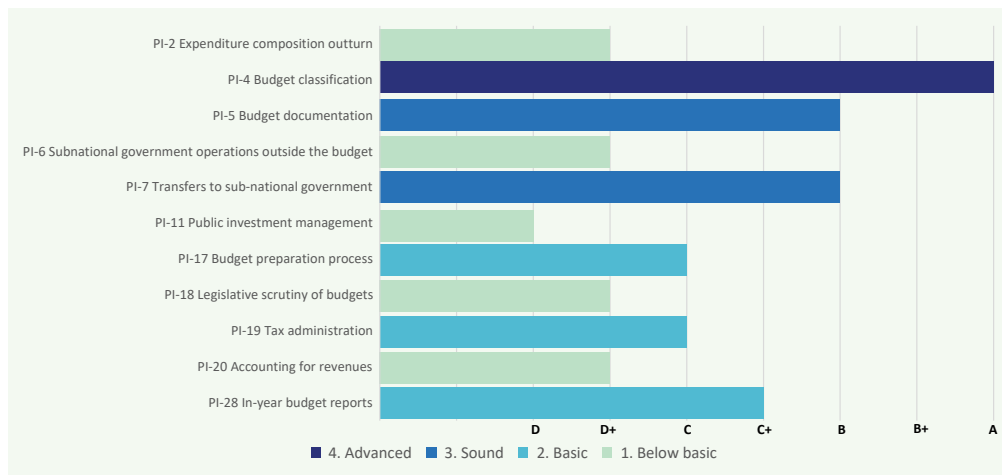
The province's fiscal risk reporting is inadequate, creating significant oversight challenges. There is no evidence that unaudited annual financial statements from local governments have been published, and contingent liabilities are reported as 'non-available.' This lack of comprehensive fiscal risk reporting hampers the government's ability to effectively monitor and manage potential fiscal risks, including liabilities arising from guarantees or public-private partnerships. Consequently, the likelihood of unexpected fiscal pressures increases.

While the legal framework permits borrowing, Gandaki Province has not established a medium-term debt management strategy. The absence of such a strategy means that current debt management practices are not informed by considerations of long-term fiscal sustainability. This can lead to suboptimal borrowing decisions and increased costs associated with debt servicing, further challenging the province's fiscal discipline.

B. Strategic allocation of resources

The PFM system provides foundational support for the strategic resource allocation of the provincial government, as half of the key PFM elements pertinent to this outcome demonstrate at least a basic level of performance. Figure 3.2 shows the scores for the relevant PIs.

Figure 3.2: Strategic Allocation of Resources



Achieving strategic resource allocation is supported by a solid budget classification system (PI-4) and well-functioning arrangements for the accounting of revenues (PI-20.1). Also, the level of budget documentation (PI-5) is comprehensive; the system for allocating transfers to local governments (PI-7.1) is well-developed; and the tax administration has adequate procedures in place to inform taxpayers about rights and obligations (PI-19.1). Furthermore,

in-year budget reporting is timely (PI-28.2), and the annual budget formulation process with the calendar (PI-17) has all the basic elements in place.

The budget classification system of the provincial government is robust, and the annual budget documentation is comprehensive. This provides a clear framework for allocating resources to different sectors and programs. The detailed budget documentation aids in directing funds towards priority areas and facilitates the monitoring of resource allocation.

The system for allocating transfers to local governments is transparent and rule based, ensuring that resources are distributed equitably and in accordance with established criteria. Transparent and predictable transfers support strategic resource allocation by enabling local governments to effectively plan and implement their budgets.

Adequate procedures are in place to inform taxpayers about their rights and obligations, which contributes to enhancing revenue predictability through improved compliance. The revenue accounting systems are capable to deliver accurate, timely, and comprehensive information regarding various revenue streams. Furthermore, timely in-year budget execution reports enhance budget monitoring and enable the implementation of corrective measures. These elements collectively support the government in strategically allocating resources.

Some of the PFM elements hinder the achievement of a strategic allocation of resources. These include a low expenditure composition outturn by function (PI-2.1) and by economic type (PI-2.2); a somewhat high level of expenditures and revenues outside of the provincial government's financial reports (PI-6.1 and PI-6.2) and financial reports not submitted by the EBUs (PI-6.3); weak public investment management (PI-11); limitations in the Provincial Assembly's budget scrutiny procedures (PI-18.1 and 18.2); and the availability of revenues collected for spending only after month-end (PI-20.2).

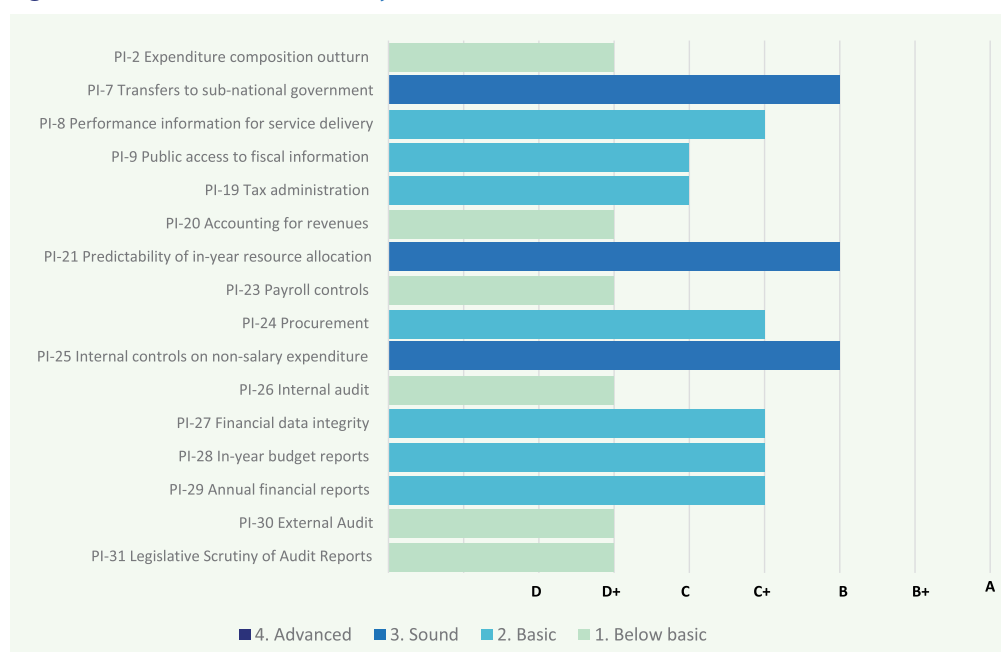
The significant deviations in expenditure composition by function and economic type indicate that budgets are not being executed as planned, which can undermine the government's ability to achieve its policy objectives. The lack of guidelines for economic analysis, selection, and costing of investment projects means that resources may not be directed towards the most impactful projects. The scope and procedures of the Provincial Assembly's budget scrutiny are limited, which undermines the effectiveness of the budget approval process in ensuring that resources are allocated strategically.

The revenues and expenditure of the 20 EBU of the provincial government are substantial but outside the government's financial reports. Therefore, the government may not have a complete understanding of available resources and spendings, which could lead to ineffective planning and misallocation. Lastly, delayed availability of revenue collected may cause cash flow issues leading to in-year budget adjustments possibly jeopardizing strategic allocation of resources.

C. Efficient service delivery

The provincial government's PFM system supports the efficient delivery of services comparatively well, as more than half of the applicable PFM elements for this outcome have at least a basic level of performance. Figure 3.3 shows the scores for the relevant PIs.

Figure 3.3: Efficient Service Delivery



The achievement of efficient service delivery is supported by a well-developed system for allocating transfers to local governments (PI-7.1); the availability of performance information for service delivery (PI-8); a relatively high level of predictability for in-year resource allocation (PI-21); and the overall well-functioning internal controls on non-salary expenditures (PI-25). The procurement data for sampled agencies showed most procurement was conducted through competitive methods (24.2), and average performance in public access to procurement information (PI 24.3). Also, financial data integrity is good as regards

bank account reconciliation (PI-27.1) and data integrity processes (PI-27.4). In-year budget reporting is timely (PI-28.2), as is the submission of the CFS for external audit (PI-29.2), which are prepared based on appropriate accounting standards (PI-29.3).

The government publishes information concerning performance plans for service delivery, the resources allocated to frontline service delivery units, and the performance outcomes achieved in relation to service delivery. Availability of this data contributes to the effectiveness and operational efficiency of services, and enables the legislature, government officials, and public to assess whether budgetary resources are being directed to service delivery units as intended. Transparent and rule-based fiscal transfers empower local governments to allocate resources for service delivery in a consistent and predictable manner.

With a high level of predictability regarding resource availability, budgetary units can implement service delivery budgets as planned. The adoption of competitive procurement methods, coupled with adequate internal controls, establishes value for money in government's program and service delivery efforts. Additionally, reliable financial information and timely reporting facilitate the government's ability to monitor progress in service delivery and enable prompt corrective actions when necessary.


However, several PFM elements are characterized by weaknesses, including the low expenditure composition outturn by function and economic type (PI-2.1 and PI-2.2); no performance evaluation for service delivery (PI-8.4); a basic level of public access to fiscal information (PI-9); limited payroll controls (PI-23); an absence of comprehensive procurement data (PI-24.1); a lack of internal audit standards and a requirement for auditees to respond to audit findings (PI-26.2 and PI-26.4); the late submission of audit reports to the Provincial Assembly and somewhat limited response rate by the auditees (PI-30.2 and PI-30.3); and shortcomings in the Provincial Assembly's scrutiny of external audit reports (PI-31.3 and PI-31.4).


A lower expenditure composition outturn suggests that the resources allocated for service delivery may not have been utilized as intended. The absence of performance evaluations represents a missed opportunity to assess the appropriateness, efficiency, and effectiveness of service delivery, hindering necessary adjustments. Likewise, the lack of public consultations during the budget-making process is a missed opportunity for optimizing resource allocation for service delivery.



The weaknesses in personnel data and payroll can result in poor personnel management and inaccuracies in salary payments that can diminish the efficiency of service delivery.


Additionally, the Gandaki provincial government lacks a procurement database to effectively monitor the efficiency and value for money in public procurement, which is essential for effective public service delivery. Inadequate internal audit practices weaken oversight and may lead to inefficiencies in service delivery. Furthermore, the delayed submission and scrutiny of audit reports undermine accountability. Therefore, the systemic weaknesses noted during audits may not be addressed in time and may negatively impact on the efficiency of service delivery.



Table 3.1: PEFA PFM PIs and the Three Budgetary Outcomes

Indicator/ Dimension		Aggregate Fiscal Discipline	Strategic Allocation of Resources	Efficient Service Delivery
SNG Pillar: Intergovernmental fiscal relations The subnational governments (SNGs) receive reliable and timely information about transfers from the central government to help them prepare meaningful budgets. Also, fiscal and debt rules are in place for SNGs, and there is financial monitoring of SNGs.				
HLG-1. Transfers from higher level government	X	Strength: The fiscal transfers of the Government of Nepal (GoN) to the Provincial Government during the past three fiscal years were relatively close to the budgeted amounts. Weakness: The timeliness and predictability of the GoN's fiscal transfers is low.	Strength: Local governments submitted their annual financial statements to the GoN on a relatively timely basis. Weakness: The fiscal rules and debt rules set by the GoN for subnational governments (SNGs) do not set a ceiling on the primary fiscal balance or the operating balance. In addition, the rules do not include exemptions, sanctions, and enforcement mechanisms.	—
HLG-2. Fiscal rules and monitoring of fiscal position				
<div> Pillar I: Budget reliability The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the public financial management [PFM] system) with the original approved budget.</div>				
PI-1. Aggregate expenditure outturn	X	Weakness: The aggregate revenue and expenditure outturns for the past three fiscal years were low.	Strength: The budget for each of the last three fiscal years included contingencies, but no such expenditures were incurred.	Weakness: The expenditure composition outturn for the past three fiscal years was low, both by function and by economic type.
PI-2. Expenditure composition outturn				
PI-3. Revenue outturn	X			

Indicator/ Dimension	Aggregate Fiscal Discipline	Strategic Allocation of Resources	Efficient Service Delivery	
<div></div> Pillar II: Transparency of public finances Information about PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenues and expenditures, including intergovernmental transfers, published information about service delivery performance, and ready access to fiscal and budget documentation.				
PI-4. Budget classification	Weakness: The revenues and expenditures outside of the provincial government's financial reports for the last fiscal year were significant, and the extra-budgetary units (EBUs) did not submit financial reports to the provincial government.	X	Strength: The applied budget classification system is solid, and the information provided in the annual budget documentation is comprehensive. The system for allocating transfers to local governments is well developed.	Strength: Information about resources received by frontline service delivery units is collected and recorded for the four large ministries, and an internal report compiling the information is prepared annually.
PI-5. Budget documentation		X		
PI-6. Subnational government operations outside financial reports		X		
PI-7. Transfers to subnational governments		X	X	Information about performance plans for service delivery and performance achieved for service delivery is published as part of the annual budget.
PI-8. Performance information for service delivery			X	Weakness: Local governments receive information about the conditional, complementary, and special grants only at a late stage.
PI-9A. Public access to fiscal information			X	No performance evaluations of service delivery have been carried out.
PI-9B. Public consultation			X	Public access to fiscal information is somewhat limited, and no public consultations take place.

Indicator/ Dimension	Aggregate Fiscal Discipline		Strategic Allocation of Resources		Efficient Service Delivery	
<div></div> Pillar III: Management of assets and liabilities Effective management of assets and liabilities ensures that public investments provide value for money; assets are recorded and managed; fiscal risks are identified; and debts and guarantees are prudently planned, approved, and monitored.						
PI-10. Fiscal risk reporting	X	Strength: Record keeping of financial assets (mainly cash and receivables) are in line with appropriate accounting standards and information is published annually. The legal and regulatory framework for approving debt is well-developed, although there is no debt stock. Weakness: Fiscal risk monitoring regarding local governments and contingent liabilities is weak. Public asset management is lacking in terms of fixed asset monitoring, as well as asset disposal. The provincial government has not prepared a Medium-Term Debt Management Strategy (MTDS).	Weakness: Public investment management has notable shortcomings across all dimensions (economic analysis, project selection, project costing, and project monitoring).		—	
PI-11. Public investment management						X
PI-12. Public asset management	X					
PI-13. Debt management	X					
<div></div> Pillar IV: Policy-based fiscal strategy and budgeting The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, as well as adequate macroeconomic and fiscal projections.						
PI-14. Medium-term budget strategy	X	Strength: The Medium-Term Expenditure Framework (MTEF) includes estimates for the budget year and the next two years. Weakness: The medium-term budgeting approach strategy has weaknesses in terms of the fiscal impact assessment, and there is no explanation of changes in estimations between fiscal years.	Strength: The provincial government's annual budget formulation process has basic elements in place. The annual budgets are approved before the new fiscal years commence, and clear rules for in-year budget adjustments exist. Weakness: There are limitations in the Provincial Assembly's budget scrutiny procedures pertaining to the scope and internal organizational arrangements.		—	
PI-17. Budget preparation process						X
PI-18. Legislative scrutiny of budgets	X					X

Indicator/ Dimension	Aggregate Fiscal Discipline	Strategic Allocation of Resources	Efficient Service Delivery
 Pillar V: Predictability and control in budget execution The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.			
PI-19. Tax administration	X Strength: The predictability of in-year resource allocation is high in relation to information about commitment ceilings and the size of in-year budget adjustments. The stock of expenditure arrears is limited. X Overall, the internal controls on non-salary expenditures are well developed. Weakness: A relatively large share of the consolidation of cash balances is done only monthly. A cash flow forecast is not being prepared. No data is maintained regarding tax arrears.	X	X Strength: Public access to procurement information is good, and procurement was mostly done through competitive methods. A procurement complaint system is in place. Internal audit covers all spending units of the provincial government, and all planned internal audits are conducted.
PI-20. Accounting for revenues		X	X
PI-21. Predictability of in-year resource allocation			X
PI-22. Expenditure arrears			
PI-23. Payroll controls			X Weakness: Payroll controls are weak across all dimensions (integrating payroll and personnel records and managing payroll changes, internal control, and audit).
PI-24. Procurement			X
PI-25. Internal controls on non-salary expenditure			X
PI-26. Internal audit			X Internal audit standards are not in place, and there is no requirement for auditees to respond to audit findings. The procurement information database is not comprehensive.

Indicator/ Dimension	Aggregate Fiscal Discipline		Strategic Allocation of Resources		Efficient Service Delivery	
<div></div> <div>Pillar VI: Accounting and reporting Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.</div>						
PI-27. Financial data integrity		Strength: In-year budget reporting is timely.		Weakness: There are gaps in the coverage of in-year budget reports, and expenditures cover only the payment stage.	X	Strength: Overall, the financial data integrity is good, but most advance accounts are not cleared on time. The Consolidated Financial Statement (CFS) are prepared based on appropriate accounting standards and are submitted for external audit on a timely basis. Weakness: The CFS do not include information about the EBU's, guarantees, long-term obligations, assets, and liabilities.
PI-28. In-year budget reports	X		X		X	
PI-29. Annual financial reports					X	
<div></div> <div>Pillar VII: External scrutiny and audit.</div>						
PI-30. External audit		—	—		X	Strength: The audit coverage of the Office of the Auditor General (OAG) is high and includes the EBU's. The legislature scrutinizes audit reports within 12 months from the receipt of reports. Weakness: The OAG's submission of audit reports is slightly delayed; not all auditees provide feedback on audit findings; and the OAG is not fully financially independent. There are shortcomings in the scrutiny by the Public Accounts Committee (PAC) of the external audit reports. The PAC annual reports submitted to the provincial assembly do not include aspects related to the review of audit reports.
PI-31. Legislative scrutiny of audit reports					X	

3.2. Effectiveness of the Internal Control Framework

This section assesses the extent to which the internal control system contributes to the achievement of the four control objectives, that is: (a) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse, and damage—based on available information. It is structured around the five interrelated internal control components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework.¹⁰⁷

Control environment. The provincial government's organizational structure is characterized by hierarchical arrangements with clearly established roles and responsibilities between different entities, as well as well-defined reporting lines. The OCMCM is the apex executive body responsible for policy formulation, decision-making, and coordination. The PPPC formulates plans for the implementation of programs and projects and oversees M&E. The MoEA is responsible for fiscal policy formulation, budget preparation, revenue mobilization, and the management of public investments. The PPRCCS (under the OCMCM) is responsible for civil service personnel management. The PFCO (under the MoEA) is responsible for treasury, accounting, reporting, and internal audit. Line ministries formulate sector policies and implement plans and budgets. Ministries are led by a Secretary who has full administrative authority and is responsible for overall operations.

The civil service legislation of Nepal, including that of Gandaki's provincial government,¹⁰⁸ incorporates the values of ethics and integrity. Some EBU's of the provincial government have formulated codes of ethics. The provincial government is committed to competence with recruitment based on a competitive process and conducted by the provincial PSC. Specialized training is provided by training institutes for new employees. Performance agreements are managed according to the provincial Civil Service Act and Rules, as well as other relevant laws. Promotions are overseen by a Promotion Committee formed under the OCMCM where the evaluation of competence is the primary criterion. In 2023, the Gandaki Province Training Academy (GPTA) conducted and published a Training Needs Assessment (TNA) that aims to enhance civil service capacity.¹⁰⁹

¹⁰⁷ The Committee of Sponsoring Organizations of the Treadway Commission (COSO): <https://www.coso.org/>.

¹⁰⁸ The Provincial Assembly has enacted the Civil Service Act (2023) and the Civil Service Rules (2023), as well as the Gandaki Province Personnel Record (GPPR) Implementation Procedure (2024).

¹⁰⁹ https://gpta.gandaki.gov.np/uploads/resources/1874152942-Report_TrainingNeedAssessment.pdf.

The provincial government's Approach Paper for the second Five-Year Plan (FY2024/25–FY2028/29) emphasizes good governance. As such, it aims to enhance public confidence in subnational governance. It also states the need to improve efficiency, the results orientation, and accountability in public administration. However, the provincial government's operating style has so far mainly focused on compliance; hence, while regulatory obligations may be met, performance and accountability could still fall short of expectations.

Risk assessment. The provincial government's first Five-Year Plan (FY2018/19–FY2023/24) outlined development objectives and identified risks that could hinder their achievement. Also, the Finance Minister's annual Budget Speech to the Provincial Assembly mentions high-level risks that could affect the attainment of planned budget outcomes. Similarly, the provincial MTEF notes risks that could affect the achievement of fiscal targets.

However, despite the identification of risks, the significance of risks and their likelihood of occurring are not evaluated. Risk registers are not maintained, and not all fiscal risks, such as certain contingent liabilities (which are known to exist), are identified and reported in the CFS. Furthermore, investment projects are not being comprehensively appraised, and risks associated with not achieving project objectives are not identified. The provincial MTEF also lacks a fiscal sensitivity analysis. Although the internal audit conducted by the PFCO covers a significant volume of transactions, it does not employ a risk-based approach in planning internal audits. However, external audits conducted by the OAG follow international standards and include risk identification as an essential component of the audit process.

There is no process in place to measure the effectiveness of existing internal controls in mitigating identified and assessed risks. The provincial government has not conducted a risk 'appetite' assessment to determine the overall level of risk tolerance or willingness to take risks to achieve development objectives. This hinders informed decision-making regarding risk management, which is exacerbated by the absence of a risk management strategy. Hence, officials make decisions about risk treatment based mainly on the legal and regulatory framework (although issues are sometimes referred to the GoN for clarification).

Control activities. The organizational structure is based on a hierarchical model that involves layers of review and endorsement before final approval. The process is well covered in the legal and regulatory framework. The PPC and the MoEA approve policies, plans, and budgets. The PFCO manages the treasury function, and payments are made using the TSA system, with authorization and approval limits configured in the system. The PPRCCS is responsible for human resource matters, including the creation of new positions.

The responsibilities for authorizing expenses, accounting, reporting, and asset custody are divided between different units and staff within each spending unit. However, most spending units lack dedicated SOPs. The segregation of duties is configured in the PFM information systems used by the provincial government. Also, to uphold data integrity, various security features and internal controls have been established to restrict unauthorized access and changes to records.

Verification controls are prescribed and implemented for budgeting, payment processing, and reporting. Entities that collect revenues and make expenditures reconcile data with the PFCO,¹¹⁰ and the PFCO in turn reconciles data with the banks. Spending units reconcile expenditures with the PFCO's records on a monthly basis. Advance accounts are reconciled monthly, but the settlement of advances takes additional time. Payroll and personnel records are reconciled monthly as required by the OAG.

The MoEA conducts semiannual and annual budget reviews, and budget adjustments are made on that basis. The provincial government does not review operations and processes regularly and systematically. Rather, it does so based on specific requirements.

Supervision is conducted by the Secretaries who have full administrative authority and are responsible for assigning tasks to staff and delegating powers. There is no formal guidance for staff supervision, but training institutes offer relevant training to officials.

Information and communication. The MoEA, PPPC, PFCO, OCMCM, and OAG prescribe internal controls through orders, directives, and official letters. Spending units can request guidance and clarification on internal controls as required. However, communication is manual in paper form, as the provincial government does not have an organization-wide intranet and official communications are not generally conducted via e-mail. The provincial government gives the public access to fiscal information through official publications.

Monitoring. The PPPC has issued the 'Province and Local-Level Monitoring and Evaluation Guidelines' (2020) for the M&E of development projects. Several provincial committees are in place to oversee the status of programs and projects, review physical and financial progress and explore and resolve problems that may arise. However, the committees do not provide documentation for deviations from plans or identification of mitigating actions. Each ministry has a M&E Department that monitors implementation. Also, internal audits

¹¹⁰ Revenue collecting banks reconcile revenues collected between the RMIS, CBS, and NRB. Final reconciliations with the PFCO and banks are conducted by the PFCO through the RMIS and FMIS.

are conducted by the PFCO annually, and external audits by the OAG. Internal control reviews are an essential component of the annual external audits.

The OAG undertakes performance audits on a selective basis — primarily for development projects — to evaluate effectiveness, efficiency, and economy. Additionally, development partners evaluate projects and, at the provincial government’s request, assess specific government functions. Management response to internal audit is not in practice, and responses to external audit observations from auditees are not provided within the stipulated timelines. The OAG’s annual audit reports reveal an increasing volume of unsettled audit observations.

3.3. Performance Changes Since the Previous Assessment

This is the baseline PEFA PFM Assessment conducted for Gandaki Province.







PFM REFORM PROCESS

PFM REFORM PROCESS



National approach to PFM reform. The GoN has implemented PFM reforms since the 1990s. The first formal PFM reform plan — ‘PFM Reform Program (PFMRP), Phase I’—was developed based on the findings of the 2005 PEFA PFM Assessment (published in 2008), which formulated an approach to achieve several specific PFM outcomes. The second PEFA PFM assessment in 2015 led to the formulation of Phase II of the Public Financial Management Reform Program (PFMRP) for FY2016/17–FY2025/26. To support implementation, a PFM Reform Steering Committee, chaired by the Finance Secretary, was established to offer strategic input. Also, the PEFA Secretariat (Nepal) was set up to coordinate the GoN’s PFM reform efforts. Work is presently ongoing to prepare the new Public Financial Management Reform Strategy (PFMRS), which utilizes findings from the 2023 national-level PEFA PFM Assessment.¹¹¹

In 2011, the World Bank, together with development partners, established a Multi-Donor Trust Fund (MDTF) to support the GoN’s PFM reform activities.¹¹² The MDTF-funded the Integrated Public Financial Management Reform Project (IPFMRP) in 2018, which included a number of PFM reform activities at the SNG level. The goal was to enhance fiscal decentralization within the federalism framework initiated with the 2015 Constitution. Development partners also support provincial and local governments through GoN initiatives, such as the Provincial and Local Governance Support Program (PLGSP), which is a national initiative to enhance the capabilities of institutions and organizations at the SNG level.

Gandaki Province’s approach to PFM reform. Since the provincial governments were formed in 2018, Gandaki’s Provincial Assembly has enacted several laws and regulations relating to PFM, including the FPFA Act in 2022 and the FPFA Regulation in 2023. The Appropriation Act and the Finance Act, along with budget preparation and implementation guidelines, are enacted every year.

¹¹¹ <https://www.pefa.org/sites/default/files/2024-05/NP-Apr24-PFMRP-Public%20with%20PEFA%20Check.pdf>.

¹¹² Over time, six development partners—Australia, Denmark, the European Union, Norway, Switzerland, the United Kingdom, and the United States—provided financial support for PFM reform through the MDTF.

The first Five-Year Plan of the Gandaki Province (FY2019/20–FY2023/24) outlined a PFM strategy with priority activities. The provincial government has since then acknowledged the support of development partners through GoN initiatives, such as the PLGSP, which aims to enhance the capabilities of institutions and organizations at the SNG level. The Approach Paper for the second Five-Year Plan (FY2024/25–FY2028/29) similarly states PFM as a key reform area.

Recent and ongoing PFM reform actions. The provincial government, along with the federal government, has initiated a number of PFM reform actions in recent years. These include fiscal federalism, internal governmental transfer, budgeting, accounting, reporting, and oversight functions. Also, various legislation relating to PFM have been amended.

The GoN is working with the provincial governments to incorporate the province-wise composition of transfers into the federal MTEF. Ongoing efforts are also being made to provide information about transfers using the functional classification. The provincial governments are also working to ensure that the regulatory framework for budget formulation is followed by all spending units. Gandaki's provincial government approved amendments to the Unified Procedures Relating to Budget and Program Implementation in February 2024.

Other ongoing activities include efforts to: (i) increase own-source revenue collection; (ii) enhance the TMS and VRS to improve management of the motor vehicle tax; (iii) consolidate the transactions of the EBU in financial statements (including implementation of the NPSAS); (iv) prepare cash forecasting procedures to assure the availability of cash for timely payment (including to ensure that the EFT System is used for all types of payments); (v) establish the GPPR Unit; and (vi) ensure the PPRCCS updates personnel records in the PIS.

In February 2024, the provincial government introduced the Gandaki Province Internal Audit Procedure Directive, which incorporates provisions to improve internal audit procedures and related reporting. Internal audit staff have been separated from accounting functions, as mandated by the FPFA Regulation (Rule 71). An internal audit module was embedded in the TSA system to record internal audit plans and reports from FY2023/24.

The federal MoF, in collaboration with the IMF, is planning to develop a fiscal risk monitoring system for the SNGs. Also, the FCGO plans to improve the SuTRA through the enhancement of local government monitoring by provincial governments. The GoN has amended the federal FPFA Act (2019) to enhance practices and controls for PFM and financial data integrity. Ongoing upgrades to PFM information systems include improvements in reconciliation

(banks, payments, revenues, advances, and so on) and reporting. Also, a commitment management system, which aligns advances and payments, has been implemented. System security and controls are being regularly updated to ensure integrity.

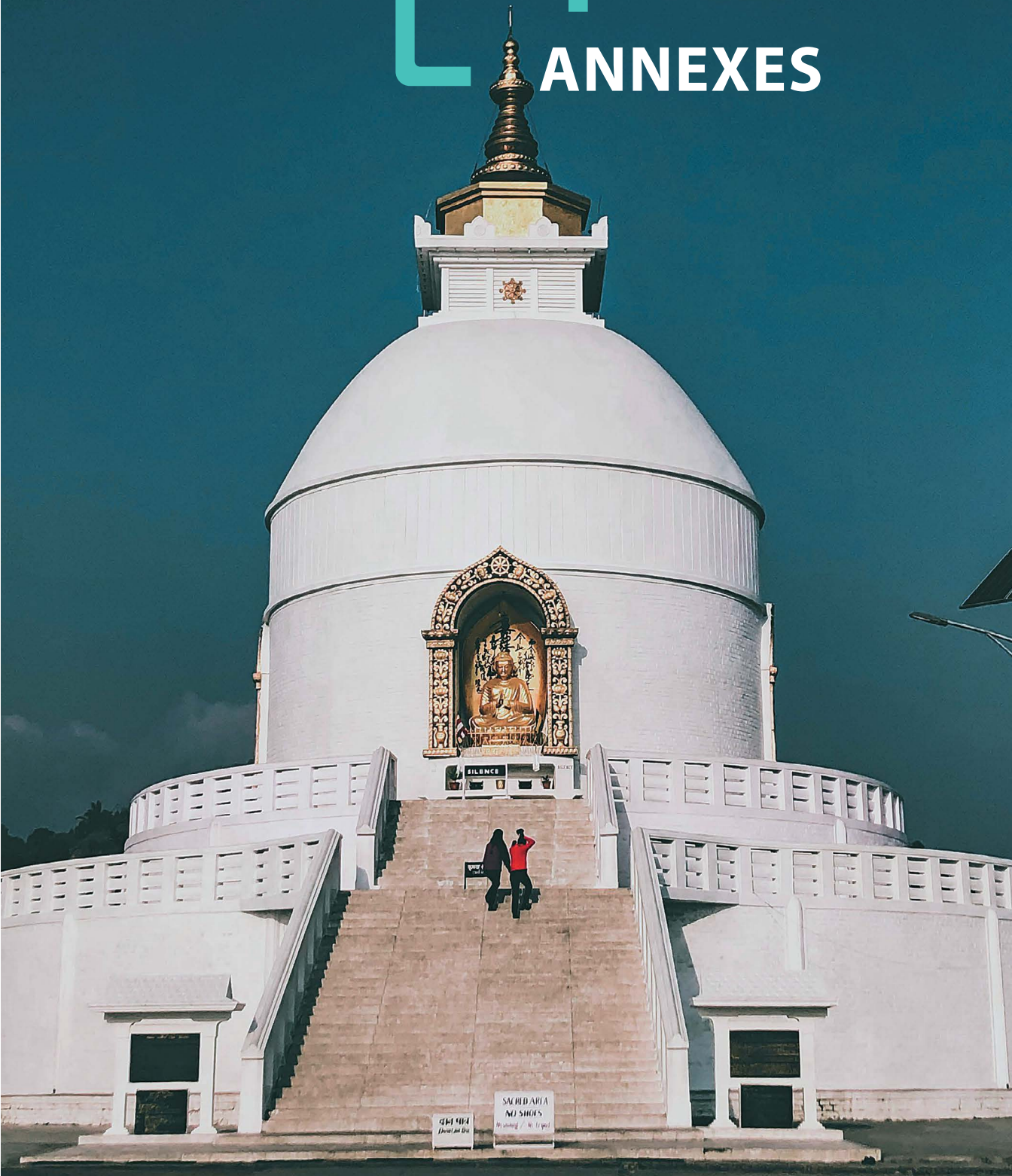
Improvements to the external audit function include integrating systems for planning, reporting, and follow-up; updating guidelines and standards; strengthening performance audit functions; and promoting citizen involvement through the CPA.

Finally, in February 2024, the PAC revised the 'Public Accounts Committee Procedures of the Gandaki Provincial Assembly' for orderly operation of committee proceedings.

Institutional considerations. The framework for PFM is outlined in the Constitution. The provincial government, led by the Chief Minister, is vested with powers to develop and implement plans, policies, and annual budgets within its respective jurisdiction, subject to legislative approval. PFM reform is led by the MoEA in collaboration with the OCMCM. It is coordinated with the GoN's PEFA Secretariat and development partners.



ANNEXES



Annexes



ANNEX 1: PI Summary

This annex summarizes the provincial performance at the indicator and dimension levels. Table A1.1 specifies the scores and provides a brief explanation for the scoring of each indicator and dimension of the 2024 PEFA PFM Assessment.

Table A1.1: PI Summary

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Intergovernmental fiscal relations	HLG-1	Transfers from higher level of government	C+	
	(i)	Outturn of transfers from higher level of government	A	Actual transfers were between 100 and 105 percent of the original budget estimates in two of the last three fiscal years.
	(ii)	Transfers composition outturn	B	Variance in transfer composition was less than 10 percent in each of the last three fiscal years.
	(iii)	Timeliness of transfers from higher level of government	D	Although a disbursement timetable is implicitly agreed by the GoN and SNGs for the fiscal transfers, actual disbursements were generally not made in accordance with the timetable during the last three fiscal years. Actual transfers were also not distributed evenly across each year or front-loaded.
	(iv)	Predictability of transfers	D	The GoN provides information about transfers for the fiscal year and the following fiscal year at the aggregate level for all provinces, but not province-wise separately.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Intergovernmental fiscal relations	HLG-2	Fiscal rules and monitoring of fiscal position	D+	
	(i)	Fiscal rules for subnational governments	D	Fiscal rules established by the GoN (federal government) are fully followed and respected by all provincial SNGs. However, these rules do not set a ceiling on the primary fiscal balance or the operating balance on budget for the provincial governments.
	(ii)	Debt rules for subnational governments	C	The IGFA Act and NNRFCA have established SNG debt ceilings, as well as sanction and enforcement mechanisms. However, they do not provide clear time-limited exemptions for specific circumstances.
	(iii)	Monitoring of subnational governments	B	The Consolidated Annual Financial Statements (CFS) covering financial positions of all provincial governments were prepared and submitted to the Central Government (MoF) and the OAG within six months of the end of FY2022/23.
Budget reliability	PI-1	Aggregate expenditure outturn	D	The aggregate expenditure outturn of the provincial government was below 75 percent of the approved aggregate budgeted expenditures in all of the last three fiscal years.
	PI-2	Expenditure composition outturn	D+	
	(i)	Expenditure composition outturn by function	D	Expenditure composition variance by function was more than 15 percent in two of the last three fiscal years.
	(ii)	Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification was more than 15 percent in two of the last three fiscal years.
	(iii)	Expenditure from contingency reserves	A	The budget for each of the last three fiscal years included a contingency, but no expenditure was incurred in any fiscal year.
	PI-3	Revenue outturn	D	
	(i)	Aggregate revenue outturn	D	Actual revenues ranged from 28.4 to 56.6 percent of budgeted revenues during the last three fiscal years.
	(ii)	Revenue composition outturn	D	The variance in revenue composition was more than 15 percent in two of the last three fiscal years.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Transparency of public finances	PI-4	Budget classification	A	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using the GFS and the COFOG.
	PI-5	Budget documentation	B	The provincial government's budget documentation for FY2023/24 fulfills six elements: four basic elements and two additional elements. Four elements are not fulfilled, and two elements are not applicable.
	PI-6	Subnational government operations outside financial reports	D+	
		(i) Expenditure outside financial reports	C	Expenditures of the EBUs for FY2022/23 amounted to 8.2 percent of the provincial government's total expenditures in FY2021/22.
		(ii) Revenue outside financial reports	C	Revenues of the EBUs for FY2022/23 amounted to 7.4 percent of the provincial government's total revenues in FY2021/22.
		(iii) Financial reports of extra-budgetary units	D	There is no evidence of submission of financial reports by the EBUs to the provincial government for FY2022/23.
	PI-7	Transfers to subnational governments	B	
		(i) System for allocating transfers	A	The horizontal allocation of all transfers to the local governments in the Gandaki Province is determined by transparent, rule-based systems.
		(ii) Timeliness of information on transfers	C	Information on fiscal equalization grants to local governments is issued nine weeks before their budget preparation deadlines. For the other three grants, representing more than 40 percent of fiscal transfers, local governments receive the information less than two weeks before their budget preparation deadline.
	PI-8	Performance information for service delivery	C+	
		(i) Performance plans for service delivery	B	Information is published annually about policy or program objectives, KPIs, and outputs to be produced for each program of most ministries.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Transparency of public finances	PI-8	(ii) Performance achieved for service delivery	B	Information is published annually on the activities performed by the ministries.
		(iii) Resources received by service delivery units	B	Information about resources received by frontline service delivery units is collected and recorded for at least four large ministries, but not disaggregated by source of funds. An internal report compiling the information is prepared annually.
		(iv) Performance evaluation for service delivery	D	Performance evaluations of service delivery have not been carried out for some ministries at least once within the last three years.
	PI-9A	Public access to information	C	The four basic elements are made available to the public, but not one basic and three additional elements.
	PI-9B	Public consultation	D	
		(i) Public consultation in budget preparation	D	Public consultation is not conducted during budget preparation.
		(ii) Public consultation in the design of service delivery programs	D	Public participation processes in designing service delivery programs are not carried out.
		(iii) Public consultation in investment planning	D	Public consultations are not conducted during the preparation of major investment projects.
Management of assets and liabilities	PI-10	Fiscal risk reporting	D	
		(i) Monitoring of public corporations	NA	The provincial government does not control or own any share in any public corporation.
		(ii) Monitoring of subnational governments	D	There is no evidence that unaudited FY2022/23 financial statements for the local governments within the Gandaki Province were published. A consolidated report concerning the financial position of all local governments, in the form of the provincial government's CFS, is published annually. The FY 2022/23 audited financial statements of the local governments were published more than nine months after the end of the fiscal year.
		(iii) Contingent liabilities and other fiscal risks	D	The provincial government has contingent liabilities, but reports contingent liabilities as 'non-available.' No other fiscal risks are reported.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Management of assets and liabilities	PI-11	Public investment management	D	
		(i) Economic analysis of investment proposals	D	There are no guidelines in place for economic analysis of investment projects.
		(ii) Investment project selection	D	There are no standard criteria in place for selecting major investment projects.
		(iii) Investment project costing	D	Projections of the total capital cost of major investment projects are not included in any budget document.
		(iv) Investment project monitoring	D	There is no available information to indicate that project monitoring related to physical progress or costs is undertaken.
	PI-12	Public asset management	C	
		(i) Financial asset monitoring	A	The provincial government maintains a record of its holdings of financial assets (mainly cash and receivables) in line with international public sector accounting standards, which are recognized at their acquisition (historical) cost. Information about performance is published annually.
		(ii) Non-financial asset monitoring	D	The provincial government maintains a fixed asset register, which has information about usage, but not age. Annual reports concerning fixed assets are prepared. The records of infrastructure and subsoil assets are not maintained.
		(iii) Transparency of asset disposal	D	Procedures and rules for the transfer and disposal of non-financial assets are established. Information about the transfer or disposal of assets conducted by the provincial government is not available, and neither the CFS nor budget documents include information.
	PI-13	Debt management	NA	
		(i) Recording and reporting of debt and guarantees	NA	There is no debt stock, and no guarantee is issued.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Management of assets and liabilities		(ii) Approval of debt and guarantees	NA	The Constitution and federal laws allow provincial governments to borrow and issue debt. Internal debt is managed by the NRB until the PDMO takes over this function; hence, debt transactions are presently reported to and monitored by two entities. Borrowing proposed in the FY2022/23 budget was approved by the Provincial Assembly, but it was not availed by the provincial government. However, the provincial government has no debt stock.
		(iii) Debt management strategy	NA	The provincial government has not prepared a medium-term debt management strategy (MTDS). However, there is no debt stock, and the provincial government does not plan to incur substantial debt in the current budget year.
Policy-based fiscal strategy and budgeting	PI-14	Medium-term budget strategy	D+	
		(i) Underlying forecasts for medium-term budget	C	The FY2023/24 budget documentation includes revenue and expenditure estimates for the budget year and the next two fiscal years.
		(ii) Fiscal impact of policy proposals	D	The provincial government does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policies at the level of individual policy initiatives.
		(iii) Medium-term expenditure and revenue estimates	C	The MTEF presents estimates of expenditure and revenue (by type) for the budget year and the next two fiscal years.
		(iv) Consistency of budget with previous year's estimates	D	There are no comparisons of the estimates with the previous year's MTEF, and no explanations provided regarding changes or deviations.
	PI-17	Budget preparation process	C	
		(i) Budget calendar	C	A clear annual budget calendar exists, and the overall timeline is adhered to. However, the timeliness for individual activities prescribed in the budget circular is not followed. The calendar allows budgetary units at least four weeks from the receipt of the initial budget circular to submit their estimates. All budgetary units are able to complete their detailed estimates on time.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Policy-based fiscal strategy and budgeting		(ii) Guidance on budget preparation	C	Budget Guidelines were issued covering ministry-wide total budget expenditures for the full fiscal year. Before circulation, the budget ceilings were approved by the PPPC at a meeting chaired by the Chief Minister. However, the PPPC issues supplementary budget guidelines with a breakdown of budget ceilings between recurrent and capital expenditures.
		(iii) Budget submission to the subnational council	C	The annual budget proposal is presented every year to the Provincial Assembly one month before the start of the new fiscal year.
	PI-18	Legislative scrutiny of budgets	D+	
		(i) Scope of budget scrutiny	D	The Provincial Assembly's review of the FY2023/24 budget proposals covered aggregate and detailed expenditures, but not revenues.
		(ii) Legislative procedures for budget scrutiny	D	The Provincial Assembly Regulation was approved in 2022. Thus, it was in place before the scrutiny of the FY2023/24 budget proposal took place. The procedures are largely adhered to, except for the review of revenue estimates.
		(iii) Timing of budget approval	A	The budgets for FY2021/22, FY2022/23, and FY2023/24 were approved before the start of the fiscal years.
		(iv) Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget adjustments by the executive, which were adhered to in most instances for FY2023/24. Extensive administrative reallocations are permitted.
Predictability and control in budget execution	PI-19	Tax administration	C+	
		(i) Rights and obligations for tax measures	A	For the single core tax of the provincial government (motor vehicle tax), taxpayers are given access to comprehensive, up-to-date information concerning the main tax obligation areas and rights, including redress processes and procedures.
		(ii) Property tax register and value assessment	NA	Property tax is administered by local governments.
		(iii) Tax risk management, audit and investigation	D	There is no structured and systematic approach for assessing and prioritizing compliance risk.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Predictability and control in budget execution		(iv) Tax arrears monitoring	D*	The data is not available to monitor the stock of motor vehicle tax arrears at the end of the last completed fiscal year.
	PI-20	Accounting for revenue	D+	
		(i) Information on revenue collections	A	The PFCO (under the MoEA) obtains revenue data at least monthly from all entities collecting SNG revenues. This information is broken down by revenue type and is consolidated into a report.
		(ii) Transfer of revenue collections	D	Entities collecting most SNG revenues transfer the collections directly into accounts controlled by the Treasury (PFCO). However, the provincial revenue share is transferred to provincial consolidated funds on a monthly basis, only after which are the funds available for use.
		(iii) Tax accounts reconciliation	C	For the core tax, that is, the motor vehicle tax, the Gandaki Provincial Government's assessments, collections, and transfers to the Treasury are reconciled at least within 10 days of the end of the month. However, aggregate information for tax arrears is not available.
	PI-21	Predictability of in-year resource allocation	B	
		(i) Consolidation of cash balances	C	A total of seven consolidated fund accounts, representing 94 percent of transactions during FY2022/23, were consolidated on a daily or monthly basis.
		(ii) Cash forecasting and monitoring	D	A consolidated cash flow forecast was not prepared for FY2022/23.
		(iii) Information on commitment ceilings	A	Spending units are able to plan and commit expenditures for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.
		(iv) Significance of in-year budget adjustments	A	Except for virements within approved limits, there were no in-year budget adjustments instigated by the MoEA in FY2022/23.
	PI-22	Expenditure arrears	C+	
		(i) Stock of expenditure arrears	A	The stock of expenditure arrears is no more than 2 percent of the total expenditures in two of the last three completed fiscal years.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Predictability and control in budget execution		(ii) Expenditure arrears monitoring	C	Data regarding the stock and composition of expenditure arrears are generated annually at the end of each fiscal year.
	PI-23	Payroll controls	D+	
		(i) Integration of payroll and personnel records	D	There is no systematic reconciliation between personnel and payroll data. The approved staff list is used as the basis for the salary budget.
		(ii) Management of payroll changes	D*	Information about the timing of changes to personnel records and payroll, as well as data concerning retroactive adjustments, are not available.
		(iii) Internal control of payroll	D	Insufficient controls are in place to ensure the integrity of the payroll data of the greatest importance.
		(iv) Payroll audit	C	Payroll audits have been undertaken within the last three completed fiscal years, but did not include physical verification.
	PI-24	Procurement	C+	
		(i) Procurement monitoring	D	Procuring agencies maintain contract records in individual files that include information on what was procured, the value of the procurement, and who was awarded contracts. The database for procurement using competitive methods is maintained in the e-GP, which is also incomplete. A complete database for procurement for noncompetitive methods is not readily available.
		(ii) Procurement methods	A	Based on the data collected from the sampled spending agencies, 80.3 percent of the sampled procurements were made through competitive methods in the last completed fiscal year.
		(iii) Public access to procurement information	C	Three of the six key procurement information elements are complete and reliable for all procuring agencies, thus representing most procurement operations. They are made available to the public in a timely manner.
		(iv) Procurement complaints management	B	The procurement complaints system meets five of the six criteria. Although there are no fees to file a complaint, a 1 percent deposit of the bid value is necessary to file a complaint, which prohibits easy access by the parties concerned.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Predictability and control in budget execution	PI-25	Internal controls on non-salary expenditures	B	
		(i) Segregation of duties	C	Although the legal framework prescribes the segregation of duties throughout the expenditure process, the responsibilities are not yet clearly laid down at the level of the spending units.
		(ii) Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist, but they provide only partial coverage. They are partially effective because cash flow plans are not prepared by spending units during the fiscal year.
		(iii) Compliance with payment rules and procedures	A	All payments are compliant with the established payment procedures. There are no rules in place that allow for exceptions to the payment procedures.
	PI-26	Internal audit	D+	
		(i) Coverage of internal audit	A	Internal audit is operational for all provincial government spending units. It covers 100 percent of budgeted expenditures and budgeted revenues for FY2023/24.
		(ii) Nature of audits and standards applied	D	Internal audit activities are primarily focused on financial compliance. The provincial government has not formally adopted any internal audit standards.
		(iii) Implementation of internal audits and reporting	A	Annual internal audit plans are prepared by the PFCO and its district-level units. All planned internal audits were completed, as evidenced by the internal audit reports being distributed to the appropriate parties.
		(iv) Response to internal audits	D	According to the FPFA Regulation, auditees are required to settle internal audit observations within the prescribed time frame and inform the PFCO/units. However, there is no requirement for auditees to provide formal replies concerning the internal audit reports, and there is no evidence available that the auditees provided responses.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Accounting and reporting	PI-27	Financial data integrity	C+	
		(i) Bank account reconciliation	B	Bank reconciliation for all active provincial government bank accounts takes place at least monthly, usually within four weeks from the end of the month.
		(ii) Suspense accounts	NA	There is no provision for suspense accounts in the provincial government's accounting system.
		(iii) Advance accounts	D	Reconciliation of advance accounts takes place at least monthly and within a month from the end of each month. Most advance accounts are not cleared on time.
		(iv) Financial data integrity processes	B	Access and changes to records are restricted and recorded, and this results in an audit trail. Different PFCO units are responsible for prioritizing data security and integrity. However, there is currently no separate report to confirm the verification of data integrity by these units.
	PI-28	In-year budget reports	C+	
		(i) Coverage and comparability of reports	C	The in-year budget execution reports allow direct comparison to the original budget for administrative and economic headings. The expenditures of the EBU are not included.
		(ii) Timing of in-year budget reports	A	Spending units prepare and submit monthly budget execution reports to their superior offices within seven days of the close of the month.
		(iii) Accuracy of in-year budget reports	C	There are no material concerns about the accuracy of data presented in the in-year budget reports, but expenditures stated in the reports are limited to the payment stage.
	PI-29	Annual financial reports	C+	
		(i) Completeness of annual financial reports	C	The CFS are prepared annually and allow for comparison between the original approved budget and actual expenditures. The CFS for FY2022/23 include information about revenues, expenditures, financial assets, financial liabilities, retentions, status of consolidated funds, and intergovernmental fiscal transfers.
		(ii) Submission of reports for external audit	B	The CFS for FY2022/23 were submitted for audit approximately 3.5 months after the fiscal year-end.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
Accounting and reporting		(iii) Accounting standards	B	The applied accounting standards are consistent with the legal framework and ensure consistency of reporting over time. The standards and limitations were disclosed in the notes to the CFS for the last three fiscal years. However, the formats and classifications were prepared following the NPSAS standards from FY2022/23, which align with the cash-basis International Public Sector Accounting Standards (IPSAS).
External scrutiny and audit	PI-30	External audit	D+	
		(i) Audit coverage	A	The OAG has audited the provincial government's CFS, as well as the EBU's financial statements for the last three fiscal years. The audit reports highlight relevant material issues, as well as systemic and control risks.
		(ii) Submission of audit reports to the subnational council	D	The audit reports for the last three fiscal years were submitted to the Provincial Assembly about 20.8, 8.8, and 8.33 months after the receipt of financial statements by the OAG for FY2020/21, FY2021/22, and FY2022/23, respectively.
		(iii) External audit follow-up	D	Formal responses concerning the OAG's audit findings were provided by about 70 percent of the auditees for FY2020/21 and FY2021/22, and about 18 percent for FY2022/23.
		(iv) Independence of the public audit institution in charge of subnational governments	C	The OAG operates independently of the executive with respect to the procedures for the appointment and removal of its head and the execution of its budget. It has unrestricted and timely access to most of the requested records, documentation, and information.
	PI-31	Legislative scrutiny of audit reports	D+	
		(i) Timing of audit report scrutiny	C	The legislature has completed its review of the audit reports concerning the annual financial reports of FY 2020/21 and FY2021/22, whereas the audit report for FY2022/23 was only received on July 15, 2024.

Pillar	Indicator/Dimension		2024 Score	Description of Requirements met in 2024
External scrutiny and audit		(ii) Hearings on audit findings	C	In-depth hearings concerning key findings of audit reports took place occasionally for FY 2020/21 and FY2021/22. Also, no pre-arranged schedule (calendar) for committee hearings in the last three completed fiscal years was available.
		(iii) Recommendations on audit by the subnational council	D	The PAC did not issue recommendations to be implemented by the executive during the last three completed fiscal years.
		(iv) Transparency of legislative scrutiny of audit reports	D	The PAC meetings are open to the media. The PAC has published reports for the last three completed fiscal years. However, these reports do not cover legislative review of the audit reports.

ANNEX 2: Summary of Observations on the Internal Control Framework

Table A2.1: Internal Control Framework

Internal Control Components and Elements	Summary of Observations
1. Control environment	
1.1. The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control maintained constantly throughout the organization	<p>The legislative structure of Nepal's civil service incorporates the values of ethics and integrity. The Provincial Assembly has enacted the Civil Service Act (2023) and Civil Service Rules (2023), as well as the GPPR Implementation Procedure (2024). Also, some EBU of the provincial government have formulated codes of ethics.</p> <p>The internal control framework incorporates specific control activities, and the adherence to internal controls is demonstrated by both internal and external audit reports.</p>
1.2. Commitment to competence	<p>The provincial government's civil service comprises distinct occupational groups, each based on the nature of work. Recruitment is conducted by the provincial PSC, which is a constitutional body. Upon induction, specialized training is provided to employees by training institutes. Performance agreements are managed by the provincial Civil Service Act and Rules, as well as other relevant laws. According to Section 29 (1) of the provincial Civil Services Act (2023), promotions are overseen by a Promotion Committee formed under the OCMCM, where evaluation of competence is the primary criterion.</p> <p>In 2021, the federal government published a TNA report that covers a competency framework for the PFM staff of Nepal (parts A, B, and C) for the three tiers of government. In 2023, the Gandaki Province Training Academy (GPTA) conducted and published a TNA that aims to enhance civil service capacity.¹¹³</p>

¹¹³ https://gpta.gandaki.gov.np/uploads/resources/1874152942-Report_TrainingNeedAssessment.pdf.

Internal Control Components and Elements	Summary of Observations
1.3. The 'tone at the top' (that is, management's philosophy and operating style)	<p>The Approach Paper for the provincial government's second Five-Year Plan (2024/25–2028/29) emphasizes good governance and aims to enhance public confidence in subnational governance. It states the necessity to enhance efficiency, a result-orientation, and accountability in public administration.</p> <p>However, the provincial government's philosophy and operating style are mainly focused on compliance. Hence, although regulatory obligations may be met, performance and accountability may fall short of expectations.</p>
1.4. Organizational structure	<p>The organizational structure is characterized by hierarchical arrangements, consisting of established reporting lines and defined responsibilities.</p> <p>The OCMCM is the apex executive body responsible for policy formulation, decision-making, and coordination among line ministries and directorates. It plays a crucial role in implementing provincial programs and ensuring efficient governance. The PPPC formulates the policies and plans of program/project implementation, as well as for M&E. It also conducts sector coordination and devises research. The <i>MoEA</i> is responsible for fiscal policy formulation, budget preparation, grant and revenue mobilization, the allocation of resources, and the management of public investments. The <i>PFCO</i> (under the <i>MoEA</i>) is responsible for treasury, accounting, reporting, and internal audit. The <i>PPRCCS</i> (under the OCMCM) is responsible for civil service personnel management. <i>Line ministries</i> formulate sector policies and implement plans and budgets.</p> <p>The leadership of each ministry is entrusted to a Secretary, who has full administrative authority and is responsible for overall operations.</p>
1.5. Human resource policies and practices	<p>Human resource policies and practices are contained in the abovementioned provincial legal acts and regulations, as well as some federal acts and regulations.¹¹⁴ Some provincial functions, such as education and health, are established and managed under provincial rules. The provincial PSC has implemented procedures for recruitment through a competitive process.</p>

¹¹⁴ For example, the Teacher Service Commission Regulation, Army Act, Police Act, and Armed Police Force Act.

Internal Control Components and Elements	Summary of Observations
2. Risk assessment	
2.1. Risk identification	<p>The first Five-Year Plan (FY2018/19–FY2023/24) identified potential risks that could hinder the achievement of development objectives. The Budget Speech for FY2023/24 also highlighted a few high-level risks that could affect the attainment of budget outcomes. Furthermore, the provincial MTEF includes risks that could affect the achievement of annual fiscal and performance targets.</p> <p>The provincial government has not recorded contingent liabilities, although they are known to exist. Also, risk registers are not maintained, and not all fiscal risks have been identified and documented. Furthermore, investment projects are not being comprehensively appraised, and risks associated with not achieving project objectives are not identified.</p> <p>Internal audit covers a significant volume of transactions; however, they do not employ a risk-based approach. External audit conducted by the OAG follows international standards and includes risk identification as an essential component of the audit process.</p>
2.2. Risk assessment (significance and likelihood)	<p>Despite the identification of risks in the first Five-Year Plan (FY2018/19–FY2023/24), the significance and likelihood of identified risks are not evaluated. Fiscal risk assessment should be based on the FY2022/23 financial statements of the 85 local governments. External audit reports should be published by the OAG on a timely basis. Also, the provincial MTEF lacks fiscal sensitivity analysis.</p>
2.3. Risk evaluation	<p>There is no process to measure the effectiveness of existing internal controls in mitigating identified and assessed risks. This hinders informed decision-making regarding risk management.</p>
2.4. Risk appetite assessment	<p>The provincial government has not conducted a risk appetite assessment to determine the overall level of risk tolerance or willingness to take risks to achieve development objectives.</p>
2.5. Responses to risk (transfer, tolerance, treatment, or termination)	<p>There is no documented risk management strategy in place; hence, officials make decisions about risk treatment and termination based on legislation, rules, and directives. Issues are sometimes transferred to the federal level by escalating questions to that level.</p>

Internal Control Components and Elements	Summary of Observations
3. Control activities	
3.1. Authorization and approval procedure	<p>The process of authorization and approval is comprehensively covered in legal acts, regulations, policies, and procedures. The PPPC and the MoEA are responsible for approving policies, plans, and budgets. The Secretary of each ministry has full administrative authority, which may be delegated to officials via office orders. The PFCO manages the treasury function, and payments are made using the TSA system, with authorization and approval limits configured in the system. The PPRCCS is responsible for human resource matters, including the creation of new posts.</p>
3.2. Segregation of duties (authorizing, processing, recording, and reviewing)	<p>The responsibilities for authorizing expenses, accounting, reporting, and asset custody are divided among different units of each entity. The segregation of duties is configured in the IT systems. However, most spending units lack dedicated SOPs.</p>
3.3. Controls over access to resources and records	<p>The FCGO is responsible for IT systems related to PFM. These systems are used by provincial ministries/agencies. To uphold data integrity, various security features and internal controls have been established to restrict unauthorized access and changes to records.</p>
3.4. Verifications	<p>Verification controls are prescribed and implemented for budgeting, payment processing, and financial reporting, with controls distributed between the line ministries.</p>
3.5. Reconciliations	<p>Entities collecting revenues and making expenditures reconcile their data with the PFCO, and the PFCO then reconciles the data with the banks. Spending units reconcile expenditures with the records of the PFCO on a monthly basis.</p> <p>Revenue-collecting banks reconcile revenues collected between the RMIS, CBS, and NRB. Final reconciliations with the PFCO and banks are conducted by the PFCO through the RMIS and FMIS.</p> <p>Payroll and personnel records are reconciled monthly, as required by the OAG.</p> <p>Advance accounts are reconciled monthly and take more time than prescribed to settle them.</p>

Internal Control Components and Elements	Summary of Observations
3.6. Reviews of operating performance	The MoEA conducts semiannual and annual budget reviews, and budget adjustments are made on that basis.
3.7. Reviews of operations, processes, and activities	Reviews of operations, processes, and activities are not regular and systematic. However, they are carried out depending on specific requirements, which may lead to measures implemented to achieve improvements.
3.8. Supervision (assigning, reviewing and approving, guidance, and training)	Secretaries are responsible for assigning responsibilities to the staff as well as delegating powers. The organizational structure follows a hierarchical model that involves layers of review and endorsement before final approval. There is no formal guidance or training mechanism as a part of staff supervision, but training institutes offer relevant training for officials.
4. Information and communication	
4.1. Information and communication	The MoEA, PPPC, PFCO, OCMCM, and OAG prescribe internal controls through official letters, orders, and directives. Spending units can request clarifications and guidance concerning internal controls.
5. Monitoring	
5.1. Ongoing monitoring	The PPPC has issued the Province and Local Level Monitoring and Evaluation Guidelines (2020) for the M&E of development projects. Several committees are in place. They oversee the status of programs and projects; review physical and financial progress; and explore and resolve problems that may arise. Also, each provincial ministry has a separate M&E department that monitors implementation. Additionally, internal and external audit functions are in place.
5.2. Evaluations	The OAG undertakes annual performance audits on a sample basis, primarily for development projects, to evaluate effectiveness, efficiency, and economy. Internal control evaluations are also an essential component of the external audits conducted annually. Additionally, development partners evaluate projects and, at the government's request, assess specific government functions.
5.3. Management responses	<p>The high-level provincial committees do not provide documentation for deviations from plans or identification of appropriate actions.</p> <p>There is no practice to provide a management response to the internal audit report. In many cases, management does not provide responses to external audit observations within the stipulated time, and the OAG's annual audit reports reveal an increasing volume of unsettled audit observations.</p>

ANNEX 3: Sources Of Information

Annex 3.A: Sources of Information

Table A3.1: Related Surveys and Analytical Work

Institution	Document Title	Year	Link
Bertelsmann Stiftung	Nepal Country Report, 2024	2024	https://bti-project.org/en/reports/country-report/NPL
Freedom House	Freedom in the World, Nepal, 2024	2024	https://freedomhouse.org/country/nepal/freedom-world/2024
International Budget Partnership	Open Budget Survey (OBS), Nepal, 2023	2024	https://internationalbudget.org/open-budget-survey/country-results/2023/nepal
World Bank and PEFA Secretariat	Nepal - Public Expenditure and Financial Accountability Assessment, Performance Assessment Report III (as of 2022).	2024	https://www.pefa.org/node/5030

Annex 3.B: List of People Interviewed

Table A3.2: List of People Interviewed - Group 1

No.	Institution	Person	Position	PIs
Assessment team				
	Provincial Financial Comptroller Office (PFCO)	Lal Prasad Acharya	Accounts Officer (Lead)	PI-22
		Sudip Gautam	Accounts Officer	PI-24
		Chandra Shekhar Sapkota	Accounts Officer	PI-26
		Raghu Nath Paudel	Accounts Officer	PI-30
		Padam Bahadur Thapa Magar	Accounts Officer	PI-31
		Kedar Prasad Adhikari	Accountant	
		Binod Regmi	Accounts Officer	
Other government officials				
Province Assembly	Hari Prasad Pokhrel	Secretary	PI-30	
Public Accounts Committee (PAC)	Prem Prasad Subedi	Under Secretary	PI-31	
	Padam Raj Baral	Accounts Officer		
	Chandrakala Basnet	Officer		

No.	Institution	Person	Position	PIs
	Water Resources and Irrigation Development Division Office, Kaski	Ramesh Sharma	Senior Divisional Engineer	PI-22
		Surya Prasad Paudel	Accounts Officer	PI-24
		Gitanjali Acharya	Engineer	PI-26
	Infrastructure Development Office, Kaski	Soviet Khadka	Senior Divisional Engineer	PI-30
		Laxmikant Sharma	Accounts Officer	PI-22
		Anup Thapa	Engineer	PI-24
	PFCO	Kishor Kumar Shrestha	Chief	PI-26
	District Treasury Controller Office (DTCO)	Ramesh Aryal	Chief	PI-30
	Gandaki University	Kailash Timilsina	Registrar	Overall
		Rajendra Subedi	Accounts Officer	HLG 1
		Sudeep Koirala	Planning Officer/Engineer	Extra-Budgetary Unit (EBU)-related
	Ministry of Energy Water Resources and Irrigation	Hari Dutta Paudel	Senior Divisional Engineer	PI-22
		Jiban Shrestha	Engineer	PI-24
		Damodar Tiwari	Engineer	PI-26
		Rajendra Regmi	Accounts Officer	PI-30
	Infrastructure Development Office, Parbat	Guru Prasad Adhikari	Acting Senior Divisional Engineer	PI-22
		Govind Prasad Sapkota	Accounts Officer	PI-24
		Yogesh Khawas	Engineer	PI-26
	Provincial Health Logistics Management Center	Nabaraj Wagle	Accounts Officer	PI-30
	PFCO Unit, Baglung	Dharma Bhakta Basyal	DTCO Chief	PI-24
		Krishna Prasad Acharya	Internal Audit Officer	PI-26
		Krishna Kumar Mahato	Accounts Officer	PI-30
	PFCO Unit, Parbat	Ram Nath Sharma	Acting DTCO Chief	PI-22
				PI-24
				PI-26
				PI-30

No.	Institution	Person	Position	PIs
	Public Procurement Management Office (PPMO)	Basudev Sharma Paudel	Member, Provincial Policy and Planning Commission (PPRC)	PI-24
		Bishnu Prasad Sharma	Joint Secretary	
		Ram Bahadur Basnet	Account Officer	
		Raju Shrestha	Computer Engineer	
	Financial Comptroller General Office (FCGO)	Ramchandra Sharma	Assistant Financial Comptroller	PI-27
		Krishna Sharma	Computer Engineer	
	Office of the Auditor General (OAG)	Padam Raj Poudel	Deputy Auditor General	PI-30
		Jayram Ghimire	Assistant Auditor General	
		Jitendra Shrestha	Director	

Table A3.3: List of People Interviewed - Group 2

No.	Institution	Person	Position	PIs
Assessment team				
	Ministry of Economic Affairs (MoEA)	Shree Prasad Adhikari	Under Secretary (Lead)	HLG-1
		Gita Ghimire	Under Secretary	HLG-2
		Kalpana Sapkota	Revenue Officer, Level VIII	PI-6
		Gyan Prasad Bhusal	Adminstrative Officer, Level VIII	PI-7
		Saraswoti Subedi	Officer, Level VI	PI-10
		Indra Kumari G.C.	Officer, Level VI	PI-12
				PI-13
Other government officials				
	Provincial Personnel Record and Communication Coordination Section (PPRCCS), Office of the Chief Minister and Council of Ministers (OCMCM)	Narayan Raj Paudel	Under Secretary	PI-19
		Rishi Ram Subedi	Officer	PI-20
		Sushil Baral	Computer Officer	PI-25

No.	Institution	Person	Position	PIs
	PFCO	Lal Prasad Acharya	Accounts Officer	PI-22
		Chandra Shekhar Sapkota	Accounts Officer	PI-23
		Sudip Gautam	Accounts Officer	PI-25
		Raghu Nath Paudel	Accounts Officer	
		Padam Bahadur Thapa	Accounts Officer	
	PFCO	Kishor Kumar Shrestha	Chief Treasury Comptroller	HLG-1
		Sudeep Gautam	Accounts Officer	HLG-2
		Lal Prasad Acharya	Accounts Officer	PI-6
		Chandra Sekhar Sapkota	Accounts Officer	PI-7
				PI-10
	PEFA Secretariat, Ministry of Finance (MoF)	Than Prasad Pangyani	Joint Secretary/PEFA Coordinator	PI-12
		Gokul Banstola	Under Secretary/ PEFA Member Secretary	PI-13
		Chitra Bahadur K.C.	Accounts Officer	PI-19
				PI-20
				PI-21
	FCGO	Ram Prasad Sharma	Under Secretary	HLG-2
		Mun Kumar K.C.	Under Secretary	PI-10
				PI-12
	Public Debt Management Office (PDMO)	Dilaram Giri	Under Secretary	PI-21
				HLG-2
	Transport Management Office (TMO), Pokhara, Kaski	Dilliram Rijyal	Office Chief	PI-13
		Bishan Thapa	Accountant	PI-19

Table A3.4: List of People Interviewed - Group 3

No.	Institution	Person	Position	PIs
Assessment team				
	Ministry of Economic Affairs (MoEA)	Rajendra Bandhu Aryal	Under Secretary (Lead)	PI-1
		Devendra Pandeya	Section Officer	PI-2
		Giridhari Upadhyaya	Account Officer	PI-3
		Basant Raj Dhakal	Revenue Officer, Level VII	PI-4
		Govinda Rijal	Computer Officer, Level VI	PI-5
		Tejendra Prasad Dhakal	Legal Officer	PI-28
		Dadhiraj Paudel	Officer, Level VI	PI-29
		Ram Chandra Paudel	Officer, Level VI	
Other government officials				
	Office of the Chief Minister and Council of Ministers (OCMCM)	Yamuna Pradhan	Secretary	PI-1
		Prabin Dhakal	Under Secretary	PI-2
	Provincial Assembly Secretariat, Gandaki Province	Hari Raj Pokharel	Secretary	PI-3
		Prem Subedi	Under Secretary	PI-4
	PFCO	Kishor Kumar Shrestha	PFCO Chief	PI-5
	District Treasury Controller Office, Kaski	Ramesh Aryal	DTCO Chief	PI-28
			PI-29	

Table A3.5: List of People Interviewed - Group 4

No.	Institution	Person	Position	PIs
Assessment team				
	Provincial Policy and Planning Commission (PPPC)	Dilliram Sigdel	Under Secretary (Lead)	PI-8
		Ram Prasad Wagle	Statistics Officer, Level VIII	PI-9A
		Nawaraj Paudel	Statistics Officer	PI-9B
		Sagar Khanal	Officer, Level VIII	PI-11
		Santosh Dhungana	Section Officer	PI-14
		Prakash Gautam	Accounts Officer	PI-17
		Santhosh Devkota	Computer Officer	PI-18
Other government officials				

No.	Institution	Person	Position	PIs
	Provincial Assembly Secretariat, Gandaki Province	Prem Subedi	Under Secretary	PI-9B
		Kumar Timilsina	Section Officer (Legal)	PI-14 PI-17 PI-18
	PPPC	Badri Nath Adhikari	Secretary	PI-8
		Shreejana Thapa	Computer Operator	PI-9A PI-9B PI-11 PI-14 PI-17 PI-18

Annex 3.C: Sources of Information used to Extract Evidence for Scoring Each Indicator

Table A3.6: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data sources
Intergovernmental fiscal relations	
HLG-1. Transfers from higher level of government	Constitution, laws (Intergovernmental Fiscal Arrangement Act, Federal Appropriation Act), Provincial Budget Formulation and Implementation Guideline, RMIS, IPFMS (CGAS), CFS, Annual Budgets (Red Books), official letters (PFCO), and federal MTEF.
HLG 1.1. Outturn of transfers from higher level of government	
HLG 1.2. Transfers composition outturn	
HLG 1.3. Timeliness of transfers from higher level of government	
HLG 1.4. Predictability of transfers	
HLG-2. Fiscal rules and monitoring of fiscal position	Constitution, federal FPFA Act (2019), federal FPFA Regulations (2021), IGFA Act (2017), NNRFC Act (2017), Loan and Guarantee Act (2011), Public Debt Management Act (2022), Provincial Appropriation Act (2022), PFCO's CFS FY2022/23, and provincial CFS FY2022/23.
HLG 2.1. Fiscal rules for subnational governments	
HLG 2.2. Debt rules for subnational governments	
HLG 2.3. Monitoring of subnational governments	
Budget reliability	
PI-1. Aggregate expenditure outturn	Budget Speeches, Annual Budgets (Red Books), and CFS.
1.1. Aggregate expenditure outturn	
PI-2. Expenditure composition outturn	
2.1. Expenditure composition outturn by function	
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn	
3.1. Aggregate revenue outturn	
3.2. Revenue composition outturn	

Indicator/dimension	Data sources
Transparency of public finances	
PI-4. Budget classification	Integrated Economic Codes and Classification (2017) and Budget Speeches.
4.1. Budget classification	
PI-5. Budget documentation	Budget Speech, Economic Survey, and MTEF.
5.1. Budget documentation	
PI-6. Subnational government operations outside financial reports	Constitution, official letters (MoEA-EBUs), OAG's 6th Annual Report for Gandaki Province for FY2022/23, annual reports, FPFA Act, FPFA Regulation, internal audit reports, EBU annual financial statements, and CFS.
6.1. Expenditure outside financial reports	
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	
PI-7. Transfers to subnational governments	Constitution, IGFA Act, federal and provincial Appropriation Act, NNRFC Act, NNRFC Regulation, NNRFC Recommendation, Unified Procedures related to Budget and Program Implementation (2021), Provincial Fiscal Management Act (2019), CFS and RMIS, Federal NPC Procedure for Special and Complementary Grant, Provincial Budget Formulation and Implementation Guidelines, and FPFA Act/Regulation.
7.1. System for allocating transfers	
7.2. Timeliness of information on transfers	
PI-8. Performance information for service delivery	Constitution, Annual Budget (Red Book), Annual Development Program, Provincial Appropriation Act, Annual Evaluation Report of Budget and Program of the MoEA, MTEF, Annual Progress Reports of PPPC, audit reports, and CFS.
8.1. Performance plans for service delivery	
8.2. Performance achieved for service delivery	
8.3. Resources received by service delivery units	
8.4. Performance evaluation for service delivery	
PI-9A Public access to fiscal information	FPFA Act, FPFA Regulation, Semi-Annual Evaluation Report of the Budget of FY2023/24, and OAG's 5th Annual Report for Gandaki Province for FY2021/22.
9A.1. Public access to fiscal information	
PI-9B. Public consultation	Budget Formulation and Execution Relating Guideline (2023), First Five-Year Plan (FY2018/19–FY2023/24), and OAG's 5th Annual Audit Report for Gandaki Province for FY2021/22.
9B.1. Public consultation in budget preparation	
9B.2. Public consultation in the design of service delivery programs	
9B.3. Public consultation in investment planning	

Indicator/dimension	Data sources
Management of assets and liabilities	
PI-10. Fiscal risk reporting	Constitution, federal FPFA Act (2019), federal FPFA Regulations (2021), Audit Act (2019), OAG formats, Unaudited CFS FY2022/23, and SuTRA.
10.1. Monitoring of public corporations	
10.2. Monitoring of subnational governments	
10.3. Contingent liabilities and other fiscal risks	
PI-11. Public investment management	First Five-Year Plan (FY2018/19–FY2023/24), MTEF, OAG’s 5th Annual Audit Report for Gandaki Province for FY2021/22, FPFA Act, and FPFA Regulation.
11.1. Economic analysis of investment proposals	
11.2. Investment project selection	
11.3. Investment project costing	
11.4. Investment project monitoring	
PI-12. Public asset management	Federal FPFA Act (2019), federal FPFA Regulation (2021), CFS for FY2022/23, Unified Economic Coded and Classification and Explanations (2017), PAMS, and Government Assets and Inventory Goods Auction Sale related Procedures (2022).
12.1. Financial asset monitoring	
12.2. Non-financial asset monitoring	
12.3. Transparency of asset disposal.	
PI-13. Debt management	Constitution, IGFA Act (2017), NNRFC Act (2017), Loan and Guarantee Act (2011), Public Debt Management Act (2022), Provincial Appropriation Act (2022), Public Debt Management Regulation (2023), and MTDS for FY2021/22 to FY2023/24.
13.1. Recording and reporting of debt and guarantees	
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	
Policy-based fiscal strategy and budgeting	
PI-14. Medium-term budget strategy	First Five-Year Plan (FY2018/19–FY2023/24) and MTEF.
14.1. Underlying forecasts for medium-term budget	
14.2. Fiscal impact of policy proposals	
14.3. Medium-term expenditure and revenue estimates	
14.4. Consistency of budget with previous year’s estimates	

Indicator/dimension	Data sources
PI-17. Budget preparation process	FPFA Act, FPFA Regulation, and Annexes of Budget Formulation and Execution Relating Guideline (2023).
17.1. Budget calendar	
17.2. Guidance on budget preparation	
17.3. Budget submission to the subnational council	
PI-18. Legislative scrutiny of budgets	FPFA Act, FPFA Regulation, Appropriation Acts, Provincial Assembly Regulation (2022), and OAG's 5th Annual Audit Report for Gandaki Province for FY2021/22.
18.1. Scope of budget scrutiny	
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
Predictability and control in budget execution	
PI-19. Tax administration	Constitution, IGFA Act (2017), Tax and Non-Tax Revenue Related Act (2018), Provincial Finance Act (2022), NRB's Government Transactions Directives (2015), Vehicle and Transport Management Act, Vehicle and Transport Management Regulations, and Unaudited CFS for FY2022/23.
19.1. Rights and obligations for tax measures	
19.2. Property tax register and value assessment	
19.3. Tax risk management, audit and investigation	
19.4. Tax arrears monitoring	
PI-20. Accounting for revenues	FPFA Act (2022), FPFA Regulations (2023), NPSAS Manual, Accounting Manual (2016), Unified Economic Codes, Classifications and Explanations (2017), Province Fiscal Management Act (2018), RMIS Unaudited CFS for FY2022/23, and Provincial CFS for FY2022/23.
20.1. Information on revenue collections	
20.2. Transfer of revenue collections	
20.3. Tax accounts reconciliation	
PI-21. Predictability of in-year resource allocation	FPFA Act (2022), FPFA Regulation (2023), NRB's Government Transaction Directive (2019), TSA system, RMIS, FMIS, Provincial Appropriation Act (2022), and Budget Formulation and Implementation Related Directives (2023).
21.1. Consolidation of cash balances	
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	FPFA Act, FPFA Regulation, OAG forms/formats, FMIS, Government Commitment Reports, internal audit reports, CFS, and OAG's 5th Annual Audit Report for Gandaki Province for FY2021/22.
22.1. Stock of expenditure arrears	
22.2. Expenditure arrears monitoring	

Indicator/dimension	Data sources
PI-23. Payroll controls	Constitution, Civil Service Act, Civil Service Regulation, Civil Officials Data recorded by PPRCCS, GPPR Implementation Procedure (2024), Federal Personnel Adjustment Act (2019), Provincial PSC Act (2023), Provincial PSC Regulation (2023), Federal Government Accounting Manual (2006), Payroll in IPFMS (CGAS), OAG forms/formats, Personnel Records Files (Manual), internal audit reports, personnel attendance reports, and OAG's 5th Annual Audit Report for Gandaki Province for FY2021/22.
23.1. Integration of payroll and personnel records	
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
PI-24. Procurement	PPA, Public Procurement Rules, PPPR, FY2021/22 Report of PPMO, e-GP System Operations Directives, https://www.bolpatra.gov.np/egp , https://ocmcm.gandaki.gov.np/list/regulation/s , and letters from sampled spending units.
24.1. Procurement monitoring	
24.2. Procurement methods	
24.3. Public access to procurement information	
24.4. Procurement complaints management	
PI-25. Internal controls on non-salary expenditure	OCMCM website, Gandaki Province Government (Work Division) Regulation (2023), FPFA Act, FPFA Regulation, Unified Procedures related to Budget and Program Implementation (2021), Provincial Fiscal Management Act, 2019, internal audit reports, and OAG's 5th Annual Audit Report for Gandaki Province for FY2021/22.
25.1. Segregation of duties	
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
PI-26. Internal audit	Internal Audit Procedure Directive (2016), Gandaki Province Internal Audit Procedural Directive, Consolidated Internal Audit Report of PFCO, PFCO's Internal Audit Plans for FY2022/23 and FY2023/24 (TSA/PFCO) and FY2023/24 Budget (Red Book), and letters and communication of PFCO and PFCO units/spending units.
26.1. Coverage of internal audit	
26.2. Nature of audits and standards applied	
26.3. Implementation of internal audits and reporting	
26.4. Response to internal audits	

Indicator/dimension	Data sources
Accounting and reporting	
PI-27. Financial data integrity	Government Transactions Directive (2019), TSA Directives (2016), Day Close Report (Daily), Bank Reconciliation Statements of PFCO, CFS FY2020/21–FY2022/23, Financial Report and Internal Audit Report of EBU's (Samples), Consolidated Internal Audit Report FY2022/23, OAG's 3rd Annual Audit Report for Gandaki Province for FY2019/20, OAG's 4th Annual Audit Report for Gandaki Province for FY2020/21, OAG's 5th and 6th Annual Audit Report for Gandaki Province for FY2021/22 and FY2022/23, FMIS reports, and communication with FCGO relating to IT systems.
27.1. Bank account reconciliation	
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	
PI-28. In-year budget reports	FPFA Act, FPFA Regulation, and Semi-Annual Evaluation Report of the MoEA.
28.1. Coverage and comparability of reports	
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
PI-29. Annual financial reports	FPFA Act, FPFA Regulation, Unified Integrated Economic Codes and Classification (2017), https://mof.gandaki.gov.np/ , and CFS FY2022/23.
29.1. Completeness of annual financial reports	
29.2. Submission of the reports for external audit	
29.3. Accounting standards	
External scrutiny and audit	
PI-30. External audit	OAG's 4th Annual Audit Report for Gandaki Province for FY2020/21; OAG's 5th Annual Audit Report for Gandaki Province for FY2021/22; OAG's 6th Annual Audit Report for Gandaki Province for FY2022/23 Financial Statements for FY2020/21–FY2022/23 submitted to the OAG; communication with the OAG concerning audit planning and auditee responses; and communication with the OCMCM, Provincial Assembly, and PAC.
30.1. Audit coverage	
30.2. Submission of audit reports to the subnational council	
30.3. External audit follow-up	
30.4. Independence of the public audit institution in charge of subnational governments	

Indicator/dimension	Data sources
PI-31. Legislative scrutiny of audit reports	Constitution, Provincial Assembly Regulations (2023), PAC Procedures (2018), OAG's 3rd Annual Audit Report for Gandaki Province for FY2019/20, OAG's 4th Annual Audit Report for Gandaki Province for FY2020/21, OAG's 5th Annual Audit Report for Gandaki Province for FY2021/22, OAG's 6th Annual Audit Report for Gandaki Province for FY2022/23, correspondence with the PAC and Provincial Assembly, and Annual Reports of the PAC for FY2020/21 to FY2022/23.
31.1. Timing of audit report scrutiny	
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the subnational council	
31.4. Transparency of legislative scrutiny of audit reports	

ANNEX 4: Calculations for HLG-1

Calculation Sheet for Transfers Outturn and Composition - HLG-1.1 and 1.2 (2024)

Table A4.1 - Fiscal Years for Assessment						
Year 1 =	2020/21					
Year 2 =	2021/22					
Year 3 =	2022/23					
Table A4.2 (NPR, millions)						
Data for year =	2020/21					
Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Earmarked transfers						
General public services	1,350	1,331	1,346	-15	15	1.1
Defense			0	0	0	
Public order and safety			0	0	0	
Economic affairs	2,850	3,500	2,841	659	659	23.2
Environmental protection			0	0	0	
Housing and community amenities	649	655	6470	8	8	1.3
Health	678	659	676	-17	17	2.5
Recreation, culture and religion			0	0	0	
Education	720	710	718	-8	8	1.1
Social protection			0	0	0	
Non-earmarked transfers						
Sum of non-earmarked transfers	14,687	14,010	14,639	-629	629	4.3
Non-earmarked transfer #1	7,113	7,113				
Non-earmarked transfer #2	7,574	6,897				
Total of other non-earmarked transfers						
Total transfers	20,934	20,865	20,865	0	1,335	
Overall variance						99.7
Composition variance						6.4

Table A4.3 (NPR, millions)

Data for year =	2021/22					
Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Earmarked Transfers						
General public services	12	10	13	-3	3	20.4
Defense			0	0	0	
Public order and safety			0	0.0	0	
Economic affairs	2,482	2,549	2,600	-51	51	2.0
Environmental protection	25	18	26.2	-8	8	31.3
Housing and community amenities	1,106	1,386	1,159	228	228	19.6
Health	1,297	1,604	1,359	245	245	18.1
Recreation, culture and religion	61	54	64	-10	10	15.5
Education	624	830	654	176	176	27.0
Social protection			0	0	0	
Non-earmarked transfers						
Sum of non-earmarked transfers	15,050	15,187	15,765	-578	578	3.7
<i>Non-earmarked transfer #1</i>	7,423	7,423				
<i>Non-earmarked transfer #2</i>	7,627	7,764				
<i>Total of other non-earmarked transfers</i>						
Total transfers	20,657	21,638	21,638	0	1,299	
Overall variance						104.7
Composition variance						6.0

Table A4.4 (NPR, millions)						
Data for year =	2022/23					
Functional head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Earmarked transfers						
General public services	86	18	65	-47	47	72.5
Defense			0	0	0	
Public order and safety			0	0	0	
Economic affairs	4,100	3,280	3,117	163	163	5.2
Environmental protection	66	30	50	-20	20	40.2
Housing and community amenities	2,242	1,490	1,705	-215	215	12.6
Health	864	500	657	-157	157	23.9
Recreation, culture and religion	95	271	72	199	199	275.2
Education	1,162	400	884	-484	484	54.7
Social protection			0	0	0	
Non-earmarked transfers						
Sum of non-earmarked transfers	17,167	13,613	13,052	561	561	4.3
<i>Non-earmarked transfer #1</i>	7,928	6,937				
<i>Non-earmarked transfer #2</i>	9,239	6,676				
<i>Total of other non-earmarked transfers</i>						
Total transfers	25,782	19,602	19,602	0	1,845	
Overall variance						76.0
Composition variance						9.4

Table A4.5 - Results Matrix			
	Year	Total Transfer Deviation HLG-1.1	Composition Variance HLG-1.2
	2020/21	99.7	6.4
	2021/22	104.7	6.0
	2022/23	76.0	9.4

ANNEX 5: Calculations for PI-1 and PI-2

Table A5.1: Data on Functional Classification for FY2020/21 (NPR, millions)

Functional Classification	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
General Public Service	5,199	4,368	4,775	-407	407	8.5
Public Order and Safety	21	17	19	-2	2	11.0
Economic Affairs	14,379	15,578	13,207	2,371	2,371	18.0
Environmental Protection	590	506	542	-36	36	6.7
Housing and Community Amenities	2,230	2,814	2,048	766	766	37.4
Health	1,257	1,135	1,154	-20	20	1.7
Recreation, Culture and Religion	41	14	38	-23	23	62.1
Education	1,895	1,189	1,741	-552	552	31.7
Social Protection	2,286	3	2,100	-2,097	2,097	100.0
Allocated expenditures	27,897	25,623	25,623	0	6,274	
Interests	5					
Contingency	6,440					
Total expenditures	34,342	25,623				
Aggregate outturn (PI-1)						74.6
Composition (PI-2) variance						24.5
Contingency share of budget						0.0

Table A5.2: Data on Functional Classification for FY2021/22 (NPR, millions)

Functional Classification	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
General Public Servi	3,653	2,883	3,112	-229	229	7.4
Public Order and Safety	15	12	13	-1	1	9.0
Economic Affairs	11,551	11,098	9,840	1,258	1,258	12.8
Environmental Protection	1,062	809	904	-95	95	10.5
Housing and Community Amenities	3,492	4,056	2,975	1,081	1,081	36.3
Health	2,174	1,947	1,852	95	95	5.1
Recreation, Culture and Religion	378	282	322	-40	40	12.2
Education	1,442	949	1,229	-280	280	22.8
Social Protection	2,112	9	1,799	-1,790	1,790	99.5
Allocated expenditures	25,877	22,044	22,044	0	4,869	
Interests	5					
Contingency	3,935					
Total expenditures	29,817	22,044				
Aggregate outturn (PI-1)						73.9
Composition (PI-2) variance						22.1
Contingency share of budget						0.0

Table A5.3: Data on Functional Classification for FY2022/23 (NPR, millions)

Functional Classification	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
General Public Service	3,032	2,742	2,280	462	462	20.2
Public Order and Safety	243	360	183	177	177	96.8
Economic Affairs	16,512	12,804	12,418	386	386	3.1
Environmental Protection	431	284	324	-40	40	12.3
Housing and Community Amenities	4,593	3,849	3,454	395	395	11.4
Health	2,756	1,994	2,073	-79	79	3.8
Recreation, Culture and Religion	435	343	327	15	15	4.7
Education	1,689	1,238	1,270	-33	33	2.6
Social Protection	1,710	2	1,286	-1,284	1,284	99.9
Allocated expenditures	31,401	23,615	20,414	0	2,870	
Interests	5					
Contingency	4,003					
Total expenditures	35,409	23,615				
Aggregate outturn (PI-1)						66.7
Composition (PI-2) variance						12.2
Contingency share of budget						0.0

Table A5.4: Results Matrix

Fiscal Year	For PI-1.1 - Total Expenditure Outturn (%)	For PI-2.1 - Composition Variance (%)	For PI-2.3 - Contingency Share (%)
2020/21	74.6	24.5	0.0
2021/22	73.9	22.1	
2022/23	66.7	12.2	

Table A5.5: Data on Economic Classification for FY2020/21 (NPR, millions)

Economic Classification	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	2,015	1,283	1,850	-567	567	30.6
Use of goods and services	5,666	3,974	5,203	-1,229	1,229	23.6
Consumption of fixed capital	16,944	17,596	15,560	2,035	2,035	13.1
Interest	5	0	5	-5	5	100.0
Subsidies	0	1	0	1	1	0.0
Grants	3,050	2,536	2,801	-266	266	9.5
Social benefits	179	211	164	47	47	28.6
Other expenses	43	23	40	-17	17	42.2
Total expenditures	27,902	25,623	25,623	0	4,167	
Composition variance						16.3

Table A5.6: Data on Economic Classification for FY2021/22 (NPR, millions)

Economic Classification	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	2,217	1,371	1,888	-517	517	27.4
Use of goods and services	6,016	3,898	5,124	-1,226	1,226	23.9
Consumption of fixed capital	14,950	14,464	12,733	1,731	1,731	13.6
Interest	5	0	4	-4	4	100.0
Subsidies		1	0	1	1	0.0
Grants	2,369	1,988	2,018	-30	30	1.5
Social benefits	262	282	223	59	59	26.4
Other expenses	63	41	54	-13	13	24.7
Total expenditures	25,882	22,044	22,044	0	3,581	
Composition variance						16.2

Table A5.7: Data on Economic Classification for FY2022/23 (NPR, millions)

Economic Classification	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	2,284	1,562	1,717	-155	155	9.0
Use of goods and services	5,595	4,074	4,207	-134	134	3.2
Consumption of fixed capital	20,530	15,261	15,437	-176	176	1.1
Interest	6	0	5	-5	5	100.0
Subsidies	0	0	0	0	0	0.0
Grants	2,727	2,359	2,051	308	308	15.0
Social benefits	211	319	158	160	160	100.8
Other expenses	53	40	40	1	1	2.0
Total expenditures	31,406	23,615	23,615	0	938	
Composition variance						4.0

Table A5.8: Results Matrix

Fiscal Year	Composition Variance
2020/21	16.3
2021/22	16.2
2022/23	4.0

Note on PI-2.1

Aggregate expenditure outturn data differ between Budget Speeches and CFS, which is shown in Table Annex 5.9. Function-wise expenditure data are not available in the Budget Speeches. Therefore, expenditure figures (functional and economic) are derived from the CFS, whereas budget figures are derived from the Budget Speeches.

Table A5.9: Comparison of expenditure outturn data (NPR, millions)

Fiscal year	Total actual expenditure		
	Budget Speech	CFS	Difference
2020/21	24,147	25,623	-1,477
2021/22	20,915	22,044	-1,129
2022/23	N/A ^a	23,615	—

Sources: Budget Speeches and CFS.

Note: a. Total expenditures for FY2022/23 will be included in the Budget Speech for FY2024/25, which is yet to be presented. This means that there is some uncertainty about the exact amount of actual expenditures.

ANNEX 6: Calculations for PI-3

Table A6.1: Data on Revenues for FY2020/21 (NPR, millions)

Revenues	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Taxes on income, profit and capital gains	1.5	0	0	0	0	100.0
Taxes on payroll and workforce	0	0	0	0	0	0.0
Taxes on property	0	0	0	0	0	0.0
Taxes on goods and services	54	0	15	-15	15	100.0
Other taxes	15	0	4	-4	4	100
Property income	12	2	3	-1	1	41
Sales of goods and services	1,947	723	553	170	170	30.8
Fines, penalties and forfeits	0	52	0	52	52	0.0
Miscellaneous	720	4	204	-201	201	98.2
Total revenue	2,750	780	780	0	444	
Revenue outturn (PI-3.1)						28.4
Composition variance (PI-3.2)						56.9

Table A6.2: Data on Revenues for FY2021/22 (NPR, millions)

Revenues	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Taxes on income, profit and capital gains	0	0	0	0	0	100.0
Taxes on payroll and workforce	0	0	0	0	0	0
Taxes on property	0	1	0	1	1	0
Taxes on goods and services	9	0	5	-5	5	100.0
Other taxes	9	0	5	-5	5	100.0
Property income	7	1	4	-3	3	80.9
Sales of goods and services	1,616	910	839	71	71	8.5
Fines, penalties and forfeits	200	36	104	-68	68	65.1
Miscellaneous	5	11	3	8	8	318.5
Total revenue	1,847	959	959	0	160	
Revenue outturn (PI-3.1)						51.9
Composition variance (PI-3.2)						16.7

Table A6.3: Data on Revenues for FY2022/23 (NPR, millions)

Revenues	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Taxes on income, profit and capital gains	1	0	0	0	0	100.0%
Taxes on payroll and workforce	0	0	0	0	0	0.0
Taxes on property	0	2	0	2	2	0.0
Taxes on goods and services	1	0	1	-1	1	98.2
Other taxes	8	0	5			
Property income	3	9	2	7	7	458.7
Sales of goods and services	1,650	970	933	36	36	3.9
Fines, penalties and forfeits	205	56	116	-60	60	51.8
Miscellaneous	12	27	7	20	20	292.8
Total revenue	1,879	1,063	1,063	5	126	
Revenue outturn (PI-3.1)						56.6
Composition variance (PI-3.2)						11.9

Table A6.4: Results Matrix for PI-3

Fiscal Year	Total Revenue Deviation	Composition Variance
2020/21	28.4	56.9
2021/22	51.9	16.7
2022/23	56.6	11.9

Table A6.5: Grants from Other Government Units (NPR, millions)

Fiscal year	Budget	Actual
2020/21	13,360	13,969
2021/22	13,030	13,875
2022/23	16,543	12,926

Note: The data in Table A6.5 are not included in the calculations above.

ANNEX 7: Detailed Data for HLG-1.3

Type of fiscal transfer	Timeline as per legal provision	FY2020/21			FY2021/22			FY2022/23		
		Correspondence date by federal PTCO/DTCO-Kaski	Actual received date-PFCO-Gandaki Province	Actual timeline	Correspondence date by federal PTC/DTCO-Kaski	Actual received date-PFCO-Gandaki Province	Actual timeline	Correspondence date by federal PTC/DTCO-Kaski	Actual date received -PFCO-Gandaki Province	Actual timeline
Fiscal equalization grant	August 19	September 17, 2020	September 18, 2020	1 day	August 31, 2021	September 5, 2021	5 days	October 13, 2022	October 13, 2022	Same day
	October 19	November 28, 2020	December 10, 2020	1 week, 5 days	December 26, 2021	December 26, 2021	Same day	January 8, 2023	January 10, 2023	2 days
	January 16	February 2, 2021	February 11, 2021	1 week, 2 days	February 6, 2022	March 14, 2022	1 month, 1 week	February 9, 2023	February 20, 2023	1 week 4 days
	April 14,	May 19, 2023	May 21, 2023	2 days	April 21, 2022	May 4, 2022	1 week, 6 days	May 2, 2023	May 3, 2023	1 day
Conditional grant	August 19	September 30, 2020	September 30, 2020	1 day	November 5, 2021	November 5, 2021	Same day	November 6, 2022	November 6, 2022	Same day
		October 15, 2020	October 15, 2020	Same day	April 15, 2022	April 19, 2022	4 days	January 9, 2023	January 9, 2023	
		February 2, 2020	February 11, 2020	1 week, 2 days	June 9, 2022	June 13, 2022	4 days	May 30, 2023	May 30, 2023	
		May 20, 2020	May 24, 2020	4 days				June 18, 2023	June 18, 2023	
		July 8, 2023	July 9, 2023	1 day						
Special grant		—	—	—	—	—	—	—	—	—
Complementary grant		September 30, 2020	October 1, 2020	1 day	October 26, 2021	October 26, 2021	Same day	November 6, 2022	November 6, 2022	Same day
		October 15, 2020	October 15, 2020	Same day						
		May 20, 2020	May 24, 2020	4 days						
		February 2, 2021	February 11, 2021	1 week, 2 days						

Type of fiscal transfer	Timeline as per legal provision	FY2020/21			FY2021/22			FY2022/23		
		Correspondence date by federal PTCO/DTCO-Kaski	Actual received date-PFCO-Gandaki Province	Actual timeline	Correspondence date by federal PTC/DTCO-Kaski	Actual received date-PFCO-Gandaki Province	Actual timeline	Correspondence date by federal PTC/DTCO-Kaski	Actual date received -PFCO-Gandaki Province	Actual timeline
Revenue	Monthly	August 30, 2020	August 30, 2020	Same day	August 24, 2021	August 24, 2021	Same day	September 4, 2022	September 4, 2022	Same day
		October 1, 2020	October 1, 2020		September 24, 2021	September 24, 2021		September 18, 2022	September 18, 2022	
		October 18, 2020	October 18, 2020		October 22, 2021	October 22, 2021		October 31, 2022	October 31, 2022	
		November 11, 2020	November 11, 2020		November 26, 2021	November 26, 2021		November 29, 2022	November 29, 2022	
		November 25, 2020	November 25, 2020		December 22, 2021	December 22, 2021		January 12, 2023	January 12, 2023	
		December 21, 2020	December 21, 2020		December 29, 2021	December 29, 2021		February 10, 2023	February 10, 2023	
		January 21, 2021	January 21, 2021		January 25, 2022	January 25, 2022		March 5, 2023	March 5, 2023	
		February 17, 2021	February 17, 2021		February 16, 2022	February 16, 2022		March 27, 2023	March 27, 2023	
		March 15, 2021	March 15, 2021		April 4, 2022	April 4, 2022		May 11, 2023	May 11, 2023	
		April 18, 2021	April 18, 2021		April 25, 2022	April 25, 2022		June 7, 2023	June 7, 2023	
		May 18, 2021	May 18, 2021		May 27, 2022	May 27, 2022		June 30, 2023	June 30, 2023	
		July 6, 2021	July 6, 2021		June 26, 2022	June 26, 2022		July 3, 2023	July 3, 2023	
					July 5, 2022	July 5, 2022				
Royalty	Monthly	January 12, 2021	January 12, 2021		December 30, 2021	December 30, 2021		February 10, 2023	February 10, 2023	



Public Financial Management Multi-Donor Trust Fund

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