

INSIGHT

# How Effective Financial Reporting Started with an Initiative in the Education Sector



Local governments started managing public education for pre-kindergarten to grade 12 levels in 2018. Photo credit: ADB.  
*Nepal took a whole-of-government approach in developing an effective and efficient system of expenditure reporting by local governments.*

**Published:** 10 February 2021

## Introduction

An innovative approach in the education sector in Nepal has helped the government to overcome a challenge that threatened to hamper progress in public financial management.

A program funded by the Asian Development Bank (ADB) and the Embassy of Norway in Nepal to strengthen public financial management in the Ministry of Education, Science, and Technology facilitated the development of a financial expenditure reporting system that is being used by the Government of Nepal in all sectors.

This was a significant step forward in managing fiduciary risks as the country moved to a federal system of governance in 2018 after the promulgation of the Constitution of Nepal in 2015. The federalization process devolved state functions to 7 provinces and 753 local governments.

The new constitution mandated the management of public education for pre-kindergarten to grade 12 levels by the 753 local governments of urban and rural municipalities. It was previously managed through district education offices. Since July 2018, the budget has flowed directly to the local governments from the Ministry of Finance as public school financing with federal grants was directly transferred to them.

## Challenges in Financial Reporting Under a Federal System

In the past, the financial comptroller general office prepared a consolidated financial statement of the federal grant every trimester. This report helped development partners and other government agencies to monitor progress of the programs. Moreover, it helped keep track of how and where the funds were being used to maximize development impacts.

However, in the federal context, as the local governments did not have a system for reporting expenditures, the financial comptroller general office was unable to prepare the report. This posed a major fiduciary risk since the federal government could not assess whether the funds released were used and if they were used for the intended purpose. It also hampered, to some extent, the release of more funds in the education sector.

Mobilized for the Ministry of Education, Science, and Technology, the public financial management support team struggled to consolidate financial statements incorporating expenditures of 753 local governments on public schools using federal grants. All possible means—from communicating with the local governments to publishing public notices to collect data—proved futile in getting the required information for the report.

The public financial management support team soon realized that the problem was not limited to the education sector. The government also struggled in managing the financial reporting in all sectors in the new federal context. Therefore, seeking solution for the education sector alone would be too restricting. It required a policy change in the overall financial reporting system of local governments.

## Breakthroughs in Report Collection

ADB and the public financial management team engaged in a series of policy discussions with the Government—including the Ministry of Finance and the Ministry of Education, Science, and Technology—to understand the importance of having a system of financial reporting from the local governments and to come up with possible solutions. In early 2019, the government agreed to develop templates for financial management reports based on the Nepal Public Sector Accounting Standards, a version of cash-based International Public Sector Accounting Standards. The template covered all federal grants released to local governments.

The Office of the Auditor General then approved the hard-copy templates for use by local governments in reporting expenditures to the federal government. However, challenges remained on the timely

submission of the required financial information.

During the same period, the financial comptroller general office was developing a software system—the Subnational Treasury Regulation Authority—that will be used by the local governments on all financial transactions. By early 2020, the approved templates were embedded in the system. It allowed local governments to generate monthly, quarterly, and annual financial reports. It also enabled the financial comptroller general office to extract required and reliable financial reports automatically. This integration transformed the entire expenditure reporting system of all federal grants by local governments.

## Capacity Building at the Local Level

Once the Subnational Treasury Regulation Authority system was modified to accommodate expenditure reporting templates, capacity development of local government accountants followed. In view of the coronavirus disease (COVID-19) situation, the financial comptroller general office and the public financial management team developed online training modules. Accountants and relevant staff of the local government offices were trained starting in November 2020.

Participants reported that the training provided them with a better understanding of financial management requirements and expressed confidence that their reports will have minimum error.

## Toward 100% Compliance

The support for Nepal's education sector made a significant impact on larger public financial reform in the country. It enabled the federal government to receive financial reports for all expenditures made by the local governments in a timely manner.

Actual expenditure reporting from local governments to the federal government has now jumped to more than 95% compliance from 0% in 2018. The financial comptroller general office expects it to reach 100% by end of the first quarter of 2021 as financial management reports can be generated with much ease.

The local governments also recognized that the system helps them prepare financial statements easily, allowing them to report back to the federal government and promptly provide the required information to all stakeholders.

A solutions-oriented initiative from public financial management has enabled the national government to receive financial reports for all expenditures made by local governments. It has developed capacity at the local level and at the same time, strengthened governance and accountability in the country.

## Resources

Asian Development Bank. 2016. *Loan Agreement (Special Operations) for Loan 3452-NEP: Supporting School Sector Development Plan*. Manila.

ADB. 2016. Nepal: Supporting School Sector Development Plan.

ADB. 2016. Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Technical Assistance Grant to Nepal for the Supporting School Sector Development Plan. Manila.



**Smita Gyawali**

Senior Education Officer, Nepal Resident Mission, Asian Development Bank

Smita Gyawali has been with the Nepal Resident Mission since 2006. She is deeply involved in overall policy reforms and implementation to improve the educational system in the country. She is passionate about women issues, particularly on economic empowerment. She holds an MBA and a bachelor's degree in Political Economics and Philosophy from Wheeling Jesuit University in the United States.



**Rajan Acharya**

Project Analyst, Nepal Resident Mission, Asian Development Bank

Rajan Acharya has been with the Nepal Resident Mission since 2010. He implements education and skills development projects. Before joining ADB, he worked with international nongovernment organizations for the socioeconomic empowerment of rural communities in Nepal. He holds a master's in Sociology, and bachelor's degrees in Business Administration and in Environmental Management.

---