Government of Nepal

Ministry of Federal Affairs and Local Development

Local Governance and Community Development Programme II

Fiduciary Risk Mitigation Meeting

Meeting Minutes

The Fiduciary Risk Mitigation Meeting was held on 12th May 2016 to update and plan for future activities related to fiduciary risk mitigation.

The meeting was chaired by Mr. Mahendra Man Gurung, Secretary of MoFALD who welcomed participants and mentioned that fiduciary risk is a major concern of the Government. Mr. Subas Chandra Shiwakoti, Under Secretary, highlighted on different aspects in line with meeting agenda.

Agenda:

1. Progress on recommendation of the last FRM meeting
2. PEFA-FRRAP implementation progress
3. Fiduciary risk investigation and its implementation
4. Progress on financial monitoring report
5. Discussion and Q&A
6. Decisions

The Fiduciary Risk Reduction Action Plan (FRRAP) is a major guiding document in mitigating fiduciary risk, which consists of 23 outputs under 6 outcomes. The programmes of MoFALD and LBs' are aligned on FRRAP. All Divisions & Departments of MoFALD and LBs are responsible to implement FRRAP.

I. Status on action taken in the last meeting on FRM.

Mr. Shiwakoti highlighted progress on agreed actions which are as follows:

Agreed actions	Action taken
Form a taskforce to revise FRRAP and approve in upcoming NAC meeting	Taskforce formed to revise FRRAP. Revision of FRRAP is in progress.
Revise ASIP in line with revised FRRAP	Draft FRRAP report taken into consideration while formulating ASIP 2016-17. ASIP 2016/17 shared with stakeholders
FRRAP tracking activity at central and district level	It is done but not adequately. It is planned to make it as a regular task in tracking the progress of FRRAP related activities.

Implementation of Audit Action Plan	Follow-up has been made from time to time, regional workshops organized on audit issues for LDOs/EOs and Finance Officers. A special workshop organized in Far Western region with representative of OAG for settling issues. For this, three focused team mobilized to address audit issues. Monthly meeting organized at MoFALD level and data analysis of audit suggestions is going on at MoFALD. The status of audit suggestions is shared to all Departments, DDCs, projects and other relevant unit
Financial Compliance Monitoring in LBs	Financial Compliance Monitoring completed in 5 DDCs, 9 Municipalities and 5 VDCs. Main focus related to improvement of the compliance situation at implementing level.

2. *PEFA-FRRAP implementation progress*

Mr. Siwakoti highlighted in brief the assessment of PEFA-FRRAP which are as follows:

Outcome 1: Improved Planning, Programming and Budgeting:

Major progress under outcome 1 includes DDCs and Muns conducted councils on time by following participatory planning process, inclusive and results based participatory planning guideline prepared and approved and training conducted for LBs' staff based on guidelines. No of VDCs reduced to 3157 from 3915 and no. of municipalities increased from 58 to 217. Unconditional grants to VDCs, Muns and DDCs provided based on MCPM results.

Outcome 2: Improved Funds Flow

An online system has been developed and used to share authorization to all implementing agencies. About 94.37% budget authorized to implementing agencies in FY 2015/16.

MIS system installed in 26 districts for managing social security cash transfer. Some VDCs have started to display the name of beneficiaries publicly (e.g. in Kaski district) to maintain transparency in social security payment. Government is encouraging this type of initiations.

Outcome 3: Improved Implementation including Procurement Management

All DDCs and Muns have established Procurement Unit and procuring goods and services based on the procurement plan. Most of the DDCs and Muns have introduced e-submission practice as per government's policy.

Users' manual prepared and distributed. LBs conduct public audit in all projects constructed through Users Committees. CD strategy of MoFALD prepared and operationalized capacity development plan.

Outcome 4: Improved Internal Accountability

In case of institutionalizing results based management at LBs, web based reporting system introduced in all DDCs and Municipalities (old 58) and performance agreement signed by MoFALD with LDOs and EOs to make officials accountable and results oriented.

71 DDCs are using accounting software, accounting software installed in 1196 VDCs, 240 VDCs are using the accounting software.

AORTS installed in all 75 DDCs, 3 DDCs (Gulmi, Bajhang and Rautahat) started to use the software, and MARS software development and piloting in Kathmandu Metropolitan City is in progress.

In strengthening the civic oversight, CSOs assigned for LBs compliance monitoring in 75 districts (LGAF-66 and SALGP-9) and civic oversight and public entitlements orientation provided to 26550 WCF by CSOs.

All DDCs, 191 muns, 50% VDCs placed citizen charter, public notice board, complaint box and citizen help desk. 75 DDCs, 142 (65%) Muns and 878 (28%) VDCs nominated Nodal Officer and Information Officer in improving transparency in local governance.

Outcome 5: Improved auditing and M&E

LGAF secretariat established. Update of internal audit guidelines for LBs is in progress, risk based performance audit conducted in FY 2014/15 in 4 DDCs (Jhapa, Palpa, Jumla and Surkhet). Settlement of audit issues is priority work of MoFALD. 20.4% progress is achieved up to May 15, 2016

Social Mobilization and NGO Section established in MoFALD, social mobilization guideline prepared, NGO co-ordination framework developed, mandatory system of pre-approval from respective DDC for working by NGO introduced.

Outcome 6: Improved Revenue Management

The local body revenue administration regulation drafted and IPT system strengthened and introduced in 61 municipalities.

3. ***Fiduciary risk investigation and its implementation***

- Regarding audit arrears, settlement has been made as 41% 42.8% and 20.4% in FY 2013/14, 2014/15 and 2015/16 (Up to May 15, 2016) respectively. Follow-up has been made on those entities whose arrears is higher than 5% of the transaction. In 15 districts' audit suggestions on 28 sub themes comparing 3 year's suggestions is going on and tried to improve/strengthen PFM activities. A project team has been mobilized for settling the respective project/programme's audit issues. Regarding the status and issues in audit

suggestions, major findings are advance, arrears (direct funding, not reported/submitted documents), procurement process, and objectivity of planned expenditure and reconciliation of financial reports.

- The compliance monitoring of LBs on legislative and policy requirement has been carried out in 66 districts by LGAF and in 9 districts by SALGP (SDC); it is operated in 200 municipalities and their 2856 wards, 2008 VDCs, 11886 WCFs. The CSOs are being mobilized in compliance monitoring of LBs. In order to improve in financial compliance there is a need to encourage to estimate cost in Nepali language, more orientation to users' committee in implementation phase, encourage conducting public audit on time and addressing the grievances raised.

- Investigation was carried out against staff working in MoFALD, DDC Kathmandu, Kathmandu Metropolitan Cooperation, Pokhara Sub-Metropolitan Corporation, VDC Secretaries of Sarlahi, Dhanusha, Humla, Siraha, Budhanilkantha Municipality, DDC Sarlahi, District Technical Office Nawalparasi, Mechinagar and Nepalganj Municipalities

- Registered cases of CIAA (472), NVC (70), Hello Sarkar (905), MoFALD (27) out of the registered cases CIAA 3(70), NVC (60), Hello Sarkar (899), MoFALD (27) redressed.

- Annual financial statement prepared on time, prepared audited project account, almost 94% budget released to implementing units and almost 51% budget spent of which recurrent being as 59.87%, capital as 32.76%.

4. Discussion and QA

Parakram Sharma, SPMP-TA:

- How PFM reform plan may fit in revised FRRAP?

Bhola Dahal, Norwegian Embassy:

- Regarding the issue raised on direct funding, aligned activities and TA, it will be improve from MoFALD's side.
- What is the status of Audited Project Accounts of JFA? When will it be available? It should have been approved from NAC.
- Why the volume of audit irregularities did not decrease after applying the FRRAP and other mitigation measures?
- The upcoming FRRAP should cover the suggestions of Sub-national PEFA Assessment and MTR of LGCDP.
- How can we focus on improving procurement process and preparing consolidated financial reports?

Mr. Yam N. Sharma, UNDP:

- Regarding the aligned activities, it is needed to think at the time of negotiation and planning stage.
- Highlighted major aspects of MTR reports. e.g. mobilization of Users Committee.

- There is problem of conflict of interest in internal auditing, and segregating procurement from finance.

Response on queries

Response from Mr. Amrit Lamsal Under Secretary:

All DDCs and municipalities have adopted web base reporting system to report progress on trimester basis to the ministry. MoFALD has intensified monitoring at regional and district level.

Response from Mr. Reshmi Raj Pandey, NPD :

It's a matter of concern as to how the issues of financial and governance are to implement ahead. It is in progress to develop the action plan of FRRAP. MoFALD is highly sensitive on all programmes that are running and the vigilance authorities are also active in our country

Closing Remarks by Mr. Mahendra Man Gurung, Secretary, MoFALD

Mr. Mahendra Man Gurung, Secretary thanked all participants for valuable inputs and expressed happiness for fruitful presentation and discussion. Mr. Gurung mentioned that Ministry has prioritized for FRAAP which was initiated during the first phase of LGCDP. It is high time to think about mitigation of risk in an overall way. There are some problems in systems as well, a continuous improvement is required in future. MoFALD is trying to adopt zero tolerance on fiduciary risk. MoFALD is recorded in second position in budget allocation and unique ministry also. There is a need to acknowledge the uniqueness of work nature of local development and volume of local development budget. For this, it is necessary to realise reality to improve local governance. We cannot criticize on the capacity of local government especially of VDCs because of number and level of human resources.

Decisions:

S.N.	Activities	Time period	Responsibility
1.	Finalization of FRRAP	Within one month	LGCDP/PCU
2.	Submission of project account	Before NAC meeting to be held on 8 June 2016	LGCDP/PCU
3.	Completion of monitoring of audit reports of selected LBs	Within July 15, 2016	Financial Administrative Section
4.	Mainstreaming all financial information of direct funding, aligned activities and TA	Within a month	Financial Administrative Section

List of Participants:

1. Mr. Mahendra Man Gurung, Secretary, MoFALD
2. Mr. Purna Chandra Bhattarai, Joint Secretary, MoFALD
3. Mr. Reshmi Raj Pandey, National Programme Director/ Joint Secretary, MoFALD
4. Mr. Jeevan Kumar Shrestha, Joint Secretary, MoFALD
5. Dr. Hari Poudel, Joint Secretary, MoFALD
6. Mr. Gopi Krishna Khanal, Joint Secretary, MoFALD
7. Mr. Chhabi Rijal, National Programme Manager/ Under Secretary, MoFALD
8. Mr. Subas Chandra Shiwakoti, ,Under Secretary (Account), MoFALD
9. Mr. Govinda Prasad Subedi, Under Secretary, MoF
10. Mr. Amrit Lamsal, Under Secretary, MoFALD
11. Mr. Gopal Prasad Aryal, Under Secretary
12. Dr. Bhola Prasad Dahal, Gov. Advisor, Norway
13. Mr. Anil Chandrika, DP Co-ordinator
14. Ms. Sangita Yadav, Programme Officer, Swiss Embassy
15. Dr. Raghu Shrestha, Co-ordinator, DP Cell
16. Mr. Mohan Dhakal, PFM Expert, DP Cell
17. Mr. Parakram Sharma, Consulatnt, TA/SPMP
18. Mr. Bhoj Raj Pandey, Consultant, TA/SPMP
19. Mr. Keshav Raj Subedi, Section Officer, MoFALD
20. Mr. Khem Raj Joshi, Section Officer, MoFALD
21. Mr. Bandhu Prasad Banstola, Under Secretary, MoFALD
22. Mr. Yam Nath Nyaupane, PFM Specialist, LGCDP-II
23. Mr. Basanta Raj Poudel, Accounts Officer, MoFALD
24. Mr. Guru Subedi, Under Secretary, MoFALD
25. Mr. Lilanath Upadhyaya, Na. Su, LGCDP
26. Mr. Hari Pangyani, Accounts Officer, LFCDP
27. Mr. Yam Nath Sharma, ACD, UNDP
28. Mr. Chakra Pani Sharma, Under Secretary, MoFALD
29. Mr. Him Lal Adhikari, Accounts Officer, MoFALD
30. Mr. Ramesh Sharma, A.O., LGCDP
31. Mr. Shiva Raj Pokhrel, Governance Specialist, LGCDP
32. Ms. Reshu Karki, Communication Officer, LGCDP
33. Mr. Bishnu Puri, Consultant, UNCDF
34. Ms. Radhika Shrestha, Office Assistant, LGCDP