

**Assessment of
Financial Management & Reporting System
Of
Local Bodies & User Committees**

Submitted to

Local Development Fund Programme

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Thank You

DMI

Executive Summary

Local Self-Governance Act and its Regulations have provided legal, institutional, planning and financial framework for decentralized local governance in Nepal. The success of decentralization initiatives depends upon better and efficient use of scarce resources for improved service delivery to the people in a transparent and accountable manner.

The financial framework of local governments includes resource mobilization and financial management i.e. planning and budgeting, accounting and reporting, financial control and auditing, and transparency and accountability.

DDCs have been generating resources from following sources

1. Internal Resources

- a. Infrastructure utilization taxes such as road, bridge, irrigation canal, and ponds utilization tax
- b. Resources utilization taxes such as wool, turpentine, herbs, worn and torn goods (re-usable and non re-usable), stone, slate, sand, gravel, horn leather, wings, bones and cattle exporting tax
- c. Fees and charges for different services provided by DDCs.
- d. Sale of sand gravel and wood swept by river
- e. Revenue sharing
- f. Proceeds of land revenue from VDCs and Municipalities
- g. Other revenue generating activities

2. Government Grants and Programme Fund

3. Funds from donors and partner organizations

The revenue from internal sources has been increasing gradually and has been collected through contractors. However, the proceeds from sand, gravel and stone exporting tax cover more than 60 percent of total internal resources of the DDCs.

DDCs have been following participatory planning procedure to select the project as mentioned in the LSGA/R. However, the budgeting part of the selected projects was found very weak. They did not estimate budget ceilings, performance indicators with time frame and feasibility study to estimate expenditure needs. Hence, the budgeting of the project did not reflect the bottom up planning and priorities.

Accounting and reporting part of the DDCs was found satisfactory except delay in recording and periodical reporting. They were following needed procedures for the financial transactions. The new formats prescribed by LBFAR were in the process of implementation. The framework prescribed in the LSGA and LBFAR for DDC and VDC level could fulfill accounting and reporting requirements of LDF funded projects. However, since no procedures and formats for financial management of User Committees were prescribed by the Act and Regulation, the accounting and reporting requirements from UC level would need introduction of project book concept, orientation, and training to use.

The project funding matrix and project expenditure matrix of LDF guidelines were appropriate and applicable. A few changes should be made on those formats for clear understanding. Some DDC reporting formats of LBFAR should be included in the LDF reporting requirement.

The accounting reporting software of PDDP/LGP could be effective in timely accounting and reporting. It would provide required information for effective financial management in DDC. However, the software did not cover the accounting and reporting requirements related to infrastructure transactions. The prescribed formats for construction related accounting and reporting by LBFAR and LDF guidelines should be included in the software.

Financial control and internal auditing part of financial management of DDCs were found weak. The internal audit section did not exist in most of the DDCs and could not get due importance in the DDCs where it existed. The internal auditor found under qualified and did not perform the auditing activities as prescribed in the Regulation. Budgetary control, process control and expenditure control tools were rarely used.

DDCs were found accountable to the council. They were publishing council minutes with proposed budget and expenditures of the DDC. The processes of activities of services delivery of few services by the DDCs were made public through notice board. However, the periodic financial statements, audit reports, budget and activities of the projects were far from the reach of the public.

Training packages for different aspects of financial management and resource mobilization have been recommended for efficient management of scarce financial resources.

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Abbreviations

ADDCN	:	Association of District Development Committees of Nepal
AGO	:	Office of the Auditor General
ARP	:	Agricultural Road Project
CG	:	Central Government
CO	:	Community Organization
DDC	:	District Development Committee
DMI	:	Development Management Institute
DTCO	:	District Treasury Controller Office
FAS	:	Financial Administration Section
FY	:	Fiscal Year
HMG	:	His Majesty's Government
HMGN	:	His Majesty's Government of Nepal
LBFAR	:	Local Bodies (Financial Administration) Regulation
LDF	:	Local Development Fund
LDO	:	Local Development Officer
LGIs	:	Local Government Institutions
LGP	:	Local Governance Programme
LSGA	:	Local Self-Governance Act
LSGR	:	Local Governance Regulation
LTFB	:	Local Trust Fund Board
MLD	:	Ministry of Local Development
MOF	:	Ministry of Finance
Mun	:	Municipality
NGO	:	Non Governmental Organization
NPC	:	National Planning Commission
PDDP	:	Participatory District Development Programme
PEM	:	Project Expenditure Matrix
PFM	:	Project Funding Matrix
RCIW	:	Rural Community Infrastructure Works
RIP	:	Rural Infrastructure Project
RMS	:	Revenue Mobilization Section
TA	:	Technical Assistant
TADA	:	Traveling Allowance and Daily Allowance
UC	:	User Committee
UNCDF	:	United Nation Capital Development Fund
UNDP	:	United Nation Development Programme
VAT	:	Value Added Tax
VDC	:	Village Development Committee

Table of Contents

	<u>Page Number</u>
CHAPTER ONE: INTRODUCTION	1 - 3
1.1 Back Ground	1
1.2 Objective of The Study	1
1.3 Rational of The Study	2
1.4 Methodology of The Study	3
CHAPTER TWO: REVIEW AND ANALYSIS OF THE SITUATION	4 - 13
2.1 Overview of Financial Management	4
2.2 Review LSGA and It's Regulations	4
2.2.1 Resource Mobilization	4
2.2.2 Financial Management	7
2.2.2.1 Budgeting	7
2.2.2.2 Accounting and Reporting	8
2.2.2.3 Financial Control and Auditing	11
2.2.2.4 Transparency and Accountability	12
CHAPTER THREE: INSTITUTIONAL CAPACITY ASSESSMENT	14 - 25
3.1 Organizational Structure for Financial Management	14
3.2 Financial Management and Resource Mobilization	14
3.2.1 Resource Mobilization	15
3.2.2 Budgeting	16
3.2.3 Accounting and Reporting	19
3.2.4 Financial Control and Auditing	23
3.2.5 Accountability and Transparency	24
CHAPTER FOUR: CAPACITY GAP ANALYSIS AND INTERVENTION STRATEGY	26 - 35

Annexs

1 - 13 Annexes