

Government of Nepal
 Ministry of Federal Affairs and Local Development
 Good Governance Section
 Local Governance and Community Development Programme
 Fiduciary Risk Reduction Meeting
 Meeting Minutes

Date: 14 November 2014
 Location: MoFALD Meeting Hall
 Start Time: 11:00pm. End Time: 2:00pm
 Chair: Respected Joint Secretary, Mr. Purna Chandra Bhattarai)

Agenda	Discussion	Comments	Agreed
<p>The opening remarks were provided by Mr. Purusottam Nepal, National Project Manager, LGCDP and Undersecretary, Ministry of Federal Affairs and local Development (MoFALD). The National project Manager (NPM) welcome all the participants in the first Fiduciary Risk Mitigation (FRM) meeting of the year. This was followed by self-introduction of the members</p>			
<p>General Introduction</p>	<p>Mr. Subas Chandra Shiwakoti, Output 4 Manager, (Under Secretary MoFALD) presented details on Fiduciary risk Mitigation status and action plan in the meeting. The presentation provided over all status of the ministry action and steps taken on mitigating fiduciary risk. It provided an over view on the financial monitoring status of the ministry; status on Local Body financial Administration Regulation (LBFAR) and the revision process; local Public Expenditure Financial Accountability (PEFA) assessment status; Implementation status of the Fiduciary Risk Reduction Action Plan (FRRAP); fiduciary risk investigation progress status, Procurement</p>		

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	Plan Status of LBs and the way forward. It was reiterated that the PEFA FRRAP plan was developed in line with the core principles of Fiduciary Risk Mitigation (FRM).		

The presentation included handling queries followed by a plenary discussions at the end of the presentation

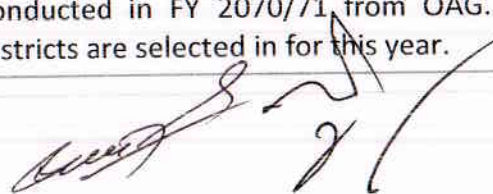
Financial Monitoring Status	<p>The main highlights on Financial Monitoring Status was as follows</p> <ul style="list-style-type: none"> - Implementation of District Development Committee –Financial Account management Programme (DDC-FAMP) - Fully running in 59 districts, Partially running in 12 districts, Focus intervention is needed in 4 districts (Mahottari, Mugu, Mustang and Darchula) - Progress in Implementation of VDC accounting Software, 600 VDC staffs trained and 250 VDCs have installed software in last FY - Plan to Roll-out to additional 750 VDCs is planned in this FY <ul style="list-style-type: none"> • Implementation of Accrual Accounting - Software installed in 6 municipalities in last FY as a piloting basis - Installation in additional 6 municipalities is planned 	<ul style="list-style-type: none"> • <u>Presentation with Statistics and numbers:</u> Mr. Siddhant Vikram from ADB mentioned that when presenting statistics and numbers there need to be both baseline data as well as the exact target time frame, without which comparison cannot be made and hence it will be difficult to measure progress. He raised an example of the slide on accountability tool in LBs where it is reported social audit was conducted in 19% of the VDCs, 57% municipalities and 63% DDC, but pointed out that unless one shows the last year's baseline it will be difficult to compare and assess progress. He also requested to demonstrate some achievement and/or products which are supporting to reduce fiduciary risks. • <u>VDC Accounting Software:</u> The other issue raised by ADB was on the VDC accounting software training 	<ul style="list-style-type: none"> • In response Mr. Shiwakoti mentioned the delay was caused due to some improvements brought in the training materials, which is more user friendly. It is hoped to roll out the new training module to reach out to 1000 VDCs by the end of this fiscal year. He assured that new software would be fully users friendly. Mr. Shiwakoti had also given clarification on this question of the maturity of software and details of roll-outing strategy including accounting training of the local staffs. • It was responded by the ministry that it will organize a separate demonstration on VDC accounting system for those partner who are
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	<ul style="list-style-type: none"> • Establishment of Financial Management Information system (FMIS) - Central FMIS at MoFALD level is working as standalone (It covers ministry level's budget and expenditure status) - Need assessment for improvement of current Data-base is completed. - Two Stages' improvement strategy will be adopted • Audit observation and its progress - 40.58 % of total arrears of audit observations are settled in last FY - 4.51% arrears are settled in this FY (upto 25th Kartik) - Audit observation record tracking system (AORTS) is developed for tracking audit arrears and its management. It is in testing phase now. - All LB's last year's Internal Auditing completed. Final auditing of DDCs from OAG is running. - Settlement of audit arrears is in top priority. 	<p>where for the past 9 months the number of VDC covered remains same (600) while the planed target is to be about 1000 VDC. This is very crucial as it is one of the tranche trigger that needs to be complied with for the release for the next trench. What is the ministry's plan and strategy regarding the same?</p> <p>UNDP asked for further clarification on the VDC accounting software. If there are problems why is the Ministry rolling this out instead of fixing the issue? Also it is not effective to train the VDC secretaries on these software as they are not the primary user, hence the training should be given to the assistant staff who is actually involved in using this software.</p> <ul style="list-style-type: none"> • Mr. Vikram from ADB mentioned that to strengthen FRM it is key to roll out MTBF down to the LBs level, this is one of the trench conditions for SPMP and hence the ministry needs to work toward achieving this target. <p><u>Technical Labs:</u></p> <ul style="list-style-type: none"> • The other concern raised by ADB was on the functionality of the technical labs. How effective are these labs especially in terms of assessing quality and ensuring quality control. Is there a 	<p>been to learn and understand this system. It was stated that work the Ministry is learning by doing and then improving as in terms of the accounting system. Hence, despite some technical glitch the aim is to still continue to roll out the system.</p> <ul style="list-style-type: none"> • As for the audit reports, the financial administrative section of the ministry cannot do any assessment of the quality of OAG audit reports, but the ministry will try to monitor the internal and external audit reports of VDCs and Municipalities in sampling basis. • All cases where fraud and misuse was committed on social security allowance or in terms of advance settlements and the official brought to book and the amount recovered should be reported as part of grievance complaints

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		<p>concept note on these labs? Can this be shared with the partner?</p> <ul style="list-style-type: none"> • UNDP concerns were also raised in terms of the quality lab to improve the quality assurance there need to be general guidance with clear guideline especially on the standards. This is key for ensuring that these labs more effective and useful at the DDC level. 	
<p>Status of LBFAR revision process</p>	<p>Since LBAFAR Revision has been a big priority of Ministry therefore, to this the following activities are being done with the following major focus</p> <ul style="list-style-type: none"> – Compatible with GFS code – Compatible with current PPA/PPR – Incorporate the "Gha Khata" (Local Body Fund) – Revision of formats to adopt accrual accounting system in municipality – Strengthen internal audit in LBs 		
<p>Local PEFA assessment status</p>	<ul style="list-style-type: none"> • Concept note approved and contract awarded. • For assessment purpose 10 DDCs, 10 Municipalities (including metropolitan and 1 sub-metropolitan), and 30 VDCs are selected as sample • Information collection completed in 7 DDCs, 6 Municipalities and 21 VDCs • Data analysis and interpretation work is under way 		<p>It was discussed and agreed not to change the FRRAP any further, but to implement with no further delay.</p>

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	<ul style="list-style-type: none"> • Remaining field work will be completed within 15 December 		
<p>Implementati on status of the FRRAP</p>	<p>In relation to improve planning, programme and budgeting, the following highlights were made</p> <ul style="list-style-type: none"> – local resource mobilization guideline improved – Participatory planning process strengthened related to annual and periodic plans – Performance based block grant allocation system is continued – PMs for VDC level piloted and guideline improvement is under way <p>In relation to improve implementation including procurement</p> <ul style="list-style-type: none"> – All DDCs and Municipalities are instructed to establish procurement unit – 48 (92.31%) Municipalities and 56 (74.67%) DDCs had prepared procurement plan (FY 2070/71) – Sample bid-document have been prepared in Nepali (for selection of local service provider) – Quality monitoring lab is established in 36 districts <p>In relation to improve internal accountability</p>	<p><u>FRRAP</u></p> <ul style="list-style-type: none"> • FRRAP should not be changed, but can add additional actions to make it more robust, as this is an approved action plan by the government. Since it is in implementation phase and will be difficult to meet the target due to frequent changes in FRRAP <p><u>Internal Audit:</u></p> <ul style="list-style-type: none"> • The representative from Denmark raised the issues on internal Audit. It was noted that the observation from the joint field visit-some of the VDC have not be audited past 3 year, no internal auditor had visited these VDCs. • Quality check on 10% of VDC on internal audit and other audits should be conducted as part of the quality assurance. All cases where fraud and misuse was committed on social security allowance or in terms of advance settlements and the official should be brought to book and the amount recovered should be reported as part of grievance complains. • ADB concerns were raised regarding the procurement documents that need 	<ul style="list-style-type: none"> • NPM mentioned that in terms of the FRRAP we need to have a small team to review the timeline and may also need to include some additional activities to improve fiduciary risk action plan. This will also help in earmarking funding from MoFALD to which the government is committed. • Ministry responded that in terms of the grievance and complaints, those cases where actions have been already taken should be widely published through media, press. Also those officials who were found guilty and department action taken should be put on websites.

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	<ul style="list-style-type: none"> - MoFALD has started to do performance contract to DDCs and Municipalities. It is done with 9 municipalities' up-to now. - Accrual accounting guideline is in approval process - Accounting software of DDCs/VDCs/Municipalities are expected to generate actual reports, which will contribute to improve internal accountability. - Internalized LGAF with new mandate in MoFALD - CSO selection process is in final stage for LBs compliance monitoring - Compliance monitoring guideline prepared. - Management audit done by MoFALD in 3 DDCs. - All payments (above Rs. 25000) are published in website - Public audit has been mandatory for final payment. <p>In relation to improve auditing and M&E</p> <ul style="list-style-type: none"> - Local PEFA assessment in selected LBs is going on - Internal audit guideline for LBs is in place. It is planned to revise. - Performance based audit in 6 DDCs have conducted in FY 2070/71, from OAG. 5 districts are selected in for this year. 	<p>to be compliant with PPMO standard documents. Plan need to be aligned with PPMO and this needs to be standardized both in Nepali and English.</p> <p><u>VDC external Audit:</u></p> <ul style="list-style-type: none"> • ADB raised the issue regarding municipality and VDC external audit, as no reports have been published on these audits. The exact ToR of the Financial & Monitoring compliance is not shared and hence it is not clear how it is aligned with the financial management system. It will also be useful to organize a separate technical session on these systems. • <u>Public Notices (Monitoring report, grievance handling, internal audits:</u> • UNDP asked for further clarification on the VDC accounting software. If there are problems why is the Ministry rolling this out instead of fixing the issue? Also it is not effective to train the VDC secretaries on this software as they are not the primary users; hence the training should be given to the assistant staffs who are actually using this software. • In terms of the grievance and complaints those cases where actions have been already take should be 	

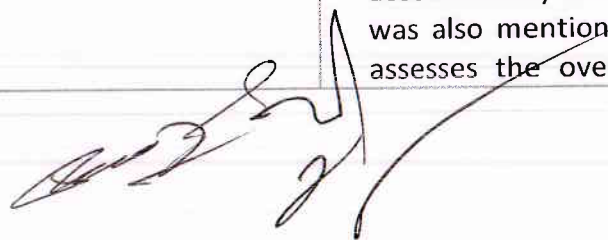


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	<ul style="list-style-type: none"> - Involvement of OAG in external audit of Municipalities and VDCs is proposed in the amendment of LSGA - RBM framework prepared - 6 groups of register auditor trained in regional basis. - Social mobilization and NGO section established in MoFALD. <p>In relation to improve revenue management</p> <ul style="list-style-type: none"> - Draft of revenue management guideline is prepared and consultation started - Revenue projection of the municipalities and DDCs is highly prioritized. Central grant is earmarked in this purpose. - Utilization of natural resources (sand, stone, gravel, etc.) is regulated as per the directed from parliamentary committee linked with environmental assessment - Institutionalization of IPT in 45 Municipalities 	<p>widely published though media, press and also those official who were found guilty and department action taken should be put on websites</p> <p><u>Public Notices (Monitoring report, grievance handling, internal audits:</u></p> <p>In terms of the progress of grievance and complaints those cases where actions have been already take should be widely published though media, press and also those official who were found guilty and department action taken should be put on websites</p> <p><u>Result Based Monitoring:</u></p> <ul style="list-style-type: none"> • Mr. Prakash Regmi from SDC raised the issue of result based reporting. Most of the reports are activity based and does not attribute to specific results, and this needs urgent improvement. It was mentioned by the ministry that a number of undersecretaries and joint secretaries are appointed to do regular monitoring in the field to assess what are the results. We need to clarify how these field visits are improving the performance on FRM. • Mr. Bholu Dahal from Norway brought the issue on monitoring report which 	

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		<p>should be made a public document and should be put on the website along with the ToR. This will be very useful in term of transparency. It is also important to conduct sample check on VDC & DDC Internal Audits for quality assurance. Also in the presentation it is found that the number of VDCs conducting social audit and public hearing is very high, but what about the quality? Is there any assessment conducted on the quality of these audits?</p> <ul style="list-style-type: none"> The monitoring reports and performance audit reports should be shared with Development partners. MCMP should be strengthened which will help in mitigating fiduciary risk. For those LDO and Executive officer who have entered into Performance Contract MCPM should be part of their performance measure. <p><u>MARS system:</u> In terms of the MARS system, it was shared that ADB has already completed the bid assessment and the contract will be soon awarded.</p>	
Fiduciary risk investigation	Mr. Siwakoti further highlighted on the investigation process and status		

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<p>progress status</p>	<p>carried out my Ministry, he presented the figures and grievances and complaints, its process of settlements, MoFALD's initiatives. He focused the types of complaints were basically under the following areas</p> <ul style="list-style-type: none"> - Procurement related - Distribution of social security allowance - Quality of construction works - Encroachment of public land - Irregularities in revenue collection <p>He further focused on few monitoring initiatives that were started. (e.g. 4 VDCs of Makwanpur and Chitwan districts have been monitored by MoFALD team) and he also informed that a financial monitoring and compliance unit has been planned to establish within November. He briefly mentioned the ToR of Unit</p>	<p><u>TORs of the new sections and Divisions of the Ministry:</u></p> <p>It was noted that the ToRs of the newly created divisions and sections within the ministry such as NGO coordination section, and various task forces should be shared for better understating and possible technical support.</p> <p>It was also discussed about the ToR of financial compliance monitoring unit which is proposed to establish under Financial Administration Section.</p>	<ul style="list-style-type: none"> • It was noted that the ToRs of the newly created sections within the ministry such as NGO coordination section, and various task forces should be shared for better understanding and possible technical support. • Ministry responded that the ToR of financial compliance unit will be shared to DPs
<p>AOB</p>	<p>Performance Based Contract With LBS</p> <p>Mr. Gopi Krishna Khanal highlighted on Performance Contract to ensure the fiduciary risk reduction mitigation strategy and good governance in system</p>	<ul style="list-style-type: none"> • UNDP raised the issue of performance contract recently introduced by the ministry where the LDO and the Executive Officer of the municipalities will enter into a performance agreement with Secretary MoFALD. This arrangement will ensure individual accountability of these key officials. It was also mentioned that MCPM only assesses the overall performance of 	<ul style="list-style-type: none"> • It was noted by Mr. Gopi Krishna Khanal that Performance contract agreement will be made between the EOs and the Secretary of 130 Municipalities. The performance has 52 indicators that will ensure accountability of the EOs.



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		<p>the LBs, but does not account for individual performance, whereas this new arrangement will ensure that these key officials are accountable for the overall performance of the LBs. one of the key indicators is zero tolerance to corruption. This is a good step forward in term of accountability. But it is unclear who will make this assessment, and what is the system or mechanism put in place</p> <ul style="list-style-type: none"> • Questions were raised regarding the monitoring reports and performance audit reports should be shared with Development Partners. MCMP should be strengthened which will help in mitigating fiduciary risk. For those LDOs and Executive Officers who have entered into Performance Contract MCPM should be part of their performance measure. 	<p>The contract document to be shared with DPs.</p> <ul style="list-style-type: none"> • Mr. Gopi Khannal, Joint Secretary MoFALD mentioned that Municipal Transport Master plan (MTMP) has been one of the key priorities of the government, as this plan will provide clear guidance in term of planning urban infrastructure. In terms of the periodic plan and annual plan the government is initiating land use plan which is very key toward more inclusive spacial planning. • In terms of the periodic plan and annual plan the government is initiating land use plan which is very key toward more inclusive spacial planning.
Way forward	<p>There were few actions to mitigate the risk to reduce the fiduciary risks, however, the following areas were addressed explicitly,</p> <ul style="list-style-type: none"> • Roll-out of VDC account software will be started from Dec'14 • Capacity development of internal auditors' is planned in this FY 		<ul style="list-style-type: none"> • The ToRs of the newly created sections within the ministry such as NGO coordination section, and various task forces should be shared for better understanding and possible technical support.

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	<ul style="list-style-type: none"> • Audit Observation and Record Tracking System (AORTS) will be implemented at least 2 districts • FMIS will be strengthened with two stages strategy: <ul style="list-style-type: none"> – Improvement of current system in short term – Develop web-based financial reporting and monitoring system • Audit and procurement plan of LBs will be monitored regularly • Wider consultation will be made for LBFAR revision. • PEFA assessment of selected LBs will be completed in this FY • PETS is planned for May-July'15 • FRRAP will be updated in line with PEFA recommendation • All major decisions will be disseminated through website. 		

Participants List:

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29	Krishna Pd Gyawali	PAM	/MOFALD		
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31	Sangita Bhattarai	TC	LGCDP		
32	Surendra Bhandari	AFO	LGCDP		

