

FIDUCIARY RISKS REDUCTION ACTION PLAN (FRRAP)

July 2015 to July 2017

Fiduciary Risks Reduction Action Plan Implementation Period

Original Period: March 2012 – July 2015

Extended Period: July 2015 - July 2017



Government of Nepal
Ministry of Federal Affairs and Local Development
Singha Durbar

Foreword

Fiduciary risks is the risks of not utilizing funds for their intended purposes, not achieving value for-money and/or not properly accounted the revenues and expenditures. Any circumstance or situation that prevents from managing the funds in an economic, efficient, effective and equitable manner invites fiduciary risks. Fiduciary risks can be caused by varieties of factors, including weak control system, inadequate organizational capacities and staff incompetence.

A sound public financial management is an important ingredient to reduce fiduciary risks. Public financial management is a system through which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public services. The principles of efficiency, effectiveness and equity are the fundamental objectives of sound public financial management.

The Government of Nepal has taken various measures to improve public financial management system such as strengthening participatory planning process, improving accounting and reporting systems, promoting transparency, enhancing capacity and ensuring downward accountability in local bodies.

The Fiduciary Risks Reduction Action Plan (FRRAP) has identified the activities to address the essential public financial management reform initiatives for mitigating and minimising the fiduciary risks associated with local bodies operations. The action plan covers the public financial management processes like planning, budgeting, implementing, accounting, auditing, reporting and monitoring. This action plan is a successor of previous action plan which was introduced in March 2012 for the period till July 2015.

I would like to thank all who devoted their time and energy to prepare this action plan.

Kedar Bahadur Adhikari

Secretary

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Fiduciary Risks Reduction Action Plan

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Abbreviations

ASIP	Annual Strategic Implementation Plan
CAC	Citizens Awareness Centre
CD	Capacity Development
CIAA	Commission for the Investigation of Abuse of Authority
CTDP	Comprehensive Tour Development Plan
DADP	District Annual Development Plan
DDC	District Development Committee
DDF	District Development Fund
DP	Development Partners
DSMC	District Supervision and Monitoring Committee
DSMCC	District Social Mobilization Coordination Committee
DTCO	District Treasury Controller's Office
DTMP	District Transportation Master Plan
EO	Executive Officer
FAS	Financial Administration Section
FCGO	Financial Comptroller General Office
FRRAP	Fiduciary Risks Reduction Action Plan
FRM	Fiduciary Risks Management
GoN	Government of Nepal
HRDS	Human Resources Development Section
ITDS	Infrastructure and Technology Development Section
LB	Local Body (refers to all levels of local government)
LBFC	Local Bodies Fiscal Commission
LDO	Local Development Officer
LGCDP	Local Governance and Community Development Programme
LSGA	Local Self-Governance Act
LSGR	Local Self-Governance Regulation
LBFAR	Local Body Financial Administration Regulation
LBRMS	Local Body Revenue Mobilization Section

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LBRMMG	Local Body Resource Mobilization and Management Guidelines
MADP	Municipal Annual Development Plan
M&E	Monitoring and Evaluation
MCPM	Minimum Conditions and Performance Measures
MDAC	Ministerial Development Action Committee
MDF	Municipal Development Fund
MES	Monitoring and Evaluation Section
MIS	Management Information System
MMS	Municipal Management Section
MMTP	Municipality Transport Master Plan
MoFALD	Ministry of Federal Affairs and Local Development
MTBF	Medium Term Budget Framework
NGO	Non-Governmental Organization
NPC	National Planning Commission
NPPR	Nepal Portfolio Performance Review
NVC	National Vigilance Centre
OPMCM	Office of the Prime Minister and Council of Minister
OAGN	Office of the Auditor General Nepal
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFMA	Public Financial Management and Accountability
PFM	Public Financial Management
PPMO	Public Procurement Monitoring Office
PS	Planning Section
RBM	Results Based Management
RDS	Rural Development Section
RF	Results Framework
SQAS	Standard and Quality Assurance Section
SWAp	Sector Wide Approach
SMNCS	Social Mobilization and NGO Coordination Section
TSA	Treasury Single Account
UG	User Group
VADP	Village Annual Development Plan
WCF	Ward Citizen Forum
VDC	Village Development Committee
VDF	Village Development Fund

Foreword

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1. Background

The Fiduciary Risks Reduction Action Plan (FRRAP) integrates Public Financial Management (PFM) and related fiduciary risks into a comprehensive action plan. FRRAP charts out the activities aiming to achieve the outputs ultimately resulting to the intended impact. The activities to address the identified risks as listed out in the risk matrix and the action plan includes priorities, timing, and responsibilities.

The FRRAP, 2015- 2017 is a successor of the previous PEFA -FRRAP, which was introduced in March 2012 for the period till July 2015 and was applauded from various corners as an encouraging intervention introduced by the GoN amidst widely reported mismanagement of local body resources. The outcomes, outputs, mitigation measures and milestones of PEFA-FRRAP are revised in this FRRAP. The duration of revised action plan FRRAP will be from July 2015 to July 2017.

2. Purpose of the Action Plan

The FRRAP identifies the tasks and activities in order to address the essential public financial management reform initiatives and for mitigating and minimising the fiduciary risks associated with local bodies operations. This action plan is a continuation of the on-going reform of local governance and development embarked upon by the Ministry of Federal Affairs and Local Development (MoFALD) with the support of Local Governance and Community Development Programme II (LGCDP II). The action plan brings together the key PFM and fiduciary risks reduction measures based on the laws related to local bodies - viz. LSGA 2055, LSGR 2056, LBFAR 2064, LBRMMG 2069, MCPM manual, LGCDP programme document etc.

The purpose of this action plan is to devise concrete and concerted measures for addressing the issues and concerns related to public

financial management, including public expenditure and fiduciary risks in local governance in general and local bodies in particular. A public financial management system is a system and process of planning, budgeting and implementation, including procurement management, accounting, reporting and auditing of public funds related to both expenditures and revenues with the aim of improving the delivery of public services at local level. The focus of PFM is not only on technical processes involved in allocating and managing scarce resources, but also on roles, responsibilities, institutional incentives and information required for making the best use of those resources.

This action plan is not meant to be a substitute for all on-going reform of local governance, rather it aims to complement the GoN's initiatives to institute local good governance through improvement in economy, efficiency and effectiveness in the management of scarce public resources by local bodies.

3. Review of PEFA-FRRAP 2012-2015

The Public Expenditure and Financial Accountability- Fiduciary Risks Reduction Action Plan 2012- 2015 (PEFA- FRRAP) consists of 6 outcomes, 21 outputs and 92 indicators. An overall progress of PEFA- FRRAP 2012-2015 was 41%. In other words 41% of the indicators were fully complied(annex 1).In terms of outcomes, the progress was 46% in improved planning, programming and budgeting (outcome 1) while in improved fund flow (outcome 2) the progress was 23%. Similarly, the progress in improved implementation (outcome 3) was 38 % while in improved internal accountability (outcome 4) the progress was 58 %. In case of improved auditing and M&E (outcome 5) the progress was 47% while in improved revenue management (outcome 6) the progress was 10 % only.

In outcome 1, the progress was achieved in indicators such as at least 1/3 of projects in annual plan must come through WCFs, all projects in annual plan of LBs must be recommended by Integrated Plan Formulation Committee, LBs allocated targeted budget for women, children and disadvantaged groups, etc.

In outcome 2, the progress was achieved in indicators such as treasury single account introduced in all districts and fully operationalized, MoFALD issues expenditure authorities to LBs on time, and timely disbursement of fund by DPs etc.

In outcome 3, the progress was achieved in indicators such as annual procurement plan prepared by DDCs and municipalities, public audit institutionalized, all projects implemented only after approval of design and costs estimate etc.

In outcome 4, the progress was achieved in indicators such as annual performance plan for

executive of LBs introduced, LBs adopted public hearing, and public audit guidelines, etc.

In outcome 5, the progress was achieved in indicators such as audit guidelines of LBs improved, results based reporting system in place, web-based reporting system introduced in DDCs and old municipalities, etc.

In outcome 6, the progress was achieved in indicator such as DDCs and Municipalities forecasted their revenue.

The Fiduciary Risks Reduction Action Plan is revised based on the progress achieved so far and continuing relevant activities, deficiencies observed and lessons learnt.

4. Concept of Fiduciary Risks and Objectives of FRRAP

Fiduciary risks is the risks of not utilizing funds for their intended purposes, using available funds in less priority areas, not achieving value for-money and/or not properly accounted for the revenues and expenditures. The realization of fiduciary risks can be caused by variety of factors, including weak control systems, inadequate organizational capacities, staff incompetence, bureaucratic inefficiency or corruption. Fiduciary risks also may cause from poor governance, weak capacities or lack of an enabled accountability mechanism. Any circumstance or situation that prevents local bodies from managing the funds in an economic, efficient, effective and equitable manner invites fiduciary risks. Fiduciary risks are the combination of inputs, process and result risks.

Managing fiduciary risks includes understanding of:

- (i) Fiduciary risks environment;
- (ii) Appropriate processes for mitigating the risks associated with proper use of funds
- (iii) Procedures for monitoring performance of an on-going basis.

Fiduciary risks can have both macro and micro level causes. From a mitigation perspective, FRRAP tries to balance potential benefits of selected actions with various options, priorities and circumstances of local body operating environments. From a monitoring perspective, the FRRAP seeks to proactively manage fiduciary risks as well to be better positioned to spot new or changing risk.

Public Expenditure Financial Accountability (PEFA) strengthens the financial management and accountability functions of government. It is a tool or process for conducting assessment of public financial management system. It consists of prioritized actions centered on a set of mutually supportive measures that are feasible, realistic and sustainable and that can generate substantial improvements in PFM performance on a year over year basis.

The main objective of the FRRAP is to strengthen public financial management, reduce fiduciary risks and to improve the transparency and accountability of public expenditures.

The strategies required to meet the objectives of FRRAP are to strengthen participatory planning processes; improve accounting and reporting systems; promote transparency; enhance capacity; mitigate perceived risks; and strengthen civic oversight to ensure downward accountability in local bodies.

Specific objectives of FRRAP are as follows:

Maintaining fiscal discipline:

Fiscal discipline means having clear targets for public expenditure and ensuring that these targets are maintained during budget execution. A lack of fiscal discipline increases the likelihood of unplanned expenditures, which can erode the achievement of value-for-money. Fiscal discipline demands realistic revenue and expenditure projections, which in turn require that the organizational capacities and systems are in place for setting clear revenue and expenditure targets and for accurately predicting intergovernmental fiscal transfers. Fiscal discipline also demands that a robust control mechanism is in place for maintaining expenditure level within the limit set out in annual plans.

Allocation of resources in strategic priorities:

The strategic allocation of scarce resources in yearly development plans is another key objective of PFM. The underlying principle of local finance is to address local policy preferences through annual budgetary allocation. Budget should be financial mirror that reflect the common choices of local citizens. The periodic plan of local bodies will set the sectoral directions for yearly development plans. These strategic directions will differ from place to place and from context to context. During pre-planning workshops, DDC formulate the broader guidelines for the strategic allocation of development resources. The prioritization of activities is crucial to prioritization of local preference based on participatory planning process.

Ensuring value-for-money:

Value-for-money is ensured when local bodies are able to provide cost-effective services to local citizens in an accountable manner. Value-for-money also requires the provision of inclusive and responsive services to local people. The principle of efficiency, effectiveness and equity are the fundamental objective of sound public financial management.

5. Public Financial Management (PFM) and Scope of FRRAP

Public financial management, in its broadest sense, links public resources with citizens choices. A PFM system should focus on strengthening the accountability of government financial

performance to its citizens. PFM is a system through which financial resources are planned, directed and controlled in order to enable and influence the efficient and effective delivery of public service objectives. The scope of PFM includes not only the activities of resource mobilization, programme prioritization, budget execution and control, accounting, auditing, reporting, monitoring and evaluation, but also effectiveness of all of these processes in improving the well-being of citizens through inclusive service delivery.

As such this document, takes into account of:

- a. Reports of the Office of the Auditor General Nepal (OAGN);
- b. Local public expenditure and financial accountability report;
- c. Public Expenditure Tracking System (PETS) study;
- d. GoN fiduciary risks reviews;
- e. Internal audit reports; and
- f. Annual Quality Assurance Assessment report

The primary purpose of this action plan is to reform LB's public financial management in order to reduce fiduciary risks at the local level. Thus, this action plan's scope includes:

1) Local Finance:

This includes the generation, management and expenditure of fund in District Development Fund (DDF), Municipal Development Fund (MDF) and Village Development Fund (VDF). These funds consist of locally sourced revenues, all types of inter-governmental fiscal transfers including revenues from cost sharing arrangements, fund received directly from development partners, inter-local governmental transfers and any other fund managed by local bodies.

2) PFM Process:

The action plan covers all the PFM processes like planning, budgeting, accounting, auditing, reporting and monitoring used in the management of public finance including local body audit compliance.

3) Programme Management:

The programme management covers all aspects whether they relate to programme activities funded by development partners, by the GoN or from locally generated revenue sources. In short, the scope of this action plan encompasses:

1. Fund received by DDF, VDF, and MDF;
2. Public financial management processes in LBs; and
3. All donor funded programmes implemented under MoFALD in the districts.

In general, the scope of the FRRAP excludes:

1. Devolved sectors' budget in DDCs

2. Action of constitutional bodies related to LBs;
3. Macro PFM risks which are beyond the control of LBs; and
4. Fund directly provided to local NGOs by donors.

Although these areas are not strictly included under the plan, it is desirable that they also follow PFM norms and processes.

6. Key Stakeholders, Institutional Relationship and Management arrangement

The key stakeholders and institutional relationship related to the FRRAP are noted below:

At central level, to provide policy guidance

- Office of the Prime Minister and Council of Ministers (OPMCM)
- Commission for the Investigation of Abuse of Authority (CIAA)
- Office of the Auditor General Nepal (OAGN)
- Financial Comptroller General's Office (FCGO)
- National Planning Commission (NPC) and
- National Vigilance Centre (NVC)

At local level

LBs at both district and tertiary levels are clearly major stakeholders in the FRRAP. Civil society also has a key role to play in managing fiduciary risk where the media, local civil society organizations, NGOs and development partners can all provide oversight over local body actions with the objectives of improving local body transparency and reducing local body fiduciary risk.

Table 1: Key Stakeholders

Name	Key Role
Office of the Prime Minister and Council of Ministers	Supervision
National Planning Commission	Planning and Monitoring
Office of the Auditor General	Final Audit
Commission for the Investigation of Abuse of Authority	Corruption control
Financial Comptroller General Office	Fund flow and internal audit
National Vigilance Centre	Prevention of corruption
Public Account Committee	Parliamentary oversight
Ministry of Federal Affairs and Local Development	Monitoring and capacity building
Development Partners	Funding, supporting for implementation & monitoring
Local Bodies' Associations	Advocacy
Local Bodies	Implementation
Civil Society	Civic education and oversight
Public Expenditure and Financial Accountability Secretariat	Coordination

Controlling quality in the execution of this plan will involve the following control functions:

- Version control,
- Quality control,
- Implementation control
- Progress control

The Division Chief of Planning and Foreign Aid Coordination Division/MoFALD will oversee the overall quality of the results being achieved through FRRAP. The Section Chief of Good Governance Promotion Section will handle operational issues and enquiries related to this plan.

No changes or revision in FRRAP will be made without the approval of the Secretary of MoFALD.

The table below presents management control responsibilities of FRRAP from the MoFALD.

Table 2: Plan Management Control

Control Name	Responsibility
Version Control	Secretary, MoFALD
Quality and Progress Control	Joint Secretary, Planning and Foreign Aid Coordination Division
Implementation Control	Under Secretary, Good Governance Promotion Section

The following table is a schedule for meetings, reviews, and reporting required in implementing this action plan. This document will be circulated to all relevant stakeholders and will also be placed on MoFALD's website.

Table 3: Coordination Management

Stakeholder	Method of Communication	Frequency of Communication
Policy Coordination Committee	Formal meeting	Monthly
Good Governance Promotion Section	Formal meeting	Monthly
Joint MoFALD-DP meeting	Presentation on status	Trimester
Media at center and district level	Media briefing	Trimester

7. Implementation and Monitoring of FRRAP

7.1 Overall Management

The Ministry of Federal Affairs and Local Development (MoFALD) is accountable and responsible for implementing and monitoring the Fiduciary Risks Reduction Action Plan (FRRAP). The Ministry will execute this action plan through local bodies. The Joint Secretary of the Planning and Foreign Aid Coordination Division, MoFALD will coordinate with stakeholders to implement and monitor FRRAP. At the local level, Local Development Officers, Executive Officers and VDC Secretaries will be responsible for implementing the action plan at local level. However, in case of VDCs, the Planning, Monitoring and Administrative Officer at DDC will lead the FRRAP Committee.

FRRAP Implementation Committee in MoFALD

The following committee in MoFALD will assist in the implementation of FRRAP.

Joint Secretary, Planning and Foreign Aid Coordination Division	Coordinator
Chief, Planning Section	Member
Chief, Monitoring and Evaluation Section	Member
Chief, Internal Management and HRD Section	Member
Chief, Local Body Revenue Section	Member
Chief, Financial Administration Section	Member
Chief, Standard Setting and Quality Assurance Section	Member
Chief, Good Governance Promotion Section	Member-Secretary

For effective execution of policy and feedbacks, monitoring & supervision, progress tracking a Fiduciary Risk Reduction Action Unit will be established under the Good Governance Promotion Section with adequate staff and infrastructure that will act with the specified ToR.

7.2 FRRAP Coordination Unit at Local Level

The following committees will steer up in implementing the FRRAP in local bodies in their respective areas.

Table 4: Coordination at Local Level

Position	DDC	Municipality	VDC
Coordinator	Local Development Officer	Executive Officer	Planning Monitoring and Administrative Officer, DDC
Member	Chief, District Technical Office	Chief, Technical Unit	Internal Auditor, DDC
Member	Chief, District Treasury Office or Account Officer designated by the chief	Chief, District Treasury Office or Account Officer designated by the chief	Representative, District Treasury Office
Member	Planning Monitoring and Administrative Officer, DDC	Planning Officer	VDC Secretary
Member	Internal Auditor of DDC	Internal Auditor	
Member Secretary	Chief, Financial Administration Section of DDC	Account Chief	VDC Accountant (VDC Secretary in case there is no VDC Accountant)

7.3 Monitoring of progress of FRRAP

For effective monitoring of FRRAP to ensure the institutional and systemic changes resulting to reduction of fiduciary risk, following arrangements will be made.

1. Review and revise if necessary the established targets and outcomes over a period of two years
2. Setting two years' performance benchmark and indicators and empirical measurement
3. Measure of progress by assessing outcomes
4. Submission of FRRAP performance report on an annual basis.
5. Update progress on clearing of audit irregularities.

7.4 Identification of Fiduciary Risks, Risks Matrix and Management of Risks

7.4.1 Key Fiduciary Risks Areas

Fiduciary risks manifest themselves in the management of programming inputs, institutional processes and results achievement. A fundamental characteristic of the public sector is that it has to produce its required results without compromising due process of law. In this context, both process risks – the risks of failing to achieve an expected result while complying with the rules - and results risks – risks of failing to improve the livelihood and wellbeing of people - are equally important. Managing fiscal resources efficiently, effectively and equitably are the hallmarks of good local governance. Following are the key risks areas requiring fiduciary risks reduction reform at local level:

1. Planning and budgeting
2. Programme implementation
3. Transparency and downward accountability

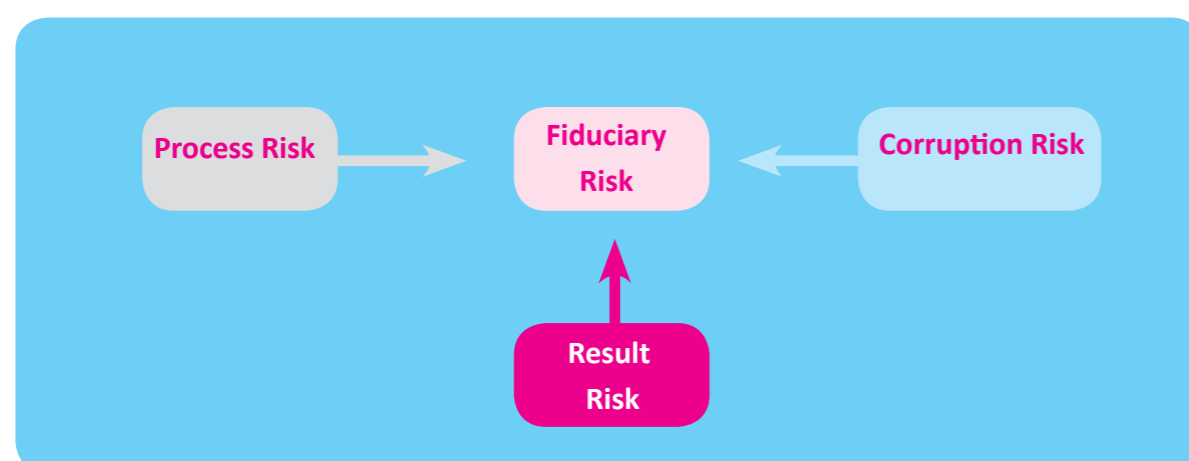
4. Accounting, reporting and auditing system
5. Revenue forecasting and implementation management

Cross-cutting of these areas are institutional issues such as human resource capacity, revenue management, system development etc.

7.4.2 Fiduciary Risks at Local Bodies

One of the main risks associated with local body performance is that there are many instances where local bodies bypassed due process. In such cases, there is a mismatch between authority and responsibility. Compliance with due process is crucial, not only for ensuring compliance with legal provisions but also for institutionalising justice and fairness. Corruption occurs when the compliance rate is low. Results risks are entrenched in public governance for lack of result framework. The traditional approach to measure the success of a government programme in terms of level of spending is major factor behind the high incidence of results risks. Corruption is related to both process and results risks.

Corruption is prevalent in local government because the level of perceived risks is very low. The basic presumption here is that any development interventions and its activities financed with public fund lies on an input-process-output-outcome-impact continuum. Based on the findings of a number of external reviews of various aspects of LGCDP's performance and on the findings of MoFALD's own internal monitoring and evaluation system, a number of risks to MoFALD performance have been identified and are set out below. The main documents used to identify these risks are PETS study, PEFA assessment, Sub-national PEFA assessment, OAGN reports and NPPR 2015.



Risks Areas and Intensity of Fiduciary Risks

The local body system in Nepal is currently have of 75 DDCs, 217 Municipalities and 3,157 VDCs. This action plan ranks the risks associated with local body fiduciary risks on a three point scale: high, medium and low. For the purpose of this action plan, level of risks are defined as follows:

Table 5: Level of Risks

Risks Rating	Detail
L	Low risks -Represents a situation where there is basic compliance with existing rules of LBs, although coverage may not be 100%
M	Medium Risks - Indicates there are some significant weaknesses in compliance or that procedures need to be changed
H	High Risks - Indicates substantial failure to comply or that the system will require substantial upgrading to meet the standard

Risks is analyzed using inputs from viewpoint of:

- (I) **Process related risks** – the extent to which the conceptualization, design and implementation of programme is relevant to its expected results;
- (II) **Results related risks** – the extent to which expected programme outputs, outcomes and impacts are being achieved; and
- (III) **Corruption related risks** – the extent to which corruption can be identified.

But, in order to make relatively simple, the risks are presented just in a single way. The risk matrices is reviewed which consists of some risks which are continued and some are newly identified risks based on practicality of addressing during the implementation period of this FRRAP.

Risks Matrix for FRAAP identified risks, causes of risks and link to the action plan to mitigate the risks.

7.4.3 Management of Risks and Action Plan

Management of risks is an integral part of good project management. Learning how to manage risks effectively enables public sector managers to improve programme outcomes by identifying and analysing a wider range of issues and taking a systematic approach to making informed decision. A structured approach to risks management also enhances and encourages the identification of opportunities for continuous improvement in organizational performance through innovation. The risks management process requires consideration of the context followed by identification, analysis, evaluation and treatment of risks. Risks management is an iterative process of continuous improvement that needs

to be embedded in existing practices or business processes. Risks management matrix presents the list of tasks identified to minimise and mitigate the sources of risks. Each task is broken down into a series of mitigation measures that are actions to be taken to achieve the goal of each task.

Upon revision of the 2012-2015 PEFA FRRAP which had 6 outcomes and 21 outputs, this reformulated FRRAP has five outcomes, which have twenty three outputs aimed at achieving the outcomes and immediate results through the implementation of related activities. The possible risks, causes & risks rating are given in Table 6, while expected outcomes and outputs of the FRRAP are given in Table 7

Table 6: Risks Area and Intensity of Fiduciary Risks

Possible Risks	Causes	Risks Rating	Implications	Related output in FRRAP
Risk Area 1: Planning and budgeting				
1.1 Planning				
1.1.1 Non-compliance with participatory planning processes	<ul style="list-style-type: none"> - Awareness of WCF and CAC not enough - LBs, WCF and CAC capacity constraints - No support mechanism at local level 	High	<ul style="list-style-type: none"> - Most needy recipients not benefitting from inclusive planning - Focus on spending rather than results 	Output 1.1: Strengthened Local Level planning process
1.1.2 Inappropriate allocation of budget	<ul style="list-style-type: none"> - Budget ceiling not provided from central level on time so current year budget considered as a basis for ceiling the next year - Under capacity of LBs staff 	High	<ul style="list-style-type: none"> - Project selection is not proper 	
1.1.3 Annual plan not linked with the result and deviation from periodic plan	<ul style="list-style-type: none"> - Capacity constraint to formulate result based plan - Periodic plan not referred while formulating annual plans. - Elite capture in periodic/annual plan formulation - Poor quality of Periodic Plan - IPDC do not follow planning guidelines properly 	Medium	<ul style="list-style-type: none"> - No basis to measure the impact of the programme 	Output 3.1: Institutionalized results based management in local bodies
1.1.5 Project / Programme not prioritized	<ul style="list-style-type: none"> - Prioritization tools not properly followed - No clear understanding on prioritization of projects 	Medium	<ul style="list-style-type: none"> - High priority projects excluded 	
2. Budgeting				
1.2.1 Inappropriate allocation of budget	<ul style="list-style-type: none"> - Limited technical capacity at local level to design projects. - Norms and standards not updated to reflect current costs - Project design based on available budget rather than actual requirement - High volume of projects - Limited resources - Lack of project design manual in Nepali language 	High	<ul style="list-style-type: none"> - Poor quality of project design and sustainability issues 	<ul style="list-style-type: none"> Output 1.2 Improved budgeting system Output 2.5: Improved rural road and other project design & construction

Possible Risks	Causes	Risks Rating	Implications	Related output in FRRAP
1.2.2 Activity wise budget variance	- budget is based mostly on historical data - unrealistic cost estimates, fluctuation of market price	Medium	- No proper predictability of income and expenditure	Output 1.2 Improved budgeting system
1.2.3. Trimester wise budget variance	- trimester division of budget is ad hoc	Medium	- Ad hoc expenditure in last trimester	
1.2.4 Unallocated budget (ABANDA)	- Budget allocation to individual project for total amount not made in the beginning	Medium	Adversely affect priority projects	
1.2.5 Unplanned budget release	- political interference in allocation of unspent budget at the year-end - bypassing participatory planning process	High	- Implementation of projects not from annual plan - sustainability and quality not ensured	Output 1.1: Strengthened local planning
1.2.6 Reduction of budget due to noncompliance of MCPM	- weak performance	Medium	- Inadequate budget allocation to needy LBs	Output 1.4 Performance based grants system improved
Risk Area 2: Programme implementation				
2.1 Delay in budget release	- Tendency of late demand/reporting from LBs - Delay in submission of prescribed document - Delay in recommendation from DDC to DTCO	High	- Projects will not complete on time - Quality of work may not assure - Monitor and supervisor may not be effective due to hurry in programme implementation	Output 2.1 Ensure timely budget release to LBs
2.2 Delay in project start	- Late approval of programme by NPC & delay in providing authority - unavailability of information about programme and budget authority	High	- Poor quality of projects - Project not completed on time - Incomplete projects may not get	

Possible Risks	Causes	Risks Rating	Implications	Related output in FRRAP
2.3 Procurement plan not properly prepared	Poor upwards reporting - complexities in procurement process - lengthy process of procurement Inadequate human resources - Low priority to prepare Procurement Plan - Procurement Unit not functional - Low capacity to prepare Procurement Plan - Unrealistic Procurement Plan - Not covering all basic elements of procurement plan - delay in finalization of standing list of firms - poor exercise for preparing PP	High	priority in next fiscal year/risks of abandoning the project	Output 3.6: Improved reporting system of LBs
2.4 Defective procurement	- Not following procurement plan - Not separating procurement activities - Poor quality & capacity in preparing bid document - Bidding not circulated widely - Lack of capacity in evaluation of bid and overall contract management - Weak controlling practices and/or capacity in procurement - Collusion among contractors - No proper selection criteria - Unfair competition - Delay in implementation - Weak compliance of timely procurement - Standing list system not f effective - Bidding document in Nepali language not available	High	- Delays in contract - appropriate contractor may be loosed - Insufficiency of services - Quality of procurement is questioned - Delays in project implementation	Output 2.1 :Strengthened procurement management mechanism of LBs Output 2.3 Improved contract management
2.5 Ineffective follow up with contractors/consultants/UCs	- Poor tracking system for managing various contracts - weak in systematic follow up for compliance as per contract/agreement - poor record keeping system of contract management - Large number of (different) contractors	High	- Incomplete contracts - Delay in completion of projects - Price escalation - Loosing of advance payments, non-performance security, non-recovery of LD (liquidated damage) etc. - Noncompliance of contracts clauses	Output 2.3: Improved contract management

Possible Risks	Causes	Risks Rating	Implications	Related output in FRRAP
2.6 Low quality infrastructure	<ul style="list-style-type: none"> - Poor designing - Lab test for construction materials rarely done - Poor technical supervision of construction work - No awareness about quality - Poor implementation capacity of contractor/UC - culture of quality test is not established - Suppliers not delivering quality materials - non availability of quality construction material in the market 	High	<ul style="list-style-type: none"> - Inferior infrastructure - Short life span of project - High maintenance cost 	Output 2.5: Improved quality of local level infrastructure projects
2.7 Weak management in auction	<ul style="list-style-type: none"> - Improper valuation of goods - Lack of transparency - Cartelling in auction 	Medium	<ul style="list-style-type: none"> - Loss in revenue - Delay in auction 	
2.8 Timely implementation and completion of the project not done by Users' Committee	<ul style="list-style-type: none"> - capacity of UC not enough to implement the project - Lack of proper orientation and initiation of UC - sub-contracting of UCs to petty contractors 	High	<ul style="list-style-type: none"> - Beneficiaries deprived of services/ facilities - Quality of project not ensured 	Output 2.4: Enhanced users' committee management capacity
2.9 Effectiveness and quality of project implementation by UCs not ensured	<ul style="list-style-type: none"> - Project Book not used - UCs decide to implement projects of high costs within the budget ceiling - lack of technical supervision/input 	High		
2.10 Exceeding administrative budget ceiling	<ul style="list-style-type: none"> - Non-compliance of administrative budget ceiling - donation amount is not controlled - Not control over unnecessary expenses and facilities - Need for extra recruiting increased with added responsibility areas. 	High	Noncompliance of guidelines	Output 2.5: Strengthened control over expenditure
2.11 Improper use of contingency fund	<ul style="list-style-type: none"> - Contingency fund is not used properly - Resource Mobilization Guidelines less followed in terms of contingency expenses 	High	<ul style="list-style-type: none"> - Objective of the project is not fulfilled 	

2.12 Unsettled advances	<ul style="list-style-type: none"> - Release advance without programme documents - Release advance without sufficient control mechanism - weak follow up to use the advances - Low compliance on advance management 	High	Misuse of fund	Output 4.3: Strengthened external auditing system of local bodies
2.13. Duplication of resources	<ul style="list-style-type: none"> - Lack of coordination between LBs and NGO sector - Lack of coordination between government organizations (education, electricity, road etc.) - NGOs seldom comes in line with priorities set by LBs' Council 	Medium	Improper allocation of resources	Output 1.5: Strengthened coherence by engaging NGOs in local level planning

Possible Risks	Causes	Risks Rating	Implications	Related output in FRRAP
2.14 Delay and misuse of social security payment	<ul style="list-style-type: none"> List of beneficiaries not updated Banking system not implemented adequately Extra burden to local level not addressed by additional resources, including HR and administrative expenses No incentive for bank plus less availability of banking and financial institutions at VDC level No proper recording system Goods not properly maintained in store 	High	<ul style="list-style-type: none"> Misuse of fund 	Output 1.4: Improved in payment system of social security
2.15 Improper management of store	<ul style="list-style-type: none"> No proper recording system Goods not properly maintained in store 	Low	<ul style="list-style-type: none"> Misuse of resources Loss of assets 	
Risk Area 3: Transparency and downward accountability of LBs				
Very low transparency of projects to users	<ul style="list-style-type: none"> Public audit procedure not properly followed Project hoarding board not displayed System of budget freeze 	High	<ul style="list-style-type: none"> Misuse of resources Beneficiaries didn't get service 	Output 3.3: Strengthened civic oversight
Unaware of public grievances	<ul style="list-style-type: none"> Inadequate or ineffective civic education Public hearing procedure not properly followed 	Medium	<ul style="list-style-type: none"> Community ownership questioned Poor quality service delivery 	Output 3.4: Strengthened transparency in local governance
Mismanagement in project implementation	<ul style="list-style-type: none"> Weak civic oversight Ineffective monitoring/ result based monitoring not practiced UCs unaware of project implementation PETS not carried out 	Medium	<ul style="list-style-type: none"> Poor quality service delivery Misuse of resources 	
Public unaware	<ul style="list-style-type: none"> Income and expenditure not published Website of LBs not updated 	Low	<ul style="list-style-type: none"> Chances of misallocation and budget variation no public oversight Matching of financial and physical progress not monitored 	
13. Weak oversight from the central and civil society and credibility issues of audit system	Inadequate Monitoring and Supervision	Medium	Poor results	Output 3.5: Strengthened MoFALD's oversight mechanism
	Poor enforcement of audit recommendations	Medium	Increased indiscipline in governance	
	Coordination among oversight bodies & LBs	Low	Centre-local coordination	
	Lack of awareness of the roles of UCs & WCFs	Medium	Poor public perception of LBs	

Possible Risks	Causes	Risks Rating	Implications	Related output in FRRAP
7. Payments of social security allowances is not in time to all the beneficiaries	Low perceived risk among local decision makers for misusing funds	High	Increase hardship for the poor	Output 1.4 Improved in payment system of social security
	Lack of MIS	High	High administrative costs	
	Lack of security marked certificates	High		
Risk Area 4: Accounting and Reporting and auditing system				
4.1 unavailability of accurate and timely financial report	<ul style="list-style-type: none"> Weak accounting system Low capacity of accounting staff Accounting software is not used extensively Consolidation of LBs record at the ministry and DDC is not complete Accounting software is not functional in some LBs Very few coverage of accounting software at VDC level Lack of Uniform accounting and record keeping practices at LBs' level Lack of financial staff at LBs especially in VDCs Lack of uniform chart of account at different level of government Not using interconnected financial data management system 	High	<ul style="list-style-type: none"> Financial progress could not be assessed Financial analysis couldn't take place Difficulty in predicting budget requirement for next tranche Financial accountability is being questioned 	Output 4.1: Strengthened LBs' accounting system
	4.2. Non exposure of operational and financial management	<ul style="list-style-type: none"> Internal audit not conducted timely low capacity of internal auditors low quality of internal audit report Lack of follow-up of Internal Audit Manual/guideline No practice to interact on the audit suggestions and follow for improvement Lack of practices to disclose the suggestions at people's level 	High	<ul style="list-style-type: none"> Resources are not utilized properly Final irregularities are not corrected timely Management weaknesses not improved correct financial reports not available in time
4.3 Internal control system for financial accountability	<ul style="list-style-type: none"> Lack of integrated control framework for local financing system Too many guidelines and working procedures Uncoordinated programmes and their financial management practices No matching of expenditure responsibilities and financial accountability Lack of providing responsibility, establishing control system and developing inter-communication to concern units and/or officials for financial management Lack of uniform funding and expenditure system Not managing local development fund (GhaKhata) properly 	High	<ul style="list-style-type: none"> Financial accountability is being weak Avoiding to take responsibility and accountability 	Output 4.2: Strengthened internal control and internal auditing system of local bodies

Possible Risks	Causes	Risks Rating	Implications	Related output in FRRAP
4.3 Financial irregularities in LBs are not exposed	<ul style="list-style-type: none"> - Audit is not conducted on time - Audit observations are not addressed timely and effectively - Audit issues of DDC, VDC and Municipality are not consolidated at ministry level - Repetition of audit issues in every year 	High	<ul style="list-style-type: none"> - Final irregularities are not corrected timely - Audit arrears are increased 	Output 4.3: Strengthened external auditing system of local bodies
Risk Area 5: Revenue management				
Receivable revenue not received	<ul style="list-style-type: none"> - Mechanism for revenue collection not proper - Provision of rebate in recovery of revenue (Minaha) - Potential tax payers are not covered in tax bracket 	High	<ul style="list-style-type: none"> - Collection of revenue not adequate - Dependency on central grants 	Output 5.1: Strengthened revenue management capacity of local bodies
Potential tax payers are out of tax net	<ul style="list-style-type: none"> - Poor data on revenue sources - Lack of standardized process for collection and allocation - Lack of recognition of tax payers 	High	<ul style="list-style-type: none"> Revenue Lost Revenue Lost 	Output 5.1: Strengthened revenue management capacity of local bodies
Possible Risks	Causes	Risks Rating	Implications	Related output in FRRAP
Potential areas for revenue are not explored	Tax rates, revenue coverage and rates not updated	High	Revenue Lost	Output 5.1: Strengthened revenue management capacity of local bodies

Table 7 – FRRAP Action Plan

Outcome/ Output	Mitigation Measure	Timeline	Milestone /Indicator	Remarks
Outcome 1: Improved planning and budgeting				
Output 1.1 Strengthened local level planning process				
Responsible Section/Unit/Agency RDS, MMS, PS	1.1.1	July-17	Of the total projects included in annual plan of VDCs and Municipalities at least 40 percent belongs to demand of WCFs/CACs	Assess the annual plan of VDCs and Municipalities on sample basis
	1.1.2	July -17	Budget ceiling provided to LBs before the planning process start (before 15th Kartik)	LBs received budget ceiling before 15th Kartik
	1.1.3	Dec-16	Introduce results based planning system in LBs to formulate annual plan	50% DDCs and 50% Municipalities adopted results based planning to formulate annual plan
	1.1.4	Dec-16	Enforce and monitor the expenditure of 35% targeted budget to women, children and disadvantaged groups	LBs adopted mechanism to monitor expenditure at least 10 % incurred on women, 10 % on children and 15 % on DAG out of targeted budget (35%)
				Assess annual plan of DDCs and Municipalities on sample basis. Monitor in sample basis

Outcome/ Output	Mitigation Measure	Timeline	Milestone /Indicator	Remarks
1.1.5	Incorporate line agencies annual programme in annual district development plan	July-17	Of the total annual budget proposed in annual district development plan at least 20 % belongs to line agencies	
1.1.6	Enhance the capacity of LBs sectorial committees	July-17	At least 40 % of annual district development plans are in line with sectorial development plan	
1.1.7	Support LBs in developing / updating periodic plan	July-17	At least 25 % LBs developed medium term investment plan	
1.1.8	Provide tools for setting priority for planning process at LBs	July -16	Planning guidelines updated with priority setting and provided to LBs	
Output 1.2 Improved budgeting system (Central + LBs)				
Responsible Section/Unit/ Agency PS FAS SQAS MES	1.2.1	Introduce MTBF at local level	July-17	At least 25% LBs (DDCs and Municipalities) introduced MTBF
	1.2.2	Update norms and standards for project design	July – 17	LBs adopted Technical Specification and Work Norms Manual of Local Infrastructure
	1.2.3	Enhance technical capacity of LBs to design projects	July – 17	Training manual on project design developed and DDCs and Municipality staff trained on project design
	1.2.4	Monitoring of existing ceiling of expenditure by trimester and last month of the FY and procurement by T1	July -17	Expenditure tracking system by trimester introduced
	1.2.5	Not to allow abanda budget/ unplanned budget	July- 17	At least 80 % LBs annual plan do not have provision of unplanned budget

Outcome/ Output	Mitigation Measure	Timeline	Milestone /indicator	Remarks
Output 1.3 Performance based grants system improved				
Responsible Section/Unit/ Agency LBFC Secretariat	1.3.1	Standardize MCPM indicators (including revision of MCPM system not to affect LBs' budget due to non-performing officials)	Dec-16	Unconditional grant to LBs aligned with MCPM assessment
	1.3.2	Quality assurance of MCPM	July-17	Less than 10 % deviation on MCPM assessments between the third party and service provider
Outcome 2: Improved programme implementation				
Output 2.1 Ensure timely budget release to LBs				
Responsible Section/Unit/ Agency PS FAS MES ITDS	2.1.1	- Prepare detail annual plan with activity and allocation before starting FY and ensure timely authorization of budget to LBs	Dec-16	- Project's detail plan prepared on time in every year and VDCs received budget authorization on time
	2.1.2	- Approve annual plan within the prescribed time	July – 17	- All LBs approved their annual plan on time through council
	2.1.3	Enforce timely authorization of budget to LBs	July 2017	At least 80% budget authorized from center on time. At least 80% LBs (DDCs/Muns/VDCs) received budget authorization on time and atleast 60% budget spent within second trimester
	2.1.2	Follow up with LBs to submit the prescribed documents on time to concern agencies	July-17	DTCO released at least 80 % of budget within the 2 nd trimester
2.1.4	Establish mechanism for internal information communication about programmes and projects	July- 17	At least 60% of programme starts within the first trimester/receiving authority of expenditure	
Output 2.2: Strengthened procurement management mechanism of LBs				
Responsible Section/Unit/ Agency FAS	2.2.1	Orientate to prepare and implement annual procurement plan of LBs and MoFALD	Dec-16	At least 70% DDCs and municipalities implement annual procurement plan
	2.2.2	Activate e-portal system of PPMO at LBs	July-17	All the LBs activated e-portal system of PPMO

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks
2.2.3	Capacitate procurement related staff in procurement and contract management of LBs	Dec-16	All the procurement related staff of LBs and MoFALD attained training on procurement management	
	Establish compliance system for procurement management	Dec- 16	All LBs established compliance system for procurement management	
	Establish tracking system of procurement management	July-17	At least 70% of procurement activities (above Rs. 10 lakh) tracked	
	Conduct assessment of procurement capacity of selected LBs	July-17	MoFALD monitored at least 70 % procurement related staff of LBs who implement procurement management plan	
Output 2.3: Improved contract management				
Responsible Section/Unit/ Agency	2.3.1	Monitoring of clauses of contract/ compliance	July - 17	Compliance monitoring on clauses of contract developed and introduced in LBs
	2.3.2	Develop reporting mechanism on contract administration	Dec 16	Reporting mechanism on contract administration developed on annual basis
Output 2.4 Enhanced users' committee management capacity				
Responsible Section/Unit/ Agency	2.4.1	Orientation to users' committee members on UC's Manual and Project Book	July-17	At least 50 % Users' Committees aware of UGs' Manual and Project Book
	2.4.2	Monitor compulsory cash contribution by UCs' on sample basis	July-17	At least 20% projects monitored to assess compulsory cash contribution by UCs
Output 2.5: Improved capacity of LBs to deliver service				
Responsible Section/Unit/ Agency	2.5.1	Develop and operationalize CD plan of DDCs and Municipalities	July-17	All DDCs and Municipalities prepared CD plan and implemented

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks
HRDS	2.5.2	Develop and Introduce MIS system in all the DDCs	July-17	MIS system introduced in all DDCs
	2.5.3	Develop an organogram of VDC	July-17	Organogram of VDCs prepared
	2.5.4	Develop PIS system of LB staff, develop adjustment plan of LB staff	July-17	Detail information on LBs' staff available in MoFALD
	2.5.5	Create positions for accountant and sub-engineer at VDC	July-17	At least 300 VDCs(especially earthquake) recruited accountant and sub-engineer
	2.5.6	Review of LBs' organization and management system	July-17	LB's organization and management system reviewed
	Output 2.6 Strengthened control over expenditure			
Responsible Section/Unit/ Agency FAS	2.6.1	Fully use DDC-FAMP at DDCs, VDC accounting software at VDCs and uniform accounting software at Municipalities	July -17	All DDCs used DDC FAMP Atleast 500 VDCs used VDC accounting software All Municipalities used uniform accounting software
	2.6.2	Disclose financial statement in every month	July – 17	All LBs prepared monthly financial statement as per LBFAR All LBs done bank reconciliation in every month MoFALD issued circular to LBs on detail contingency plan
		Follow legal process for advance with sufficient supporting documents and adopt zero advance policy		All LBs followed LBFAR's provision for releasing advance All LBs adopted zero advance policy
	2.6.3	Proper record management of audit suggestions and its settlement	July – 17	AORTS implemented 20 DDCs Review and follow-up system established in center by MoFALD
Output 2.7: Improved quality on local level infrastructure projects				

Responsible Section/Unit/ Agency MMS ITDS	2.7.1	Develop MTMP of new municipalities	July-17	MTMP of new municipalities prepared and no road constructed by LBs that are not reflected in MTMP	
	2.7.2	Improve capacity of quality lab (equipment and human resources) in DDCs to cover projects in VDCs and Municipalities as well	July -17	At least 15 percent of infrastructure projects conducted lab test	
	2.7.3	Develop CTDP of Municipality	July --17	40 Municipalities prepared CTDP and all development work aligned with CTDP	
	2.7.4	Develop internal technical auditing system	July 17	10% of projects costing more than Rs10 Lakh has internal technical audit report	
		Develop risks sensitive land use plan, building bye laws, building code	July- 17	Implement building byelaws and building code	

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks		
	2.7.3	Reinforce technical supervision of all projects by ensuring payment after recommendation by supervision and monitoring committees in prescribed format	July -17	At least 50% LBs strictly followed recommendations of supervision and monitoring committee		
	2.7.4	Develop rural road planning and construction manual to include environment norms for road construction.	Jul-17	All LBs adopted Rural Road Construction Manual		
	2.7.6	Orient DDCs and Municipalities staff on rural road planning and construction manual	Jul-17	Staff of all DDCs and Municipalities oriented on rural road planning and construction manual		
	2.7.7	Prepare and update approach manual of seven sectors of local infrastructure development work	Dec-16	Standard design document for key infrastructure projects developed		
	2.7.8	Establish central quality lab in DoLIDAR for providing technical backstopping to district quality labs Establish quality lab at province / Pradesh level	July -17	Central lab established in DoLIDAR and provided technical backstopping to district quality labs		
	2.7.9	Implement performance based evaluation system for technical staff	Dec-16	At least 80% DDCs and municipalities adopted performance based evaluation system for technical staff		
	Output 2.8: Improved in payment system of social security					
	Responsible Section/Unit/ Agency	2.8.1	Data entry of social security beneficiaries in MIS system in all districts	Jul-17	MIS system developed to establish database of social	

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks
VERS	2.8.2	Introduce banking system to pay social security allowances to citizens	Jul-17	Banking system introduced in at least 20 percent districts to pay social security allowance.
				security beneficiaries in at least 140 % DDCs
Output 2.9 Strengthened coherence by engaging NGOs in local planning process				
PS SMNCS	2.9.1	NGOs submit annual plan to LBs on mandatory basis	Jul-17	Out of total annual budget of DDC 20 % budget belongs to NGOs
	2.9.2	Strengthen NGO desk /unit in all DDCs	Jul-17	NGO desk established in all the DDCs and functional
	2.9.3	Mobilize NGOs in local development by entering into Memorandum of Understanding between NGOs and DDCs & Municipalities	Jul-17	At least 50% DDCs/municipalities signed MoU with NGOs to engage them in local development
Outcome 3: - Improved transparency and downward accountability of LBs				
Output 3.1: Institutionalized RBM at LBs (DDCs & Municipalities)				
MES PS HRDS	3.1.1	Improve results based monitoring system of LBs	Dec-16	Results indicators incorporated in web reporting system of all DDCs and municipalities
	3.1.2	Orient DDCs and municipalities on results based monitoring system	Dec-16	All DDCs and municipalities staff oriented on results based monitoring
	3.1.3	Introduce Annual Performance Plan for LBs officials	July -17	Annual Performance Plan for LBs official adopted by all DDCs and Municipalities
	3.1.4	Introduce performance –based incentive schemes in LBs	Dec-16	Performance-based incentive introduced for VDC Secretaries

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks
Output 3.2 Decision makers made more accountable				
HRDS	3.2.1	Develop and implement code of conduct for decision makers at LBs	Dec-16	All DDCs and Municipalities adopted code of conduct.
	3.2.2	Delineate clear-cut responsibility of LBs staff	Dec-16	All DDCs and municipalities provided ToR to staff
Output 3.3 Strengthened civic oversight				
GGPS	3.3.1	Develop and operationalize National Accountability Framework of MoFALD	Dec – 16	National Accountability Framework approved and operationalized
	3.3.2	Mobilize CSOs in civic oversight	Dec-16	CSOs conducted social accountability in sample VDCs, municipality wards and DDCs
	3.3.3	Use CSOs compliance monitoring findings to suggest action or necessary reform	Dec-16	- Compliance monitoring guidelines adopted for reform - CSOs findings used in local governance reform
	3.3.4	Prepare and orient LBs on grievance redressal guidelines	Jul-17	Grievance redressal guidelines prepared and LBs staff oriented
	3.3.5	Strengthen capacity of WCF/CAC to oversee LBs' activities	Jul-17	At least 20 % WCF/CAC members trained on social accountability
	3.3.6	Reinforce public hearing, public audit, and social audit system at LBs and UCs	Jul-17	Public hearing, public audit and social audit guidelines reviewed and updated
	3.3.7	Engage journalists in civic oversight	Jul-17	Journalist mobilized in civic oversight in at least 10 VDCs
Output 3.4: Strengthened transparency in local governance				

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks
Responsible Section/Unit/ Agency DDC Municipality GGPS	3.4.1 Organize press briefing by DDCs and Municipalities on trimester basis	Dec-16	At least 75 % DDCs and municipalities organized press briefing on trimester basis	
	3.4.2 Organize public audit in presence of WCF representatives	Jul-17	WCF participated in at least 50 % public audit	
	3.4.3 Make public grievance handled cases in DDCs and Municipalities' through website	Dec-16	All DDCs and municipalities established homepage and disseminated grievance handling cases	
	3.4.4 Develop websites of 300 VDCs	Jul-17	300 VDCs established homepage	
	3.4.5 Disclose monthly public expenditures and revenue of LBs	Dec-17	All DDCs, and municipalities made public expenditure and revenue statement on monthly basis	
	3.4.6 Introduce audio notice board at DDC and Municipalities	July 2017	Monthly disclosure of public expenditures by LBs through notice board and other relevant means in place	
	3.4.7 Publish annual governance report of LBs	July-16	LGAF secretariat published annual governance report	
Output 3.5 Strengthened MoFALD's oversight mechanism				
Responsible Section/Unit/ Agency GGPS	3.5.1 Prepare FRRAP checklists to monitor	July-16	FRRAP checklists prepared and used	
	3.5.2 Categorize DDCs and Municipalities into normal, moderate and high risk, based on criteria such as MCPM results, audit results and others	July-17	LBs categorized on the basis of intensity of fiduciary risk	

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks	
	3.5.3 Localize FRRAP in 10 DDCs and all metropolitan and sub-metropolitan cities	Dec-16	FRRAP localized in 10 DDCs and in all metropolitan and sub-metropolitan cities Templates of FRRAP for LBs prepared		
	3.5.4 Conduct PETS in LBs	July - 17	Introduce PETS in LBs in pilot scale		
	3.5.5 Develop system for consolidating local level financial reports at the ministry	July 17	Developed system to consolidate DDC- FMAP		
	Output 3.6 Improved reporting system of LBs				
	Responsible Section/Unit/ Agency FAS	3.6.1 Institutionalize simple financial reporting system for LBs	Dec-16	Simplified financial reporting system introduced in VDC	
3.6.2 Develop and adopt FMIS at MoFALD		Dec-16	FMIS System fully operationalized		
Output 3.7: Improved transparency in social security					
Responsible Section/Unit/ Agency VERS	3.7.1 Publish the name of citizens receiving social security allowances in DDCs homepage	July-17	Banking system introduced to pay social security allowances in all districts		
	3.7.2 Mobilize WCF and CAC on the monitoring of distribution of social security allowances to citizens in respective wards	July-17	WCF/CAC/CSO facilitated to help citizens to get social security allowances		

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks
	3.7.3 Update and publish list of beneficiaries annually	July-17	All districts update and publish list of beneficiaries annually	
Outcome 4- Improved accounting and auditing system				
Output 4.1 Strengthened LBs' accounting system				
FAS	4.1.1 Prepare accounting manual for LB's accounting	July-17	Accounting manual for LB's accounting prepared	
	4.1.2 Provide training to VDC secretary and support staff, Municipalities finance/account staff, DDC's finance/account staff, and other central staff (finance/account) on accounting system	July-17	All VDC secretaries and DDC account staff oriented on accounting system	
Output 4.2 Strengthen Internal Control and Internal auditing system of Local Bodies				
FAS	4.2.1 Support OAGN for external audit of VDCs and municipalities	July-17	OAG conducted external audit of VDC and Municipalities	
	4.2.2 Enforce segregation of duties of internal auditors in DDC and Municipalities	July-17	50 percent internal auditors prepared report within stipulated time	

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks
	4.2.3 Train internal auditors of DDCs and Municipalities on risks based internal auditing	Dec-16	200 internal auditor of LBs trained on risks based internal auditing	
Output 4.3 Strengthened external auditing system of Local Bodies				
FAS	4.3.1 Execute external audit procedures including risk-based performance audit in consultation with OAG	July-17	External audit procedure linked with risk performance audit of VDCs and Municipalities	
	4.3.2 Implement audit clearance tracking system in MoFALD for DDCs and Municipalities and in DDCs for VDCs	July-17	Audit clearance system operationalized in MoFALD to track audit arrear of 75 DDCs	
	4.3.3 Publish audit report of DDCs and Municipality in website	July-17	Audit report made public through website by all DDC and municipalities	
	4.3.4 Sensitize concern LBs' officials on timely audit settlement	July - 17	Total audit arrear reduced by 5 % annually as compared to previous year	
Outcome 5- Improved revenue management				
Output 5.1: Strengthened revenue management capacity of local bodies				
LBFCS, LBRMS	5.1.1 Enforce annual revenue projection system in all DDCs and municipalities	July-17	All DDCs and Municipalities forecasted annual revenue	
	5.1.2 Introduce revenue projection system in VDC having internal revenue more than Rs 2 million per year	July-17	All VDCs with internal revenue of more than Rs 2 million forecasted revenue based on revenue projection system	
	5.1.3 Institutionalize IPT system in all Municipalities	July-17	At least 40% Municipalities adopted IPT system	

Outcome/ Output	Mitigation Measure	Timeline	Milestone/indicator	Remarks
	Introduce computer-based revenue collection system in all Municipalities	July-17	Computerized revenue collection system introduced in at least one-third of the Municipalities	
	5.1.5	July-17	Internal revenue of LBs increased by 10 percent annually	
	Simplify procedures for local revenue collection for LBs	July-17	At least 50 % Municipal adopted a system of educating tax payers and database prepared	
	5.1.6	July-17	Best performing taxpayers rewarded	
	Develop computerized data base of municipal taxpayers and organize orientation programme for educating municipal tax payers	July-17	Penalty system in place for non-compliance on municipal tax system	
	5.1.7	July-17	At least 50 % LBs adopted prohibition of rebate practices in internal revenue contracts at LBs	
	Introduce reward system for regular tax payers at municipal level	July-17		
	Introduce penalty system in noncompliance at municipality	July-17		
	Prohibit the rebate practices in internal revenue contracts at LBs	July-17		
	5.1.8	July-17		
	5.1.9	July-17		
	5.1.10	July-17		

Annex 1. Progress Tracking of PEFA / FRRAP 2012-1015

Table 1.1: Number of PEFA/FRRAP indicators complied during the period 2012- 2015 by outcomes

Outcome	Number of milestones / indicators included	Number of milestone/ indicator complied
Outcome 1: Improved Planning, Programming & Budgeting	15	7 (46%)
Outcome 2: Improved Funds Flow	13	3 (23%)
Outcome 3: Improved Implementation including procurement management	13	5 (38%)
Output 4: Improved Internal Accountability	24	14 (58%)
Output 5: Improved Auditing and M&E	17	8 (47%)
Output 6: Improved Revenue Management	10	1 (10%)
OVERALL	92	38
Progress in %		41%

Table 1.2: PEFA/FRRAP indicators fully complied during the period 2012 – 2015 by outputs

Outcome/ Output	Mitigation Measures	Milestones
Outcome 1: Improved planning, programming and budgeting		
1. Output 1.1 Strengthening participatory planning process by incorporating it in LB Resource Manual		
	Amend LBs Resource Mobilization Guidelines	At least 1/3 of projects in annual plans must come through WCFs in all VDCs and all Socially-mobilized municipalities
	Enforce 35 % earmarking from unconditional capital expenditure pool of LBs to women children and disadvantage groups	All projects in annual plans must be recommended by IPC
	Introduce & institutionalize DDC/ Municipality planning guidelines 2068	All projects other than disaster related (decided by District Disaster Committees) reflected in council approved annual plans
	Strengthen capacity of Integrated Planning Committee of VDCs and municipalities	All LBs spend budgets on women, children, and disadvantaged communities as per the provision
2. Output 1.2 Institutional reform of VDCs		
	Depute and retain VDC Secretary in each VDC and operationalize the VDC Office in its location	Orientation to VDC secretaries on their roles and responsibilities

Output 1.3 Performance based grants for VDCs		
	Introduce MCs in GoN block grant to VDCs	VDCs grants aligned with MCPM assessments from FY 2014/15
	Refine VDCs" MC manual to include PMs	MCPM assessment manual for VDCs approved and piloted
Outcome 2: Improved funds flow		
5. Output 2.1 Ensure timely budget release to LBs		
	Issue of expenditure authority by MLD to LBs in time (Budget Release)	MoFALD issues expenditure authorities
	Release and reimburse the fund by DPs to MLD in time	Timely release of tranche and reimbursement by DPs
	Establish treasury single account in all districts	TSA fully operationalized in all districts
Outcome 3: Improved Implementation including procurement management		
7. Output 3.3: Reform of procurement management of LBs		
	Operationalize Procurement Unit in DDCs and municipalities	Annual procurement plan prepared by DDCs and municipalities
8. Output 3.4 Strengthening User Group management and improving their accountability		
	Make public audit mandatory before and after implementation of projects at LBs	Public audit fully institutionalized
9. Output 3.5: Update and operationalize capacity development plan		
	Develop and operationalize three year HRD plan of MLD	MOFALD HRD Plan prepared
10. Output 3.6: Improved rural road and other project design & construction		
	Update Technical Specifications and Works Norms Manual of local infrastructures	LBs staffs oriented on how to use manuals
	Involve technical staffs as supervisors for infrastructure projects	All infrastructures projects implemented only after the approval of design and estimate of those projects
Outcome 4: Improved internal accountability		
11. Output 4.1: Institutionalize RBM at LBs (DDCs & Municipalities)		
	Introduce Annual Performance Plan for executive LBs officials	Annual Performance Plan for LB official adopted
13. Output 4.3 Strengthening LBs" accounting systems		
	Introduce modified cash based accounting system in DDCs	Modified cash based accounting system used in all DDCs
	Develop software for VDCs accounting system and install in at least 1,000 VDCs	Accounting software installed and operationalized in 1000 VDCs
	Provide training to VDC secretary and DDC account staff on accounting system	At least 1,000 LBs staff trained in accounting
	Computerize accounting transactions in all DDCs and municipalities	Computerized accounting system introduced in all DDCs and Municipalities
14. Output 4.4 Strengthening civic oversight		
	Develop long-term operational modality of LGAF based on independent review	Operational Modality of LGAF approved

	Handover LGAF Implementing Agency role to LB Associations from FY 2012/013	LGAF established in MoFALD
	Provide support to CSOs for strengthening civic oversight	CSOs supported for civic oversight
	Use CSOs finding to refocus target areas and take necessary reform in MLD and LBs	CSOs findings being used in local governance reform
	Strengthen capacity of WCF/CAC to oversight local governance activities	WCF/CAC members trained
	Adopt public hearing, public audit, and social audit guidelines at LBs	LBs adopted public hearing, public audit, and social audit guidelines at LBs
15. Output 4.5: Promoting transparency in local governance		
	Organize public audit in prior implementation and in final payment also in presence of WCF representatives	Public audit made mandatory
	Develop and update websites in all DDCs and Municipalities	DDCs and municipalities established homepage
	Modify the hoarding board to show unit costs in DDC and municipalities	Modified hoarding boards
Outcome 5: Improved auditing and M & E		
16. Output 5.1 Strengthening MLD"s oversight mechanism		
	Develop ToR and work plan and calendar for MLD"s Good Governance Unit	ToR of Good Governance Promotion Section prepared
17. Output 5.2 Strengthening auditing system of Local Bodies		
	Develop auditing guidelines for LBs	Auditing Guidelines for LBs approved
	Develop concept for improving internal audit system in LBs and Capacity Building of Internal Audit Section in DDCs	Regular internal audit of every VDCs and DDCs carried on
	Capacitate registered auditors for VDCs and municipalities	Training to registered auditors provided
18. Output 5.3 Improve upward reporting system		
	Institutionalize simple result-based reporting system for LBs	Simplified results based reporting system in place.
	Introduce web-based reporting system at LBs	Web-based reporting system in LBs introduced
19. Output 5.4 Strengthening monitoring of NGOs		
	NGOs submit, annual plan to LBs by Local NGOs to get renewal recommendations from DDCs	NGO desk in DDCs established and functional
20. Output 5.5: Improved auditing of LBs		
	Conduct management audit of LBs	Conduct management audit of in 5 DDCs, 5 Muns and 50 VDCs each year
Outcome 6: Improved revenue management		
Output 6.1: Strengthening revenue management capacity of local bodies		
	Enforce revenue projection system in all DDC and municipality	DDCs and Muns forecasted their revenue based on projections

Glossary

Capacity	Capacity is the ability of people, organizations, and society as a whole to manage their affairs, successfully.
Capacity Development	Capacity development is the process by which people, organization and society as a whole unleash, strengthen, create, adapt and maintain capacity over time.
Corruption	The misuse and abuse of entrusted power for private gain. Corruption occurs at policy level, process level and at operational level. From the perspective of PFM corruption takes place both at expenditure and revenue generation. The former increase additional costs for services and later decrease the size of public revenue.
Corruption risk	The likelihood of corruption occurring, as opposed to the other factors (lack of capacity, inefficiency etc.), which determine fiduciary risk.
Fiduciary Risk	Fiduciary risk is the risk that local governance funds are not used for intended purpose, do not achieve value-for-money, do not produce expected results and are not properly accounted for.
Public Financial Management	Public financial management is a system by which financial resources are planned directed and controlled to enable and influence the efficient and effective delivery of public services to people.
Internal Control	Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, reliability of reporting, and compliance with applicable laws and regulations.
Internal Control Component #1 Control environment	The control environment is commonly referred to as the “tone at the top”. In other words the attitude and behavior of management and staff can have a significant effect on the effectiveness of an internal control structure. One of the myths of internal control is that ‘ <i>internal control starts with strong policies and procedures</i> ’. In fact, internal control starts with a strong and ever-improving control environment as detailed policies and procedures without a positive and ever-improving tone at the top are often compromised.

**Internal Control Component #2
Risk assessment**

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

**Internal Control Component #3
Control activity**

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

**Internal Control Component #4
Information & Communication**

Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control LBs. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed LB decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream.

**Internal Control Component #5
Monitoring**

Internal control systems need to be monitored -- a process that assesses the quality of the system’s performance over time. This is accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of on-going monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management

Decentralization

Decentralization is a process of dispersing decision-making from the centre to a point closer to the service delivery or action. It involves the restructuring the authority into a system of co-responsibility among governance institutions at the central, regional and local levels according to the principle of subsidiarity- the principle that decision should be taken at the lowest possible level capable of completing them.

Institutional strengthening

The process of strengthening the capacity of institutions to perform their functions efficiently and effectively

Local Governance

Local governance is a set of institutions, mechanisms, and processes through which citizen can express their interests and needs, mediate differences and exercise their rights and obligations at local level. Local governance includes not only the machinery of government but also other actors and their interactions with local bodies.

Reform

The action or process of changing the institutions and their practices for bringing positive and tangible results that benefits to the people

References

Statutory Documents for LBs

Document Name and Date	Author
Civil Service Act 2049 Second Amendment 2064	Nepal Law Book Society
Local Bodies Resource Management Guideline 2011	MoFALD
Civil Service Regulation 2050, Second Amendment 2064	Nepal Law Book Society
Local Bodies Financial Administration Regulation 2064	Nepal Law Books Society
Good Governance (Management and Operation) Act 2064 and Regulation	Nepal Law Book Society
Procurement Act 2063 and its regulation	Nepal Law Book Society
Local Self-Governance Act 2055	Nepal Laws Book Society
Local Self -Governance Regulation, 2056	Nepal Laws Book Society
Government Business Rule	Office of Prime minister
Constitution of Nepal 2072	Nepal Law Book Society
Auditor General Report - 2015	Auditor General of Nepal
LGCDP Programme Documents 2008 and 2012	MoFALD
PETS Study, 1 November 2011	Adam Smith International
Performance Audit Reports of LGCDP, 2011 and 2015	OAGN
Gender Equality and Social Inclusion Guidelines 2010	MoFALD
Social Mobilization Guidelines 2014	MoFALD
Public Audit, Social Audit, Public Hearing Guidelines 2068	MOFALD
Nepal Public Expenditure and Financial Accountability Report 2014	PEFA Secretariat

