

PROGRAM FIDUCIARY SYSTEMS ASSESSMENT

A. Introduction

1. The School Sector Development Plan (SSDP), FY2017–FY2023 is a follow-on program to the current School Sector Reform Program (SSRP), implemented by the Ministry of Education (MOE) of the Government of Nepal and supported by nine joint financing partners (JFPs), including the Asian Development Bank (ADB) during FY2010–FY2016.

2. The SSDP is a sector-wide program that aims to consolidate SSRP achievements and strengthen reforms to make school education more inclusive and equitable, and to enhance quality. The JFPs will support the SSDP through a new Joint Financing Arrangement (JFA) to be finalized between the JFPs and the Government of Nepal. ADB's Supporting School Sector Development Plan will provide \$120 million for the duration of FY2017–FY2021 and will support the first 5 years of implementation of the government's 7-year SSDP. ADB support to the SSDP will be through results-based lending (RBL), contingent upon delivery of results defined in the disbursement-linked indicator (DLI) matrix, a subset of priority results defined in the program results framework and covered by the overall MOE expenditure framework.

3. All financing for the SSDP, including contributions by JFPs, will be managed through the government's regular procedures for budget preparation and execution, financial accounting, and auditing, i.e., the contributions from the development partners will be recorded as revenue in the government consolidated fund. All funds for program implementation, including JFPs' contributions, will be subject to the government's public financial management (PFM) and procurement procedures. This entails that all PFM-related risks associated with the program are those pertaining to the government's PFM system and procedures in general and to the education sector (MOE, its subordinated institutions, and schools) in particular.

4. The Auditor General of Nepal will undertake annual audits of program financial statements (compliant with Nepal Public Sector Accounting Standards), which shall be submitted to the JFPs within 9 months of the fiscal year-end.¹ Financial reporting and auditing arrangements are described in more detail in the Statement of Audit Needs, Program Implementation Document, and JFA.

5. This fiduciary systems assessment was conducted in accordance with ADB's RBL policy and is intended to determine the degree to which the systems, procedures, and regulations for PFM, procurement management, and anticorruption measures will be able to manage fiduciary risks. The assessment and proposed mitigating measures are intended to provide assurance that JFPs' contributions to the program, including ADB's RBL program funds, will be used for the intended purposes, with due consideration to economy and efficiency.²

B. Information Sources

6. A detailed fiduciary systems assessment was undertaken from October 2015 to May 2016.³ The assessment included a review of the Government of Nepal's PFM system and its

¹ A period of 9 months is provided to allow for harmonization with the provisions of other JFPs.

² ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila; ADB. 2013. *Staff Guidance for Piloting Results-Based Lending for Programs*. Manila; ADB. 2015. *Technical Guidance Note: Financial Management Assessment*. Manila.

³ Detailed Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

capacity for management of public funds within the Ministry of Finance, the Financial Comptroller General Office along with its subsidiary payment and internal control entities, and district treasury controllers' offices. An assessment of financial management at MOE, the Department of Education (DOE), district education offices (DEOs), and schools was undertaken.

7. The assessment is based on interviews with key stakeholders, analysis of data extracted from the treasury single account system, and informed by a review of several previous diagnostic studies on PFM (both general PFM diagnostic studies as well as sector-specific studies) conducted by various agencies and consultants on behalf of the Government of Nepal and development partners.

C. Financial Management System

8. The RBL will use program systems for financial management, procurement, and anticorruption measures.⁴ The program fiduciary systems assessment was undertaken at country, MOE, and DOE levels. The 2015 Public Expenditure and Financial Accountability (PEFA) Assessment Report showed improvement in 16 of 28 performance areas, compared with the assessment report of 2008, thanks to interventions by the national PEFA secretariat supported by a Multidonor Trust Fund.⁵ The implementation of government finance statistics and the treasury single account, and payment of salaries to teachers through banks has increased transparency of budget execution. Despite improvements, the 2015 PEFA report reiterated many of the challenges from the 2008 report with regard to compliance with financial management rules and regulations.

9. The overall fiduciary risk is rated *substantial*. This is primarily because of (i) observed weaknesses in internal controls and oversight, (ii) absence of an internal audit service segregated from the processing of payments, (iii) capacity constraints at DEOs to monitor and supervise schools' financial management, (iv) problems with reconciliation of accounts between funds released by the Financial Comptroller General Office and expenditure recorded by the DEOs, and (v) lack of timely action on audit observations, which prevents efficient functioning of the cycle of disbursements from the JFPs.

10. Identified risks will be mitigated through a continuous program of system improvement outlined in a Financial Management Action Plan agreed between JFPs and the government for the program duration. The key measures in the Financial Management Action Plan are: country-wide rollout of the computerized government accounting system, a web-based accounting software, for timely and accurate financial management reporting; an annual fiduciary review to diagnose bottlenecks and provide support to remove them; adequate staffing of DEOs with accountants and technical or procurement personnel to support MOE and subordinated institutions in strengthening their compliance with the government's financial regulations; simplification of schools' accounting and reporting system; training to district staff in finance and accounts to strengthen budgeting, financial monitoring, reconciliation, and reporting and thereby improve program effectiveness and efficiency; inclusion of a task team in MOE to follow up on audit matters; and formation of an audit committee to report to the SSDP steering committee for

⁴ Program systems refer to country systems with measures for improvements as agreed between ADB (and other JFPs) and the Government of Nepal.

⁵ Government of Nepal, Ministry of Finance. 2015. *Public Expenditure and Financial Accountability Assessment Report-II*. Kathmandu.

timely action on audit matters. One of the indicators in the governance DLI provides a strong incentive to clear audit issues and backlogs.

11. The government has envisaged actions under its PFM reform strategy for FY2016–FY2026 that will mitigate some of the risks to the program. Specifically, processes are under way to revise the legal framework for an internal audit service as well as capacity building interventions by the PEFA secretariat to support the Public Accounts Committee in improving process and procedures for following up on the auditor general’s findings.

12. Table 1 presents a summary of risks and proposed mitigating actions:

Table 1: Financial Management Risks

Risk Type	Risk Description	Risk Rating	Management Plan/Mitigation Measures
Inherent Risk^a			
1. Country-level risks	<p>Budgets in recent years have been prepared without an MTEF, i.e., on an incremental basis without consideration for future recurrent costs or impact of investments, and with weak links between policy targets and budget allocations.</p> <p>Risks related to lack of segregation of duties in budget release and control of expenditures and challenges related to follow-up on audit findings.</p>	<p>Before mitigation: substantial</p> <p>After mitigation: moderate</p>	<p>An MTEF is expected to be finalized to guide the budget process for fiscal year 2017. The presentation of the annual SSDP budget consistent with the initial SSDP budget and MTEF projections for the education sector will be included as a provision in the JFA.</p> <p>Processes are under way to revise the legal framework for an internal audit service and for capacity building interventions by the PEFA secretariat to support PAC in improving follow-ups on the auditor general’s findings.</p>
2. Agency-specific risks	<p>Lack of qualified accounts and finance staff in DEOs; many positions are not filled, greatly affecting financial management supervision and monitoring of schools’ expenditures.</p> <p>The school grant system is mostly norms-based rather than based on needs, making it difficult for schools to effectively improve performance.</p> <p>Compliance with complex rules for multiple school grants leads to frequent audit observations.</p>	<p>Before mitigation: substantial</p> <p>After mitigation: moderate to substantial</p>	<p>Approved positions will be filled by 2017. The establishment of the SSDP steering committee and program coordination secretariat at the national level and a district grant management committee that will include requisite finance and accounting staff is envisaged. Increase in capacity and supervision will lead to fewer recurring audit observations.</p> <p>The SSDP includes the provision to revise the school grant system with needs- and performance-based criteria for fund allocation, improved school capacity, and improved monitoring for results.</p>
Overall inherent risk		Substantial	
Control Risk^b			
1. Planning and budgeting	<p>Government of Nepal has a well-defined budget calendar with budget allocations linked to annual strategic implementation plans and work plans. However, budget allocations are not based explicitly on meeting the goals and targets and on achieving results.</p>	<p>Before mitigation: moderate</p> <p>After mitigation: low</p>	<p>A process to introduce PBB is under way and program budget heads compliant with COFOG will be introduced for SSDP as well as activity codes to segregate spending by SSDP results-based interventions. This will better link budget allocations to policy targets and will improve monitoring of cost efficiency and effectiveness by introducing program and activity codes in the budget and accounts. An improved process of annual work plan and budget preparation</p>

Risk Type	Risk Description	Risk Rating	Management Plan/Mitigation Measures
			linked to achievement of yearly results will also be introduced.
2. Funds flow	Cash management and budget releases are managed through a new TSA management system with daily reconciliation with bank statements. Payments for salaries are processed without delays. Budget releases for capital expenditures are often delayed by slow approval of programs and stage-wise completion, which prevents further installments.	Before mitigation: moderate After mitigation: low	RBL serves as an incentive for delivery of results and thus will trigger timely approval of work plans and execution of program-related expenditures. Bottlenecks in budget utilization by schools will also be mitigated through streamlined financial procedures and capacity support for the schools.
3. Accounting and internal control	While accounts are to be reconciled between budget holders (MOE and subordinated institutions) 7 days after close of each month, actual reconciliations and controls are made by DTCOs retrospectively and infrequently. DEOs have no standardized accounting system, which is a challenge for the upward consolidation process for effective monitoring of budget execution.	Before mitigation: substantial After mitigation: moderate	SSDP will include a rolling annual fiduciary review process to compensate for weaknesses in internal controls, and limited capacity internally in MOE and in subordinated institutions to effectively exercise internal controls. The rollout of CGAS, the web-based standardized accounting software, to all DEOs and consolidation of subordinate institutions' reports at DOE using simple Excel-based software will enable effective financial monitoring of MOE budget execution and timely reconciliations of balances between TSA and MOE accounts.
4. Financial reporting	Interim financial reports on payments made (cash basis) are produced in timely fashion from the TSA system, which registers online in real time each transaction made by functional, institutional (budget holder at central and district levels), and economic codes. Challenges relate to issues of congruence between MOE annual budget and work plan preparation and FCGO system of recording expenditures, and significant delays in submitting FMRs and audit reports.	Before mitigation: moderate After mitigation: low	Implementation of CGAS at all MOE spending levels will improve timely presentation of expenditure by institutional, functional, and program/activity categories and FMRs. During SSDP appraisal it has been agreed to revise the MOE program budget heads to better comply with COFOG standards, as reflected in the JFA. Annual audited program financial statements shall be submitted in accordance with a detailed statement of audit needs. MOE will be supported to prepare progressively more NPSAS-compliant PFS.
5. Concurrent (internal) audit	Weak internal controls and oversight of expenditures, particularly in the schools. The function is undertaken by DTCOs and is limited to inspection of vouchers and supporting documentation for payment requests. The inspection is not done regularly. There are delays in reconciliation of accounts and	Before mitigation: substantial After mitigation: moderate to substantial	A rolling annual fiduciary review will strengthen internal capacity for financial management and audit compliance. Nationwide implementation of CGAS will increase the efficiency and accuracy of accounting and reporting. An agreed FMAP will be implemented, with specific focus on increased monitoring of units assessed as "high risk" with repetitive audit observations.

Risk Type	Risk Description	Risk Rating	Management Plan/Mitigation Measures
	financial management reports.		
6. Statutory (external) audit	OAG reports are generally submitted in timely fashion and with a scope and comprehensiveness as per INTOSAI standards. However, evidence of effective follow-up on audit findings is limited.	Before mitigation: moderate After mitigation: low	A financial management task team in MOE will facilitate timely follow-up on audit findings. An audit committee will be set up to report to the SSDP steering committee for timely action on audit matters. JFPs and MOE will monitor the implementation of the FMAP, which will include stated actions with a timeline to resolve audit findings.
Overall control risk		Moderate to substantial	
Overall Risk		Substantial	

CGAS = computerized government accounting system, COFOG = classification of the functions of government, DEO = District Education Office, DOE = Department of Education, DTCO = District Treasury Controller Office, FGCO = Financial Comptroller General Office, FMAP = Fiduciary Management Action Plan, FMR = financial monitoring report, INTOSAI = International Organization of Supreme Audit Institutions, JFA = Joint Financing Arrangement, JFP = joint financing partner, MOE = Ministry of Education, MTEF = medium-term expenditure framework, NPSAS = Nepal Public Sector Accounting Standards, OAG = Office of the Auditor General, PAC = Public Accounts Committee, PBB = program-based budgeting, PEFA = Public Expenditure and Financial Accountability, PFS = project financial statement, RBL = results-based lending, SSDP = School Sector Development Plan, TSA = treasury single account.

^a Inherent risk is the susceptibility of the program financial management system to factors arising from the environment in which it operates, such as country rules and regulations and the agency's working environment (assuming the absence of any counterchecks or internal controls).

^b Control risk is the risk that the program's accounting and internal control framework is inadequate to ensure that funds are used economically and efficiently and for the purposes intended, and that fund use is properly reported.

Source: Asian Development Bank.

13. The implementation of an agreed fiduciary management action plan will provide for continuous system improvements and joint monitoring by the government and JFPs. A key mitigation measure across all risk areas is the close coordination between the JFPs supporting the SSDP. ADB and other JFPs will adopt a common and concerted approach to managing and mitigating risks in the program. An agreed fiduciary management action plan is a DLI for year 1. The DLI is set to be achieved in the first fiscal year of the SSDP. Some of the key actions to strengthen fiduciary systems are in Table 2.

Table 2: Key Actions to Strengthen Financial Management under the School Sector Development Plan^a

Action	Responsible Agency	Timeline
A. Implementation arrangements		
1. Creation of a steering committee and program coordination secretariat at the national level and a district grant management committee that will include requisite finance and accounting staff.	MOE	Loan effectiveness
2. Creation of a task team in MOE for follow-up on audit matters. An audit committee will be set up to report to the SSDP steering committee for timely action on audit matters.	MOE	Loan effectiveness
B. Actions monitored through disbursement-linked indicators		
1. Approval of fiduciary management action plan	MOE and development partners	March 2017
2. Implementation of the computerized government accounting system	MOE/FCGO	2018
3. Reduction of recurring audit observations as a proportion of total expenditures	MOE	Ongoing
4. Implementation of an improved school grant system that responds to contextual needs and is performance oriented	MOE	Gradual implementation from 2018

Action	Responsible Agency	Timeline
C. Actions monitored through Program Action Plan		
1. Improving preparation of the annual strategic implementation plan and the annual work plan and budget based on prioritized key initiatives from the results framework to enable results-based financing	MOE	From 2017 onward
2. Implementation of approved joint FMAP initiated, reviewed, and updated annually to ensure gradual reduction of recurring SSDP audit observations. Identify districts that have recurring and substantial audit observations.	MOE	March 2017 and annually thereafter
3. Simplified school-based accounting and financial reports included during the amendment of Education Regulation.	MOE	November 2016
4. Independent annual fiduciary review (including procurement review on a sample basis)	JFPs	Annually
D. Actions covenanted as part of the JFA		
1. Allocation of annual MOE budget is consistent with the 5-year SSDP budget, with MTEF projections for the education sector designed to achieve results included in the results framework.	MOE/MOF	2017 onward
2. Allocation of annual MOE budget takes into account the recurrent cost impact of capital investments and required funding each year.	MOF	Ongoing
3. Introduce program-based budgeting and use of program budget heads compliant with COFOG for SSDP	MOE	2016 onward
4. Annual fiduciary review	ADB/JFPs	Ongoing
5. Annual audited program financial statements are submitted in accordance with detailed statement of audit needs.	MOE	Annual

ADB = Asian Development Bank, COFOG = classification of the functions of government, FGCO = Financial Comptroller General Office, FMAP = Fiduciary Management Action Plan, JFA = Joint Financing Arrangement, JFP = joint financing partner, MOE = Ministry of Education, MOF = Ministry of Finance, MTEF = medium-term expenditure framework, SSDP = School Sector Development Plan.

^a To be finalized jointly by MOE and the JFPs by March 2017 as a DLI for year 1.

Source: Asian Development Bank.

D. Procurement System

14. **Procurement profile.** The SSDP will include construction of new buildings and rehabilitation of classrooms and facilities in existing schools, procurement of learning materials, furniture and equipment, and technical advisory and consulting services. The contracts of civil works, goods, and services will not exceed the RBL limit defined for high-value contracts.⁶ Most contracts fall in the thresholds of community procurement, direct procurement, shopping (sealed quotation) and national competitive bidding (NCB) in accordance with the provisions of the Public Procurement Act (PPA) (2007), and the Public Procurement Rules (PPR) (2007) of the Government of Nepal.⁷ The Planning and Monitoring Division of DOE accountable for implementation of the SSDP will prepare an annual procurement plan as well as guidelines and directives to DEOs for compliance with the PPA and PPR. DEOs will monitor civil works, goods, and services that are procured at the school level by the respective school management committee (SMC). As per PPA and PPR, SMCs will use community procurement and force account for civil works contracts up to NRs6,000,000. School construction above that ceiling will be managed by the respective DEO through NCB. For purchase of goods up to NRs300,000,

⁶ ADB. 2013. *Staff Guidance for Piloting Results-Based Lending for Programs*. Manila. It is defined that the high-value contract threshold is harmonized with the World Bank's programs-for-results financing, and may be amended from time to time. The amounts are currently \$50 million for works, turnkey and supply, and installation contracts; \$30 million for goods; \$20 million for information technology systems and non-consulting services; and \$15 million for consulting services.

⁷ MOE and DOE have been using similar thresholds for the previous program under the sector-wide approach. Details of the procurement thresholds as per the PPA and PPR are in the Program Implementation Document (accessible from the list of linked documents in Appendix 2).

the SMCs will use direct procurement through an approved standing list of suppliers. The SMCs will use the sealed quotations for procurement of goods up to NRs1,000,000. The DEOs will manage procurement of goods under NCB for schools beyond NRs1,000,000. Consulting contracts for technical support and program management requirements will be managed by the program secretariat, DOE, and other central line agencies.

15. **Country and sector procurement system.** The legal and institutional framework for procurement is provided by the PPA and PPR. The procurement function of the government is very well separated across agencies, with independent responsibilities for policy, execution, and complaint review. The Public Procurement Management Office (PPMO) is the responsible agency for policy formulation, procuring entities and line ministries for execution, and specific projects. The recently completed country and sector procurement assessment (CSA) highlighted that the PPA and PPR are adequate to ensure transparency, efficiency, and effectiveness of procurement processes. Nevertheless, the execution of rules and regulations of procurement remains a challenge. The CSA rated the overall country risk for procurement as substantial.⁸ A road map and risk mitigation action plan was prepared to improve the country procurement system and is led by the PPMO and supported by ADB and the World Bank. Table 3 summarizes observations from the CSA for the education sector.

Table 3: Education Sector Procurement Risk Assessment

Indicator	Risks Assessment	Main Observation
1. Legislative and Regulatory Framework	Moderate	National procurement act and regulations in place. Inadequate manual and guides related to procurement implementation.
2. Institutional Framework and Management Capacity	Substantial	Weak capacity to implement procurement activities.
3. Procurement Operation and Market Practices	Substantial	Lack of processes to carry out sufficient due diligence on bidders' background and capability. Possibility of collusion in bidding.
4. Integrity and Transparency of the Public Procurement System	Substantial	Weak implementation of directives for internal control.

Source: ADB. 2015. *Country and Sector Procurement Assessment*. Manila.

16. **Program procurement system.** DOE has a procurement unit with significant accumulated experience in the procurement of works, goods, and services. The technical staff in its physical improvement section, headed by the senior division engineer, has received procurement-related training, and is well qualified to undertake procurement. Capacity needs have increased because work relating to classroom reconstruction in post-earthquake rebuilding programs has increased. The role of DOE in the SSDP will be primarily to (i) develop technical standards for school and classroom construction, and specification of goods that need to be purchased; (ii) develop a manual and guides related to procurement of works, goods, and services for DEOs and SMCs; (iii) monitor compliance with procurement rules by districts and schools; and (iv) ensure that capacity development measures are implemented at all levels, including at schools. As procurement will be largely undertaken by DEOs and SMCs, the gap in capacity to effectively undertake the procurement process as required by the PPA and PPR is considerable. DEOs are able to undertake procurement and supervise contracts provided they have adequate engineering and procurement staff. Significant improvement is required for procurement of works, goods, and services by the SMCs. Table 4 outlines key procurement

⁸ ADB. 2015. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*. Manila. Country and sector assessment was carried out against four pillars: (i) legislative and regulatory framework, (ii) institutional framework and management capacity, (iii) procurement operation and market practices, and (iv) integrity and transparency of the public procurement system.

risks and mitigating measures. The action plan to strengthen the overall procurement management at the program level is in Table 5.

Table 4: Procurement Risk Assessment and Mitigation Measures

Risk Description	Risk Assessment	Mitigation Measures
1. Insufficient staff at DOE and DEO to undertake procurement and supervision.	Before mitigation: high to substantial After mitigation: moderate to substantial	<ul style="list-style-type: none"> Adequate provision of trained staff in the procurement units of MOE, DOE, and DEOs Provision of adequate engineers and subengineers in all DEOs with significant volume of construction works
2. Uneven compliance with the PPA and PPR provisions by DEOs and SMCs	Before mitigation: high to Substantial After mitigation: moderate to substantial	<ul style="list-style-type: none"> Manual developed with well-defined procedures for procurement of works, goods, and services by SMCs, including training for SMCs Manuals for supervision and quality control of civil works and goods purchased by SMCs Capacity building of DOE and DEO staff to enhance their technical and oversight capacity for program implementation and supervision Training to effectively monitor procurement in the schools
3. Weak monitoring of procurement in the schools	Before mitigation: substantial After mitigation: moderate	<ul style="list-style-type: none"> Annual fiduciary review (including procurement) at schools, DOE, and DEOs on a sample basis Monitoring of compliance with disclosure procedures for procurement activities at schools and DEOs as per PPA and PPR Annual technical audit of construction quality and goods procured by schools Supervision consultants recruited for supervision and monitoring of model school construction
4. Possibility of collusion among bidders	Before mitigation: substantial After mitigation: low	<ul style="list-style-type: none"> Mandatory use of e-GP system for bid submission and bidding through NCB, especially in DOE and the DEOs, through PPMO Training of at least two staff from each DEO on e-GP system by the PPMO
Overall Risk	Substantial	

DEO = District Education Office, DOE = Department of Education, e-GP = e-government procurement, MOE = Ministry of Education, NCB = national competitive bidding, PPA = Public Procurement Act, PPMO = Public Procurement Monitoring Office, PPR = Public Procurement Rules, SMC = school management committee.
Source: Asian Development Bank.

Table 5: Key Actions to Strengthen Procurement Management in School Sector Development Plan^a

Actions	Responsible Agency	Timeline
A. Actions monitored through DLIs		
1. Establish a procurement unit as per the PPA and PPR at MOE, DOE, and DEOs.	MOE and DOE	Prior results in DLI 6
2. Provide DEOs with an adequate number of engineers and subengineers in all districts to handle the volume of construction work.	DOE	Year 1 DLI 6 as part of the FMAP
3. Mandatory use of e-GP system for NCB in DOE and the DEOs through PPMO and training.	MOE, DOE, and DEOs	Year 1 DLI 6
4. Manual developed with well-defined procedures for procurement of works, goods, and services by SMCs as per the PPA and PPR, including training to 3,000 secondary schools.	DOE	Year 1 DLI 6

Actions	Responsible Agency	Timeline
B. Actions monitored through Program Action Plan		
1. Develop supervision manuals for inspection, supervision, and quality control for civil works and goods purchased SMCs.	DOE	September 2017
2. Capacity building of DOE and DEO staff to enhance their procurement, oversight, and technical capacity for program implementation and supervision.	DOE	Ongoing starting from 2017
3. Compliance with disclosure procedures for procurement activities by DMCs and DEOs as per PPA and PPR.	SMC and DEOs	Ongoing. The social and financial audit at school level will record the compliance status.
4. Supervision consultants recruited for supervision and monitoring of model school construction.	DOE	March 2017
C. Actions to be covenanted in the JFA		
1. Preparation of annual procurement plan in line with annual budget and work plan at DOE, DEOs, and schools following PPA and PPR guidelines.	DOE, DEOs, and SMCs	Annually by September
2. Annual fiduciary review to include procurement review at schools, DOE, and DEOs on a sample basis	JFPs	Annually
3. Annual technical audit for quality assurance of construction and goods procured by DMCs.	JFPs	Annually on a sample basis

DEO = District Education Office, DOE = Department of Education, DLI = disbursement-linked indicator, DMC = Disaster Management Committee, e-GP = e-government procurement, FMAP = Fiduciary Management Action Plan, JFA = Joint Financing Arrangement, JFP = joint financing partner, MOE = Ministry of Education, NCB = national competitive bidding, PPA = Public Procurement Act, PPMO = Public Procurement Monitoring Office, PPR = Public Procurement Rules, SMC = school management committee.

^a To be finalized jointly by MOE and the JFPs by March 2017 as a DLI for year 1.

Source: Asian Development Bank.

E. Anticorruption System

17. **Country.** The Constitution of Nepal includes provisions for an independent judiciary with courts consisting of the Supreme Court, Appellate Court, and District Courts. In addition, it includes provisions for a number of constitutional bodies—e.g., the Commission for the Investigation of Abuse of Authority (CIAA), Auditor General, Public Service Commission, and Attorney General—as key institutions to ensure that constitutional rights are adhered to and to take action against any misuse of public office by any government employee.

18. The Anti-Corruption Act of 1952, the new and revised act of 1960 with the establishment of an Anti-Corruption Department in the form of a Special Police Department to control corruption, and the formation of a Commission on Controlling Abuse of Authority in 1977 were the preface to the establishment of the CIAA in 1990. The interim constitution of Nepal 2007 put renewed emphasis on CIAA to investigate and probe cases against persons holding public office who are considered to have abused their authority by way of corruption or other forms of misconduct.

19. As per the Corruption Perception Index (2014) of Transparency International, Nepal scored, with one exception, always below 3.0 since 2004 and was classified among the “corruption-rampant countries”. The Control of Corruption Index (2014) published by the World Bank gives Nepal a score of 36.1 (out of 100), where lower values indicate weak governance ratings. In the latest (2013) Global Corruption Barometer Bi-annual Survey of Transparency International, 72% of respondents in Nepal stated that corruption had increased over the years. As many as 45% of respondents said the education system in Nepal was corrupt or extremely

corrupt, although only 3% of respondents reported paying bribes for education services (as compared with 37% in the case of police and 30% in the case of the judiciary).

20. **Sector.** Of the 22,600 complaints received by CIAA for financial year 2014, about 10% related to education, mostly to tertiary education. For primary and secondary education, the main areas relate to leakages in the use of grants and award of free textbooks and scholarships to non-eligible students. As reported by the 2015 Public Expenditure Tracking Study report, 20% of schools do not have a functional parent–teacher association tasked with monitoring responsibilities, including annual social audits.⁹ There are large regional differences in the formation and existence of parent–teacher associations, and frequency and effectiveness of social audits and financial audits conducted by auditors appointed by the SMCs.

21. Evidence from reviews of the SSRP suggests that a large and increasing share of public investments in education shows more spending on items to improve education delivery, such as increasing the number of teachers, universal provision of textbooks, and greater coverage of scholarships. However, the reviews also point to a number of observed constraints that result in continued leakages of funds, i.e., not used for the intended purpose. Financial management by districts and schools is a challenge given the poor quality of record keeping and auditing. The Public Expenditure Tracking Study pointed out that the education management information system (EMIS) overstated student attendance and students eligible for scholarships. The proposed RBL program thus incorporates third-party validation of EMIS data.

22. One of the key elements to combat corruption under the SSDP will be the strengthening of financial management and oversight capacity of MOE staff to ensure proper guidance and overall direction, and filling of vacant positions at DEOs with qualified staff. This in turn will serve to strengthen school financial and procurement monitoring and supervision, to improve the functioning of SMCs, and to ensure that social and financial audits are performed regularly. In addition, the SSDP envisages the use of open data systems for transparent communication with communities on school sector development. A web-based and more accurate EMIS will help generate school and district profiles particularly for use by communities and in social audits.

⁹ World Bank. 2014. Report No. ACS8283. *Public Expenditure Tracking and Quantitative Service Delivery Surveys in Nepal's Education Sector*. http://mdtfdpm.org.np/uploads/files/document/NP-ED_PETS_54.pdf