Madhesh Province

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

PERFORMANCE ASSESSMENT REPORT

June 2026

Ministry of Finance
Government of Madhesh Province

Madhesh Province

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

PERFORMANCE ASSESSMENT REPORT

June 2026

Ministry of Finance
Government of Madhesh Province

PEFA CHECK

MADHESH PROVINCE
PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) ASSESSMENT
PERFORMANCE ASSESSMENT REPORT

Published by
Government of Madhesh Province
Ministry of Finance
Janakpurdham, Madhesh Province, Nepal
Telephone: +977-41-521598, 523028
Email: info.mof@madhesh.gov.np
Website: www.mof.madhesh.gov.np

First Edition: 2026

Print Run: 300 Copies

Language: English

Cover Photograph: Janaki Mandir, Janakpurdham, Nepal

Photographs: Government of Madhesh Province, Ministry of Finance, and Nepal Tourism Board

Designed and printed by
Print Communication Pvt. Ltd.
Kathmandu, Nepal
Telephone: +977-01-5341355, 5344148
Email: info@printcommunication.com.np

Government of Madhesh Province (Nepal)

Public Expenditure and Financial Accountability (PEFA)

As of November 2025

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

PEFA Secretariat

13 November 2025


AN ISO 9001-2000
CERTIFIED COMPAN

Table of Contents

PEFA Check	**III**
Abbreviations and Acronyms	**XI**
Foreword – Chief Minister	**XIII**
Foreword – Minister of Finance	**XIV**
Foreword – Acting Principal Secretary	**XV**
Acknowledgment – Province Secretary and Assessment Manager	**XVI**
Assessment Management and Quality Assurance Arrangements	**XVIII**
SNG Main Facts Madhesh Province	**XXIV**
Methodology	**XXVI**
Executive Summary	**XXVIII**
1. PFM CONTEXT IN MADHESH PROVINCE	**1**
1.1 Background	2
1.2 Financial overview of Government of Madhesh Province	4
1.3 Institutional arrangements	7
1.4 Legal and regulatory arrangement for PFM	10
1.5 PFM reform process	13
2. ASSESSMENT OF PFM PERFORMANCE	**17**
SNG PILLAR: Inter-Governmental Fiscal Relations	**19**
HLG-1. Transfers from higher level of government	19
HLG-2. Fiscal rules and monitoring of fiscal position	26
PILLAR I: Budget Reliability	**34**
PI-1. Aggregate expenditure outturn	34
PI-2. Expenditure composition outturn	36
PI-3. Revenue outturn	40
PILLAR II: Transparency of Public Finances	**44**
PI-4. Budget classification	45
PI-5. Budget documentation	47
PI-6. Subnational government operations outside financial reports	50
PI-7. Transfers to subnational governments	54

PI-8. Performance information for service delivery 60
PI-9A. Public access to fiscal information 65
PI-9B. Public consultation 69
PILLAR III: Management of Assets and Liabilities 74
PI-10. Fiscal risk reporting 75
PI-11. Public investment management 79
PI-12. Public asset management 86
PI-13. Debt management 90
PILLAR IV: Policy Based Fiscal Strategy and Budgeting 94
PI-14. Medium-term budget strategy 95
PI-17. Budget preparation process 99
PI-18. Legislative scrutiny of budgets 104
PILLAR V: Predictability and Control in Budget Execution 112
PI-19. Tax administration 113
PI-20. Accounting for revenue 120
PI-21. Predictability of in-year resource allocation 125
PI-22. Expenditure arrears 129
PI-23. Payroll controls 132
PI-24. Procurement 137
PI-25. Internal controls on non-salary expenditure 145
PI-26. Internal audit 150
PILLAR VI: Accounting and Reporting 156
PI-27. Financial data integrity 156
PI-28. In-year budget reports 165
PI-29. Annual financial reports 169
PILLAR VII: External scrutiny and audit 176
PI-30. External audit 176
PI-31. Legislative scrutiny of audit reports 183
3. OVERALL ANALYSIS OF THE PFM SYSTEM 189
3.1 PFM strengths and weaknesses 190
3.2 Performance changes since previous assessment 198
Annex 1: Performance Indicator Summary 199
Annex 2: Sources of Information 214
Annex 2.A: Sources of information 214
Annex 2.B: List of people consulted 214
Annex 2.C: Sources of information used to extract evidence for scoring each indicator 217
Annex 3: Calculations for HLG-1 224
Annex 4: Calculations for PI-1 and PI-2 230
Annex 5: Calculations for PI-3 235

Boxes

Box 1: Assessment Management and Quality Assurance Arrangements XIX

Tables

Table 0.1: Summary of PEFA Scores XXXI
Table 0.2: PEFA PFM Assessment 2025 – Summary of Scores XXXIII
Table 1.1: Selected major aggregate national economic indicators 3
Table 1.2: Major aggregate provincial economic indicators 4
Table 1.3: Structure of the sub-national public sector 5
Table 1.4: Aggregate fiscal data 6
Table 1.5: Main PFM acts and regulations 10
Table 2.1: Summary of scores for HLG-1 and performance table 20
Table 2.2: Outturn of transfers from the GoN 22
Table 2.3: Transfer composition outturn 23
Table 2.4: Timeliness of transfers 24
Table 2.5: Summary of scores for HLG-2 and performance table 26
Table 2.6: CFS 2023/24 of the provincial governments 31
Table 2.7: Summary of scores for PI-1 and performance table 35
Table 2.8: Total budget and actual expenditure 35
Table 2.9: Summary of scores for PI-2 and performance table 37
Table 2.10: Functional expenditure composition variance by functional headings 38
Table 2.11: Expenditure composition variance by economic classification 39
Table 2.12: Summary of scores for PI-3 and performance table 40
Table 2.13: Total budget and actual revenue 41
Table 2.14: Summary of scores for PI-4 and performance table 45
Table 2.15: CoA structure 46
Table 2.16: Summary of scores for PI-5 and performance table 47
Table 2.17: Budget elements included in the Budget for 2024/25 48
Table 2.18: Summary of scores for PI-6 and performance table 50
Table 2.19: EBUs and their parent ministries 51
Table 2.20: Expenditure outside financial reports, 2023/24 52
Table 2.21: Revenue outside financial reports, 2023/24 53
Table 2.22: Summary of scores for PI-7 and performance table 54
Table 2.23: Transfers to local levels in 2023/24 57
Table 2.24: Timelines for information on transfers for the 2023/24 budget 59
Table 2.25: Summary of scores for PI-8 and performance table 60

Table 2.26: Performance information for service delivery, 2024/25 62
Table 2.27: Performance plans for the next fiscal year, 2024/25 63
Table 2.28: Performance achieved, 2023/24 64
Table 2.29: Summary of scores for PI-9A and performance table 65
Table 2.30: Public access to fiscal information 66
Table 2.31: Summary of scores for PI-9B and performance table 69
Table 2.32: Summary of scores for PI-10 and performance table 75
Table 2.33: 2023/24 financial statements of sampled local levels 77
Table 2.34: Summary of scores for PI-11 and performance table 80
Table 2.35: List of major investment projects 81
Table 2.36: Economic analysis of investment proposals (2023/24) 83
Table 2.37: Summary of scores for PI-12 and performance table 86
Table 2.38: Financial assets, 2023/24 88
Table 2.39: Non-financial asset monitoring, 2023/24 89
Table 2.40: Summary of scores for PI-13 and performance table 90
Table 2.41: Summary of scores for PI-14 and performance table 95
Table 2.42: Key macroeconomic forecasts (targets) for 2024/25-2026/27 97
Table 2.43: Medium-term expenditure and revenue estimates (2024/25) 98
Table 2.44: Summary of scores for PI-17 and performance table 99
Table 2.45: Budget Calendar for 2024/25 101
Table 2.46: Guidance on budget preparation (2024/25 budget) 103
Table 2.47: Actual dates of budget submission for last three completed fiscal years 104
Table 2.48: Summary of scores for PI-18 and performance table 105
Table 2.49: Scope of budget scrutiny (last completed fiscal year, i.e. 2023/24) 107
Table 2.50: Legislative procedures for budget scrutiny (last completed fiscal year, i.e. 2023/24) 108
Table 2.51: Actual dates of budget approval for the last three completed fiscal years 108
Table 2.52: Summary of scores for PI-19 and performance table 114
Table 2.53: Revenue assignments as per the Constitution 114
Table 2.54: Details of tax and non-tax collection, 2024/25 (11 months) 116
Table 2.55: Tax revenues administered by the provincial government (2024/25) 117
Table 2.56: Rights and obligations for revenue measures (at time of assessment) 117
Table 2.57: Summary of scores for PI-20 and performance table 120
Table 2.58: Information on revenue collections, 2024/25 122
Table 2.59: Transfer of revenue collections, 2024/25 123
Table 2.60: Tax accounts reconciliation, 2024/25 124
Table 2.61: Summary of scores for PI-21 and performance table 125
Table 2.62: Consolidation of Group of Account with cash position 127
Table 2.63: Summary of scores for PI-22 and performance table 130

Table 2.64: Stock of expenditure arrears by category 131
Table 2.65: Expenditure arrears monitoring by category 131
Table 2.66: Summary of scores for PI-23 and performance table 132
Table 2.67: Summary of scores for PI-24 and performance table 138
Table 2.68: Procurement methods and corresponding values 141
Table 2.69: Key procurement information to be made available to the public 142
Table 2.70: Complaints are reviewed by a body that: 143
Table 2.71: Summary of scores for PI-25 and performance table 145
Table 2.72: Irregularities identified in the internal audit reports for 2023/24 148
Table 2.73: Irregularities identified in the external audit report for 2023/24 148
Table 2.74: Share of irregularities among the five largest budgetary units 149
Table 2.75: Summary of scores for PI-26 and performance table 150
Table 2.76: Completion of internal audits for 2023/24 154
Table 2.77: Summary of scores for PI-27 and performance table 157
Table 2.78: Provincial Government Bank Accounts 158
Table 2.79: Advance accounts (at time of assessment, covering the preceding fiscal year) 162
Table 2.80: Outstanding matured and regular advances 163
Table 2.81: Summary of scores for PI-28 and performance table 166
Table 2.82: Timing of in-year budget execution reports for 2023/24 168
Table 2.83: Summary of scores for PI-29 and performance table 170
Table 2.84: Completeness of CFS for 2023/24 171
Table 2.85: Submission of reports for external audit 172
Table 2.86: Accounting standards (last three years' financial reports) 173
Table 2.87: Summary of scores for PI-30 and performance table 177
Table 2.88: External audit coverage, 2021/22-2023/24 179
Table 2.89: Timing of submission of audit reports to the Provincial Assembly 180
Table 2.90: Formal Response to OAG on Audit Observations and Follow-up 181
Table 2.91: Supreme Audit Institution (SAI) independence 182
Table 2.92: Summary of scores for PI-31 and performance table 183
Table 2.93: Timing of audit report scrutiny 185
Table 2.94: Hearings on audit findings and issuance of recommendations 186
Table 2.95: Dates of recommendations and reviewing recommendations issued 187
Table 2.96: Transparency of legislative scrutiny of audit reports 187
Table 3.1: PEFA PFM PIs and the three budgetary outcomes 194
Table Annex 1.1: Performance indicator summary 199
Table Annex 2.1: Related surveys and analytical work 214
Table Annex 2.2: List of people consulted – Group 1 214
Table Annex 2.3: List of people consulted – Group 2 215

Table Annex 2.4: List of people consulted – Group 3 216
Table Annex 2.5: List of people consulted – Group 4 216
Table Annex 2.6: Sources of information used to extract evidence for scoring each indicator 217
Table Annex 3.1: Budgeted and actual expenditure for HLG-1, 2021/22 224
Table Annex 3.2: Budgeted and actual expenditure for HLG-1, 2022/23 225
Table Annex 3.3: Budgeted and actual expenditure for HLG-1, 2023/24 226
Table Annex 3.4: Results Matrix 227
Table Annex 3.5: Detailed Data for HLG-1.3 227
Table Annex 4.1: Data on functional classification for 2021/22 230
Table Annex 4.2: Data on functional classification for 2022/23 231
Table Annex 4.3: Data on functional classification for 2023/24 232
Table Annex 4.4: Results Matrix 232
Table Annex 4.5: Data on economic classification for 2021/22 233
Table Annex 4.6: Data on economic classification for 2022/23 233
Table Annex 4.7: Data on economic classification for 2023/24 234
Table Annex 4.8: Results Matrix 234
Table Annex 5.1: Data on revenues for 2021/22 235
Table Annex 5.2: Data on revenues for 2022/23 236
Table Annex 5.3: Data on revenues for 2023/24 237
Table Annex 5.4: Results matrix for PI-3 237

Figures

Figure 0.1: Summary of PEFA scores by indicator XXX
Figure 2.1: Indicator scores under the SNG Pillar 19
Figure 2.2: Indicator scores under Pillar I 34
Figure 2.3: Indicator scores under Pillar II 44
Figure 2.4: Indicator scores under Pillar III 74
Figure 2.5: Indicator scores under Pillar IV 94
Figure 2.6: Indicator scores under Pillar V 113
Figure 2.7: Indicator scores under Pillar VI 156
Figure 2.8: Indicator scores under Pillar VII 176
Figure 3.1: Aggregate fiscal discipline 190
Figure 3.2: Strategic allocation of resources 192
Figure 3.3: Efficient service delivery 193

Abbreviations and Acronyms

ADB	Asian Development Bank
APP	Annual Procurement Plan
CFS	Consolidated Financial Statements
CGAS	Computerized Government Accounting System
CoA	Chart of Accounts
DTCO	District Treasury Controller Office
EBU	Extra-Budgetary Unit
EFT	Electronic Fund Transfer
e-GP	Electronic Government Procurement
FCGO	Financial Comptroller General Office
FPFA	Financial Procedures and Fiscal Accountability
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GoN	Government of Nepal
HLG	Higher Level of Government
IGFA	Inter-Governmental Fiscal Arrangement
IPFMS	Integrated Public Financial Management Service
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
MoF	Ministry of Finance
MoHP	Ministry of Health and Population
MoPID	Ministry of Physical Infrastructure Development
MPP	Master Procurement Plan
MTEF	Medium-Term Expenditure Framework
NA	Not Applicable
NNRFC	National Natural Resource and Fiscal Commission
NPC	National Planning Commission

NPR	Nepalese Rupee
NPSAS	Nepal Public Sector Accounting Standards
NRB	Nepal Rastra Bank
NSO	National Statistics Office
OAG	Office of the Auditor General
OCMCM	Office of the Chief Minister and Council of Ministers
OSR	Own Source Revenue
PAC	Public Accounts Committee
PAMS	Public Asset Management System
PDMO	Public Debt Management Office
PEFA	Public Expenditure and Financial Accountability
PFCO	Provincial Financial Comptroller Office
PFM	Public Financial Management
PFP	Provincial Financial Procedure
PI	Performance Indicator
PIS	Personnel Information System
PLMBIS	Provincial Line Ministries Budget Information System
PPA	Public Procurement Act
PPMO	Public Procurement Management Office
PPP	Public-Private Partnership
PPPC	Provincial Policy and Planning Commission
PPR	Public Procurement Rules
PPRC	Public Procurement Review Committee
PPRO	Provincial Personnel Record Office
PSC	Public Service Commission
PTU	Provincial Treasury Unit
RMIS	Revenue Management Information System
SBD	Standard Bidding Document
SNG	Sub-National Government
SuTRA	Sub-National Treasury Regulatory Application
TMO	Transport Management Office
TMS	Transport Management System
TSA	Treasury Single Account
USD	United States Dollar
VAT	Value Added Tax
VRS	Vehicle Registration System

Note: In this report, the terms 'federal government' and 'Government of Nepal (GoN)' are used interchangeably.

Hon. Krishna Prasad Yadav
Chief Minister

Ph.no: 041-527303, 523133
Email: www.ocmcm.madhesh.gov.np

Government Of Madhesh Pradesh
Office Of the Chief Minister & Council Of Ministers
Janakpurdham, Dhanusha, Nepal

Foreword

I am pleased to present the first Public Expenditure and Financial Accountability (PEFA) Assessment Report of Madhesh Province. This assessment marks a significant milestone in the province's efforts to enhance public financial management (PFM) systems, demonstrating the Provincial Government's strong ownership of both the assessment process and its results.

Nepal's transition to a federal system has significantly expanded the responsibilities of provincial governments for planning, budgeting, and delivering public services. In this context, effective, transparent, and accountable management of public resources is fundamental to achieving development objectives and meeting citizens' expectations. A sound PFM system is therefore essential for ensuring fiscal discipline, efficient allocation of resources, and effective service delivery at the provincial level.

The Government of Madhesh Province undertook this PEFA assessment to obtain an objective and evidence-based evaluation of its PFM performance against internationally recognized standards. The assessment provides a clear picture of current performance, recognizing progress in areas such as fiscal transparency, budget credibility, and the establishment of core PFM institutions. At the same time, it identifies areas where further reforms are required, including financial oversight, procurement, internal controls, and budget formulation and execution.

The Madhesh Province Government views the findings of this report as a practical diagnostic and a foundation for future reform. The PEFA results will inform the design and implementation of a prioritized and sequenced PFM reform program, aligned with national frameworks and provincial development priorities. Strengthening PFM systems is central to improving public service delivery, enhancing accountability, and supporting the effective implementation of federalism.

I express my sincere appreciation to the Ministry of Finance of the Government of Nepal for its guidance and support throughout the assessment process. I also extend my appreciation to the PEFA Management Committee and the PEFA Oversight Committee for their leadership and stewardship of the assessment. I further express my appreciation to the Chairperson of the Public Accounts Committee of the Madhesh Provincial Parliament and the Vice Chairperson of the Policy and Planning Commission of Madhesh Province for their constructive engagement and support. I also thank the assessment team and the Ministry of Finance of Madhesh Province for their effective coordination and technical contributions.

I also express my appreciation to the development partners for their valuable support. In particular, I thank the United States Agency for International Development (USAID) for its support of the PEFA process until January 2025, and the Asian Development Bank (ADB) for its continued technical and knowledge assistance.

The Government of Madhesh Province remains committed to using the results of this assessment to strengthen PFM systems in support of inclusive development, improved service delivery, and sustainable public finances. I encourage all stakeholders to engage constructively in implementing the recommended reforms.

Krishna Prasad Yadav
Chief Minister
Government of Madhesh Province, Nepal

Government of Madhesh Province

Ministry of Finance

Hon. Yubraj Bhattarai
Finance Minister

JANAKPURDHAM, NEPAL

Foreword

Public financial management is the foundation of public trust and government accountability rather than merely a bureaucratic process.

When citizens cannot see where their tax rupees go, or how provincial investments generate public value, the social contract erodes. When governments cannot credibly allocate resources, critical priorities-health, education, roads, electricity-remain underfunded and poorly executed. Madhesh Province has chosen a different path.

The Public Expenditure and Financial Accountability (PEFA) assessment is a diagnostic tool. It measures what we do with public money: whether systems ensure accountability, whether controls prevent waste, whether financial decisions strengthen rather than weaken public institutions. Completing this assessment required intellectual honesty-naming gaps, not hiding them. That discipline matters more than the certification itself.

Madhesh Province has demonstrated this commitment despite the inherent challenges of conducting such work at provincial scale, with budget cycles, federal coordination demands, and institutional capacity constraints that make PEFA exercises genuinely difficult. We have chosen rigor anyway. That choice signals to our people, to Parliament, and to development partners that we intend to spend public resources as if we must answer for them-because we do.

This assessment is a foundation. We view it as the basis for deliberate, sequenced fiscal reform. Over the coming years, we will translate these findings into a prioritized reform action plan, integrated with our medium-term budget and broader development agenda. We will measure progress, recalibrate priorities as needed, and work with our provincial parliament, line agencies, civil society, and development partners to make reforms stick.

To sustain reform momentum, we are committing to periodic PEFA self-assessments to systematically identify strengths, good practices, and gaps in our PFM system, design and implement targeted reform measures, and monitor and evaluate their results over time. We will track what changes, understand what works, and adjust course accordingly. PEFA assessment is not a one-time event; it is an institutional practice.

I am grateful to the Ministry of Finance of Nepal, the PEFA Steering Committee, and the Government of Nepal for their partnership in this process. I thank Ram Kumar Mahato, our Province Secretary, and the Assessment Management and PEFA Oversight Committees for their strategic leadership. The Asian Development Bank and other development partners provided essential support. But the credit belongs to the Provincial Secretariat teams whose meticulous work made this assessment credible.

Madhesh Province is committed to a simple proposition: use public money more effectively, strengthen institutions that deliver for citizens, and build fiscal credibility for sustainable development. This assessment is evidence of that commitment. Our work now is to petit matters.

Yubaraj Bhattarai
Minister of Finance
Government of Madhesh Province, Nepal
June, 2026

Government of Madhesh Province
Office of Chief Minister and Council of Ministers
Janakpurdham, Nepal

Foreword

The Public Expenditure and Financial Accountability (PEFA) assessment of Madhesh Province represents an important institutional milestone in strengthening the Province's public financial management (PFM) system. The assessment was initiated by the Ministry of Finance of the Government of Nepal and led by the Ministry of Finance of Madhesh Province, with technical and financial support from the Asian Development Bank and the United States Agency for International Development. This collaborative effort reflects effective coordination between federal and provincial authorities and a shared commitment to strengthening PFM systems within Nepal's federal framework.

A sound PFM system is fundamental to the effective functioning of provincial government institutions. It supports the implementation of constitutional mandates, strengthens provincial autonomy, and ensures that public resources are managed in a transparent, accountable, and efficient manner. Strong PFM systems are also essential for translating policies and plans into credible budgets, effective service delivery, and measurable development outcomes that respond to citizens' needs.

This PEFA assessment provides an objective and comprehensive evaluation of the current status of PFM implementation in Madhesh Province. The report highlights progress in strengthening fiscal discipline, budget formulation and execution, and financial transparency. It identifies areas of strong performance, including the use of a budget and accounting classification system aligned with international standards; the provision of comprehensive information through annual budget documentation; clear rules governing in-year budget adjustments; transparent tax administration practices with relevant information made available to taxpayers; and the ability of budgetary units to plan and commit expenditures from the beginning of the fiscal year.

At the same time, the assessment identifies key institutional and operational challenges that require continued attention. These include low budget outturns at both aggregate and compositional levels for revenues and expenditures, limited public consultation during budget preparation and service delivery design, and weaknesses in public investment management across several dimensions. Addressing these challenges will require improved coordination among provincial institutions, strengthened systems and procedures, and sustained capacity development.

From an administrative perspective, this report serves as an important diagnostic tool to guide system improvements, strengthen compliance, and support effective implementation of PFM reforms. The Office of the Chief Secretary remains committed to supporting coordinated implementation of reforms across provincial institutions to strengthen governance, improve service delivery, and ensure effective and accountable use of public resources in Madhesh Province.

Kamal Prasad Bhattarai
Acting Principal Secretary
Government of Madhesh Province, Nepal
का. मु. प्रमुख सचिव

Government of Madhesh Province

Ministry of Finance

Janakpurdham, Nepal

Ref.

Acknowledgement

The journey of the Public Expenditure and Financial Accountability (PEFA) assessment in Madhesh Province marks a significant milestone in strengthening the Province's public financial management (PFM) system. This assessment has enhanced our understanding of internationally recognized PFM benchmarks under the PEFA framework and has established a strong foundation for evidence-based and results-oriented reforms by the Provincial Government.

The PEFA assessment is not an end in itself but a critical diagnostic and learning tool. The process helped us gain deeper insights into the functioning of our PFM systems, clearly identify performance gaps, and define priority reform areas across the budget cycle. It also enabled provincial institutions and staff to learn together through a structured, evidence-based review, strengthening collective understanding and ownership of the reform agenda. Based on the assessment results, the Ministry of Finance is committed to preparing a prioritized and sequenced PFM Reform Action Plan and to supporting its effective implementation in coordination with provincial institutions, with the objective of strengthening fiscal discipline, improving budget credibility, enhancing service delivery, and ensuring better value for money in the use of public resources.

The assessment process was not without challenges. The work had to be carried out alongside demanding budget preparation and execution timelines, and changes in assessors during the process required additional effort to ensure continuity and consistency. Time constraints and competing institutional priorities also posed limitations. Despite these challenges, the assessment was completed through strong coordination, flexibility, and commitment from all involved institutions.

Importantly, the PEFA assessment itself served as a valuable capacity-building exercise. Provincial officials and technical staff were closely engaged throughout the process, which strengthened their understanding of PFM systems and international standards. The exercise helped reveal systemic issues that had previously remained unnoticed and would not have been identified without the structured PEFA framework. This has empowered provincial institutions to approach PFM reforms with greater clarity, confidence, and technical capacity.

The successful completion of this assessment was made possible through the collective efforts and sustained support of many institutions and individuals. I express my sincere appreciation to the Oversight Team for its strategic guidance and stewardship throughout the assessment process. I particularly acknowledge the leadership of Mr. Madan Bhujel, Principal Secretary, Office of the Chief Minister and Council of Ministers, who served as Chair of the Oversight Team, as well as Mr. Loknath Paudel, former Principal Secretary and former Chair, for his leadership during their respective tenures. I also acknowledge the valuable contributions of my predecessor Mr. Subas Shiwakoti, former Province Secretary, Ministry of Finance and Secretary, Dr. Sohan Sah, Vice Chairperson, Provincial Policy and Planning Commission; Mr. Sebantak Pokharel and Mr. Mahesh Baral, serving and former Joint Secretaries and PEFA Coordinators from the Fiscal Federalism Coordination Division of the federal Ministry of Finance; and Mr. Manoj Kumar Jha, Chief of the Provincial Financial Comptroller Office. Their collective guidance was instrumental in ensuring adherence to PEFA standards and maintaining momentum throughout the assessment.

I also extend my sincere appreciation to the Management Team for providing effective institutional coordination and operational support. I acknowledge the contributions of Mr. Rajan Nepal, Province Secretary, Office of the Chief Minister and Council of Ministers; Dr. Pramod Yadav, Acting Secretary, Ministry of Public Health; Mr. Sajay Prasad Sah, Acting Secretary, Ministry of Physical Infrastructure Development. Their engagement ensured cross-sector coordination, timely decision-making, and resolution of implementation challenges. I extend my sincere appreciation to the Chairperson of the Public Accounts Committee for her constructive engagement and collaboration, which strengthened legislative oversight aspects of the assessment.

I express my heartfelt gratitude to the former Chief Ministers, Mr. Satish Kumar Singh and Mr. Jitendra Prasad Sonal for their leadership and support. I also express my sincere appreciation to Mr. Than Prasad Pangyani, former PEFA Coordinator, and Mr. Gokul Banstola, former PEFA Member Secretary, for their valuable technical guidance, institutional memory, and constructive advice, which significantly strengthened the analytical rigor and consistency of the assessment.

Government of Madhesh Province

Ministry of Finance

Janakpurdham, Nepal

Government of Madhesh Pradesh Ministry of Finance Janakpurdham, Nepal

Ref.

My appreciation goes to the Ministry of Finance team of Madhesh Province, particularly Mr. Bijaya Chaudhary and colleagues, for their extraordinary commitment, technical leadership, and sustained efforts throughout the assessment process.

I would like to express my sincere appreciation to the consultants, Mr. Peter Jensen, Mr. Prakash Jung Thapa, Mr. Saroj Acharya, and Mr. Rajendra Bajracharya—for their outstanding contributions to the assessment. Their facilitation of the process, effective knowledge transfer, support in data collection and analytical write-ups, and provision of strategic technical guidance were critical to strengthening the capacity of the assessment team and ensuring the overall quality of the PEFA assessment.

Last but not least, I extend my sincere gratitude to the Asian Development Bank for being a consistent and reliable partner throughout the PEFA assessment process, and to the United States Agency for International Development (USAID) for its valuable support until January 2025. Their technical assistance, constructive engagement, and partnership contributed significantly to the successful completion of this important exercise. We look forward to a similar level of collaboration in the future, particularly in the development of the PFM Reform Action Plan and in supporting its effective implementation.

……………………….
Ram Kumar Mahato
Province Secretary and Assessment Manager
May, 2026

Assessment Management and Quality Assurance Arrangements

The objective of the Public Expenditure And Financial Accountability Assessment (PEFA) Public Financial Management (PFM) assessment is to provide an informed and objective indicator-led assessment of the PFM capacities of Madhesh Province in a standardized manner, to form an understanding of the provincial PFM system, and to assist in identifying those parts of the PFM system that need further development.

The PEFA assessment was a self-assessment under the leadership of the Ministry of Finance (MoF) of Government of Madhesh Province, with support from the Asian Development Bank (ADB), and coordinated by the Fiscal Federalism Coordination Division (FFCD) under the MoF of the Government of Nepal (GoN). The United States Agency for International Development (USAID) worked jointly with ADB until January 2025 in preparing the Concept Note, delivering training to assessors, and coordinating activities. The MoF of Government of Madhesh Province formed an Assessment Team with four groups, each overseeing a number of performance indicators (PIs), to conduct the assessment with the support of consultants engaged by ADB. The management and quality assurance arrangements are presented below.

Box 1: Assessment Management and Quality Assurance Arrangements

PEFA Assessment Management Organization

- **Oversight Team:** Chair and Members
  - **Madan Bhujel** – Principal Secretary / Chair, Office of the Chief Minister and Council of Ministers (OCMCM), Madhesh Province [from 22 January 2025 to 26 November 2025]
  - **Loknath Paudel** – Former Principal Secretary / Chair, OCMCM, Madhesh Province [from 15 April 2024 to 17 January 2025]
  - **Ram Kumar Mahato** – Member, Province Secretary, MoF / Secretary, Provincial Policy and Planning Commission (PPPC)
  - **Sebantak Pokharel** – Member, Joint Secretary / PEFA Coordinator, FFCD, MoF, GoN [24 September 2025 onwards]
  - **Mahesh Baral** – Member, Former Joint Secretary / PEFA Coordinator, FFCD, MoF, GoN [from 17 February 2025 to 24 September 2025]
  - **Manoj Kumar Jha** – Member, Chief, Provincial Financial Comptroller Office (PFCO)
  - **Krishna P. Pathak** – Member, Public Sector Management Team Leader, Nepal Resident Mission, ADB

- **Management Team**
  - **Ram Kumar Mahato** – Coordinator, Province Secretary, MoF / Secretary, PPPC
  - **Rajan Nepal** – Member, Province Secretary, OCMCM
  - **Dr Pramod Yadav** – Acting Secretary, Ministry of Health and Population(MoHP)
  - **Sajay Prasad Sah** – Member, Acting Secretary, Ministry of Physical Infrastructure Development (MoPID)
  - **Manoj Kumar Jha** – Member, Chief, PFCO
  - **Rachana Shrestha** – Member, Senior Public Sector Specialist, ADB

- **Assessment Manager**
  - **Ram Kumar Mahato** – Province Secretary, MoF / Secretary, PPPC [28 October 2024 onwards]
  - **Subas Shiwakoti** – Former Province Secretary, MoF [from 12 March 2024 to 24 October 2024]

- **Assessment Team Leaders and Team Members:** The assessment was carried out by a core team comprising officials from Government of Madhesh Province, ADB, USAID and consultants.

I. Asian Development Bank (ADB)

- **Julitta Ponniah** – Principal Financial Management Specialist
- **Jan Hansen** – Principal Economist, Nepal Resident Mission
- **Rachana Shrestha** – Public Management Specialist
- **Krishna P. Pathak** – Public Sector Management Team Leader, Nepal Resident Mission
- **Deewas Khadka** – Financial Management Officer, Nepal Resident Mission
- **Jayvee S. Montecer** – Financial Management Analyst
- **Saroj Acharya** – Consultant
- **Prakash Jung Thapa** – Consultant
- **Peter Jensen** – Consultant

II. United States Agency for International Development (USAID) [until January 2025]

- **Amol Acharya** – Democracy and Governance Specialist
- **Paul E. Sisk** – Chief of Party, PFM Project
- **Suresh Pradhan** – Consultant, PFM Project
- **Hari Prasad Phuyal** – Provincial Coordinator, PFM Project
- **Rajendra Bahadur Bajracharya** – Consultant

III. Government of Madhesh Province

Group 1 - Provincial Financial Comptroller Office (PFCO)[1]

- **Manoj Kumar Jha** – Chief (9th Level), PFCO
- **Mohammad Shariph** – Section Officer (7th Level), MoF
- **Navin Kumar Mishra** – Account Officer (7th Level), MoPID
- **Rishu Kushwaha** – Section Officer (7th Level), MoF
- **Navin Kumar Jha** – Account Officer, (6th Level), MoF
- **Sudhir Kumar Jha** – Computer Officer (6th Level), MoF
- **Ashok Prasad Sah** – Account Officer (6th Level), PTCO

Group 2 – Provincial Financial Comptroller Office (PFCO)[2]

- **Nirendra Lal Karn** – Account Officer (7th Level), PFCO
- **Chanda Kumari Sah** – Section Officer (7th Level), MoF
- **Krishtina Yadav** – Law Officer, MoF
- **Anshu Kumar Jha** – Section Officer (7th Level), MoF
- **Parasmani Sah** – Computer Officer (6th Level), Infrastructure Development Office (IDO)

---

[1] Group 1 covered PIs 22, 23, 24, 25, 26, 27, 30 and 31.

[2] Group 2 covered HLGs 1 and 2 as well as PIs 6, 7, 10, 12, 13, 19, 20 and 21.

- **Brahma Narayan Prasad Yadav** – Assistant Section Officer (6th Level), MoF
- **Raban Kumar Yadav** – Assistant Officer (5th Level), MoF

Group 3 – Ministry of Finance (MoF)[3]

- **Vijay Kumar Chaudhary** – Account Officer (8th Level), MoF
- **Nirmala Khadka** – Account Officer (8th Level), OCMCM
- **Purushottam Mishra** – Account Officer (7th Level), PAC
- **Chandani Dalami** – Section Officer (7th Level), MoF
- **Er. Dipendra Kumar Yadav** – PLMBIS Expert, MoF
- **Indrajeet Thakur** – Assistant Section Officer (6th Level), MoF
- **Nanu Lal Mahato** – Assistant Officer (5th Level), MoF

Group 4 – Provincial Policy and Planning Commission (PPPC)[4]

- **Prashant Kumar Mishra** – Section Officer, PPPC
- **Sudarshan Bhattarai** – Section Officer (7th Level), MoF
- **Nikita Chaudhary** – Section Officer (7th Level), PPC
- **Santa Achame** – Section Officer (7th Level), MoF
- **Manoj Kumar Chaudhary** – Account Officer (7th Level), PFCO
- **Rajendra Acharya** – Statistical Officer (7th Level), MoF

Review of Concept Note

- **Draft Concept Note Reviewed:** 26 March 2024-3 July 2024
- **Invited reviewers**
  - **Than Prasad Pangyani** – Former PEFA Coordinator, MoF, GoN
  - **Subas Shiwakoti** – Former Province Secretary, MoF
  - **Gokul Banstola** – Former PEFA Member Secretary, FFCD, MoF, GoN
  - **Ram Pramod Yadav** – Former Under Secretary, FFCD, MoF, GoN
  - **Ramesh Sharma** – Former Under Secretary, FFCD, MoF, GoN
  - **Suresh Pradhan**, Former Financial Comptroller General, GoN
  - **Paul E. Sisk** – Chief of Party, USAID PFM Project
  - **Waseem Abbas Kazmi** – Senior Financial Management Specialist, World Bank
  - **Vidyadhar Mallik** – PFM Expert
  - **Luís Bernardo Mendes de Almeida** – Public Management Specialist, ADB
  - **Antonio Leonardo Blasco** – Senior Governance Specialist, PEFA Secretariat, Washington DC

[3] Group 3 covered PIs 1, 2, 3, 4, 5, 28 and 29.
[4] Group 4 covered PIs 8, 9A, 9B, 11, 14, 17 and 18.

- **Reviewers who provided comments**
  - **Than Prasad Pangyani** – Former PEFA Coordinator, FFCD, MoF, GoN
  - **Subas Shiwakoti** –Former Province Secretary, MoF
  - **Gokul Banstola** – Former PEFA Member Secretary, FFCD, MoF, GoN
  - **Ram Pramod Yadav**, Former Under Secretary, FFCD, MoF, GoN
  - **Ramesh Sharma**, Former Under Secretary, FFCD, MoF, GoN
  - **Suresh Pradhan**, Former Financial Comptroller General, GoN
  - **Paul E. Sisk** – Chief of Party, USAID PFM Project
  - **Waseem Abbas Kazmi** – Senior Financial Management Specialist, World Bank
  - **Vidyadhar Mallik** – PFM Expert
  - **Luís Bernardo Mendes de Almeida** – Public Management Specialist, ADB
  - **Antonio Leonardo Blasco** – Senior Governance Specialist, PEFA Secretariat, Washington DC
- **Date of final Concept Note:** 14 August 2024, Revised on 22 April 2025 (for Assessment Teams).

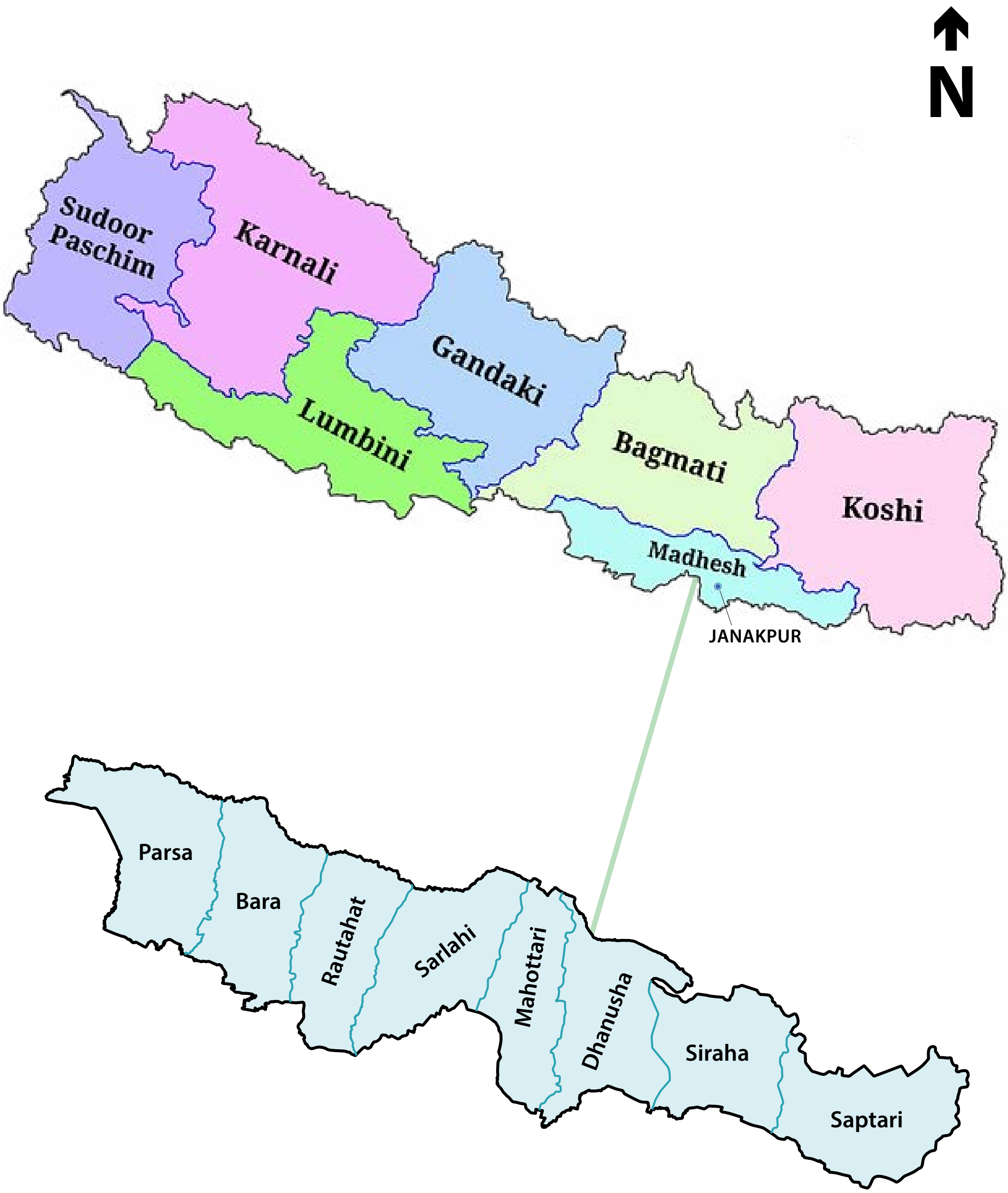
Review of the Assessment Report

- **Date of reviewed draft report:** 3 September 2025
- **Invited reviewers**
  - **Pradeep Khanal** – Under Secretary / PEFA Member Secretary, FFCD, MoF, GoN
  - **Luís Bernardo Mendes de Almeida** – Public Management Specialist, ADB
  - **Syed Mehdi Raza Rizvi** – Head of Program, Revenue Sector Reform for Sustainable Development, Gesellschaft für Internationale Zusammenarbeit (GIZ)
  - **Maya V. Gusarova** – Senior Public Sector Specialist, World Bank
  - **Álvaro Fernández** – Senior Governance Specialist, PEFA Secretariat, Washington DC
- **Reviewers who provided comments**
  - **Pradeep Khanal** – Under Secretary / PEFA Member Secretary, FFCD, MoF, GoN
  - **Luís Bernardo Mendes de Almeida** – Public Management Specialist, ADB
  - **Syed Mehdi Raza Rizvi** – Head of Program, Revenue Sector Reform for Sustainable Development, GiZ
  - **Maya V. Gusarova** – Senior Public Sector Specialist, World Bank
  - **Álvaro Fernández** – Senior Governance Specialist, PEFA Secretariat, Washington DC

- **Final report sent to PEFA Secretariat incorporating comments on:** 28 October 2025.
- **PEFA Check received on:** 13 November 2025.
- **Final report endorsed/approved by Government of Madhesh Province:** 26 May 2026

SNG Main Facts Madhesh Province

Government of Madhesh Province	
Tier of government	Government of Madhesh Province is a second-tier level of government.
Population	6,126,288 (as per 2021 census), which is 21% of Nepal's total population.
Main characteristics	Madhesh Province is Nepal's most densely populated province and the smallest province by area. It borders Bagmati Province to the north and west, Koshi Province to the east and the north, and India (Bihar State) to the south. It comprises eight districts and 136 Local levels: 73 municipalities, 59 rural municipalities, three sub-metropolitan cities (Janakpur, Kalaiya and Jitpur-Simara), and one metropolitan city (Birgunj). Janakpur is the capital of Madhesh Province.
Economy	Madhesh Province accounts for around 13% of Nepal's gross domestic product (GDP), while its per capita GDP is around one-third below the national average. Agriculture is the dominant sector of Madhesh Province, accounting for about one-third of the economy, followed by wholesale and retail trade, education and public administration.
Services provided by the SNG	The Provincial Government, through its own entities and extra-budgetary units (EBUs), provides key services such as irrigation, drinking water, and transportation. It manages higher education, health services and infrastructure projects, and is also involved in land management, cultural preservation, and agriculture and industry development.


N
Sudoor Paschim
Karnali
Gandaki
Lumbini
Bagmati
Koshi
Madhesh
JANAKPUR
Parsa
Bara
Rautahat
Sarlahi
Mahottari
Dhanusha
Siraha
Saptari

Methodology

This section presents the main elements of methodology applied in the PEFA assessment.

Type of assessment: This is a standalone and a baseline (first) PEFA assessment for Madhesh Province. It was conducted as a self-assessment with technical support provided by the Asian Development Bank (ADB). The United States Agency for International Development (USAID) worked jointly with ADB until January 2025 in preparing the Concept Note, delivering training to assessors, and coordinating activities. The assessment applies to the PEFA Secretariat's 'Guidance for Subnational Government PEFA Assessments' issued in October 2023[5] as well as the 'PEFA SNG Report Template' issued in June 2024.[6]

Number of indicators used: All 32 performance indicators (PIs) and 98 dimensions of the PEFA SNG framework were reviewed. Six dimensions were assessed as Not Applicable (NA) to the PFM system of Nepal's provincial governments (with justifications provided in Chapter 2), which means that one PI was scored 'NA'.[7]

Timeline: The assessment was conducted from September 2024 to June 2025. A training workshop on PEFA SNG methodology was organized for provincial stakeholders from 30 September to 2 October 2024, and a refresher training session during 1-2 April 2025 [8]. Validation workshop was conducted on 21-22 August 2025, Oversight Committee endorsed the report on 26 December 2025, and the Madhesh Province Cabinet approved on 26 May 2026.

Years covered: The last three fiscal years (FYs) covered are 2021/22, 2022/23 and 2023/24. The last budget submitted to the legislature is for 2024/25.

Cut-off date: 15 July 2025.

5 https://www.pefa.org/resources/guidance-subnational-government-pefa-assessments.
6 https://www.pefa.org/resources/sng-pefa-report-template.
7 PI-10.1, PI-13.1, PI-13.2, PI-13.3, PI-19.2 and PI-27.2 were assessed as NA. PI-13 was overall assessed as NA.
8 The participants comprised staff of the MoF, PPPC, PFCO, MoPID, Infrastructure Development Office (IDO), OCMCM and the PAC. Representatives from the Fiscal Federalism Coordination Division (FFCD), of the GoN's MoF, also participated.

Coverage: The PEFA assessment covers the Government of Madhesh Province composed of all provincial government spending units and extra-budgetary units (EBUs) as per the PEFA framework and guidance. The assessment takes into account that some federal-level entities – such as the Financial Comptroller General Office (FCGO), Office of the Auditor General (OAG) and Public Procurement Monitoring Office (PPMO) – have specific functions vis-à-vis provincial governments. The 136 Local levels within Madhesh Province are, except for their relations with the provincial level (through PI-7 and PI-10.2), not covered in the assessment. Madhesh Province has 16 EBUs, which are assessed as required under different PIs. There are no public corporations.

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

Country fiscal year: 15/16 July – 15/16 July (*1 Shrawan – 31 Ashad*).

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

Nepali Calendar	Gregorian Calendar
2078/79	2021/22
2079/80	2022/23
2080/81	2023/24
2081/82	2024/25
2082/83	2025/26

Exchange rate: The national currency is the Nepalese Rupee (NPR). The official exchange rate of the Nepal Rastra Bank (NRB) as of 15 July 2025 was: USD 1 = NPR 137.28.[9]

[9] https://www.nrb.org.np/forex/.

Executive Summary

Purpose and management

The main objective of the Public Expenditure and Financial Accountability (PEFA) assessment is to provide Government of Madhesh Province with a diagnostic of its public financial management (PFM) system and practices. This will help the Provincial Government, supported by the federal government, to identify priority areas for PFM reform and, on that basis, design suitable PFM reform plans and capacity development programs.

Strategic oversight of the assessment has been carried out by the *Oversight Team* with representatives of the Provincial Government's Office of the Chief Minister and Council of Ministers (OCMCM), Ministry of Finance (MoF), Provincial Policy and Planning Commission (PPPC) and Provincial Financial Comptroller Office (PFCO) as well as the federal government's Fiscal Federalism Coordination Division (FFCD) – details are provided in Box 1.1 (pp. iii–v). The Management Team comprises officials from the Provincial Government, including line ministries, and an Asian Development Bank (ADB) staff member. Four *Assessment Teams* were established by the Provincial Government, which were led by the PFCO (Groups 1, 2 and 4) and the MoF (Group 3). Consultants engaged by ADB supported the Assessment Teams. Quality assurance has been provided through the peer review process, including reviews conducted by the PEFA Secretariat (Washington DC).

The PEFA assessment covers the Provincial Government comprising all spending units and extra-budgetary units (EBUs). There are no public corporations. The period covered is 2021/22-2023/24 and the last budget submitted to the Provincial Assembly is for 2024/25. The cut-off date is 15 July 2025. As it is the first PEFA assessment conducted for Government of Madhesh Province, there is no comparison with any previous assessment.

Main strengths and weaknesses of the PFM in Madhesh Province

The legal and regulatory framework for PFM is solid, the institutional framework – both within the Provincial Government and vis-à-vis the federal government – has clearly established roles and responsibilities between entities, and reporting lines are well-defined. Also, a number of information systems developed by the federal government are applied by the Provincial Government in managing and supporting the various elements of the PFM cycle.

The PFM performance of Government of Madhesh Province shows notable **strengths** in several areas, including:

- A solid budget and accounts classification system, consistent with international standards, is in place and applied.
- Comprehensive information is provided to the public through the annual budget documentation, including a Medium-Term Expenditure Framework (MTEF).
- A budget calendar exists and the budget is approved by the Provincial Assembly before the start of the fiscal year.
- Clear rules are in place for in-year budget adjustments by the Provincial Government, which are generally adhered to, though significant virements were noted.
- Tax administration is based on relevant information being made available to and easily accessible for taxpayers on rights and obligations for tax measures.
- Budgetary units can, from the start of the fiscal year, plan and commit expenditure for the entire fiscal year based on the approved budget appropriations.
- The stock of expenditure arrears is very low in each of the last three fiscal years.
- Quarterly budget execution reports are prepared and published.
- The annual Consolidated Financial Statements (CFS) are prepared based on international standards and are submitted for external audit on a timely basis; and,
- All budgetary units and extra-budgetary units (EBUs) are audited annually by the Office of the Auditor General (OAG), and audit reports highlight relevant issues and risks.

The key areas in which **weaknesses** are identified include the following:

- Budget outturns are low at aggregate as well as composition levels for both revenues and expenditures.
- Budget ceilings for the annual budget preparation process are issued to line ministries only after they have completed their budget proposals in every detail.
- Public consultations on budget preparation, design of service delivery programs and investment planning do not take place.

- EBU revenues and expenditures amount to almost 10% of the Provincial Government's total revenues and expenditures, but financial monitoring of EBUs is not conducted.
- Only limited-service delivery information is available in budget documents, and line ministries delivering frontline services do not prepare and publish annual reports.
- Public investment management is weak across all dimensions (economic appraisal, selection, costing, and implementation monitoring).
- There are no comparisons of the estimates with the previous year's MTEF, and no explanations are provided regarding changes or deviations.
- Tax risk management lacks a structured and systematic approach for assessing and prioritizing compliance risk, and compliance improvement plans are not prepared.
- Payroll data and personnel information are not reconciled systematically; and information on internal controls for payroll is not readily available.
- Procurement monitoring is fragmented as the electronic Government Procurement (e-GP) system does not cover complete information (for non-competitive methods); and,
- The Provincial Assembly's review of audit reports is delayed and no hearings take place.

These areas thus represent opportunities for improvements through PFM reform.

The PFM performance of Government of Madhesh Province averages a score of '**D+**', i.e. *less than the basic level of performance*. The figure below shows the indicator scores, while the distribution of 32 indicators and 98 dimensions across scores is shown in the subsequent table. The full set of scores is shown in Table 0.1.

Figure 0.1: Summary of PEFA scores by indicator

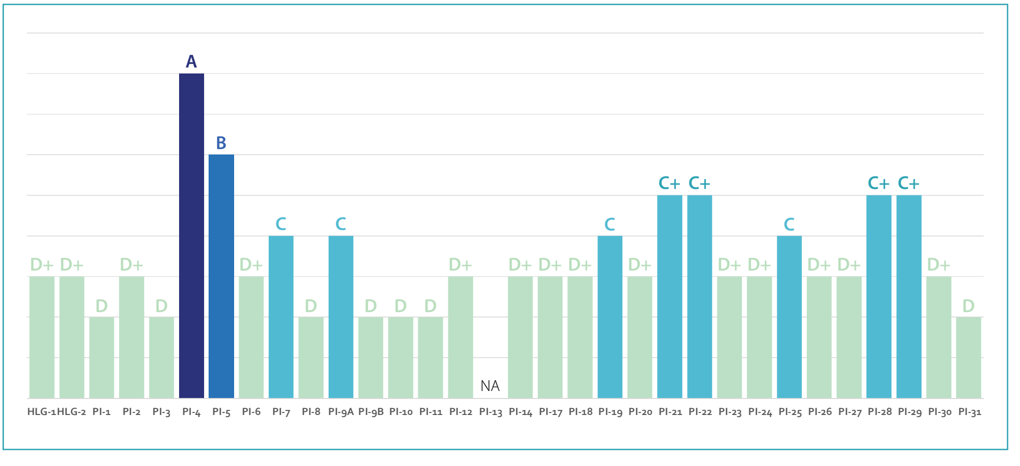


Table 0.1: Summary of PEFA Scores

Score	A	B+	B	C+	C	D+	D	D*	NA	Total
No. of indicators	1	0	1	4	4	14	7	-	1	32
No. of dimensions	10	-	11	-	18	-	52	1	6	98

The most frequent score at the dimension-level is 'D', while it is 'D+' for the indicator-level. For the indicator-level, two-thirds of scores are 'D' and 'D+'.

Impact of PFM performance on budgetary and fiscal outcomes

The PFM system's performance vis-à-vis the three budgetary outcomes is as follows:

Aggregate fiscal discipline. Achieving aggregate fiscal discipline is supported especially by the Provincial Government having in place an MTEF that estimates revenue and expenditure for the budget year are developed based on relevant information. Also, clear rules are in place for in-year budget adjustments although periodic reports are not published, the stock of expenditure arrears is very low, basic internal controls on non-salary expenditure are established, and monitoring of financial assets is well-developed. However, a key challenge for the Provincial Government to achieve aggregate fiscal discipline is that federal government transfers in most years are significantly below estimates, actual transfers do not generally follow agreed time plans, and no predictability for forward fiscal years (all three aspects being outside the control of the Provincial Government). Other issues that have an adverse effect include a poor own source revenue forecasting process, no financial monitoring of EBUs, estimates of the fiscal impact of proposed changes in revenue and expenditure policies not being prepared for individual initiatives, the MTEF does not explain changes from the previous version, and no consolidated cash flow forecast is prepared.

Strategic allocation of resources. This budgetary outcome is supported in particular by the solid budget classification system and comprehensive information being provided in the annual budget documentation. Also, basic procedures are in place for transfers to Local levels, clear rules for in-year budget adjustments exist and are generally adhered to, relevant information is available to taxpayers on rights and obligations, and quarterly budget execution reports are prepared based on accurate data and are published. There are, however, several weaknesses in the PFM system and practices that undermine strategic resource allocation, including the above-mentioned issues related to the federal government's fiscal transfers, which is a main reason for the considerable expenditure composition variances. Also, the Provincial Government does not monitor the finances of EBUs, public investment management is weak across all dimensions, the Budget Calendar is not fully adhered to during the annual budget formulation process, budget ceilings are not approved by the Cabinet before being distributed to the budgetary units, and the Provincial Assembly's review of the annual budget proposal does not cover revenue estimates.

Efficient service delivery. The achievement of efficient service delivery is supported mainly by essential procedures being applied for fiscal transfers to Local levels, a basic level of fiscal information is available to the public, budgetary units can plan and commit expenditure from the start of the fiscal year, and the Provincial Government uses a systematic and transparent mechanism for in-year budget adjustments. However, some PFM issues may hinder achieving this budgetary outcome, including the issues related to the fiscal transfers from the federal government, a distinct absence of service delivery information in budget documents and annual reports, no public consultations are conducted in preparing the budget, designing service delivery programs or planning investments, public investment management is weak across all dimensions, procurement monitoring is not comprehensive and data on the use of procurement methods is not available. No system is in place for providing responses on internal audit reports, and only a few budgetary units provide formal responses on external audit findings.

Table 0.2: PEFA PFM Assessment 2025 – Summary of Scores

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

1 PFM CONTEXT IN MADHESH PROVINCE

1 PFM Context in Madhesh Province

1.1 Background

Governance arrangements

Nepal operates under the federal democratic republic system with three levels of governance: federal, provincial, and local. The Constitution (2015) outlines the structure, powers, and responsibilities of each level, including exclusive and concurrent powers. The federal government is the central executive authority. Nepal's governance arrangements are designed to address the country's diversity and promote local democracy.

Nepal has seven provinces, each with its own directly elected governments, which were first formed in 2018 following elections to the Provincial Assemblies held in 2017. The provinces have their own political, fiscal and administrative powers, as defined by the Constitution. Provincial governments are responsible for province-level implementing plans and programs as well as federal plans and programs with provincial components. Local levels consist of 753 municipalities and rural municipalities[10] and, similar to provincial governments, they have their own directly elected leadership and powers. They also have concurrent powers with both federal and provincial governments. Local levels are responsible for delivering services and promoting local development. District Coordination Committees facilitate coordination between Local levels across the district. Provincial governments and local levels have own revenue sources but depend heavily on fiscal transfers from the federal government. The focus is on delivering quality services, promoting local development, and enhancing economic prosperity.

[10] Six metropolitan cities, 11 sub-metropolitan cities, 276 municipalities, and 460 rural municipalities.

Country economic situation

Nepal's economy grew by 4.6% in 2024/25, up from 3.7% in 2023/24,[11] and is expected to grow by 5.4% in 2025/26.[12] Inflation moderated to 4.1% in 2024/25, down from 5.4% in 2023/24.[13] The fiscal deficit of the Government of Nepal (GoN) moderated to 2.0% of gross domestic product (GDP) in 2024/25, and will rise slightly to 2.9% by 2026/27, with public debt reaching 43.4% of GDP, which is deemed to be within sustainable levels.[14]

Table 1.1: Selected major aggregate national economic indicators

Indicators	2022/23	2023/24	2024/25*
Economic growth rate at basic price (%)	2.29	3.36	3.99
GDP at current prices (NPR Millions)	5,367,000	5,709,100	6,107,220
Per capita GDP (USD)	1,393	1,443	1,496
Per capita national income (USD)	1,410	1,467	1,517
Resource gap** (% of GDP)	-0.87	3.88	5.20
Export of goods and services (% of GDP)	7.01	7.62	8.74
Import of goods and services (% of GDP)	34.56	32.91	33.23
Remittance income (% of GDP)	23.12	25.32	25.89

* Estimate; ** Resource gap = Gross national saving minus Gross investment.

Source: Government of Madhesh Province. 2024. *Economic Survey 2024/25*. Janakpur, Table 1.1, p. 3.

Madhesh Province economic situation

Economic growth in Madhesh Province varies from that of the country as a whole: it was significantly higher for 2021/22, considerably lower for 2022/23, but more or less similar for 2023/24. Madhesh Province accounts for around 13% of national GDP, while per capita GDP in Madhesh Province is around one-third below the national average. The agriculture sector accounts for one-third of Madhesh Province's economy, followed by wholesale and retail trade (around 14%), education (10%) and public administration (10%).

[11] National Statistics Office (NSO). 2025. *Annual National Accounts Statistics for Fiscal Year 2081/82 [2024/25]*. Kathmandu: 'GDP Tables 2025'.

[12] World Bank. 2025. *Nepal Development Update (April 2025)*. Washington DC, p. 6.

[13] Nepal Rastra Bank (NRB). 2025. *Current Macroeconomic and Financial Situation-Tables (Based on Annual Data of 2024/25)*. Kathmandu, Statistical Tables 2024/25 – Table 7 (National Consumer Price Index).

[14] World Bank. 2025. *Nepal Development Update (April 2025)*. Washington DC, p. 7.

Table 1.2: Major aggregate provincial economic indicators

Indicators	2021/22	2022/23	2023/24
Nominal GDP growth rate (%)	5.09	1.00	3.74
Madhesh nominal GDP (NPR Millions)	654,393	702,689	748,368
Madhesh nominal GDP as share of national GDP (%)	13.20%	13.10%	13.10%
Per capita GDP (USD) [nominal]	885	868	892
Sector shares			
Agriculture, forestry and fishing	35.40%	34.80%	35.20%
Wholesale and retail trade	14.60%	13.70%	13.10%
Education	9.90%	10.50%	10.60%
Public administration and social security	9.60%	10.80%	10.40%
Manufacturing	6.10%	5.60%	5.30%
Transportation and storage	5.90%	6.60%	7.20%
Construction	4.60%	4.40%	4.10%
Other 11 sectors	14.00%	13.70%	14.30%
Total	**100%**	**100%**	**100%**

Note: The national GDP share of Madhesh Province is calculated based on the GDP figures published by the National Statistics Office (NSO), which differ slightly from the GDP data published by the World Bank.

Source: National Statistics Office (NSO). 2024. *Annual Report 2080*. Kathmandu.

1.2 Financial overview of Government of Madhesh Province

The overall structure of Madhesh Province's public sector is shown in the table below, including with the ten largest entities for each category.

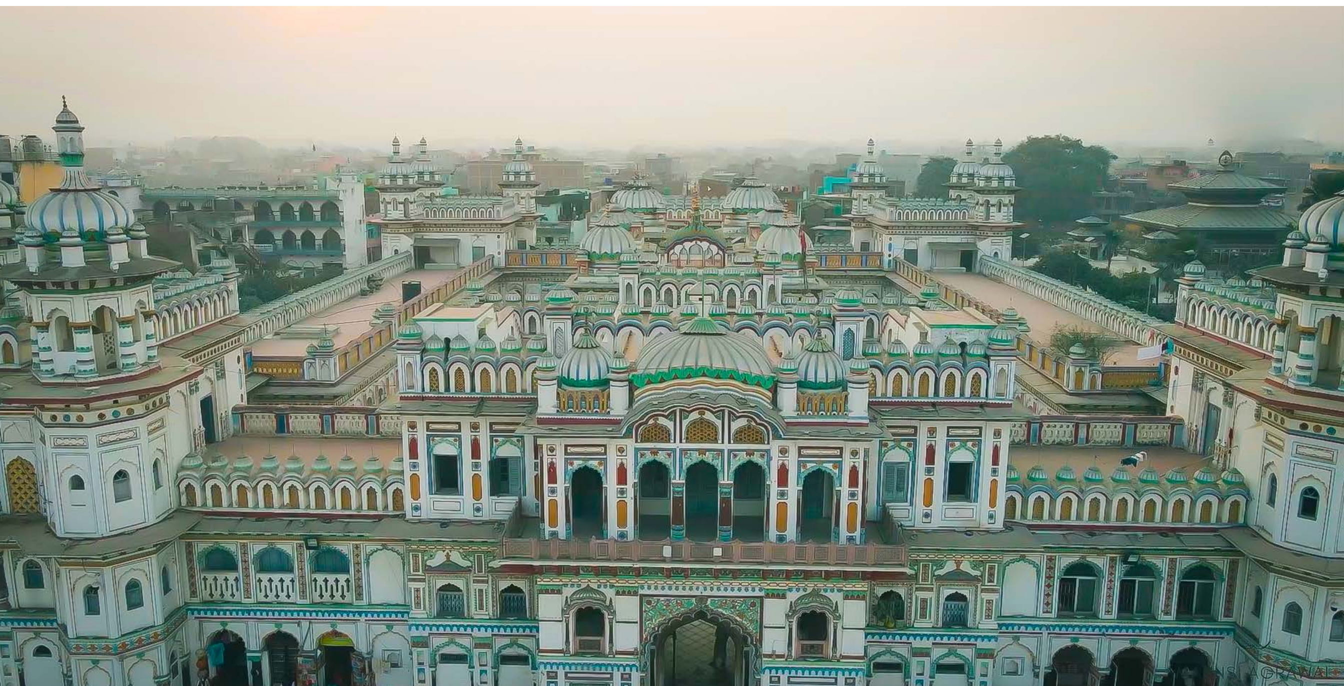


Table 1.3: Structure of the sub-national public sector

Particular	Budgetary Units	Extra-Budgetary Units (EBUs)	Sub-National Public Corporations	Local Levels
Number of entities	166	16	None	136
Financial turn-over (NPR Millions)	24,544.93	7,468.47	Not applicable	70,900.00
Ten largest entities	1) Office of the Chief Minister and Council of Ministers (OCMCM) 2) Ministry of Physical Infrastructure Development (MoPID) 3) Ministry of Energy, Irrigation and Water Supply (MoEIWAS) 4) Ministry of Land Management, Agriculture and Cooperative (MoLMAC) 5) Ministry of Finance (MoF) 6) Ministry of Industry, Commerce and Tourism (MoICT) 7) Ministry of Health and Population (MoHP) 8) Ministry of Youth, Sports and Social Welfare (MoYSSW) 9) Ministry of Education and Culture (MoEC) 10) Ministry of Forest and Environment (MoFE)	1) Madhesh Institute of Health and Sciences 2) Madhesh Agriculture University 3) Malangwa Hospital, Sarlahi 4) Kaliya Hospital, Bara 5) Madhesh University 6) Gaur Hospital, Rautahat 7) Provincial Hospital, Dhanusha 8) Siraha Hospital, Siraha 9) Lahan Hospital, Siraha 10) District Hospital, Jaleshwor	-	1) Birgunj Metropolitan City 2) Jeetpur Simara Sub-Metropolitan City 3) Janakpur Sub-Metropolitan City 4) Kalaiya Sub-Metropolitan City 5 Nijgadh Municipality 6) Lalbandi Municipality 7) Malangwa Municipality 8) Gaur Municipality 9) Lahan Municipality 10) Chandrapur Municipality

Sources: PFCO's CFS for 2023/24 and OAG's Annual Report for Madhesh Province (covering 2023/24).

Aggregate fiscal data for Government of Madhesh Province for the last three completed fiscal years is shown in the next table.

Table 1.4: Aggregate fiscal data

Particular	2021/22		2022/23		2023/24	
	NPR Millions	Share of provincial GDP (%)	NPR Millions	Share of provincial GDP (%)	NPR Millions	Share of provincial GDP (%)
A. Total revenue and grants	**29,701.49**	**4.54**	**28,767.43**	**4.09**	**25,918.92**	**3.46**
Own source revenue*	4,813.49	0.74	5,574.43	0.79	5,265.92	0.70
Revenue sharing from the GoN	10,186.00	1.56	8,560.00	1.22	9,681.00	1.29
Fiscal transfer from the GoN	14,702.00	2.25	14,633.00	2.08	10,972.00	1.47
B. Total expenditure	**22,260.48**	**3.40**	**26,869.87**	**3.82**	**24,544.93**	**3.28**
B.1 Recurrent expenditure	6,789.66	1.04	7,092.44	1.01	7,847.67	1.05
Fiscal transfer to Local Levels	3,548.26	0.54	3,577.89	0.51	1,407.94	0.19
Interest expenditure	0.00	-	0.00	-	0.00	-
B.2: Capital expenditure	11,922.56	1.82	16,199.53	2.31	15,289.31	2.04
C. Aggregate balance (including grants) (A-B)	**7,441.01**	**1.14**	**1,897.56**	**0.27**	**1,373.99**	**0.18**
D. Primary balance	**7,441.01**	**1.14**	**1,897.56**	**0.27**	**1,373.99**	**0.18**
Public debt	-	-	-	-	-	-
Owed to the GoN	-	-	-	-	-	-
IFIs	-	-	-	-	-	-
Province's bonds	-	-	-	-	-	-
Ratio of public debt to GDP	-	-	-	-	-	-

GoN= Government of Nepal, IFI = International Financial Institution

* Excludes revenue sharing between the Provincial Government and local levels.

Sources: Budget Speeches (2021/22, 2022/23 and 2023/24) for fiscal data as well as federal MoF Economic Surveys (2021/22, 2022/23 and 2023/24) for GDP data.

Fiscal and budgetary trends of Madhesh Province[15]

In 2022/23, Madhesh Province's GDP grew by 1.9%, down from 4.2% in 2021/22. This was due to a downturn in wholesale and trade, manufacturing, and construction activities. The service and agriculture sectors contributed 46.4% and 30.6%, respectively, to the province's GDP in 2022/23. That year, Madhesh Province accounted for 13.1% of the national GDP, securing the fourth-largest share among the seven provinces.

In 2022/23, in contrast to the other six provinces, Madhesh Province generated a fiscal surplus amounting to 0.2% of GDP. However, this was the lowest surplus since 2018/19 and caused by lower revenues and grants as well as higher expenditures. Revenues and grants declined owing to the lower fiscal grants and revenue sharing. In contrast, especially capital expenditure increased. The vertical fiscal gap[16] persisted at a high of 92%. In 2022/23, nearly 8% of Madhesh Province's own spending (excluding fiscal transfers to local levels) relied solely on own source revenue, with inter-governmental revenue making up over 90% of total revenues and grants. Capital spending accounted for more than 70% of Madhesh Province's own spending and 60% of its total expenditure.

The fiscal and budgetary trends of Madhesh Province reflect a growing emphasis on infrastructure development, social services, and inclusive economic growth. In recent fiscal years, Madhesh Province has seen an increase in budget allocations, with a significant share directed toward education, health, agriculture, and rural development. However, challenges remain in budget execution, with actual expenditure often falling short of planned allocations due to administrative inefficiencies and capacity constraints. Also, revenue mobilization at the provincial level remains limited, making Madhesh Province heavily reliant on federal grants and fiscal transfers.

1.3 Institutional arrangements

Intergovernmental fiscal arrangements

Inter-governmental fiscal arrangements in Nepal are governed by the Constitution, which clearly defines the powers and responsibilities for taxation and expenditure among the federal, provincial, and local levels. The legal framework for fiscal decentralization is outlined in key legal acts, including the National Natural Resource and Fiscal Commission (NNRFC) Act (2017), Inter-Governmental Fiscal Arrangement (IGFA) Act (2017), and Local Government Operations Act (2017). These Acts delineate the functions, powers, and responsibilities of the sub-national governments (SNGs) in areas such as revenue mobilization, expenditure management, and

[15] The following paragraphs draw from: World Bank. 2024. *Nepal Fiscal Federalism Update (May 2024)*. Washington DC.

[16] A vertical fiscal gap, or imbalance, is when an SNG has more expenditure responsibilities than own revenue raising capacity, hence the SNG needs to rely on central government transfers (and/or borrowing) to finance the expenditures.

development planning. SNGs have access to various revenue sources, including property tax, land registration fees, vehicle tax, business registration fees, tourism tax, and local service charges. In addition to their own revenue sources, SNGs also receive grants from the GoN. The Constitution provides for revenue-sharing among all levels of government and outlines a system of fiscal transfers from the federal government to SNGs.

To promote equity in the distribution of natural and fiscal resources, the Constitution has established the NNRFC as an independent constitutional body. Its primary aim is to ensure a just and equitable distribution of resources among the federal, provincial, and local levels, thereby supporting balanced development across Nepal. Fiscal transfers from the GoN to the SNGs are provided in the form of fiscal equalization grants, complementary grants, conditional grants, and special grants. The transfers are designed to address vertical fiscal imbalances and ensure equitable development across provinces and municipalities as well as to support decentralized governance in Nepal.

Despite the constitutional provisions and comprehensive legal framework, the implementation of fiscal decentralization in Nepal faces significant challenges. These include capacity constraints, limited revenue mobilization, uneven resource distribution, and overlapping responsibilities between the three tiers of government.

PFM arrangements

At the provincial level, the Office of the Chief Minister and Council of Ministers (OCMCM) exercises executive authority as provisioned by the Constitution. The Chief Minister leads the provincial government and is responsible for the formulation and implementation of development policies and plans. These responsibilities are carried out through various line ministries, which are directly accountable to the Chief Minister. Each line ministry operates through its own budgetary units, which are tasked with implementing specific programs and projects aligned with the province's development priorities.

The Ministry of Finance (MoF) plays a central role in the financial governance of Madhesh Province and is responsible for overall policy and planning. It also holds the main responsibility for revenue collection, although authority for this function is provided to provincial units under the Finance Act. The Provincial Policy and Planning Commission (PPPC) oversees long-term planning, prepares periodic development plans, and develops the medium-term expenditure framework (MTEF). The PPPC is instrumental in setting strategic development goals and ensuring that fiscal planning aligns with these.

Articles 203-213 of the Constitution provide a comprehensive framework for provincial financial procedures and guide the preparation of the annual budget and programs. The MoF compiles annual estimates of revenue and expenditure based on the proposed plans and programs submitted by the line ministries. Each year, on 15/16 June (*1 Ashad*),[17] the Finance Minister presents the estimates to the Provincial Assembly. Prior to the presentation, the principles and priorities of the upcoming fiscal year's budget, along with an economic survey, are submitted to the Assembly to facilitate informed discussions. Following deliberation and debate, the Provincial Assembly approves the annual budget through the passage of the Appropriation Bill and the Finance Bill, which serves as the legal foundation for implementing policies and plans through ministries and their budgetary units.

The overall PFM functions are guided by the Provincial Financial Procedures (PFP) Act (2018), which establishes a framework for the formulation, execution, and oversight of the provincial budget. The Provincial Government also follows the federal Financial Procedures and Fiscal Accountability (FPFA) Act (2019) in some PFM areas. In addition to these core PFM acts, activities are governed by several other provincial and federal acts.

To improve efficiency and transparency in PFM, the Provincial Government is applying various information systems developed by the GoN. For example, all budgetary units use the Provincial and Line Ministry Budget Information System (PLMBIS) for preparing their budgets. For budget execution, the Provincial Government uses the Integrated Public Financial Management Service (IPFMS), which includes the Computerized Government Accounting System (CGAS) and the Treasury Single Account (TSA) system. Revenue collection and reporting are facilitated through the Revenue Management Information System (RMIS), which is used by all budgetary units.

The Provincial Financial Comptroller Office (PFCO), supported by its Provincial Treasury Units (PTUs), is responsible for managing treasury operations, accounting, reporting and internal auditing at the provincial level.

Procurement processes in the province are governed by the Public Procurement Act (PPA) (2007) and the Public Procurement Rules (PPR) (2007). This ensures that procurement practices are transparent, competitive, and efficient. The federal Public Procurement Monitoring Office (PPMO) offers technical and legal assistance.

The external audit functions rest with the federal Office of the Auditor General (OAG). It submits an annual report to the Province Chief, which is tabled at the Provincial Assembly and referred to the Public Accounts Committee (PAC) for detailed scrutiny. This helps to ensure oversight and reinforces the integrity and transparency of PFM.

[17] In the Nepali calendar, the first day of the month of Ashad corresponds to 15 June or 16 June in the Gregorian calendar.

Provincial governments are permitted to borrow funds, but only with the consent of the GoN. As per Section 23 of the Inter-Governmental Fiscal Arrangement (IGFA) Act, provincial governments may present deficit budgets to their respective provincial assemblies based on their financial needs. However, any such budget must clearly specify the sources of financing.[18] The responsibility for managing public debt, including recording, accounting, and reporting, rests with the federal Public Debt Management Office (PDMO).

1.4 Legal and regulatory arrangement for PFM

The table below summarizes the main acts and regulations related to PFM.

Table 1.5: Main PFM acts and regulations

PFM area	Acts and regulations	Brief description and coverage
All	■ Constitution of Nepal (2015) ■ Provincial Financial Procedures (PFP) Act (2018) ■ Financial Procedure and Fiscal Accountability (FPFA) Act (2019) ■ Financial Procedure and Fiscal Accountability (FPFA) Regulations (2021)	The legal framework for PFM is based on the Constitution, the FPFA Act and the PFP Act. Under the Constitution, provincial governments have the power to generate revenue and borrow funds and are required to present an annual budget to the Provincial Assembly for approval. The Constitution sets fundamental principles for financial accountability, including accounting standards, audit procedures, internal controls, and legislative supervision. The PFP Act and FPFA Act provide further detailed guidance for financial processes covering planning, budgeting, budget implementation, accounting, internal controls, reporting, internal audit, and external audit.
Planning	■ First five-year Periodic Development Plan (2019/20-2023/24) ■ Second five-year Periodic Development Plan (2024/25-2028/29) ■ Medium-Term Expenditure Framework (MTEF) ■ Provincial Project Bank Operations Guidelines (2024) ■ Provincial Monitoring and Evaluation Guidelines (2019) ■ Province Planning and Program Formulation Guidelines (2020)	The Periodic Development Plans provide overall guidance based on fiscal strategies, sectoral strategies, plans and programs. They also provide roadmaps on managing available resources. Similarly, the MTEF projects revenues and expenditures for three future fiscal years with which the government's annual programs should be aligned. The Project Bank Operations Guidelines detail the procedures for selecting projects based on needs and outcomes. Projects with high returns are prioritized in the Project Bank.

[18] Despite this provision, the Provincial Government has not borrowed till date.

PFM area	Acts and regulations	Brief description and coverage
Inter-governmental fiscal relations	▪ Inter-Governmental Fiscal Arrangement (IGFA) Act (2017) ▪ Local Government Operations Act (2017) ▪ National Natural Resources and Fiscal Commission (NNRFC) Act (2017) ▪ Provincial Fiscal Transfer Management Act (2018) ▪ National Natural Resources and Fiscal Commission (NNRFC) Regulation (2019) ▪ Federal, Province and Local Level (Coordination and Inter-Relations) Act (2020) ▪ Fiscal Equalization Grant Procedures (2021) ▪ Special Grant Procedures (2021) ▪ Conditional Grant Procedures (2021) ▪ Public Debt Management Act (2022) ▪ Public Debt Management Regulations (2023)	The laws and regulations provide the framework for inter-governmental fiscal coordination, which cover revenue entitlements, distribution formulas, transfer payments, grant allocations, loan provisions, budget coordination, and expenditure management.
Budgeting and Revenue	▪ Appropriation Act [annual] ▪ Finance Act [annual] ▪ Budget Preparation and Implementation Guidelines [annual] ▪ Province Tax and Non-Tax Act (2022) ▪ Expenditure Norms (Standards) (2023) ▪ Vehicle and Transport Management Act (2024)	The provincial budgeting process is governed by key legal and procedural instruments, which regulate revenue estimation, expenditure planning, budget ceilings, and the MTEF. They also guide budget proposals, implementation, and legislative scrutiny so as to help ensure transparency, consistency, and fiscal discipline in managing provincial funds.

PFM area	Acts and regulations	Brief description and coverage
Accounting	■ Accounting Manual (2016) ■ Government Transaction Directives (2019) ■ Government Accounting Manual (2013 / 2022) [OAG forms and formats] ■ Nepal Public Sector Accounting Standards (NPSAS)	They provide a framework for the policies and procedures on recording and reporting financial transactions from the consolidated fund, using the cash basis of accounting.
Internal control	■ Internal Control System Formulation Directives (2022) ■ Procedures for Government Assets and Inventory Goods Auction Sale (2022) ■ Madhesh Province Government (Work Division) Regulations (2022)	These provide practical guidance for implementing internal controls across the provincial entities.
Procurement	■ Public Procurement Act (PPA) (2007) ■ Public Procurement Regulations (PPR) (2007) ■ Directives on Procurement ■ Electronic Government Procurement (e-GP) System Operations Manual ■ Electronic Procurement System Operation Directives (2023) ■ Standard Bidding Documents (SBDs)	The PPA applies to all tiers of government as well as extra-budgetary units (EBUs). Procurement is decentralized to the budgetary units, with the PPMO responsible for monitoring. Using the e-GP system is mandatory for all bidding above specific thresholds.
Internal Audit	■ Internal Audit Procedures (2021)	The PFCO conducts internal audits of all Provincial Government entities in accordance with the procedures.
External Audit	■ Constitution of Nepal (2015) ■ Audit Act (2019) ■ Nepal Government Auditing Standards	The Auditor General's authority, including appointment and dismissal, is stated in the Constitution. The Audit Act and standards provide the framework for audit planning, execution, reporting, and follow-up actions.
Provincial Assembly	■ Provincial Assembly Regulations (2018) ■ Public Accounts Committee Procedures (2023)	The Regulations provide the framework for reviewing and discussing the annual Appropriation Bill and Finance Bill. The Provincial Assembly provides oversight and scrutinizes audit reports.

PFM area	Acts and regulations	Brief description and coverage
Public participation	■ Citizen Engagement Strategy ■ Participatory Audit Guidelines	The GoN's Citizen Engagement Strategy aims to enhance public participation and thereby facilitate transparency and accountability across all three government tiers. OAG's guidelines seek to facilitate citizen engagement in audit.

Source: https://ocmcm.madhesh.gov.np/,https://mof.madhesh.gov.np/np, https://pppc.madhesh.gov.np/, http://stco.p2.gov.np/, http://provincialassembly.madhesh.gov.np/ , https://fcgo.gov.np/, https://lawcommission.gov.np/.

1.5 PFM reform process

The Provincial Government aims through PFM reform to enhance accountability, efficiency and transparency in public finance. Within the planning and budgeting domain, the main objective is to align annual budgets with the Periodic Development Plan and the MTEF. Currently, planning procedures are fragmented and often lack evidence-based prioritization. To address this, reforms seek to effectively implement the provincial Project Bank, introduce performance-based budgeting, and apply the MTEF in the annual planning process. The use of clear prioritization indicators for project selection will help tie resources to measurable results, which will discourage bulk budgeting and provide more focus on cost-effectiveness.

Revenue-related reforms aim to enhance transparency through consistent use of the RMIS, compliance with financial codes, and regular monitoring. Strengthening cooperation with local levels and applying data-driven models in revenue forecasting will improve the quality and accuracy of revenue predictions. The Provincial Government plans to reduce its dependence on federal transfers and implement mechanisms to broaden its revenue base by leveraging natural resources, tourism, and public-private partnerships (PPPs).

In the case of debt and investment management, the objective is to ensure economic sustainability through efficient resource allocation. Currently, investments lack strategic alignment with the MTEF, and debt policies remain undeveloped. Reforms aim to establish a dedicated Debt and Investment Management Office, link investment strategies with the MTEF, and prioritize projects with high returns. Transparency will be promoted through the use of digital platforms and adhere to standardized record-keeping and reporting frameworks. PPP models will be encouraged for large-scale infrastructure projects.

Budget execution and expenditure management face issues such as under-utilization of the capital budget and delays in disbursement of funds. Programs are often implemented late in the fiscal year, leading to inefficient spending. Reforms support the use of digital financial systems, timely fund disbursement, and compliance with procurement regulations.

Expenditure monitoring will be strengthened through real-time data tracking and user group engagement will be governed by clear procedural guidelines. The goal is to achieve paperless, cashless transactions and improve capital expenditure efficiency through well-prepared procurement plans and early fiscal planning.

For procurement, reforms aim to promote transparency and ensure compliance with the PPA and PPR. Procurement processes are currently inefficient, characterized by program disintegration and a preference for direct purchases. Some procurement staff lack the necessary capacity; hence capacity building is to be continued. Bidding documents should be well-prepared to emphasize competitiveness and efficiency, and bidding processes begin on time. The use of the e-GP system is to be prioritized. To reduce irregularities, bid documents must comprehensively cover the requirements of public entities.

Accounting and financial reporting reforms are to address inconsistencies and improve overall financial transparency. The use of standardized OAG forms and digital financial systems is to be made uniform across all entities. By enhancing employee capacity in accounting procedures and software usage, budgeting and accounting systems can be better integrated to align with provincial priorities. Accounting systems are to be aligned with international standards to improve accuracy and comparability.

Internal audit mechanisms must be made more efficient and effective, including conducting it regularly throughout the fiscal year. Reforms will emphasize developing structured internal audit plans and ensuring that findings are reviewed in a timely manner. The reform agenda is to include strengthening coordination between the PFCO and staff of the budgetary units, integrating internal audit recommendations into employee performance evaluations, and enforcing the timely submission of all necessary financial documents. The Provincial Government acknowledges that transparency will be improved through swift resolution of irregularities and strict adherence to relevant rules and procedures.

The Government of Madhesh Province does not presently have in place a formal PFM reform strategy or program. However, the federal MoF during 2024/25 prepared the 'National Public Financial Management Reform Strategy-III 2025-2030',[19] which was approved by the federal Cabinet on 29 August 2025. It was developed following extensive consultations across all three tiers of government, including provincial governments, and with development partners. The Strategy is based on seven pillars and three cross-cutting areas and comprises 24 strategic

[19] https://www.mof.gov.np/content/1630/the-third-public-financial-management-improve-national/.

objectives with 128 specific reform activities of which many include provincial governments as responsible units. Hence, Strategy and its implementation is directly applicable also to Government of Madhesh Province.

Taken together, the above-mentioned reform plans and initiatives present a comprehensive roadmap for enhancing PFM in Madhesh Province.

2 ASSESSMENT OF PFM PERFORMANCE

2 Assessment of PFM Performance

Chapter 2 provides an assessment of the key elements of the Government of Madhesh Province's PFM system, as captured by the pillars, indicators and dimensions of the PEFA SNG assessment framework.

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

A	High level of performance that meets good international practices
B	Sound performance in line with many elements of good international practices
C	Basic level of performance
D	Less than the basic level of performance
D*	Insufficient information to score[20]
NA	Not applicable[21]

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

SNG Pillar	Inter-governmental fiscal relations
Pillar I	Budget reliability
Pillar II	Transparency of public finances
Pillar III	Management of assets and liabilities
Pillar IV	Policy-based fiscal strategy and budgeting
Pillar V	Predictability and control in budget execution
Pillar VI	Accounting and reporting
Pillar VII	External scrutiny and audit

[20] A score of 'D' due to insufficient information is distinguished from 'D' scores for low-level performance by the use of an asterisk.

[21] See PEFA Framework, p. 7, or Volume II of PEFA Handbook, Sub-Section 2.1.2. The term 'not applicable' and its abbreviation 'NA' is used where an indicator, dimension, or evidence sought is not applicable to the government system being assessed. When 'NA' is used, an explanation is included in the narrative.

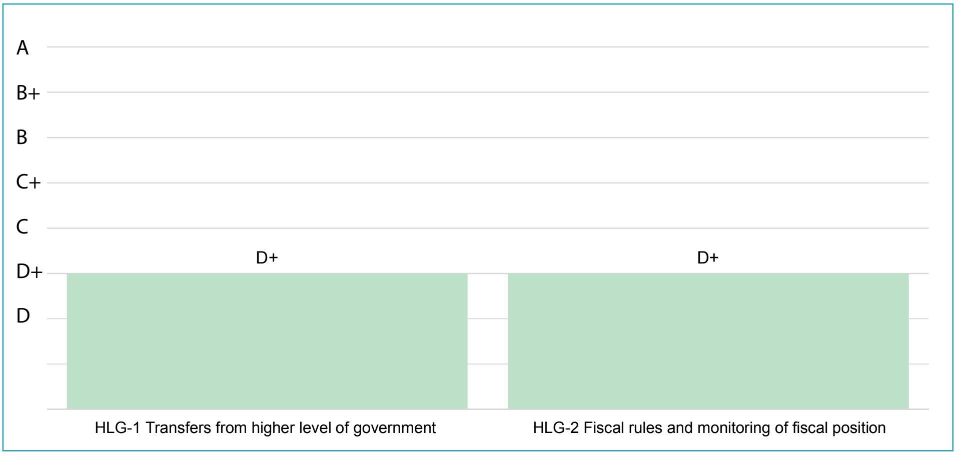
SNG PILLAR: Inter-Governmental Fiscal Relations

What does the pillar measure? It measures if SNGs obtain reliable and timely information on transfers from the central government to help them prepare meaningful budgets and also, if the central government sets effective fiscal rules and monitors the fiscal position of the SNGs.

Overall performance: The performance of the SNG pillar is below basic. The aggregate outturn of transfers from the GoN was low in 2022/23 and 2023/24 and, although variances in transfer composition were limited, disbursements were generally not made in accordance with the agreed timetable. Also, the GoN does not provide province-specific information on transfers for the next fiscal year(s). Fiscal rules set by the GoN for provincial governments are clear and are followed, but they do not set a ceiling on the primary fiscal balance or the operating balance. All provincial governments, including Madhesh Province, submitted the 2023/24 financial statements to the GoN within six months as required.

The performance of HLG-1 and HLG-2 is shown below.

Figure 2.1: Indicator scores under the SNG Pillar



HLG-1. Transfers from higher level of government

What does the indicator measure? It assesses the extent to which transfers to the SNG from higher level of government (HLG) are consistent with original approved budgets of the HLG and are provided according to agreed time frames. Coverage is budgetary units of the SNG and HLG for the last three completed fiscal years for HLG-1.1, HLG-1.2 and HLG-1.3, and the last completed fiscal year for HLG-1.4. It uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The Constitution, acts and regulations were reviewed, and data from the CFS and the RMIS identified and used to assess the extent to which requirements are met. Source data and calculations are provided in Annex 3.

Table 2.1: Summary of scores for HLG-1 and performance table

Indicator/dimension	Brief justification for score	2025 Score
HLG-1. Transfers from higher level of government		**D+**
HLG-1.1. Outturn of transfers from higher level of government	Actual transfers from the GoN to the Provincial Government were between 82% and 106% of the original budget estimates in two of the last three fiscal years.	D
HLG-1.2. Transfers composition outturn	Variances in transfer composition were less than 10% in each of the last three fiscal years.	B
HLG-1.3. Timeliness of transfers from higher level of government	While a disbursement timetable is implicitly agreed by the GoN and SNGs for fiscal transfers, actual disbursements were generally not made in accordance with the timetable during the last three fiscal years, and actual transfers were also not distributed evenly across each year or front-loaded.	D
HLG-1.4. Predictability of transfers	The GoN provides province-specific information on transfers for the next fiscal year, but information for the next fiscal year is only provided at the aggregate level for all provinces (i.e., not province-wise separately).	D

Description of the sub-national PFM system for the assessed PI: Part 5 of the Constitution establishes clear distributions of powers and responsibilities among the federal, provincial, and local levels. The Constitution guarantees authority across all three tiers of government, with expenditure responsibilities entrusted and specified stated in the Schedules. Articles 60(3), 60 (4), and 60(6) mandate the federal government to provide fiscal transfers to SNGs, including: fiscal equalization grants, conditional grants, complementary grants and special grants. Article 60(3) requires the allocation of fiscal equalization grants to be based on the recommendations of the NNRFC,[22] while Articles 60(2), 60(7), and 60(8) govern the distribution of revenues among the federal, provincial, and local levels. Accordingly, fiscal transfers from the GoN to SNGs consist of revenue sharing and four types of grants.

Revenues: The Inter-Governmental Fiscal Arrangement (IGFA) Act, (2017), Sections 1-6 state that revenues shall be collected in the federal Divisible Fund Account. Deposited amounts are

[22] The Constitution's Article 251(b) states that it is a function of the NNRFC "to make recommendation about equalization grants to be provided to the province and local levels out of the Federal Consolidated Fund, …".

allocated to the federal government (70%), provincial governments (15%) and local levels (15%). The latter two parts are to be deposited in provincial governments and local divisible funds monthly. The IGFA Act, Section 7 and Annex 4, states that royalties collected and deposited in the federal Divisible Fund Account are to be allocated to provincial governments and local government on an annual basis.

Grants: The IGFA Act, Section 8, requires the fiscal equalization grant to be distributed to provincial governments and local levels based on their expenditure requirements and revenue collection capacities as well as considering the recommendations of the NNRFC. Section 9 provides for conditional grants to be provided by the GoN for the implementation of sub-national projects, according to the Constitution's Article 251(1-c), and as determined by the NNRFC Act. Section 10 provides complementary grants to be provided to SNGs for infrastructure development. Section 11 provides special grants provided by the GoN based on SNGs meeting specific requirements for projects implemented by SNGs.

The National Planning Commission (NPC) has, in accordance with Section 11(3) of the IGFA Act, developed management procedures for complementary grants and special grants.[23]

Timelines: The federal Appropriation Act for 2023/24 included the timelines as well as ratio of allocation of grants to provincial governments and local levels. Fiscal equalization grants were to be provided with one-fourth of the total allocated budget (by 18 August, 18 October, 15 January and 14 April) and deposited by the Financial Comptroller General Office (FCGO) in the consolidated fund accounts of provincial governments. Section 7 provides for conditional grants to be transferred by the FCGO with one-third of the total allocated budget on 18 August, while later releases depend on the submission of reports.

As per the NPC's procedures, transfer for complementary grants and special grants are to be made on 15 October, 13 January, 13 April and 15 July.

Recent or ongoing reform activities: The GoN plans to include province-wise breakdowns of fiscal transfers in the federal MTEF. Also, the FCGO plans to allocate transfers as per the functional classification.

---

[23] https://www.npc.gov.np/category/853/.

HLG-1.1 Outturn of transfers from higher level of government

Performance level and evidence for scoring: The budgeted and actual transfers from the GoN to the Provincial Government from 2021/22 to 2023/24 are shown below.

Table 2.2: Outturn of transfers from the GoN (NPR Millions)

	2021/22	2022/23	2023/24
Approved budget (original budget)	23,542.40	30,797.50	24,935.40
Actual received transfers	24,888.00	23,193.00	20,653.00
Outturn	**105.70%**	**75.30%**	**82.80%**

Sources: CFS and RMIS data for 2021/22, 2022/23 and 2023/24; Grant transfer data from the FCGO's FMIS.

Actual transfers varied between 75.30% and 105.70% during the last three fiscal years. Actual transfers were slightly above the budget for 2021/22, but notably lower for 2022/23 and 2023/24.[24] For 2022/23 and 2023/24, this was due to fiscal challenges of the GoN such as low revenue generation capacity, as well as unrealistic revenue forecasts, which resulted in the GoN being unable to meet its transfer targets. Despite this, the Provincial Government could not utilize all transfers received due to limitations in absorption capacity.

There are also systematic issues related to information timing mismatch that follows from legal requirements regarding the time period of budget proposal submission. The ceilings of the fiscal equalization grant and revenue sharing are known to the Provincial Government before the GoN budget is submitted to Parliament. However, the provincial governments are only informed about the ceilings of the conditional, complementary and special grants after the GoN submits its annual budget proposal to Parliament, by which time they must submit their annual budget proposals to their respective assemblies.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

[24] While not shown in the table, it is noted that there were deviations in all four grants as well as for revenue sharing and royalty sharing in all three fiscal years. For 2021/22 and 2022/23, however, these cancel each other out at the aggregate level.

HLG-1.2 Transfers composition outturn

Performance level and evidence for scoring: The variances in transfer composition for 2021/22-2023/24 are shown below.

Table 2.3: Transfer composition outturn

	2021/22	2022/23	2023/24
Composition variance	4.50%	7.00%	5.70%

Sources: CFS and RMIS data for 2021/22, 2022/23 and 2023/24; Grant transfer data from the FCGO's FMIS.

The variances in transfer composition were less than 10% in each of the last three fiscal years. For 2021/22, this was mainly due to a significant decrease in the conditional grant as well as increase in the special and complementary grants (original budget estimates compared to actual transfers). For 2022/23, there was an increase in the conditional grant and a decrease in the special, complementary and fiscal equalization grants. For 2023/24, there was a decrease in the fiscal equalization and conditional grants as well as in revenue sharing.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

HLG-1.3 Timeliness of transfers from higher level of government

Performance level and evidence for scoring: There is a set timetable for disbursement to all SNGs of all transfers (i.e., four grants as well as revenue and royalty sharing), which is guided by the IGFA Act as well as the federal Appropriation Acts and NPC procedures.

The baselines, criteria and formulas for the fiscal equalization and conditional grants as well as for revenue and royalty sharing are recommended by the NNRFC, whereas the baselines and criteria for the complementary and special grants are set in NPC procedures.

The applicable legal acts and regulations clearly outline the disbursement timetables for the fiscal year, which are thus implicitly agreed by all stakeholders. The FCGO is the entity responsible for distributing the amounts. The actual transfer dates are reflected in RMIS reports.

The total fiscal transfers (four grant types as well as revenue sharing and royalty) from the federal government to the Provincial Government for the last three fiscal years are shown in the table below. Also shown are the transfers that were made on a timely basis as per the specific timetables and requirements for each transfer type.

Table 2.4: Timeliness of transfers (NPR Millions)

Types of fiscal transfers	**Disbursement timetable** (Timeline defined as per IGFA Act / NPC Procedure/Federal Appropriation Act)	**Actual timeline as per RMIS** (Received between FCGO/ DTCO and PFCO units at the district level)	**2021/22**	**2022/23**	**2023/24**
Total actual fiscal transfers (all types) made:			**Total amounts**		
Actual transfers during 1st quarter			5,854	5,374	4,716
Actual transfers during 2nd quarter			6,772	5,456	6,291
Actual transfers during 3rd quarter			6,296	6,156	4,607
Actual transfers during 4th quarter			5,966	6,207	5,039
Total annual transfer			**24,888**	**23,193**	**20,653**
Actual fiscal transfers (all types) made on a timely basis:			**Amounts that were timely**		
Fiscal equalization grant	Trimester-wise four installments (18 August, 18 October, 15 January and 14 April)	Installments (grant, revenue and royalty sharing) received on time	0	0	0
Conditional grant	Trimester-wise four installments (18 August, 30 November, 28 March and 29 June)		0	0	0
Special grant	Trimester-wise four installments (15 October, 13 January, 13 April and 15 July)		999	2,860	123
Complementary grant			180	448	245
Revenue sharing	Monthly		10,165	8,538	9,651
Royalty	Yearly		21	22	30
Total transfer received on time as defined by law			**11,365**	**11,868**	**10,049**
Share (%)			*45.70%*	*51.20%*	*48.70%*

DTCO = District Treasury Controller Office, FCGO = Financial Comptroller General Office, IGFA = Inter-Governmental Fiscal Arrangement, NPC = National Planning Commission, PFCO = Provincial Financial Comptroller Office, RMIS = Revenue Management Information System.

Sources: Formal timelines – IGFA Act, NPC Procedures and Federal Appropriation Act 2023/24. Actual timelines – RMIS and CGAS.

Disbursement in line with the specific timetables and requirements for each transfer type ranged from 45.70% to 51.20% for the last three fiscal years. In other words, only about half of the transfers were made on time. It is furthermore noted that none of the transfers were evenly distributed across each year or were front-loaded.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

HLG-1.4 Predictability of transfers

Performance level and evidence for scoring: The ceilings for the next fiscal year's transfers are known to all provincial governments through a letter circulated by the federal MoF and the NPC to the provincial MoFs. However, transfer information for the following fiscal years is not provided to the provincial governments. The federal MTEF,[25] prepared by the NPC, includes information on total grant transfers (by grant type) for the budget year and the next two fiscal years to provincial governments, but the information is not broken down by individual SNG.[26] Also, the federal MTEF is available to SNGs only when the GoN has submitted its annual budget proposal to Parliament (i.e., by the end of May each year).[27]

The GoN provides information on transfers for the fiscal year and the following fiscal year at the aggregate level to all provincial governments, but not for each provincial government separately. Hence, Government of Madhesh Province did not receive information on fiscal transfer amounts for the next two fiscal years. However, the MTEF prepared by the PPPC,[28] which reflects revenues, including grants, for three fiscal years, is prepared on the basis of the most recently received fiscal transfers.[29]

Based on the analysis and supporting evidence, the score for the dimension is **D**.

[25] https://npc.gov.np/content/6463/mid-ending-structure--a-v--2071-42-2073-4--and-annual-development/.

[26] In practical terms, this means that the SNGs do not know the grant amounts in advance, i.e. they are not predictable, which affect the SNGs' annual budgeting as well as medium-term budgeting, including regarding multi-year projects.

[27] https://mof.gov.np/category/inter-government-financial-transfer/.

[28] https://pppc.madhesh.gov.np/contentdetails/40.

[29] The amounts of some grants are increased by 10% and others remain unchanged, but it is unclear whether a systematic approach is applied by the PPPC in this regard.

HLG-2. Fiscal rules and monitoring of fiscal position

What does the indicator measure? It assesses the extent to which the central government sets fiscal rules framing the budget and granting SNGs the right to borrow. It also assesses the extent to which the central government monitors the financial position of SNGs. Coverage is budgetary units of the SNG and HLG for the last completed fiscal year. It uses the M1 (weakest link) method for aggregating dimension scores.[30]

Methodological notes: Constitutional, legislative and regulatory provisions have been reviewed. The source data (sampled), along with calculations and information for HLG-2.3, are provided in the narrative.

Table 2.5: Summary of scores for HLG-2 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
HLG-2. Fiscal rules and monitoring of fiscal position		**D+**
HLG-2.1 Fiscal rules for subnational governments	The provincial governments follow the fiscal rules established by the GoN, but these do not set a ceiling on the primary fiscal balance or the operating balance for SNGs.	D
HLG-2.2 Debt rules for subnational governments	SNG debt ceilings are set by the NNRFC, and enforcement mechanisms are guided by the IGFA Act, but exemptions for specific circumstances are not provided.	C
HLG-2.3 Monitoring of subnational governments	All provincial governments submitted their annual financial statements to the GoN within six months of the end of 2023/24.	B

Description of the sub-national PFM system for the assessed PI: The Constitution's Part 16 outlines the main financial procedures of provinces.[31] The GoN 16th Plan (2024/25-2028/29)[32] includes guidance on fiscal policy for all three tiers of government. The Federal, Province and Local Level (Coordination and Inter-Relations) Act (2020) provides guidance on collaboration and coordination between the three government levels.[33]

[30] While HLG-2 is an optional indicator, it can be used to provide conclusions on the system of fiscal decentralization in a country, hence it is applied here to describe the fiscal rules for Government of Madhesh Province.

[31] Part 16 covers: 203. No tax to be levied or loan to be raised; 204. State Consolidated Fund; 205. Expenditures from State Consolidated Fund or State Government Fund; 206. Expenditures chargeable on State Consolidated Fund; 207. Estimates of revenues and expenditures; 208. State Appropriation Act; 209. Supplementary estimates; 210. Votes on Account; 211. Votes of Credit; 212. State Contingency Fund; and, 213. Act relating to financial procedures.

[32] https://www.npc.gov.np/content/6462/the-sixteenth-plan--fical-year-2024-25-2028-29-/.

[33] https://mof.gov.np/content/27/connovation--province-reserve-and-interraging-act--2077/.

Recent or ongoing reform activities: None observed.

HLG-2.1 Fiscal rules for subnational governments

Performance level and evidence for scoring: Part 10 (Articles 109-125) of the Constitution guides the federal government in formulating financial procedures, including revenue rights, expenditure rights and appropriation rights. Article 125 provides guidance on formulating laws required for the transfer of funds between budget heads, and on formulating laws related to financial procedures. The federal government has formulated the IGFA Act (2017), NNRFC Act (2017) and NNRFC Regulations (2017), Local Government Operations Act (2017), FPFA Act (2019) and FPFA Regulations (2021), PPA (2007) and PPR (2007).

The IGFA Act focuses mainly on the management of fiscal transfers, including revenue rights, revenue sharing, borrowing, grants, budget arrangements, public expenditure and fiscal discipline of the three tiers of government. It also guides on preparation of revenue and budget expenditure as well as on the MTEF. It furthermore guides on determining the ceilings of fiscal equalization grants and revenue sharing, which has to be recommended by the NNRFC before the start of provincial governments and local levels starting their annual budget formulation processes.

The NNRFC Act guides on mobilizing natural resources, revenue distribution and grants. The FPFA Act provides guidance to all three tiers of government on budget formulation, implementation, accountability, transparency, internal control, audit and scrutiny as well as on sanctions and enforcement mechanisms. The Local Government Operations Act 2017 provides guidance on the operations of local levels to institutionalize legislative, executive and judicial practices. The PPA applies to all three tiers of government.

The budget ceilings for the fiscal equalization grant and revenue sharing are known to the provincial governments prior to the GoN submitting the draft budget to the federal Parliament. However, the ceilings for complementary, special and conditional grants are only known to the provincial governments after the GoN submits its budget proposal to Parliament. The latter information is provided to the provincial governments in the federal-level Line Ministry Budget Information System (LMBIS), which is linked to the PLMBIS.

Government of Madhesh Province has legislated PFM acts and regulations as per the Constitution (Article 213) to guide budget formulation, approval and implementation. Nepal's other six provinces (Bagmati, Koshi, Gandaki, Lumbini, Karnali and Sudurpaschim) have similarly enacted financial procedures as well as revenue-related acts. For Madhesh Province this includes the PFP Act (2018)[34] and the Tax and Non-Tax Revenue Act (2022).

The annual Appropriation Act and Finance Act, when approved by the Provincial Assembly, become enforcement mechanisms considering the ceilings stipulated by the GoN as well as the provincial Resource Estimate Committee. Also, the NNRFC sets an internal (domestic) debt ceiling of 12%[35] of internal (own source) revenue plus revenues shared by the GoN to all provinces, which can only be mobilized for approved capital programs/projects. The budget deficit is to be covered by internal borrowing (as per the 2023/24 Budget Speech of Madhesh's Finance Minister).[36] Hence, fiscal rules set by the GoN have been fully followed from province level by maintaining fiscal balance in budgeting.

The IGFA Act guides on provincial budgeting and public expenditure management for all three levels of governments, including on maintaining fiscal discipline as well as on sanctions and enforcement mechanisms for budget and program implementation by SNGs. However, it does not set a ceiling on the primary fiscal balance or the operating balance of SNGs, and it also does not provide guidance on exemptions for specific circumstances.

Based on the analysis and supporting evidence, the score for this dimension is **D**.

HLG-2.2 Debt rules for subnational governments

Performance level and evidence for scoring: The Constitution provides rights and obligations to all three tiers of government regarding imposition of taxes and for borrowing. Article 203 (2) describes that no loan shall be raised and guarantee given by provincial governments except in accordance with federal law. Similarly, budget deficit management of all three tiers of governments as well as the arrangements for fiscal discipline shall be in accordance with federal law as per Article 59(7) of the Constitution.

The IGFA Act provides for all three tiers of government to raise internal loans within the ceilings recommended by the NNRFC. Section 23 states that governments may present deficit budgets

[34] The PFP Act is presently being updated so as to address a limited coverage of revenue management, budget formulation and expenditure management.
[35] https://nnrfc.gov.np/uploads/resources/2025-03-18
[36] https://mof.madhesh.gov.np/np/news_notice_detail/207 (para 198).

but must specify a funding source. All provincial governments have adhered to the debt ceiling – as evidenced by their annual budgets for 2023/24. As of July 2025, Government of Madhesh Province has not raised internal loans.

The Public Debt Management Act (2022) allows the GoN to acquire external loans for approved projects at any government level. The Public Debt Management Regulations (2023) outline the procedures for acquiring and managing debt. The GoN can obtain external loans for the project implementation of all three tiers of government or for those programs/projects approved from federal government as per Section 5 of Public Debt Management Act. The detail procedure and process for obtaining and managing debt are provisioned under Rules 41 and 42 of the Public Debt Management Regulations (2023). The federal Public Debt Management Office (PDMO) manages public debt, including by monitoring sub-national debt. For 2023/24, the NNRFC set the provincial debt ceiling at 12% of internal revenue plus shared revenue. Government of Madhesh Province included internal loans of NPR 2,000 million in its 2023/24 budget, but it did not avail of this during the fiscal year (similar to Nepal's six other provincial governments) as actual spending did not require it (refer to PI-1).

As per Section 15 of the IGFA Act, the GoN shall extend loans to provincial governments and local levels. Requests for loans must be submitted to the federal MoF by stating the purpose, amount, mode of payment and time frame. If the federal MoF deems the request reasonable, it may approve loans and subsequently enter into an agreement with the relevant provincial or local government. In the case of repayment default, the GoN can deduct the default loan amount from a fiscal transfer (as per the IGFA Act).

SNG borrowing ceilings are established by the NNRFC, while the IGFA Act (Section 14) describes the enforcement mechanism. However, while both acts provide exceptions, they are not stated clearly and with time limitations for specific circumstances. Sub-national debt would, as and when obtained, be monitored by the PDMO as well as by the relevant provincial government.

Based on the analysis and supporting evidence, the score for this dimension is **C**.

HLG-2.3 Monitoring of subnational governments

Performance level and evidence for scoring: Part 5 of the Constitution provides for the structure of the state and the distribution of state powers, residual powers, exercise of financial powers, and distribution of revenue sources to all three tiers of government. In addition, Articles 59(2), 59(7), 60(1), 60(3), 60(4), 60(6) provide rights to federal governments for formulation of policies, management of budget deficits and fiscal discipline, imposition of taxes, fiscal transfer, distribute fiscal equalization grants, distribution of conditional grants, complementary grants and special grants. Article 232 provides for the federal government to give directions to provincial governments.

The IGFA Act's Section 32(1) mandates all three tiers of government to prepare their periodic income and expenditure statement in an OAG-approved format as recommended by the FCGO. Section 32(3) requires local levels to submit their income and expenditure statement quarterly to the provincial government within fifteen days after the end of each quarter. Likewise, provincial governments are required to submit their periodic income and expenditure statement quarterly to the federal MoF within thirty days after the end of each quarter. Failure to comply with the reporting requirements allows the GoN to stop grant disbursements (Section 32(5)). The FPFA Act's Section 5(1) mandates the FCGO to prepare a CFS based on the financial statements of the federal Consolidated Fund, provincial Consolidated Funds, local Consolidated Funds, and other governmental funds. Section 5(3) authorizes the District Treasury Controller Office (DTCO) to prepare a report that includes: (i) grants received by offices under GoN jurisdiction and the relevant provincial government; (ii) revenue allocations, internal income, loans, and grants received; (iii) expenditures of the provincial government; and, (iv) a consolidated financial statement of all local levels within the province (based on submitted reports) and forwarding the same to the FCGO, which must prepare this in a form as approved by the OAG (Section 5(4)). The FCGO is required to prepare the CFS based on the reports received and forward the same to the federal MoF.

The FPFA Regulations, Rule 10, outlines the responsibility and deadlines on submission of the CFS between the three levels of government. Local levels are required to submit their CFS to the relevant PFCO and DTCO by mid-October. Provincial governments (PFCOs) are required to submit the CFS to the FCGO by end-October. The FCGO is required to submit the (consolidated) CFS to the OAG and the federal MoF by the end of December. The federal MoF is mandated to publish the (consolidated) CFS.

Government of Madhesh Province adheres to the reporting timelines as per the FPFA Act and the FPFA Regulations and, accordingly, the PFCO submitted the CFS for 2023/24 to the provincial MoF as well as to the FCGO and the OAG within the deadlines. The relevant details, for all Nepal's seven provincial governments, are provided below.

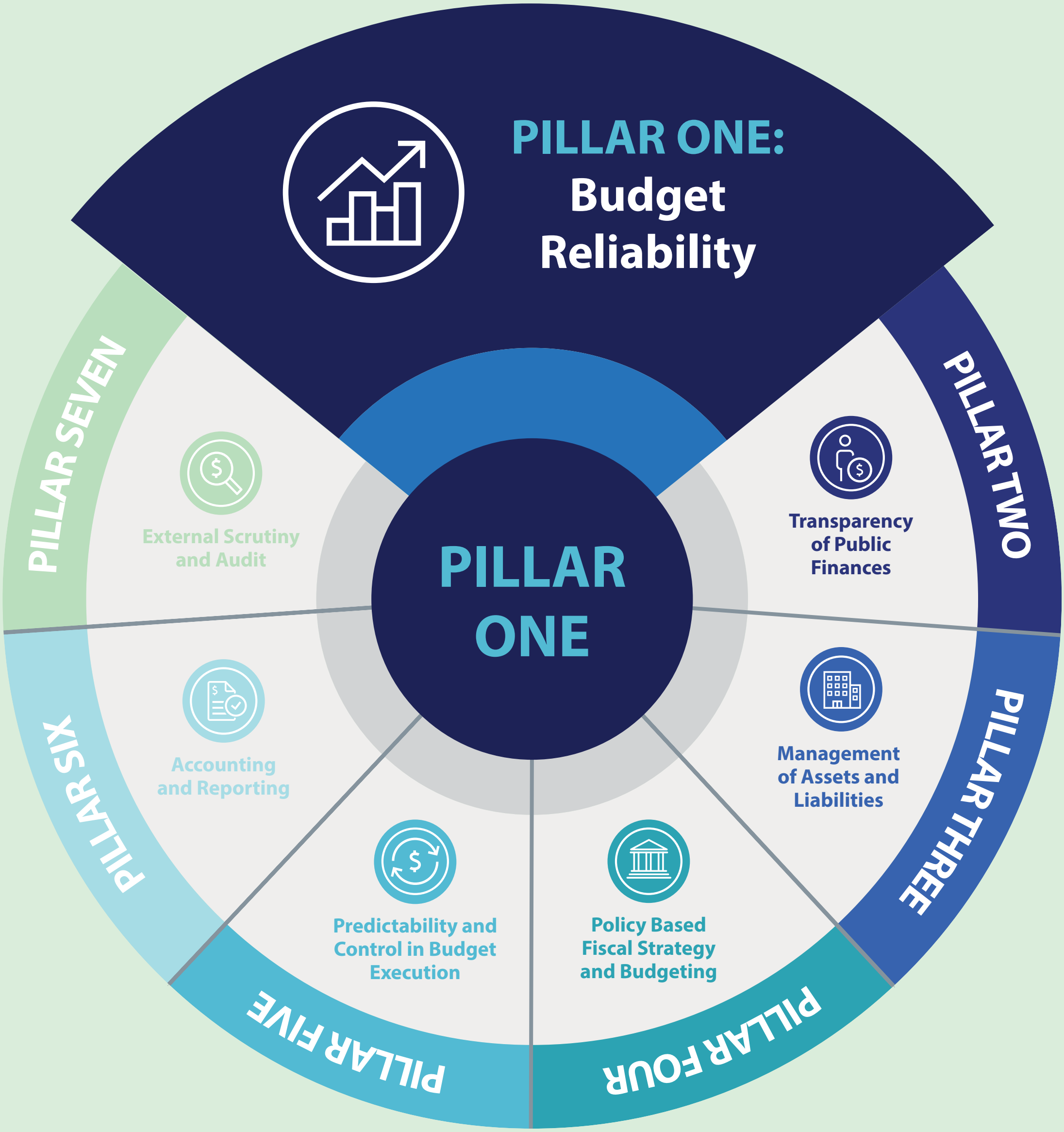
Table 2.6: CFS 2023/24 of the provincial governments (NPR Millions)

Provincial Governments	Budgeted expenditure	Actual expenditure	Outturn (%)	CFS submission to FCGO	CFS submission to OAG
1. Gandaki	33,427	22,206	66.40	29 Oct. 2024	29 Oct. 2024
2. Koshi	36,819	28,027	76.10	20 Dec. 2024	20 Dec. 2024
3. Madhesh	44,114	24,544	55.60	11 Dec. 2024	11 Dec. 2024
4. Bagmati	62,709	44,513	71.00	11 Dec. 2024	11 Dec. 2024
5. Lumbini	40,468	26,436	65.30	27 Oct. 2024	27 Oct. 2024
6. Karnali	33,379	19,868	59.50	12 Dec. 2024	12 Dec. 2024
7. Sudurpaschim	29,265	18,513	63.30	27 Dec. 2024	27 Dec. 2024
Total of seven provincial governments	**280,605**	**184,107**	**65.70**		

Sources: FCGO's 2023/24 CFS for each province; Official letter from each province-level PFCO on submission dates of the 2023/24 CFS to the FCGO and the OAG.

Government of Madhesh Province submitted its CFS for 2023/24 to the FCGO and the OAG on 11 December 2024, which was within five months of fiscal year-end.

Based on the analysis and supporting evidence, the score for this dimension is **B**.


PILLAR ONE:
Budget
Reliability
PILLAR ONE
PILLAR TWO
Transparency of Public Finances
PILLAR THREE
Management of Assets and Liabilities
PILLAR FOUR
Policy Based Fiscal Strategy and Budgeting
PILLAR FIVE
Predictability and Control in Budget Execution
PILLAR SIX
Accounting and Reporting
PILLAR SEVEN
External Scrutiny and Audit

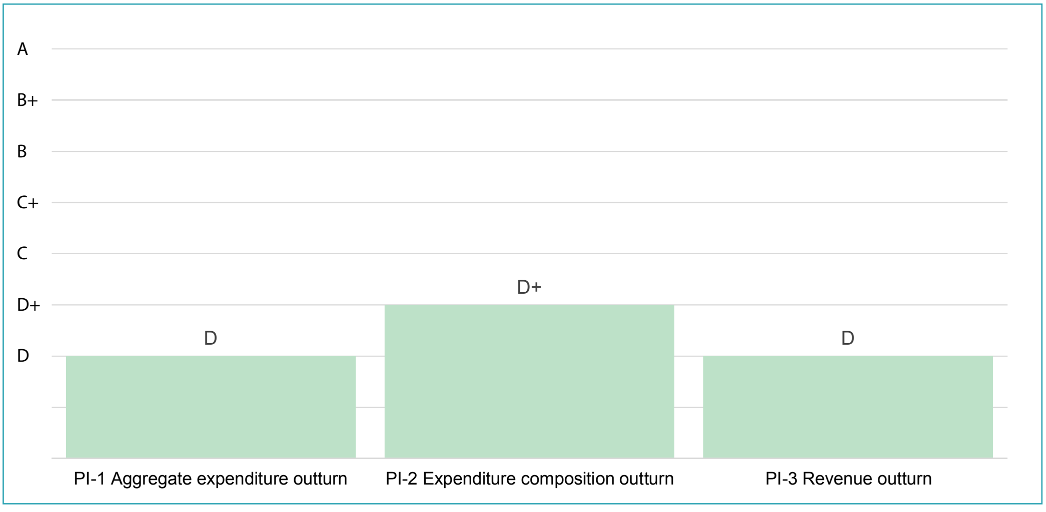
PILLAR I: Budget Reliability

What does the pillar measure? It measures if the SNG budget is realistic and is implemented as intended. This is assessed by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Overall performance: The performance of Pillar I is below basic. Aggregate expenditure outturn was very low in all of the last three completed fiscal years (PI-1), and the variances in expenditure composition by functional classification and economic classification were similarly very high in all three fiscal years (PI-2). Aggregate (own source) revenue outturns were very high in all three fiscal years (ranging from 132.30% to 181.70%, i.e. actual revenue collection significantly outperformed the budgeted revenues), and revenue composition outturns were high in two of three fiscal years (2021/22 and 2022/23) (PI-3).

The performance of PIs 1, 2 and 3 are shown below.

Figure 2.2: Indicator scores under Pillar I



PI-1. Aggregate expenditure outturn

What does the indicator measure? It measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in SNG budget documentation and fiscal reports. Coverage is budgetary units of the SNG for the last three completed fiscal years.

Methodological notes: Source data and calculations are available in Annex 4.

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

Indicator/Dimension	Brief justification for score	2025 Score
PI-1. Aggregate expenditure outturn		**D**
1.1 Aggregate expenditure outturn	The aggregate expenditure outturn of the Provincial Government was below 75% of the approved aggregate budgeted expenditure in all of the last three fiscal years.	D

Description of the sub-national PFM system for the assessed PI: The MoF applies the PFP Act for budget formulation. According to Section 7, the MoF[37] is responsible for preparing and circulating a guideline with budget ceilings to the line ministries. The PLMBIS is controlled by the MoF and is used by all line ministries for entering proposed programs and corresponding line-item budgets.

The first Five-Year Plan of Madhesh Province (2019/20-2023/24) and the rolling MTEF provide the budgetary framework.

The Appropriation Act specifies the limits of budget transfers (virements) between line items. Supplementary budgets require approval by the Provincial Assembly. The TSA and the CGAS[38] are used for disbursement, accounting and reporting, while the FMIS is used to prepare in-year and Consolidated Financial Statements (CFS).

Recent or ongoing reform activities: The MoF is planning to amend the PFP Act and draft provincial Financial Procedures and Fiscal Accountability (FPFA) Regulations.

1.1 Aggregate expenditure outturn

Performance level and evidence for scoring: The aggregate budgeted expenditures in the original budgets for 2021/22-2023/24, as approved by the Provincial Assembly, are shown below together with the actual expenditures and annual outturns.

Table 2.8: Total budget and actual expenditure

	2021/22	2022/23	2023/24
Original budget (NPR Millions)	33,791.43	46,880.95	44,114.63
Actual expenditure (NPR Millions)	22,260.48	26,869.87	24,544.93
Actual expenditure/original budget	**65.90%**	**57.30%**	**55.60%**

Note: Total expenditure excludes financing.

Sources: Annual Budgets ('Red Books') and CFS for 2021/22, 2022/23 and 2023/24 https://mof.madhesh.gov.np/np/newslist?page=2,3,4,5,6,7,8...28 and https://stco.p2.gov.np/category/89.

[37] Until 2017, the MoF was the Ministry of Economic Affairs and Planning (MoEAP).

[38] The TSA and the CGAS are modules within the IPFMS, which serves as a platform.

In the past three fiscal years, actual expenditure outturn as a share of the approved aggregate original budgeted expenditure ranged from 55.60% to 65.90%.

The functional heads with the largest deviations between original budget and actual expenditure were General Public Service, Economic Affairs; Health; Recreation, Culture and Religion; and Housing and Community Amenities. The main reasons for the deviations were the following:

- The budgeting process is compressed into a short period (usually 15 days) prior to the submission date to the Provincial Assembly, which results in errors, unrealistic allocations, and potential manipulation as well as leading towards frequent virements.
- Delays in fiscal transfers from the federal government.
- Weak inter-institutional coordination affected both budget formulation as well as implementation.
- Inadequately skilled manpower leading to unrealistic budget allocations, which negatively impacted the implementation of planned programs and projects.
- Absence of structured and effective monitoring and evaluation systems for timely tracking implementation progress of programs and projects, including lack of mid-term and annual budget implementation review meetings.
- Capacity constraints due to limited number of technically skilled staff.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

PI-2. Expenditure composition outturn

What does the indicator measure? It measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Coverage is budgetary units of the SNG for the last three completed fiscal years. It uses the M1 (weakest link) method for aggregating dimension scores.

Methodological notes: Source data and calculations are available in Annex 4.

Table 2.9: Summary of scores for PI-2 and performance table

Indicator/Dimension	Assessment of performance	2025 Score
PI-2. Expenditure composition outturn		**D+**
2.1 Expenditure composition outturn by function	Expenditure composition variance by function was more than 15% in each of the last three fiscal years.	D
2.2 Expenditure composition outturn by economic type	Expenditure composition variance by economic classification was more than 15% in two of the last three fiscal years.	D
2.3 Expenditure from contingency reserves	The budget of all three last completed fiscal years included contingency, but no expenditure was incurred in any fiscal year.	A

Description of the sub-national PFM system for the assessed PI: The PFP Act gives directions for the formulation of the Appropriation Bill and also provides the legal framework for the operation of the Provincial Consolidated Fund as well as procedures for budget execution and guidance on the virement process.

The PFP Act's Section 8(A) requires the Provincial Government to provide a clear justification for any proposed expenditure. Budgets for new programs and projects may be proposed only after allocating sufficient budget resources for committed programs as well as mandated expenditure such as salaries and other administrative costs.

The setting of limits in Section 3 of the Appropriation Act for budget transfers (virements) between line items of the approved annual budget is provided for under Section 17 of the PFP Act.

As per the PFP Act's Section 17 (3), the MoF has authority to transfer funds from one budget head to another budget head. Also, the MoF can transfer contingency funds to relevant budget sub-headings upon request from the budgetary units.

Recent or ongoing reform activities: The Provincial Government is implementing the IPFMS software by updating data in coordination with the FCGO. This is expected to help strengthen budget execution and monitoring by improving commitment controls and aligning actual spending more closely with the MTEF as well as approved budgets.

2.1. Expenditure composition outturn by function

Performance level and evidence for scoring: The following table shows the variance in expenditure composition by functional classification.

Table 2.10: Functional expenditure composition variance by functional headings

Fiscal Years	Composition Variance
2021/22	19.20%
2022/23	15.40%
2023/24	29.70%

Note: The recurrent contingency reserve is excluded from other expenditures (28000).

Sources: Annual Budgets ('Red Books') and CFS for 2021/22, 2022/23 and 2023/24 https://mof.madhesh.gov.np/np/newslist?page=2,3,4,5,6,7,8...28 and https://stco.p2.gov.np/category/89.

The variances in expenditure composition by functional classification were more than 15% in all the last three fiscal years. This was mainly due to deviations between budgeted and actual expenditures in three functional heads: General Public Service [all three fiscal years], Health [2021/22 and 2022/23], and Economic Affairs [2023/24]. The main reasons, which are common for all three functional heads, were the following:

- Weak budget formulation and planning due to lack of technical capacity in preparing realistic budgets, absence of technical need assessments.
- Delays in procurement processes (including tendering, contract selection and management), which are done by user committees, as is implementation.
- The number of ministries was expanded from seven to eleven in 2021/22, and the budget allocations were therefore managed through virements.[39]
- The health sector was adversely impacted by the coronavirus disease 2019 (COVID-19) pandemic, which led to additional funds being allocated to the sector through virements.
- Capacity constraints due to limited number of technically skilled staff.
- Frequent changes in leadership, which affects continuity in implementation.
- Poor reporting and lack of reliable data, which hindered effective expenditure tracking (as exemplified by there being no progress reporting to measure budget implementation.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

[39] For example, the Recreation, Culture and Religion sector was moved from the former Ministry of Industry, Tourism, Forest and Environment to the new Ministry of Industry, Tourism and Forest.

2.2. Expenditure composition outturn by economic type

Performance level and evidence for scoring: The next table shows the variance in expenditure composition by economic classification.

Table 2.11: Expenditure composition variance by economic classification

Fiscal Years	Composition Variance
2021/22	20.20%
2022/23	23.90%
2023/24	14.40%

Note: The contingency reserve is excluded in other expenditure (28000) and capital expenditure (31000).

Sources: Annual Budgets ('Red Books') and CFS for 2021/22, 2022/23 and 2023/24 https://mof.madhesh.gov.np/np/newslist?page=2,3,4,5,6,7,8...28 and https://stco.p2.gov.np/category/89.

The variances in expenditure composition by economic classification were more than 15% in two of the last three fiscal years. They mainly occurred under four economic heads: Use of goods and services [2022/23], Grants [2021/22 and 2022/23], Other expenses [all three fiscal years], and non-financial assets/capital expenses [2022/23 and 2023/24]. The main reasons for the deviations were: poor estimation (budgets prepared using previous year's figures rather than a needs basis), low capital spending (due to slow procurement processes), implementing many small-scale projects (rather than larger projects), weak monitoring and evaluation processes (no mid-term and annual reviews), and re-allocation of budgetary resources (the 'Madhesh Sahid Marg' project was terminated in 2023/24 and the allocated budget resources transferred to other projects).[40]

Based on the analysis and supporting evidence, the score for the dimension is **D**.

2.3. Expenditure from contingency reserves

Performance level and evidence for scoring: The contingency included in the budgets for 2021/22, 2022/23 and 2023/24 were each year 0.0% of the total original budgeted expenditures. The contingency budget is used for non-budgeted expenditures such as unforeseen events and natural disasters. Spending is not allowed through the contingency head, rather a contingency budget is first transferred through the virement process (as per Section 17 of the PFP Act) to the relevant budget line based on the request from the spending units. Therefore, in all three completed fiscal years, there was no expenditure incurred from the budgeted contingency head.

[40] OAG. 2025. *Seventh Annual Report of the Auditor General, 2082, Madhesh Province*. Kathmandu, p. 62.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

PI-3. Revenue outturn

What does the indicator measure? It measures the change in SNG own revenue between the original approved budget and end-of-year outturn. Coverage is budgetary units of the SNG for the last three completed fiscal years. The indicator uses the M2 (average) method for aggregating dimension scores.

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

Table 2.12: Summary of scores for PI-3 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-3. Revenue outturn		**D**
3.1 Aggregate revenue outturn	Actual revenue ranged from 132.30% to 181.70% of budgeted revenue during the last three fiscal years.	D
3.2 Revenue composition outturn	The variance in revenue composition was more than 15% in two of the last three fiscal years.	D

Description of the sub-national PFM system for the assessed PI: The power to tax is assigned according to Article 57 of the Constitution and as detailed in Schedules 5-9.[41] Article 203 authorizes provincial governments to levy taxes in accordance with the law. Based on this, Annexes 1, 2 and 3 of the IGFA Act provide details of powers to levy revenues (tax, non-tax and royalty) by the three levels of governments. The bases for non-tax are provisioned under Section 4 and concurrent rights to levy and collect taxes with distribution mechanisms are set for provincial governments and local levels under Section 5.

The IGFA Act and the Local Government Operations Act provide provincial governments and local levels with separate as well as joint taxation powers. Concurrent rights apply to taxes on motor vehicles, real estate, advertisement, and entertainment. Provincial governments set rates and collect motor vehicle tax and keep 60% of collected funds and distribute 40% to the local levels within their jurisdiction. According to Section 5 (1) of the IGFA Act, the house and land registration fee rates as well as the entertainment tax rate are set by the provincial governments, while the fees and taxes are collected by the local levels. The advertisement tax rate is set by

[41] The tax rights of the central and provincial governments and local levels are assigned as follows: Excise duty, personal income tax (PIT), value-added tax (VAT), corporate income tax (CIT) and customs duty come under the central government. Vehicle tax, advertisement tax, house and land registration tax and entertainment tax are assigned to provincial governments. Local levels can levy taxes on property/land, house rent and local natural resources.

the local levels, which also collect the tax. For all the three fees and taxes, 60% of the collected amount is retained by the local levels and 40% is provided to the provincial government.

Royalties from natural resources, fees for tourism and other services, and fines are examples of concurrent rights at the federal, provincial governments and local levels. While provincial governments have authority over agricultural income tax, no such tax has been collected by any province, including by Madhesh Province.

As per the IGFA Act, value-added tax (VAT), excise duty and royalties from natural resources collected by the federal government is divided between the provincial governments and local levels. This is based on parameters[42] that are provisioned under in Section 15(4) of the NNRFC Act. Based on the recommendations of the NNRFC, the GoN can review and change royalty sharing.

Recent or ongoing reform activities: The Provincial Government is making efforts to increase own source revenue (OSR) collection, including through consultations cement industry firms and vehicle registration offices. Also, high-level talks with local levels are carried out to enhance collection of entertainment tax and advertisement tax.

3.1 Aggregate revenue outturn

Performance level and evidence for scoring: The Provincial Government has a narrow tax base, comprising mainly taxes on property (including motor vehicle tax) as well as sales of goods and services.

The table below shows budgeted revenues (as per the annexes of the annual Budget Speech) and actual revenues (as per the annual CFS) for the three fiscal years.[43]

Table 2.13: Total budget and actual revenue

Total Revenue	2021/22	2022/23	2023/24
Original approved revenue budget (NPR Millions)	3,073.29	3,067.49	3,798.80
Actual outturn (NPR Millions)	4,813.49	5,574.43	5,265.90
Outturn as a percentage of original approved budget	**156.60%**	**181.70%**	**132.30%**

Sources: Budget Speeches and CFS for 2021/22, 2022/23 and 2023/24.

[42] Parameters include the total area of the provincial governments and local levels, human development index, population and development status, expenditure requirements, and infrastructure development.

[43] As per the PEFA guidance for PI-3, the revenues assessed are own-source revenues of the SNG and, hence, do not include grants/transfers from the GoN or shared revenues, which are both assessed under HLG-1.1.

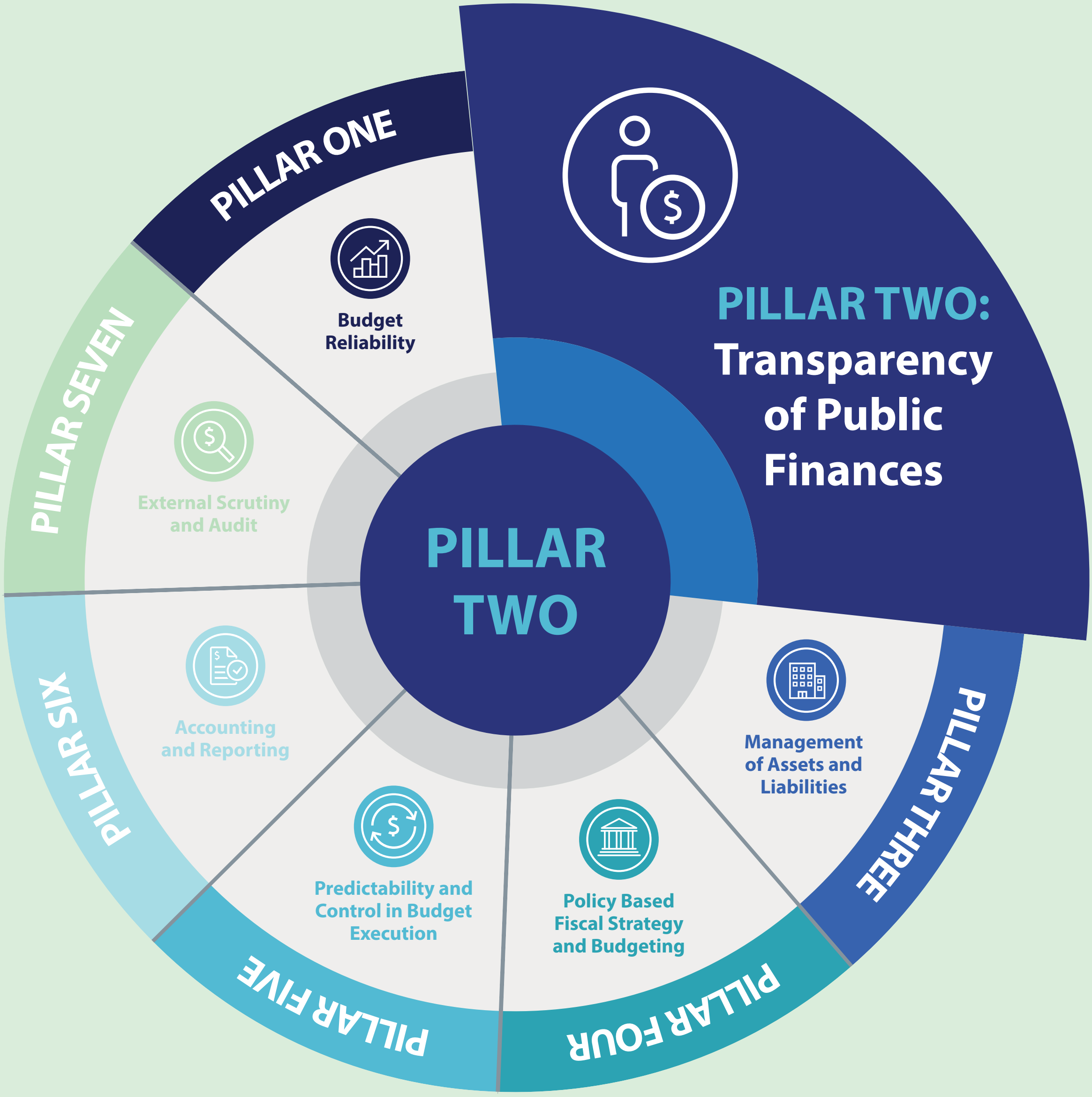
The aggregate revenue outturn ranged between 132.3% and 181.7% for the three fiscal years, i.e. the Provincial Government each year collected significantly more OSR than budgeted, which was concentrated in taxes on property (2021/22 and 2022/23) and sales of goods and services (all three years), which together account for almost all OSR. This was mainly because of inadequate revenue forecasting due to technical capacity constraints. Also, the Provincial Government has not prepared and implemented a revenue mobilization strategy, which could help to broaden the tax base. There is furthermore an absence of structured compliance plans. Overall, the Provincial Government relies heavily on the federal government for fiscal transfers, which accounted for between 16% and 20% of total income for the three fiscal years.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

3.2 Revenue composition outturn

Performance level and evidence for scoring: The composition variance was 45.70% in 2021/22, 41.20% in 2022/23, and 4.60% in 2023/24, i.e. it significantly exceeded 15% in two of the last three fiscal years. The reasons for this are the same as those stated under PI-3.1.

Based on the analysis and supporting evidence, the score for the dimension is **D**.



PILLAR TWO:
Transparency of Public Finances
PILLAR TWO
PILLAR ONE
Budget Reliability
PILLAR THREE
Management of Assets and Liabilities
PILLAR FOUR
Policy Based Fiscal Strategy and Budgeting
PILLAR FIVE
Predictability and Control in Budget Execution
PILLAR SIX
Accounting and Reporting
PILLAR SEVEN
External Scrutiny and Audit

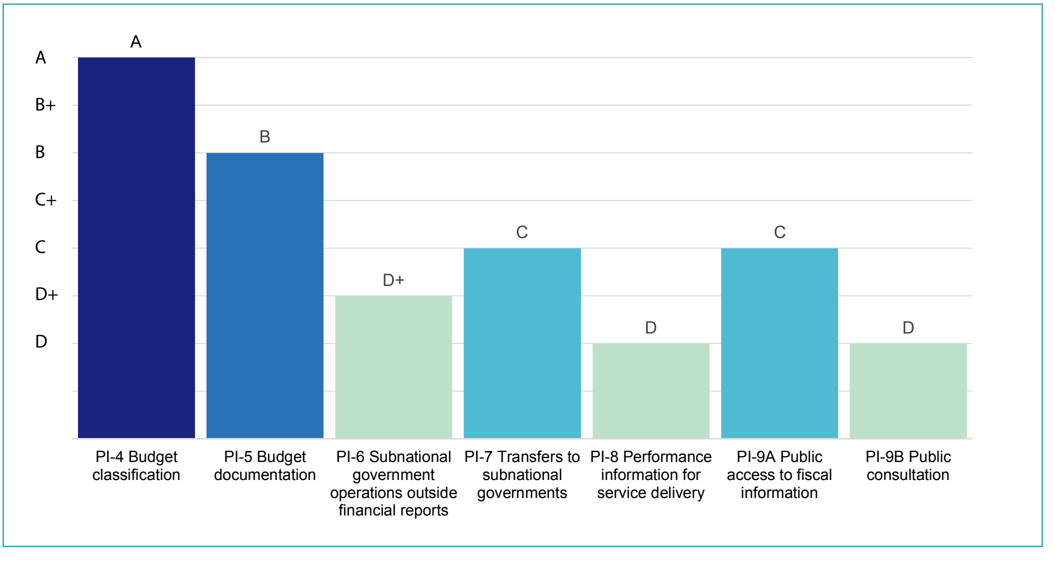
PILLAR II: Transparency of Public Finances

What does the pillar measure? It measures whether information on PFM is comprehensive, consistent and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure, including inter-governmental transfers, published information on service delivery performance, ready access to fiscal and budget documentation, and public consultations.

Overall performance: The performance of Pillar II is overall at a basic level. The budget classification system applied by the Provincial Government is based on international standards (PI-4), and the annual budget documentation is comprehensive (PI-5). Also, the horizontal allocation of transfers (grants) to local levels in Madhesh Province is determined by rule-based systems, and information on transfers is provided to local levels before the start of the fiscal year (PI-7). Furthermore, public access to key fiscal information is at a basic level (PI-9A). However, EBUs do not submit financial reports to their parent ministries and financial data on EBUs is thus not readily available (PI-6), service delivery performance information exists only to a limited extent (PI-8), and there is no evidence of public consultation having been conducted in preparing the annual budget, designing service delivery programs, or and planning investments (PI-9B).

The performance of PIs 4-9B is shown below.

Figure 2.3: Indicator scores under Pillar II



PI-4. Budget classification

What does the indicator measure? It assesses the extent to which the budget and accounts classification used by the SNG is consistent with international standards. Coverage is budgetary units of the SNG for the last completed fiscal year.

Methodological notes: The chart of accounts (CoA) segments were analyzed as per their compatibility with the Government Finance Statistics Manual (GFSM) 2014 and the Classification of the Functions of Government (COFOG), including which segments are used for budget formulation, execution, and reporting.

Table 2.14: Summary of scores for PI-4 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-4. Budget classification		**A**
4.1 Budget classification	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using GFS and COFOG standards.	A

Description of the sub-national PFM system for the assessed PI: Article 241(4) of the Constitution requires that all accounts to be audited by the OAG are maintained in a format prescribed by the OAG. The IGFA Act's Sections 31 and 32 mandate provincial governments and local levels to classify revenues and expenditures as well as apply accounting formats as recommended by the FCGO and approved by the OAG. The FPFA Act serves as the legal and procedural framework for the accounting and reporting system across all three levels of government. Section 4 (2) of the FPFA Regulations requires the PFCO to prepare and submit the annual CFS in a format prescribed by OAG.

Section 21 of the PFP Act requires the Provincial Government to adopt a CoA in line with the GoN's CoA and formats approved by OAG for budget formulation, execution and reporting.

Recent or ongoing reform activities: The OAG on 10 July 2024 approved the fifth amended version of the revenue CoA.[44]

[44] https://old.fcgo.gov.np/publications?page=1.

4.1 Budget classification

Performance level and evidence for scoring: The CoA structure, which is based on an integrated economic code, classification and explanation developed by the FCGO and approved by the OAG, is outlined below.

Table 2.15: CoA structure

Segment	Sub-segment	Digits
Organizational / Administrative classification	Identifiers for government, ministry, department, district, and office.	10
Functional classification	COFOG (the CoA includes 10 major functions and 65 sub-functions). SNGs use only 9 functional classifications since defense is not applicable to SNGs.	4
Economic classification	Based on the GFSM.	5
Nature of expenditure	Current, capital, and financing.	1
Fund source	Specific codes for internal and external financing.	7
Revenue	Specific codes for tax, non-tax, and other types of revenues and grants.	5
Current expenditure	Base budget head, main head, head, and sub-head for recurrent expenditure.	5
Capital budget, assets and liability	Base budget head, main head, head, and sub-head for capital expenditure.	5
Financial assets and liability	Main head, head, and sub-head for financial assets and liabilities.	5
Assets and liability balance	Main head, head, and sub-head of non-financial assets and liabilities.	7

Source: FCGO. 2017 *An Integrated Financial Code, Classification and Explanation 2074 B.S (Second Revision)*. Kathmandu [available from https://old.fcgo.gov.np/publications?page=2].

Economic classification corresponds to Table 6.1 for recurrent spending and Table 8.1 for capital spending on non-financial assets in the GFSM 2014. The classifications are grouped into three broad categories: Recurrent, Capital, and Financing. The functional classification follows the structure outlined in Table 6A.1 of the GFSM 2014, which is based on the COFOG. Revenue classification is organized by its origin into two main categories – tax and non-tax revenue – with further breakdowns into main and sub-headings. This structure is in line with Table 5.1 of the GFSM 2014.

Budget documents and the CFS apply all administrative, economic, and functional classifications in budget allocations. SNGs use only nine of ten two-digit functional classifications as defense is not applicable to SNGs.

The CoA is integrated into the FMIS,[45] which is used for all stages of the budget cycle, i.e. formulation, accounting, and reporting. Thus, budget formulation, execution and reporting are based on every level of administrative, economic and functional classification using GFS and COFOG standards.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

PI-5. Budget documentation

What does the indicator measure? It assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. Coverage is budgetary units of the SNG for the last budget submitted to the subnational council/legislature.

Methodological notes: The last budget submitted to the Provincial Assembly is for 2024/25.

Table 2.16: Summary of scores for PI-5 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-5. Budget documentation		**B**
5.1 Budget documentation	The Provincial Government's budget documentation for 2024/25 fulfills six elements: Four basic elements and two additional elements. Four elements are not fulfilled, and two elements are not applicable.	B

Description of the sub-national PFM system for the assessed PI: Article 207 of the Constitution requires the finance minister to present to the Provincial Assembly the annual estimates, including an estimate of revenue, the funds required to meet the charges on the Provincial Consolidated Fund, and the funds required to meet the expenditure of the Appropriation Act.

[45] Budgets are formulated and executed through the PLMBIS and the TSA system. Accounting and financial reporting is conducted using the FMIS.

As per Section 13 of the FPFA Act, the following documents must be submitted as part of the annual budget: (a) Budget Speech,[46] (b) Statement of Budget Estimation ('Red Book'),[47] (c) Fiscal Transfers to the Local Level,[48] (d) Ministry-wise Annual Development Program,[49] (e) Appropriation Bill,[50] (f) Finance Bill,[51] (g) Economic Survey,[52] and (h) MTEF.[53]

The PFP Act covers MTEF preparation (Section 5), allocation of resources and expenditure thresholds (Section 6), annual budget ceiling and directives (Section 7), appropriation efficiency, (Section 8), pre-budget discussion (Section 9), budget proposal (Section 10), and presenting the revenue and expenditure estimates (annual budget, i.e. the 'Red Book') to the Provincial Assembly on 15/16 June (Section 13).[54]

Recent or ongoing reform activities: None observed.

5.1 Budget documentation

Performance level and evidence for scoring: The elements included in the 2024/25 budget proposal, submitted to the Provincial Assembly on 15 June 2024, are shown below. Two elements are not applicable to the Provincial Government.[55]

Table 2.17: Budget elements included in the Budget for 2024/25

Element/ requirements	Met (Yes / No)	Evidence used / comments
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	Annex 1 of the Budget Speech (p. 30) given by the finance minister to the Provincial Assembly on behalf of the Provincial Government.
2. Previous year's budget outturn, presented in the same format as the budget proposal.	Yes	Last two years' line item-wise budgets (actual and revised) are presented in Annex 1 and Annex 2 of the Budget Speech (pp. 77-79) and in the 'Red Book'.
3. Current fiscal year's budget presented in the same format as the budget proposal.	Yes	The 2024/25 budget was presented in the same format as the 2023/24 budget proposal in the Budget Speech and in the 'Red Book'.

46 https://mof.madhesh.gov.np/np/news_notice_detail/258.
47 https://mof.madhesh.gov.np/np/news_notice_detail/267.
48 https://mof.madhesh.gov.np/np/news_notice_detail/264.
49 https://mof.madhesh.gov.np/np/news_notice_detail/270.
50 https://mof.madhesh.gov.np/np/news_notice_detail/276.
51 https://mof.madhesh.gov.np/np/news_notice_detail/273.
52 https://mof.madhesh.gov.np/np/news_notice_detail/261.
53 http://pppc.madhesh.gov.np/contentdetails/40.
54 In the Nepali calendar, the first day of the month of Ashad corresponds to 15 June or 16 June in the Gregorian calendar.
55 As per the PEFA guidance, this means that the scoring of PI-5 must be done on a pro rata basis: Two non-applicable elements mean that an "A" score requires that four basic elements and four additional elements are fulfilled, a "B" score requires that three basic elements and two additional elements are fulfilled, and a "C" score requires that three basic elements are fulfilled.

Element/ requirements	Met (Yes / No)	Evidence used / comments
4. Aggregated budget data for both revenue and expenditure.	Yes	The aggregated budget data for both revenue and expenditure are included in the annexes of the Budget Speech and the 'Red Book'.
Additional elements		
5. Deficit financing, describing its anticipated composition.	Yes	Deficit financing is presented in para 153, p. 27, of the Budget Speech 2024/25.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	NA	While the Provincial Government publishes an annual Economic Survey, element 6 is not applicable at the SNG-level as macroeconomic data is already included in the GoN's budget documentation and, also, as collection and analysis of such data is not feasible or appropriate given the size and scope of SNGs in Nepal.
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	NA	While the Provincial Government had the authority, it did not borrow in 2024/25. The Provincial Government has no debt.[56]
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	Information about financial assets was not available.
9. Summary information of fiscal risks.	No	Fiscal risk information was not included in the budget documentation. Contingent liabilities and contingent obligations were not included in the budget documents.
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or changes to expenditure programs.	No	The annual budget documents outline the estimated impact of new policy initiatives and major revenue policy changes. However, explanations of the budget implications of new policy initiatives, major investment projects, and revenue policy changes were not provided.

[56] The Provincial Government's 2024/25 budget provisioned for internal (domestic) borrowing. While this was approved by the Provincial Assembly, a Debt Management Bill was not submitted to the Provincial Assembly and approval from the GoN was not sought.

Element/ requirements	Met (Yes / No)	Evidence used / comments
11. Documentation on the medium-term fiscal forecasts.	Yes	An MTEF is published annually by the PPPC and is also submitted to the Provincial Assembly.
12. Quantification of tax expenditures.	No	Information about quantification of tax expenditure is not available in the budget documents.

NA = not applicable.

The budget documentation fulfills six elements: Four basic elements and two additional elements. It does not fulfill four additional elements, while two additional elements are not applicable. In accordance with the PEFA Guidance, the indicator is scored on a pro rata basis because two additional elements are not applicable.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

PI-6. Subnational government operations outside financial reports

What does the indicator measure? It measures the extent to which government revenue and expenditure are reported outside SNG financial reports. Coverage is budgetary units and extra-budgetary units (EBUs) of the SNG for the last completed fiscal year. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: Annual financial statements from EBUs for the last completed fiscal year (2023/24) were not available from the MoF or line ministries. Relevant data has therefore been obtained from the OAG's 7th Annual Report for Madhesh Province (covering 2023/24) and from the CFS 2023/24.

Table 2.18: Summary of scores for PI-6 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-6. SNG operations outside financial reports		**D+**
6.1 Expenditure outside financial reports	EBU expenditures in 2023/24 amounted to 9.23% of the Provincial Government's total expenditures in 2023/24.	C
6.2 Revenue outside financial reports	EBU revenues for 2023/24 amounted to 9.05% of the Provincial Government's total revenues in 2023/24.	C
6.3 Financial reports of extra-budgetary units	There is no evidence of submission of financial reports by EBUs to their parent ministries for 2023/24.	D

Description of the sub-national PFM system for the assessed PI: The Provincial Government has 16 EBUs, as shown in the table below.

Table 2.19: EBUs and their parent ministries

S.N	EBUs	Parent Ministry
1	Province Research and Training Center, Mujheliya	OCMCM
2	Media Council, Janakpur	Ministry of Home Affairs, Communication and Law (MoHACL)
3	Mass Communication Authority, Janakpur	
4	Chalchitra Tatha Loksanchar Prabaddhan Board, Janakpur	
5	Madhesh University	Ministry of Education and Culture (MoEC)
6	Madhesh Pragya Pratishthan	
7	Madhesh Agriculture University	
8	Institute of Madhesh Health Science	Ministry of Health and Population (MoHP)
9	Provincial Hospital, Dhanusha	
10	Lahan Hospital, Siraha	
11	Malangwa Hospital, Sarlahi	
12	District Hospital, Jaleshwor	
13	Gaur Hospital, Rautahat	
14	Kalaiya Hospital, Bara	
15	Siraha Hospital, Siraha	
16	Dairy Development Board, Dhanusha	Ministry of Land Management, Agriculture and Cooperatives (MoLMAC)

Sources: EBU's revenues and expenditures – OAG's 7th Annual Report for Madhesh Province for 2023/24, Annex 4, p. 118; Budgetary units' revenues and expenditures – PFCO's CFS for 2023/24, p. 2.

The EBUs are established through acts approved by the Provincial Assembly or based on executive orders of the Provincial Government. They operate as autonomous institutions under their parent ministry and have their own regulations, including financial management.

The PFP Act does not have provisions relevant for EBU administration. The Provincial Government therefore follows the FPFA Regulations to administer and monitor EBUs. Rule 79 (1) mandates EBUs to prepare trimester-wise and annual income and expenditure reports, including grants, internal income and any amount received from other agencies. It also requires EBUs to submit trimestral (four-monthly) reports within seven days after the end of each trimestral as well as an annual report within 35 days of fiscal year-end to their parent ministry. Rule 79 (2) mandates parent ministries to identify income, expenditures and subsidies of EBUs as well as to prepare a consolidated financial report and submit it to the FCGO and the OAG.

The FCGO in 2023 issued 'Mapping Policy and Annex for NPSAS',[57] according to which all three levels of government are required to include EBU finances in the CFS. However, the CFS for Government of Madhesh Province does not (yet) include EBU financial data.

The OAG audits the EBUs every year and submits audit reports to the relevant ministries as well as incorporates findings into the annual province-level audit reports.

There is no social security fund in Madhesh Province as such funds are directly mobilized at the federal level. Also, the Provincial Government does not maintain, or receive, financial records regarding externally funded projects.

There is no evidence indicating that revenues and expenditures of budgetary units were not reported in the Provincial Government's financial reports.

Recent or ongoing reform activities: The Provincial Government has initiated discussions with EBUs to ensure reporting in accordance with the requirements of the FPFA Regulations. It is also coordinating with the FCGO to record the financial reports in the FMIS. The Provincial Government is also considering including EBU administration in the revised PFP Act currently being prepared.

6.1 Expenditure outside financial reports

Performance level and evidence for scoring: The expenditures of the 16 EBUs for 2023/24 comprising salaries, operating expenses, goods and works are shown below.

Table 2.20: Expenditure outside financial reports, 2023/24 (NPR Millions)

Particulars	Expenditure outside Provincial Government financial reports
Total of 16 EBUs' expenditures in 2023/24	2,266.31
Total Provincial Government expenditures in 2023/24	24,544.93
EBUs' expenditures as percentage of SNG expenditures (%)	9.23

Sources: EBU's revenues and expenditures – OAG's 7th Annual Report for Madhesh Province for 2023/24, Annex 4, p. 118; Budgetary units' revenues and expenditures – PFCO's CFS for 2023/24, p. 2.

[57] https://old.fcgo.gov.np/downloads/type/2 and https://old.fcgo.gov.np/storage/uploads/uploads/2023-10-09/20231009160540_Mapping%20Policy%20and%20Annex%20for%20NPSAS.pdf.

The EBUs' 2023/24 expenditures, which are not included in the financial reports of the Provincial Government, amounted to 9.23% of the total provincial expenditures in 2023/24.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

6.2 Revenue outside financial reports

Performance level and evidence for scoring: The 16 EBUs receive grants from provincial line ministries and also have revenues such as subscription and license fees and charges (for example, educational and medical registration by hospitals operating at the district and province levels) as well as income from the sale of goods. The revenues of the 16 EBUs for 2023/24 are shown in the table below.

Table 2.21: Revenue outside financial reports, 2023/24 (NPR Millions)[58]

Particulars	Revenue outside Provincial Government financial reports
Total of 16 EBUs' revenue in 2023/24	2,354.90
Total Provincial Government revenue in 2023/24	26,028.59
EBUs' revenue as percentage of SNG revenue (%)	9.05

Sources: EBU's revenues and expenditures – OAG's 7th Annual Report for Madhesh Province for 2023/24, Annex 4, p. 118; Budgetary units' revenues and expenditures – PFCO's CFS for 2023/24, p. 2.

The EBUs' 2023/24 revenues, which are not included in the financial reports of the Provincial Government, were 9.05% of the total provincial revenues in 2023/24.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

6.3 Financial reports of extra-budgetary units

Performance level and evidence for scoring: As mentioned above, EBUs are required to prepare trimestral (four-monthly) and annual income and expenditure reports and submit these to their parent ministry. The CFS, prepared by the PFCO and submitted to the FCGO and the OAG, should include EBU financial transactions. However, there is no evidence that EBUs have submitted financial reports for 2023/24 to their parent ministries. This may be due to lack of awareness, including as the internal auditor (PFCO) and the external auditor (OAG) have not commented in their reports on the requirements for EBUs to do so.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

[58] HLG-1 assess fiscal transfers (revenue sharing and received grants), whereas PI-3 covers own source revenues (OSRs) of the SNG (budgetary government) only. Under PI 6, the revenues included comprise revenue sharing, OSRs and amounts returned related to irregularities, advance settlements and grants, which are as recorded in the CFS. Actual received transfers from the GoN for 2023/24 (HLG-1) were NPR 20,653.00 million, OSRs for 2023/24 (PI-3) were NPR 5,265.90 million, and amounts returned were NPR 109.69 million, i.e. a total of NPR 26,028.59 million (as recorded in the CFS for 2023/24).

PI-7. Transfers to subnational governments

What does the indicator measure? It assesses the transparency and timeliness of transfers from the assessed SNG to lower-tier SNGs with direct financial relationships to it. It considers the basis for transfers from assessed SNG and whether lower-tier SNGs receive information on their allocations in time to facilitate budget planning. This covers the assessed SNG and the lower-tier SNGs with direct financial relationships for the last completed fiscal year. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The assessments under PI-7 are based on the legislative and regulatory framework compared to the actual practices applied. Legislative provisions were examined by scrutinizing the Constitution, IGFA Act, FPFA Act and FPFA Regulations, PFP Act and Regulations, and the principles, guidelines and recommendations given by the NNRFC and the NPC. A review of the budget and financial statements for 2023/24 was conducted, along with internal documents of the MoF.

Table 2.22: Summary of scores for PI-7 and performance table

Indicator/ Dimension	Brief justification for score	2025 Score
PI-7. Transfers to subnational governments		**C**
7.1 System for allocating transfers	The horizontal allocation of all transfers to local levels in Madhesh Province is determined by rule-based systems. However, procedures for conditional, complementary and special grants lack clear guidelines on timelines and installment amounts.	C
7.2 Timeliness of information on transfers	Information on all four grants (fiscal equalization, conditional, complementary and special) to local levels is issued within ten days before their budget preparation deadlines. For the grants which represent more than 90% of fiscal transfers, local levels receive information less than two weeks before their budget preparation deadline.	C

Description of the sub-national PFM system for the assessed PI: The distribution of revenues and fiscal transfers are mainly guided by the Constitution (Article 60). According to Article 60 (3 and 7), the amount of fiscal transfers to the provincial governments and local levels shall be as recommended by the NNRFC. Article 60 (5) mandates provincial governments to distribute fiscal equalization grants received from the GoN as well as the revenues generated from its sources in accordance with relevant legislation. Sections 8, 9, 10 and 11 of the IGFA Act provide guidance for transfers of all four types of grants – the fiscal equalization grant, complementary grant, conditional grant, and special grant – and revenue sharing from the provincial government to local levels.

As per the NNRFC Act and the NNRFC Regulations, the NNRFC has set benchmarks (formulas, criteria and basis) for fiscal equalization and conditional grants, along with recommendations for distribution of grants and revenues based on the performance of provincial governments and local levels. The NPC, in accordance with Sections 10 (5) and 11(3) of the IGFA Act, has approved procedures for complementary and special grants. These procedures include benchmarks (criteria/sectors, objectives and basis) for implementing infrastructure-related programs/projects at the provincial governments and local levels, including programs/projects that are to be executed by them.

The Provincial Government has enacted the Provincial Fiscal Transfer Management Act (2018) for the management of fiscal transfers from the provincial governments to local levels. The Provincial Government has, on this basis, developed procedures for fiscal transfer to local levels: The Fiscal Equalization Grant Procedures and the Special Grant Procedures were introduced in November 2021, and the Conditional Grant Procedures were amended in March 2024 and again in January 2025. These Procedures detail rules-based procedures for determining the horizontal allocation of transfers of all types of grants to local levels with the parameters based on local requirements, cost sharing, implementation capacity, and beneficiary population for programs/projects. Local levels are also required to submit program/project proposals to the provincial MoF for the implementation of complementary and special grants.

Section 4 of the Provincial Government's Appropriation Act for 2023/24,[59] provides the timeline for releasing the fiscal equalization grant in four installments equally. However, there is no timeline prescribed for releasing other grants. Section 7 provides reporting timelines for the expenditure financed from these grants.

Madhesh Province has 136 local levels, comprising one metropolitan city, three sub-metropolitan cities, 73 municipalities, and 59 rural municipalities.

[59] https://mof.madhesh.gov.np/np/posts.

Recent or ongoing reform activities: The NNRFC is implementing a five-year strategic plan (2022/23-2026/27), which aims to improve inter-governmental fiscal transfers and related mechanisms, strengthen research and data analytics for fiscal transfers, and enhance coordination between federal agencies and SNGs. The Provincial Government in January 2025 amended the Conditional Grant Procedures.

7.1 System of allocating transfers

Performance level and evidence for scoring: The horizontal distribution of grants among local levels is determined by the NNRFC, as per Section 16 (1) of the NNRFC Act, using defined criteria and formulas. Relevant information is published on the NNRFC website[60] and, on this basis, the Provincial Government sets expenditure ceilings and informs local levels of their respective fiscal equalization grant allocations.

The fiscal equalization grant is to be released in four installments as per Section (4) of the Appropriation Act for 2023/24. The procedures for conditional grants, as outlined in Section (8), provide for the release of the grant amount in two installments through the PFCO. The provincial MoF on 10 April 2024 informed the local levels[61] with a timeline of seven weeks. For complementary grants, Section (6) required local levels to submit applications by 12 February 2024 with funds to be released in two installments. Similarly, the Special Grants Procedures (Section 5(2)) also sets 12 February 2024 as the deadline for application submission where disbursements were to be made in two installments, although it does not specify the dates for their release. According to Section 9(2), the second installment of special grants is disbursed only after submission of progress reports.

The IGFA Act has legal provisions for transfers of all four types of grants and revenue sharing (Sections 8-11) from the provincial government to the local levels. The NNRFC has set benchmarks (criteria/sectors, basis, and objectives) for fiscal equalization and conditional grants as well as recommendations for grants and the distribution of revenues, considering the performance of provincial governments and local levels. The procedures approved by the NPC include benchmarks (criteria/sectors, basis, and objectives) for complementary and special grants to implement infrastructure-related programs/projects by provincial governments and local levels. Section 2 of the Conditional Grant Procedure specifies a ceiling of NPR 2.5 million as the lower limit, while there is upper limit for conditional grants. A similar provision for special grants is provided in Section 4 (2) of the Special Grant Procedures. The ceiling for

[60] https://nnrfc.gov.np/uploads/resources/2023-04-12/2.

[61] https://mof.madhesh.gov.np/np/news_notice_detail/246: Notice to local levels to submit program/project details to be implemented under conditional grants.

complementary grants from the Provincial Government is 70% of the total cost of infrastructure programs.

The provincial MoF allocates total ceilings of three grants (complementary, conditional and special) for local levels that are included in the budget documents submitted to Provincial Assembly and recorded in the PLMBIS and the Sub-National Treasury Regulatory Application (SuTRA).

Information about the total allocated grant is provided to local levels before they initiate their budget formulation process. The Provincial Government must transfer 50% of conditional, complementary and special grants into the consolidated fund of local levels, while transfer of the remaining 50% is based on requests from the local levels based on 'work completion' reports. In case conditional (earmarked) grants are not (fully) utilized, they need to be refunded to the Provincial Government which, if not done, results in the balance amount being deducted from non-earmarked grants (i.e., fiscal equalization grants), as per the Appropriation Act.

As follows from the above, horizontal allocations of fiscal transfers to the 136 local levels are governed by rule-based systems.

The budgeted and actual transfers from the Provincial Governments to the local levels in 2023/24 are shown in the below table.

Table 2.23: Transfers to local levels in 2023/24 (NPR Millions)

Category of horizontal transfer	Budget			Actual		
	Amount (NPR, Millions)	**Share (%)**	**Transparent and rule-based** (Yes/No)	**Amount (NPR, Millions)**	**Share (%)**	**Transparent and rule based** (Yes/No)
Fiscal equalization grants	1,180.80	33.50	Yes	1,170.13	83.30	Yes
Conditional grants	1,635.74	46.40	Yes	0	0	NA
Complementary grants	284.00	8.00	Partially	187.15	13.30	Partially
Special grants	427.50	12.10	Partially	47.43	3.40	Partially
Total	**3,528.05**	**100**		**1,404.70**	**100**	

Sources: PFCO's FMIS Report No. 2014 for 2023/24 (for actual transfer amounts); Budget Speech 2023/24 (for the budget of conditional grants).

The Provincial Government's actual transfer of grants to local levels in 2023/24 was only 39.8% of the budgeted transfers. This was due to shortfalls in the expected transfers from the GoN as well as incorrect allocation of conditional grants in the 2023/24 budget (to the 'Miscellaneous' budget head rather than the 'Conditional Grants' budget head, which resulted in there being no conditional grant budget that could be released. Also, due to delays in transfers from the Provincial Government, it meant that local levels did not have adequate time to plan and prepare project or program proposals.

Although fiscal transfers are rule-based, no timelines are prescribed for the transfer of complementary grants and special grants to local levels, hence there is only partial transparency. Most of these grants were in practice transferred towards the end of 2023/24. With regard to conditional grants, despite the timeline being prescribed, no disbursements were made due to the above-mentioned incorrect allocation in the budget. This impacted on the transparency of fiscal transfers (66.5% of which comprise conditional, complementary and special grants) to the local levels. Only the transfer of fiscal equalization grants (which accounts for 33.5% of the total) is rule-based and transparent.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

7.2 Timeliness of information on transfers

Performance level and evidence for scoring: The PPPC's Province Planning and Program Formulation Directives (2020) include steps and a calendar/timeline to be followed by the responsible entities while preparing their annual plan (budget and program).[62] Separate procedures developed for each of the four grants provide information on the timelines for allocating the grants to the local levels.

[62] Clause 5.5 of Planning and Program Formulation Directives, p. 26.

Table 2.24: Timelines for information on transfers for the 2023/24 budget

Types of fiscal transfer	Date of NNRFC information for Fiscal Equalization (2023/24)	Date of information by the Provincial Government to Local levels	Date of Provincial Government Budget Submission to the Provincial Assembly	Date of Local Government Budget Submission to Local Assemblies[63]	Timeline
Fiscal equalization grant	12 April	Not Available	15 June	25 June	10 days
Conditional, Complementary and Special grants	Not available	15 June	15 June	25 June	10 days

Sources: NNRFC (https://www.nnrfc.gov.np/), correspondence letters for the 2023/24 budget submission to the Provincial Assembly.

The Provincial Government sets the ceilings (amounts) of the fiscal equalization grant and provides information to the local levels only after receiving the recommendation from the NNRFC. While the NNRFC provided information on the fiscal equalization grant on 12 April 2024, there is no evidence available as to the date when the provincial MoF circulated information to the local levels. The ceilings (amounts) for the complementary, conditional and special grants were set by the Provincial Government in the annual budget proposal (Appropriation Bill), which was submitted to the Provincial Assembly in mid-June 2023. Hence, the information on all four types of grants was available at the same time to the local levels through the provincial MoF's website (www.mof.madhesh.gov.np). However, the process by which local levels received information on their annual transfers was not managed through the regular budget calendar but provided after the budget was submitted to the Provincial Assembly. As the local levels were required to submit their budget proposal on 24/25 June (*10 Ashad*, as per the Nepali calendar), local levels did not get detailed information on fiscal transfers from the Provincial Government at least four weeks of their budget planning.

Hence, ceilings for grants were only available in mid-June as part of the Provincial Government's budget. Thus, the information on all grants (fiscal equalization, conditional, complementary and special) was provided less than two weeks (within 10 days) before the budget submission dates of the local levels.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

[63] As per Local Government Operations Act, local level is required to submit their budget proposal on 25 June each year.

PI-8. Performance information for service delivery

What does the indicator measure? It examines the service delivery information in the executive's budget proposal or its supporting documentation, and in year-end reports or performance audits or evaluations, as well as the extent to which information on resources received by service delivery units is collected and recorded. Coverage is budgetary units and EBUs of the SNG for all four dimensions and for PI-8.1, performance indicators and planned outputs and outcomes for the next fiscal year; for PI-8.2, outputs and outcomes of the last completed fiscal year; and for PI-8.3 and PI-8.4, last three completed fiscal years. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The availability of performance plans was assessed based on data obtained from the Annual Budget (Red Book) and the MTEF (PI-8.1). Performance achieved was reviewed through analysis of ministry-level CGAS reports (PI-8.2). Data on resources received by service delivery units was extracted from the PLMBIS (PI-8.3). The annual performance audits conducted by the OAG were reviewed to assess performance evaluation for service delivery (PI-8.4).

Table 2.25: Summary of scores for PI-8 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-8. Performance information for service delivery		**D**
8.1 Performance plans for service delivery	Program objectives, strategies and result indicators with targets are specified at the aggregate level in the MTEF. However, annual policies and activities, including key performance indicators as well as outputs and/or outcomes expected from each program to be implemented by frontline service delivery ministries, are not prepared and published.	D
8.2 Performance achieved for service delivery	No information about the activities performed, with actual outputs and outcomes, is prepared and published.	D

Indicator/Dimension	Brief justification for score	2025 Score
8.3 Resources received by service delivery units	Information on actual resources received is not published, no disaggregated budget/expenditure reports are prepared, no annual progress reports are available, and no surveys have been conducted during any of the last three completed fiscal years.	D
8.4 Performance evaluation for service delivery	Performance audits conducted by the OAG for the last three completed fiscal years did not focus specifically on programs/projects implemented by the Provincial Government. No other independent evaluations of service delivery have been carried out during any of the last three completed fiscal years involving any ministry of the Provincial Government.	D

Description of the sub-national PFM system for the assessed PI: The Constitution assigns most frontline service delivery responsibilities to local levels, which function independently. Provincial governments support service delivery through conditional grants to local levels and, in some cases, through EBUs. When services are delivered by local levels or EBUs with provincial financing, performance information is reported in the relevant ministerial performance reports. However, no performance reports are available for Government of Madhesh Province.

The MTEF,[64] which is mandatory to prepare, includes results indicators and targets for the budget year and the next two fiscal years for all Provincial Government entities grouped by five divisions: Economic, Social, Infrastructure, Governance Management, and Interrelated Divisions. The MTEF provides objectives, costs, durations, sectoral strategic pillars, expected results of programs/projects, progress by dates, achievement indicators for the next three years, and main activities to be carried out during the budget year. The Annual Development Program,[65] which provides program costs with economic codes as well as a breakdown of activities. The Annual Budget (Red Book) provides the budget head of programs, including economic sub-heading breakdowns of allocations.

[64] https://pppc.madhesh.gov.np/pages/publications-commission/: MTEF for 2023/24-2025/26.
[65] https://mof.madhesh.gov.np/np/news_notice_detail/270: Annual Development Program for 2024/25.

The PFP Act's Section 10(3) requires the Account Responsible Officer (Secretary) of line ministries to submit physical progress reports along with their budget proposal to the MoF. However, no such documentation has been available from any ministries. Also, the provincial MoF has not yet consolidated and published ministry-wise progress and evaluation reports outlining the programs/projects for each central office, as stated in the Budget Speech. Furthermore, no ministry has so far published an Annual Report, which would typically provide information on progress towards targets and indicators. Moreover, the provincial MoF has not conducted semi-annual or annual budget implementation review of programs. Consequently, measuring performance achievement is difficult.

Among the Provincial Government's eleven ministries, six ministries – the Ministry of Physical Infrastructure Development and Transport (MoPID), Ministry of Health and Population (MoHP), Ministry of Energy, Irrigation and Drinking Water (MoEIDW), Ministry of Industry, Commerce and Tourism (MoICT), Ministry of Education and Culture (MoEC) and Ministry of Land Management, Agriculture and Cooperatives (MoLMAC) – deliver most of the frontline services.

Table 2.26: Performance information for service delivery, 2024/25

Ministries	Budget		
	Total (NPR Millions)	**Service delivery** (NPR Millions)	**Percentage of service delivery**
MoPID	13,115.27	Not available	Not available
MoHP	5,216.51	Not available	Not available
MoEIDW	5,179.64	Not available	Not available
MoICT	2,985.82	Not available	Not available
MoEC	2,905.18	Not available	Not available
MoLMAC	2,791.90	Not available	Not available
Total	**32,194.32**		

Source: Annual Budget('Red-Book') for 2024/25, pp. 4-6.

The six ministries collectively hold 74% of the total budget for 2024/25 allocated to all eleven ministries. Given their significant budgetary share and role in service delivery, these six ministries were selected for review in relation to PI-8.1 and PI-8.2.

While some EBUs are assigned frontline service delivery tasks at the provincial level, mainly hospital and educational agencies, no detailed information is available in this regard.

Recent or ongoing reform activities: As recommended in the OAG's 7th Annual Report for Madhesh Province (covering 2023/24),[66] the MoF is discussing with line ministries about preparing physical progress reports starting from 2025/26.

8.1 Performance plans for service delivery

Performance level and evidence for scoring: The below table presents information on six ministries responsible for delivering frontline services to citizens, based on the MTEF for 2024/25-2026/27. Approximately 74% of the budget allocated to the six ministries is allocated towards service delivery programs.

Table 2.27: Performance plans for the next fiscal year, 2024/25

Ministries	Program objectives specified (Y/N)	Key performance indicators (Y/N)	Performance plans	
			Planned outputs (Y/N)	Planned outcomes (Y/N)
MoPID	Yes	No	Yes	No
MoHP	Yes	No	Yes	No
MoEIDW	Yes	No	Yes	No
MoICT	Yes	No	Yes	No
MoEC	Yes	No	Yes	No
MoLMAC	Yes	No	Yes	No

MoPID = Ministry of Physical Infrastructure Development and Transport, MoHP = Ministry of Health and Population, MoEIDW = Ministry of Energy, Irrigation and Drinking Water, MoICT = Ministry of Industry, Commerce and Tourism, MoEC = Ministry of Education and Culture, MoLMAC = Ministry of Land Management, Agriculture and Cooperatives.

Source: MTEF for 2024/25-2026/27, Chapters 4-7.

Program objectives, strategies and result indicators with targets are specified at the aggregate level in the MTEF.[67] Annual policies and activities, including key performance indicators as well as outputs and/or outcomes expected from each program to be implemented by frontline service delivery ministries, are not prepared and published. This may possibly be a result of inadequate monitoring and enforcement related to the design as well as requirements of the budget system.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

[66] OAG. 2025. Seventh Annual Report of the Auditor General, 2082, Madhesh Province. Kathmandu, Chapter 5.
[67] MTEF for 2024/25-2026/27, Chapters 4-7 relating to ministry-wise objectives and targets.

8.2 Performance achieved for service delivery

Performance level and evidence for scoring: The table below shows actual service delivery of frontline services. In the absence of a semi-annual or Annual Budget and Program Evaluation Review Report for 2023/24, no information relating to performance achieved on frontline service delivery targets for 2023/24 is available.

Table 2.28: Performance achieved, 2023/24

Ministries	Performance achieved		
	Data on actual outputs produced (Y/N)	Data on actual outcomes achieved (Y/N)	Information on activities undertaken (if no outputs or outcomes) (Y/N)
MoPID	Not available	Not available	Not applicable
MoHP	Not available	Not available	Not applicable
MoEIDW	Not available	Not available	Not applicable
MoICT	Not available	Not available	Not applicable
MoEC	Not available	Not available	Not applicable
MoLMAC	Not available	Not available	Not applicable

No information about activities performed, with actual outputs and outcomes, is prepared and published.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

8.3 Resources received by service delivery units

Performance level and evidence for scoring: Once the Appropriation Act is enacted, expenditure authorization is automatically provided to budgetary units through the PLMBIS (Section 16 of the PFP Act). This ensures that the absence of explicit authorization does not hinder budget execution. Details of the budget, including program and activity breakdowns, are automatically transmitted through the PLMBIS to the PFCO and the relevant budgetary units. Also, the Annual Budget (Red Book) is published and uploaded on the MoF website prior to the start of the fiscal year. Accordingly, once the budget is approved by the Provincial Assembly, both the budget and related programs are opened and readily accessible to budgetary units for implementation.

No Annual Budget and Program Evaluation Review Reports are available for the last three completed fiscal years (2021/22, 2022/23 and 2023/24). Hence, data on the resources received by service delivery units is not readily available. Assessments would instead have to rely on data from the PLMBIS and the CGAS, but such data has not been possible to obtain for the six ministries. Also, no surveys have been carried out during the last three completed fiscal years that would provide estimates of the resources received by service delivery units for any ministry.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

8.4 Performance evaluation for service delivery

Performance level and evidence for scoring: Section 5 of the Audit Act (2019) authorizes the OAG to conduct performance audits of public entities activities, programs and projects to ensure their economy, efficiency, and effectiveness. The performance audits conducted by the OAG for the last three completed fiscal years (2021/22, 2022/23 and 2023/24) did not focus specifically on programs/projects implemented by Government of Madhesh Province.[68]

No other independent evaluations of the efficiency and/or the effectiveness of service delivery have been carried out during any of the last three completed fiscal years involving any ministry of the Provincial Government.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

PI-9A. Public access to fiscal information

What does the indicator measure? It assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. Coverage is budgetary units of the SNG for the last completed fiscal year.

Methodological notes: The fiscal data that is available on the websites of the provincial MoF, PPPC, PFCO and OAG was compared to the specific information elements and requirements that are outlined in the framework for PI-9A.

Table 2.29: Summary of scores for PI-9A and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-9A. Public access to fiscal information		**C**
9A.1 Public access to fiscal information	Five basic elements are made available to the public, but none of the three additional elements.	C

[68] Although the performance audits for 2022/23 and 2023/24 did include programs/projects implemented by the federal government and provincial governments, including some in Madhesh Province, the programs/projects did not directly involve the Provincial Government in terms of implementation.

Description of the sub-national PFM system for the assessed PI: Article 27 of the Constitution (Right to Information) states that 'every citizen shall have the right to demand and receive information on any matter of his or her interest or of public interest' except where confidentiality is to be maintained by law. The Right to Information Act (2007) mandates government units to provide information to the public as per their demand as well as to have in place an Information Officer. Section 46 of the PFP Act requires provincial government units to publicly disclose financial reports through electronic or other appropriate means within seven days after the deadline for producing such reports.

Recent or ongoing reform activities: The MoF has initiated semi-annual and annual budget implementation reviews during 2024/25.

9.1A Public access to fiscal information

Performance level and evidence for scoring of the dimension: The extent to which there is public access to key fiscal information is covered in the table below.

Table 2.30: Public access to fiscal information

Elements / Requirements	Criteria Met (Y/N)	Within the Timeframe (Y/N)	Explanation and Source of Evidence
Basic elements			
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the SNG in PI-5) is available to the public within one week of the executive's submission of them to the subnational council.	Yes	Yes	The documentation of the 2023/24 budget proposal comprises eight documents: (i) Budget Speech, (ii) Statement of Budget Estimation ('Red Book'), (iii) Appropriation Bill, and (iv) Finance Bill are published on the same day as they submitted to the Provincial Assembly. (v) Fiscal Transfers to the Local Level, (vi) Economic Survey, (vii) Ministry-wise Annual Development Program,[69] and (viii) MTEF[70] are published within one week.

[69] https://mof.madhesh.gov.np/np/posts/eyJpdiI6Ikx5NlVsQjdMZGcvYWtlWUJhb20waVE9PSIsInZhbHVlIjoiWmdPQjc4dU1SM C9HYithcE10L2hYZz09IiwibWFjIjoiMWI2MWVlOWViNzhkYzVhZjVmMTgyMWIzYTg1OGU5NjA3M2M2NjdhYjNkNjI0NTBhOGY 4OTZmNTA0MjczM2M4OCIsInRhZyI6IiJ9?page=1.

[70] https://pppc.madhesh.gov.np/contentdetails/40.

Elements / Requirements	Criteria Met (Y/N)	Within the Timeframe (Y/N)	Explanation and Source of Evidence
2. Enacted budget. The annual budget law approved by the subnational council is publicized within two weeks of passage of the law.	Yes	Yes	The Appropriation Act and the Finance Act for 2023/24 were enacted on 15 July 2023[71] and were published on the same day.
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	Yes	Yes	In-year budget execution reports are prepared quarterly within four weeks from the end of each quarter.[72]
4. Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.	Yes	Yes	Annual budget execution data is made available in the CFS. The CFS for 2023/24 was published on 11 December 2024, i.e. within five months of fiscal year-end.
5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end.	Yes	Yes	The OAG submitted its 7th Annual Report for Madhesh Province (covering 2023/24) to the Province Chief on 14 May 2025, i.e. within ten months of fiscal year-end. The OAG made a press release and published the report on its website on the same day.[73]
Additional elements			
6. Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year.	Yes	No	A pre-budget statement (Budget Principles and Priorities) was prepared for 2023/24 at the time of the budget only (one day before budget submission).

[71] https://mof.madhesh.gov.np/np/news_notice_detail/234.

[72] https://mof.madhesh.gov.np/np/news_notice_detail/375, https://mof.madhesh.gov.np/np/news_notice_detail/378, https://mof.madhesh.gov.np/np/news_notice_detail/381, and https://mof.madhesh.gov.np/np/news_notice_detail/384.

[73] https://oag.gov.np/site_uploads/mathhasha-parathasha-bhamaka-1838585481.pdf.

Elements / Requirements	Criteria Met (Y/N)	Within the Timeframe (Y/N)	Explanation and Source of Evidence
7. Other external audit reports. All non-confidential reports on SNG consolidated operations are made available to the public within six months of submission.	NA	NA	The OAG has not conducted audits on the consolidated operations of the Provincial Government.[74]
8. Summary of the budget proposal. Either (i) a clear, simple summary of the executive budget proposal is publicly available within two weeks of the executive budget proposal's submission to the subnational council, or (ii) the enacted budget presented in a format understandable by non-budget experts, often referred to as a 'citizens' budget', and where appropriate translated into the most commonly spoken local language(s), is publicly available within one month of the budget's approval.	No	No	A summary of the 2023/24 budget proposal is not available.[75]

NA = not applicable.

Both requirements (criteria and timeframe) are met for all five basic elements, but both requirements are not met for any of the additional elements (one of is not applicable).

Based on the analysis and supporting evidence, the score for the dimension is **C**.

[74] The OAG did in its 2024 Performance Audit Report (https://oag.gov.np/reports/Performance-Audit-Report) include a chapter on the performance audit of the 'Terai-Madhesh Cultural Heritage Project' (pp. 132-147). However, this does not meet the requirement of Element 7.

[75] While the Budget Speech by the Finance Minister (https://mof.madhesh.gov.np/np/news_notice_detail/207) is a detailed document that includes various information on policies and priorities as well as revenue and expenditure estimates, it does not constitute a budget proposal summary.

PI-9B. Public consultation

What does the indicator measure? It assesses the extent to which the SNG conducts public consultation in preparing the budget, designing service delivery programs, and planning investments. Coverage is budgetary units of the SNG for the last budget submitted to the sub-national council/legislature. EBUs are covered under PI-9B.2 and PI-9B.3. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The budget preparation process for 2024/25 was reviewed for any public consultation in terms of budget as well as service delivery. Major investment projects listing and approval processes were also reviewed for public consultations. Furthermore, the federal MoF's 2023 'National Strategy and Action Plan for Citizen Engagement in PFM in Nepal',[76] covering all three tiers of government, was reviewed for public consultation requirements.

Table 2.31: Summary of scores for PI-9B and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-9B. Public consultation		**D**
9B.1 Public access to fiscal information	Public consultations on budget preparation were not conducted while preparing the budget for 2024/25.	D
9B.2 Public consultation in the design of service delivery programs	Public participation in designing service delivery programs were not carried out during the last three fiscal years.	D
9B.3 Public consultation in investment planning	Public consultations were not conducted during the preparation of major investment projects in 2023/24.	D

Description of the sub-national PFM system for the assessed PI: The Constitution promotes fiscal federalism and participatory governance. Article 27 provides for 'Rights to Information' and gives citizens the right to seek information that concerns them or the public. Article 19 provides for the right to communication and Article 42 the right to social justice. Article 50(3) provides for sustainable economic development through mobilization of available means and resources through participation and development of public, private and cooperatives. Article 51(b) (4) requires the State to guarantee good governance by ensuring equal and easy access of the people to services and facilities. Article 51(j) requires the State to pursue policies of social justice and inclusion.

[76] https://pefa.gov.np/category/Study%20Report.

Section 24(5) of the Local Government Operations Act provides for public participatory in the budget formulation process by representatives from academics, subject experts, youth, women and children, and vulnerable groups (disabled, senior citizens, indigenous and ethnic minorities, etc.).

Nepal has two key local government associations (the Municipal Association of Nepal (MuAN) and the National Association of Rural Municipalities (NARMIN)) which provide advocacy and capacity enhancement support for effective planning and budgeting at sub-national levels.[77]

The 'National Strategy and Action Plan for Citizen Engagement in PFM in Nepal', issued in December 2023 by the GoN's former PEFA Secretariat, provides guidance on citizen engagement across budget cycle activities (budget formulation, approval, implementation, and auditing), in the formulation of long-term fiscal policies, and in developing and distributing public goods and services.[78]

The Province Planning and Program Formulation Directives, Section 5.5, includes a provision for annual planning as well as annual development and budget formulation processes with timelines. The Budget Calendar included in the Directives provides guidance on discussions with line ministries and their spending units, but not on public consultations.

Recent or ongoing reform activities: The provincial MoF is coordinating with the federal MoF's Fiscal Federalism Coordination Division (FFCD) to conduct future annual budget formulation processes in line with the citizen engagement guidance provided in the 'National Strategy and Action Plan for Citizen Engagement in PFM in Nepal'.

9B.1 Public consultation in budget preparation

Performance level and evidence for scoring of the dimension: The Provincial Government did not undertake public consultations as part of the process of preparing the 2023/24 budget. Rather the public consultation process takes place through the discussions and hearing conducted by the elected representatives of the Provincial Assembly.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

---

[77] MuAN (https://muannepal.org.np/) was established in 1994 as an umbrella organization for all municipalities of Nepal. NARMIN (https://narmin.org.np/) was established in 1995 as an umbrella organization for the 460 rural municipalities of Nepal.

[78] The National Strategy and Action Plan was developed based on a 2022 'Diagnostic Report for Citizen Engagement in Public Financial Management in Nepal' (https://pefa.gov.np/files/195).

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

Performance level and evidence for scoring of the dimension: The Constitution includes general requirements for the public to be consulted regarding the design of service delivery programs.[79] The Provincial Government has not, during the last three completed fiscal years (2021/22-2023/24), conducted public consultations to identify needs for service delivery programs. However, the Provincial Government and the Provincial Assembly involve stakeholders, such as political party representatives, in the planning and design of service delivery programs.

Madhesh Province's 16 EBUs provide different services to the public, including front line services in the education and health sectors, but the EBUs are not engaged in undertaking public consultations in the design of service delivery programs. However, the EBUs do provide information to their parent ministries regarding service delivery aspects.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

9B.3 Public consultation in investment planning

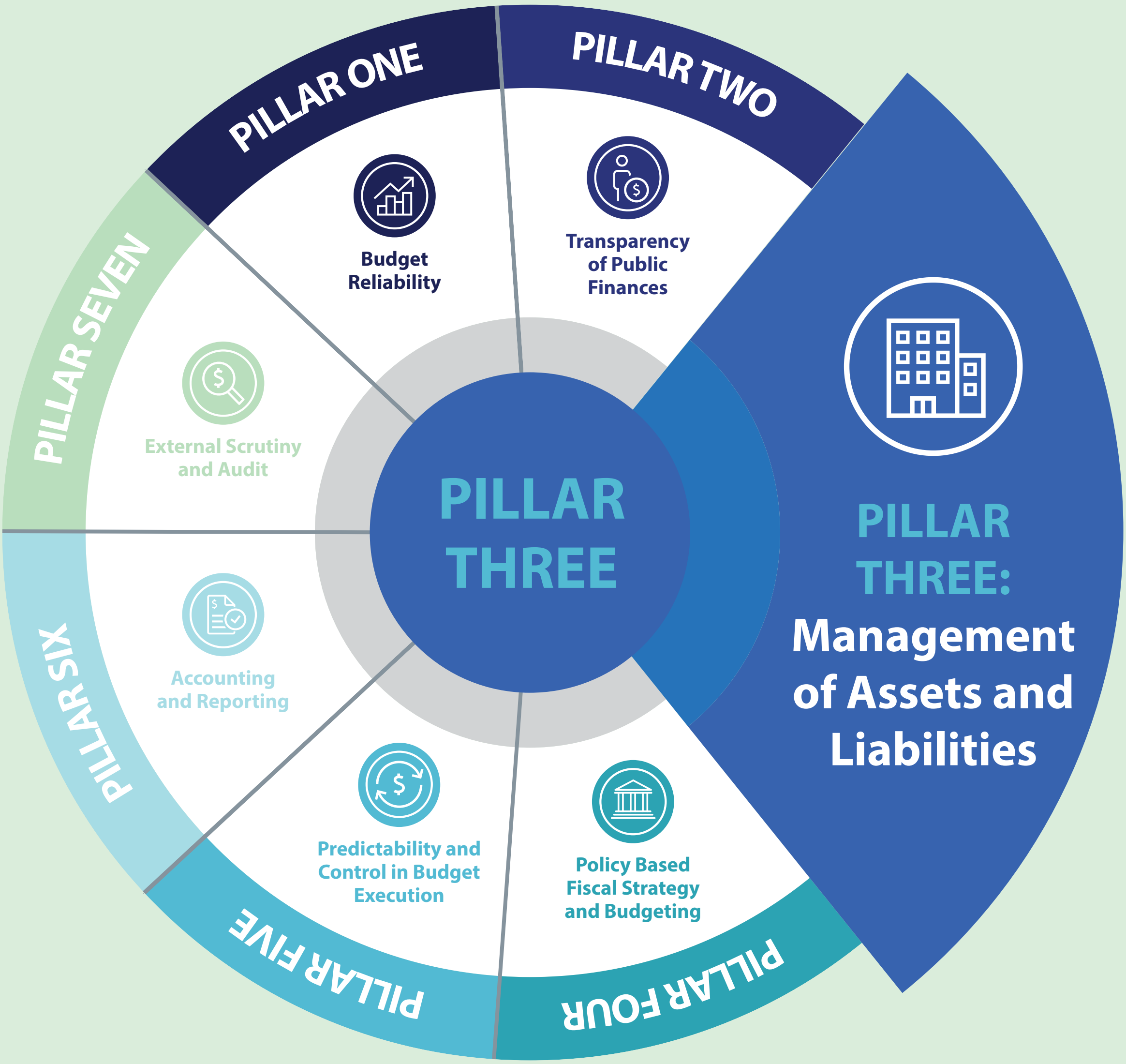
Performance level and evidence for scoring of the dimension: No major investment projects are implemented by the Provincial Government (see PI-11). It is instead implementing several 'regular' programs/projects, prioritized as Priority 1 or Priority 2 (as per the GoN's categorizations) and with budgets allocated in the PLMBIS,[80] which are included in the Project Bank. Planned major investment cost projects include road projects to be implemented with financial support of the GoN where budgets are not yet allocated. The Provincial Government's 2022 Project Bank lists 58 multi-year programs and projects, but their implementation status is not clear.

No information and evidence are available about public consultations having been conducted related to the preparation of any of the above-mentioned projects. There is similarly no information available about public consultations undertaken in relation to programs or projects prepared and implemented by EBUs.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

[79] The Constitution's Articles 17, 18, 19, 27, 42, 50(3) and 51.

[80] Regular programs/projects with budget allocations for 2023/24 include: Budget Code 31156 – Construction of Water Supply structures (NPR 611 million) under the Ministry of Energy, Irrigation and Water Supply (MoEIWS); Budget Code 31391123 – Terai-Madhesh Drinking Water Program (NPR 256.4 million) under the Water Resources and Irrigation Division; and, Budget Code 33791129 – Feasible Province Roads (NPR 146 million) under the MoPID.



PILLAR ONE
Budget Reliability
PILLAR TWO
Transparency of Public Finances
PILLAR SEVEN
External Scrutiny and Audit
PILLAR SIX
Accounting and Reporting
PILLAR FIVE
Predictability and Control in Budget Execution
PILLAR FOUR
Policy Based Fiscal Strategy and Budgeting
PILLAR THREE
PILLAR THREE:
Management of Assets and Liabilities

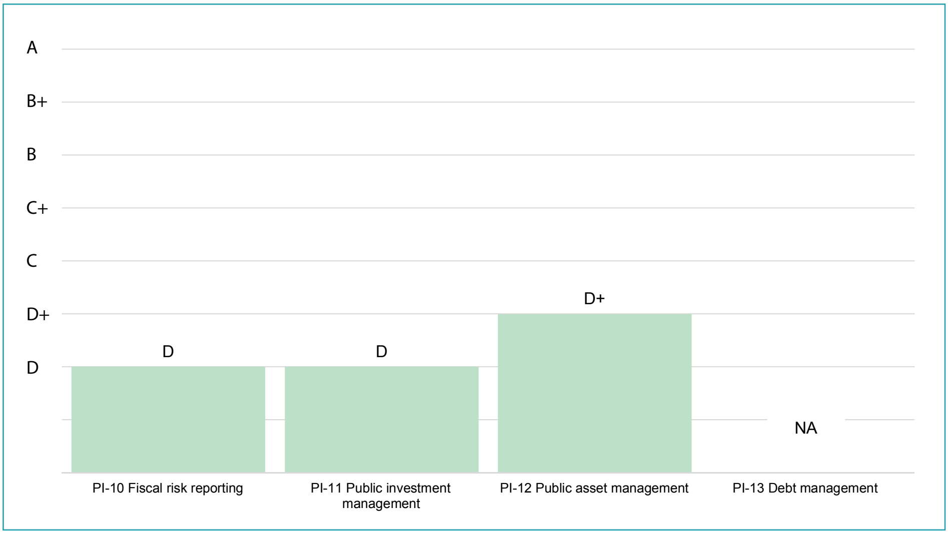
PILLAR III: Management of Assets and Liabilities

What does the pillar measure? It measures whether effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

Overall performance: The performance of Pillar III is overall below basic. Fiscal risk reporting is limited since the audited annual financial statements for local levels are published late as well as because contingent liabilities and other fiscal risks are not reported in the CFS (PI-10). Also, public investment management is poor as economic analysis of major investment projects is not conducted, there are no standard criteria for prioritizing and selecting projects, the MTEF and the annual budget lacks financial information on projects, and there is no evidence that implementation progress is being monitored (PI-11). While financial asset monitoring is well-developed, there are gaps in the monitoring of non-financial (fixed) assets, and information about transfer and disposal of assets is not disclosed (PI-12).

The performance of PIs 10-13 are shown below.

Figure 2.4: Indicator scores under Pillar III



PI-10. Fiscal risk reporting

What does the indicator measure? It measures the extent to which fiscal risks to the SNG are reported. Fiscal risks can arise from financial positions of lower-tier(s) of SNGs or public corporations, and/or contingent liabilities and other fiscal risks. For the last completed fiscal year, this indicator covers SNG controlled and/or owned and shared public corporations for PI-10.1, lower-tier of SNGs that have direct financial relations with the SNG for PI-10.2, and budgetary units and EBUs of the SNG for PI-10.3. It uses the M2 (average) method for aggregating dimension scores.

Methodological notes: For PI-10.1, information from the PDMO was reviewed. For PI 10.2, the ten most financially important local levels were reviewed. For PI 10.3, budget documents and financial statements were reviewed to identify contingent liabilities.

Table 2.32: Summary of scores for PI-10 and performance table

Indicator/ Dimension	Brief justification for score	2025 Score
PI-10. Fiscal risk reporting		**D**
10.1 Monitoring of public corporations	The Provincial Government does not control or own any share in any public corporations.	NA
10.2 Monitoring of subnational governments	Audited annual financial statements for most local levels were published at least annually, but only after more than nine months of the end of the fiscal year.	D
10.3 Contingent liabilities and other fiscal risks	The Provincial Government has contingent liabilities, but these are not reported in the CFS. Other fiscal risks are also not reported.	D

Description of the sub-national PFM system for the assessed PI: The PFP's Section 26 (1) includes a provision on the responsibility of the PFCO to prepare a CFS of the Provincial Consolidated Fund and other government funds. Sub-Section 2 requires the PFCO to prepare a consolidated report on the financial transactions of local levels – covering grants received from the federal government and provincial government as well as amounts received from revenue sharing, internal income, loans and grants that fall under its jurisdiction – and to submit the report to the provincial MoF and the OAG. Sub-Section 3 requires the FCGO's DTCO to prepare a separate financial statements as well as a CFS on the financial transactions of local levels relating to grants from the federal government and provincial government, revenue sharing, internal income, loan and grants, whereas Sub-Section 4 requires each local government to prepare a CFS covering the offices of the local government, and submit it to the PFCO and the DTCO. Sub-Section 5 provides for the cancellation of grant amounts provided by the Provincial Government if local levels do not submit the required reports, or if audits are not conducted.

The MoF, PFCO and OAG are the main responsible entities for assessing fiscal risk of local levels. The provincial MoF is required to review financial reports and progress reports. The PFCO conducts internal audit of the spending units of the local levels receiving grants from provincial government. The OAG conducts external audits of the financial statements of the local levels.

The Provincial Government has enacted the Fiscal Transfer Management Act (2018) and Conditional Grant Procedures (2024), Complementary Grant Procedures (2021) and Special Grant Procedures (2021), which provide guidance on reporting and monitoring of all type of grants, including fiscal equalization grants and revenue sharing, that are distributed to local levels (as assessed under PI-7).

Article 203 of the Constitution states that no loans shall be taken and no guarantee shall be given by the Provincial Government except as allowed by federal law.

The IGFA Act's Section 12(4) requires prior approval from the GoN for provincial governments and local levels to obtain foreign assistance as well as to implement projects based on foreign assistance. Section 14(1) requires prior consent from the GoN for provincial governments and local levels to obtain internal (domestic) loans.

Section 32 of the IGFA Act, 2017, requires provincial governments and local levels to submit quarterly statements of income and expenditures within prescribed timelines (provincial governments within 30 days and local levels within 15 days quarter-end) to the MoF. Provincial governments are furthermore required to consolidate data from local levels. Additionally, while submitting the report for the second quarter, both levels are required to include estimates for the third quarter. Failure to comply with these timelines may result in the withholding of grants by the GoN.

Section 8(1.b) of the PFP Act requires prioritizing and allocating sufficient budgetary resources for committed programs/projects before proposing new ones. It also mandates inclusion of evaluated and approved programs/projects in the next fiscal year's Appropriation Bill. Section 11 of the PFP Act requires accounting for financial liabilities and commitments, including those from transferred agreements, expenditure decisions, and revenue exemptions by the GoN or provincial governments.

The Appropriation Act 2023/24 provisions that local levels must enact appropriate laws to ensure expenditures from collected revenues and received grants (Section 7(2)). Section 8(4) requires that any changes in programs/projects proposed by budgetary units receive pre-approval from the provincial MoF.

Recent or ongoing reform activities: The Provincial Government is considering adopting provisions in an amended PFP Act for enhanced monitoring of fiscal risks. The FCGO is enhancing the SuTRA used by local government to better support provincial governments in monitoring their financial reports.

10.1 Monitoring of public corporations

Performance level and evidence for scoring: The Provincial Government does not control or own any share in any public corporations.

Based on the analysis and supporting evidence, the score for the dimension is **NA**.

10.2 Monitoring of subnational governments

Performance level and evidence for scoring: As per Section 26(4) of the PFP Act and Section 4(1) of the FPFA Act, local government are required to prepare and submit CFS, including grants received from the federal government and provincial governments, to the PFCO and the DTCO. The PFP Act does not specify submission timelines. The Provincial Government monitors local levels through access to the SuTRA.

Madhesh Province has 136 local levels.[81] The ten largest local levels in terms of expenditure in 2023/24 are listed below.

Table 2.33: 2023/24 financial statements of sampled local levels

Local levels	Expenditure (NPR Millions)	Share of all local levels (%)	Date of submission to the PFCO	After FY-end (16 July 2024) to PFCO	Date of audit by the OAG
Birgunj Metropolitan	2,916	3.26	21 Aug. 2024	35 days	2 Feb. 2025
Lahan Municipality	1,752	1.96	19 Nov. 2024	123 days	8 Feb. 2024
Bardibass Municipality	1,595	1.78	31 Jul. 2024	15 days	21 Dec. 2024
Rajbiraj Municipality	1,382	1.55	25 Aug. 2024	39 days	20 Dec. 2024
Kalaiya Sub-Metropolitan	1,161	1.30	28 Jul. 2024	12 days	19 Nov. 2024
Chandrapur Municipality	1,036	1.16	3 Aug. 2024	17 days	17 Nov. 2024
Siraha Municipality	893	1.00	19 Nov. 2024	123 days	23 Feb. 2024
Malangwa Municipality	802	0.90	24 Aug. 2024	38 days	27 Sept. 2024
Jitpur-Simara Sub -Metropolitan	724	0.81	28 Aug. 2024	42 days	4 Feb. 2025

[81] One metropolitan city, three sub-metropolitan cities, 73 municipalities, and 59 rural municipalities.

Local levels	Expenditure (NPR Millions)	Share of all local levels (%)	Date of submission to the PFCO	After FY-end (16 July 2024) to PFCO	Date of audit by the OAG
Janakpurdham Sub -Metropolitan	696	0.78	13 Aug. 2023	27 days	23 Feb. 2025
Average time for 10 sampled local levels				*47 days*	
Total expenditure of 136 local levels	**89,365**	**14.37**			

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

Source: Local government CFS for 2023/24 and preliminary OAG audit reports for 2023/24.

The legal timeline for local levels to submit their annual financial statements to the PFCO and DTCO is mid-October (three months after fiscal year-end). As the information in the table shows, the average time for the ten sampled local levels to submit their 2023/24 financial statements was 47 days (1.6 months). Only two local levels (Lahan Municipality and Siraha Municipality) did not submit their 2023/24 financial statements within the specified time period.

There is no evidence that financial reports were assessed by the Provincial Government or that financial reports were published (as otherwise required by Section 46 of the PFP Act).

The OAG conducts annual audits of the provincial governments and local levels. The OAG's 7th Annual Report for Madhesh Province (covering 2023/24) was submitted to the Province Chief and published in May 2025, which is eleven months after the end of the fiscal year.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

10.3 Contingent liabilities and other fiscal risks

Performance level and evidence for scoring: The PFP Act's Section 11 requires that accounts be maintained to clearly disclose the Provincial Government financial liabilities under prevailing laws, expenditures arising from agreement or decision of the GoN, and commitments by local levels related to tax or revenue exemptions.

The Provincial Government does not have clear legal provision of its own for recording and reporting on contingent liabilities. Rather it relies on federal law.

The Provincial Government does not have liabilities in the form of subsidies, guarantees, financing under public-private partnerships (PPPs), or in relation to court cases, investment disputes or arbitration. However, the Finance Minister in the 2023/24 Budget Speech announced insurance coverage for an agriculture and livestock program, accident insurance for civil servants, a disaster risk insurance for citizens, and a 'Daughter' insurance program.[82] Also, gratuity, pension and other liabilities were provisioned for in the 2023/24 budget, although none were reported in the CFS.

The CFS 2023/24 includes partial information on contingent liabilities under 'Note 20' (p. 33), which is not complete as data for liabilities for insurance programs are not included. The CFS 2023/24 does not include contingent liabilities related to EBUs.

Hence, the Provincial Government does not identify the explicit contingent liabilities and other fiscal risks in a report.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

PI-11. Public investment management

What does the indicator measure? It assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. Coverage is budgetary and of the SNG and EBUs for the last completed fiscal year. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The MTEF for 2023/24-2025/26, provincial Project Bank Guidelines, PPPC's Project Bank, provincial acts related to investment projects, 2023/24 budget (Red Book), and reports of the PPPC and the MoF were analyzed.

[82] https://mof.madhesh.gov.np/np/news_notice_detail/207.

Table 2.34: Summary of scores for PI-11 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-11. Public investment management		**D**
11.1 Economic analysis of investment proposals	The Provincial Government does not have economic analysis guidelines, and there is no evidence that economic analyses were carried out for the major investment projects included in the Project Bank.	D
11.2 Investment project selection	There are no standard criteria for prioritization and selection of major investment projects, and the budget for 2023/24 does not indicate that financial resources were allocated for major investment projects.	D
11.3 Investment project costing	Both the MTEF for 2023/24-2025/26 and the budget for 2023/24 lack projections of total capital costs of major investment projects together with capital costs for the forthcoming budget year and recurrent costs for the next three years.	D
11.4 Investment project monitoring	There is no evidence that cost and physical progress of major investment projects has been monitored during implementation by budgetary units.	D

Description of the sub-national PFM system for the assessed PI: Based on the Province Policy Commission Formulation and Operation Act (2018), the PPPC was established as an entity responsible for the plan and program, evaluating and monitoring sustainable projects. The Act's Section 10 requires policies and programs prepared by the PPPC to be submitted to the Cabinet via the provincial MoF, and to the Provincial Assembly after approval by the Cabinet. Section 11 requires ministry-wise policy and programs supported by the federal government and foreign assistance to be submitted to the Cabinet for approval in recommendation of the PPPC via the provincial MoF.

Section 5 of the PFP Act outlines the process required for preparation of the MTEF, including alignment with the Provincial Government's Periodic Development Plan. Section 5(2) requires prioritizing proposed programs/projects with activity-wise details, per unit cost, and estimated implementation timelines with expected outcomes.

The PPPC's Province Planning and Program Formulation Directives provide guidance on the formulation of the Periodic Development Plan, MTEF, annual plans and programs.

The PPPC in 2022/23 developed a Project Bank with 58 projects of which 30 projects are categorized as PPPs and 28 are categorized as public investment projects.[83] The Project Bank

[83] https://pppc.madhesh.gov.np/contentdetails/41.

includes preliminary concept notes as well as technical and financial analyses of a few projects and lists the implementation modalities and tentative locations of the proposed projects. There are also feasibility study reports in three separate volumes. However, none of the 58 projects have so far been initiated, and no financial resources have so far been allocated by the Provincial Government in the MTEF or any annual budgets.[84] The ten projects in the Project Bank with the highest costs are listed below.

Table 2.35: List of major investment projects

SN	Project	Institution in charge	Total investment cost of project (NPR Millions)	As % of the total cost of all major projects
1	Madhesh Shahid Marg	Federal DoR in coordination with provincial MoPID	10,750	38.80%
2	5 km of Blacktopped Roads in Each of the 64 Election Constituents	Federal DoR in coordination with provincial MoPID	8,000	28.90%
3	Establishment of Trauma Center in Pathalaiya	Provincial MoSD	4,000	14.40%
4	Beti Padhau Beti Bachau	Chief Minister's Office	1,000	3.60%
5	Upgradation and Strengthening of the Existing District Hospitals	Provincial MoSD	1,000	3.60%
6	Provincial Vocational Training Institute	Provincial MoSD	1,000	3.60%
7	Agriculture University at Rajbiraj and Constituent Campus in Province 2	Provincial MoSW in support of federal MoE and UGC	750	2.70%
8	Science and Technology University in Birgunj	Provincial MoSD	500	1.80%
9	Establishment of Provincial Tropical and Infectious Disease Hospital	GoN and provincial MoSD	500	1.80%
10	Upgradation and Maintenance of the Provincial Irrigation System	Provincial WRID under MoEIWS	200	0.70%
Total / Coverage			**27,700**	**100.0%**

DoR = Department of Roads, GoN = Government of Nepal, MoE = Ministry of Education, MoEIWS = Ministry of Energy, Irrigation and Water Supply, MoPID = Ministry of Physical Infrastructure Development, MoSD = Ministry of Social Development, MoSW = Ministry of Social Welfare, UCG = University Grant Commission, WRID = Water Resources and Irrigation Division.

Source: PPPC's Project Bank.

[84] The PEFA framework defines 'major investment projects' as projects that meet the following criteria: (i) The total investment cost of the project amounts to 1% or more of total annual budget expenditure; and/or (ii) The project is among the largest 10 projects (by total investment cost) of the SNG.

The planned major investment cost projects include road projects to be implemented with financial support of the GoN, although budgets are yet to be allocated by the GoN. The Provincial Government is yet to develop detailed project plans, including economic analyses, for other projects involving hospitals, universities and training centers.

While the Provincial Government is implementing several 'regular' programs/projects, prioritized as Priority 1 or Priority 2 (as per the GoN's categorizations) and with budgets allocated in the PLMBIS,[85] these programs/projects are not considered major investment projects, and they are not included in the Project Bank.

Recent or ongoing reform activities: The PPPC approved the Project Bank Operations Guidelines (2024) in March 2025 and made it mandatory to record projects mentioned in the Project Bank in the PLMBIS.

11.1 Economic analysis of investment proposals

Performance level and evidence for scoring: The Provincial Government's first Periodic Development Plan (2019/20-2023/24) does not clearly specify any so-called 'pride projects' or 'game changer projects'. However, it recognized a few long-term projects – such as the Integrated Urban Development Plan, Sunkoshi Marin Diversion and Sunkoshi Kamala Diversion, Drinking Water and Cleanness Management, and Data Storage Management. Preliminary feasibility studies were carried out for PPPs listed in the Project Bank,[86] but they remain to be implemented.

[85] Regular programs/projects with budget allocations for 2023/24 include: Budget Code 31156 – Construction of Water Supply structures (NPR 611 million) under the Ministry of Energy, Irrigation and Water Supply (MoEIWS); Budget Code 31391123 – Terai-Madhesh Drinking Water Program (NPR 256.4 million) under the Water Resources and Irrigation Division; and, Budget Code 33791129 – Feasible Province Roads (NPR 146 million) under the MoPID.

[86] Vol. I Infrastructure: 6 PPPs, Vol. II Agriculture: 5 PPPs, and Vol. III Tourism, Industry and Education: 5 PPP, However, no study reports were available.

Table 2.36: Economic analysis of investment proposals (2023/24)

SN	Project	As a % of the total cost of all major projects	Economic analysis conducted (Y/N)	Consistent with national guidelines (Y/N)	Published (Y/N)	Sponsoring entity (specify)	Reviewing entity (specify)
1	Madhesh Shahid Marg	38.81	No	No	No	No	No
2	5 km of Blacktopped Roads in Each of the 64 Election Constituents	28.88	No	No	No	No	No
3	Establishment of Trauma Center in Pathalaiya	14.41	No	No	No	No	No
4	Beti Padhau Beti Bachau	3.61	No	No	No	No	No
5	Upgradation and Strengthening of the Existing District Hospitals	3.61	No	No	No	No	No
6	Provincial Vocational Training Institute	3.61	No	No	No	No	No
7	Agriculture University at Rajbiraj and Constituent Campus in Province 2	2.71	No	No	No	No	No
8	Science and Technology University in Birgunj	1.81	No	No	No	No	No
9	Establishment of Provincial Tropical and Infectious Disease Hospital	1.81	No	No	No	No	No
10	Upgradation and Maintenance of the Provincial Irrigation System	0.72	No	No	No	No	No

Sources: PPPC's Project Bank; MTEF 2023/24-2024/25, and 2023/24 Budget.

The OAG in the 7th Annual Report for Madhesh Province (covering 2023/24) reported that the budget allocated for the 'Madhesh Shahid Marg' project was transferred to other projects, hence the project could not be implemented.[87]

None of the ten projects included in the above table have been implemented, or were under implementation during 2023/24, and no economic analysis of any project has been carried out.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

11.2 Investment project selection

Performance level and evidence for scoring: The Provincial Government does not have standard criteria for prioritizing and selecting major investment projects from the Project Bank. Also, no review was carried out before inclusion of projects in the budget thus, the Provincial Government's budget for 2023/24 does not indicate that financial resources have been allocated for any of the ten major investment proposals.

The Provincial Government is applying the FPFA Act, where Section 17 specifies the need to undertake project classification and use a Project Bank. Section 9(2) specifies the need to submit budget proposals for new projects on the basis of feasibility studies as well as technical and financial justifications for incurring expenditures in coming fiscal years. Section 23 makes the respective ministers and secretaries responsible for monthly and quarterly monitoring and evaluation of the implementation of projects under their ministry.

Based on the requirements in the FPFA Act, the Provincial Government has applied the general criteria to categorize projects in the MTEF 2023/24-2025/26 as follows: Sector 1 (Economic), Sector 2 (Agriculture, Cooperative and Land Management), Sector 3 (Social), Sector 4 (Infrastructure) and Sector 5 (Governance and others). There are also sub-sectors within the main sectors. The projects are thereafter classified as Priority 1 or Priority 2 based on six general criteria and two sector-specific criteria, with the overall weightage of 70% and 30%, respectively.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

11.3 Investment project costing

Performance level and evidence for scoring: The provincial MTEF for 2023/24-2025/26 does not include total capital costs of large projects as well as annual breakdown of capital and recurrent costs for regularly implemented under the annual budget. The MTEF also lacks the

[87] OAG. 2025. Seventh Annual Report of the Auditor General, 2082, Madhesh Province. Kathmandu, p. 62.

need to establish the link between periodic plan and annual budget without projection of such implemented projects separately. The projects included in the project bank are not considered as pride projects thus no budgets have been allocated for their implementation. Although overall project cost for projects included in project bank are estimated, the basis of estimation with contribution from provincial government, federal government and private sector under PPP model have not been defined including annual cost over the years and recurrent cost for the operation and maintenance of the project.

Both the MTEF for 2023/24-2025/26 and the budget for 2023/24 lack projections of total capital costs of major investment projects together with capital costs for the forthcoming budget year and recurrent cost for the next three years.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

11.4 Investment project monitoring

Performance level and evidence for scoring: The FPFA Act's Section 23 makes the respective minister and secretary responsible for monthly and quarterly monitoring and evaluation of the implementation of projects under their ministry. The PFP Act's Section 10(3) mandates the presentation of physical and financial progress of current fiscal year along with previous year's reports during budget proposal discussion.

The Province Monitoring and Evaluation Directives (2019) aim to ensure effective monitoring and evaluation of programs/projects being implemented by line ministries. On this basis, the high-level Provincial Development Problem Solving Committee (PDPSC), chaired by the Chief Minister, is formed to oversee monitoring and evaluation. The Ministry-level Development Problem Action Committee (MDPAC) and the Provincial Secretary-level Monitoring and Evaluation Committee (PSMEC) have also been formed to focus on resolving issues identified, if any, during monitoring and evaluation. Each ministry has a dedicated unit to monitor and evaluate budget implementation.

Documentary evidence does not show that information on implementation of major investment projects is prepared, annually or otherwise, hence no monitoring of major investment projects has been initiated as regards financial and physical progress.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

PI-12. Public asset management

What does the indicator measure? It assesses the management and monitoring of government assets and the transparency of asset disposal. For the last completed fiscal year, coverage is budgetary units of SNG. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: Legal and regulatory documents as well as data maintained in the IPFMS and the Public Asset Management System (PAMS), information available on the websites of the MoF and the PFCO, including the CFS, and the OAG's 7th Annual Report for Madhesh Province for 2023/24 were analyzed.

Table 2.37: Summary of scores for PI-12 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-12. Public asset management		**D+**
12.1 Financial asset monitoring	The Provincial Government maintains records of financial assets (mainly cash and receivables) in line with the International Public Sector Accounting Standards (IPSAS)-based Nepal Public Sector Accounting Standards (NPSAS). Financial assets are recognized at their acquisition (historical) cost. Information on performance changes is published annually.	B
12.2 Non-financial asset monitoring	The Provincial Government maintains records of non-financial assets using PAMS, which includes information regarding usage, but not the age of assets. Records of infrastructure and subsoil assets are not maintained.	D
12.3 Transparency of asset disposal	Procedures and rules for transfer and disposal of non-financial assets are established. Information about transfer and disposal of assets is not disclosed in the CFS or in budget documents.	D

Detailed description of the sub-national PFM system for the assessed PI: Legal acts covering asset management include the PFP Act as well as the FPFA Act and the FPFA Regulations.

Section 22 of the PFP Act requires the Responsible Account Officer (Secretary) to ensure that records of revenue, expenditure, investments, deposits and other transactions (assets and liabilities) are maintained, and that reports are submitted to the PFCO. On this basis, the PFCO prepares the annual CFS and submits it to the provincial MoF, FCGO and OAG. Section 24(1) requires records for cash and inventories to be maintained as prescribed (cash must be recorded within the same day or the next day, while inventories must be recorded within seven days of receipt). Furthermore, Chapter 9 outlines the responsibility of safeguarding assets including cash, bank balances, deposits, inventories and fixed assets, and states their usage for specified purposes only.

The FPFA Regulations (Rules 94-102) detail requirements for recording, safeguarding, reporting and usage of financial as well as non-financial assets. Fixed assets and inventories must be recorded in the PAMS.[88] Records of all assets and inventories should be updated annually with the opening and closing balances, including assets purchased, received, transferred, auctioned, and disposed of during the fiscal year, and the asset value must be provided as of fiscal year-end. At least once a year, assets and inventory must be physically verified by a committee and a report submitted in a prescribed format.

The CoA for assets and liabilities covers all three government tiers and serves as the basis for asset accounting and reporting.

Recent or ongoing reform activities: The FCGO introduced PAMS Version 2 in August 2024, which is now used by all governments to record categories of non-financial assets (including previously procured items). All new purchases of non-financial assets must now be recorded in PAMS Version 2 before final payments can be made.

12.1 Financial asset monitoring

Performance level and evidence for scoring: As required by the PFP Act, the CFS for 2023/24 was prepared in line with the NPSAS, which is based on the IPSAS, and as per the formats approved by the OAG. Financial assets are recognized at their acquisition (historical) cost.

The CFS includes financial assets such as bank balances (cash) and receivable (advances and recoverable irregularities). The Provincial Government has not made any investment. The financial assets reported in the CFS for 2023/24 are mainly cash/bank balances and receivables, as shown in the table below.

[88] PAMS is a web-based inventory management system maintained by the FCGO.

Table 2.38: Financial assets, 2023/24

Asset Type	Records of holdings of financial assets maintained (Y/N)	Recognized at acquisition cost (Y/N)	Value as of end-2023/24 (NPR Millions)	Recognized at fair value (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually (Y/N)
Cash / treasury	Yes	Yes	16,352.90	Yes	Yes	Yes
Share investment	NA	NA	-	NA	NA	NA
Receivables (recoverable irregularities)	Yes	Yes	96.60	Yes	Yes	Yes

NA = not applicable.
Source: PFCO's CFS for 2023/24.

Changes in the cash/treasury position as well as movements in receivables, i.e. performance changes, are reported in the CFS.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

12.2 Non-financial asset monitoring

Performance level and evidence for scoring: The Provincial Government maintains records and reports on all non-financial assets through the PAMS. It includes detailed information on land, building, equipment, vehicles and furniture, and includes records of inventories (goods and supplies) that are required in performing day-to-day activities.

Spending units are required to prepare a report covering all financial and non-financial data, which is submitted to concerned ministries, the PFCO and the OAG. The FCGO verifies the reports based on the information recorded in PAMS, and on that basis prepares and publishes an annual consolidated statement of assets.

Although the use of the PAMS is mandatory, the Provincial Government's spending units are yet to fully update all records, hence the PAMS cannot yet be used to produce complete asset reports with all details of usage and age for non-financial assets. Also, there are no complete records of assets transferred previously from the federal government, and records of infrastructure (such as roads and bridges) or subsoil assets are not maintained.

The OAG's 7th Annual Report for Madhesh Province for 2023/24 includes observations on the incompleteness of public assets records for most ministries, including the MoF.[89] The OAG recommended a complete update of records in the PAMS.

Table 2.39: Non-financial asset monitoring, 2023/24

Categories	Sub-categories (as relevant)	Records maintained in registers	Information on usage and age included (Full / Partial / No)	Information published (Y/N)	Comments
Fixed assets	Buildings and structures	Yes	Partial	Yes	Updating of records ongoing
	Machinery and equipment	Yes	Partial*	Yes	
	Other fixed assets	Yes	Partial*	Yes	
Inventories	Office equipment	Yes	Partial*	Yes	
Non-produced assets	Land	No	NA	NA	NA
	Roads / bridges	No	NA	NA	NA
	Sub-soil assets	No	NA	NA	NA

NA = not applicable.

*: Information on age is not maintained.

Sources: PFCO's CFS for 2023/24, PAMS.

The Provincial Government's non-financial asset records maintained in the PAMS are not complete, including as regards their age. Also, infrastructure assets transferred from the federal government are not recorded in the PAMS.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

12.3 Transparency of asset disposal

Performance level and evidence for scoring: Asset disposal is guided by the FPFA Regulations (Rule 99 (4)), which covers handover, transfer, maintenance and auction. Rules 106-109 cover auctioning of assets, valuation of assets, auction procedures. The FCGO has issued Procedures for Government Assets and Inventory Goods Auction Sale (2022) to ensure transparency and uniformity for auctioning assets. Also, Chapter 9 of the PFP Act covers recording, safeguarding and disposing of assets. However, it has not developed its own directives or procedures regarding the auction and disposal of assets.

[89] OAG. 2025. Seventh Annual Report of the Auditor General, 2082, Madhesh Province. Kathmandu, p. 20 (OCMCM), p. 25 (Ministry of Home Affairs, Communications and Law (MoHACL)) and p. 30 (MoF).

According to the FPFA Act, an annual report on the handover, transfer, auction and disposal of non-financial assets should be included in the CFS. However, the CFS for 2023/24 does not disclose information about transfer or disposal of assets. Budget documents similarly do not include such information. There is no legal or regulatory requirement for the annual report of hand-over, transfer, auction and disposal of non-financial assets to be submitted to the Provincial Assembly.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

PI-13. Debt management

What does the indicator measure? It assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. Coverage is budgetary units of the SNG and EBUs for all three dimensions – at time of assessment for PI-13.1, for the last completed fiscal year for PI-13.2, and at time of assessment with reference to the last three completed fiscal years for PI-13.3. The indicator uses the M2 (average) method for aggregating scores.

Methodological notes: Applicable laws, regulations and procedures have been reviewed along with budget documents and the CFS.

Table 2.40: Summary of scores for PI-13 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-13. Debt management		**NA**
13.1 Recording and reporting of debt and guarantees	The Provincial Government does not have any loans nor has it issued any guarantees.	NA
13.2 Approval of debt and guarantees	The Constitution and federal laws permit provincial governments to borrow and issue debt. The Provincial Government's 2023/24 budget, which was approved by the Provincial Assembly, included borrowing, but it was not availed of.	NA
13.3 Debt management strategy	The Provincial Government has not prepared a Medium-Term Debt Management Strategy (MTDS).	NA

Detailed description of the sub-national PFM system for the assessed PI: A provincial government may propose a deficit budget to the provincial assembly as per its requirements, based on which the provincial government shall define the source(s) to fulfill such a deficit budget (Section 23 of the IGFA Act). As per the Constitution's Article 203(2), provincial governments can borrow and provide guarantees in accordance with federal laws.

The IGFA Act's Section 12(3) allows the GoN to obtain foreign assistance in terms of grants and loans, including for implementation of provincial- and local-level projects. Section 12(4) requires provincial governments to obtain consent from the GoN in availing or implementing projects with foreign assistance. Sections 14 and 15 authorize provincial governments to obtain internal (domestic) loans, within a ceiling recommended by the NNRFC, by issuing debenture bonds or taking loans from the GoN as and when fulfilling specific requirements.

The Public Debt Management Act provides guidance for managing public debt covering all three tiers of government. The Public Debt Management Regulations (2023) provides procedures for public debt management for all levels of government.

The federal PDMO is responsible for managing public debt as well as accounting, recording and reporting debt-related transactions using the Debt Operation and Management System (DOMS). The PDMO has taken over the role of the Nepal Rastra Bank (NRB), which previously acted as the GoN's fiscal agent for managing internal debt (according to the NRB Act and the IGFA Act).

EBUs in Madhesh Province do not have any debt nor have they issued guarantees.

Recent or ongoing reform activities: None observed.

13.1 Recording and reporting of debt and guarantees

Performance level and evidence for scoring: The Provincial Assembly approved a proposed deficit budget of NPR 2,000 million for 2023/24, which was to be raised through domestic borrowing. However, the Provincial Government did not raise any loan during 2023/24 (or previously) which, among other reasons, was due to the low budget execution rate (55.6% in 2023/24 as assessed under PI-1). Hence, at the time of assessment the Provincial Government does not have any debt. It has also not issued any guarantees.

Based on the analysis and supporting evidence, the score for the dimension is **NA**.

13.2 Approval of debt and guarantees

Performance level and evidence for scoring: The authority to borrow and issue guarantees rests with the Provincial Government and must be approved by the federal MoF for all tiers of government, including EBUs. As noted above, while the 2023/24 included debt financing, this was not availed of by the Provincial Government, including EBUs, and it also has not issued any guarantees.

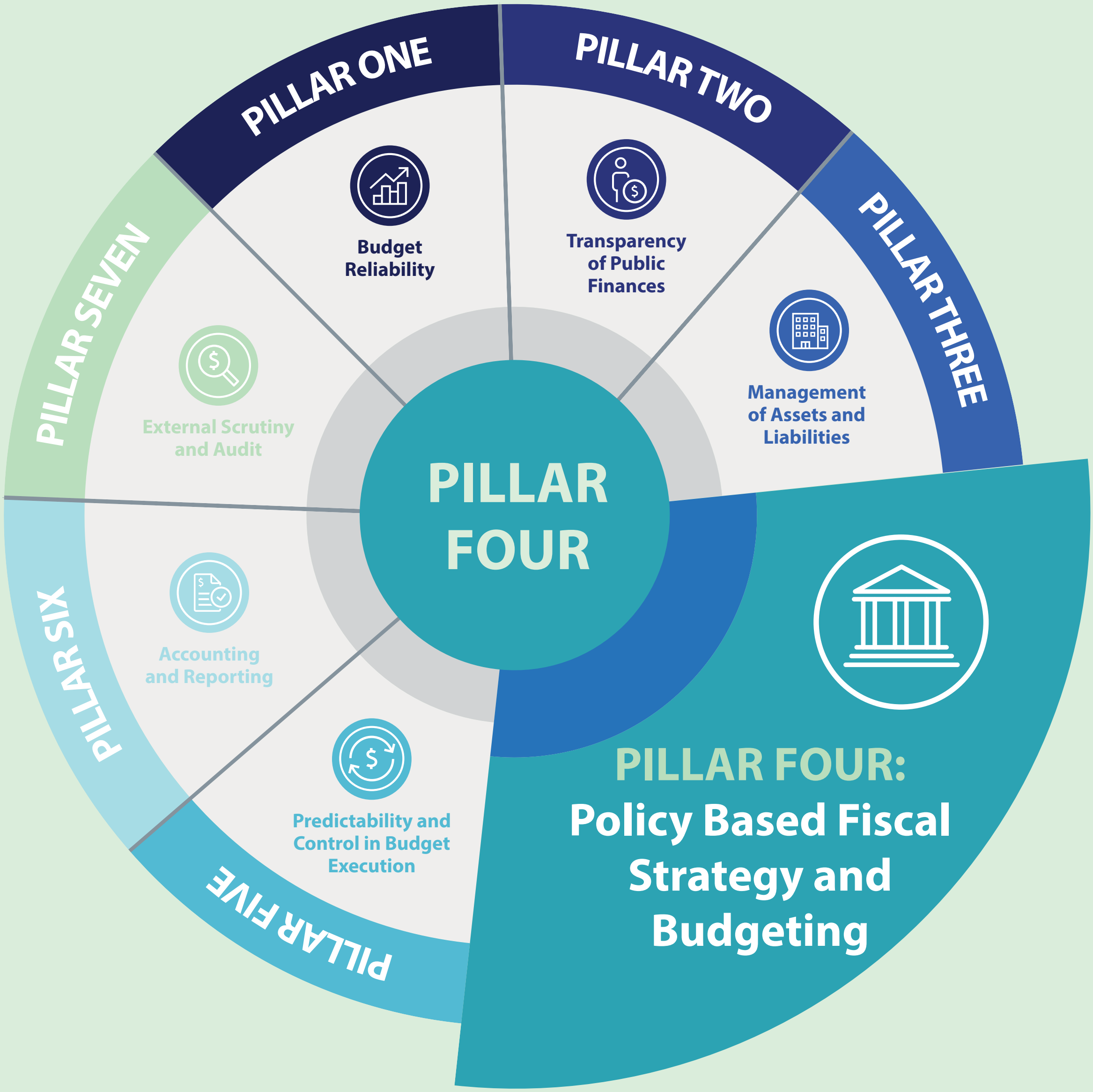
The Public Debt Management Act provides the legal basis for the federal PDMO to carry out debt management functions for all three tiers of the government, including recording and reporting debts and guarantees. The Act makes the PDMO the sole, specialized agency responsible for carrying out front-, middle-, and back-office functions.

Based on the analysis and supporting evidence, the score for the dimension is **NA**.

13.3 Debt management strategy

Performance level and evidence for scoring: As per the Public Debt Management Act, the entity responsible for managing public debt for all three tiers of government is the federal PDMO. It has developed and is presently implementing a Medium-Term Debt Management Strategy (MTDS) for 2023/24-2025/26, which covers provincial governments and local levels (to the extent that they hold internal loans). The Provincial Government has not prepared a debt management strategy.

Based on the analysis and supporting evidence, the score for the dimension is **NA**.



PILLAR FOUR:
Policy Based Fiscal Strategy and Budgeting

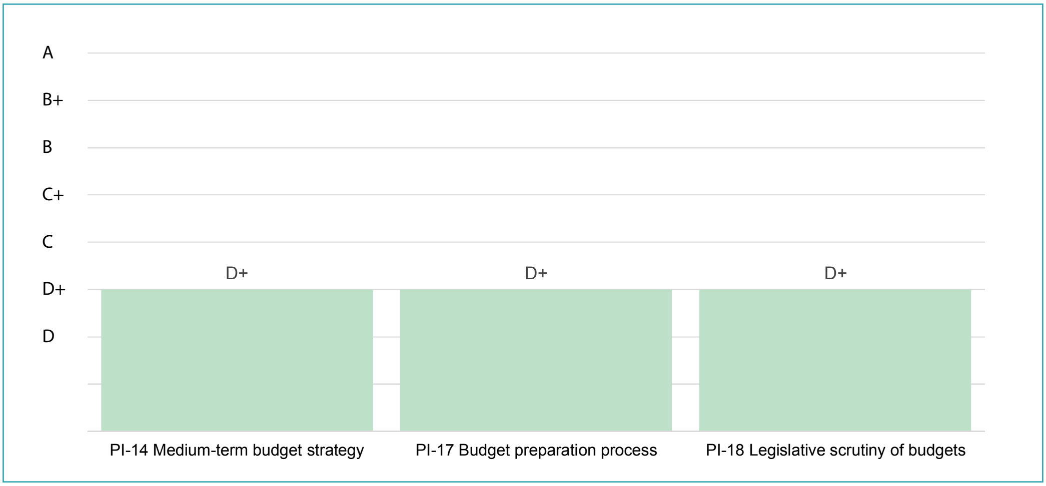
PILLAR IV: Policy Based Fiscal Strategy and Budgeting

What Pillar IV measures: It measures if the budget is prepared with due regard to government policies, information on fiscal transfers, strategic plans, and adequate economic information and fiscal projections. It also examines orderliness in the budget preparation process and the legislative scrutiny of the budget proposal.

Overall performance: The performance of Pillar IV is below basic. There are gaps in the medium-term budgeting as budget documentation only includes estimates for revenue and expenditure for the budget year, the fiscal impact of proposed changes in revenue and expenditure policies are not estimated, and changes in MTEF estimates between years are not explained (PI-14). The annual budget preparation process is based on Budget Formulation Guidelines and a Budget Calendar, but stipulated timelines are not adhered to, and budget ceilings are approved by the Finance Minister, but not by the Cabinet (PI-17). The Provincial Assembly approves the annual budgets before the start of each fiscal year and the rules for in-year budget adjustments by the Provincial Government are adhered to, but the scope of the legislative scrutiny of budgets does not cover revenue estimates (PI-18).

The performance of PIs 14, 17 and 18 are shown below.

Figure 2.5: Indicator scores under Pillar IV



PI-14. Medium-term budget strategy

What does the indicator measure? It measures the ability of the SNG to prepare budget estimates on the basis of a fiscal strategy, the impact of economic context and policy changes. It assesses the ability of the SNG to develop a medium-term budget that is aligned with the strategic plans for service delivery. It also examines the extent to which annual budgets are derived from medium-term estimates. For the last budget submitted to the subnational council, coverage is the budgetary units of the SNG. It uses the M2 (average) method for aggregating dimension scores.

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

Table 2.41: Summary of scores for PI-14 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-14. Medium-term budget strategy		**D+**
PI-14.1 Underlying forecasts for medium-term budget	The 2024/25 budget documentation includes estimates for revenue and expenditure based on information on transfers, revenue and expenditure assignments.	C
PI-14.2 Fiscal impact of policy proposals	The Provincial Government does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policies at the level of individual policy initiatives.	D
PI-14.3 Medium-term expenditure and revenue estimates	The MTEF presents estimates of expenditure (by administrative classification) and revenue (by type) for the budget year and the next two fiscal years.	B
PI-14.4 Consistency of budget with previous year's estimates	There are no comparisons of the estimates with the previous year's MTEF, and no explanations are provided regarding changes or deviations.	D

Description of the sub-national PFM system for the assessed PI: Section 5 of the PFP Act mandates the MoF to prepare the MTEF, including revenue and expenditure forecasts for the next three years, before formulating the annual budget. When preparing the MTEF, the Periodic Development Plan shall be used as a guideline. Section 13(2b) requires that the MTEF be submitted to the Provincial Assembly along with annual budget documents every year on 15/16 June.[90] The IGFA Act similarly requires all three tiers of governments to prepare MTEFs for the next three years.

[90] In the Nepali calendar, the first day of the month of Ashad corresponds to 15 June or 16 June in the Gregorian calendar.

The Provincial Government's second Periodic Development Plan 2024/25-2028/29 includes a fiscal strategy for the period, whereas the MTEF provides the fiscal strategy for three years. The MTEF is prepared annually by the PPPC in coordination with the MoF as part of the annual budget formulation process. Section 10(2) of the PFP Act requires line ministries to prepare a ministry-specific MTEF, which shall be aligned with the Periodic Development Plan as well as sectoral policies/strategies/plans,[91] and submit them to the PPPC and the MoF. The Resource Estimate Committee prepares revenue estimates for the next three fiscal years and, on the basis of the MTEF, determines aggregate and ministry-wise budget ceilings (Section 6).

The PPPC's Province Planning and Program Formulation Directives, which outline the MTEF preparation process, including submission to the Provincial Assembly.

The latest MTEF was prepared in 2024 and covers the budget year (2024/25) and the next two fiscal years (2025/26 and 2026/27). The institutional arrangements for preparing the MTEF include an MTEF Formulation Steering Committee, Provincial MTEF Technical Committee, and agency-wise MTEF Working Groups. Strategic pillar analyses are conducted on the basis of sectors (economic; agriculture, cooperative and land management, social, infrastructure, and governmental inter-related sectors) as identified in the second Periodic Development Plan and as guided by the PPPC Directives. Revenue forecasting is undertaken for the next three years by the Resource Estimate Committee.

Recent or ongoing reform activities: The Provincial Government has initiated a process to strengthen the alignment of planning and budgeting processes based on more realistic revenue forecasting and performance-based resource allocation.

14.1 Underlying forecasts for medium-term budget

Performance level and evidence for scoring: The MTEF serves as a bridging strategy between the Periodic Development Plan and the annual budget, which includes a macroeconomic framework, budget framework, and results framework. It includes quantitative indicators, goals and targets. The revenue projections by source and type are included for the budget year and the following two fiscal years. The expenditure projections by priorities, sustainable development goals (SDGs), gender, climate change, ministries, and fiscal transfers to local levels with a breakdown of recurrent, capital and borrowing for the budget year and following two fiscal years. However, it does not include projections based on economic and functional classification and does not provide information about underlying assumptions.

[91] The only sector policy/strategy/plan that appears presently to be in place is the 2021 Provincial Health Sector Gender Equality and Social Inclusion (GESI) Strategy.

Key macroeconomic forecasts (targets) for GDP and per capita income are presented for the budget year and the following two fiscal years. GDP at consumer price, inflation and interest rates are not included. The MTEF is presented as a rolling budget with three-year projections.

Table 2.42: Key macroeconomic forecasts (targets) for 2024/25-2026/27

Macro Indicators	2024/25	2025/26	2026/27
Annual economic growth at nominal prices (%)	4.0	4.5	5.8
GDP at nominal prices (NPR, Million)	NA	NA	NA
Inflation (%)	NA	NA	NA
Per capita income (USD)	950	1,000	1,100
Madhesh Province contribution to the national GDP (%)	14.0	14.5	15.0
Interest rate (%)	NA	NA	NA

GDP = gross domestic product, NA = not applicable.
Source: PPPC's MTEF 2024/25-2026/27, p. 17.

The MTEF contains fiscal transfers, including grants and revenue sharing, revenues and expenditures for the budget year and two subsequent fiscal years. It is prepared based on the revenue and expenditure assignments of the Provincial Government and the estimated fiscal transfers from the GoN, but does not include information on key demographic indicators. Projects in the MTEF are categorized under broad headings and do not include projects based on economic and functional classifications, and underlying assumptions are also not disclosed in the MTEF.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

14.2 Fiscal impact of policy proposals

Performance level and evidence for scoring: The MTEF provides a breakdown of the fiscal impact of changes in expenditure policy by sector, expenditure types, priorities, and administrative units for the budget year and the next two fiscal years. The fiscal impact of expenditure policy initiatives is included only at an overall level and not for individual policy initiatives. Annex 2 of the Budget Speech 2024/25[92] includes revenue rates and their impact on the revenue budget, including adjustments in tax policies and tax administration reforms, which are disclosed at the overall level and for the budget year only. The Provincial Government does not assess, document and disclose the fiscal impact of changes in revenue and expenditure associated with individual policy initiatives.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

[92] https://mof.madhesh.gov.np/np/news_notice_detail/255.

14.3 Medium-term expenditure and revenue estimates

Performance level and evidence for scoring: The MTEF 2024/25-2026/27 includes expenditure projections by main programs, sectors, ministries, priorities, sustainable development goals (SDGs), gender, climate change, and fiscal transfers to local levels for the budget year and the next two fiscal years. It includes economic classifications (recurrent, capital and financing expenditures), but no functional and economic classifications. Revenues are projected by sources and by type for the budget year and the next two fiscal years. In addition, expenditure and revenue forecasts disaggregated by type for the budget year and the following two fiscal years are included in the MTEF.

Table 2.43: Medium-term expenditure and revenue estimates (2024/25)

Classification	Budget year (Yes/No)	Two following fiscal years (Yes/No)
	Expenditure	
Administrative	Yes	Yes
Economic	No	No
Program/Function	No	No
	Revenue	
Type	Yes	Yes
Source	Yes	Yes

Source: PPPC's MTEF 2024/25-2026/27, pp. 21-32, pp. 124-156, and Tables 4, 5, 6, 8, 12 and 13.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

14.4 Consistency of budget with previous year's estimates

Performance level and evidence for scoring: There are no explanations included in the budget documents regarding changes to expenditure estimates between the previous MTEF 2023/24-2025/26 and the current MTEF 2024/25-2026/27. Hence, there is also no reconciliation with medium term budget estimates or vis-à-vis the first year of new budget estimates. While the MTEF has been institutionalized to provide a medium-term perspective in subnational budgeting, its effectiveness in ensuring consistency with prior-year estimates is not practiced yet.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

PI-17. Budget preparation process

What does the indicator measure? It measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. Coverage is budgetary units of the SNG for the last budget submitted to the subnational council for PI-17.1 and 17.2, and the last three completed fiscal years for PI-17.3. The indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: Documents obtained from the MoF and the PPPC were analyzed and verified against the records of selected line ministries.[93] For formulation of detailed estimates, the budget guidelines contents were examined. A comparison was made between the budget calendar's initial dates and actual dates of completion for budget preparation activities.

Table 2.44: Summary of scores for PI-17 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-17. Budget preparation process		**D+**
17.1 Budget calendar	An annual Budget Calendar exists. The overall timeline stipulated in the Budget Calendar was adhered to, but the activity-wise timeline prescribed in the Budget Calendar was not followed. In practice the budgetary units had three weeks and four days to prepare their detailed estimates.	D
17.2 Guidance on budget preparation	Budget Formulation Guidelines covering ministry-wise recurrent and capital expenditures for the full fiscal year were issued. The estimates were reviewed and approved by the Finance Minister, but not by the Cabinet, after they were completed in every detail by budgetary units before they were sent to the Provincial Assembly.	D
17.3 Budget submission to the subnational council	The MoF submitted the annual budget proposal to the Provincial Assembly one month before the start of the fiscal year in the last three completed fiscal years.	C

Description of the sub-national PFM system for the assessed PI: Article 207 of the Constitution requires the Finance Minister to prepare and present the annual budget proposal to the Provincial Assembly. Sections 9 and 13 of the PFP Act provide for a pre-budget discussion

[93] Ministry of Health and Population (MoHP), PPPC and PFCO.

and also require Finance Minister to present the revenue and expenditure estimates (annual budget proposal) along with the Appropriation Bill and Finance Bill to the Provincial Assembly on 15/16 June every year.[94] For the purpose of formulating the budget and programs for the next fiscal year, Section 6 outlines the process, requirements and timeline for estimating the resources and expenditure ceiling, including the roles of the Resource Estimation Committee[95] and MTEF considerations. According to Section 7, the MoF develops Budget Formulation Guidelines as well as budget ceilings for the upcoming fiscal year within the ceiling determined by the Resource Estimation Committee, and circulate these to ministries, commissions, secretariats, and agencies by the second week of Falgun (i.e., end-February) of the current fiscal year.

In preparing their draft annual budgets, budgetary units must take into account revenues expected to be collected, foreign grants and loans, and other details necessary to substantiate the proposed budget (Section 7(2)).

After the number of ministries increased from seven to eleven in the 2022, the MoF and the PPPC were separately established. Currently, the MoF is responsible for determining the budget ceiling in coordination with the Resource Estimation Committee. The MoF also handles budget formulation and circulates the Budget Formulation Guidelines.

Recent or ongoing reform activities: None observed.

17.1 Budget calendar

Performance level and evidence for scoring: The MoF is required to provide the Budget Formulation Guidelines and framework, which include the budget ceiling with the formats to prioritize programs/projects to all line ministries (PFP Act, Section 7). The PPPC prepared the Province Planning and Program Formulation Directives, but these have not yet been followed by the MoF and line ministries. In practice, the budget formulation process and the circulation of budget ceilings have been handled mainly by the MoF. This is also supported by the PFP Act (Section 7), which assigns the responsibility of budget formulation and setting and circulating the budget ceiling to the MoF.

94 In the Nepali calendar, the first day of the month of Ashad corresponds to 15 June or 16 June in the Gregorian calendar.

95 The Committee is chaired by Vice Chair of the PPPC and further comprises a PPPC Member, MoF Secretary, PPPC Secretary or Administrative Head, NRB Province Office Chief, PFCO Chief, and the MoF's Planning and Budget Division Head (who is the Member Secretary for the Committee).

The table below provides the steps, timing and responsibility for the 2024/25 budget formulation process (i.e., the last budget submitted to the Provincial Assembly) as prescribed in the PFP Act and Budget Formulation Guidelines.

Table 2.45: Budget Calendar for 2024/25

S.N	Tasks	Responsibility	Timing	
			Planned Deadline / Due Date	Actual Submission Date
1	Preparing concept note for the budget based on the MTEF and conducting policy-level discussion and review with the MoF and the PPPC.	MoF/PPPC	Mid-March	NA
2	Preliminary projection of available resources for determination of the budget ceiling by the Resource Estimation Committee.	MoF/PPPC	Mid-March	20 May 2024
3	Determining the total volume of the budget ceiling by the Resource Estimation Committee.	MoF	25 February	20 May 2024
4	Sending circular with budget ceiling and Budget Formulation Guidelines to line ministries.	MoF	25 February	20 May 2024
5	Sending circular with budget ceiling and Budget Formulation Guidelines by line ministries to their budgetary units.	Line ministries	Up to 13 March	NA
6	Preparing and discussing the Economic Survey.	MoF	13 April 13 May	14 June 2024
7	Submitting ministry-wise progress report.	Line ministries	Up to 13 April	NA
8	Preparing ministry-wise annual program and budget through the PLMBIS.	Line ministries	26 April	Last week of May
9	Discussing budget, including current program, capital expenditure and financing proposed by line ministries through the PLMBIS.	MoF	3 May	1st week of June
10	Submitting policy and programs by line ministries to the OCMCM, and information to the PPPC and the MoF for preparation of next year's policy and program.	PPPC	12 May	Mid-May

S.N	Tasks	Responsibility	Timing	
			Planned Deadline / Due Date	Actual Submission Date
11	Sending letters by the MoF related to fiscal transfer and revenue distribution to all local levels.	MoF	13 May	NA
12	Presenting principle and priorities of the budget at the Provincial Assembly by the Finance Minister.	MoF	13 May	14 June 2024
13	Preparing the draft budget.	MoF	From 27 May	1st week of June
14	Province Policy and Program presentation by the Province Chief at the Provincial Assembly.	Province Chief	Within 10 June	11 June 2024
15	Budget Speech.	Finance Minister	15 June	15 June 2024
16	Endorsing and approving the budget by the Provincial Assembly.	Provincial Assembly	16 June to 15 July	14 July 2024
17	Guidelines for budget implementation.	MoF	16 July	17 July 2024

MoF = Ministry of Finance, MTEF = medium-term expenditure framework, NA = not applicable, OCMCM = Office of the Chief Minister and Council of Ministers, PLMBIS = Provincial Line Ministries Budget Information System, PPPC = Provincial Policy and Planning Commission.

Sources: Budget Calendar prepared by the MoF for 2024/25; Official letters and internal decision files of the MoF.

A clear Budget Calendar for 2024/25 was in place, which provided the line ministries with at least 15 weeks to complete their detailed estimates since they received budget ceiling (# 4). However, the Budget Calendar was not followed as the budget ceilings were officially authorized on 20 May 2024 along with the Budget Formulation Guidelines. This evidenced that line ministries only had three weeks and four days (from 20 May to 14 June 2024). Similarly, there is no evidence as to when the circular with the budget ceiling and Budget Formulation Guidelines by line ministries were sent to their budgetary units. Preparation of ministry-wise annual program and budget through the PLMBIS was delayed by a month and commenced only in the last week of May 2024, compared to the planned deadline of 26 April 2024. Presentation of policies, program, principle and priorities of the budget at the Provincial Assembly by the Finance Minister was done only on 14 June 2024, against the planned date of 13 May 2024, i.e. one month later than planned. Finally, the Finance Minister presented the budget on the due date as per the legislation, i.e. on 15 June 2024, thus the Budget Calendar was adhered to overall.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

17.2 Guidance on budget preparation

Performance level and evidence for scoring: The PFP Act, Section 6(5), requires the resource estimation and expenditure ceiling to be submitted to the Finance Minister. Section 7 requires the MoF to prepare the circular with the Budget Formulation Guidelines and budget ceilings, as determined by the Resource Estimation Committee, and provide these to the line ministries before the end of February. For the 2024/25 budget formulation process, the MoF prepared the Budget Formulation Guidelines and the budget ceilings, which provided guidance for budgetary units to develop their budget estimates.

The budget ceilings for 2024/25 were officially authorized on 20 May 2024. Subsequently, the budget ceilings – covering both the recurrent and capital expenditures – and Budget Formulation Guidelines were conveyed to the line ministers on the same day (Ref. No. 685).[96] The majority of the budgetary units provided their estimates in time, and all budgetary units submitted their estimates by 27 May 2024.

Table 2.46: Guidance on budget preparation (2024/25 budget)

Date of budget circular	Total budget expenditure covered (Yes/No)	Ceilings approved by the Cabinet or equivalent (Yes/No)	
		If Yes, date of ceilings approval by Cabinet or equivalent	If No, budget estimates reviewed and approved by Cabinet or equivalent after completion
20 May 2024	Yes	No	NA

Sources: MoF letter and Budget Formulation Guidelines sent to the line ministries.

The Budget Formulation Guidelines with ministry-wise ceilings were in line with the objectives of the sectoral policies. They contained the criteria for prioritizing various recurrent expenditure categories and the standards for requesting capital expenditures. However, the budget ceilings were not approved by the Cabinet, but rather only the Finance Minister, and were distributed to the line ministries for budget preparation.

The budget circular issued to the budgetary units, including ceilings for both recurrent and capital expenditures, covered for the full year of 2024/25. The budget estimates were reviewed and approved by the Finance Minister, but not by the Cabinet, after they have been completed in every detail by the budgetary units.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

[96] Letter circulated by the MoF to the PPPC, dated 20 May 2024 (Ref. No. 685).

17.3 Budget submission to the Provincial Assembly

Performance level and evidence for scoring of the dimension: The PFP Act's Section 13 prescribes 15/16 June[97] of each fiscal year as the date for when the Finance Minister is required to present the annual budget proposal to the Provincial Assembly. In the last three completed fiscal years, the Provincial Government submitted the annual budget proposal, including the Appropriation Bill, to the Provincial Assembly one month before the start of the fiscal year, as shown in the table below.

Table 2.47: Actual dates of budget submission for last three completed fiscal years

Fiscal Year	FY starting date	Date of budget submission	Days between FY start and budget submission
2021/22	16 July 2021	15 June 2021	31
2022/23	17 July 2022	15 June 2022	30
2023/24	17 July 2023	16 June 2023	31

Sources: Official records from the Provincial Assembly Secretariat.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

PI-18. Legislative scrutiny of budgets

What does the indicator measure? It assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the subnational council scrutinizes, debates, and approves the annual budget, including the extent to which the subnational council's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. Coverage is budgetary units of the SNG for the last completed fiscal year for PI-18.1, PI-18.2 and PI-18.4, and the last three completed fiscal years for PI-18.3. This indicator uses the M1 (weakest link) method for aggregating dimension scores.

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

[97] In the Nepali calendar, the first day of the month of Ashad corresponds to 15 June or 16 June in the Gregorian calendar.

Table 2.48: Summary of scores for PI-18 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-18. Legislative scrutiny of budgets		**D+**
18.1 Scope of budget scrutiny	The Provincial Assembly's review of the 2023/24 budget proposal covered mainly expenditure details.	D
18.2 Legislative procedures for budget scrutiny	The Provincial Assembly Regulations (2018) were in effect prior to the 2023/24 budget hearings and were generally adhered to, except that the Provincial Assembly did not review the revenue estimates.	D
18.3 Timing of budget approval	The Provincial Assembly approved the annual budget before the start of fiscal year in each of the last three fiscal years.	A
18.4 Rules for budget adjustments by the executive	There are clear rules in place for in-year budget adjustments by the Provincial Government, which are adhered to in most instances and with compliance verified by the OAG.	B

Description of the sub-national PFM system for the assessed PI: The Constitution's Article 207 requires the Finance Minister to present to the Provincial Assembly the annual estimates, including: (a) an estimate of revenues; (b) expenditure from the Provincial Consolidated Fund; and, (c) expenditures as per the Appropriation Act.

The annual estimate must be accompanied by a statement of the expenses allocated to each ministry in the previous fiscal year and particulars as to whether the objectives of the expenses were achieved. In line with Articles 194 and 195 of the Constitution, the Provincial Assembly has formulated the Provincial Assembly Regulations (2018)[98] to form committees, organize activities, and manage its Secretariat.

The procedures for scrutinizing the revenues and expenditures of the proposed annual budget are provided for in the Provincial Assembly Regulations' Chapters 16 and 17. Rule 146 provides for seven thematic committees, including the Finance and Planning Committee, which provide legislative oversight of the budget, policies and programs.

The PFP Act's Section 9(1) requires the Finance Minister to prepare a pre-budget statement and present it to the Provincial Assembly at least one month before the Appropriation Bill is presented to the Provincial Assembly. As required by Section 9(2), the Provincial Assembly

[98] https://oca.madhesh.gov.np/post/10_64d65aeaa2453.

holds discussions about the principles and priorities of the budget and provides appropriate suggestions and directives to the MoF along with the principles, objectives, priorities, and key policies of the budget and programs. However, such discussions do not cover tax proposals (Rule 140 relating to the Finance Bill).

According to Rule 35 of Provincial Assembly Regulations, the Province Chief addresses the principles and priorities of the Provincial Government every fiscal year in accordance with Article 184 of the Constitution, The discussion on the principles and priorities is held with political party representatives, as well as the Chief Minister (or a minister assigned by him/her), to provide response to the questions raised in the discussion (Rule 38).

Recent or ongoing reform activities: None observed.

18.1 Scope of budget scrutiny

Performance level and evidence for scoring: As per PFP Act, the Finance Minister prepares and submits a pre-budget to the Provincial Assembly at least one month prior to the submission of the Appropriation Bill each fiscal year. The pre-budget must include the principles, objectives, priorities, and key policies of the budget and programs to be incorporated in the Appropriation Bill. Based on this provision, the MoF on 2 June 2023 presented the priorities and principles of the 2023/24 budget to the Provincial Assembly,[99] which was discussed during 2-5 June 2023.[100] On 5 June 2023, the Finance Minister provided responses to the Provincial Assembly on issues raised during the pre-budget discussions.

The PFP Act's Section 13 requires the Finance Minister to submit finalized estimates for the coming fiscal year, including the previous year's revenue collection status, tax and non-tax exemptions, the MTEF, and policies on grants, public debt, and investment. The MoF developed an Economic Survey, included in the budget presented on 15 June 2023,[101] although there is no evidence that the Economic Survey was discussed then or later in the Provincial Assembly.

On 16 June 2023, the Finance Minister presented to the Provincial Assembly the annual budget proposal, which comprised: (a) Budget Speech, (b) Statement of Budget Estimation (Red Book), (c) Fiscal Transfers to the Local Level, (d) Ministry-wise Annual Development Program, (e) Appropriation Bill, (f) Finance Bill, (g) MTEF, and (h) Economic Survey. The Provincial Assembly discussed mainly the expenditure details of the Appropriation Bill and the Finance Bill during

[99] https://www.youtube.com/watch?v=eoYcUfuNn-8.
[100] https://www.youtube.com/watch?v=Svxlrx4uEyg.
[101] https://www.youtube.com/watch?v=4E89KYnwR4U.

16 June-16 July 2023, with the Finance Minister addressing questions raised. The revenue details as well as the MTEF and the underlying priorities are currently not being reviewed by the Provincial Assembly. The Provincial Assembly approved the 2023/24 budget on 16 July 2023, i.e. one day before the start of 2023/24.

Table 2.49: Scope of budget scrutiny (last completed fiscal year, i.e. 2023/24)

Budget scrutiny by subnational council (Y/N)	Coverage				
	Fiscal policies (Y/N)	Medium-term fiscal forecasts (Y/N)	Medium term priorities (Y/N)	Aggregate expenditure and revenue (Y/N)	Details of expenditure and revenue (Y/N)
Yes	Partially	Partially	Partially	Yes	Partially

Sources: Official correspondence letters (MoF and PAC); Provincial Assembly program links recorded in YouTube.

The scope for the budget scrutiny mainly involves the legislative review on overall annual revenue and expenditures estimate, Appropriation and Finance Bills focusing on the expenditures at the ministry level though other budget documents such as MTEF, economic survey, revenue details with granted exemptions are not examined.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

18.2 Legislative procedures for budget scrutiny

Performance level and evidence for scoring: The procedures for budget scrutiny in the Provincial Assembly are outlined in the Provincial Assembly Regulations, which was already in effect before the scrutiny of the proposed 2023/24 budget. The review procedures for the annual revenue and expenditure estimates are described in Rules 129 and 130. Rule 133 outlines the procedure for reviewing the Appropriation Bill, while Rule 140 specifies the procedure for reviewing the Finance Bill.

The rules for budget scrutiny are generally followed, with the exception of the review of revenue estimates, which was not conducted. Article 193 of the Constitution grants the Provincial Assembly the authority to form committees or special committees as needed, and in accordance with its Regulation, to manage its legislative functions. Thus, according to this, Rule 146 of the Provincial Assembly Regulations provides for the formation of seven thematic committees, including the Finance and Planning Committee. Although the PFP Act's Section 14 requires consultations with relevant stakeholders while preparing the revenue and expenditure estimates, the Provincial Assembly Regulations do not cover public consultation and there are no documents to evidence that public consultations were conducted in preparing the 2023/24 budget proposal. Also, the Regulations do not include provisions for internal organizational arrangements such as specialized review committees (except thematic committees as per the Constitution), technical support mechanisms, or negotiation procedures.

Although the Regulations remain the guiding framework and is mostly adhered to during the budget process, the Provincial Assembly did not conduct a review of the revenue estimates for 2023/24 budget discussion.

Table 2.50: Legislative procedures for budget scrutiny (last completed fiscal year, i.e. 2023/24)

Legislative procedures	Exist (Y/N)	Are approved in advance of budget hearings (Y/N)	Are adhered to (Y/N)	Include arrangements for public consultation (Y/N)	Include organizational arrangements (Y/N)
	Yes	Yes	Partial	No	Partial

Sources: https://www.youtube.com/watch?v=4_WapdiOl1U; https://www.youtube.com/watch?v=eoYcUfuNn-8; https://www.youtube.com/watch?v=Svxlrx4uEyg; Official letter from the MoF to the Province Chief.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

18.3 Timing of budget approvals

Performance level and evidence for scoring: Article 207 of the Constitution requires the Finance Minister to present the estimates of revenue and expenditure to the Provincial Assembly. Section 13 of the PFP Act requires the Finance Minister to present the budget proposal on 15/16 June each year. Section 9 requires the Finance Minister to submit a pre-budget proposal[102] to the Provincial Assembly along with underlying policies and programs, objectives, priorities of the forthcoming budget at least one month before submission of the budget proposal to the Provincial Assembly. The table below shows the dates for when the Provincial Assembly approved the annual budgets for the last three fiscal years.

Table 2.51: Actual dates of budget approval for the last three completed fiscal years

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

Sources: Appropriation Acts for 2021/22, 2022/23 and 2023/24.

[102] As noted under PI-9A, Element 6, a pre-budget statement is not being prepared by the Provincial Government.

The Provincial Assembly approved the annual budget before the start of fiscal year in each of the last three fiscal years.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

18.4 Rules for budget adjustments by the executive

Performance level and evidence for scoring: Article 213 of the Constitution provides for provincial governments to make their own laws regarding the transfer of money from one head to another.[103] Based on this provision, Section 17 of the PFP Act states that the threshold for virements shall be provisioned in the annual Appropriation Act, as approved by the Provincial Assembly. Section 17(2) gives the Account Responsible Officer (Secretary) authority to transfer recurrent funding from one budget sub-head to another budget sub-head within a ministry budget.

The Appropriation Act for 2023/24 provides a legal basis for in-year budget adjustments by the executive in the Provincial Government. Section 3(2) allows ministries to transfer funds between grant headings, with a 10% limit under Section 3(3). Transfers within the same heading or sub-heading have no such limit. However, salary, remuneration, allowances, uniforms, food, water and electricity, communication fees, and house rent, including the capital budget, are restricted in terms of transfers, even in the recurrent budget. Likewise, the source of financing cannot be changed. Adjustments to the budget provisioned for capital, financing, and debt payments may be amended only by the MoF. Section 8 of Appropriation Act outlines adjustment procedures. Section 8(4) allows amendments in the PLMBIS only with the consent of the MoF. Section 8(5-a) allows secretaries to adjust program-wise activities within the approved program budget. Section 8(5-b) permits adjustments within the same sub-heading up to 25%, as per Section 17(2) of PFP Act. Section 8(5-c) allows reallocation between entities under the same sub-heading with a PFCO, maintaining output and targets. Section 8(6) mandates updates in the PLMBIS and reporting to the MoF, PFCO and OAG. Section 8(7) prohibits reallocating capital expenditure to recurrent obligations. Section 8(8) requires unspent funds, if any, by the second trimester ending Mid-March is to be surrendered to the MoF, and the MoF may transfer such unspent amounts to other budget heading as per Section 17 of the PFP Act.

According to Article 209 of the Constitution, the provincial MoF may present a supplementary budget in the following situations:

[103] "Act relating to financial procedures: Matters relating to the transfer of moneys appropriated by the Provincial Act from one head to another and other financial procedures shall be as provided for in the Provincial Act."

- If the sum authorized to be spent on a particular service by the Appropriation Act for the current fiscal year is insufficient;
- If a need has arisen for expenditures upon some new service not provided for in the Appropriation Act for that year; or,
- If the expenditures made during the fiscal year are in excess of the amount authorized by the Appropriation Act.

According to the OAG's 7th Annual Report for Madhesh Province for 2023/24,[104] the MoF made virements of NPR 1,076.9 million for recurrent expenditure and NPR 1,482.54 million for capital expenditure totaling NPR 2,559.44 million (i.e., 10.4% of actual spending in 2023/24). Expenditures were spent from budget head 'MoF Miscellaneous' instead of budgeted under each program or budget head in the original budget.

The Provincial Government has set clearly defined laws and regulations for in-year budget adjustments, which are generally adhered to in most instances, and compliance is verified by the OAG.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

[104] OAG. 2025. Seventh Annual Report of the Auditor General, 2082, Madhesh Province. Kathmandu, p. 9 and p. 10.


PILLAR ONE
Budget Reliability
PILLAR TWO
Transparency of Public Finances
PILLAR THREE
Management of Assets and Liabilities
PILLAR FOUR
Policy Based Fiscal Strategy and Budgeting
PILLAR FIVE
PILLAR SIX
Accounting and Reporting
PILLAR SEVEN
External Scrutiny and Audit
PILLAR FIVE:
Predictability and Control in Budget Execution

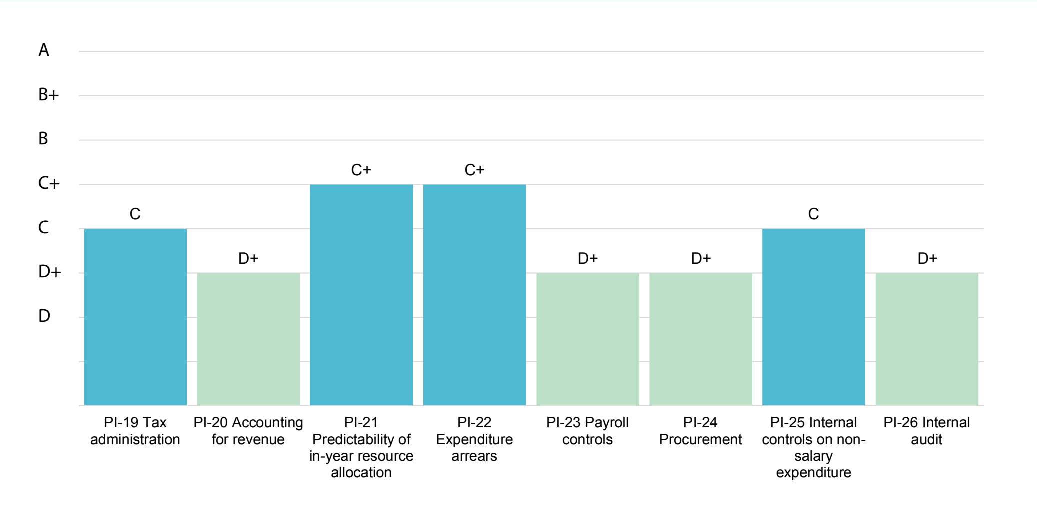
PILLAR V: Predictability and Control in Budget Execution

What does the pillar measure? It measures if the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Overall performance: The performance of Pillar V is overall at a basic level. Tax administration is well-functioning in terms of information provided to taxpayers, but tax risk management is weak and motor vehicle tax arrears data is not available (PI-19). Accounting for core taxes is well-developed as regards information flows, but transfers to the Provincial Consolidated Fund take place only monthly and information on accounts reconciliation is not available (PI-20). While budgetary units are able to plan and commit expenditure for the full fiscal year and there were no significant in-year budget adjustments during 2023/24, no cash flow forecast was prepared and consolidation of cash balances is mainly done monthly (PI-21). The stock of expenditure arrears is low, but data is generated only annually (PI-22). Payroll controls are weak due to a lack of reconciliation between payroll and personnel data, personnel information is updated late, evidence of sufficient controls to ensure payroll accuracy is not readily available, and only partial payroll audits are undertaken (PI-23). While procurement complaints management is well-developed, procurement management is otherwise poor as comprehensive data on competitive and non-competitive tenders is not readily available (PI-24). Internal controls on non-salary expenditure are in place, but entity-level segregation of duties is not clearly laid down, commitment controls only provide partial coverage, and many specific internal control issues exist (PI-25). Internal audit for the fiscal year had not been conducted at the time of the assessment, no professional internal audit standards are in place and, although the PFCO fully implemented the 2023/24 internal audit plan, auditees do not provide responses to findings and recommendations (PI-26).

The performance of PIs 19-26 are shown below.

Figure 2.6: Indicator scores under Pillar V



PI-19. Tax administration

What does the indicator measure? It assesses the procedures used to collect and monitor the core taxes of SNG. Coverage is budgetary units and EBUs of the SNG at time of assessment for PI-19.1, at the time of assessment with a retrospective view of 10 years for PI-19.2, and for the last completed fiscal year for PI-19.3 and PI-19.4. The indicator uses M2 (average) method for aggregating dimension scores.

Methodological notes: The federal as well as provincial tax and non-tax acts, the yearly Finance Act, Appropriation Act, and financial data were collected from the Transport Management Office (TMO) and the PFCO (RMIS and CFS). The indicator was assessed for tax revenues administered by the Provincial Government.

Table 2.52: Summary of scores for PI-19 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-19. Tax administration		**C**
19.1 Rights and obligations for tax measures	For all core taxes (motor vehicle tax) of the Provincial Government, multiple channels are used to provide taxpayers with easy access to comprehensive and up-to-date information on the main tax obligation areas and on rights, including regarding redress processes and procedures.	A
19.2 Property tax register and value assessment	Property tax is administered by local levels rather than provincial governments.	NA
19.3 Tax risk management, audit and investigation	A structured and systematic approach for assessing and prioritizing compliance risk is not in place, and no compliance improvement plans exist, and also no audit and investigation plans.	D
19.4 Tax arrears monitoring	Arrears data related to the motor vehicle tax is not available for the last completed fiscal year (2023/24).	D*

Description of the sub-national PFM system for the assessed PI: As per Article 203 of the Constitution, no tax shall be levied and collected except in accordance with law. The Constitution's Schedule 6 lists provincial authorities, including for taxation. The Constitution assigns the tax rights of federal, provincial governments and local levels as shown in the table below.

Table 2.53: Revenue assignments as per the Constitution

Federal Government	Provincial Governments	Local levels
	Tax revenue sources	
Remuneration tax Excise duties Personal income tax (PIT) Value-added tax (VAT) Corporate income tax (CIT) Custom duties	Agricultural income tax Motor vehicle tax Advertisement tax Entertainment tax	Advertisement tax Property tax House rental tax Business tax Land revenue/land tax Local natural resource tax Local tax on herbs, salvaged item Motor vehicle tax Entertainment tax

Federal Government	Provincial Governments	Local levels
	Non-tax revenue sources	
Visa fee Passport charge Service charge Tourism charge Fines/penalties	House and land registration fees Tourism tariff Fines/penalties Service charge	Fines/penalties Tourism tariff Service charge House and land registration fee

Source: Constitution, Schedules 5-9.

The tax and non-tax revenues are regularized and administered in accordance with the IGFA Act where Section 3 (2) provides provincial governments with the authority, through provincial law, to levy taxes, non-tax revenues, and royalties, as prescribed in Annex 2. Motor vehicle tax is considered as a single tax administration of the provincial governments, which is identified as a core tax as per Section 5. Other taxes (house and land registration fees, entertainment tax, and advertisement tax) are levied by the provincial governments, but collected by the local level and shared 40% with the provincial government.

The Finance Act for 2024/25,[105] under Section 3(3), provides that motor vehicle tax shall be collected by the Provincial Government, with 60% of the revenue retained in the Provincial Consolidated Fund and 40% allocated to local levels.

Agricultural income taxes are solely under the jurisdiction of provincial governments. However, Government of Madhesh Province has not levied or collected these taxes yet.

As per Section 7 of the IGFA Act, royalties from natural resources: including mountaineering, electricity, forests, mines and minerals, and water are collected by the relevant line ministries of the provincial governments, and allocated among federal, provincial, and local levels. These royalties are allocated as prescribed in Annex 4 of the Act, with a distribution ratio of 50% to the federal government, 25% to the provincial government, and 25% to local levels. In addition, provincial governments set procedures for levying and collecting stone and river-based material charges *(Dahatar Bahattar)* by the local levels, which is shared – with 60% to the local levels and 40% to the respective provincial government.

All collected tax and non-tax revenues are deposited in the Provincial Consolidated Fund. Accounts are established with the relevant tax and non-tax source codes and classifications incorporated in the FCGO-managed RMIS, which shows all revenue data.

[105] https://mof.madhesh.gov.np/np/news_notice_detail/273: Finance Act (2024).

The Province Tax and Non-Tax Act (2022)[106] provides for provincial-level tax administration, personnel management, rights and duties of tax officers, delegation of authority and responsibilities in defining tax and non-tax revenues, and deposit of collected revenues in the Provincial Consolidated Fund. Taxpayer registrations as well as rights and obligations are also covered in the Act.

The Finance Act is enacted every year to implement finance-related proposals, including the annual budget, with the provision for collecting revenues, setting tax and non-tax rates, and tax exemptions, if any.

The Provincial Government's tax and non-tax collection for the 11 months up to mid-June 2025 (2024/25) is shown below.

Table 2.54: Details of tax and non-tax collection, 2024/25 (11 months)

Revenue types	Amounts (NPR, Millions)	Share	
		Incl. fiscal transfers / grants (%)	Excl. fiscal transfers / grants (%)
Tax revenue	2,878.06	14.40	23.30
Non-tax revenue	1,054.98	5.30	8.50
Royalty sharing	63.34	0.30	0.50
Value-added tax (VAT) and excise duty sharing	8,379.44	42.00	67.70
Fiscal transfers/grants	7,570.09	38.00	-
Total revenues	**19,945.91**	**100**	**100**

Sources: PTCO's FMIS and RMIS.

Fiscal transfers from the GoN's comprise 38.00% of the Provincial Government's revenues for the period. When excluding fiscal transfers, then 23.30% of total revenue collected comprises tax, 8.50% non-tax and 0.50% only the royalty sharing, whereas 67.70% is revenue sharing (VAT and excise duty). Hence, the Provincial Government relies to a significant extent on fiscal transfers and revenue sharing.

The details of the Provincial Government's tax revenues for the mentioned period are shown below.

[106] https://mof.madhesh.gov.np/np/news_notice_detail/153: Province Tax and Non-Tax Act (2022).

Table 2.55: Tax revenues administered by the provincial government (2024/25)

Revenue code	Category of revenue	Receipts (NPR Millions)	As a percentage of total core taxes (%)
33341	Motor vehicle tax [core tax]	2,568.05	60.80
11315	House and land registration fees	1,656.42	39.80
11471	Entertainment tax (movie and documentary)	Not collected	-
11472	Advertisement tax	0.20	0.00
11479	Other entertainment tax	-	-
Total tax revenue		**2,878.06**	**100**

Sources: FMIS and RMIS, 2024/25, PFCO.

EBUs in Madhesh Province do not have rights to levy taxes but can raise fees and charges. However, no relevant data for 2024/25 is available.

Recent or ongoing reform activities: The Provincial Government is conducting high-level discussions with representatives of local levels and cement industries regarding the sharing of concurrent revenues and increasing the area of revenue, respectively.

19.1 Rights and obligations for tax measures

Performance level and evidence for scoring of the dimension: The Provincial Government's core taxes comprise the motor vehicle tax.

Table 2.56: Rights and obligations for revenue measures (at time of assessment)

Core taxes	Information available to payers on revenue rights and obligations				
	Tax obligations (Y/N)	Redress processes and procedures (Y/N)	Comprehensive (Y/N)	Up-to-date (Y/N)	Source of information
Motor vehicle tax	Yes	Yes	Yes	Yes	Constitution, Schedule 6 Province Tax and Non-Tax Act (2022) Finance Act

The revenue administration in Madhesh Province is mainly guided by the Finance Act 2024/25 and the Province Tax and Non-Tax Act, which is based on the provisions of the IGFA Act. The Finance Act is enacted annually and provides legal authority for the provincial MoF to manage overall revenue collection, setting yearly tax and non-tax rates, and oversee revenue administration. All information is provided and available to the taxpayers, including information about their tax obligation areas, as well as rights, rates, timelines for payments, exemptions, simplified processes and procedures for payment, and resolutions (Annexes 1–9). The Province Tax and Non-Tax Act provides a legal basis for levying and collecting provincial taxes. It defines the principles for tax determination, tax administration, tax personnel management, and the roles and responsibilities of tax officers. It covers taxpayer identification, registration, taxpayer liabilities, rights, tax adjustment and return processes.

The Provincial Government's TMO collects the motor vehicle tax using the Vehicle Registration System (VRS) and the Transport Management System (TMS). The tax rate is determined yearly through the Finance Act. The tax amount is calculated at the time of payment of taxes by taxpayers and must be paid once a year. Fines and penalties apply in case of delay and non-payment.

The major information source for taxpayers is the federal Department of Transport Management's website (www.dotm.gov.np). Website provides information relating to relevant laws, rules and regulations as well as information on automobile registration, tax rates, and tax payment. For information on their motor vehicle tax liabilities, each vehicle owner can also visit the relevant TMO in person.

Regarding redress mechanism, Sections 41, 42, 43, 44 and 45 of the Province Tax and Non-Tax Revenue Act provide for taxpayers right to file appeal for administrative review. In case the taxpayer is not satisfied with the tax decision, they can file a complaint with the High Court. Section 30 outlines the refund of tax to taxpayers along with the interest for delayed refund. Section 34 provides taxpayers to pay taxes in installments depending on the taxpayer's situation.

For the motor vehicle tax, taxpayers have easy access to information concerning their revenue obligations and rights, including redress processes and procedures.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

19.2 Property tax register and value assessment

Performance level and evidence for scoring: The property tax is administered (levied and collected) by local levels as per the authority provided by the Constitution. No property tax register is maintained at the province level. Property tax is an important source of funding for SNGs and is used for various public services and infrastructure development.

Based on the analysis and supporting evidence, the score for the dimension is **NA**.

19.3 Tax risk management, audit and investigation

Performance level and evidence for scoring: The Provincial Government has adopted the Province Tax and Non-Tax Revenue Act for management and mitigation of tax risk. According to Section 31, the tax officer may initiate the tax audit of the tax details presented by taxpayers if the details provided in tax returns are not correct. Section 32 mandates the tax officer to determine the tax amount, and due date for tax payments. The tax officer may collect tax following the legal provisions available in Section 33, including auctioning of the taxpayer's personal assets.

Section 35 grants the tax officer authority to impose 15% penalty in case of tax violations. Similarly, if the motor vehicle tax is not paid within the given timeline and in case of crossing the additional timeline of 90 days, the tax officer may impose an additional fee of 10% of the tax amount. Interest in unpaid tax amount can be levied in case of delay in payment of tax (Section 36). The taxpayer may be fined NPR 5,000 if s/he fails to produce the record of the tax details to be paid (Section 37).

There is no evidence of structured and systematic approach for assessing and prioritizing compliance risk, and no compliance improvement plan(s) exists. There is also no evidence that an audit and investigation plan is prepared.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

19.4 Tax arrears monitoring

Performance level and evidence for scoring: The federal Vehicle and Transport Management Act (1992), which provides overall guidance on transport and vehicle management, is the basis for the provincial Vehicle and Transport Management Act (2024). This provides the legal and institutional framework for the management of vehicle and transport in Madhesh Province. The motor vehicle tax, which is the only core tax of the Provincial Government, is calculated in the VRS and declared upon taxpayers' request at the time of payment. The VRS and TMS are operated by the TMO and contain vehicle registration data as well as information about the assessment or calculation and collection of the motor vehicle tax. The motor vehicle tax is payable on an annual basis. The VRS and TMS do not maintain individual motor vehicle tax arrears. Also, a consolidated statement of the outstanding stock of motor vehicle tax is not prepared at the end of the fiscal year. Hence, there is no evidence of data of arrears available for 2023/24 in motor vehicle tax.

Based on the analysis and supporting evidence, the score for the dimension is **D***.

PI-20. Accounting for revenue

What does the indicator measure? It assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling revenue accounts. Coverage is budgetary units of the SNG at time of assessment for PI-20.1 and PI-20.2 and budgetary units of the SNG and EBUs at time of assessment for core taxes for PI-20.3. This indicator uses M1 (weakest link) for aggregating dimension scores.

Methodological notes: Revenue collection reports from the RMIS as well as data from the TMOs and other agencies were analyzed, including rule-based practices. Records from the PFCO and revenue collecting entities were reviewed for the extent and timeliness of revenue reconciliation.

Table 2.57: Summary of scores for PI-20 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-20 Accounting for revenue		**D+**
20.1 Information on revenue collections	The PFCO obtains revenue data on a monthly basis from all relevant entities and prepares a consolidated report, which has detailed data broken down by revenue types, that is submitted to the provincial MoF as well as the FCGO and the OAG.	A
20.2 Transfer of revenue collections	The collected revenue is deposited into the Provincial Consolidated Fund on a daily basis. The deposited revenue is transferred to the Provincial Consolidated Fund from the Province Divisible Fund on a monthly basis. The revenue can be used only if it is deposited in the Provincial Consolidated Fund.	D
20.3 Revenue accounts reconciliation	Evidence that the Provincial Government's core tax (motor vehicle tax) has been reconciled in terms of collection and transfer, and if so when, has not been available. There is also no data available on motor vehicle tax arrears.	D

Description of the sub-national PFM system for the assessed PI: The PFP Act, Section 21(1), requires accounting of appropriations, revenues, deposits and other transactions to be cash-based and in accordance with double-entry bookkeeping. Section 21(2) requires the PFCO to implement the accounting format approved by the OAG and in accordance with GFS 2014-based COFOG, for the purpose of maintaining accounts. As per Section 23 of the PFP Act, revenues must be collected as required in relevant laws and the collected revenues deposited in an authorized commercial bank. The bank must deposit the revenue in the Provincial Consolidated Fund on the same day or the next day. The officer-in-charge is responsible for keeping revenue accounts, conducting reconciliation, and preparing financial statements and presenting these for external audit. The FCGO's CoA includes specific codes for tax, non-tax, and other types of revenues as well as for grants, which is applied by the PFCO for recording provincial revenues.

EBUs in Madhesh Province cannot levy taxes, but can raise fees and charges based on their establishing acts.

Recent or ongoing reform activities: The Ministry of Labor and Transportation is developing a system to record the details of all registered vehicles in order to access unpaid motor vehicle taxes as well as renewal details.

20.1. Information on revenue collections

Performance level and evidence for scoring: Revenues are in the CoA categorized on the basis of tax, non-tax, royalty, revenue sharing and grants, which are accounted for and recorded in KHA-1 (the Provincial Consolidated Fund). Government bank accounts are defined in and managed on the basis of the NRB's Government Transaction Directives (2019) and implemented by the FCGO. The PFCO is responsible for managing all the Provincial Government's accounts, including KHA-1. It is also responsible for accounting, reconciliation and reporting.

The RMIS is a single platform through which all revenues are collected by all three levels of government. It is used by authorized commercial banks, government banks, the NRB, revenue collecting offices (in local levels), the PFCO, ministries, departments and agencies.[107] As noted above, collected revenues must be deposited in an authorized commercial bank, which is required to transfer the revenues to the Provincial Consolidated Fund (KHA-1) on the same day or the next day. Collecting entities must prepare a monthly revenue statement in the approved OAG format, which the PFCO reconciles with RMIS data. The PFCO prepares monthly revenue collection statements, as recorded in the RMIS and annual revenue collection data is included in the CFS. All statements, which include detailed categories and breakdowns of revenues by types, are submitted to the provincial MoF as well as the FCGO and the OAG.

[107] The banks comprise Rastriya Banijya Bank, Nepal Bank Limited, Global IME Bank, Kumari Bank Limited and NIMB Bank.

Table 2.58: Information on revenue collections, 2024/25

Collecting entity	Category of revenue	Amount collected (NPR Millions)	Collection of revenue information by a central agency (Y/N)	Frequency of data transfer to the central agency	Transferred data characteristics (Y/N):		
					Broken down by revenue type	Consolidated into a report	Consolidated
Land Revenue (Malpot) Office	11315 House and land registration fees	1,656.40	Yes	Daily	Yes	Yes	Yes
TMO	33341 Motor Vehicle Tax	2,568.05	Yes	Daily	Yes	Yes	Yes
Local government	11471 Entertainment Tax	Not collected	Yes	Monthly	Yes	Yes	Yes
Local government	11472 Advertisement Tax	0.20	Yes	Monthly	Yes	Yes	Yes
Local Government	14157 Fees on Stone and River-Based Materials	38.34	Yes	Monthly	Yes	Yes	Yes

Sources: PFCO's FMIS and RMIS for 2024/25.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

20.2. Transfer of revenue collections

Performance level and evidence for scoring: According to the Government Transaction Directives, provincial governments must deposit revenues into a specific group of bank accounts, which is the Provincial Consolidated Fund (KHA-1). The PFCO manages KHA-1.1 and KHA-1.2, and keeps records of every transaction on a daily basis. The revenues collected through the RMIS, which are first transferred to KHA-1.1, are ultimately transferred to KHA-1.3 (Budget Release Account) for making payments from KHA-2.1 (Budget Expenditure Account). The NRB deposits the revenue in the consolidated fund account of the respective provincial government. Similarly for the concurrent revenue rights, the collected revenues are first deposited in the Province Divisible Fund Account (KHA-4) and thereafter shared with the federal government and local levels, as relevant. After these transfers, the share of the provincial governments' revenue is available for spending. Revenues can be used only if they are deposited in the Provincial Consolidated Fund (KHA-1.1).

Motor vehicle taxpayers can make deposits directly under Revenue Head 33341 for which vouchers are generated through the RMIS. The provincial governments maintain 60% of the collected motor vehicle taxes, and distribute 40% to the local levels within the province.

Royalties for mountaineering, forestry, electricity, mines, and minerals are collected and deposited by the NRB in the Province Divisible Fund Account (KHA-4) on a daily basis. Of this 50% is transferred to the federal Consolidated Fund Account, 25% to the Provincial Consolidated Fund (KHA-1), and 25% to the Local Divisible Fund Accounts of the local levels within the province.

Table 2.59: Transfer of revenue collections, 2024/25

Collecting entity	Category of revenue	Amount collected (NPR Millions)	Frequency of revenue collections transfer directly into accounts controlled by the PFCO	Frequency of revenue collections transfer to the Treasury and other designated agencies*
Land Revenue (Malpot) Office under the Federal Government	11315 Building and Land Registration Fees	1,656.40	Daily	Daily
TMO of Government of Madhesh Province	33341 Motor Vehicle Tax	2,568.05	Daily	Daily
Owner / organizers of entertainment sites to local levels	11471 Entertainment Tax	Not collected	Monthly (within the 25th of next month to be deposited in the local government account)	Monthly (within the 25th of next month to be deposited in the local government account)
Local levels	11472 Advertisement Tax	0.20	Monthly	Monthly
Local levels	14157 Stone and River-Based Materials Fees	38.34	Monthly	Monthly

* Revenue shared between three tiers of government.

Source: PFCO's RMIS for 2024/25.

The Building and Land Registration Fees and the Motor Vehicle Tax, which together accounted for 99.1% of total collections in 2024/25, were transferred on a daily basis to the NRB.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

20.3. Revenue accounts reconciliation

Performance level and evidence for scoring: As noted previously, the motor vehicle tax is collected and administered by the district TMO through the TMS and VRS. The systems are used to assess the rates of revenue for vehicle tax. They also calculate penalties that apply if vehicles are not renewed on a timely basis. The owner should pay vehicle tax on a yearly basis and, if it is not paid, fines are automatically levied (as per the provincial Tax and Non-Tax Act). The motor vehicle tax is only calculated if the vehicle owner willingly visits the TMO for registration and renewal, hence no mechanism is in place to establish arrears for vehicles until and unless the taxpayer visits TMO. The collected motor vehicle tax is deposited daily in the KHA-4 at an authorized commercial bank.

The revenue collecting commercial bank is required to send revenue collection information duly verified with the RMIS and the revenue receipt in the Core Banking System (CBS). For this reason, the NRB maintains an Adjustment Account (KHA-5.1) in the name of every commercial bank that collects revenue. If there is a deviation, it must be corrected right away and the NRB must be given an explicit explanation. Such reconciliations must be followed by the PFCO, NRB and revenue collecting commercial banks.

Table 2.60: Tax accounts reconciliation, 2024/25

Core tax	Frequency of reconciliation	Timeline of reconciliation	Type of reconciled data (Yes/No)			
			Assessments	Collections	Arrears	Transfers to Treasury / other agencies
Motor Vehicle Tax	NA	NA	NA	NA	No	Deposited in the Province Divisible Fund Account (KHA-4) on a daily basis

NA = not available.
Source: PFCO's RMIS.

While the available information indicates that transfers are done on a daily basis, information has not been available as to whether collected motor vehicle tax is subject to reconciliation in terms of assessments, collections and transfers to the Provincial Consolidated Fund (KHA-1), or when these processes are conducted. Information on arrears is also not available

Based on the analysis and supporting evidence, the score for the dimension is **D**.

PI-21. Predictability of in-year resource allocation

What does the indicator measure? It assesses the extent to which the subnational MoF (or Finance Department) is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. Coverage is budgetary units of SNG at time of assessment for PI-21.1 and for last completed fiscal year for PI-21.2, PI-21.3 and PI-21.4. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The IPFMS (FMIS, TSA and RMIS) reports with category in consolidated fund accounts were analyzed for cash consolidation, forecasting and monitoring. The RMIS and the TSA provide consolidated cash balances for both revenue and expenditure accounts respectively. The PLMBIS includes information pertaining to budget releases and commitment ceilings. The PFCO includes the consolidated cash position in the monthly financial reports.

Table 2.61: Summary of scores for PI-21 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-21 Predictability of in-year resource allocation		**C+**
21.1 Consolidation of cash balances	Out of nine accounts, five accounts (representing 40.7% of transactions during 2024/25) were consolidated on a daily or monthly basis.	D
21.2 Cash forecasting and monitoring	A consolidated cash flow forecast was not prepared for 2023/24.	D
21.3 Information on commitment ceilings	Budgetary units are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.	A
21.4 Significance of in-year budget adjustments	Significant in-year adjustments to budget allocations did not take place during 2023/24.	A

Description of the sub-national PFM system for the assessed PI: The Provincial Government operates the TSA for managing the consolidated funds accounts. The PFCO has the authority to operate the TSA system, while budgetary units record both expenditure and revenue through the IPFMS. The PFP Act's Sections 3 and 4 provide for operation of the Provincial Consolidated Fund. The provincial TSA system, RMIS, and FMIS capture all receipts (revenues) and expenditures of the Provincial Government in the Province Consolidated Account Fund.[108] According to Section

[108] https://old.fcgo.gov.np/downloads/type/3: No. 5 – TSA Guidelines, FCGO.

16 of the PPA, authorizations for expenditure and program implementation are automatically deemed to be provided through the PLMBIS to the authorized officials immediately after the enactment of the provincial Appropriation Act. It grants full authority to commit and spend funds from the start of the fiscal year.

As per the Government Transaction Directives,[109] the PFCO opens accounts with the NRB and authorized commercial banks. The group of consolidated funds accounts (KHA-1, KHA-2, KHA-3, KHA-4 and KHA-5) is established in the NRB for which PFCO officers are authorized signatories. The PFCO is responsible for regularly consolidating, reconciling and reporting on the accounts to the provincial MoF, FCGO and OAG.

Virements, including in-year budget adjustment, is guided by PFP Act, Appropriation Act and FPFA Act.

Recent or ongoing reform activities: The FCGO has integrated the TSA and CGAS through the IPFMS with an additional consolidated treasury module to enable real-time cash/treasury reconciliations.

21.1. Consolidation of cash balances

Performance level and evidence for scoring: Revenue and other income are collected and deposited into the KHA-1.1 non-operating account in the name of the Provincial Government. Revenue collected by authorized commercial banks is recorded in the RMIS and transferred to the KHA-1.1 account maintained with the NRB daily. The PFCO performs monthly reconciliations between the RMIS and bank statements.

The KHA-2 budgets release expenditure account, maintained with the NRB is used to pay expenditures in KHA-2.1 (odd years) and KHA-2.2 (even years). These expenditures are accounted for as reimbursements to authorized commercial banks for payments made through the TSA system, daily. The frequency of accounting and consolidation is shown below.

[109] https://old.fcgo.gov.np/downloads/type/3: No. 6 – Government Transaction Directive (2019).

Table 2.62: Consolidation of Group of Account with cash position

Group of Account	Transactions during June End, 2024/25 (NPR Millions)	Share (%)	Frequency of consolidation	Cash balance as of June end of 2024/25 (NPR Millions)
(1) KHA-2.1/2.2 Budget Expenditure Account (Even/Odd)	737.19	4.30	Daily	Nil
(2) KHA-2.3 Deposit Account	515.18	3.00	Daily	1,038.52
(3) KHA-2.6 Miscellaneous Account	258.64	1.50	Daily	761.26
(4) KHA-4-1 Province Divisible Fund Account	3,919.36	22.80	Monthly	157.81
(5) KHA-4.2 Local Divisible Fund Account	1,567.46	9.10	Monthly	Nil
(6) KHA-1.3 Budget Release Expenditure Account	Nil	0.00	Annually	Nil
(7) KHA-1.1 Revenue Grants and Miscellaneous Receipt	10,189.90	59.30	Annually	30,301.61
(8) KHA-1.4 Consolidated Treasury Adjustment Account (Income Debited)	Nil	0.00	Annually	12,580.58
(9) KHA-3.1 Province Contingency Fund Account	Nil	0.00	Annually	Nil
Total transaction	**17,187.73**	**100**		

Source: FMIS (Banking Transaction Reports and Bank Statements for 2024/25), PFCO.

While analyzing the table above, the Group of Account KHA-1.3 which pertains to expenditure transactions accounted for by the concerned office of NRB based on monthly reconciliations with the PFCOs was found to be nil due to weakened consolidation (not consolidated monthly as required by Government Transaction Directives)[110] during the fiscal year 2024/25. In addition, at the time of assessment, the PFCO confirmed that there were no transactions recorded under Account KHA-1.3, as verified by the bank statement. This was due to the fact that the transactions with NRB had not been reconciled for the last completed fiscal year (2023/24), and reconciliation was still pending for the settlement of transactions as of the assessment period (i.e., 2024/25), hence the cash balance as of June end of 2024/25 KHA-2.1 (Budget Expenditure Account (Even) is also reported as nil balance and account KHA-1.1 is also only verified annually which has to be done monthly as per the above mentioned directives.

[110] Chapter 3 (pp. 27-36) of the Government Accounting Directives (2019) outline types of provincial government accounts and their operational procedure.

Hence, out of total nine accounts, three accounts representing 8.8% of transactions were consolidated daily, and two accounts representing 31.9 % of transactions were consolidated on a monthly basis. Therefore, a total of only five accounts were consolidated on a daily or monthly basis.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

21.2. Cash forecasting and monitoring

Performance level and evidence for scoring: There is no legal requirement to maintain cash plan by the provincial government entities or MoF in Madhesh Province. However, Madhesh Province is also following the FPFA Act for budget formulation, execution, reporting and auditing, hence it is required to maintain cash flow plan.

The FPFA Act's Sections 9(4), 19(4) and 23(2) require preparing cash flow plan while discussion of annual budget proposal, developing work plan and reviewing annual budget. However, there are no documents available to evidence that the MoF prepared a cash flow forecast for 2023/24, or that the budgetary units prepared monthly cash flow projections.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

21.3. Information on commitment ceilings

Performance level and evidence for scoring: The budget proposal for 2023/24 submitted by MoF on 16 June 2023 was approved by the Provincial Assembly on 16 July 2023 and signed by the Speaker of the Provincial Assembly on the same day.[111] The Appropriation Act for 2023/24 was also approved on the same day. The PFP Act's Section 16, provides authorization for offices to incur expenditures based on the annual program, up to the amount specified in the schedule of the Appropriation Act, once the Appropriation Act or Advance Expenditure Act is enacted. Thus, all ministries and budgetary units had budget and program implementation authority through the PLMBIS from the first day of the new fiscal year as authorized. Hence, all budgetary units are able to plan and commit expenditure for the whole fiscal year in accordance with the approved budget appropriation and no restriction is made for budgetary units for commitment the total budget from the beginning of the fiscal year. The budgetary units are allowed to execute budget from PLMBIS after the approval of yearly Appropriation Act, which grants authorization through its access to operate for all budgetary units from the initial stage of starting period of fiscal year. The budget is separated quarterly for cash flow monitoring.

[111] Provincial Assembly meeting on 16 July 2024 that approved the 2023/24 budget, Provincial Assembly Bills records No. 4.

All budgetary units have the authority, from the start of the fiscal year, to plan and commit expenditure (specific and continuing) for the entire fiscal year based on the approved budget appropriations. Hence budgetary units are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

21.4. Significance of in-year budget adjustments

Performance level and evidence for scoring: The Constitution (Article 209) requires the supplementary estimate to be submitted by the Finance Minister to the Provincial Assembly if approved funds are insufficient, if expenditures are required that were not included in Appropriation Act, or if the expenditures have exceeded the amount authorized in the Appropriation Act. Article 213 of the Constitution allows for transfer of appropriated amounts from one budget head to another.

Section 20 of PFP Act requires half yearly and yearly evaluations of budget and program implementation. Section 17 outlines the provisions for virements and transfers. Section 8 (5) of the Appropriation Act for 2023/24 has a 25% threshold for virements.[112] The MoF is authorized to transfer from one budget head to another budget head within the prescribed threshold. Secretaries can transfer funds under the grant code from one sub-head to another sub-head for recurrent expenditures, except for mandatory liabilities such as salaries, allowances, water, electricity, telecommunication and rent, while transfers from one capital expenditure head to other capital expenditure head can be done. Except for regular virements amounting to NPR 2,659.69 million,[113] covering the MoF and eight line ministries, which were done in accordance with legal provisions, the MoF did not make in-year budget adjustments during 2023/24.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

PI-22. Expenditure arrears

What does the indicator measure? It measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. Coverage is budgetary units of the SNG for the last completed fiscal year for PI-22.1 and at time of assessment for PI-22.2. The indicator uses the M1 (weakest link) method for aggregating dimension scores.

[112] https://mof.madhesh.gov.np/np/news_notice_detail/234: Appropriation Act, p. 10.
[113] https://oag.gov.np/reports/province-report: p. 9 No. 6 and p. 10 No. 8.

Methodological notes: For each dimension, the legal and regulatory framework has been established. The stock of expenditure arrears was evaluated using CFS data and corroborated with reports submitted by selected spending units to the PFCO in order to assess the extent to which requirements are met for the specific scores.

Table 2.63: Summary of scores for PI-22 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-22 Expenditure arrears		**C+**
22.1 Stock of expenditure arrears	The stock of expenditure arrears is no more than 2% of total expenditure in each of the last three completed fiscal years.	A
22.2 Expenditure arrears monitoring	Data on the stock and composition of expenditure arrears are generated annually at the end of the fiscal year.	C

Description of the sub-national PFM system for the assessed PI: The PFP Act does not cover expenditures arrears, hence the FPFA Act and FPFA Regulations are applied by the Provincial Government. The FPFA Act, Section 24(3), requires payments to be made within 15 days of receipt of an invoice with the necessary documents. For deliberate non-payment, Section 57 (1a) prescribes penalties. Rule 73 (1 and 3) of the FPFA Regulations require expenditure arrears to be reported on a monthly and annual basis.

Under Rule 39 (1) of the FPFA Regulations, an office chief is required to incur expenditure within budget and program. Spending units are not allowed to incur expenditure in excess of the budget and cannot create liabilities without an approved budget (Rule 39 (2)) except for salary-related expenditures mentioned in Rule 39 (15)[114] and under certain acceptable and justified conditions. Such expenditures shall be recorded in a statement of expenditure arrears using OAG Form No. 221 (for payment in the next fiscal year) and requires PFCO approval within seven days (Rule 39(13). Expenditure arrears along with financial statements are to be sent to the relevant offices and the ministries, PFCO and OAG (Rule 39(14). The arrears are consolidated at the ministry-level, included in the FMIS, and reported in the annual CFS prepared by the PFCO.

Recent or ongoing reform activities: The Provincial Government has in 2024/25 initiated the following: (i) Recording and reporting of commitments in the CGAS system under the IPFMS; (ii) Using the Electronic Fund Transfer (EFT) modality for all payment types; and, (iii) Cash forecasting conducted to ensure availability of cash for timely payments.

[114] Salary (of approved positions), allowances, transfer related travelling expenses, house rent, uniform, medical expenses, retirement benefits and payment required as per contract signed for approved annual program.

22.1 Stock of expenditure arrears

Performance level and evidence for scoring: The expenditure arrears, as recorded in the FMIS and reported in the CFS for 2021/22, 2022/23 and 2023/24 are shown in the table below, including as a share of actual expenditures.

Table 2.64: Stock of expenditure arrears by category

Fiscal Year	Total stock of arrears at fiscal year-end (NPR Millions)	Total actual expenditures for the fiscal year (NPR Millions)	Share
2020/21	125.20	22,260.48	0.56%
2021/22	35.40	26,869.87	0.13%
2022/23	146.20	24,544.93	0.60%

The stock of expenditure arrears was less than 2% of total expenditure in all the last three completed fiscal years.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

22.2 Expenditure arrears monitoring

Performance level and evidence for scoring: As recorded in the FMIS and reported in the CFS, expenditure arrears are categorized as recurrent expenditure (salary, office materials, and social security) and capital expenditure (infrastructure development, transportation and machinery equipment, construction and consulting). The table below shows the monitoring details for expenditure arrears.

Table 2.65: Expenditure arrears monitoring by category

Category of arrears*	Data generated (Y/N):			Frequency	Timeline
	Stock	Age	Composition		
Recurrent expenditures: Salary, office material and social security expenditure.	Yes	Yes	Yes	Annually at the end of the fiscal year.	Annual entity-level reports financial statements, CFS, and OAG reports.
Capital expenditure: Building and infrastructure, transportation and machinery equipment, public construction and consulting expenditure					

* FPFA Regulation's Rule 39 (13) and (15).

Source: PFCO's FMIS and PAMS (2024/25); OAG's 7th Annual Report for Madhesh Province (covering 2023/24).

Data on the stock of arrears is generated annually at the end of the fiscal year.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

PI-23. Payroll controls

What does the indicator measure? This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. The indicator is applicable when payroll is covered by the SNG budget. Coverage is budgetary units and EBUs of the SNG at time of assessment for PI-23.1, PI-23.2 and PI-23.3 and for last three completed fiscal years for PI-23.4. The indicator uses the M1 (weakest link) method for aggregating dimension scores.

Methodological notes: Records maintained by Provincial Personnel Record Office (PPRO), at OCMCM were analyzed. As payroll management is decentralized, data and records from 20 spending units were reviewed. Internal audit and external audit reports pertaining to the 20 units reviewed to evaluate payroll audit. Information on personnel and payroll management by EBUs has not been available.

Table 2.66: Summary of scores for PI-23 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-23 Payroll controls		**D+**
23.1 Integration of payroll and personnel records	Payroll data and personnel information are not reconciled systematically.	D
23.2 Management of payroll changes	The personal information of personnel is not updated in the system at the time of transfer. For personnel accredited to the Provincial Government under the federal Adjustment Act, all information remains recorded in the federal Personnel Information System (PIS). Thus, no data is available for calculating retroactive adjustments.	D
23.3 Internal control of payroll	The accuracy of payroll and personnel data could not be ensured due to insufficient internal controls in place.	D
Payroll audit	Partial payroll audits have been undertaken during the last three completed fiscal years.	C

Description of the sub-national PFM system for the assessed PI: Section 3 of the Province Civil Service Act (2020) gives the OCMCM the authority over personnel management as well as formation and implementation of the provincial civil service. Article 243 of the Constitution gives the Public Service Commission (PSC) authority to select and recommend civil servants. Article 243(5) prohibits government entities from making pensionable permanent appointments without consulting the PSC. Article 244 has made provision relating to Provincial PSC and the federal Parliament determines by law the basis and standards for the functions, duties, and powers of the provincial PSCs.

Madhesh Province has enacted the Province Public Service Commission (PSC) Act (2019), Province Public Service Commission (PSC) Regulations (2021), Province Civil Service Act (2020) and Province Civil Service Regulations (2022) to manage the civil service. As per Rule 13 of the Province Civil Service Regulations, all personal records of civil service personnel shall be registered in the provincial Personnel Information System (PIS). As of April 2025, the total number of approved civil service positions in Madhesh Province was 4,101 out of which 1,659 were filled and 2,442 were un-filled. Among the latter, 757 positions were filled on a contract basis, leaving 1,650 vacant positions of which 1,357 positions were filled under the federal Personnel Adjustment Act (2019). This Act enables the GoN to adjust personnel in the three tiers of government and are made based on the records maintained by the federal Department of Personnel Records (Civil) as well as records maintained by relevant provincial entities.

As per the Province PSC Regulations, appropriate offices may submit requests to the provincial PSC to fill vacant positions. Consequently, the provincial PSC issues recommendations for chosen candidates to receive authorization for their appointment.

The payroll system operates on a decentralized model, with monthly payrolls generated by each spending unit using approved annual payroll sheets. The payroll sheets are created at the start of each fiscal year and are to be approved by the PFCO (and its units at district-level) for every spending unit, detailing both sanctioned and actual positions. The annual salary sheets of civil service personnel in Madhesh Province remains to be formally approved by PFCO or its district-level units. According to the PCSC Act, salary payments to provincial civil servants cannot be made unless a salary report has been approved by the designated office (Section 43 (2)). Also, if salary and allowances are paid without such approval, the amount must be recovered from the official responsible for authorizing the payment [Section 43(3)]. The PFCO was finally authorized by the Cabinet to approve payroll on 6 May 2025.

The Provincial Government uses the FCGO's Government Accounting Manual (2006) for payroll accounting. The IPFMS/CGAS is used for managing personnel records and payroll.

Each EBU has its own personnel and payroll management functions, placed within their administrative and accounts units. There are no integrated personnel or payroll management systems or procedures for EBUs. Information on personnel and payroll management by EBUs is not readily available. The OAG's audit reports for Madhesh Province do not contain observations on personnel and payroll management by the EBUs.

Recent or ongoing reform activities: The Provincial Government is strengthening the PIS by establishing it as a separate entity. It has also initiated integration of the PIS into the IPFMS. Approval of payroll has, based on circular, started from 2025/26.

23.1 Integration of payroll and personnel records

Performance level and evidence for scoring: Rule 13 of the Province Civil Service Regulations mandates all concerned authorities to send information on the civil service personnel to the PIS.

The PPRO, under the OCMCM, has two units: The Sheet Roll and Record Unit and the Service Facility and Property Management Unit. The latter is operationally responsible for personnel management, including maintaining an approved staff list. The salary of civil servants is based on the approved position of the respective entity. To ensure budgetary control, the salary budget is proposed based on the approved staff list. In each spending unit, the administration section is responsible for maintaining personnel records, and the finance section handles payroll processing. Personnel actions such as promotions, transfers, rewards, and retirements are communicated on a monthly basis by the administration section to the finance section to ensure that the necessary payroll adjustments are made. They are also sent to the PPRO.

The budgetary units use annual salary sheets as the basis for preparing the monthly payrolls in the IPFMS, which incorporates a payroll management module. The PFCO generates a monthly salary sheet (*Talabi Pharam*) as per OAG Form No. 226, which is endorsed by the designated personnel (Office Chief of the pertinent entity) who is accountable for verifying payroll records.

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

There is no integration or electronic data interface between the PIS and the IPFMS. As a result, there are no systems-based reconciliations between personnel data and payroll records, and manual reconciliations are also not conducted.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

23.2 Management of payroll changes

Performance level and evidence for scoring: As per the Province Civil Service Act and the Province Civil Service Regulations, it is essential to keep current personnel records for every employee. All modifications to personnel records are conveyed through an official letter that is produced by a spending unit's administration section and dispatched to the relevant offices, including the OCMCM and the PFCO, with copies to the Employees Provident Fund (EPF) and the Citizen Investment Trust (CIT). Modifications are also reported to the accounts section for payroll adjustments and are examined as part of the monthly reconciliation between personnel records and the payroll (OAG Form No. 226).

The database of provincial employees is still in the process of being updated and, thus, the Provincial Government continues to use the federal PIS. When personnel are transferred, this information is not updated in the system. Information about the timing of changes to personnel records and payroll as well as data on retroactive adjustments was not available to the assessors.

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

Based on the analysis and supporting evidence, the score for the dimension is **D**.

23.3 Internal control of payroll

Performance level and evidence for scoring: Rule 13 of the Province Civil Service Regulations mandates all provincial government entities to maintain personnel records and send these to the PPRO. The internal control of the payroll system is detailed in the Province Civil Service Act and the Province Civil Service Regulations.

The PPRO is in the process of updating the personnel records in the provincial PIS, including previous changes (appointments, transfers, promotions, leaves, disciplinary actions, absences, and salary deductions), which are currently held as manual records by the administration section of the spending units. Any changes to personnel records necessitate approval from a competent authority and are documented in manual logs, which are maintained by both the spending units and the PPRO. The payroll module within the IPFMS is integrated with the EFT system (a component of the TSA) as well as the EPF, Pension Fund, CIT, and the Permanent Account Number (PAN) for tax registration. This ensures that only authorized personnel are eligible to receive salary and that payroll deductions are promptly transferred to the appropriate funds, as the preparation of payroll for the next month cannot commence until the deductions from the previous month have been processed. The system workflow maintains a clear division of responsibilities, designating an official for payroll preparation and a senior official for the approval process. However, internal controls and authority for making changes to the payroll are not clearly defined, and prescribed controls are not yet integrated into PIS and IPFMS workflows. There is also no audit trail.

The OAG's 7th Annual Report for Madhesh Province (covering 2023/24) includes observations about payment of salaries amounting to NPR 1,563.53 million without approved payroll sheets, as required by Section 43 of the Province Civil Service Act.[115] However, both internal and external audit reports commented on the accuracy of payroll and personnel data, as well as the effectiveness of the processes in ensuring the accuracy of all data.

The EBUs are managing their payroll and personnel records according to their own rules and regulations. Information regarding internal control of payroll is not available.

Presently, an adequate review to verify the accuracy of payroll and personnel data is not in place, and evaluations of the effectiveness of the processes designed for ensuring the integrity of the information are not conducted. The OAG in the 7th Annual Report for Madhesh Province for 2023/24 reports that salary payments were made without necessary approvals. Thus, effective internal control is not in place to ensure accuracy and integrity of the payroll data.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

23.4 Payroll audit

Performance level and evidence for scoring: As per the PFP Act's Section 32, an internal audit of all spending units shall be carried out on a quarterly basis. The internal audit, which is conducted by the PFCO covers all financial transactions of the spending units, including salary payments. The internal audit process involves reviewing approved positions, annual salary sheets, monthly payroll calculations, human resource actions and related payroll adjustments, tax deductions, and transfers. The OAG also audits payroll expenditures as part of its audit.

The internal audit reports for 2021/22, 2022/23 and 2023/24 do not contain any observations related to salary expenditures. However, the OAG's 7th Annual Report for Madhesh Province for 2023/24 includes observations about the salary payments amounting to NPR 1,563.53 million without approval of the required annual salary report by PFCO.

Most spending units have implemented an electronic (biometric) attendance system, which aims to ensure the physical presence of staff. The monthly salary payments are based on the attendance registers. While both internal and external audit of payroll transactions include documentation checks, including verification of attendance records, they do not involve on-site

[115] OAG. 2025. *Seventh Annual Report of the Auditor General, 2082, Madhesh Province*. Kathmandu, p.39.

physical verification in spending units. Hence, only partial payroll audits have been conducted during the last three completed fiscal years.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

PI-24. Procurement

What does the indicator measure? It examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of this indicator covers every procurement of goods, services, civil works, and major equipment investments, whether classified as recurrent of capital investment expenditure. When the database is a central government system, but the SNG does not have access and cannot autonomously manage the records, or when the central government is in charge of procurement for the SNGs this dimension will be not applicable (NA) for the SNG being assessed. Coverage is budgetary units and EBUs of the SNG for the last completed fiscal year. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The legal and regulatory framework for public procurement has been reviewed. Data has been requested for six selected ministries,[116] including their underlying budgetary units, as manual records as well as registrations from the electronic Government Procurement (e-GP) system. The PPMO's Annual Report for 2024 and the OAG's 7th Annual Report for Madhesh Province (covering 2023/24) were also reviewed.[117]

[116] Ministry of Education and Culture (MoEC), Ministry of Energy, Irrigation and Drinking Water (MoEIW), Ministry of Health and Population (MoHP), Ministry of Home Affairs, Communication and Law (MoHACL), Ministry of Land Management, Agriculture and Cooperatives (MoLAC), and Ministry of Physical Infrastructure and Development (MoPID).

[117] The OAG reported that most public entities are non-compliant with the Public Procurement Act (PPA)/Public Procurement Regulations (PPR) in terms of following procurement thresholds, including non-preparation of master procurement plan (MPPs) and annual procurement plans (APPs).

Table 2.67: Summary of scores for PI-24 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-24 Procurement		**D+**
24.1 Procurement monitoring	Although the e-GP system maintains records on procurement made using competitive processes, it is not entirely complete. Procurement information on what has been procured, the value of procurement, and who has been awarded contracts is included in decision files for competitive procurement and payment vouchers for non-competitive procurement. Comprehensive data for the latter is not available, including from six sampled ministries.	D
24.2 Procurement methods	Comprehensive data on the use of procurement methods is not available. According to the limited data available (from two sampled ministries), only 15.94% of procurement was made using competitive methods.	D
24.3 Public access to procurement information	Three out of six key procurement information elements are complete and available to the public.	C
24.4 Procurement complaints management	Five out of six criteria are met. There is a legal requirement of 1% deposit of the bid value to file a complaint, although no fee is charged for low-value procurement.	B

Description of the sub-national PFM system for the assessed PI: The GoN's Public Procurement Act (PPA) (2007) and the Public Procurement Regulations (PPR) (2007) apply to all three tiers of government as well as EBUs. As the Provincial Government has not (yet) developed its own public procurement rules, the federal PPA and PPR are applied. The Public Procurement Monitoring Office (PPMO), established in accordance with the PPA's Section 64, operates across all three tiers of government. It aims to ensure competition, efficiency and transparency by issuing directives, standard bidding documents (SBDs), guidelines and forms, conducting monitoring, and providing facilitation and capacity building. The PPMO manages the e-GP system,[118] which is used by all three tiers of government.

Almost all the Provincial Government's budgetary units as well as the EBUs are involved in procurement, which is made through the procurement unit of the concerned entity agency established as required by the PPA's Section 7 (3) and the PPR's Rule 16. All procurement activities

[118] Formally the National Electronic Government Procurement System: https://www.bolpatra.gov.np/egp/.

must adhere to the methods outlined in the PPA's Section 8, which includes both competitive methods (tenders and sealed quotations) and non-competitive methods (direct procurement and user committees). Any procurement that violates the PPA's provisions is considered null and void, according to Section 3(2) of the PPA.

Recent or ongoing reform activities: The FCGO has upgraded the FMIS/CGAS, which record commitments. Also, PAMS has been upgraded to Version 2 so as to record all types of procurements to generate accurate and complete procurement reports, including annual procurement plans (APPs), contract award information with value and awarded individuals/ firms, and payment details with total contract value. The PPMO is continually enhancing the features available in the e-GP system.

24.1 Procurement monitoring

Performance level and evidence for scoring: The e-GP system's Phase I captured up to bid opening only, whereas Phase II covers bid evaluation, contract awarding information, contract management, dispute management and payment (including with a banking interface for verification of bid/performance securities and advance payment guaranties). However, so far procurement units only use the e-GP system to prepare APPs and the master procurement plan (MPP), advertise tender notices, submit bids, and provide contract award information. The remaining processes are still done manually. Hence, the e-GP system does not yet contain complete records.

The PPA's Section 6 requires procurement units to prepare an APP for procurement above NPR 1 million, and an MPP for multi-year projects with procurement above NPR 100 million. Both plans must be prepared in the e-GP system. However, the procurement units of the Provincial Government only prepare the plans at the time of processing procurement, mainly when publishing tender notices/bids, instead of preparing them in advance at the start of the fiscal year. Two out of the five ministries sampled did not prepare either plan for 2023/24.

Procurement units record information about procurement made using competitive methods in decision files prepared for each tender.[119] While the PPA's Section 72 requires the maintenance of procurement records, including minutes, agreements and other documents for all procurement, information on procurement using non-competitive methods is not maintained separately (no registers or spreadsheet files are created), hence information is only available in procurement

[119] The files, which are not publicly available, contain the following details: Tender Notice publication date, bid opening date, evaluation details and date(s), cost estimates, contract amount and date, contractor details, specifications/ToRs, contract signed date, and work completion date.

payment vouchers.[120] Although these include information on what was procured, the contract value, and who has been awarded, such manual records are not accurate and complete.[121] Hence, procurement data is, when required, therefore manually compiled (decision files for competitive procurement and payment vouchers for non-competitive procurement).

Given the above, relevant procurement information is not readily available from procurement units. Of the six ministries reviewed, only two ministries – the Ministry of Energy, Irrigation and Drinking Water (MoEIW) and the Ministry of Land Management, Agriculture and Cooperatives (MoLMAC) – provided partial and incomplete information.[122]

Procurement information from EBUs has not been available. However, the volume of procurement by EBUs is insignificant compared to that of the Provincial Government.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

24.2 Procurement methods

Performance level and evidence for scoring: The PPA's Section 8(a) lists ten procurement methods for goods, works and other services: (a) open bidding (international) (b) open bidding (national) (c) sealed quotations (d) direct procurement (e) procurement through participation of user committee or beneficiary group (f) procurement through force account (g) total fixed rate method (h) catalogue shopping (i) limited tender, and (j) buy-back method. Section 8(b) provides two procurement methods for consultancy services: (i) competitive offer, and (ii) direct negotiation. Open competition is the default method for all procurement of goods, services, and works above NPR 2 million. However, the PPA allows for exceptions relating to direct procurement in accordance with Section 41 (direct procurement for specified procurements within a specific threshold). Furthermore, the PPRs Rule 85 provides thresholds for direct (non-competitive) purchase of goods and construction works up to NPR 1 million, and for consulting and other services up to NPR 0.5 million. The PPR's Rule 84 provides threshold for the sealed quotation (competitive) method up to NPR 2 million, whereas Rules 31 and 70 make competitive bidding above NPR 2 million mandatory.

[120] Payment vouchers contain cost estimate (if required), payment bills containing vendors contact information, the amount(s) of purchased items or services, ToR (if required), and the purchase request/order.

[121] The PPMO in its Annual Report for 2024, Chapter 2.2, notes – based on monitoring of 18 public entities, including three offices in Rautahat and Janakpur districts of Madhesh Province – cases of non-compliance with PPA and PPR provisions, low capacity due to lack of training, MPPs and APPs not prepared, and absence of required databases.

[122] The information provided did not cover all underlying budgetary units and did not include all types of procurement (for example, information on procurement through user committees was not provided).

According to Clause 5 of the Electronic Procurement System Operation Directives (2023), the use of the e-GP system is mandatory for all competitive bidding processes involving public funds, including tenders, pre-qualifications and proposals. Additionally, the e-GP system can be used for both sealed quotations (competitive) and direct procurement (non-competitive). However, the Provincial Government's procurement units have not used e-GP system fully for all types of procurement.

Table 2.68: Procurement methods and corresponding values

Total Value of Procurement (1)	Total value of contracts – procurement made under non-competitive method (2)	Total value of contracts- procurement made under competitive method (3)	Percentage of the competitive method (by value = (3/1)*%
Not available	Not available	Not available	Not applicable

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

Accurate and complete procurement data compiled through a reliable database system is not available. The competitive method procurement data is maintained in decision files (with information on what was procured, valued of contract, and who was awarded the contract), whereas for non-competitive methods, no registers or summary of records are maintained. Hence, comprehensive procurement data is not available, neither in database nor in manual formats.

Out of the six ministries sampled, only two ministries provided partial and incomplete procurement information. Based on this, only 15.94% of procurement was made using competitive methods.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

24.3 Public access to procurement information

Performance level and evidence for scoring: Public access to public procurement information for Government of Madhesh Province is analyzed below.

Table 2.69: Key procurement information to be made available to the public

Elements/ Requirements	Met (Yes/No)	Evidence Used/Comments
(1) Legal and regulatory framework for procurement	Yes	The PPA, PPR, SBDs, e-GP information, and PPMO directives and procedures are available online.[123]
(2) Government procurement plans	No	MPPs and APPs must be prepared at the beginning of the fiscal year (after the annual budget and program is approved). However, no MPPs or APPs have been identified for the six ministries reviewed. Some APPs are available in the e-GP system, as these have been uploaded as required when bidding processes have been initiated, but they are incomplete.
(3) Bidding opportunities	Yes	Bidding opportunities in 2023/24 were published as tender notices in national newspapers as well as uploaded in the e-GP system.[124]
(4) Contract awards (purpose, contractor and value)	No	For procurement using competitive methods, the results of bid evaluations and contract awards – including purpose, contractor and contract value – were published via notice boards, the e-GP system, and national newspapers. However, no information was published for procurements using non-competitive methods.
(5) Data on resolution of procurement complaints	Yes	It is mandatory for procurement units to maintain records of registered and resolved complaints, along with actions taken to address them. This information must be submitted to the PPMO annually (PPR's Rule 108). Also, the PPMO introduced a complaint registration module in 2021/22, but has not recorded any procurement-related complaints relating to procurement made by the Provincial Government during 2023/24. Additionally, while reviewing two ministries, no complaints were identified as having been filed in 2023/24. Complaints lodged with resolved details are made publicly available through PPMO's yearly report.[125]
(6) Annual procurement statistics	No	The e-GP system captures procurement made through competitive methods, but not through non-competitive methods. The procuring agencies record procurement information only manually either in decision files (competitive methods) or in payment vouchers (non-competitive methods). However, complete procurement statistics for all procurement methods across all procuring agencies are not readily available.

APP = Annual Procurement Plan, e-GP = electronic Government Procurement, MPP = Master Procurement Plan, PPA = Public Procurement Act, PPMO = Public Procurement Monitoring Office, PPR = Public Procurement Regulations, SBD = Standard Bidding Documents.

[123] PPA and PPR: https://ppmo.gov.np/category/acts-regulations/; SBDs: https://ppmo.gov.np/pages/72659479/#; e-GP system information: https://bolpatra.gov.np/egp/; and, PPMO directives and procedures: https://ppmo.gov.np/category/acts-regulations/.

[124] https://www.bolpatra.gov.np/egp/searchOpportunity.

[125] https://ppmo.gov.np/category/1112/.

Three out of six key procurement information elements are complete and reliable for government units and are made available to the public.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

24.4 Procurement complaints management

Performance level and evidence for scoring of the dimension: As per the PPA's Sections 47 and 48, complaints about procurement processes may be filed with the Public Procurement Review Committee (PPRC). For review of the application made by a bidder or proponent (under Section 49), the GoN shall constitute the PPRC with three members. Detailed review procedures to be adopted by the PPRC are provisioned in the PPA's Sections 50 and 51, including time periods. The complaints mechanism is analyzed below.

Table 2.70: Complaints are reviewed by a body that:

Elements/ Requirements	Met (Yes/No)	Evidence used/Comments
(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.	Yes	According to Section 47 of the PPA and Rule 100 of the PPR, an application can be made to the head of the concerned procuring agency to review procurement decisions made (for procurements up to an amount of NPR 20 million) as well as about any perceived wrongdoing or non-compliance with rules and regulations. Although the head of a procuring agency has overall responsibility for all tasks of the agency, including in relation to procurement, complaints can be made to a higher authority or to the PPRC. The PPA's Section 48 and the PPR's Rule 102 restrict PPRC members from holding positions in public organizations or taking part in procurement activities. The chair and committee members are not allowed to engage in any role within procurement transactions or in the processes that lead to awarding contracts.
(2) does not charge fees that prohibit access by concerned parties.	No	According to PPA's Section 50 (6), a deposit amount of 1% of the bid price as a guarantee (according to the PPR's Rule 104) is required to file a complaint. This deposit is refundable, if the complaint is found to be justified. However, it will be forfeited if the complaint is dismissed. Deposits related to low-value procurement may not prohibit access by concerned parties.

Elements/ Requirements	Met (Yes/No)	Evidence used/Comments
(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available.	Yes	The submission and resolution of complaints are prescribed under the PPA's Section 50 and the PPR's Rules 103-108, which are both publicly available.
(4) exercises the authority to suspend the procurement process.	Yes	According to the PPA's Sections 47 and 50, the PPRC as well as the head of the procuring entity may suspend procurement processes.
(5) issues decisions within the timeframe specified in the rules/ regulations.	Yes	According to the PPA's Section 47 (6), the head of the procuring entity must provide a decision within five days of receipt of a complaint. No complaints were identified among the two ministries reviewed out of five sampled. According to the PPA's Sections 1 and 2, the PPRC is required to provide a decision within 30 days from the complaint filed date. According to the PPMO's Annual Report 2024,[126] out of the total 266 complaints received in 2023/24, 261 were resolved within 30 days.
(6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).	Yes	The decisions made by the PPRC hold authority over all parties involved. If the parties concerned are dissatisfied with the decision, they may choose to file a case in a higher court of law.

PPA = Public Procurement Act, PPMO = Public Procurement Monitoring Office, PPR = Public Procurement Regulations, PPRC = Public Procurement Review Committee.

The requirements for the functioning of the complaints resolution mechanism are met for five of six elements in case of government procurement agencies, including EBUs.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

[126] https://ppmo.gov.np/category/1112/-PPMO.

PI-25. Internal controls on non-salary expenditure

What does the indicator measure? It measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. Coverage is budgetary units of the SNG and EBUs at time of assessment. This indicator uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The legal and regulatory framework for internal control as well as published reports were assessed vis-à-vis the requirements for the dimensions.

Table 2.71: Summary of scores for PI-25 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-25 Internal controls on non-salary expenditure		**C**
25.1 Segregation of duties	The segregation of duties throughout the expenditure process is clearly guided by law, but the responsibilities at the level of most ministries and budgetary units are not yet clearly laid down.	C
25.2 Effectiveness of expenditure commitment controls	Expenditure commitment control procedures exist, but forecasts of projected cash requirements are not prepared. Hence, control procedures only provide partial coverage and are only partially effective.	C
25.3 Compliance with payment rules and procedures	The internal and external auditors reported irregularities of about 5% of total expenditure for 2023/24. However, the OAG's 7th Annual Report for 2023/24 also reported many significant observations relating to internal control weaknesses, including non-compliance with laws and regulations. The majority of payments are compliant with regular payment procedures, and the majority of exceptions are properly authorized and justified.	C

Description of the sub-national PFM system for the assessed PI: Internal control is guided by the Provincial Government's PFP Act as well as the FPFA Act. Also, the Provincial Government has developed the Internal Control System Formulation Directives (2022),[127] which require ministries and budgetary units to establish effective internal control systems.

The Provincial Government provides grants to EBUs, the administration of which is governed by legislative frameworks and supported by monitoring from the respective ministries as well as by internal and external audits (although the internal control systems of EBUs are not explicitly

[127] https://ocmcm.madhesh.gov.np/node/513.

mentioned in internal and external audit reports). EBUs are guided by their own internal control frameworks established under their respective governing laws.

Recent or ongoing reform activities: The Provincial Government has, for selected ministries, initiated the preparation of cash flow plans to link expenditure commitment control with the CGAS, as required by the FPFA Act's Section 19 (4).

25.1 Segregation of duties

Performance level and evidence for scoring: Section 30 of the PFP Act requires preparation and implementation of an internal control system by all ministries and entities. Section 31 requires that a five-member Internal Control Committee, chaired by the Account Responsible Officer (Secretary) is set up within each entity. The Madhesh Province Government (Work Division) Regulations (2022)[128] outline the division of roles and responsibilities between the eleven ministries, and assign them to individual staff members. However, it only provides a broad overview of ministry-wise functions and does not detail the specific roles, duties or internal structure of departments and agencies under each ministry.

The FPFA Act establishes a clear division of major responsibilities. The Accounts Officer (Secretary) and the Office in Charge (Office Chief) are responsible for authorizing expenses. The accounts section of each budgetary unit is responsible for accounting, recording, reconciliation and reporting. Payments are verified and approved by the PFCO independently based on payment requests submitted by budgetary units. The store section of the budgetary units handles assets recording and custodian. Information technology (IT) systems – such as PLMBIS, TSA, CGAS, FMIS, PAMS, and RMIS – have built-in control measures, including segregation of responsibilities. The PPA and the PPR prescribe the formation of procurement committees and financial authority of officials to approve cost estimates and contract awards.

Although province-level internal control system formulation guidelines have been developed, ministries and budgetary units have not formulated their own guidelines, which the OAG is reporting in the Annual Report every year. Standard operating procedures (SOPs) for each ministry and agency have also not yet been developed. This is mainly due to frequent changes in the formation of ministries causing delays in updating the Province Government (Work Division) Regulations, which hinders the establishment of effective internal controls. Such changes also disrupt continuity in administrative functions and accountability mechanisms, thereby affecting the consistency and effectiveness of internal control systems.

[128] https://ocmcm.madhesh.gov.np/node/498.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

25.2 Effectiveness of expenditure commitment controls

Performance level and evidence for scoring: Section 8 (2) and 11 of the PFP Act as well as Section 12 of the FPFA Act provide for commitment controls as well as compliance arrangements. The PFP Act's Section 8 (2) requires prioritizing the budget for committed works before allocating funds for new programs/projects. Furthermore, the provincial MoF issues expenditure norms for budget spending to prevent unauthorized commitments.[129] Thus, the budget proposal for the next fiscal year must be proposed by the budgetary units for new programs/projects only after allocating the budget for committed expenditures.

The PFCO has used the TSA system, which is linked to the FMIS, to record commitments from 2023/24. Accordingly, commitment data is automatically collected from budgetary units. To prevent spending arrears, commitment data from all budgetary units is automatically updated into the system to make sure that payment for commitments falls within the (revised) yearly budget allocations. The Provincial Government's commitments for 2023/24 amounted to NPR 15,191 million, which were mainly related to capital expenditures for construction, vehicles, furniture, machinery, and housing and infrastructure.[130]

Control over recording and reporting of commitments ensures that payment obligations remain within annual budget allocations to avoid creating expenditure payment arrears. However, cash flow forecasts, or entity-level cash flow projections, are not prepared, thus the control procedures provide only partial coverage and are only partially effective.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

25.3 Compliance with payment rules and procedures

Performance level and evidence for scoring: Several laws and regulations are in place which outline the requirements and procedures for payments.[131] The implementation of the laws and regulations is supported by the IT systems (PLMBIS, TSA, CGAS, RIMS, PAMS).

The table below shows the overall results of the internal audits conducted by the PFCO in 2023/24 in terms of irregularities.

[129] Expenditure norms for 2024/25: https://mof.madhesh.gov.np/np/news_notice_detail/309.
[130] CFS 2023/24, p. 30.
[131] PFA Act, FPFA Act, Appropriation Act, Province Government (Work Division) Regulations, etc.

Table 2.72: Irregularities identified in the internal audit reports for 2023/24

Categories	Total no. of audited budgetary units	Audited expenditure (NPR Millions)	Irregularities identified (NPR Millions)	Share (%)
Appropriation (excluding salary)	166	22,457.68	539.05	2.40
Deposit		779.75	0.00	0.0
Miscellaneous		355.40	85.90	24.20
Revenue		23,592.83	0.21	0.0

Note: Salary expenditure amounted to NPR 2,087.25 million, and was deducted from total appropriation expenditure (i.e., NPR 24,544.93 million minus NPR 2,087.25 million = NPR 22,457.68 million).

Source: PFCO's Internal Audit Report 2023/24, p. 7 (https://stco.p2.gov.np/category/89).

The irregularities identified in the PFCO's Internal Audit Report for 2023/24 amounted to 1.32% of the audited non-salary expenditures. This does not include overdue advances (as assessed under PI-27.3) and also not irregularities of EBUs, which are audited by separate internal audit teams as per their regulations. Details on the latter are not available.

The findings of the OAG, as presented in the 7th Annual Report for Madhesh Province (covering 2023/24), are shown in the table below.

Table 2.73: Irregularities identified in the external audit report for 2023/24

Provincial Government	Audited amount (expenditure) (NPR, Millions)	Salary (NPR, Millions)	Non-salary (NPR, Millions)	Irregularities (non-salary) identified (NPR, Millions)	Share (%)
All budgetary units, incl. EBUs	46,000.51	2,087.25	43,913.26	1,163.80	2.65

Source: OAG. 2025. *Seventh Annual Report of the Auditor General, 2082*, Madhesh Province. Kathmandu, p. 5.

The irregularities identified by the OAG amounted to 2.65% of the audited non-salary expenditures in 2023/24, except overdue advances (as assessed under PI-27.3).

The share of non-salary irregularities for the Provincial Government's five largest budgetary units, as identified by the OAG's 7th Annual Report for Madhesh Province (covering 2023/24), is shown in table below.

Table 2.74: Share of irregularities among the five largest budgetary units

(NPR Millions)

Ministry	Total expenditure (A)	Total salary expenditure (B)	Non-salary / net expenditure (C = A-B)	Irregularities (D)	Share (%)
MoPID	8,133.68	78.00	8,055.68	474.32	5.89
MoEIDW	3,829.30	123.63	3,705.67	80.80	2.18
MoHP	3,786.60	508.37	3,278.23	68.51	2.09
MoEC	2,453.94	186.03	2,267.91	96.89	4.27
MoFE	1,334.81	515.44	819.37	134.71	16.44
Total	**19,538.33**	**1,411.47**	**18,126.86**	**855.22**	**4.72**

MoPID= Ministry of Physical Infrastructure and Development, MoEIDW= Ministry of Energy, Irrigation and Drinking Water, MoHP= Ministry of Health and Population, MoEC= Ministry of Education and Culture, MoFE= Ministry of Forest and Environment.

Source: OAG. 2025. *Seventh Annual Report of the Auditor General, 2082, Madhesh Province*. Kathmandu, p. 44, p. 52, p. 59, p. 65, p. 66 and p. 71 as well as Annex 9, p. 123.

The irregularities identified by the OAG vary between 2.09% and 16.44% of the audited non-salary expenditures for the five largest ministries in 2023/24, while the average is 4.72%.

However, the OAG also reported many significant observations relating to internal control weaknesses, including non-compliance with laws and regulations such as payments without documentation, contract splitting, advance settlements not recovered, and expenditures made without proper authorization. Hence, while the average rates of internal and external audit irregularities are below 5%, the presence of widespread and recurring issues demonstrate that these are not isolated exceptions, but systemic control failures.

The findings furthermore show that there are no formal rules or provisions that allow exceptions to the established payment procedures. Rather, the irregularities reflect unauthorized deviations and a lack of enforcement, oversight, and accountability within the existing framework.

According to the OAG's 7th Annual Report for Madhesh Province (covering 2023/24),[132] the MoF made virements of NPR 1,076.9 million for recurrent expenditure and NPR 1,482.54 million for capital expenditure, thus totaling NPR 2,559.44 million (which is more than 10% of actual expenditure of 2023/24). Expenditures were made from the MoF's 'Miscellaneous' budget head instead of budgeted under each program or budget head in the original budget. Although, virements are permitted as per the PFP Act and the Appropriation Act within set limits and

[132] https://oag.gov.np/reports/province-report (for virement report,7th OAG Annual report, p9 and 10)

with a specific process to be followed, the significant amount of budget reallocation through virements indicate exceptions in the payments process, although they are authorized and justified by law.

The majority of payments are compliant with regular payment procedures, and the majority of exceptions are properly authorized and justified.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

PI-26. Internal audit

What does the indicator measure? It assesses the standards and procedures applied in internal audit. If a higher-level entity is responsible for the internal audit function of an SNG (partially or totally), because the SNG has partial (or no) autonomy in undertaking this function, this indicator will be NA. Coverage is budgetary units and EBUs of the SNG at time of assessment for PI-26.1 and PI-26.2, the last completed fiscal year for PI-26.3, and for PI-26.4 for audit reports that should have been issued in the last three fiscal years. The indicator uses the M1 (weakest link) method for aggregating dimension score.

Methodological notes: The information was collected from PFCO and its district level units for assessment of this indicator. The information about the audit plans and audit reports were collected from TSA system/PFCO.

Table 2.75: Summary of scores for PI-26 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-26 Internal audit		**D+**
26.1 Coverage of internal audit	Internal audit plans do not exist for 2024/25, and no internal audits were conducted until the time of the assessment. Internal audit is generally conducted after fiscal year-end.	D
26.2 Nature of audits and standards applied	Internal audit activities are primarily focused on legal and financial compliance, although in practice Internal Audit Procedures (2021) are not fully adhered to. Professional internal audit standards are not formulated and applied.	D

Indicator/Dimension	Brief justification for score	2025 Score
26.3 Implementation of internal audits and reporting	An annual internal audit plan, with allocation of budgetary units across internal audit teams, is prepared by the PFCO and its district-level units. Internal audits for 2023/24 were completed as evidenced by internal audit reports being distributed to the appropriate parties.	A
26.4 Response to internal audits	Auditees are required to settle internal audit observations within a prescribed time frame and inform the PFCO. However, there is no requirement for auditees to provide formal replies, and there is no evidence that auditees respond to internal audit recommendations.	D

Description of the sub-national PFM system for the assessed PI: Section 34 of the FPFA Act mandates provincial governments and local levels to perform internal audit and settle internal audit observations. Section 32 of the PFP Act requires the PFCO to conduct internal audits of all the Provincial Government's budgetary units to ensure regularity, transparency and accountability of public finance. It is the responsibility of the head of each budgetary unit to have the units' transactions audited. As per the PFP Act's Section 32(6), internal audit observations need to be settled before the OAG's annual external audit commences (which is otherwise noted in the external audit reports). The PFCO is required to prepare a consolidated internal audit report, submit to the provincial MoF by mid-October for the preceding fiscal year, and make it public (Section 32 (8)). The PFCO, through a separate Internal Audit Section, and through its district-level units, performs internal audit.[133] In order to avoid conflict of interest, personnel involved in accounting cannot conduct internal audit. The PFCO is required to use the TSA system, which includes an internal audit module for planning, reporting and monitoring of internal audit.

Internal audit is conducted based on the Internal Audit Procedures (2021),[134] which focus on legal and financial compliance by verifying that transactions are accurate (using supporting documentation to ensure that legal and financial provisions are followed) and ensuring that revenues match the sums collected and deposited to the Treasury.

[133] There are eight districts in Madhesh Province and 166 budgetary units. The PFCO, located in Dhanusha District, conducts internal audit in Dhanusa district. It has established three units as Provincial Treasury Units (PTUs), which conduct internal audit in six districts of eight districts. The DTCO in Mahottari District conducts internal audit in that district on behalf of PFCO.

[134] https://stco.p2.gov.np/category/76. Clause 5: provides for quarterly planning (as per Annex 1). Clause 11 covers internal reporting between budgetary units, PTUs and the PFCO. Clause 13 requires the PFCO to prepare a consolidated Internal Audit Report, including reports from PTUs, and submit the same to the OCMCM, MoF and OAG within six months of fiscal year-end.

EBUs are subject to internal audit for the government grants that they receive. EBUs have their internal audit mechanisms, as guided by their respective laws.

Recent or ongoing reform activities: The PFCO carries out skills development training for its personnel to enhance the quality of internal audit. Internal audit staff have been separated from accounting functions as mandated by the PFP Act (Section 32(7)). An internal audit module was embedded in the TSA system to record internal audit plans and reports from 2023/24.

26.1 Coverage of internal audit

Performance level and evidence for scoring of the dimension: The PFP Act's Section 32(1) mandates internal audits to be carried out quarterly, but it is mainly conducted annually. Internal audit covers receipts and expenses. The annual internal audit of the Provincial Government's budgetary units is generally completed within three months from fiscal year end. No internal audit is carried out on a quarterly basis as required by the PFP Act.

At the time of assessment, no evidence was available as to whether internal audit has been conducted for 2024/25. The PFCO has not prepared a quarterly internal audit plan in the TSA module for 2024/25. It has, however, recently made an official decision (*Tippani*) with the proposed name of internal audit team and budgetary units to be covered for internal audit for 2024/25. No internal audit was conducted of the three EBUs sampled for PI-26.

The PFCO's internal audit function 'at the time of assessment, does not meet the PEFA framework requirements for the Provincial Government having an "operational" internal audit which, among other things, would require an internal audit plan, documentation, reporting and follow-up activities to be in place.[135]

Based on the analysis and supporting evidence, the score for the dimension is **D**.

26.2 Nature of audits and standards applied

Performance level and evidence for scoring of the dimension: The Provincial Government has not formally adopted internal audit standards. As per Section 32(1) of the PFP Act, internal audit should examine financial activities on the basis of regularity, economy, efficiency and effectiveness of transactions. Internal audit primarily focuses on legal and financial compliance by verifying that transactions are accurate (using supporting documentation to ensure that

[135] As per the PEFA guidance, the "Typical features of an operational audit function are the existence of laws, regulations and/or procedures, and the existence of audit work programs, audit documentation, reporting, and follow-up activities leading to the achievement of the internal audit objectives, as described in international standards."

legal and financial provisions are followed), and ensuring that revenues match the sums collected and deposited in the Treasury. However, in practice the Internal Audit Procedures (2021) are not fully adhered to.

The Internal Audit Procedures do not include internal audit standards, and thus also not for planning, execution, reporting, and follow-up. A procedure for quality assurance does not exist, including internal audits performed and the extent of adherence to professional standards. Annual internal audit activities are thus primarily focused on legal and financial compliance without having formally adopted any internal audit standards.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

26.3 Implementation of internal audits and reporting

Performance level and evidence for scoring of the dimension: The internal audit plan for 2023/24 was prepared by the PFCO. It comprised all 166 budgetary units of the Provincial Government across the following districts: Dhanusha (49), Rautahat (34), Siraha (36), Parsa (32) and Mahottari (15). The PFCO and its district-level units conducted internal audit of all government budgetary units for the last completed fiscal year (2023/24).

For each internal audit, a separate report is supposed to be prepared and documented in the TSA system (OAG Form No. 4408), but the report for 2023/24 was issued manually without using the TSA system. Based on the reports issued to each auditee, the PFCO prepared the consolidated internal audit report for 2023/24 only in May 2025, which was required to be prepared and submitted to the MoF by mid-October 2024 (as per Section 32(8) of the PFP Act). As per the PFCO records, printed internal audit reports are provided to all audited units as well as to the OAG and the FCGO.

The coverage of the internal audit plan for 2023/24 is shown on the table below.

Table 2.76: Completion of internal audits for 2023/24

	Planned internal audits	Completed internal audits
Provincial Assembly	1	1
Public Service Commission (PSC)	1	1
Office of the Attorney General	1	1
Office of Chief Minister and Council of Ministers (OCMCM)	3	3
Ministry of Finance (MoF)	5	5
Ministry of Industry, Commerce and Tourism (MoICT)	13	13
Ministry of Land Management, Agriculture and Cooperative (MoLMAC)	28	28
Ministry of Energy, Irrigation and Water Supply (MoEIWS)	13	13
Ministry of Home Affairs, Communication and Law (MoHACL)	3	3
Ministry of Forest and Environment (MoFE)	13	13
Ministry of Physical Infrastructure Development (MoPID)	17	17
Ministry of Education and Social Welfare (MoESW)	28	28
Ministry of Health and Population (MoHP)	29	29
Ministry of Labor and Transportation (MoLT)	10	10
Provincial Planning and Policy Commission (PPPC)	1	1
Total	**166**	**166**
Completion rate (%)	*100%*	

Sources: Internal Audit Decision File (Internal Documents) for 2023/24, TSA/PFCO, and internal audit reports.

The PFCO's consolidated internal audit report for 2023/24 shows that all 166 budgetary units of the Provincial Government that were subject to internal audit have been audited.

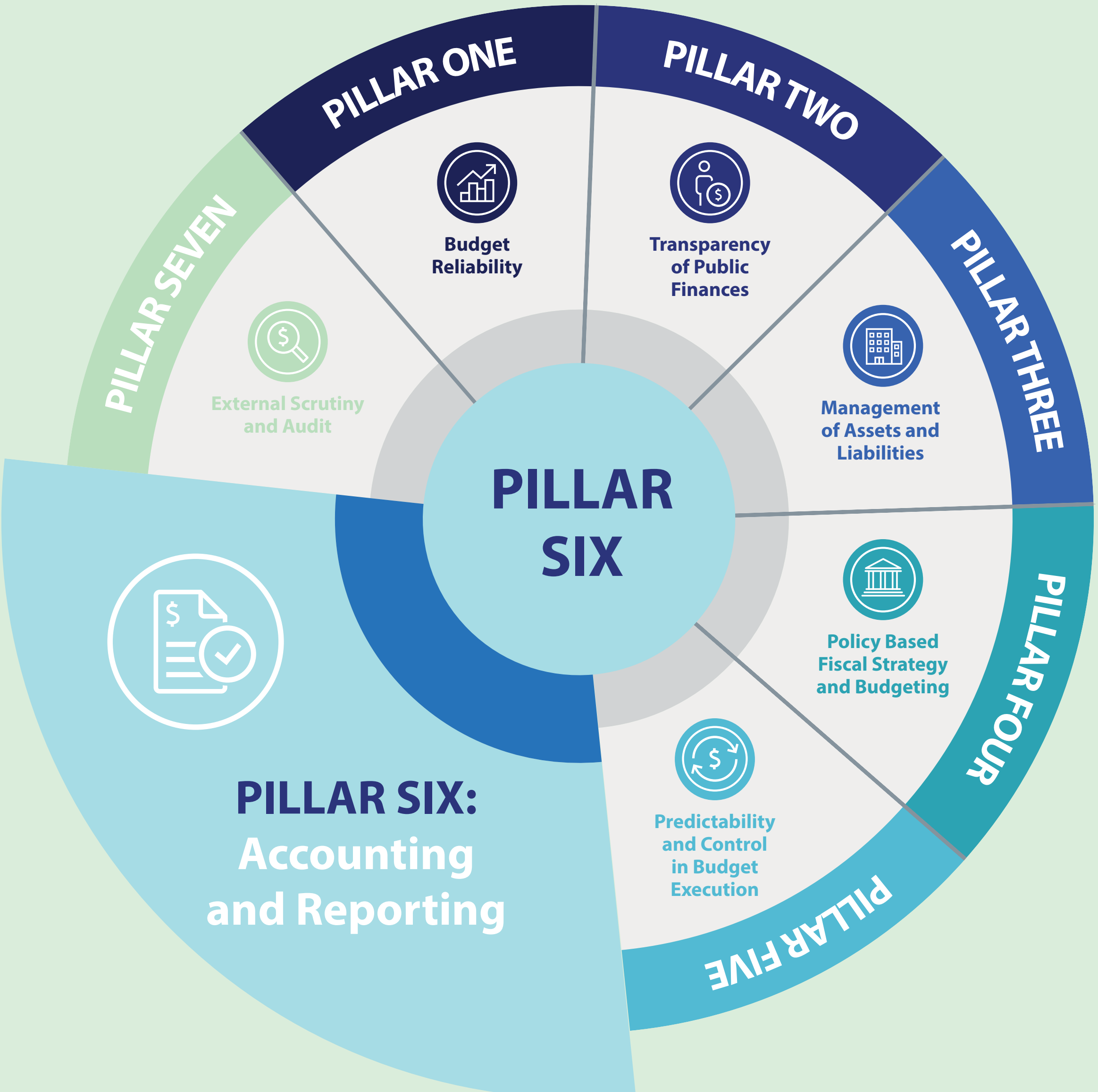
Based on the analysis and supporting evidence, the score for the dimension is **A**.

26.4 Response to internal audits

Performance level and evidence for scoring of the dimension: As per the PFP Act's Section 32(6), auditees are required to settle and/or regularize internal audit observations before the commencement of the OAG's external audit. The unsettled internal audit findings and recommendations may be incorporated into the OAG's external audit report.

There is no requirement stated in the PFP Act, or the FPFA Act, for auditees to provide formal response to internal audit findings. There is no evidence available that auditees provide any responses to internal audit findings.

Based on the analysis and supporting evidence, the score for the dimension is **D**.


PILLAR ONE
Budget Reliability
PILLAR TWO
Transparency of Public Finances
PILLAR THREE
Management of Assets and Liabilities
PILLAR FOUR
Policy Based Fiscal Strategy and Budgeting
PILLAR FIVE
Predictability and Control in Budget Execution
PILLAR SEVEN
External Scrutiny and Audit
PILLAR SIX
PILLAR SIX: Accounting and Reporting

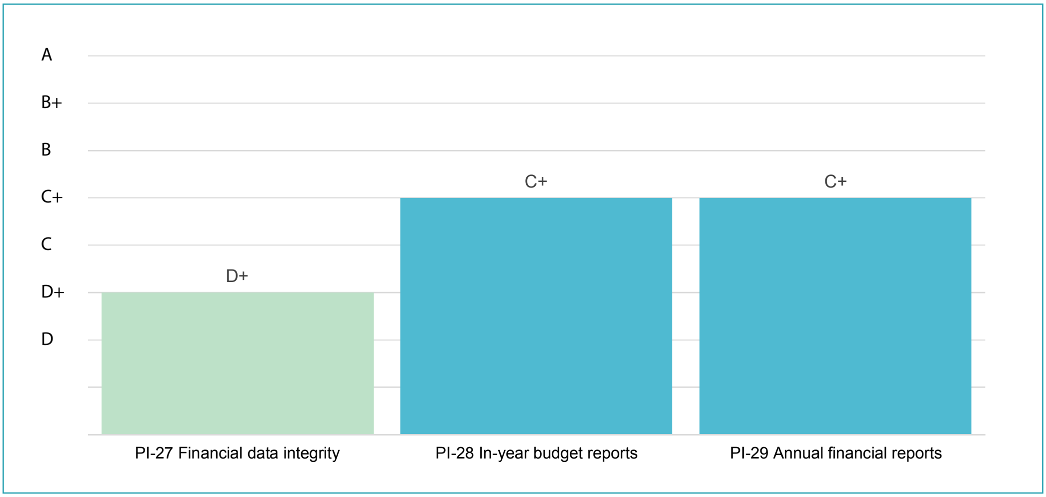
PILLAR VI: Accounting and Reporting

What does the pillar measure? It measures if accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Overall performance: The performance of Pillar VI is overall below basic. While the FCGO plays a key role in ensuring financial data integrity across all tiers of governments, including for the Provincial Government, reconciliation of bank accounts is conducted mainly annually and advances are settled only with significant delays (PI-27). Quarterly budget execution reports are prepared and published by the MoF in a timely manner, but they lack analysis and commentary (PI-28). The annual CFS include basic data sets, are submitted for external audit on a timely basis, and have for the past two fiscal years been based on international accounting standards that are disclosed in the reports (PI-29).

The performance of PIs 27-29 are shown below.

Figure 2.7: Indicator scores under Pillar VI



PI-27. Financial data integrity

What does the indicator measure? It assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts used by a SNG are regularly reconciled and how the processes in place support the integrity of financial data. Coverage is budgetary units and EBUs of the SNG for PI-27.1 and budgetary units of the SNG for PI-27.2, PI-27.3 and PI-27.4. Time period is at time of assessment for all four dimensions, specifically covering the preceding fiscal year for PI-27.1, PI-27.2 and PI-27.3.

Methodological notes: Information from the FCGO, PFCO and NRB on reconciliations was collected and triangulated with audit reports and other available evidence. All accounts maintained in the NRB were analyzed for PI 27.1. Bank reconciliation data from three EBUs was reviewed.[136]

Table 2.77: Summary of scores for PI-27 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-27 Financial data integrity		**D+**
27.1 Bank account reconciliation	Bank reconciliation for all active bank accounts is conducted annually and usually within eight weeks from the end of the fiscal year.	D
27.2 Suspense accounts	There are no suspense accounts.	NA
27.3 Advance accounts	Reconciliation of advance accounts took place at least monthly, within a month from the end of each month. However, delays in settlement of advances were noted, with 44.3% of advances for 2023/24 being overdue and not cleared.	D
27.4 Financial data integrity processes	The FCGO has safeguards in place to preserve the integrity and accuracy of financial data. Access and changes to records are restricted and recorded, and result in an audit trail. However, no specific report is available to confirm the verification of data integrity by a separate team/unit.	B

Description of the sub-national PFM system for the assessed PI: The GoN's IPFMS (CGAS, TSA, RMIS, FMIS) is the main system used by the Provincial Government for accounting, recording and reporting. Expenditures, deposits, and other operating transactions are recorded through the CGAS, whereas revenue transactions are accounted for and reported using the RMIS. The PFCO units make payments through the EFT module in the TSA system based on payment recommendations from the budgetary units, which are linked with the PLMBIS and CGAS. All systems have specific user IDs and passwords. Data is stored in federal servers and is available as and when required by users.

The EFT system is used for all payments. The Provincial Government uses the TSA process and procedures that are outlined in the TSA Directive (2016) issued by the FCGO. Opening, operation, reconciliation and reporting of bank accounts is governed by the NRB's Government Transaction Directives. The Provincial Government uses the federal Accounting Manual (2016) for accounting policies, principles, procedures, and processes for financial transactions.

[136] Province Research and Training Center (PRTC), Madhesh Academy (MA), and Madhesh Institute of Health Science (MIHS).

Recent or ongoing reform activities: The GoN has amended the FPFA Act (2019) through the Financial Procedure and Fiscal Accountability (First Amendment) Ordinance (2024). The review of directives is in process with the aim of enhancing practices and controls for PFM and financial data integrity. A commitment management system has been implemented that aligns advances and payments. Furthermore, system security and controls have been continually updated to ensure financial data integrity.

27.1 Bank account reconciliation

Performance level and evidence for scoring: Bank reconciliation is governed by the Government Transaction Directives. Section 27(6) of the FPFA Act covers reconciliation of revenue and bank accounts. Section 25(9) of the PFP Act requires records for cash, revenue, deposit and inventories to be maintained and updated as prescribed. The Provincial Government uses the TSA, which is a combination of government bank accounts, to consolidate and utilize cash resources. As per the Government Transaction Directives, the PFCO is required to conduct reconciliations on a daily, weekly, monthly and annual basis to ensure alignment between government accounts maintained by the PFCO, the NRB and designated commercial banks.

The following table shows groups of accounts that are part of the TSA (for revenue and expenditure).

Table 2.78: Provincial Government Bank Accounts

Group of Accounts No.	Group of Accounts Title	Reconciled (Y/N)	Timeframe for reconciliation	Reconciliation frequency by PFCO based on evidence
KHA-1.1	Provincial government revenues, grants, and other receipts accounts – maintained with the NRB.	Yes	1 day of coming month (monthly)	Annually
KHA-1.1	Provincial government revenue account – maintained with commercial banks at the district-level.	Yes	Daily[137]	Annually
KHA-1.2	Financial Receipt Account. There are four separate accounts for receipts of foreign and domestic loans, refund of loan (principal) account, and sale of shares account recorded in this account. The funds are transferred to the expenditure account to incur expenditures.	N/A	NA	NA (not in use as there are no loans and investments in shares)

[137] According to the FCGO, KHA-1.1 accounts are reconciled daily, although this could not be verified. Instead, this account maintained with the NRB has not been reconciled as per correspondence with the NRB.

Group of Accounts No.	Group of Accounts Title	Reconciled (Y/N)	Timeframe for reconciliation	Reconciliation frequency by PFCO based on evidence
KHA-1.3	Provincial government release (expenditure) account – maintained with the NRB (for release of budget expenditure)	Yes	1st day of next month (monthly)	Annually
KHA-1.4	Provincial government Adjustment Account – maintained with the NRB	Yes	New FYs mid-August (annually as this account is operated only once a year)	Annually before start of new FY
KHA-2.1/2.2	Budget expenditure account – maintained with commercial banks and used for payment of expenditure by district-level units of the PFCO.	Yes	Daily	Annually
KHA-2.3	Deposit account used for recording deposit receipts and payments – maintained at commercial banks.	Yes	Daily	Annually
KHA-2.4/2.5	Special account (loan and grants) – maintained at the NRB for recording the special nature of loans and grants, if any.	NA	NA	NA (not in use as there are no such grants and loans)
KHA-2.6	Miscellaneous accounts – maintained at commercial banks for deposit and payment, other than the above (specific).	Yes	Daily	Annually
KHA-3.1	Provincial Contingency Fund Account used for any contingency payments – maintained at the NRB.	Yes	Mid-August (annually) whenever there is a transaction)	Annually
KHA-4.1	Provincial Divisible Fund Account – maintained at the NRB. The provincial revenue share (which is divisible between the provincial governments and local levels) is deposited in this account. Monthly revenues are reconciled and transferred to the Revenue Account (KHA-1.1).	Yes	1st day of next month (monthly)	Annually

Group of Accounts No.	Group of Accounts Title	Reconciled (Y/N)	Timeframe for reconciliation	Reconciliation frequency by PFCO based on evidence
KHA-4.2	Local-level Divisible Fund Account – maintained at the NRB, revenue divisible between local levels is deposited in this account until it is remitted to local levels monthly (within subsequent months).	Yes	1st day of next month (monthly)	Monthly (at the end only)

Source: Government Transaction Directives; PFCO's CFS 2023/24.

Out of eleven bank accounts, only three bank accounts (KHA-1.4, KHA-3.1 and KHA-4.2) are reconciled on a timely basis (annually). The main bank accounts, such as KHA-1.3 (Budget Release (Expenditure) Account), KHA-1.1 (Revenue Account) and KHA-2.1/2.2 (Budget Expenditure Account) have been reconciled annually instead of daily. Bank statements for 2023/24 show no transactions, evidence that the account was not reconciled in a timely manner. Likewise, the KHA-1.4 (Adjustment Account) serves as the final adjustment account for income and expenditure under the Provincial Consolidated Fund, where the balances from accounts KHA-1.1, KHA-1.2 and KHA-1.3 are to be transferred for reconciliation and adjustment if any. The PFCO oversees this process through centralized monitoring and reporting, to ensure that reconciliations are completed within the specified timelines. However, evidence of timely reconciliation is not available.

A difference of NPR 7.68 million was noted between the bank account and the NRB/designated bank (Rastriya Banijya Bank (RBB)) under the revenue account KHA-1, which has not been identified and settled yet.[138]

Extrabudgetary units (EBUs): EBUs have their own financial regulations, which make it mandatory to conduct monthly bank reconciliations. Bank reconciliations are subject to be reviewed during internal and external audits. To assess the consistency of bank reconciliation, three EBUs were selected for review.[139] It was found that monthly reconciliations had not been prepared. The internal and external audit reports of the three EBUs included information about non-compliance with bank reconciliation requirements.

[138] According to a letter from the Finance Department, Central Office of RBB Limited (Ref. No. 707, dated 12 March 2025), to the NRB Janakpur Office, excess revenue of NPR 7.68 million was deposited to the Provincial Government for 2023/24. Despite a reconciliation request to the PFCO, the issue remains unresolved. The PFCO was requested for refund. Additionally, a NRB Janakpur's letter dated 20 March 2025 confirms that the excess amount has been proposed for expenditure from KHA-1.1 with due approval.

[139] Province Research and Training Center (PRTC), Madhesh Academy (MA), and Madhesh Institute of Health Science (MIHS).

The main bank accounts maintained with the NRB are not reconciled on a daily or monthly basis, as applicable. The deposit bank accounts and accounts maintained by the EBUs (although they constitute less than 10% of the balances) have not been reconciled at least quarterly, instead of annually.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

27.2 Suspense account

Performance level and evidence for scoring of the dimension: The Provincial Government's accounting system has no provision for a suspense account, thus such are not included in the CoA. The Provincial Government makes expenditure through the TSA system and collects revenue through the RMIS. Any unidentified deposits or errors in revenue classification and accounting are fixed during reconciliation and adjusted by the PFCO within the accounting system.

Based on the analysis and supporting evidence, the score for the dimension is **NA**.

27.3 Advance account

Performance level and evidence for scoring of the dimension: Budgetary units and employees can request advances as relevant. The Provincial Government follows the provisions outlined in the FPFA Regulations relating to advances. There are clear rules for approving, recording, and settling advances as prescribed in the FPFA Regulations (Rule 47), which require advances are to be settled within 7 days, 15 days and 21 days, depending on the nature of the advances. Advance payments are not permissible at the end of the fiscal year, unless for contractual or travel purposes.

Table 2.79: Advance accounts (at time of assessment, covering the preceding fiscal year)

Type of advance account	Frequency of reconciliation done	Timeframe for reconciliation	Timeframe for clearance
Advance for any government related assignments to individual or institution	Within 7 days	Within 7 days	Within 7 days
Travel and Daily Allowance	Monthly	Within 7 days from the end of month	Within 15 days after end of travel date
Advance for procurement of goods	Monthly	Within 7 days from the end of month	Within 21 days after completion of procurement
Advance for Individual, Institution, firm or company (mobilization advance)	Annually or as stated in the agreement timeline	Within 7 days from the end of FY or timeline as stated in agreement	Annually within the stated agreement timeline

Sources: FPFA Regulations, Rules 47-50; Government Accounting Directives, p. 35, p. 37, p. 170 and p. 172.

The FPFA Regulations, Rules 47, 48 and 49, and the PPR's Rule 113 mandate the concerned entity to settle the advance within the prescribed period based on the report and supporting documents submitted by the advance recipient. All budgetary units are required to submit monthly advance statements to the PFCO and reconcile them. The FPFA Regulations' Rule 52 (4) states that unsettled advances should be included in internal and external audit reports. OAG forms No. 207 and No. 211 are used for the advance account and monthly statements of outstanding advances, which are reconciled monthly and audited by both the internal auditor (PFCO) and the external auditor (OAG). Both have reported a significant amount of overdue advances every year. The CFS provides an overview of both mature (overdue) and not overdue outstanding advance amounts. The status of advances as reported in the CFS is shown in the table below.

Table 2.80: Outstanding matured and regular advances

	2021/22		2022/23		2023/24	
	Amount (NPR, Millions)	**Share (%)**	**Amount** (NPR, Millions)	**Share (%)**	**Amount** (NPR, Millions)	**Share (%)**
Outstanding matured (overdue) advances of the year	319.46	98.40	91.19	39.70	84.15	44.30
Outstanding regular (not overdue) advances of the year	5.09	1.60	138.33	60.30	105.80	55.70
Total	**324.55**	**100**	**229.52**	**100**	**189.95**	**100**

Sources: CFS for 2021/22, 2022/23 and 2023/24; PFCO FMIS Reports.

The OAG's 7th Annual Report for Madhesh Province (for 2023/24) reported outstanding advances of NPR 2,782.98 million, of which NPR 2,587.82 million were carried forward from previous years.[140] The PFCO's CFS report for 2023/24 also reported overdue advances of NPR 84.15 million.[141] The Internal Audit Report for 2023/24 also reported overdue advances of NPR 595.56 million, and advances have not been settled within the prescribed time.[142] The Internal Audit Report for 2023/24[143] also reported issues included disbursing advances without settling outstanding advances, requesting advances without program approval, requesting advances without cost estimates and disbursing advances without supporting documents.

Differences have been noted in advances reported in CFS, OAG external report and internal audit mainly due to the settlement made during internal and external audit process where advances settled or adjusted in the internal report but not yet reflected in the OAG external report whereas CFS was prepared from the reports generated by IPFMS prior to internal audit and OAG audit. The outstanding matured/overdue advances reported in 2023/24 are mainly related to long-term procurement contracts. These advances are mobilization advances for which the required bank guarantees are obtained as security in compliance with regulations and contract terms.

[140] OAG. 2025. *Seventh Annual Report of the Auditor General, 2082, Madhesh Province*. Kathmandu, Annex 5, p 119.
[141] https://stco.p2.gov.np/category/89: p. 29.
[142] https://stco.p2.gov.np/category/89: p. 2.
[143] Internal Audit Report, 2023/24: p. 13.

Although monthly reconciliations of outstanding advances have been carried out and reported significant delays have been noted where 44.30% of advances for 2023/24 have been overdue, not cleared and advances of previous years have been carried forward.[144]

Based on the analysis and supporting evidence, the score for the dimension is **D**.

27.4 Financial data integrity processes

Performance level and evidence for scoring of the dimension: As per Section 62 of the FPFA Act, IT shall be used for budgeting and accounting functions. The FCGO is the main agency responsible for developing IT systems and providing approval for the same. The FPFA Regulations' Rule 129(2) and (3) outline that inter-operability with existing systems as well as security thereof shall be in accordance with the procedure issued by the FCGO. No other system shall be used to operate transactions related to government accounts except as approved by FCGO.

Various IT systems have been developed and provided by the federal government for provincial-level budgeting (PLMBIS); accounting (IPFMS); revenue collection (RMIS); asset management (PAMS), and reporting (FMIS). Payroll is managed through the CGAS/IPFMS, and the province-level PIS is used to manage civil personnel records. An internal audit module is introduced in the TSA system. The FCGO provides IT support, including storage of hardware/server and software, without any cost to the provinces.

The systems contain adequate controls to maintain the integrity of the financial data. However, they are yet to be certified for security using an international framework, such as the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). Based on an independent review in 2021,[145] the FCGO incorporated additional authentication and access controls in the IT systems. The Oracle Audit Vault and Database Firewall have been implemented to ensure that access and changes to records are restricted and recorded, thereby resulting in an audit trail.[146] All logs are maintained at the database-level, and the Secure Sockets Layer certificate encryption is applied. Integrated operating manuals, such as SOPs, are yet to

144 OAG. 2025. *Seventh Annual Report of the Auditor General, 2082, Madhesh Province*. Kathmandu, Annex 5, p 119.

145 Review and Recommendation for the Replacement of Old Servers and Establishment of Disaster Recovery Center.

146 According to the FCGO, an audit trail is enabled at the database-level to track whether any changes are initiated. An application access log is maintained through the syslog server. FortiAnalyser records all traffic traversing from public and local networks with security features enabled, such as Anti-Virus, Web Filter, Application filter, Web Application Firewall (WAF), Digital Network Solution (DNS) filter, Intrusion Prevention System (IPS), and e-mail filter. Furthermore, only authorized users can access the database. Real-time replication of the database is maintained using Active Data Guard. An automatic Recovery Manager (RMAN) back-up is configured for daily back-up, which is then sent to two different locations (disaster recovery site as well as where the automatic restore process is performed) to remediate any storage-level failure. Furthermore, daily off-line back-up is copied to an external drive.

be introduced for users, but would, once available, cover operational aspects as well as system security and integrity-related matters.

The PFCO's Information, Technology and Statistics Section confirms that the CFS is prepared only after reconciling and verifying all Provincial Government transactions of the PFCO units for eight districts, province-level ministries, and directorates/agencies. The PFCO further confirms that there are adequate measures in place to limit access and changes to the records as managed by the FCGO. For any changes, a request is to be made to the FCGO. The IT systems enable logging modifications to the records and provide audit trails of access as well as changes. The evidence to confirm the verification of data integrity is not yet available in the IT systems through a separate body or unit or team.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

PI-28. In-year budget reports

What does the indicator measure? It assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. Coverage is budgetary units of the SNG for the last completed fiscal year. This indicator uses the M1 (weakest link) method for aggregating dimension scores.

Methodological notes: The monthly budget execution reports generated by line ministries[147] and budgetary units were used for evaluation of this indicator.

[147] Ministry of Physical Infrastructure and Development (MoPID), Ministry of Energy, Irrigation and Drinking Water (MoEIDW), Ministry of Industry, Commerce and Tourism (MoICT), MoF, Ministry of Health and Population (MoHP), Ministry of Forest and Environment (MoFE), and Ministry of Education and Culture (MoEC).

Table 2.81: Summary of scores for PI-28 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-28 In-year budget report		**C+**
28.1 Coverage and comparability of reports	The in-year budget execution reports allow for direct comparison with the original budget across administrative and economic classifications, but not functional classifications.	C
28.2 Timing of in-year budget reports	The budgetary units of the Provincial Government submit quarterly budget reports generated by a computerized system (IPFMS) to their superior offices. Quarterly budget execution reports are prepared and published by the MoF shortly after quarter-end, i.e. within four weeks.	B
28.3 Accuracy of in-year budget reports	There are no significant concerns regarding the accuracy of the information provided in the in-year budget execution reports. Data is useful for analysis of budget execution. Reported expenses, however, are limited to the payment stage and lack analysis and comments on how the budget is being implemented.	C

Description of the sub-national PFM system for the assessed PI: The PFP Act (Sections 22-26) outlines requirements for each budgetary unit to prepare and submit monthly, quarterly and annual financial reports on all transactions, including revenues, expenditures, deposits, foreign grants and loans, investments, cash and inventory.

The PFP Act does not contain provisions relating to reporting timeliness, hence the Provincial Government in that regard follows the requirements stated in the FPFA Act and the FPFA Regulations which require monthly financial statements to submit to the superior office within seven days of the end of each month. The reports align with the original budget and activities to enable ministries to assess subordinate offices and take necessary actions. As per Section 20 of the PFP Act, budget and program evaluations are to be carried out semi-annually and annually within two months from the end of the period by the provincial MoF. However, the Provincial Government has not conducted such evaluation in 2023/24.

In-year budget execution reports are generated through the IPFMS (TSA, CGAS), RMIS, and FMIS, but are not consolidated at the provincial level. The MoF publishes quarterly revenue and expenditure reports on its website.[148] The reports detail revenues (own source, revenue

[148] https://mof.madhesh.gov.np/np/news_notice_detail/312.

sharing and fiscal transfers), expenditures (recurrent and capital), and provide comparisons to the original budget. They include all transfers from the GoN as well as to local levels. The reports are published by the provincial MoF within one week after each quarter ends. However, the MoF does not publish daily treasury reports.

Recent or ongoing reform activities: The MoF has recently started disclosing quarterly reports on its website.[149] Quarterly budget execution reports are prepared and issued (published) by the MoF within eight weeks from the end of each quarter for 2024/25.

28.1 Coverage and comparability of reports

Performance level and evidence for scoring of the dimension: Budget execution is done through the IPFMS (CGAS, TSA). The FMIS enables generation of budget execution reports vis-à-vis budget allocations. The RMIS is used for revenue data, although data is not disclosed on a daily basis by the MoF. The MoF's in-year budget execution reports cover only main administrative headings, not detailed economic items, and allow for a direct comparison with the original budget, but not for functional classifications. Transfers to deconcentrated units are included in the aggregate only.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

28.2 Timing of in-year budget reports

Performance level and evidence for scoring of the dimension: Different in-year budget execution reports are prepared, as shown in the below table, but are not published.

[149] https://mof.madhesh.gov.np/np/news_notice_detail/312.

Table 2.82: Timing of in-year budget execution reports for 2023/24

Frequency of preparation	Actual date of issuance
Daily budget execution reports (budgetary units) and daily treasury position (MoF)	Not available.
Monthly financial reports	Not available.
Quarterly financial reports (MoF and all budgetary units)	1st quarter (mid-July 2023 to mid-October 2023) report published on 20 October 2023, 2nd quarter (mid-October 2023 to mid-January 2024) report published on 19 January 2024, 3rd quarter (mid-January 2024 to mid-April 2024) published on 18 April 2024, and 4th quarter (mid-April 2024 to mid-July 2024) report published on 21 July 2024.
Half-yearly budget evaluation reports (budgetary units)	Not available.
Annual budget execution reports (budgetary units and the PFCO)	Not available.
Consolidated Financial Statement, CFS (PFCO)	Within five months (11 December 2024).

Sources: MoF's quarterly Self Publication reports, IPFMS-generated monthly report; CFS 2023/24 (PFCO).

There is no evidence that daily treasury position is prepared by the provincial MoF. In-year budget reports include monthly, quarterly, half-yearly and annual financial reports that are available from the financial accounting and reporting system used by the Provincial Government. The provincial MoF prepares and publishes quarterly budget execution reports ('self-publication' reports),[150] which include the MoF's own budget execution report as well as those of all budgetary units. For 2023/24, all four quarterly budget execution reports were published on the MoF website within a few days of quarter-end. There is no indication that half-yearly and annual budget execution evaluations have not been conducted.

The system-generated financial reports include comparisons between the budget and actual, but do not provide any analysis and commentary on the budget execution.

Also, the PFCO prepares the CFS, which is submitted to the FCGO and the OAG. Consolidated budget execution reports are prepared annually in the form of annual financial statements.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

[150] https://mof.madhesh.gov.np/np/news_notice_detail/375, https://mof.madhesh.gov.np/np/news_notice_detail/378, https://mof.madhesh.gov.np/np/news_notice_detail/381, and https://mof.madhesh.gov.np/np/news_notice_detail/384.

28.3 Accuracy of in-year budget reports

Performance level and evidence for scoring of the dimension: The Provincial Government's budgetary units are required to forward payment requests to the PFCO for authorization. The PFCO reviews the request with the approved budget and accounting/recording as per the budget and the CoA. The PFCO reconciles revenue receipts through bank deposits and RMIS on a daily basis. These provisions and process ensure the accuracy of financial transactions and reliability of the data.

Budget execution reports are generated through the IPFMS (CGAS, TSA), FMIS and RMIS, and are duly verified and reconciled by the PFCO, which ensures data accuracy. There are no significant concerns regarding data accuracy as corroborated with internal and external audit reports.

Half-yearly budget and/or program evaluations for 2023/24 were not conducted by the MoF, as otherwise required by Section 20 of the PFP Act, hence an analysis of the budget execution was not provided. In the last completed fiscal year (2023/24), expenditures are recorded only at the payment stage without commitment and monthly financial reports prepared by the budgetary units were not accompanied by analysis and commentary about budget execution variances and causes. However, the data in the periodic financial reports is useful for analysis of budget execution.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

PI-29. Annual financial reports

What does the indicator measure? It assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. Coverage is budgetary units of the SNG for the last completed fiscal year for PI-29.1, the last annual financial report submitted for audit for PI-29.2, and the last three years' financial report for PI-29.3. The indicator uses the M1 (weakest link) method for aggregating dimension scores.

Methodological notes: The 2021/22, 2023/23 and 2023/24 CFS prepared by the PFCO and audited by the OAG were used for the assessment.

Table 2.83: Summary of scores for PI-29 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-29 Annual financial reports		**C+**
29.1 Completeness of annual financial reports	The CFS is prepared annually and includes data on actuals that is comparable with the original approved budgets. The CFS for 2023/24 includes information on revenue, expenditure, cash balances and financial assets and liabilities.	C
29.2 Submission of reports for external audit	The CFS for 2023/24 was submitted for external audit on 11 December 2024, i.e. just under five months after fiscal year-end.	B
29.3 Accounting standards	The accounting standards applied to the last three years' CFS are consistent with the country's legal framework and ensure consistency of reporting over time. The standards and legal framework used in preparing annual financial reports are disclosed.	B

Description of the sub-national PFM system for the assessed PI: The PFP Act's Section 21 prescribes the accounting principles, basis (standards) and format. Accounting of revenue, expenditure, deposits and other transactions shall be based on a cash-based double-entry bookkeeping system. Section 22 requires each spending unit to prepare an annual financial report of all transactions made in the fiscal year, including revenue, expenditure, deposits, foreign grant and loan, investment, cash, inventory in the specified format. The reports must then be submitted to the PFCO and the OAG within a prescribed time after fiscal year-end. Section 25 requires Accounts Responsible Officers and the PFCO to submit the financial statements prepared by them covering the offices under them and submit the CFS to the provincial MoF, FCGO and OAG within the prescribed time. However, the timeline has not been prescribed yet in the absence of PFP Act. Section 26 requires the PFCO to prepare separate annual financial reports and consolidated financial statements of all ministries and budgetary units and submit these to the provincial MoF as well as the FCGO and the OAG. Starting in 2022/23, the PFCO has prepared the CFS in line with the IPSAS-based NPSAS under cash basis of accounting as required by Section 26(6), which requires preparation of financial reports based on accounting standards as approved by the GoN. Although the cash-based NPSAS was approved by the GoN on 15 September 2009 and updated in December 2022 (based on IPSAS 2017) to be applicable for government/public entities, including SNGs

Recent or ongoing reform activities: PFCO is coordinating with the FCGO to enhance its institutional and human resource capacity through training programs. The PFCO is working on improving the availability of data from the PAMS and the RMIS for more reliable and comprehensive reporting.

29.1 Completeness of annual financial reports

Performance level and evidence for scoring of the dimension: The CFS for 2023/24, prepared by the PFCO and submitted to the OAG, contains information about revenue, expenditure, cash balances, budget comparison details, status of consolidated fund and divisible fund, inter-governmental fiscal transfers, deposits and retentions, financial liabilities, and financial assets. The CFS includes administrative, functional and economic classifications of revenues and expenditures. This enables comparing the approved budget with the revised budget and actual spending. However, information about non-financial assets, guarantees and long-term obligations are not included. It also does not contain a reconciled cash flow statement.

The table below summarizes the information included in the CFS for 2023/24.

Table 2.84: Completeness of CFS for 2023/24

Financial reports prepared annually (Y/N)	Comparable with approved budget (Y/N)	Content of annual financial reports (Y/N, specify when needed):						Reconciled cash flow statement (Y/N)
		Revenue	Expenditure	Financial assets	Tangible assets (and possibly other non-financial assets)	Liabilities	Guarantees and long-term obligations	
Yes	Yes	Yes	Yes	Partial	No	Yes	No	No

Source: PFCO's CFS 2023/24.

Financial reports for the budgetary units of the Provincial Government are prepared annually and are comparable with the approved budget. The financial reports include information on revenue, expenditure, cash balances, financial assets and liabilities except non-financial assets, guarantees and long-term obligations.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

29.2 Submission of reports for external audit

Performance level and evidence for scoring of the dimension: All budgetary units of the Provincial Government prepare annual financial statements and submit them to the PCFO and OAG. The PFCO prepares the CFS[151] and submits them to the OAG (section 26). The details of the last CFS submitted by the PFCO to the OAG are given below.

Table 2.85: Submission of reports for external audit

FY of the last financial report submitted for audit	Date of submission for external audit	Number of months after FY-end
2023/24	11 December 2024	4 months and 26 days

Source: PFCO's CFS 2023/24.

The CFS for 2023/24 prepared by the PFCO was submitted to OAG on 11 December 2024, which was approximately five months after fiscal year-end.

Based on the analysis and supporting evidence, the score for the dimension is **B**.

29.3 Accounting standards

Performance level and evidence for scoring of the dimension: The PFCO prepared the CFS for 2021/22, 2022/23 and 2023/24 based on PFP Act's Section 26, i.e. in accordance with accounting standards approved by the GoN.

The Provincial Government uses accounting formats, the CoA, economic codes and classifications as per the Integrated Economic Code, Classification and Explanation (2017) as approved by the OAG in 2019.[152] This has ensured consistency of reporting over time. The CFS for 2021/22 was prepared in accordance with the country's legal framework (i.e., the cash-based double-entry bookkeeping system). The CFS for 2022/23 and 2023/24 were prepared based on the NPSAS (2022), which is aligned with the cash-basis IPSAS (2017) and became applicable from 2022/23. The standards applied were disclosed in all three CFS.

The CFS does not include financial data on EBUs. However, the EBUs' revenues and expenditure constituted less than 10% of the total revenues and expenditures of the Provincial Government (ref. to PI-6).

[151] https://stco.p2.gov.np/category/89.

[152] https://old.fcgo.gov.np/publications?page=2 and https://old.fcgo.gov.np/storage/uploads/publications/20210908152258_Unofficial%20Translation%20of%20Chart%20of%20Account.pdf.

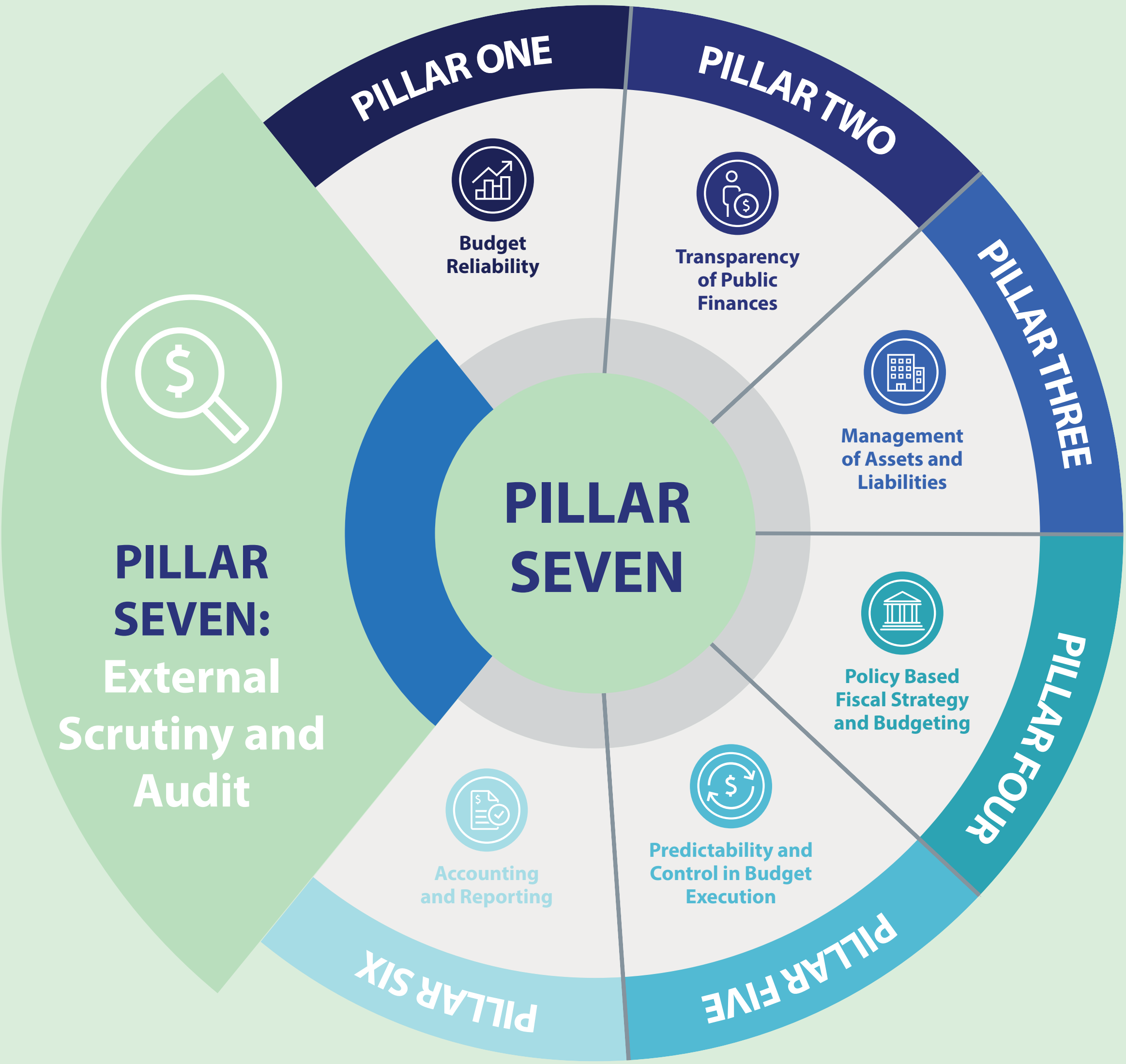
Table 2.86: Accounting standards (last three years' financial reports)

Accounting standards applied to all financial reports				
Type of standard (International Standards/ Country framework/ subnational framework)	Consistency with national standards/legal framework (Y/N)	Alignment with international standards (Y/N)	Disclosure of standards (Y/N)	Consistency over time (Y/N)
Legal framework	Yes	No	Yes	Yes
NPSAS (IPSAS-based)	Yes	Yes	Yes	Yes

Sources: PFCO's CFS for 2021/22, 2022/23 and 2023/24.

The Provincial Government's CFS are prepared applying accounting standards consistent with the country's legal framework and consistency of reporting over time. The standards and legal framework used in preparing annual financial statements are disclosed.

Based on the analysis and supporting evidence, the score for the dimension is **B**.


PILLAR ONE
Budget Reliability
PILLAR TWO
Transparency of Public Finances
PILLAR THREE
Management of Assets and Liabilities
PILLAR FOUR
Policy Based Fiscal Strategy and Budgeting
PILLAR FIVE
Predictability and Control in Budget Execution
PILLAR SIX
Accounting and Reporting
PILLAR SEVEN
PILLAR SEVEN: External Scrutiny and Audit

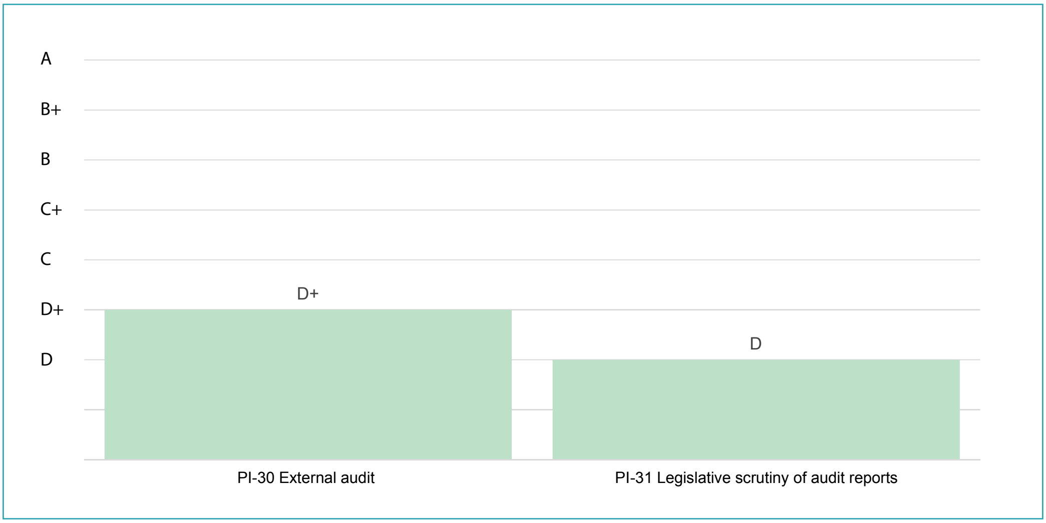
PILLAR VII: External scrutiny and audit

What does the pillar measure? It measures if public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Overall performance: The performance of Pillar VII is below basic. Although the OAG annually audits all budgetary units and EBUs, and audit reports highlight relevant issues, the audit reports were in some years submitted very late by the Province Chief to the Provincial Assembly, and only few auditees respond formally to the audit recommendations (PI-30). The scrutiny of audit reports by the Public Accounts Committee (PAC) is considerably delayed, no hearings on key audit findings have so far been conducted, and the PAC has not issued recommendations to be implemented by the executive (PI-31).

The performance of PI-30 and PI-31 is shown below.

Figure 2.8: Indicator scores under Pillar VII



PI-30. External audit

What does the indicator measure? It examines the characteristics of external audit. It is used when the external audit of SNGs is performed by the national supreme audit institution or its regional offices. Coverage is budgetary units and EBUs of the SNG for the last three completed fiscal years for PI-30.1, PI-30.2 and PI-30.3, and at time of assessment for PI-30.4. The indicator uses the M1 (weakest link) method for aggregating dimension scores.

Methodological notes: Information collected from the OAG, line ministries, Office of the Province Chief, Provincial Assembly and the PAC were analyzed.

Table 2.87: Summary of scores for PI-30 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-30 External audit		**D+**
30.1 Audit coverage	The OAG audited all budgetary units and EBUs of the Provincial Government for the last three completed fiscal years. The audit reports highlight relevant material issues as well as systemic and control risks.	A
30.2 Submission of audit reports to the legislature	The OAG's audit reports were submitted to the Provincial Assembly after 3.1, 17.1 and 5.3 months following the receipt of the financial statements by the OAG for 2021/22, 2022/23 and 2023/24, respectively.	D
30.3 External audit follow-up	Formal, written responses were provided by 21% of auditees for 2021/22, 14% for 2022/23, and 7% for 2023/24.	D
30.4 Independence of the public audit institution in charge of subnational governments	The OAG operates independently from the executive with respect to the procedures for the appointment and removal of the Auditor General as well as the execution of its budget. It has unrestricted and timely access to requested records, documentation, and information.	C

Description of the sub-national PFM system for the assessed PI: The OAG is Nepal's Supreme Audit Institution (SAI). Article 241 of the Constitution and Section 3 of the Audit Act (2019) mandate the OAG to audit the annual financial statements of all government entities that comprise the three tiers of government. The Auditor General is appointed by the President, on the recommendation of the Constitutional Council (which has functional independence guaranteed by the Constitution). The OAG develops an annual audit plan and calendar, which is communicated to auditees through the Principal Secretary of the Provincial Government. Audits are conducted following the Nepal Government Auditing Standards (NGAS), complies with international auditing standards based on the INTOSAI Framework of Professional Pronouncement (IFPP).[153] The OAG has audit guidelines and manuals to assist its auditors in conducting effective and quality audits. The Nepal Audit Management System (NAMS) has been used since 2020/21 to streamline the audit process and help ensure timely auditing, reporting and follow-up.

[153] The OAG issued the Nepal Government Auditing Standards based on the International Organization of Supreme Audit Institutions (INTOSAI) Framework of Professional Pronouncement (IFPP) on 31 July 2020 [https://oag.gov.np/site_uploads/tL8-Nepal%20Government%20Auditing%20Standards,%20NGAS.pdf].

Recent or ongoing reform activities: The OAG is continuing its effort in enhancing the quality of audits, including using IT, improving processes from audit planning to follow-up, updating guidelines and standards, strengthening performance audit functions, and promoting citizen involvement through Citizen Participatory Audits (CPAs).

30.1 Audit coverage

Performance level and evidence for scoring of the dimension: The OAG's annual financial audits cover all revenues and expenditures of the Provincial Government's budgetary units, including EBUs. Audit observations are categorized as recoveries, irregularities, and unsettled advances. The audit reports highlight relevant material issues as well as systemic and control risks that need to be addressed by the Provincial Government. The OAG issues an audit opinion on the annual CFS, but not separate audit opinions for each budgetary unit. The Provincial Government prepares the annual CFS based on the cash basis of accounting (NPSAS), which covers its receipts and payments, fixed assets, cash and bank balances, investments, advances, and payables (liabilities). However, the CFS does not cover guarantees and long-term commitments.

The CFS also does not include EBU revenues and expenditures, except for budgetary grant disbursements from the Provincial Government to the EBUs. EBUs prepare separate annual financial statements, which are audited by the OAG.

The financial audit coverage of the Provincial Government for the last three completed fiscal years is presented in below table.

Table 2.88: External audit coverage, 2021/22-2023/24

Units	Audit of financial reports		
	2021/22	2022/23	2023/24
Government Spending Units			
Audit of financial reports (Yes/No)	Yes	Yes	Yes
No. of spending units	138	135	142
EBUs			
Audit of financial reports (Yes/No)	Yes	Yes	Yes
No. of EBUs	10	14	16
Expenditure (NPR, Millions)			
Total Expenditure to be audited	23,779.58	28,824.64	26,981.56
Expenditure audited	23,779.58	28,824.64	25,798.17
Percentage of expenditure audited	100%	100%	95.61%
Revenue (NPR, Millions)			
Total revenue to be audited	17,075.53	16,241.34	16,924.29.
Revenue audited	17,075.53	16,241,34	16,664.44
Percentage of revenue audited	100%	100%	98.46%

Sources: OAG's Fifth (2023), Sixth (2024), and Seventh (2025) Annual Reports for Madhesh Province.

The OAG audits all budgetary units and EBUs of the Provincial Government which cover revenue, expenditure, financial and tangible assets and payable (liabilities), and highlights relevant material issues as well as systematic and control risks.

Based on the analysis and supporting evidence, the score for the dimension is **A**.

30.2 Submission of audit reports to the Provincial Assembly

Performance level and evidence for scoring of the dimension: Article 294 of the Constitution requires the constitutional bodies, including the OAG, to submit their annual audit report to the President or Province Chief, where applicable. The table below shows the timing of the submission of the audit reports for the last three completed fiscal years.

Table 2.89: Timing of submission of audit reports to the Provincial Assembly

Fiscal Years	Date of receipt of the financial statements by the external auditor (A)	Date of issuance of the audit reports by the external auditor (B)	Months taken to prepare the audit reports (C=B-A)	Date of submission of audit reports to the Provincial Assembly (D)	Months taken to submit audit report from issuance date (E=D-A)
2021/22	23 Jan. 2023	13 April 2023	2.7	25 April 2023	3.1
2022/23	2 Jan. 2024	26 May 2024	4.8	5 June 2025	17.1
2023/24	11 Dec. 2024	14 May 2025	5.1	19 May 2025	5.3

Sources: CFS 2021/22, 2022/23, 2023/24; OAG's Fifth (2023), Sixth (2024), and Seventh (2025) Annual Reports for Madhesh Province; Official correspondence from the OCMCM to the Provincial Assembly.

The audit report for 2022/23 was submitted to the Province Chief after 17.1 months[154] of receipt of financial statements by the OAG, while for 2021/22 and 2023/24 they were submitted after 3.1 months and 5.3 months respectively.[155] Hence, the 2022/23 audit report was not submitted to the Provincial Assembly within nine months from receipt of the financial reports by the OAG

Based on the analysis and supporting evidence, the score for the dimension is **D**.

30.3 External audit follow-up

Performance level and evidence for scoring of the dimension: As per the PFP Act's Section 35, audited budgetary units must submit evidence of addressing irregularities reported in the OAG's preliminary audit report within 35 days of its receipt. If the OAG is satisfied with the evidence, the irregularities are cleared. However, if not they are recorded in the (final) annual audit report. Section 36 states the process of maintaining records of irregularities reported in the annual audit report. Sections 37-38 outline the follow-up procedures for audits that require further action by the executive or auditee. They specify the process of addressing audit observations by the Accounts Responsible Officer or officers involved with accounts. They also set forth procedures for the PAC to discuss the annual audit report and settling audit observations and irregularities.

The table below shows the status of formal responses provided by the auditees on the OAG's audit observations and irregularities for the last three completed fiscal years.

[154] The delay for 2022/23 was due to the appointment of a new Auditor General.

[155] The delay for 2021/22 was due to the Provincial Assembly election held in November 2022, which caused a delay in convening the meeting of provincial meeting. The additional time required for presenting the audit reports to the Provincial Assembly was also caused by the vacant position of Provincial Assembly Secretary from 2022 to 2024 (it was filled in September 2024).

Table 2.90: Formal Response to OAG on Audit Observations and Follow-up

Fiscal Years	Total audited units having audit irregularities	Audited units providing formal (written) responses to the OAG (% responded)	Timely follow-up by the executive or the audited entity (Y/N)
2021/22	114	24 (21%)	No
2022/23	118	16 (14%)	No
2023/24	121	9 (7%)	No

Sources: OAG's Fifth (2023), Sixth (2024), and Seventh (2025) Annual Reports for Madhesh Province.

The formal written response to audit observations provided by auditees was 21% for 2021/22, 14% for 2022/23 and 7% only for 2023/24. Many audit reports therefore repeat the same audit observations every year. According to the OAG's 7th Annual Report for Madhesh Province (for 2023/24), irregularities have increased by NPR 1,163.80 million and accumulated irregularities at the fiscal year end 2023/24 stand at NPR 9,203.55 million, settlement of which require evidence to be presented to OAG for a follow up audit. There are also delays in the implementation of audit recommendations.

The Provincial Government has not yet formed an 'Irregularities Settlement Committee', as required by Section 39 of the PFP Act, to review and settle audit observations.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

30.4 Independence of the public audit institution in charge of subnational governments

Performance level and evidence for scoring of the dimension: The below table describes the various aspects of the OAG's independence.

Table 2.91: Supreme Audit Institution (SAI) independence

Element/ Requirements	Met (Yes/No)	Evidence used/Comments
1. The OAG operates independently from the executive with respect to:		
- procedures for appointment and removal of the Head of the supreme audit institution (SAI).	Yes	Article 240 of the Constitution outlines the procedures for appointment and removal of the Auditor General. The President appoints the Auditor General based on the recommendation of the Constitutional Council. The Article also details the procedures for removing the Auditor General.
- the planning of audit engagements.	Yes	The Audit Act provides the Auditor General with independence in planning the audit engagements (Sections 4, 5, and 6).
- arrangements for publicizing reports.	Yes	The Audit Act provides that the Auditor General shall make the annual report public after it is submitted to the Province Chief (Section 19(7)).
- the approval and execution of the OAG's budget.	No	According to the FPFA Act (Section 9), the OAG is required to present its budget proposal through the Line Ministry Budget Information System (LMBIS) to the executive within the established ceiling. The executive may make changes to the proposed budget (Sections 9 and 21). However, the OAG is independent in its ability to execute the approved budget.
2. This independence is assured by law.	Yes	The Constitution and Audit Act assure the OAG's independence.
3. The OAG has unrestricted and timely access to records, documentation and information.	Yes	The Audit Act (Section 12) allows the OAG unrestricted and timely access to the records, documents, and other information, including electronic records and information systems of all audited entities.

Section 18(3) of the Audit Act states that the GoN approves the OAG's organizational structure and staff roles based on the Auditor General's recommendations. The OAG's budget and personnel are not subject to Provincial Government approval.

The OAG's independence operates independently from the executive, except for approval of the annual budget.

Based on the analysis and supporting evidence, the score for the dimension is **C**.

PI-31. Legislative scrutiny of audit reports

What does the indicator measure? It focuses on legislative scrutiny of the audited financial reports of the SNG, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. Coverage is budgetary units and EBUs of the SNG for the last three completed fiscal years. This dimension uses the M2 (average) method for aggregating dimension scores.

Methodological notes: The information was collected from the PAC Secretariat, Provincial Assembly and OAG to assess this indicator. The PAC Secretariat within the Provincial Assembly maintains the records related to legislative scrutiny of audit reports.

Table 2.92: Summary of scores for PI-31 and performance table

Indicator/Dimension	Brief justification for score	2025 Score
PI-31 Legislative scrutiny of audit reports		**D**
31.1 Timing of audit report scrutiny	The PAC has initiated reviews of the first five OAG Annual Reports, including the 5th Annual Report for 2021/22, but no reviews have been completed yet. The 5th, 6th and 7th OAG Annual Reports, issued on 13 April 2023, 26 May 2024 and 14 May 2025, respectively, were submitted to the PAC by the OCMCM on 25 April 2023, 5 June 2025 and 19 May 2025, respectively, but the PAC is yet to review these.	D
31.2 Hearings on audit findings	No in-depth hearings on key audit findings were conducted by the PAC for the last three completed fiscal years (2021/22, 2022/23, and 2023/24), except for the initiation of scrutiny covering the first five OAG Annual Report, including 2021/22. There is no pre-arranged schedule or calendar for committee meetings or hearings.	D
31.3 Recommendations on audit by the subnational council	The PAC has so far not issued recommendations to be implemented by the executive.	D
31.4 Transparency of legislative scrutiny of audit reports	The PAC has not commenced review of the OAG's 7th Annual Report (covering 2023/24). The PAC has not yet presented its reports to the Provincial Assembly, or published reports. While PAC hearings are generally open to the public, there is no evidence that the public participated in the committee meetings.	D

Description of the sub-national PFM system for the assessed PI: The Provincial Assembly has, in accordance with Rule 146 of the Provincial Assembly Regulations (2018), established seven thematic committees, including the PAC. The PAC oversees matters related to public accounts, including revenues, expenditures, assets and liabilities. The PAC became operational only in February 2023, during the second term of the Provincial Assembly for which election was held on 22 November 2022. It comprises 15 members nominated by the Speaker with the consent of the Provincial Assembly. The chairperson is nominated by an opposition party. The PAC has developed the Public Accounts Committee Procedures (2023), approved on 11 January 2024, for the operation of committee proceedings.

The PAC scrutinizes the OAG's annual audit reports and provides recommendations for further action. The PAC plays a crucial role in overseeing financial matters and ensuring transparency and accountability.

Rule 151 (5a) of the Provincial Assembly Regulations requires the PAC to review the annual report of the OAG, and financial transactions, and to make decisions on irregularities reported by the OAG, and to submit an annual report to the Provincial Assembly. To complete the duties and responsibilities of the committee on time, Rule 153 requires committees, including the PAC, to prepare an annual calendar of the activities to be carried out. Annual reports of thematic committees, including the PAC, shall be presented to the Provincial Assembly by the Committee Chair.

Recent or ongoing reform activities: The PAC plans to make information on its activities and decisions available in electronic form to the media and other stakeholders.

31.1 Timing of audit report scrutiny

Performance level and evidence for scoring of the dimension: The table below shows the date by which the OAG's annual audit reports were received by the PAC and the date by which parliamentary scrutiny was completed. A letter dated 21 April 2025 received from the PAC to ministries invited to discuss the audit reports for 2017/18-2021/22.[156]

[156] The letter dated 21 April 2025 issued by the PAC inviting ministries for a discussion of the audit reports covering five fiscal years (2017/18, 2018/19, 2019/20, 2020/21, and 2021/22) in a meeting scheduled for 22 April 2025.

Table 2.93: Timing of audit report scrutiny

Audited AFS for FY (OAG's Annual Report Series)	Date – Annual Report received by PAC	Date – Scrutiny by the legislature (PAC)
2021/22 (5th Annual Report, 2023)	25 April 2023*	Commenced on 11 February 2024. Not yet completed.
2022/23 (6th Annual Report, 2024)	5 June 2025	Not yet commenced.
2023/24 (7th Annual Report, 2025)	19 May 2025	Not yet commenced.

AFS = annual financial statements, FY = fiscal year, PAC = Public Accounts Committee.

* The PAC received the OAG's 5th Annual Report for Madhesh Province (covering 2021/22) and commenced discussions on the same. .

Sources: https://oag.gov.np/menu-category/963/ne, http://provincialassembly.madhesh.gov.np/ and correspondence with the PAC Secretariat.

The PAC started reviewing the OAG's 5th Annual Report for 2021/22 in February 2024, but it has not yet completed the process. The PAC has received the OAG's 6th and 7th Annual Reports, but has not yet commenced reviewing them.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

31.2 Hearings on audit findings

Performance level and evidence for scoring of the dimension: The annual reports of OAG cover the budgetary units audited under each ministry/entity of the Provincial Government. The OAG has issued an audit opinion on the CFS of the Provincial Government's transactions, but not an audit opinion for each ministry/entity. The audit reports include observations/findings, as well as irregularities for each ministry and other entities as well as for EBUs.

The PAC has started discussions on the first five of the OAG's Annual Reports, i.e. the 1st (2017/18), 2nd (2018/19), 3rd (2019/20) 4th (2020/21) and 5th (2021/22). Discussions have been attended by Secretaries, Account Officers, Directorate Heads, and responsible staff from the audited entities.[157] OAG officials have also participated in the meetings. While the Public Accounts Committee Procedures allow involvement of subject experts, there is no evidence that such experts have been involved in the meetings. Several meetings of the PAC were held in February, November and December 2024 as well as January and February of 2025. There is also no evidence that audited entities have provided action plans during the hearings to address audit observations. There are no clear due dates to complete the scrutiny of audit reports,

[157] PAC meeting minutes for 1st five years OAG reports.

and no pre-defined meetings calendar is prepared (as required by Rule 153 of the Provincial Assembly Regulations).

Table 2.94: Hearings on audit findings and issuance of recommendations

Audited AFS for FY	Hearings on audit reports that received a qualified or adverse opinion or disclaimer	Hearings conducted – entities with qualified audit	Legislature hearing completed	No. of budgetary units reported with audit irregularities
2021/22	Partial	All (except EBUs)	No	114
2022/23	No	None	No	118
2023/24	No	None	No	121

AFS = annual financial statements, EBU = Extra-Budgetary Unit, FY = fiscal year.

Sources: https://oag.gov.np/menu-category/963/ne , http://provincialassembly.madhesh.gov.np/. Minutes of the PAC and correspondence for follow-up from the PAC and the Provincial Assembly Secretariat.

Although the scrutiny on annual audit report of 2021/22 has commenced in the presence of Account Responsible Officers (secretaries) and OAG officials, the scrutiny on annual audit reports of 2022/23 and 2023/24 has not yet taken place. There is no prearranged schedule of the meetings and discussions.

Based on the analysis and supporting evidence, the score for this dimension is **D**.

31.3 Recommendations on audit by the Provincial Assembly

Performance level and evidence for scoring of the dimension: The PFP Act's Section 38(3) requires the Accounts Responsible Officers to attend PAC meetings to discuss irregularities noted in the OAG reports and to submit written opinions or views about the audit irregularities and their settlement. It is the responsibility of the relevant Accounts Responsible Officers to implement recommendations made by the PAC and as approved by the Provincial Assembly (Section 38(4)).

The PAC has not (yet) provided recommendations to government entities as the scrutiny process for the 2021/22 audit report remains ongoing, while it has not commenced for 2022/23 and 2023/24. However, the PAC has issued letters to line ministries for them to present progress reports on the status of settling irregularities.[158]

[158] PAC letter dated 21 April 2025 (Ref. # 104) to the Ministry of Physical Infrastructure and Development (MoPID); PAC letter dated 22 April 2025 (Ref. # 106) to the Ministry of Health and Population (MoHP).

Table 2.95: Dates of recommendations and reviewing recommendations issued

Audited AFS for FY	Legislature issues recommendations	Recommendations followed-up	Date of giving recommendations	Date of review of recommendations
2021/22	No	No	No	No
2022/23	No	No	No	No
2023/24	No	No	No	No

AFS = annual financial statements, FY = fiscal year.

Sources: http://provincialassembly.madhesh.gov.np/; Minutes of the PAC and correspondence letters for follow-up from the PAC/Provincial Assembly Secretariat.

The PAC has not so far made audit-related recommendations to be implemented by the executive.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

31.4 Transparency of legislative scrutiny of audit reports

Performance level and evidence for scoring of the dimension: PAC hearings are generally open to the public. The PAC allows media personnel to attend meetings according to Clause (6) of Public Accounts Committee Procedures, but there is no evidence of media personnel attending PAC meetings and, also, there is no practice of formally recording the attendance of media and other stakeholders.

The OAG's 7th Annual Report for Madhesh Province (covering 2023/24) was received on 14 May 2025 and presented to the Provincial Assembly on 19 May 2025. However, the PAC has not started its review of the report. The PAC has not yet presented its reports to the Provincial Assembly and has not published its reports to the public.

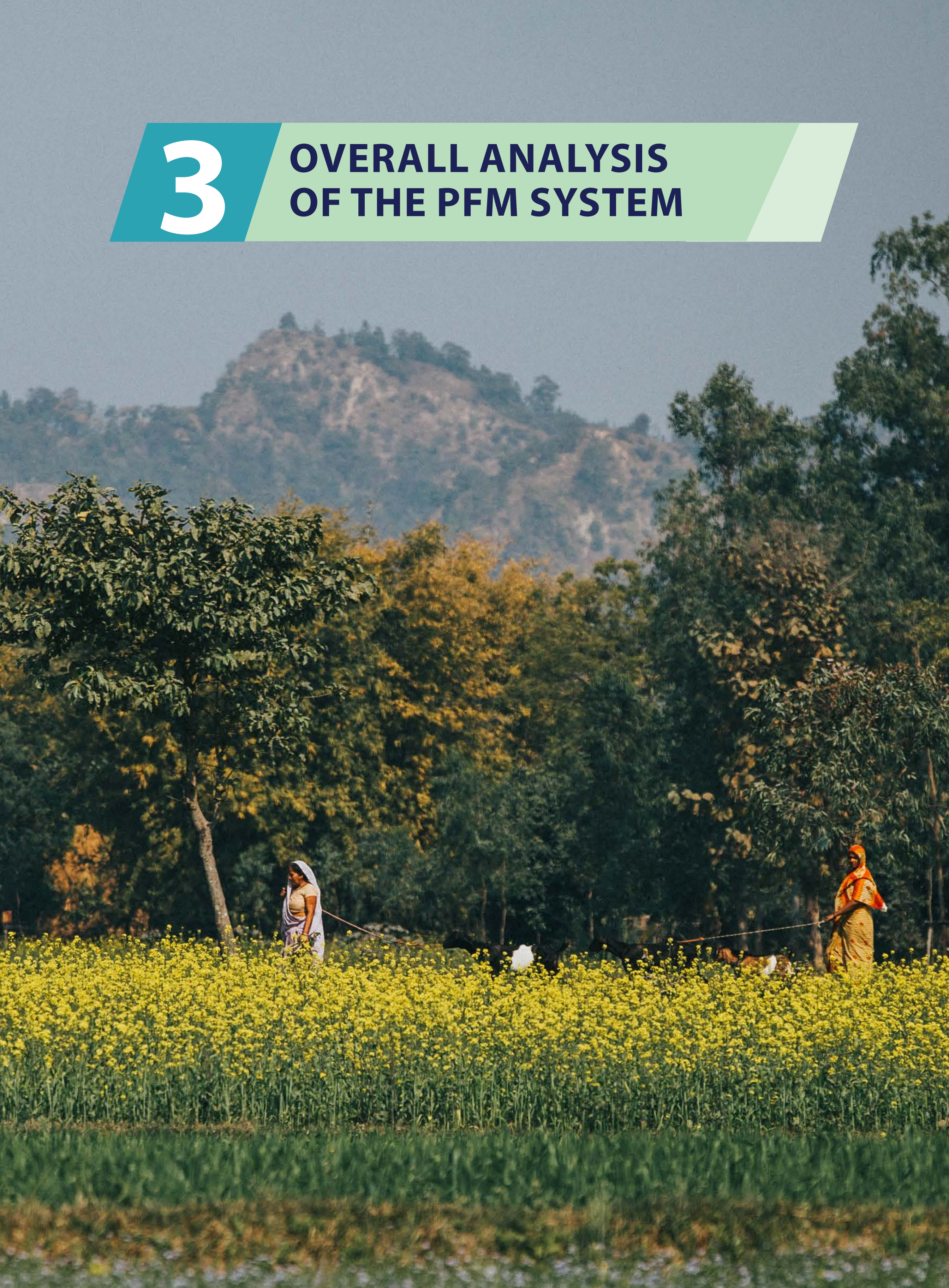
Table 2.96: Transparency of legislative scrutiny of audit reports

Audited AFS for FY	Committee Reports			Public Hearings Conducted	
	Published (Y/N)	Provided to the full chamber of the legislature (Y/N/NA)	Debated in the full chamber of the legislature (Y/N/NA)	No of audit report related hearings conducted	A= All hearing except limited circumstances F= Yes, with a few exceptions
2021/22	No	No	NA	Evidence not available	Evidence not available
2022/23	No	No	No	No	No
2023/24	No	No	No	No	No

AFS = annual financial statements, FY = fiscal year.

Based on the analysis and supporting evidence, the score for the dimension is **D**.

3 OVERALL ANALYSIS OF THE PFM SYSTEM



3 Overall Analysis of the PFM System

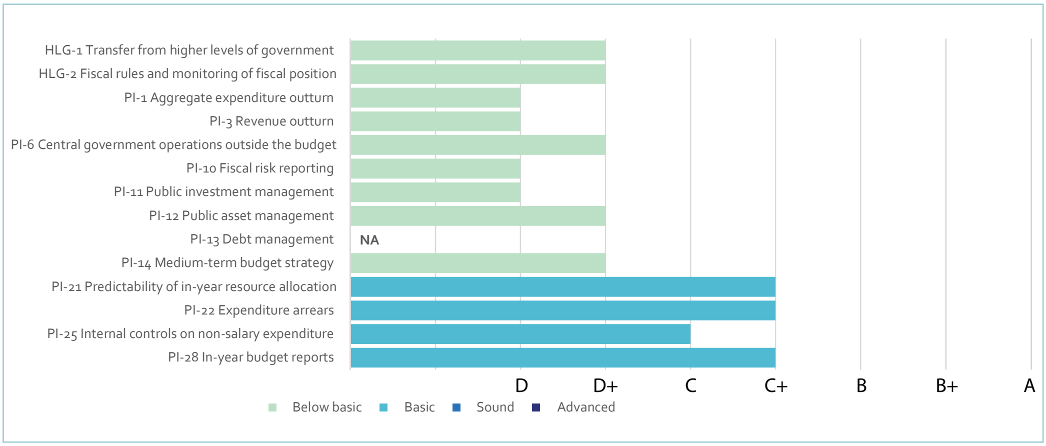
This chapter outlines the strengths and weaknesses of the Provincial Government's PFM system and procedures across the three levels of budgetary outcomes – aggregate fiscal discipline, strategic allocation of resources (allocative efficiency), and efficient service delivery (operational performance) – as per the assessments presented in Chapter 2.

3.1 PFM strengths and weaknesses

A. Aggregate fiscal discipline

The Provincial Government's PFM system and procedures support aggregate fiscal discipline only to a limited extent.[159] The figure below shows the relevant PIs and the scores.

Figure 3.1: Aggregate fiscal discipline



The achievement of aggregate fiscal discipline is supported in particular by the Provincial Government having in place an MTEF (PI-14.3) and that estimates of revenue and expenditure

[159] The average score of the 13 PIs assessed under this budgetary outcome is 1.65, i.e. a 'D+' score.

for the budget year are based on relevant information (PI-14.1). Also, budgetary units are able to plan and commit expenditure from the start of the fiscal year (PI-21.3), the Provincial Government has in place a clear rules for in-year budget adjustments (PI-21.4), the stock of expenditure arrears is very low (PI-22.1), basic internal controls on non-salary expenditure are established and functioning (PI-25), quarterly budget execution reports are prepared and published by the MoF (PI-28), and the Provincial Government's monitoring of financial assets is well-developed and based on international standards (PI-12.1). Furthermore, variances in transfers from the federal government are relatively low (HLG-1.2), and EBU revenues and expenditures are below 10% of the Provincial Government's revenues and expenditures (PI-6.1 and PI-6.2).

However, there are several PFM elements that make it challenging for the Provincial Government to achieve aggregate fiscal discipline: Transfers from the federal government are in most years significantly below the planned budgets (HLG-1.1), actual transfers do not generally follow established time plans (HLG-1.3) and there is no predictability for forward fiscal years (HLG-1.4). This adversely affects aggregate expenditure outturns (PI-1), although under-spending is also caused by several other issues that are internal to the Provincial Government.[160] Moreover, the revenue forecasting process is poor, as reflected in own source revenue collection that every year is much higher than budgeted (PI-3), there is no financial monitoring of EBUs (PI-6.3), contingent liabilities and other fiscal risks are not reported (PI-10.3), public investment management is weak across all dimensions (PI-11), there are gaps in fixed asset management (PI-12.2), the Provincial Government does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policies at the level of individual initiatives (PI-14.2), the MTEF does not explain changes from the previous version (PI-14.4), no consolidated cash flow forecast is prepared (PI-21.2), and the in-year budget execution reports lack analysis and commentary (PI-28.2).

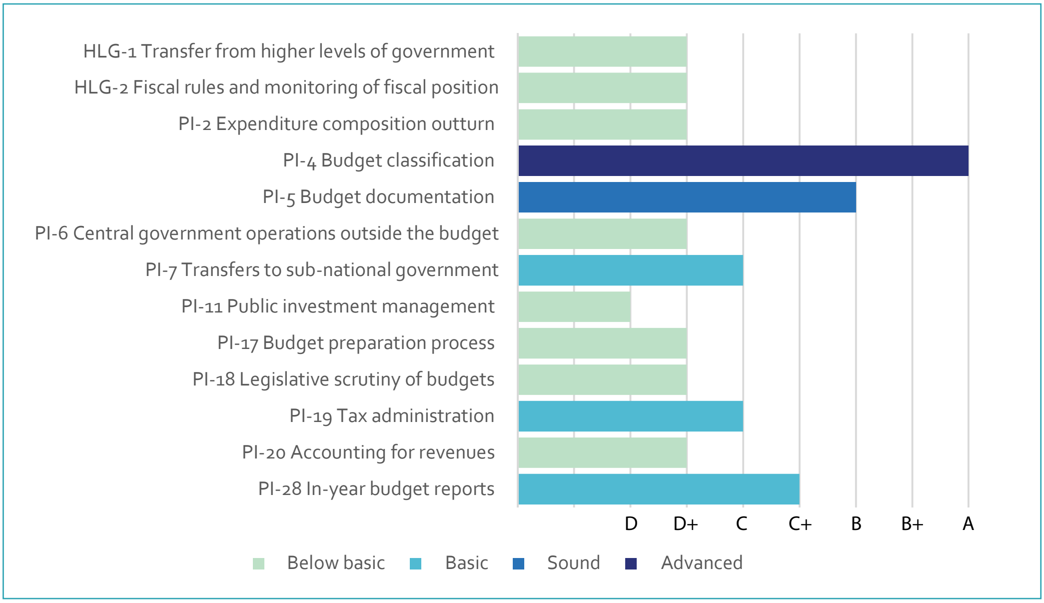
B. Strategic allocation of resources

The Provincial Government's PFM system and procedures support strategic resource allocation only to a limited extent.[161] The figure below shows the relevant PIs and the scores.

[160] For example, and inadequate budget formulation process, weak inter-institutional coordination, staff capacity gaps, and the absence of effective monitoring and evaluation systems for timely tracking implementation progress of programs and projects.

[161] The average score of the 13 PIs assessed under this budgetary outcome is 1.92, i.e. a 'C' score.

Figure 3.2: Strategic allocation of resources



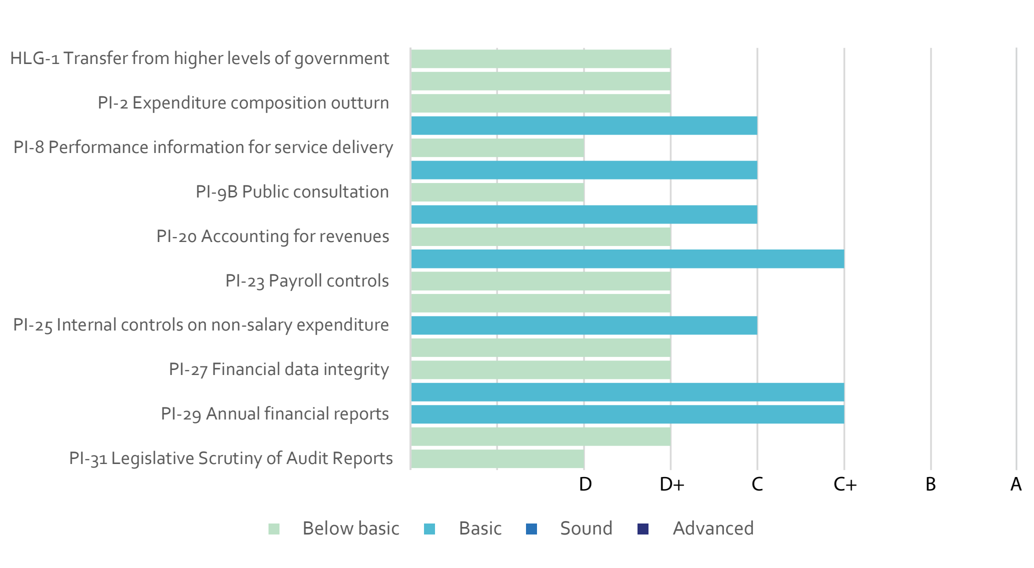
Achieving strategic resource allocation is supported especially by a solid budget classification system (PI-4) and comprehensive information being provided in the annual budget documentation (PI-5). Also, basic procedures are in place for transfers to local levels (PI-7), the Provincial Assembly approves the annual budget before the start of fiscal year (PI-18.3), clear rules exist for in-year budget adjustments by the Provincial Government and are generally adhered to (PI-18.4), relevant information is available to taxpayers on rights and obligations (PI-19.1), the PFCO obtains revenue data on a monthly basis from all relevant entities and prepares a consolidated report (PI-20.1), and quarterly budget execution reports are prepared and published by the MoF (PI-28).

There are, however, a number of weaknesses in the PFM system and applied procedures that undermine strategic resource allocation: The federal government's fiscal transfers are notably lower than budgeted in most years (HLG-1.1), actual transfers do not generally follow established time plans (HLG-1.3) and there is no predictability beyond the budget year (HLG-1.4). This is one of the causes for considerable expenditure composition variances by function (PI-2.1) and by economic classification (PI-2.2). Also, the Provincial Government does not monitor the finances of EBUs (PI-6.3), public investment management is weak across all dimensions (PI-11), the Budget Calendar is not fully adhered to during the annual budget formulation process (PI-17.1) and budget ceilings are not approved by the Cabinet before being distributed to the budgetary units (PI-17.2), the Provincial Assembly's review of the annual budget proposal does not cover revenue estimates (PI-18.1), tax risk management lacks a structured and systematic approach and compliance improvement plans are not prepared (PI-19.3), it is unclear whether the collection and transfer of motor vehicle tax is reconciled and no data on arrears is available (PI-20.3), and the in-year budget execution reports lack analysis and commentary (PI-28.2).

C. Efficient service delivery

The Provincial Government's PFM system and procedures support efficient service delivery only to a limited extent.[162] The figure below shows the relevant PIs and the scores.

Figure 3.3: Efficient service delivery



The achievement of efficient service delivery is supported mainly by essential procedures being applied for fiscal transfers to local levels (PI-7), a basic level of fiscal information is available to the public (PI-9A), relevant information is available to taxpayers on rights and obligations (PI-19.1), budgetary units can plan and commit expenditure from the start of the fiscal year (PI-21.3), the Provincial Government has in place a clear rules for in-year budget adjustments (PI-21.4), basic internal controls on non-salary expenditure are established and functioning (PI-25), the FCGO has safeguards in place to ensure the integrity and accuracy of financial data (PI-27.4), quarterly budget execution reports are prepared and published by the MoF (PI-28), and the CFS is prepared annually based on international standards, includes relevant financial data, and is submitted for external audit on a timely basis (PI-29).

[162] The average score of the 19 PIs assessed under this budgetary outcome is 1.68, i.e. a 'D+' score.

However, several PFM issues hinder the achievement of efficient service delivery: Fiscal transfers from the federal government are considerably below the budgets in most years (HLG-1.1), actual transfers do not generally follow agreed time plans (HLG-1.3) and there is no predictability for forward fiscal years (HLG-1.4). This is one of the key reasons for the high variances in expenditure composition outturns (PI-2). Also, there is a distinct absence of service delivery information in the Provincial Government's budget documents as well as in in-year and annual reports (PI-8), no public consultations are conducted in preparing the budget, designing service delivery programs or planning investments (PI-9B), public investment management is weak across all dimensions (PI-11), payroll controls are insufficient (PI-23), and procurement database and monitoring is not comprehensive and data on the use of procurement methods is not available (PI-24). Furthermore, there is no requirement for budgetary units to provide formal replies on internal audit findings and recommendations (PI-26.4), reconciliation for major bank accounts is conducted only annually (PI-27.1), settlement of advances is delayed and a large amount is not cleared (PI-27.3), the submission of audit reports to the Provincial Assembly is significantly delayed and only few budgetary units provide formal responses on external audit findings (PI-30), the PAC is yet to commence review of the OAG's latest annual reports (PI-31.1), and no hearings have been conducted by the PAC so far (PI-30.2).

The strengths and weaknesses of the Provincial Government's PFM system and procedures, and how these support or hinder the achievement of the three budgetary outcomes, are summarized in Table 3.1 below.

Table 3.1: PEFA PFM PIs and the three budgetary outcomes

Indicator/ dimension	Aggregate fiscal discipline		Strategic allocation of resources		Efficient service delivery	
SNG Pillar: Inter-governmental fiscal relations. The SNG receives reliable and timely information on transfers from the central government to help it prepare meaningful budgets as well as which fiscal and debt rules are in place for SNGs and if there is financial monitoring of SNGs.						
HLG-1. Transfers from higher level government	X	**Strength:** The provincial government submits their annual financial statements to the GoN in a timely manner.	X	**Strength:** Variances in transfers from the federal government are relatively low.	X	**Strength:** Variances in transfers from the federal government are relatively low.
HLG-2. Fiscal rules and monitoring of fiscal position	X	**Weakness:** Transfers from the federal government are significantly below the planned budgets, actual transfers do not generally follow established time plans, and there is no predictability for forward fiscal years.	X	**Weakness:** The federal government's fiscal transfers are notably lower than budgeted in most years, actual transfers do not generally follow established time plans, and there is no predictability beyond the budget year.	X	**Weakness:** Fiscal transfers from the federal government are considerably below the budgets in most years, actual transfers do not generally follow agreed time plans, and there is no predictability for forward fiscal years.

Indicator/ dimension	Aggregate fiscal discipline		Strategic allocation of resources		Efficient service delivery	
Pillar I: Budget reliability. The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.						
PI-1. Aggregate expenditure out-turn	X	**Weakness:** Aggregate expenditure outturns are very low for each fiscal year. Also, the revenue forecasting process is poor, as reflected in own source revenue collection that every year is much higher than budgeted.				
PI-2. Expenditure composition out-turn			X	**Weakness:** There are considerable expenditure composition variances by function as well as by economic classification.	X	**Weakness:** The variances in expenditure composition outturns are very high every year for functional as well as economic classifications.
PI-3. Revenue out-turn	X					
Pillar II: Transparency of public finances. Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including inter-governmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.						
PI-4. Budget classification			X	**Strength:** The Provincial Government is applying a solid budget classification system. Also, comprehensive information is provided in the annual budget documentation. Furthermore, basic procedures are in place for transfers to local levels.		
PI-5. Budget documentation			X			
PI-6. Subnational government operations outside financial reports	X	**Weakness:** There is no financial monitoring of EBUs taking place.	X			
PI-7. Transfers to subnational governments			X	**Weakness:** The Provincial Government does not monitor the finances of EBUs.	X	**Strength:** Essential procedures being applied for fiscal transfers to local levels. Also, a basic level of fiscal information is available to the public. **Weakness:** There is a distinct absence of service delivery information in the Provincial Government's budget documents and annual reports, and no performance evaluations are conducted. Also, no public consultations are conducted in preparing the budget, designing service delivery programs or planning investments.
PI-8. Performance information for service delivery					X	
PI-9A. Public access to fiscal information					X	
PI- 9. Public consultation					X	

Indicator/ dimension		Aggregate fiscal discipline		Strategic allocation of resources		Efficient service delivery
Pillar III: Management of assets and liabilities. Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.						
PI-10. Fiscal risk reporting	X	**Strength:** The Provincial Government's monitoring of financial assets is well-developed and based on international standards.				
PI-11. Public investment management	X		X	**Weakness:** Public investment management is weak across all dimensions.	X	**Weakness:** Public investment management is weak across all dimensions.
PI-12. Public asset management	X	**Weakness:** Contingent liabilities and other fiscal risks are not reported, public investment management is weak across all dimensions, and there are gaps in fixed asset management.				
PI-13. Debt management	X					
Pillar IV: Policy-based fiscal strategy and budgeting. The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.						
PI-14. Medium-term budget strategy	X	**Strength:** The Provincial Government has in place an MTEF, and estimates of revenue and expenditure for the budget year are based on relevant information.				
PI-17. Budget preparation process		**Weakness:** The Provincial Government does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policies at the level of individual initiatives. Also, the MTEF does not explain changes from the previous version.	X	**Strength:** The Provincial Assembly approves the annual budget before the start of fiscal year. **Weakness:** The Budget Calendar is not fully adhered to during the annual budget formulation process, and budget ceilings are not approved by the Cabinet before being distributed to the budgetary units. Also, the Provincial Assembly's review of the annual budget proposal does not cover revenue estimates. Although the Provincial Government has in place clear rules exist for in-year budget adjustments, there are significant virements made.		
PI-18. Legislative scrutiny of budgets			X			

Indicator/ dimension	Aggregate fiscal discipline		Strategic allocation of resources		Efficient service delivery	
Pillar V: Predictability and control in budget execution. The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.						
PI-19. Tax administration		**Strength:** Budgetary units are able to plan and commit expenditure from the start of the fiscal year, and the Provincial Government has clear rules in place for in-year budget adjustments. Also, the stock of expenditure arrears is very low and basic internal controls on non-salary expenditure are established and functioning.	X	**Strength:** Relevant information is available to taxpayers on rights and obligations. Also, the PFCO obtains revenue data on a monthly basis from all relevant entities and prepares a consolidated report.	X	**Strength:** Relevant information is available to taxpayers on rights and obligations. Also, budgetary units can plan and commit expenditure from the start of the fiscal year, and the Provincial Government has clear rules in place for in-year budget adjustments. Furthermore, basic internal controls on non-salary expenditure are established and functioning. **Weakness:** Payroll controls are insufficient. Also, procurement database and monitoring are not comprehensive and data on the use of procurement methods is not available. Internal audit is not carried out timely. Furthermore, there is no requirement for budgetary units to provide formal replies on internal audit findings and recommendations.
PI-20. Accounting for revenues			X		X	
PI-21. Predictability of in-year resource allocation	X				X	
PI-22. Expenditure arrears	X			**Weakness:** Tax risk management lacks a structured and systematic approach and compliance improvement plans are not prepared. Also, it is unclear whether the collection and transfer of motor vehicle tax is reconciled and no data on arrears is available. Moreover, the in-year budget execution reports lack analysis and commentary.		
PI-23. Payroll controls					X	
PI-24. Procurement					X	
PI-25. Internal controls on non-salary expenditure	X	**Weakness:** No consolidated cash flow forecast is prepared.			X	
PI-26. Internal audit					X	

Indicator/ dimension	Aggregate fiscal discipline		Strategic allocation of resources		Efficient service delivery	
Pillar VI: Accounting and reporting. Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.						
PI-27. Financial data integrity					X	**Strength:** The FCGO has safeguards in place to preserve the integrity and accuracy of financial data. Also, the CFS is prepared annually based on international standards, includes relevant financial data, and is submitted for external audit on a timely basis.
PI-28. In-year budget reports	X	**Weakness:** The in-year budget execution reports lack analysis and commentary.	X	**Weakness:** The in-year budget execution reports lack analysis and commentary.	X	
PI-29. Annual financial reports					X	**Weakness:** Reconciliation for major bank accounts is done only annually. Also, the settlement of advances is delayed and a large amount is not cleared.
Pillar VII: External scrutiny and audit.						
PI-30. External audit					X	**Weakness:** The submission of audit reports to the Provincial Assembly is significantly delayed and only few budgetary units provide formal responses on external audit findings. Also, the PAC is yet to commence review of the OAG's latest annual reports, and no hearings have been conducted by the PAC so far.
PI-31. Legislative scrutiny of audit reports					X	

3.2 Performance changes since previous assessment

This is the baseline PEFA PFM assessment conducted for Government of Madhesh Province

Annexes

Annex 1: Performance Indicator Summary

This annex summarizes the performance at indicator and dimension levels. The table below specifies the scores with a brief explanation for the scoring of each indicator and dimension of the 2025 PEFA PFM assessment.

Table Annex 1.1: Performance indicator summary

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Intergovernmental fiscal relations	HLG-1	**Transfers from higher level of government**	**D+**	
		(i) Outturn of transfers from higher level of government	D	Actual transfers from the GoN to the Provincial Government were between 82% and 106% of the original budget estimates in two of the last three fiscal years.
		(ii) Transfers composition outturn	B	Variances in transfer composition were less than 10% in each of the last three fiscal years.
		(iii) Timeliness of transfers from higher level of government	D	While a disbursement timetable is implicitly agreed by the GoN and SNGs for fiscal transfers, actual disbursements were generally not made in accordance with the timetable during the last three fiscal years, and actual transfers were also not distributed evenly across each year or front-loaded.
		(iv) Predictability of transfers	D	The GoN provides province-specific information on transfers for the next fiscal year, but information for the next fiscal years is only provided at the aggregate level for all provinces (i.e., not province-wise separately).

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Inter-governmental fiscal relations	HLG-2	**Fiscal rules and monitoring of fiscal position**	**D+**	
		(i) Fiscal rules for subnational governments	D	The provincial governments follow the fiscal rules established by the GoN, but these do not set a ceiling on the primary fiscal balance or the operating balance for SNGs.
		(ii) Debt rules for subnational governments	C	SNG debt ceilings are set by the NNRFC, and enforcement mechanisms are guided by the IGFA Act, but exemptions for specific circumstances are not provided.
		(iii) Monitoring of subnational governments	B	All provincial governments submitted their annual financial statements to the GoN within six months of the end of 2023/24.
Budget reliability	PI-1	**Aggregate expenditure outturn**	**D**	The aggregate expenditure outturn of the provincial government was below 75% of the approved aggregate budgeted expenditures in all of the last three fiscal years.
	PI-2	**Expenditure composition outturn**	**D+**	
		(i) Expenditure composition outturn by function	D	Expenditure composition variance by function was more than 15% in each of the last three fiscal years.
		(ii) Expenditure composition outturn by economic type	D	Expenditure composition variance by economic classification was more than 15% in two of the last three fiscal years.
		(iii) Expenditure from contingency reserves	A	The budget of all three last completed fiscal years included contingency, but no expenditure was incurred in any fiscal year.
	PI-3	**Revenue outturn**	**D**	
		(i) Aggregate revenue outturn	D	Actual revenue ranged from 132.30% to 181.70% of budgeted revenue during the last three fiscal years.
		(ii) Revenue composition outturn	D	The variance in revenue composition was more than 15% in two of the last three fiscal years.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Transparency of public finances	**PI-4**	**Budget classification**	**A**	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using GFS and COFOG standards.
	PI-5	**Budget documentation**	**B**	The Provincial Government's budget documentation for 2024/25 fulfills six elements: Four basic elements and two additional elements. Four elements are not fulfilled, and two elements are not applicable.
	PI-6	**Subnational government operations outside financial reports**	**D+**	
		(i) Expenditure outside financial reports	C	EBU expenditures in 2023/24 amounted to 9.23% of the Provincial Government's total expenditures in 2023/24.
		(ii) Revenue outside financial reports	C	EBU revenues for 2023/24 amounted to 9.05% of the Provincial Government's total revenues in 2023/24.
		(iii) Financial reports of extra-budgetary units	D	There is no evidence of submission of financial reports by EBUs to their parent ministries for 2023/24.
	PI-7	**Transfers to subnational governments**	**C**	
		(i) System for allocating transfers	C	The horizontal allocation of all transfers to local levels in Madhesh Province is determined by rule-based systems. However, procedures for conditional, complementary and special grants lack clear guidelines on timelines and installment amounts.
		(ii) Timeliness of information on transfers	C	Information on all four grants (fiscal equalization, conditional, complementary and special) to local levels is issued within ten days before their budget preparation deadlines. For the grants which represent more than 90% of fiscal transfers, local levels receive information less than two weeks before their budget preparation deadline.

Pillar	Indicator/Dimension			2025 Score	Description of Requirements met in 2025
Transparency of public finances	**PI-8**	**Performance information for service delivery**		**D**	
		(i)	Performance plans for service delivery	D	Program objectives, strategies and result indicators with targets are specified at the aggregate level in the MTEF. However, annual policies and activities, including key performance indicators as well as outputs and/or outcomes expected from each program to be implemented by frontline service delivery ministries, are not prepared and published.
		(ii)	Performance achieved for service delivery	D	No information about the activities performed, with actual outputs and outcomes, is prepared and published.
		(iii)	Resources received by service delivery units	D	Information on actual resources received is not published, no disaggregated budget/expenditure reports are prepared, no annual progress reports are available, and no surveys have been conducted during any of the last three completed fiscal years.
		(iv)	Performance evaluation for service delivery	D	Performance audits conducted by the OAG for the last three completed fiscal years did not focus specifically on programs/projects implemented by the Provincial Government. No other independent evaluations of service delivery have been carried out during any of the last three completed fiscal years involving any ministry of the Provincial Government.
	PI-9A	**Public access to information**		**C**	Five basic elements are made available to the public, but none of the three additional elements.
	PI-9B	**Public consultation**		**D**	
		(i)	Public consultation in budget preparation	D	Public consultations on budget preparation were not conducted while preparing the budget for 2024/25.
		(ii)	Public consultation in the design of service delivery programs	D	Public participations in designing service delivery programs were not carried out.
		(iii)	Public consultation in investment planning	D	Public consultations were not conducted during the preparation of major investment projects in 2023/24.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Management of assets and liabilities	**PI-10**	**Fiscal risk reporting**	**D**	
		(i) Monitoring of public corporations	NA	The Provincial Government does not control or own any share in any public corporations.
		(ii) Monitoring of sub-national governments	D	Audited annual financial statements for most local levels were published at least annually, but only after more than nine months of the end of the fiscal year.
		(iii) Contingent liabilities and other fiscal risks	D	The Provincial Government has contingent liabilities, but these are not reported in the CFS. Other fiscal risks are also not reported.
	PI-11	**Public investment management**	**D**	
		(i) Economic analysis of investment proposals	D	The Provincial Government does not have economic analysis guidelines, and there is no evidence that economic analyses were carried out for the major investment projects included in the Project Bank.
		(ii) Investment project selection	D	There are no standard criteria for prioritization and selection of major investment projects, and the budget for 2023/24 does not indicate that financial resources were allocated for major investment projects.
		(iii) Investment project costing	D	Both the MTEF for 2023/24-2025/26 and the budget for 2023/24 lack projections of total capital costs of major investment projects together with capital costs for the forthcoming budget year and recurrent costs for the next three years.
		(iv) Investment project monitoring	D	There is no evidence that cost and physical progress of major investment projects has been monitored during implementation by budgetary units.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Management of assets and liabilities	**PI-12**	**Public asset management**	**D+**	
		(i) Financial asset monitoring	B	The Provincial Government maintains records of financial assets (mainly cash and receivables) in line with the International Public Sector Accounting Standards (IPSAS)-based Nepal Public Sector Accounting Standards (NPSAS). Financial assets are recognized at their acquisition (historical) cost. Information on performance changes is published annually.
		(ii) Non-financial asset monitoring	D	The Provincial Government maintains records of non-financial assets using PAMS, which includes information regarding usage, but not the age of assets. Records of infrastructure and subsoil assets are not maintained.
		(iii) Transparency of asset disposal	D	Procedures and rules for transfer and disposal of non-financial assets are established. Information about transfer and disposal of assets is not disclosed in the CFS or in budget documents.
	PI-13	**Debt management**	**NA**	
		(i) Recording and reporting of debt and guarantees	NA	The Provincial Government does not have any loans nor has it issued any guarantees.
		(ii) Approval of debt and guarantees	NA	The Constitution and federal laws permit provincial governments to borrow and issue debt. The Provincial Government's 2023/24 budget, which was approved by the Provincial Assembly, included borrowing, but it was not availed of.
		(iii) Debt management strategy	NA	The Provincial Government has not prepared a Medium-Term Debt Management Strategy (MTDS).

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Policy-based fiscal strategy and budgeting	**PI-14**	**Medium-term budget strategy**	**C+**	
		(i) Underlying forecasts for medium- term budget	C	The 2024/25 budget documentation includes estimates for revenue and expenditure based on information of transfer, revenue and expenditure assignments
		(ii) Fiscal impact of policy proposals	D	The Provincial Government does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policies at the level of individual policy initiatives.
		(iii) Medium-term expenditure and revenue estimates	B	The MTEF presents estimates of expenditure (by administrative classification) and revenue (by type) for the budget year and the next two fiscal years.
		(iv) Consistency of budgets with previous year's estimates	D	There are no comparisons of the estimates with the previous year's MTEF, and no explanations are provided regarding changes or deviations.
	PI-17	**Budget preparation process**	**D+**	
		(i) Budget calendar	D	An annual Budget Calendar exists. The overall timeline stipulated in the Budget Calendar was adhered to, but the activity-wise timeline prescribed in the Budget Calendar was not followed. In practice the budgetary units had three weeks and four days to prepare their detailed estimates.
		(ii) Guidance on budget preparation	D	Budget Formulation Guidelines covering ministry-wise recurrent and capital expenditures for the full fiscal year were issued. The estimates were reviewed and approved by the Finance Minister, but not by the Cabinet, after they were completed in every detail by budgetary units before they were sent to the Provincial Assembly.
		(iii) Budget submission to the subnational council	C	The MoF submitted the annual budget proposal to the Provincial Assembly one month before the start of the fiscal year in the last three completed fiscal years.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Policy-based fiscal strategy and budgeting	**PI-18**	**Legislative scrutiny of budgets**	**D+**	
		(i) Scope of budget scrutiny	D	The Provincial Assembly's review of the 2023/24 budget proposal covered mainly expenditure details.
		(ii) Legislative procedures for budget scrutiny	D	The Provincial Assembly Regulations (2018) were in effect prior to the 2023/24 budget hearings and were generally adhered to, except that the Provincial Assembly did not review the revenue estimates.
		(iii) Timing of budget approval	A	The Provincial Assembly approved the annual budget before the start of fiscal year in each of the last three fiscal years.
		(iv) Rules for budget adjustments by the executive	B	There are clear rules in place for in-year budget adjustments by the Provincial Government, which are adhered to in most instances and with compliance verified by the OAG.
Predictability and control in budget execution	**PI-19**	**Tax administration**	**C**	
		(i) Rights and obligations for tax measures	A	For all core taxes (motor vehicle tax) of the Provincial Government, multiple channels are used to provide taxpayers with easy access to comprehensive and up-to-date information on the main tax obligation areas and on rights, including regarding redress processes and procedures.
		(ii) Property tax register and value assessment	NA	Property tax is administered by local levels rather than provincial governments.
		(iii) Tax risk management, audit and investigation	D	A structured and systematic approach for assessing and prioritizing compliance risk is not in place, and no compliance improvement plans exist, and also no audit and investigation plans.
		(iv) Tax arrears monitoring	D*	Arrears data related to the motor vehicle tax is not available for the last completed fiscal year (2023/24).

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Predictability and control in budget execution	**PI-20**	**Accounting for revenues**	**D+**	
		(i) Information on revenue collections	A	The PFCO obtains revenue data on a monthly basis from all relevant entities and prepares a consolidated report, which has detailed data broken down by revenue types, that is submitted to the provincial MoF as well as the FCGO and the OAG.
		(ii) Transfer of revenue collections	D	The collected revenue is deposited into the Provincial Consolidated Fund on a daily basis. The deposited revenue is transferred to the Provincial Consolidated Fund from the Province Divisible Fund on a monthly basis. The revenue can be used only if it is deposited in the Provincial Consolidated Fund.
		(iii) Tax accounts reconciliation	D	Evidence that the Provincial Government's core tax (motor vehicle tax) has been reconciled in terms of collection and transfer, and if so when, has not been available. There is also no data available on motor vehicle tax arrears.
	PI-21	**Predictability of in-year resource allocation**	**C+**	
		(i) Consolidation of cash balances	D	Out of nine accounts, five accounts (representing 40.7% of transactions during 2024/25) were consolidated on a daily or monthly basis.
		(ii) Cash forecasting and monitoring	D	A consolidated cash flow forecast was not prepared for 2023/24.
		(iii) Information on commitment ceilings	A	Budgetary units are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.
		(iv) Significance of in-year budget adjustments	A	Significant in-year adjustments to budget allocations did not take place during 2023/24.
	PI-22	**Expenditure arrears**	**C+**	
		(i) Stock of expenditure arrears	A	The stock of expenditure arrears is no more than 2% of total expenditure in all the last three completed fiscal years.
		(ii) Expenditure arrears monitoring	C	Data on the stock and composition of expenditure arrears are generated annually at the end of the fiscal year.

Pillar	Indicator/Dimension			2025 Score	Description of Requirements met in 2025
Predictability and control in budget execution	**PI-23**	**Payroll controls**		**D+**	
		(i)	Integration of payroll and personnel records	D	Payroll data and personnel information are not reconciled systematically.
		(ii)	Management of payroll changes	D	The personal information of personnel is not updated in the system at the time of transfer. For personnel accredited to the Provincial Government under the federal Adjustment Act, all information remains recorded in the federal PIS. Thus, no data is available for calculating retroactive adjustments.
		(iii)	Internal control of payroll	D	The accuracy of payroll and personnel data could not be ensured due to insufficient internal controls in place.
		(iv)	Payroll audit	C	Partial payroll audits have been undertaken during the last three completed fiscal years.
	PI-24	**Procurement**		**D+**	
		(i)	Procurement monitoring	D	Although the e-GP system maintains records on procurement made using competitive processes, it is not entirely complete. Procurement information on what has been procured, the value of procurement, and who has been awarded contracts is included in decision files for competitive procurement and payment vouchers for non-competitive procurement. Comprehensive data for the latter is not available, including from six sampled ministries.
		(ii)	Procurement methods	D	Comprehensive data on the use of procurement methods is not available. According to the limited data available (from two sampled ministries), only 15.94% of procurement was made using competitive methods.
		(iii)	Public access to procurement information	C	Three out of six key procurement information elements are complete and available to the public.
		(iv)	Procurement complaints management	B	Five out of six criteria are met. There is a legal requirement of 1% deposit of the bid value to file a complaint, although no fee is charged for low-value procurement.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Predictability and control in budget execution	**PI-25**	**Internal controls on non-salary expenditure**	**C**	
		(i) Segregation of duties	C	The segregation of duties throughout the expenditure process is clearly guided by law, but the responsibilities at the level of most ministries and budgetary units are not yet clearly laid down.
		(ii) Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist, but forecasts of projected cash requirements are not prepared. Hence, control procedures only provide partial coverage and are only partially effective.
		(iii) Compliance with payment rules and procedures	C	The internal and external auditors reported irregularities of about 5% of total expenditure for 2023/24. However, the OAG's 7th Annual Report for 2023/24 also reported many significant observations relating to internal control weaknesses, including non-compliance with laws and regulations. The majority of payments are compliant with regular payment procedures, and the majority of exceptions are properly authorized and justified.
	PI-26	**Internal audit effectiveness**	**D+**	
		(i) Coverage of internal audit	D	Internal audit plans do not exist for 2024/25, and no internal audits were conducted until the time of the assessment. Internal audit is generally conducted after fiscal year-end.
		(ii) Nature of audits and standards applied	D	Internal audit activities are primarily focused on legal and financial compliance, although in practice Internal Audit Procedures (2021) are not fully adhered to. Professional internal audit standards are not formulated and applied.
		(iii) Implementation of internal audits and reporting	A	An annual internal audit plan, with allocation of budgetary units across internal audit teams, is prepared by the PFCO and its district-level units. Internal audits for 2023/24 were completed as evidenced by internal audit reports being distributed to the appropriate parties.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Predictability and control in budget execution		(iv) Response to internal audits	D	Auditees are required to settle internal audit observations within a prescribed time frame and inform the PFCO. However, there is no requirement for auditees to provide formal replies, and there is no evidence that auditees respond to internal audit recommendations.
Accounting and reporting	**PI-27**	**Financial data integrity**	**D**	
		(i) Bank account reconciliation	D	Bank reconciliation for all active bank accounts is conducted annually and usually within eight weeks from the end of the fiscal year.
		(ii) Suspense accounts	NA	There are no suspense accounts.
		(iii) Advance accounts	D	Reconciliation of advance accounts took place at least monthly, within a month from the end of each month. However, delays in settlement of advances were noted, with 44.3% of advances for 2023/24 being overdue and not cleared.
		(iv) Financial data integrity processes	B	The FCGO has safeguards in place to preserve the integrity and accuracy of financial data. Access and changes to records are restricted and recorded, and result in an audit trail. However, no specific report is available to confirm the verification of data integrity by a separate team/unit.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
Accounting and reporting	**PI-28**	**In-year budget reports**	**C+**	
		(i) Coverage and comparability of reports	C	The in-year budget execution reports allow for direct comparison with the original budget across administrative and economic classifications, but not functional classifications.
		(ii) Timing of in-year budget reports	B	The budgetary units of the Provincial Government submit quarterly budget reports generated by a computerized system (IPFMS) to their superior offices. Quarterly budget execution reports are prepared and published by the MoF on its website shortly after quarter-end, i.e. within four weeks.
		(iii) Accuracy of in-year budget reports	C	There are no significant concerns regarding the accuracy of the information provided in the in-year budget execution reports. Data is useful for analysis of budget execution. Reported expenses, however, are limited to the payment stage and lack analysis and comments on how the budget is being implemented.
	PI-29	**Annual financial reports**	**C+**	
		(i) Completeness of annual financial reports	C	The CFS is prepared annually and includes data on actuals that is comparable with the original approved budgets. The CFS for 2023/24 includes information on revenue, expenditure, cash balances and financial assets and liabilities.
		(ii) Submission of reports for external audit	B	The CFS for 2023/24 was submitted for external audit on 11 December 2024, i.e. just under five months after fiscal year-end.
		(iii) Accounting standards	B	The accounting standards applied to the last three years' CFS are consistent with the country's legal framework and ensure consistency of reporting over time. The standards and legal framework used in preparing annual financial reports are disclosed.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
External scrutiny and audit	**PI-30**	**External audit**	**D+**	
		(i) Audit coverage	A	The OAG audited all budgetary units and EBUs of the Provincial Government for the last three completed fiscal years. The audit reports highlight relevant material issues as well as systemic and control risks.
		(ii) Submission of audit reports to the subnational council	D	The OAG's audit reports were submitted to the Provincial Assembly after 3.1, 17.1 and 5.3 months following the receipt of the financial statements by the OAG for 2021/22, 2022/23 and 2023/24, respectively.
		(iii) External audit follow-up	D	Formal, written responses were provided by 21% of auditees for 2021/22, 14% for 2022/23, and 7% for 2023/24.
		(iv) Independence of the public audit institution in charge of subnational governments	C	The OAG operates independently from the executive with respect to the procedures for the appointment and removal of the Auditor General as well as the execution of its budget. It has unrestricted and timely access to requested records, documentation, and information.
	PI-31	**Legislative scrutiny of audit reports**	**D**	
		(i) Timing of audit report scrutiny	D	The PAC has initiated reviews of the first five OAG Annual Reports, including the 5th Annual Report for 2021/22, but no reviews have been completed yet. The 5th, 6th and 7th OAG Annual Reports, issued on 13 April 2023, 26 May 2024 and 14 May 2025, respectively, were submitted to the PAC by the OCMCM on 25 April 2023, 5 June 2025 and 19 May 2025, respectively, but the PAC is yet to review these.
		(ii) Hearings on audit findings	D	No in-depth hearings on key audit findings were conducted by the PAC for the last three completed fiscal years (2021/22, 2022/23, and 2023/24), except for the initiation of scrutiny covering the first five OAG Annual Reports, including 2021/22. There is no pre-arranged schedule or calendar for committee meetings or hearings.

Pillar	Indicator/Dimension		2025 Score	Description of Requirements met in 2025
		(iii) Recommendations on audit by the subnational council	D	The PAC has so far not issued recommendations to be implemented by the executive.
		(iv) Transparency of legislative scrutiny of audit reports	D	The PAC has not commenced review of the OAG's 7th Annual Report (covering 2023/24). The PAC has not yet presented its reports to the Provincial Assembly, or published reports. While PAC hearings are generally open to the public, there is no evidence that the public participated in the committee meetings.

Annex 2: Sources of Information

Annex 2.A: Sources of information

Table Annex 2.1: Related surveys and analytical work

Institution	Document Title	Year	Link
GoN and World Bank	Nepal – Public Expenditure and Financial Accountability (PEFA) – Performance Assessment Report III (as of 2022).	2024	https://www.pefa.org/node/5030
World Bank	Nepal Fiscal Federalism Update (May 2024).	2024	https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099050924102027545
World Bank	Nepal Development Update (April 2025).	2025	https://www.worldbank.org/en/country/nepal/publication/nepaldevelopmentupdate
Government of Gandaki Province and World Bank	Gandaki Province – Public Expenditure and Financial Accountability (PEFA) – Performance Assessment Report.	2025	https://www.pefa.org/node/5238

Annex 2.B: List of people consulted

Table Annex 2.2: List of people consulted – Group 1

No.	Institution	Name	Position	PIs
Assessment Team				
	PFCO	Manoj Kumar Jha	Province Treasury Comptroller (9^{th} Level)	22
		Ashok Prasad Sah	Account Officer (6^{th} Level)	23
	MoF	Mohammad Shariph	Section Officer (7^{th} Level)	24
		Rishu Kushwaha	Section Officer (7^{th} Level)	25
		Sudhir Kumar Jha	Computer Officer (6^{th} Level)	26
		Navin Kumar Jha	Account Officer (6^{th} Level)	27
	MoPID	Navin Kumar Mishra	Account Officer (7^{th} Level)	30 31

No.	Institution	Name	Position	PIs
Other Government Officials				
	MoPID	Sanjay Prasad Sah	Acting Secretary	As above
	MoEIDW	Ram Kumar Khang	Acting Secretary	
	PAC	Homnath Pahadi	Committee Secretary	
		Abinash Kumar Karna	Section Officer	
	OAG	Bishnu Khanal	Director	
	PTU (Mahottari)	Balkrishna Adhikari	PTU Chief	
	PPRO (OCMCM)	Niraj Shriwastav	Section Officer	

Table Annex 2.3: List of people consulted – Group 2

No.	Institution	Name	Position	PIs
Assessment Team				
	PFCO	Nirendra Lal Karn	Account Officer (7th Level)	HLG-1 HLG-2
	MoF	Chanda Kumari Sah	Section Officer (7th Level)	6
		Anshu Kumar Jha	Section Officer (7th Level)	7
		Krishtina Yadav	Law Officer	10
		Brahma Narayan Prasad Yadav	Assistant Section Officer (6th Level)	12
		Raban Kumar Yadav	Assistant Officer (5th Level)	13
	Infrastructure Development Office (IDO)	Parasmani Sah	Computer Officer (6th Level)	19 20 21
Other Government Officials				
	TMO, Dhanusha	Santosh Pandit	Accountant	As above
	PTU (Birgunj)	Shyam Uday Thakur	PTU Chief	
	PTU (Lahan)	Parmananda Kumar Mandal	PTU Chief	
	PTU (Rautahat)	Prem Prasad Pokhrel	PTU Chief	

Table Annex 2.4: List of people consulted – Group 3

No.	Institution	Name	Position	PIs
Assessment Team				
	MoF	Vijay Kumar Chaudhary	Account Officer (8th Level)	1
		Er. Dipendra Kumar Yadav	PLMBIS Expert	2
		Chandani Dalami	Section Officer (7th Level)	3
		Indrajeet Thakur	Assistant Section Officer (6th Level)	4
		Nanu Lal Mahato	Assistant Officer (5th Level)	5
	OCMCM	Nirmala Khadka	Account Officer (8th Level)	28
	PAC	Purushottam Mishra	Section Officer (7th Level)	29

Table Annex 2.5: List of people consulted – Group 4

No.	Institution	Name	Position	PIs
Assessment Team				
	PPC	Prashant Kumar Mishra	Section Officer	8
		Nikita Chaudhary	Section Officer (7th Level)	9A
	MoF	Sudarshan Bhattarai	Section Officer (7th Level)	9B
		Rajendra Acharya	Statistical Officer (7th Level)	11
		Santa Achame	Section Officer (7th Level)	14
	PFCO	Manoj Kumar Chaudhary	Account Officer (7th Level)	17
Other Government Officials				
	MoICT	Nutan Chaudhary	Account Officer	As above
	MoEIDW	Arbindra Kumar Jha	Account Officer	
	PRTC	Satar Ansari	Executive Director	

Annex 2.C: Sources of information used to extract evidence for scoring each indicator

Table Annex 2.6: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
Inter-governmental fiscal relations	
HLG-1. Transfers from higher level of government HLG 1.1 Outturn of transfers from higher level of government HLG 1.2 Transfers composition outturn HLG 1.3 Timeliness of transfers from higher level of government HLG 1.4 Predictability of transfers	Constitution and IGFA Act Annual federal budgets and Appropriation Acts. CFS data for 2021/22, 2022/23 and 2023/24. RMIS data for 2021/22, 2022/23 and 2023/24. Grant transfer data from the FCGO's FMIS COFOG classification. Province annual budgets for 2021/22, 2022/23 and 2023/24. Federal MTEF and province MTEF. PFCO letters.
HLG-2. Fiscal rules and monitoring of fiscal position HLG 2.1. Fiscal rules for subnational governments HLG 2.2 Debt rules for subnational governments HLG 2.3 Monitoring of subnational governments	Constitution, FPFA Act, IGFA Act, NNRFC Act, NNRFC Regulations, Loan and Guarantee Act, Public Debt Management Act. Provincial Appropriation Act (2023/24). PFCO's CFS for 2023/24. Official letter from the PFCO with submission dates of CFS to the FCGO and the OAG.
Budget reliability	
PI-1. Aggregate expenditure outturn 1.1. Aggregate expenditure outturn **PI-2. Expenditure composition outturn** 2.1. Expenditure composition outturn by function 2.2. Expenditure composition outturn by economic type 2.3. Expenditure from contingency reserves **PI-3. Revenue outturn** 3.1. Aggregate revenue outturn 3.2. Revenue composition outturn	Annual Budgets ('Red Books'), Budget Speech for 2021/22, 2022/23 and 2023/24. PFCO's CFS for 2021/22, 2022/23 and 2023/24.

Indicator/dimension	Data Sources
Transparency of public finances	
PI-4. Budget classification 4.1 Budget classification	CoA / Integrated Economic Code, Classification and Explanation. OAG Approved accounting formats. FCGO's 'An Integrated Financial Code, Classification and Explanation 2074 B.S (Second Revision)', 2017.
PI-5. Budget documentation 5.1 Budget documentation	Budget Speech 2024/25. Annual Budget ('Red Book') 2024/25. Economic Survey 2023/24. Province MTEF 2024/25-2026/27.
PI-6. Subnational government operations outside financial reports 6.1. Expenditure outside financial reports 6.2. Revenue outside financial reports 6.3. Financial reports of extra-budgetary units	FPFA Act. OAG's 7th Annual Report for Madhesh Province (covering 2023/24). Internal audit reports 2023/24. PFCO's CFS 2023/24. Financial reports of/correspondence with EBUs.
PI-7. Transfers to subnational governments 7.1. System for allocating transfers 7.2. Timeliness of information on transfers	Constitution, IGFA Act, NNRFC Act, NNRFC Regulations, Federal NPC Procedure for Special and Complementary Grant, Province Grant Procedures (Conditional 2024, Special 2021 and Complementary 2021), Province Planning and Program Formulation Directives, and Provincial Fiscal Transfer Management Act. Federal and province annual Appropriation Acts. PFCO's FMIS (Report No. 2014) for 2023/24. Budget Speech 2023/24. NNRFC recommendations. Correspondence letters for the 2023/24 budget submission to the Provincial Assembly.
PI-8. Performance information for service delivery 8.1. Performance plans for service delivery 8.2. Performance achieved for service delivery 8.3. Resources received by service delivery units 8.4. Performance evaluation for service delivery	Constitution, Audit Act and PFP Act. Annual Budget ('Red-Book') for 2024/25. Province MTEF 2024/25-2026/27. Performance Audit Report (2021/22-2023/24).

Indicator/dimension	Data Sources
PI- 9A Public access to fiscal information	Budget Speech 2023/24. Province MTEF 2023/24-2025/26. Province Appropriation Act 2023/24. Finance Act 2023/24. PFCO's CFS for 2023/24. OAG's 7th Annual Report for Madhesh Province (covering 2023/24). Internal audit Report 2023/24.
9A.1. Public access to fiscal information	
PI- 9B. Public consultation	Constitution. National Strategy and Action Plan. Province Planning and Program Formulation Directives.
9B.1. Public consultation in budget preparation	
9B.2. Public consultation in the design of service delivery programs	
9B.3. Public consultation in investment planning	
Management of assets and liabilities	
PI-10. Fiscal risk reporting	PFP Act. Budget Speech 2023/24. Local level CFS 2023/24. OAG Audit Reports for 2023/24.
10.1. Monitoring of public corporations	
10.2. Monitoring of sub-national government	
10.3. Contingent liabilities and other fiscal risks	
PI-11. Public investment management	PFP Act, FPFA Act, Province Planning and Program Formulation Directives and Province Monitoring and Evaluation Directives. Province Project Bank. Province MTEF 2023/24-2024/25. Annual Budget ('Red-Book') for 2023/24.
11.1. Economic analysis of investment proposals	
11.2. Investment project selection	
11.3. Investment project costing	
11.4. Investment project monitoring	
PI-12. Public asset management	PFP Act, FPFA Act. FCGO's Procedures on Government Assets and Inventory Goods Auction Sale. PFCO's CFS for 2023/24 and Public Asset Management System (PAMS).
12.1. Financial asset monitoring	
12.2. Non-financial asset monitoring	
12.3. Transparency of asset disposal.	
PI-13. Debt management	Constitution, IGFA Act, PFP Act, NNRFC Act and NNRFC Regulations, Public Debt Management Act and Public Debt Management Regulations. NNRFC recommendations on debt ceiling. Annual Budget (red book), 2023/24 and federal MTDS for FY2021/22 to FY2023/24.
13.1. Recording and reporting of debt and guarantees	
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	

Indicator/dimension	Data Sources
Policy-based fiscal strategy and budgeting	
PI-14. Medium-term budget strategy	Province Second Periodic Development Plan (2024/25-2028/29). Province MTEF 2024/25-2026/27.
14.1. Underlying forecasts for medium-term budget	
14.2. Fiscal impact of policy proposals	
14.3. Medium-term expenditure and revenue estimates	
14.4. Consistency of budgets with previous year's estimates	
PI-17. Budget preparation process	PFP Act. MoF's Budget Calendar for 2024/25. MoF's Budget Formulation Guidelines. Official letters and internal decision files of the MoF. Provincial Assembly Secretariat official records.
17.1. Budget calendar	
17.2. Guidance on budget preparation	
17.3. Budget submission to the subnational council	
PI-18. Legislative scrutiny of budgets	Constitution, Provincial Assembly Regulations and PFP Act. Official correspondence letters (MoF and PAC). Provincial Assembly program links recorded in YouTube. Official letter from the MoF to the Province Chief. Province Appropriation Acts for 2021/22, 2022/23 and 2023/24.
18.1. Scope of budget scrutiny	
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
Predictability and control in budget execution	
PI-19. Tax administration	Constitution, IGFA Act, Province Tax and Non-Tax Act, Provincial Finance Act (2024/25), Vehicle and Transport Management Act and Vehicle and Transport Management Regulations. FMIS and RMIS.
19.1. Rights and obligations for tax measures	
19.2. Property tax register and value assessment	
19.3. Tax risk management, audit and investigation	
19.4. Tax arrears monitoring	
PI-20. Accounting for revenues	PFP Act and Government Transaction Directives. CoA with OAG formats. FMIS and RMIS.
20.1. Information on revenue collections	
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	

Indicator/dimension	Data Sources
PI-21. Predictability of in-year resource allocation	Government Transaction Directives and PFP Act. Appropriation Act 2024/25. FMIS, TSA and RMIS reports for 2024/25.
21.1. Consolidation of cash balances	
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	PFP Act. OAG Formats. PFCO's CFS for 2021/22-2023/24. FMIS report of commitment recordings (2024/25). OAG's 7th Annual Report for Madhesh Province (covering 2023/24). Internal audit report 2023/24.
22.1. Stock of expenditure arrears	
22.2. Expenditure arrears monitoring	
PI-23. Payroll controls	Constitution, Province Civil Service Act, Province Civil Service Regulations, Province Public Service Commission Act, Province Public Service Commission Regulations, Federal Personnel Adjustment Act and Federal Government Accounting Manual (2006). Civil officials data recorded by the PPRO. Payroll in IPFMS (CGAS). OAG forms/formats. Personnel Records Files (manual). Internal audit reports. Personnel attendance reports. OAG's 7th Annual Report for Madhesh Province (covering 2023/24).
23.1. Integration of payroll and personnel records	
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
PI-24. Procurement	PPA, PPR and e-GP Operation Directives PPMO Annual Report for 2024. Sample data from the Ministry of Energy, Irrigation and Drinking Water (MoEIW) and Ministry of Land Management, Agriculture and Cooperatives (MoLAC). OAG's 7th Annual Report for Madhesh Province (covering 2023/24). Internal Audit Report 2023/24.
24.1. Procurement monitoring	
24.2. Procurement methods	
24.3. Public access to procurement information	
24.4. Procurement complaints management	

Indicator/dimension	Data Sources
PI-25. Internal controls on non-salary expenditure	PFP Act and Madhesh Province Government (Work Division) Regulations. Internal Audit Report 2023/24. PFCO's CFS for 2023/24. OAG's 7th Annual Report for Madhesh Province (covering 2023/24).
25.1. Segregation of duties	
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
PI-26. Internal audit	PFP Act and Internal Audit Procedures. TSA system for Internal audit plan for 2024/25. Internal Audit Decision File (Internal Documents) for 2024/25 (TSA/PFCO). Internal Audit Report 2023/24. OAG formats. Letters of PFCO and PFCO units/budgetary units.
26.1. Coverage of internal audit	
26.2. Nature of audits and standards applied	
26.3. Implementation of internal audits and reporting	
26.4. Response to internal audits	
Accounting and reporting	
PI-27. Financial data integrity	PFP Act, FPFA Act, Government Transactions Directives and TSA Directives. Day Close Report (Daily), FMIS for Bank Reconciliation Reports. CFS for 2021/22-2023/24. Internal Audit Report of EBUs (samples). Internal Audit Report 2023/24. NRB and RBB correspondence letters to PFCO. 7th OAG's Annual Report for Madhesh Province (covering 2023/24). Communication with FCGO on IT systems.
27.1. Bank account reconciliation	
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	
PI-28. In-year budget reports	PFP Act. IPFMS-generated monthly report through FMIS, TSA, CGAS and RMIS. PFCO's CFS 2023/24.
28.1. Coverage and comparability of reports	
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
PI-29. Annual financial reports	PFP Act. PFCO's CFS for 2021/22- 2023/24. Accounting formats. CoA / Integrated Economic Code, Classification and Explanation.
29.1. Completeness of annual financial reports	
29.2. Submission of the reports for external audit	
29.3. Accounting standards	

Indicator/dimension	Data Sources
External scrutiny and audit	
PI-30. External audit	Constitution and Audit Act. OAG's 5th (2021/22), 6th (2022/23) and 7th (2023/24) Annual Reports for Madhesh Province. PFCO's CFS (2021/22- 2023/24). Official correspondence from the OCMCM to the Provincial Assembly.
30.1. Audit coverage	
30.2. Submission of audit reports to the legislature	
30.3. External audit follow up	
30.4. Independence of the public audit institution in charge of subnational governments	
PI-31. Legislative scrutiny of audit reports	Provincial Assembly Regulations, Public Accounts Committee Procedures and PFP Act. Correspondence with the PAC Secretariat. Minutes of the PAC. Correspondence for follow-up from the PAC and the Provincial Assembly Secretariat.
31.1. Timing of audit report scrutiny	
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the subnational council	
31.4. Transparency of legislative scrutiny of audit reports	

Annex 3: Calculations for HLG-1

Table Annex 3.1: Budgeted and actual expenditure for HLG-1, 2021/22 (NPR Millions)

Transfers	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Earmarked Transfers						
General Public Services	1,630.00	1,945.00	1,723.17	221.83	221.83	12.90%
Defense						
Public Order and Safety						
Economic Affairs	1,827.00	1,884.00	1,931.42	-47.42	47.42	2.50%
Environmental Protection						
Housing and Communities Amenities	1,280.00	1,266.00	1,353.16	-87.16	87.16	6.40%
Health	988.00	1,194.00	1,044.47	149.53	149.53	14.30%
Recreation, Culture and Religion						
Education	785.10	1,020.00	829.97	190.03	190.03	22.90%
Social Protection						
Non-earmarked transfers						
Sum of non earmarked transfers	17,032.30	17,579.00	18,005.81	-426.81	426.81	0.02
Equalization grants	7,393.40	7,393.00				
Revenue and royalty sharing	9,638.90	10,186.00				
Total other non-earmarked transfers						
Total	**23,542.40**	**24,888.00**	**24,888.00**	**0.00**	**1,122.78**	
					HLG-1 indicator variation:	105.70%
					HLG-2 indicator structure:	4.50%

Table Annex 3.2: Budgeted and actual expenditure for HLG-1, 2022/23 (NPR Millions)

Transfers	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Earmarked Transfers						
General Public Services	230.00	180.00	173.21	6.79	6.79	3.90%
Defense						
Public Order and Safety						
Economic Affairs	2,254.00	1,254.00	1,697.44	-443.44	443.44	26.10%
Environmental Protection	138.00	55.00	103.93	-48.93	48.93	47.1%
Housing and Communities Amenities	3,245.00	2,244.00	2,443.75	-199.75	199.75	8.20%
Health	2,753.00	1,975.00	2,073.23	-98.23	98.23	4.70%
Recreation, Culture and Religion	59.10	23.00	44.51	-21.51	21.51	48.30%
Education	2,656.00	2,063.00	2,000.18	62.82	62.82	3.10%
Social Protection						
Non-earmarked transfers						
Sum of non earmarked transfers	19,462.40	15,399.00	14,656.76	742.24	742.24	5.10%
Equalization grants	7,815.80	6,839.00				
Revenue and royalty sharing	11,646.60	8,560.00				
Total of other non-earmarked transfers						
Total	**30,797.50**	**23,193.00**	**23,193.00**	**0.00**	**1,623.71**	
					HLG-1 indicator variation:	75.30%
					HLG-2 indicator structure:	7.00%

Table Annex 3.3: Budgeted and actual expenditure for HLG-1, 2023/24 (NPR Millions)

Transfers	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Earmarked Transfers						
General Public Services	145.00	96.00	120.10	-24.10	24.10	20.10%
Defense						
Public Order and Safety						
Economic Affairs	977.50	851.00	809.62	41.38	41.38	5.10%
Environmental Protection	30.00	29.00	24.85	4.15	4.15	16.70%
Housing and Communities Amenities	1,863.00	1,932.00	1,543.05	388.95	388.95	25.20%
Health	1,584.00	1,256.00	1,311.96	-55.96	55.96	4.30%
Recreation, Culture and Religion	196.00	124.00	162.34	-38.34	38.34	23.60%
Education	1,243.00	1,188.00	1,029.53	158.47	158.47	15.40%
Social Protection						
Non-earmarked transfers						
Sum of non earmarked transfers	18,896.90	15,177.00	15,651.55	-474.55	474.55	3.00%
Equalization grants	7,415.00	5,496.00				
Revenue and royalty sharing	11,481.90	9,681.00				
Total of other non-earmarked transfers						
Total	**24,935.40**	**20,653.00**	**20,653.00**	**0.00**	**1,185.90**	
					HLG-1 indicator variation:	82.80%
					HLG-2 indicator structure:	5.70%

Table Annex 3.4: Results Matrix

Fiscal Year	for HLG-1.1 Total expenditure outturn	for HLG-1.2 Composition variance
2021/22	105.70%	4.50%
2022/23	75.30%	7.00%
2023/24	82.80%	5.70%

Table Annex 3.5: Detailed Data for HLG-1.3

Type of fiscal transfers	Timeline as per legal / regulatory provisions	FY2021/22			FY2022/23			FY2023/24		
		Correspondence Date by FCGO/ DTCO-Mahottari	Actual Received Date-PFCO-Madhesh Province	Deviation	Correspondence Date by FCGO/ DTCO-Mahottar	Actual Received Date-PFCO-Madhesh Province	Deviation	Correspondence Date by FCGO/ DTCO-Mahottari	Actual Received Date-PFCO-Madhesh Province	Deviation
Fiscal Equalization Grants	19-Aug	10-12-21	10-12-21	3 months, 22 days	13-01-23	14-01-23	4 months, 25 days	18-02-24	20-02-24	6 months
	19-Oct	23-05-22	24-05-22	7 months, 5 days	17-02-23	17-02-23	3 months, 29 days	14-03-24	14-03-24	4 months, 26 days
	15-Jan	14-07-22	15-07-22	6 months	09-04-23	09-04-23	2months, 25 days	06-06-24	06-06-24	4 months, 22 days
	14-Apr	15-07-22	15-07-22	3 months, 22 days	04-07-23	05-07-23	2 months, 20 days	-	-	-
Conditional Grants	19-Aug	10-12-21	10-12-21	3 months 22 days	13-01-23	14-01-23	4 months, 25 days	18-02-24	20-02-24	6 months
	30-Nov	23-05-22	23-05-22	5 months, 23 days	17-02-23	17-02-23	2 months, 17 days	14-03-24	14-03-24	3 months, 14 days
	28-Mar	14-07-22	14-07-22	3 months, 17 days	09-04-23	09-04-23	12 days	06-06-24	06-06-24	2 months, 9 days
	29-Jun	15-07-22	15-07-22	16 days	04-07-23	05-07-23	6 days	07-07-24	07-07-24	8 days
Special Grants	15-Oct	10-12-21	10-12-21	1 month, 26 days	13-01-23	14-01-23	2 months, 29 days	18-02-24	20-02-24	4 months, 6 days
	13-Jan	23-05-22	24-05-22	3 months, 24 days	17-02-23	17-02-23	1 month, 4 days	14-03-24	14-03-24	2 months
	13-Apr	14-07-22	15-07-22	3 months	09-04-23	09-04-23	4 days early	06-06-24	06-06-24	1 month, 23 days
	15-Jul	15-07-22	15-07-22	Same day	04-07-23	05-07-23	10 days early	07-07-24	07-07-24	8 days early

Type of fiscal transfers	Timeline as per legal / regulatory provisions	FY2021/22			FY2022/23			FY2023/24		
		Correspondence Date by FCGO/ DTCO-Mahottari	Actual Received Date-PFCO-Madhesh Province	Deviation	Correspondence Date by FCGO/ DTCO-Mahottar	Actual Received Date-PFCO-Madhesh Province	Deviation	Correspondence Date by FCGO/ DTCO-Mahottari	Actual Received Date-PFCO-Madhesh Province	Deviation
Complementary Grants	19-Aug	10-12-21	10-12-21	3 months, 22 days	13-01-23	14-01-23	4 months, 25 days	18-02-24	20-02-24	6 months
	19-Oct	23-05-22	24-05-22	7 months, 5 days	17-02-23	17-02-23	3 months, 29 days	14-03-24	14-03-24	4 months, 26 days
	15-Jan	14-07-22	15-07-22	6 months	09-04-23	09-04-23	2months, 25 days	06-06-24	06-06-24	4 months, 22 days
	14-Apr	15-07-22	15-07-22	3 months, 22 days	04-07-23	05-07-23	2 months, 20 days	-	-	-
Revenues	Monthly	24-08-21	27-08-21	On time	04-09-22	04-09-22	On time	24-09-23	26-09-23	On time
		24-08-21	27-08-21	On time	04-09-22	04-09-22	On time	24-09-23	26-09-23	On time
		24-09-21	27-09-21	On time	18-09-22	21-09-22	On time	26-09-23	27-09-23	On time
		24-09-21	27-09-21	On time	18-09-22	21-09-22	On time	26-09-23	27-09-23	On time
		22-10-21	24-10-21	On time	21-10-22	31-10-22	On time	02-11-23	03-11-23	On time
		22-10-21	24-10-21	On time	21-10-22	31-10-22	On time	02-11-23	03-11-23	On time
		26-11-21	29-11-21	On time	29-11-22	05-12-22	On time	26-11-23	04-12-23	On time
		26-11-21	29-11-21	On time	29-11-22	05-12-22	On time	26-11-23	04-12-23	On time
		22-12-21	26-12-21	On time	28-12-22	02-01-23	On time	20-12-23	22-12-23	On time
		22-12-21	26-12-21	On time	28-12-22	02-01-23	On time	20-12-23	22-12-23	On time
		23-12-21	03-01-22	On time	03-01-23	03-01-23	On time	04-01-24	08-01-24	On time
		23-12-21	03-01-22	On time	12-01-23	17-01-23	On time	04-01-24	08-01-24	On time
		25-01-22	31-01-22	On time	12-01-23	17-01-23	On time	08-02-24	12-02-24	On time
		25-01-22	31-01-22	On time	10-02-23	14-02-23	On time	08-02-24	12-02-24	On time
		16-02-22	27-02-22	On time	10-02-23	14-02-23	On time	06-03-24	12-03-24	On time
		16-02-22	27-02-22	On time	05-03-23	13-03-23	On time	06-03-24	12-03-24	On time
		25-03-22	12-04-22	On time	05-03-23	13-03-23	On time	19-03-24	09-04-24	On time
		25-03-22	12-04-22	On time	27-03-23	09-04-23	On time	19-03-24	09-04-24	On time
		19-04-22	25-04-22	On time	27-03-23	09-04-23	On time	30-03-24	02-05-24	On time
		19-04-22	25-04-22	On time	11-05-23	16-05-23	On time	30-03-24	02-05-24	On time
		27-05-22	01-06-22	On time	11-05-23	16-05-23	On time	29-05-24	02-06-24	On time
		27-05-22	01-06-22	On time	07-06-23	14-06-23	On time	29-05-24	02-06-24	On time

Type of fiscal transfers	Timeline as per legal / regulatory provisions	FY2021/22			FY2022/23			FY2023/24		
		Correspondence Date by FCGO/ DTCO-Mahottari	Actual Received Date-PFCO-Madhesh Province	Deviation	Correspondence Date by FCGO/ DTCO-Mahottar	Actual Received Date-PFCO-Madhesh Province	Deviation	Correspondence Date by FCGO/ DTCO-Mahottari	Actual Received Date-PFCO-Madhesh Province	Deviation
Revenues	Monthly	26-06-22	29-06-22	On time	07-06-23	14-06-23	On time	23-06-24	25-06-24	On time
		26-06-22	29-06-22	On time	30-06-23	03-07-23	On time	23-06-24	25-06-24	On time
		05-07-22	07-07-22	On time	30-06-23	03-07-23	On time	02-07-24	04-07-24	On time
		05-07-22	07-07-22	On time	03-07-23	04-07-23	On time	02-07-24	04-07-24	On time
Royalties	Annually	03-12-21	03-01-22	On time	10-02-23	22-02-23	On time	26-02-24	27-02-24	On time

Note: One-two day delays in actual transfer compared to the formal timelines are considered as 'same day'.

Sources: Formal timelines – IGFA Act, NPC Procedures and Federal Appropriation Act 2023/24. Actual timelines – RMIS and CGAS

Annex 4: Calculations for PI-1 and PI-2

Table Annex 4.1: Data on functional classification for 2021/22 (NPR millions)

Functional Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General Public Service	8,113.75	4,382.16	6,258.50	-1,876.30	1,876.30	30.00%
Public Order and Safety	467.10	437.56	360.30	77.30	77.30	21.40%
Economic Affairs	12,908.72	10,102.51	9,957.00	145.50	145.50	1.50%
Environmental Protection	25.80	10.57	19.90	-9.30	9.30	46.90%
Housing and Community Amenities	2,509.17	2,448.62	1,935.40	513.20	513.20	26.50%
Health	2,415.95	3,025.11	1,863.50	1,161.60	1,161.60	62.30%
Recreation, Culture and Religion	535.40	158.67	413.00	-254.30	254.30	61.60%
Education	874.03	910.93	674.20	236.80	236.80	35.10%
Social Protection	1,009.49	784.35	778.70	5.70	5.70	0.70%
Allocated expenditure	**28,859.42**	**22,260.48**	**22,260.50**	**0.00**	**4,279.90**	
Interests						
Contingency	4,932.01					
Total expenditure	**33,791.43**	**22,260.48**				
					Aggregate outturn (PI-1)	63.80%
					Composition (PI-2) variance	37.10%
					Contingency share of budget	4.50%

Table Annex 4.2: Data on functional classification for 2022/23 (NPR millions)

Functional Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General Public Service	8,002.90	4,469.72	4,834.40	-364.60	364.60	7.50%
Public Order and Safety	686.34	321.47	414.60	-93.10	93.10	22.50%
Economic Affairs	22,468.47	12,086.22	13,572.70	-1,486.40	1,486.40	11.00%
Environmental Protection	22.00	15.21	13.30	1.90	1.90	14.50%
Housing and Community Amenities	6,243.56	3,998.94	3,771.60	227.40	227.40	6.00%
Health	3,558.20	3,384.11	2,149.40	1,234.70	1,234.70	57.40%
Recreation, Culture and Religion	853.28	950.01	515.40	434.60	434.60	84.30%
Education	1,764.74	941.29	1,066.00	-124.70	124.70	11.70%
Social Protection	881.47	702.90	532.50	170.40	170.40	32.00%
Allocated expenditure	**44,480.95**	**26,869.87**	**26,869.90**	**0.00**	**4,137.90**	
Interests						
Contingency	2,400.00					
Total expenditure	**46,880.95**	**26,869.87**				
					Aggregate outturn (PI-1)	57.30%
					Composition (PI-2) variance	15.40%
					Contingency share of budget	0.00%

Table Annex 4.3: Data on functional classification for 2023/24 (NPR millions)

Functional Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General Public Service	7,286.35	2,287.93	4,449.90	-2,162.00	2,162.00	48.60%
Public Order and Safety	705.98	442.02	431.20	10.90	10.90	2.50%
Economic Affairs	17,562.25	13,753.60	10,725.70	3,027.90	3,027.90	28.20%
Environmental Protection	19.00	17.37	11.60	5.80	5.80	49.70%
Housing and Community Amenities	5,310.86	1,901.78	3,243.50	-1,341.70	1,341.70	41.40%
Health	5,473.48	3,786.60	3,342.80	443.80	443.80	13.30%
Recreation, Culture and Religion	1,349.29	839.43	824.00	15.40	15.40	1.90%
Education	912.57	696.08	557.30	138.70	138.70	24.90%
Social Protection	1,570.14	820.13	958.90	-138.80	138.80	14.50%
Allocated expenditure	**40,189.93**	**24,544.93**	**24,544.90**	**0.00**	**7,285.00**	
Interests						
Contingency	3,924.70					
Total expenditure	**44,114.63**	**24,544.93**				
					Aggregate outturn (PI-1)	55.60%
					Composition (PI-2) variance	29.70%
					Contingency share of budget	0.00%

Table Annex 4.4: Results Matrix

Fiscal Year	for PI-1.1	for PI-2.1	for PI-2.3
	Total expenditure outturn	Composition variance	Contingency share
2021/22	65.90%	19.20%	0.00%
2022/23	57.30%	15.40%	
2023/24	55.60%	29.70%	

Table Annex 4.5: Data on economic classification for 2021/22 (NPR millions)

Economic Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Compensation of employees	2,352.71	1,822.89	1,549.90	273.00	273.00	17.60%
Use of goods and services	4,556.66	3,359.65	3,001.70	357.90	357.90	11.90%
Consumption of fixed capital			0.00	0.00	0.00	
Interest			0.00	0.00	0.00	
Subsidies		317.60	0.00	317.60	317.60	
Grants	4,747.70	4,314.51	3,127.60	1,186.90	1,186.90	37.90%
Social benefits	579.28	465.55	381.60	83.90	83.90	22.00%
Other expenses	3,497.00	55.84	2,303.70	-2,247.80	2,247.80	97.60%
Non-financial assets/capital expenses	18,058.08	11,924.44	11,896.00	28.50	28.50	0.20%
Total expenditure	**33,791.43**	**22,260.48**	**22,260.50**	**0.0**	**4,495.70**	
					Composition variance	20.20%

Table Annex 4.6: Data on economic classification for 2022/23 (NPR millions)

Economic Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Compensation of employees	2,930.17	2,008.70	1,679.40	329.30	329.30	19.60%
Use of goods and services	9,144.65	3,182.90	5,241.30	-2,058.40	2,058.40	39.30%
Consumption of fixed capital			0.00	0.00	0.00	
Interest			0.00	0.00	0.00	
Subsidies	0.60	100.13	0.30	99.80	99.80	29,018.10%
Grants	6,162.94	4,757.58	3,532.30	1,225.30	1,225.30	34.70%
Social benefits	585.42	574.89	335.50	239.40	239.40	71.30%
Other expenses	2,085.09	46.13	1,195.10	-1,148.90	1,148.90	96.10%
Non-financial assets/capital expenses	25,972.08	16,199.53	14,885.90	1,313.60	1,313.60	8.80%
Total expenditure	**46,880.95**	**26,869.87**	**26,869.90**	**0.00**	**6,414.60**	
					Composition variance	23.90%

Table Annex 4.7: Data on economic classification for 2023/24 (NPR millions)

Economic Classification	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Compensation of employees	2,944.31	2,087.25	1,638.20	449.10	449.10	27.40%
Use of goods and services	5,990.05	3,367.82	3,332.80	35.00	35.00	1.10%
Consumption of fixed capital			0.00	0.00	0.00	
Interest			0.00	0.00	0.00	
Subsidies	150.55	0.35	83.8	-83.40	83.40	99.60%
Grants	6,310.83	3,256.07	3,511.30	-255.20	255.20	7.30%
Social benefits	520.16	490.54	289.40	201.10	201.10	69.50%
Other expenses	2,659.04	53.59	1,479.50	-1,425.90	1,425.90	96.40%
Non-financial assets/capital expenses	25,539.69	15,289.31	14,210.00	1,079.30	1,079.30	7.60%
Total expenditure	**44,114.63**	**24,544.93**	**24,544.90**	**0.00**	**3,529.00**	
					Composition variance	14.40%

Table Annex 4.8: Results Matrix

Fiscal Year	Composition variance
2021/22	20.20%
2022/23	23.90%
2023/24	14.40%

Annex 5: Calculations for PI-3

Table Annex 5.1: Data on revenues for 2021/22 (NPR millions)

Revenues	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Taxes on income, profit and capital gains						
Taxes on payroll and workforce						
Taxes on property	1,600.00	3,606.35	2,505.97	1,100.38	1,100.38	43.90%
Taxes on goods and services						
Other taxes	100.20	14.72	156.94	-142.22	142.22	90.60%
Property income						
Sales of goods and services	1,168.75	996.44	1,830.54	-834.10	834.10	45.60%
Fines, penalties and forfeits	9.81	11.31	15.36	-4.05	4.05	26.40%
Premiums, fees, and claims related to non-life insurance and standardized guarantee schemes						
Miscellaneous	194.53	184.67	304.68	-120.01	120.01	39.40%
Total revenues	**3,073.29**	**4,813.49**	**4,813.49**	**0.00**	**2,200.75**	
					Revenue outturn (PI-3.1)	156.60%
					Composition variance (PI-3.2)	45.70%

Table Annex 5.2: Data on revenues for 2022/23 (NPR millions)

Revenues	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Taxes on income, profit and capital gains						
Taxes on payroll and workforce						
Taxes on property	1,718.30	3,880.40	3,122.60	757.80	757.80	24.27%
Taxes on goods and services						
Other taxes	205.66	148.49	373.70	-225.20	225.20	60.30%
Property income	17.15		31.20	-31.20	31.20	100.00%
Sales of goods and services	1,034.06	995.40	1,879.20	-883.80	883.80	47.00%
Fines, penalties and forfeits	10.37	11.89	18.90	-7.00	7.00	36.90%
Premiums, fees, and claims related to non-life insurance and standardized guarantee schemes						
Miscellaneous	81.95	538.25	148.90	389.30	389.30	261.40%
Total revenues	**3,067.49**	**5,574.43**	**5,574.40**	**0.0**	**2,294.20**	
					Revenue outturn (PI-3.1)	181.70%
					Composition variance (PI-3.2)	41.20%

Table Annex 5.3: Data on revenues for 2023/24 (NPR millions)

Revenues	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Taxes on income, profit and capital gains						
Taxes on payroll and workforce						
Taxes on property	3,024.75	4,003.89	4,003.20	0.70	0.70	0.00%
Taxes on goods and services						
Other taxes	21.20	21.36	28.10	-6.70	6.70	23.90%
Property income						
Sales of goods and services	895.28	1,083.00	1,184.90	-101.90	101.90	8.60%
Fines, penalties and forfeits	13.89	6.67	18.40	-11.70	11.70	63.70%
Premiums, fees, and claims related to non-life insurance and standardized guarantee schemes						
Miscellaneous	23.69	151	31.40	119.60	119.60	381.50%
Total revenues	**3,978.80**	**5,265.92**	**5,265.90**	**0.00**	**240.60**	
					Revenue outturn (PI-3.1)	132.30%
					Composition variance (PI-3.2)	4.60%

Table Annex 5.4: Results matrix for PI-3

Fiscal Year	Total Revenue Deviation	Composition Variance
2021/22	156.60%	45.70%
2022/23	181.70%	41.20%
2023/24	132.30%	4.60%

Supported by:

ADB

ASIAN DEVELOPMENT BANK