

**Progress Report on  
Financial Management  
In Nepal's Health Sector  
2012/13**

**Report Prepared for Joint Annual Review (JAR)**

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Government of Nepal (GoN)  
Ministry of Health and Population (MoHP)  
Ramshah Path, Kathmandu, Nepal

## **EXECUTIVE SUMMARY**

### *Progress report on financial management in the health sector in 2013*

The efforts made during the first three years of NHSP-2 have improved the financial management of Nepal's health sector by strengthening the internal control system, introducing a financial management improvement plan (FMIP), developing an information system and introducing systems to reduce the proportion of audit queries against audited expenditure. This report describes the progress made by the Ministry of Health and Population (MoHP) on financial management during fiscal year (FY) 2012/13.

In this reporting period MoHP finalised the piloting of its Transaction Accounting and Budget Control System (TABUCS). On 29 October 2013, MoHP decided to rollout TABUCS across Nepal's public health system. A TABUCS user manual and training manuals have been produced and printed and a training of trainers (ToT) was run for TABUCS trainers. Additionally, MoHP prepared a draft revision of the FMIP for Nepal's health sector, internal financial control guidelines and audit clearance guidelines; formed a working group under the public financial management committee; finalised the performance based grant agreement with seven hospitals; and revised the draft financial monitoring report (FMR). MoHP's audit committee took an active role in preparing the audit clearance guidelines.

Although in 2012/13 there was no significant improvement in reducing the number of audit queries against audited expenditures, the full implementation of the under-initiation audit clearance guidelines and procurement improvement plans would reduce audit queries from 7% to an estimated 2% in FY 2013/14. This will happen as the new system components will prevent the unsettled advances that made up more than two-thirds (71%) of audit queries in 2012/13.

The Office of the Auditor General (OAG) highlighted several issues on MoHP financial management in 2012/13, including recording, internal control and expenditure practices. An issue that continuously appears in the OAG's report is the direct budget execution and audit practices of some external development partners (EDPs).

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## ACRONYMS

DDA	Department of Drug Administration
DTCO	district treasury comptroller's office
eAWPB	electronic annual work plan and budget
EDP	external development partner
FCGO	Financial Comptroller General's Office
FMIP	Financial Management Improvement Plan
FMRs	financial monitoring reports
FRA	fiduciary risk assessment
FY	fiscal year
GAAP	Governance and Accountability Action Plan (NHSP-2)
GoN	Government of Nepal
HR&FM Division	Human Resources and Financial Management Division
MoF	Ministry of Finance
MoHP	Ministry of Health and Population
NHSSP	Nepal Health Sector Support Programme
OAG	Office of Auditor General
PFM	public financial management
PHCC	primary health care centre
PIP	Procurement Implementation Plan
PPICD	Policy Planning and International Cooperation Division
SHP	sub-health post
STS	Service Tracking Survey
SU	spending unit
TABUCS	Transaction Accounting and Budget Control System
TSA	Treasury Single Account
VDC	village development committee

# 1 INTRODUCTION

## 1.1 Background

Financial management refers to the capacity to plan in accordance with national acts, regulations, policies, guidelines and fiscal frameworks; to prepare budgets and ensure their timely release; to ensure transparent and timely accounting of spending; and to audit expenditure, including assessing value for money. During NHSP-1 (2004–2010) and the initial three years of NHSP-2 (2010–2015), activities were implemented to strengthen the financial management of Nepal’s public health system. These efforts have contributed to the more timely authorisation of budgets, improved financial reporting and improvements in the decision making process through audit clearance and public financial management (PFM) committees. Efforts made during the first years of NHSP-2 helped reduce audit queries at all levels of the system (although this has not been sustained) and has facilitated prompt responses to the queries that do arise.

## 1.2 Objectives

This report summarises the progress made on financial management during Nepali fiscal year (FY) 2012/13. The report highlights progress made on systems development, committee formation, expenditure patterns, financial auditing and the addressing of related queries. It also describes the main challenges faced and the way forward.

## 2 PROGRESS AND ACHIEVEMENTS

MoHP has made impressive progress developing and updating a financial management improvement plan (FMIP), endorsing the audit clearance guidelines, endorsing the internal control guidelines, introducing the performance based grant agreements with seven hospitals, forming the public financial management working group, suggesting changes to the reporting templates of financial monitoring reports (FMR) and completing the development of the software for the Transaction Accounting and Budget Control System (TABUCS). This has positively influenced the financial management practices and fund absorption capacity of Nepal's health sector.

### 2.1 Audit Clearance and Internal Control Guidelines

MoHP has prepared and endorsed the audit clearance guidelines. The audit committee took the lead role finalising them. The endorsement of these guidelines will help improve practices related to the timely submission of audit queries and should reduce audit backlogs. Similarly, MoHP has prepared and endorsed the internal control guidelines. The endorsement of the internal control guidelines will help improve financial management practices including fund flow, fund utilisation and internal auditing.

### 2.2 Transaction Accounting and Budget Control System (TABUCS)

MoHP took the lead role in introducing the TABUCS with the Nepal Health Sector Support Programme (NHSSP) providing technical assistance and the UK's Department for International Development (DFID) providing financial support.

In 2012/13 MoHP:

- completed the piloting of TABUCS in 11 MoHP cost centres;
- finalised and printed all technical documents to rollout the system in all 278 cost centres;
- sent the training letters to all cost centres and reinforced the availability of computers and internet connectivity; and
- completed the training of TABUCS trainers (in mid-December 2013).
- Finalised the rollout plan

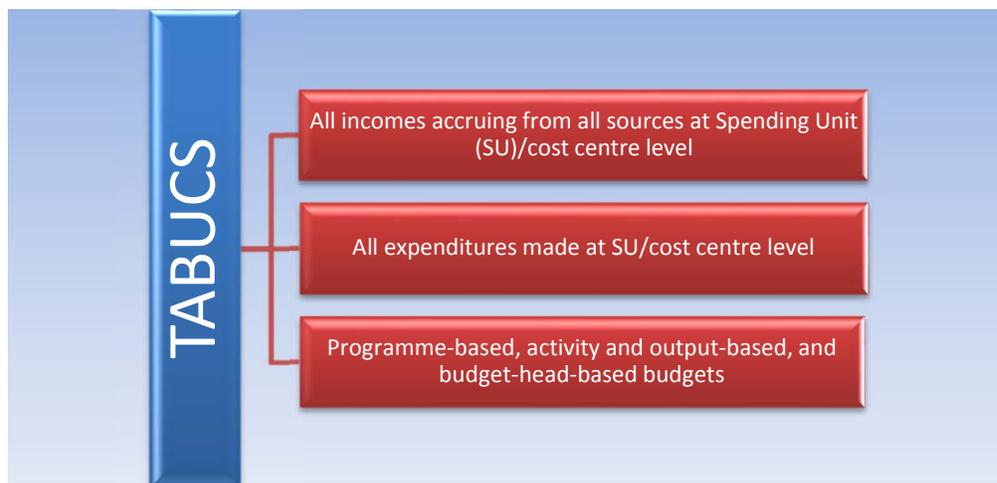
TABUCS is a simple accounting system which allows for the capture of basic accounting transactions at the source level, and enforces budgetary control procedures so that no expenditure can take place without an approved budget. The basic features of the TABUCS include the:

- processing of expenditures and payments;
- automatic posting of payments to ledger accounts and summary accounts;
- processing of cash and bank receipts and revenues;
- automatic posting of receipts to ledger accounts and summary accounts;
- automatic posting in cash and bank books; and
- the generation of all ledgers and accounting and management information system reports, including financial monitoring reports (FMRs).

It is important to keep in mind that the TABUCS proposed here will only serve as a small but key component of the full-fledged financial management information system that MoHP needs to set up

for comprehensive financial management at the ministry level. The areas of budget and accounting data shown in Figure 1 are considered to be within the current scope of the TABUCS.<sup>1</sup>

**Figure 1: The current scope of the TABUCS**



Source: TABUCS System Specification

### 2.3 Financial Management Improvement Plan

In 2011/12, a Financial Management Improvement Plan (FMIP) was prepared for the four-year-period 2012/13 to 2015/16 and endorsed by MoHP. The objective of the plan is to extend good practices and implement new initiatives. MoHP prepared a draft revised FMIP and shared it with the external development partners.

**Figure 2: Key indicators of MoHP's Financial Management Improvement Plan (2012/13 to 2015/16)**



Source: FMIP

<sup>1</sup> See [www.nhssp.org.np](http://www.nhssp.org.np) and [www.moHP.gov.np](http://www.moHP.gov.np) for more detailed information on TABUCS.

The FMIP, which is an addendum to the plan contained in NHSP-2's Governance and Accountability Action Plan (GAAP), intends to strengthen MoHP's current practices on financial planning, accounting procedures, internal control, financial reporting, monitoring, auditing and transparency measures. The overall thrust of the FMIP is to reduce fiduciary risk and improve overall financial accountability in the health sector. Figure 2 shows the FMIP's four key results indicators.<sup>2</sup>

In the latest revision MoHP has included the major recommendations of the fiduciary risk assessments (FRA) conducted by the World Bank and DFID in 2013. As a part of the implementation of FMIP, MoHP has also finalised performance based grants agreements with Nyaya Health (Bayalpata hospital, Achham), Bhaktapur Cancer Hospital, Nepal Netra Jyoti Sangh, the Nepal Eye Hospital, the Suresh Wagle Memorial Cancer Hospital, the National Kidney Centre and the BP Koirala Lions Center for Ophthalmic Studies.

## **2.4 Financial Monitoring Report Preparation Manual**

As the basis for disbursement of funds by pooled partners, financial monitoring reports (FMRs) must be submitted within 45 days of the end of each trimester (four-monthly period). To address the difficulties encountered with the timely submission of these reports, in 2012/13 MoHP developed FMR preparation manual with technical support from NHSSP. This manual is aimed at improving the quality and timeliness of FMRs (compared with the first three years of NHSP-2). MoHP submitted the annual financial report for FY 2012/13 to the Office of the Auditor General (OAG) and the Financial Comptroller General's Office (FCGO). Importantly, in November 2013, MoHP was connected with the financial management information system (FMIS) of the FCGO. Since a major cause of delays of submitting FMRs has been the time consuming process of collecting and compiling reports from the FCGO, it is expected that the new connectivity with FCGO plus the introduction of TABUCS will ensure the more timely submission of FMRs.

In order to ensure the efficient submission of FMRs, MoHP made a draft revision of the FMR templates and shared them with pooled fund partners for feedback. The current draft suggests reducing the number of reporting templates from 33 to 8. MoHP is expecting a positive response from partners and hopes to implement the revised templates in fiscal year 2013/14.

## **2.5 PFM Management Committee**

MoHP formed a public financial management (PFM) committee in fiscal year 2012/13 to improve MoHP financial management. The chief of the Policy Planning and International Cooperation Division (PPICD) chairs this committee and EDP officials are members (see Table 1). The committee has led the introduction and approval of the FMIP. The PFM committee meets as per need.

At its several rounds of formal and informal meetings the committee:

- agreed to revise the financial management improvement plan (FMIP), formed a working group and requested the working group to finalise the plan;
- agreed to include the recommendations of the World Bank and DFID's fiduciary risk assessments into the revised FMIP;
- requested the working committee to finalise the draft procurement improvement plan (PIP) and implement it from fiscal year 2014/15.

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<sup>2</sup> See the FMIP at [http://www.nhssp.org.np/thematic\\_rpt.html](http://www.nhssp.org.np/thematic_rpt.html).

**Table 1: Composition of PFM Committee**

	Members	Position in committee
1	Chief PPICD (MoHP)	Chairperson
2	Chief of Human Resources and Financial Management Division (HR&FM Division, MoHP)	Member
3	Director Logistics Management Division (DoHS)	Member
4	Under-secretary PPICD (MoHP)	Member
5	Chief MoHP Finance Section	Member
6	Chief DoHS Finance Section	Member
7	DFID	Member
8	World Bank	Member
9	USAID	Member
10	KfW	Member
11	AusAID	Member
12	NHSSP	Member

Source: MoHP 2013

The committee decided to organise a PFM progress sharing meeting under the chairpersonship of the health secretary. The meeting was organised in MoHP where officials discussed the proposed revision of FMIP, the draft procurement improvement plan, and the major findings of the fiduciary risk assessment carried out by the World Bank and DFID. Programme managers and chiefs of finance sections from most centres and divisions participated in the meeting.

## 2.6 PFM Working Group

The PFM committee formed a working group on 6 October 2013 to ensure technical inputs for MoHP's public financial management functions (see Table 2 for composition). The working group provides technical inputs on PFM functions and makes recommendations to the PFM committee. The working group is also responsible to ensure the implementation of the decisions made by PFM committee.

**Table 2: Composition of PFM Working Group**

	Position/Office	Position in working group
1	Joint Secretary, Chief of HR&FM Division, MoHP	Coordinator
2	Under Secretary, Chief of Finance Section, MoHP	Member
3	Chief Financial Controller, Finance Section, DoHS	Member
4	Under Secretary Policy and Planning, MoHP	Member
5	Representative, NHSSP	Member
6	Representative, DFID	Member
7	Representative, World Bank	Member
8	Representative, KfW	Member
9	Representative, AusAID	Member

The working group meetings held on 25 November and 10 December 2013 discussed MoHP being connected to FCGO's FMIS, the fiduciary risk assessments (FRAs), the revised financial management improvement plan (FMIP) and the status report on audit queries. As a result of these discussions MoHP received the password from FCGO to FCGO's FMIS. This enables MoHP to access the financial data online from FCGO which should reduce the time taken to get this data.

This committee has been involved in:

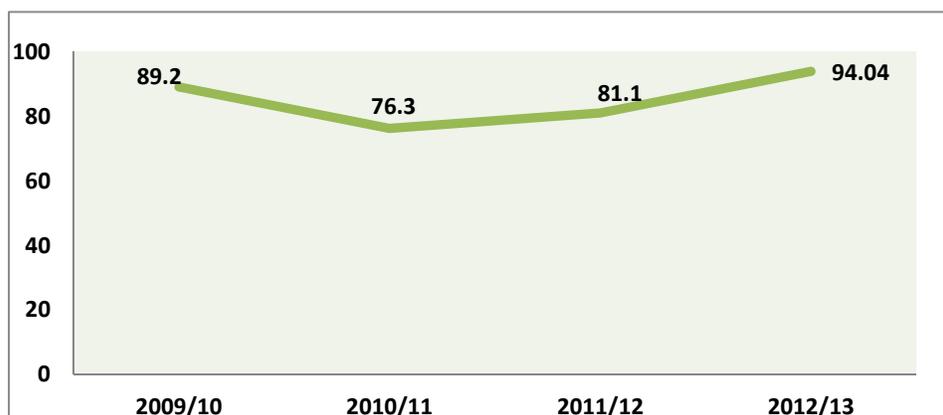
- preparing the draft revised FMIP and sharing it with the EDPs;
- finalising the MoHP audit status report;
- revising the FMR templates. (The proposed new eight templates are in line with the joint Financing Arrangement and MoHP has requested EDPs to support the finalisation of these changes.)

## 2.7 Absorption of MoHP Budget

A key NHSP-2 indicator is the rate of absorption of the health budget. Although there have been fluctuations the total budget absorption capacity of MoHP has increased over the last six years (see Figure 3). However, the absorption rate decreased in FYs 2010/11 and 2011/12 due to delayed budget approval. Importantly, in FY 2012/13, the government provided the budget based on the actual expenditure of FY 2011/12. Thus, cautious is needed when describing the data mentioned in Figure 3.

In the absence of a full budget in FY 2012/13, the Government of Nepal (GoN) decided to cover the expenditure of respective ministries based on the actual expenditure of the previous year (2011/12) and give a budget ceiling to cover the expenditure occurs in different trimesters. The budget allocation of MoHP in FY 2012/13 as shown in Table 3 is the initial ceiling given by GoN. Actual expenditure was higher by NPR 170 million, which was still below the actual expenditure of GoN in FY 2011/12. GoN instructed MoHP to prioritise staff salaries of staffs, free care services, the Aama programme and other priority 1 programmes.

**Figure 3: Budget absorption capacity (Source: MoHP 2013)**



**Table 3: Budget allocation and expenditure by sources of fund (FY 2011/12 in NPR billion)**

FY	Government		EDPs		Totals		
	Budget	Expenditure	budget	Expenditure	Budget	Expenditure	% expenditure of budget
2009/10	9.31	9.23	8.53	6.68	17.84	15.91	89%
2010/11	13.93	11.9	9.88	6.27	23.81	18.17	76%
2011/12	15.21	13.82	9.72	6.42	24.93	20.24	81%
2012/13	11.72	11.89	8.52	7.14	20.24	19.03	94%

## 2.8 Audit Status

### a. Audit Committee

MoHP formed an Audit Committee in April 2012 with the objective of improving financial discipline (see Table 4 for composition). The secretary of MoHP chairs the committee. The committee has prepared a ToR for itself that includes strengthening the internal control system, ensuring financial discipline, organising regular meetings and responding to audit queries. This committee has taken the lead in preparing and finalising MoHP's audit clearance guidelines and internal control guidelines.

**Table 4: Composition of the Audit Committee**

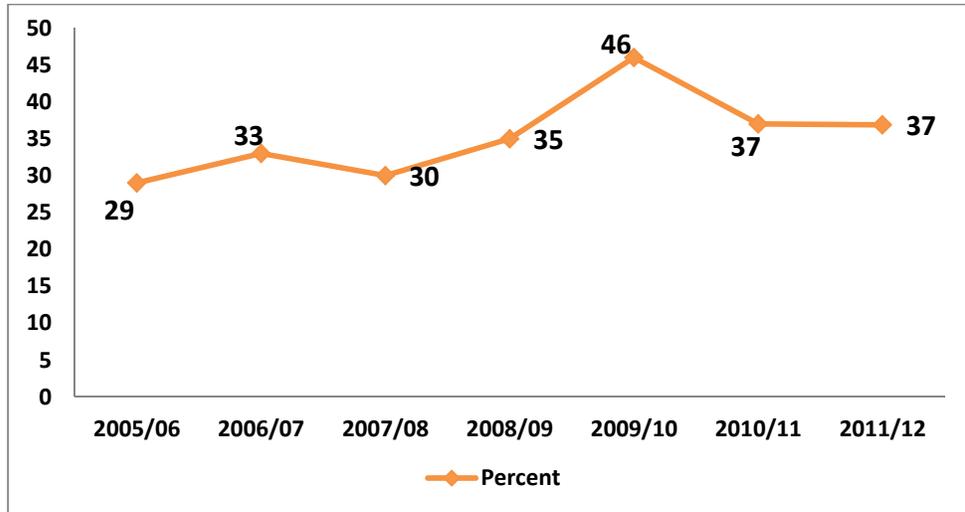
	Position and office	Committee position
1	MoHP Secretary	Chairperson
2	Chief HR&FM Division (MoHP)	Co-chairperson
3	DoHS Director General	Member
4	DoHS Finance Section Chief	Member
5	Health Sector Reform Unit (HeSRU) Chief	Member
6	MoHP Finance Section Chief	Member Secretary

Source: MoHP 2013. Decision of the Audit Committee

### b. Status of Audit Queries

Figure 4 shows the progress on the annual number of audit queries concerning MoHP's budget and expenditure. The trend shows the importance of further work in this area and of strengthening the capacity of MoHP to prepare its audit status reports. A high level of commitment is required to prevent irregularities and ensure the timely clearance of queries. Audit queries are mainly due to non-compliance with legal provisions, weak internal financial control and weak budget implementation. The cumulative amount of total irregularities concerning MoHP's budget reported by the Office of the Auditor General (OAG) in its forty-eighth report (2010/11) is NPR 2.42 billion and in its forty-ninth report (2011/12) is NPR 2.49 billion. Thirty-seven percent of these queries had been cleared by MoHP as of the end of FY 2011/12.

**Figure 4: Trends in Clearance of Audit Queries Related to MoHP's Budget**

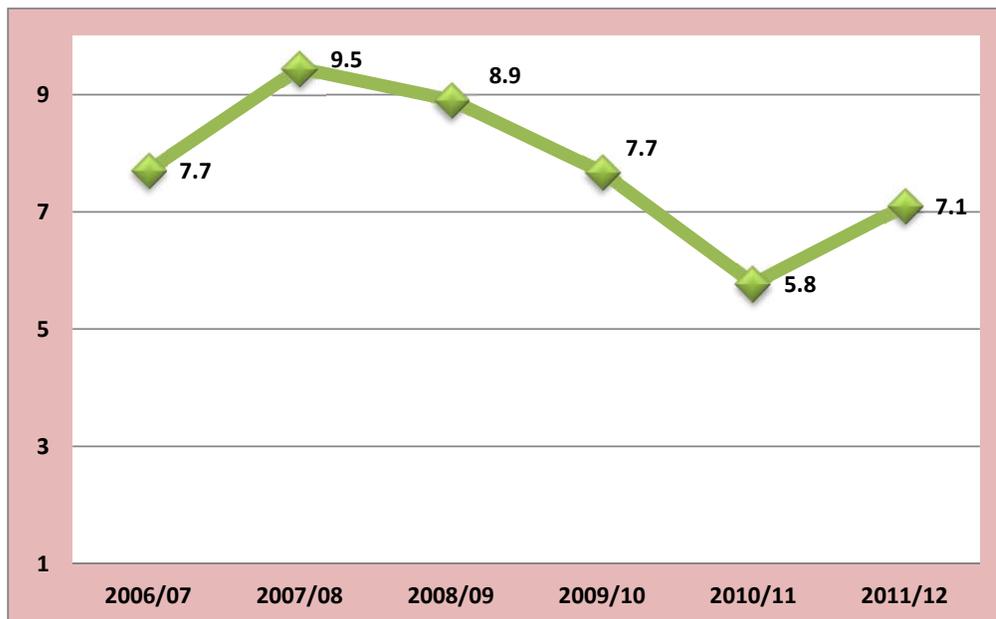


Source: MoHP 2013

It should be noted that the proportion of audit queries against total audited expenditure has fluctuated from 9.5% in FY 2007/08, to 5.8% in FY 2010/11, to 7.14% in 2011/12 (Figure 5).

A significant proportion (71%) of audit queries in 2011/12 was due to unsettled advances. MoHP believes that the proper implementation of its audit clearance guidelines, internal control guidelines and procurement implementation plan would reduce the proportion of audit queries from 7.14% to 2.04% in FY 2013/14.

**Figure 5: Proportion of audit queries against audited expenditure**



Source: MoHP 2013

## 2.9 Audit Observations and Responses

Each year, OAG conducts a compulsory final audit of all the cost centres under MoHP. It also conducts random performance audits. This makes it quite challenging for MoHP to discuss all the queries and responses in the current report for the JAR. It is important to note that MoHP gives a high priority to responding to audit queries. Table 5 shows the OAG's major audit queries and responses for FY 2011/12.<sup>3</sup>

**Table 5: Audit Observations 2011/12 and responses to end 2013, and further follow-up on 2010/11 queries**

	Audit observations	Actions taken
1	<b>Audit backlog:</b> An audit backlog under MoHP of NPR 472 million is outstanding from 768 units. Parts of this backlog have been carried forward since 1972. The account of these backlogs has not been presented for audit even this year.	MoHP has instructed all its units and offices, through the concerned departments, to submit documents for clearing the audit backlogs carried forward since 1972. It's a difficult task to clear the audit backlogs carried forward since last 40 years; however, MoHP is committed to clearing these backlogs. As a first action, MoHP has requested OAG to provide guidance on clearing the backlogs. Once the public account committee is formed, MoHP will formally request for this issue to be resolved.
2	<b>Labelling:</b> The Health Service Procedures, 2064 (2007/08) provisioned compulsory labelling "For Free Distribution from the Government of Nepal" on all units of such medicines. Such labelling was not however found on 116 items of medicines in sample tests of 10 medicines in 27 district health offices (DHOs) and district public health offices (DPHOs).	MoHP has ensured the labelling of all medicines for free distribution procured at the central level. It is understood that some district level cost centres are not following the standard procedures. In this context, MoHP has instructed all cost centres to strictly follow this requirement.
3	<b>Accounts not presented:</b> The Child Health Division (CHD), the Primary Health Care Revitalization Division (PHCRD) and Doti DHO had not presented accounts of NPR 441 million as these accounts had been submitted to the Commission for Investigation of Abuse of Authority (CIAA) and Doti District Administration Office (DAO) for investigation.	The NPR 441 million of CHD, PHCRD and DHO Doti accounts (financial records) had been taken by the CIAA and Doti DAO for investigation and had yet to be returned. CHD and PHCRD have pledged to submit them for audit once they receive them back.
4	<b>Budget release:</b> Budget amounting to NPR 177 million was approved to conduct child health related activities in 2011/12 by the Child Health Division. However, the budget had not been released and so remained unused.	As per the agreement with external development partners, the budget of NPR 177 million was allocated in the Red Book as a direct payment. The expenditures of those programmes were made by the respective EDPs and they have audited the expenditure by themselves. In this

<sup>3</sup> See OAG's fiftieth annual report (FY 2011/12) for more details on this.

	Audit observations	Actions taken
		situation, MoHP could not produce the documents to the OAG for auditing. In the coming year (2013/14) MoHP will request EDPs to submit the required documents within the given time frame.
5	<b>Procurement:</b> CHD entered into an agreement with three suppliers amounting to NPR 108 million for purchasing syringes and oral polio vaccine (OVP) for the next year. However, creating liability for the next fiscal year is not permitted by the Financial Procedure Regulations, 2064 (2007/08).	The purchase of medicines and medical instruments should follow the Public Procurement Act and Regulations and be endorsed by a no objection letter from the World Bank. MoHP is committed to strengthening the multi-year procurement contract system having the required consultations and permission to fulfil the legal provisions.
6	<b>Stock:</b> In the course of auditing the stock records of PHCRD it was found that medicines worth NPR 138 million were undistributed. This may cause the unavailability of necessary medicines in health institutions and the expiry of in-stock medicines.	MoHP has instructed its cost centres to ensure the proper use of medicines before they expire. MoHP is committed to ensuring the effective implementation of the Logistic Management Information System (LMIS), which will provide access to information on the status of the stock of medicines. MoHP has introduced multi-year procurement contract systems, which should address this issue.
7	<b>Record:</b> The Department of Drug Administration (DDA) has not kept the records of recommendation letters for the establishment of industries, production licenses, drug registration certificates, inspection of industries, medical shops and the export and import of drugs as per provisions of the Drug Regulations, 2038 (1981/82).	DDA's development of software records of drug industries is almost complete. This will allow the updating of records. DDA is committed to improve the mechanism related to drug administration.
8	<b>Drug purchasing:</b> <ul style="list-style-type: none"> <li>• Kailali DPHO purchased medicines costing NPR 3.4 million from the second lowest bidder showing that the lowest bidder had refused to enter into an agreement. This caused an extra expenditure burden of NPR 1.35 million.</li> <li>• Jumla DHO purchased NPR 4.6 million of medicines directly from suppliers, causing excess expense of NPR 820,000 in comparison to the quoted tender rates.</li> </ul>	<ul style="list-style-type: none"> <li>• Kailali DPHO's acceptance of the second lowest bid after the lowest bidder refused to enter into agreement was in line with the Public Procurement Regulations. But the lowest bidder should have forfeited the total amount. The DoHS has asked for clarification on this from DPHO Kailali.</li> <li>• Jumla DHO responded that it had purchased medicines for NPR 1.26 million by tendering and according to the situation (budget authority and programme approval received late). In</li> </ul>

	Audit observations	Actions taken
		this situation, NPR 4.6 million of medicines were purchased directly from different suppliers at different times. DHO Jumla has committed to improve its procurement practice in the coming year.
9	<b>Fund transfer:</b> Pyuthan DHO directly transferred NPR 1 million to the hospital development board's (HDB) account of the district hospital to conduct a One Model Health Village programme. However, the audit said that the programmes had not been conducted and so the amount should be refunded to the treasury.	The Model Health Village Programme directives say that its programmes should be launched through HDBs. The authority and budget were only released at the end of the fiscal year. In order to implement this important programme on time (in Bijuwar VDC) the grant was transferred to the account of Pyuthan HDB. At audit time the programme expenditure had not been submitted, but the programmes had been completed as per the directives in FY 2012/13 and the expenditure has been audited by OAG in FY 2013/14.
10	<b>Aama Programme:</b> Sunsari, Parbat, Dhanusha and Nawalparasi DHOs incurred excess expenditure of NPR 1.3 million on the Aama Surakshya Programme as compared to the provision of the Programme Procedural Directive, 2065 (2008/09). The amount should be recovered.	Nawalparasi DHO has recovered NPR 92,000 of the excess expenditure. However, the Sunsari, Parbat and Dhanusha DHO excess expenditure has yet to be recovered.
11	<b>Performance audit:</b> A performance audit of Kanti Children's Hospital found that the internal control system was very poor and it needed to improve its organisational structure, human resource management, internal income management, internal fund mobilization, repairs and maintenance, and service provision.	There have already been some improvements in the hospital and MoHP will ensure the proper implementation of the hospital's newly introduced internal control guidelines. MoHP has instructed the hospital to improve its services.
12	<b>Current assets:</b> The BP Koirala Institute of Health Science (BPKIHS) had not taken any action to clear and recover outstanding advances of NPR 142 million and house rent of NPR 2.5 million.	Advances in the name of employee's salaries have mostly been cleared except for employees who have been away on study leave. NPR 2.5 million of house rent has been recovered.
13	<b>Purchase:</b> The Patan Academy of Health Sciences (PAHS) directly purchased medical equipment and medicines worth NPR 132 million without competitive bidding against rule 3.23 of PAHS's Financial Administration Regulation, 2067.	PAHS has its own pharmacy. PAHS responded to the query that it is difficult to predict the number of patients and the quantity of medicines needed. As per rule 3.67(2) of PAHS's Financial Administration Regulations, PAHS had published the notice in a national newspaper for unit rates to supply medical equipment and medicines.

	Audit observations	Actions taken
		Subsequently, from time-to-time medical equipment and medicines were purchased as per the pre-quoted unit rates. MoHP will suggest to PAHS that it follows its standard procedures.
14	<b>Excess payment:</b> Mahakali and Seti zonal hospitals made excess payments of NPR 1.6 million on contracts to build doctors' quarters and an outpatient department building. The excess paid amount should be recovered.	The construction of the doctors' quarters has been completed and all accounts cleared by Seti Zonal Hospital. Mahakali Zonal Hospital is in process of clearing the amounts mentioned in the OAG's report.
<b>Follow up of FY 2010/11 queries</b>		
	<b>Unspent grant:</b> The government had provided a conditional grant of NPR 230 million to BP Koirala Institute of Health Sciences. Unspent funds of NPR 49.94 million had to be refunded to the consolidated fund.	The Ministry of Finance gave consent to the institute to spend the unspent funds in FY 2011/12 (MoF: letter ref 1127 of 4 May 2012).
	<b>Foreign assistance:</b> Technical assistance of NPR 8,533 million was to be received from 13 donors to run 12 health related programmes. The financial statements relating to such assistance are not submitted for government audit. Likewise, CHD had not submitted accounts of NPR 59.7 million foreign assistance provided by four international donors for auditing.	The donors themselves audited these funds. MoHP will seek support from donors to submit their audited reports to OAG. MoHP is expecting support from all donors on this issue.
	<b>Maternity grant:</b> Janakpur Zonal Hospital spent NPR 15.8 million on medical equipment, medicines, and incentives for staff instead of using them to pay maternity grants. The hospital provided no clarification on this issue.	Janakpur Zonal Hospital provided clarification that justified the expenditure and OAG verified and cleared this outstanding query.

### 3 MAJOR CHALLENGES

MoHP has made good improvements on financial management. However, a number of challenges remain.

**a. Policy level challenges**

Key policy level issues to be addressed are the effective implementation of the TABUCS, the revised Financial Management Improvement Plan, and the audit clearance and internal control guidelines, and resolving issues related to direct budget execution, separate reports and audits by some EDPs.

**b. Auditing including internal auditing**

The government's devolution process does not require district treasury comptroller's offices (DTCOs) to conduct internal audits for devolved districts, recommending instead that internal audits are carried out by independent auditors and copied to DTCOs. However, DoHS does not have sufficient staff capacity to follow up on many internal and external audits in a timely way.

**c. Recording, reporting and monitoring**

All MoHP's cost centres do not send timely budgets against actual expenditure to MoHP and DoHS. Also MoHP does not have any technology based solution to compile or consolidate budgets against actual expenditure reports. The FCGO provides budget versus actual expenditure reports periodically to MoHP. However, these reports are based on particular account heads and are not broken down by programmes.

**d. Local revenues not recorded in MoHP expenditure**

There is currently no national mechanism to capture local revenues and expenditures that occur in health facilities. This may contribute to increasing fiduciary risk at health facilities. MoHP wants to introduce guidelines or a strategy to address this issue. The TABUCS enables MoHP to capture local revenues.

**e. Budget preparation**

Practices related to the preparation of performance based budgeting is one of the challenges for MoHP. Additionally, a bottom-up budgeting and planning process with the involvement of stakeholders needs to be practiced by MoHP. Moreover, a fundamental issue is that the budget preparation process is not sufficiently coordinated with planning processes. The involvement of MoHP's and DoHS's Finance Sections during the budget preparation process and the progress monitoring process needs to be formally introduced in MoHP.

**f. Budget execution**

Delayed budget approval has been the major challenge for the proper execution of health budgets. About 1,800 permissible activities are defined at MoHP level and about 300 for each district. The preparation and consolidation of performance indicators on all these activities requires considerable time and effort.

## 4 THE WAY FORWARD

1. Ensure the proper implementation of TABUCS at the national level.
2. Implement the audit clearance guidelines.
3. Implement the internal control system and procurement guidelines.
4. Develop a budget preparation manual that clearly defines the role of involved institutions and individuals.
5. Finalise and then implement the procurement implementation plan from FY 2014/15.
6. Prepare a national framework for health facilities to report local revenues and related expenditure.
7. Provide the resources to develop human resource capacities on financial management, strategic planning and the use of technology based solutions.
8. Strengthen the existing audit committee through regular meetings. Discussions and decisions on the audit related queries must be made in time.

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