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Asian Development Bank

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Ministry of Urban Development

Second Integrated Urban Development Project
(IUDP2)
(PPTA 8817–NEP)

Draft Final Report
Discussion Note # 5 –
Environmental and Social Safeguards

- Rapid Safeguards Screening
- Environmental Assessment and Review Framework
- Resettlement Framework

August 2015

Discussion Note # 5

Environmental and Social Safeguards

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1 Introduction

1. The TA has the main aim to identify urban infrastructure schemes to be implemented in two municipalities of Kanchanpur District, Bheemdatt and Jhalari Pipaladi, and two municipalities of Kailali District, Attariya and Dhangadhi; these schemes will then be planned in detail and implemented in the next phase of the Second Urban Development Project.
2. This Report comprises
 - A short description of schemes selected and proposed for implementation under this TA.
 - The Rapid Safeguards Review of proposed schemes.
 - The Environmental Assessment Review Framework.
 - The Resettlement Framework.
3. A short description of the environmental situation of the project region was provided in the TA Interim Report, Discussion Note 5, Social and Environmental Safeguards. These descriptions, which also included descriptions of the main aspects of settlements and population of the area, are used as background information and are not repeated here.

2 Proposed Schemes

4. A number of schemes (also referred to in this report as components) have been identified for investment. They are briefly described in Discussion Note No. 4, Parts A (Attariya Municipality), B (Bheemdatt Municipality), C (Dhangadhi Municipality) and D (Jhalari Pipaladi Municipality).

Table 2-1: Main investment sectors proposed

Scheme Type	Attariya	Bheemdatt	Dhangadhi	Jhalari Pipaladi
1. Water supply	+	+	+	+
2. Waste water				
a. on site	+	+	+	+
b. Sewerage / DEWAT	+	+	+	+
3. Solid waste	+	+	+	+
4. Roads and drainage	+	+	+	+
5. Municipal facilities	+	+	+	+
6. Community infrastructure	+	+	+	+

5. The Table shows that the same types of schemes identified and proposed in all four municipalities. However, depending on the specific situation, the dimensions of the individual projects can be very different.

6. The following short description aims at providing a focus on investment characteristics and parts which are of potential environmental and/or socio-economic relevance. It should be noted that at this stage, sectors were identified and are being discussed rather than specific schemes. This means that e.g. for water supply projects there are ideas on where the drinking water sources could be, for waste management projects potential sites were identified, and for roads a list of roads exist that could be upgraded, while however there are no specific locations defined as yet, and as to dimensions only

general ideas exist so far. These details will have to be determined as part of the specific planning of individual schemes, to be done in a next stage of the overall urban development project.

2.1 Water Supply

2.1.1 Rationale

7. Only a relatively small percentage of households are presently connected to a piped water supply system, while the majority of HHs get their water from other sources, mostly dugwells and tubewells. Since these in general use groundwater from near surface aquifers, and given the precarious situation with respect to waste and waste water management (see respective Sections), there is a high risk of water contamination in these shallow aquifers. A very large part, if not almost all, of these drinking water sources have therefore to be considered as unsafe.

8. Providing treated water from deeper aquifers in a piped system will improve this situation. For this reason, drinking water supply systems are proposed in all the four municipalities.

2.1.2 Description

9. A recently built drinking water plant in Dhangadhi, with a 450m³ overhead tank, serves approximately 2000 HHs within a radius of approximately 3 km around the plant. It is assumed that drinking water supply systems to be built under this TA would be of a similar nature. In general, they would consist of the following main parts:

- Boreholes reaching to a depth of up to 100m; these boreholes can be located at a certain distance to the drinking water plant and are connected to it by an underground pipeline. Boreholes and pumps require the construction of a small building, but land requirement is minimal. Pumping depends on a reliable electricity supply.
- Drinking water plant containing pumping station, water treatment plant and overhead water storage tank; in the same compound would also be an office building, a water quality testing laboratory and other facilities as may be required. Land for these facilities will have to be acquired. Water treatment in general consists of chlorination before the water is fed into the distribution system.
- Distribution network; this can comprise piping with a total length of around 50km, bringing water to the compounds or houses to be served. Each such connection will be equipped with a water meter.

10. In the example mentioned, HH pay a monthly rate of NRs.200 per month for a consumption of up to 10,000 l; consumption above this amount will be invoiced at a higher tariff.

2.1.3 Preliminary Conclusions

11. Environmental and socio-economic effects are closely related and cross-cutting issues. The most important points to consider are the following:

- In the present situation, many drinking water sources used by the population have to be considered as unsafe and therefore presenting a considerable risk to health of the consumers.

- Providing treated and piped drinking water will considerably improve this situation.
- The project needs to acquire land for the drinking water plant and related infrastructure, and small plots for the boreholes. This is a small impact, and land will usually be acquired either by using public land or by buying the land from the private owners.
- Construction, including construction of the distribution system, will be a temporary process with limited negative impacts on the surrounding areas.
- Tariffs will have to be adapted to the capacity to pay of the consumers. It cannot be excluded that in some cases, for especially vulnerable HHs, a special solution will have to be sought.
- Serving HHs with piped drinking water will increase water consumption, and will therefore lead to a larger volume of domestic waste water. This effect will have to be considered in the design of sewerage and waste water treatment systems.
- An ongoing monitoring of water quality in the system will be required. It is important that such a follow-up covers not only the source, i.e. drinking water quality after the treatment plant and before feeding it into the distribution system, but also the consumer side. This means that periodically, samples will have to be taken at points of consumption and analysed accordingly.

12. Overall, it can be said that with a minimum of negative impacts, all of them of short duration and low intensity and, if required, easily mitigated, these projects will lead to a considerable improvement in the situation of the affected population, and mainly of its health status.

2.2 Waste Water

2.2.1 Rationale

13. There is no sewerage or common waste water treatment system in place in any of the four municipalities. Most houses are equipped with septic tanks and soak pits. The septic tanks, when full, are emptied by private operators, and the untreated sludge is sold to farmers as fertilizer or is otherwise disposed of, without treatment. Many septic tanks overflow, and often the soak pits are either not present or do not work properly, leading to seepage of the effluent into open drains or rivers.

14. Domestic waste water is a major source of surface water contamination, and it can also lead to the contamination of near-surface drinking water sources. This represents a major environmental and public health risk.

15. An improvement of water supply (see Section 2.1) will lead to an increase in the amount of domestic waste water generated, and this will exacerbate the problem.

2.2.2 Description

16. Two types of interventions are proposed, namely the so-called on-site improvement and the construction of small bore sewerage and DEWATS.

17. On-site improvement would consist in the construction of septage (septic tanks sludge) treatment plants. Septic tanks would be emptied by means of sludge vacuum tankers. The treatment plants could produce biogas and compost, both of which could be sold to local consumers.

18. Small bore sewerage would be built in areas where soak pits do not work properly or are not feasible due to, for example, high ground water table and/or frequent flooding. The small bore sewers would collect the overflow effluent from septic tanks and lead them to simple treatment sites (lagoons, reed beds) before discharge into a river. Ideally, waste water from these systems would be treated in DEWATS, small decentralised effluent treatment plants.

19. The ideal solution for the domestic waste water issue would be the construction of a conventional sewerage system covering the entire urban area and a waste water treatment plant. However, the operation and management of such schemes is beyond the capabilities of the present municipalities, and is therefore not recommended under the present project.

2.2.3 Preliminary Conclusions

20. As mentioned above, domestic waste water is an environmental and public health concern, and unless adequate measures are taken, the situation will get worse. It also has to be taken into consideration that a large amount of untreated sewage reaching surface waters, while no longer a concern at the site of origin of the contamination, puts downstream areas at risk.

21. A full-fledged conventional sewerage system and waste water treatment plant is undoubtedly the solution to be envisaged for the future.

22. However, such systems need a long time to develop and are very costly to construct and operate. It is therefore important to apply small scale measures that can be developed in stages, and that will produce beneficial results rapidly. The two proposed approaches respond well to this requirement.

2.3 Solid Waste Management

2.3.1 Rationale

23. None of the four municipalities presently has a functioning solid waste collection and disposal system; mainly, there are no solid waste treatment and disposal sites. Presently, solid waste is disposed of in unsuitable locations, often along water courses. During high flow conditions, a considerable part of this waste is then carried downstream. While this removes waste from the site, it is obviously not a solution to the problem.

24. Littering and uncontrolled waste disposal also leads to public health problems.

25. There is no organised waste separation and recycling; however, there is an informal sector doing this, by collecting material like cardboard, glass and PET bottles.

2.3.2 Description

26. The TA proposes to install Integrated Waste Processing Sites (IWPS), comprising facilities for waste separation, composting of organic waste, recycling facilities and disposal sites for waste material that cannot be used in any other way. A number of potential solid waste disposal sites were identified.

27. An integration of the composting with septage treatment would be an option, for transforming organic waste into compost and possibly producing biogas.

2.3.3 Preliminary Conclusions

28. Uncontrolled solid waste disposal is a major environmental and public health problem. Disposal of such waste into or near to rivers does not solve the problem, only transfers it to downstream areas.

29. Controlled waste disposal in a properly designed, engineered and maintained landfill site considerably improves the situation **even in the absence of a complete separation of the main fractions** mentioned above (composting of organic waste, separation of recyclable fractions).

30. The main risk presented by most of the sites proposed so far is the risk of flooding; since most of these sites are located within a floodplain and more or less close to rivers; this is difficult to prevent, given the situation of the two districts (see description in the Interim Report, IUDP2 DN5 Social & Environmental Safeguards). Solid waste disposal sites are an urgent requirement in the area, but since such sites also present non negligible environmental risks, the potential sites identified so far are presented in Annex 5-A, and a (preliminary) assessment made.

31. There is no solution as yet for the treatment and disposal of hazardous waste, including medical waste. This is presently mixed with other types of solid waste. For a safe disposal of e.g. medical waste, high temperature incineration would be required.

2.4 Roads and Drainage

2.4.1 Rationale

32. Many roads in the municipalities are in rather bad condition. Only a small part of them is provided with blacktop, drainage, if at all existing, is often deficient, and footpaths often are not in place.

33. With an ever increasing amount of traffic, this is creating problems of increasing intensity (safety of vehicles and pedestrians; partial flooding of roads; dust in the dry season, mud in the rainy season).

34. Seasonal flooding of roads is common; drainage is often not in place. Many drainage channels are clogged by mud and solid waste.

2.4.2 Description

35. The TA proposes to improve roads in all four municipalities.

36. This would mainly be an upgrading of existing roads, (width of lanes according to importance of the road; lateral drainage and footpaths, potentially street lighting in some cases).

37. Some of the roads are proposed not only for improvement, but also for at least partial realignment (straightening of "meandering" roads), which means at least in part a construction of a new road.

38. Widening existing roads may require additional land, which can be privately owned land or can affect encroachment on the existing, but not respected right of way (ROW) of a road. In places where a road will be realigned and/or newly built, land will have to be acquired.

2.4.3 Preliminary Conclusions

39. Improving roads and drainage (including footpaths along roads) will improve the situation in the municipalities.

40. Good maintenance will be important for maintaining the advantages; this includes maintenance of the drainage system, which again is linked with solid waste management in the municipalities.

41. Potential negative socio-economic impacts of this improvement will be the required land acquisition, either along existing roads or in cases of realignment or construction of new roads. This can affect privately owned land (used for agriculture or other purposes), but also houses and other structures. It is important that in such cases all owners and land users will be compensated according to the relevant safeguards.

2.5 Municipal Buildings and Infrastructure

2.5.1 Rationale

42. Under this heading, the TA proposes assistance to municipalities for a series of different sub-projects.

2.5.2 Description

43. Main items identified to be supported under this heading are the following:

- Municipal buildings
- Bus parks, for improving public transport services
- Sites with a potential for tourism development.

2.5.3 Preliminary Conclusions

44. These are mainly buildings or other interventions of limited size, not creating any relevant environmental or social concerns.

45. A potential exception to that could be the bus parks, for which land needs to be acquired, which might require a substantial improvement of access roads, and which will create or increase traffic. These aspects will have to be considered in the development of these structures.

2.6 Community Infrastructure

46. Community Infrastructure allocation is for assisting poor households in providing improved basic services such as on-site water supply, sanitation, drainage or access.

47. These would be small local interventions with the potential to considerably improve the situation of such HH.

48. The interventions would be socially, and in most cases also environmentally, beneficial, without any negative effects.

3 Rapid Safeguards Screening of Proposed Project Components

3.1 Screening of Proposed Project Components

49. In this Section, a Rapid Environmental and Socio-economic Screening of proposed components is carried out with the aim of identifying potential environmental and socio-economic (E&S) impacts and proposing measures to be taken to mitigate these impacts.

50. The TA, rather than proposing specific and well-defined project components, proposes types of schemes, as per the descriptions provided in the preceding Chapter. At the present stage, potential sites were identified for such schemes, however, no final decision on sites actually to be developed has been made. For this reason, the screening, rather than providing specific comments on identified projects and sites, makes general observations on the types of schemes proposed. As mentioned above, sites identified as potential solid waste disposal sites are commented on in the Annex 5-A.

51. **Table 3-1** contains a screening of schemes by sector type, identifying major schemes, as well as expected or potential impacts and measures to be taken in the different stages of project development. It also identifies the category (A to C, depending on relevance and magnitude of expected or potential impacts caused) according to the environmental categorisation of projects in the ADB safeguards.

52. As a major conclusion from this rapid screening the following can be said:

- None of the proposed schemes is considered as being a Category A project, i.e. being of a type or size that would require a full-fledged ESIA; one very important point to mention here is that, while land will be required for implementing the projects, and in a few cases (mainly in the case of a realignment of a road instead of just upgrading it along the existing track) it cannot be excluded that a few houses will have to be removed, none of the schemes as proposed now will cause any major resettlement.
- Some schemes are considered as being Category B projects, where some E&S impacts are likely to arise, which however are of a rather low magnitude and can easily be compensated. These are mainly water supply systems, septage treatment systems, solid waste disposal sites and major road upgrading projects. For these types of schemes, an IEE will have to be prepared.
- Some schemes are considered as causing no or such minor impacts that no formal E&S assessment is required; still, even in such cases any such issue encountered (most importantly: acquisition of land or temporary occupation of land, potentially causing damage to structures or crops) would have to be addressed,

53. **Table 3-2** addresses potential impacts on the basis of major components of the environment, natural as well as human. It also states in which cases, or for what components, no negative project impacts are anticipated.

54.

Table 3-1: Environmental and social screening by scheme type

No.	Scheme type	Steps in development	Issues	E&S Measures	Cross ref.	ADB cat. ¹
1	Drinking water supply: <ul style="list-style-type: none"> • Drinking water treatment and storage plant • Boreholes • Distribution network 	Site selection	<ul style="list-style-type: none"> • Suitable location to ground water table, quality of available groundwater. • Distance to area to be served. • Exposure to flooding. 	<ul style="list-style-type: none"> • If prospection required (e.g. for identifying suitable aquifers), any damage to land (e.g. crops) will have to be compensated. • Need to check potential sources of drinking water for arsenic contamination. 	If access road required: ref. to Roads (No. 4)	B/C
		Detailed planning	<ul style="list-style-type: none"> • Technical plans • IEE 	<ul style="list-style-type: none"> • Consumer organisation (water user associations) to be installed. 		
		Land acquisition	<ul style="list-style-type: none"> • Depending on present land ownership: municipality or private land. 	<ul style="list-style-type: none"> • In case of private land: needs to be bought (agreement with owner). • Squatters etc. to be compensated. 		
		Construction	<ul style="list-style-type: none"> • To be constructed following normal procedures. • E&S safeguard conditions to be integrated in tender documents and TOR of contractor. 	<ul style="list-style-type: none"> • Normal EH&S rules applicable on construction sites. • Especially for borehole preparation and construction of distribution network: if damage caused to properties of third parties (e.g. damage to crops), need to be compensated. • Community relation is important (including grievance procedure). 		
		Operation	<ul style="list-style-type: none"> • Drinking water quality • Collection of fees • Maintenance 	<ul style="list-style-type: none"> • Constant monitoring required; monitoring at source, but also at points of consumption. • Monitoring of water meters; agreements with water user associations. 		

No.	Scheme type	Steps in development	Issues	E&S Measures	Cross ref.	ADB cat. ¹
		Decommissioning	<ul style="list-style-type: none"> At the end of the lifetime of structures: either to be replaced with new components (buildings, pipes, etc.), or entire structure to be dismantled. 	<ul style="list-style-type: none"> Any waste material do be disposed of properly. In case of dismantling the plant, rehabilitate the site so it can be used for any other purpose. 		
2	Waste water management: <ul style="list-style-type: none"> On-site improvement Sewerage / DEWATS 	Site selection	<ul style="list-style-type: none"> Distance to area to be served. Exposure to flooding. Suitable access for sludge tankers (in case of septage treatment plants). 	<ul style="list-style-type: none"> Check risk of flooding and risk of groundwater contamination. 	If access road required: ref. to Roads (No. 4). For composting and biogas also refer to solid waste (No. 3).	B/C (B probably for septage treatment plants)
		Detailed planning	<ul style="list-style-type: none"> Technical plans; to include possibility of producing and selling compost and biogas. IEE (if required). 	<ul style="list-style-type: none"> Specific flood protection measures might be required. Community awareness: necessity for periodic emptying of septic tank; use of compost from processed septage. Determination of cost of services. 		
		Land acquisition	<ul style="list-style-type: none"> Depending on present land ownership: municipality or private land. 	<ul style="list-style-type: none"> In case of private land: needs to be bought (agreement with owner). Squatters etc. to be compensated. 		
		Construction	<ul style="list-style-type: none"> To be constructed following normal procedures. E&S safeguard conditions to be integrated in tender documents and TOR of contractor. 	<ul style="list-style-type: none"> Normal EH&S rules applicable on construction sites. 		
		Operation	<ul style="list-style-type: none"> Organisation of septic tank emptying and septage transport. Plant requires qualified personnel. 	<ul style="list-style-type: none"> Monitoring of quality of output: compost, biogas, treated waste water. Water restitution to surface 		

No.	Scheme type	Steps in development	Issues	E&S Measures	Cross ref.	ADB cat. ¹
			<ul style="list-style-type: none"> Maintenance. 	water body only if standards are met.		
		Decommissioning	<ul style="list-style-type: none"> Dismantling the plant and replacing it with a similar structure, or rehabilitation of site. 	<ul style="list-style-type: none"> Proper disposal of any waste. If site no longer used: rehabilitation to prepare it for alternative use. 		
3	Solid waste management: <ul style="list-style-type: none"> Sanitary landfill Possibly associated structures (waste separation facility, composting, recycling). 	Site selection	<ul style="list-style-type: none"> Main criteria for sites: access, size, risk of flooding, risk of groundwater contamination, distance to settlements. 	<ul style="list-style-type: none"> Structures with highly positive impact on environment, but also considerable environmental risks that have to be taken into account. 	If access road required: ref. to Roads (No. 4). For composting and biogas coordinate with No. 2 (sewage treatment).	B
		Detailed planning	<ul style="list-style-type: none"> Careful planning of landfill site, including flood protection, drainage, drainage and seepage water treatment, etc. Planning of additional structures and procedures (waste separation facilities, composting, recycling). 	<ul style="list-style-type: none"> A waste disposal site must not be flooded even under extreme circumstances, therefore some of the sites proposed might need major flood protection works. 		
		Land acquisition	<ul style="list-style-type: none"> Depending on present land ownership: municipality or private land. 	<ul style="list-style-type: none"> In case of private land: needs to be bought (agreement with owner). Squatters etc. to be compensated. 		
		Construction	<ul style="list-style-type: none"> To be constructed following normal procedures. E&S safeguard conditions to be integrated in tender documents and TOR of contractor. 	Special attention to be given to points mentioned above: <ul style="list-style-type: none"> flood protection impermeabilisation for prevention of ground water contamination by seepage drainage and drainage water treatment. 		

No.	Scheme type	Steps in development	Issues	E&S Measures	Cross ref.	ADB cat. ¹
		Operation	<ul style="list-style-type: none"> Operation will depend to a considerable extent on the detailed design of the plant (mainly: whether or not equipped with waste separating facility, composting plant etc. 	<ul style="list-style-type: none"> Must be operated in a way as to minimise risks and negative impacts on the environment (flooding, seepage, groundwater contamination). If organic material also disposed, can create a pest problem (flies, rats). 		
		Decommissioning	<ul style="list-style-type: none"> When a landfill site is full, it needs to be permanently closed. Buildings and other structures to be dismantled. 	<ul style="list-style-type: none"> Landfill site to be covered with impervious layer to prevent seepage, and then with topsoil. Site can then be used for other purposes, but may not be suitable for construction of living quarters. 		
4	Roads and drainage: <ul style="list-style-type: none"> Improvement of existing municipal roads Installation of drainage systems footpaths street lighting 	Site selection Detailed planning Land acquisition	<ul style="list-style-type: none"> Site in most cases (upgrading of existing roads) determined. Careful selection required for new or realigned roads. <ul style="list-style-type: none"> Technical plans IEE (EIA might be required for new roads, if any) <ul style="list-style-type: none"> Depending on present land ownership: municipality or private land. 	<ul style="list-style-type: none"> Selection of alignment with the aim of minimising negative impacts. <ul style="list-style-type: none"> Planning with the aim of minimising impacts. <ul style="list-style-type: none"> Land acquisition for roads can be a major problem. Amiable arrangements with affected landowners should be sought. If expropriation is required, compensation according to ADB standards will have to be made. Compensation may also be required for squatters or other land users not having a title. Compensation in cases a 		B (A for major road projects, not applicable here, C possibly for minor upgrading)

No.	Scheme type	Steps in development	Issues	E&S Measures	Cross ref.	ADB cat. ¹
				project limits or cuts access to resources / livelihood providing facilities.		
		Construction	<ul style="list-style-type: none"> To be constructed following normal procedures. E&S safeguard conditions to be integrated in tender documents and TOR of contractor. 	<ul style="list-style-type: none"> Construction to start only once required compensations were made. Normal EH&S rules applicable on construction sites. Special measures might be required for work in inhabited areas (restriction of noisy work to daytime hours; dust prevention measures, etc.). 		
		Operation	<ul style="list-style-type: none"> Regular road maintenance, including maintenance of draining systems. 			
		Decommissioning	<ul style="list-style-type: none"> Usually not an issue in road projects. 			
5	Municipal buildings and infrastructure: <ul style="list-style-type: none"> Municipal buildings Bus parks Other structures 	Site selection	<ul style="list-style-type: none"> Dictated mostly by land availability and planning intentions. 	<ul style="list-style-type: none"> No major E&S concerns, with the exception of bus parks. Bus parks to be located suitably for passengers, access from and to major roads, and not in immediate vicinity of sensitive structures like e.g. hospitals. 	If access road required: ref. to Roads (No. 4)	C (B for bus parks)
		Detailed planning	<ul style="list-style-type: none"> Technical (engineering and architectural plans). IEE not required with the exception of bus parks. 	<ul style="list-style-type: none"> Planning of a bus park must take into account access roads, traffic to be generated, drainage of site, etc. 		
		Land acquisition	<ul style="list-style-type: none"> Depending on present land ownership: municipality or private land. 	<ul style="list-style-type: none"> In case of private land: needs to be bought (agreement with owner). 		

No.	Scheme type	Steps in development	Issues	E&S Measures	Cross ref.	ADB cat. ¹
				<ul style="list-style-type: none"> Squatters etc. to be compensated. 		
		Construction	<ul style="list-style-type: none"> To be constructed following normal procedures. E&S safeguard conditions to be integrated in tender documents and TOR of contractor. 	<ul style="list-style-type: none"> Normal EH&S rules applicable on construction sites. 		
		Operation	<ul style="list-style-type: none"> Depending on type of facility. 	<ul style="list-style-type: none"> Depending on type of facility. 		
		Decommissioning	<ul style="list-style-type: none"> Depending on type of facility. 	<ul style="list-style-type: none"> Depending on type of facility. 		
6	Community infrastructure:		Specific projects to be identified.	Minor structures in favour of in favour of vulnerable HH etc. not requiring specific E&S measures.		C

¹ ADB-categories:

A = projects likely to have significant negative environmental and socio-economic (E&S) impacts; full ESIA required.

B = projects with less adverse or easily to be mitigated E&S impacts; IEE required.

C = projects with no or no significant E&S impacts; no environmental assessment required, but any E&S issues need to be addressed.

Table 3-2: Environmental and social screening by main E&S criteria

No.	Item	Short description	Relevance to the Project
1.	Physical environment		
1.1	Atmosphere / Climate	Precipitation: very seasonal; dry season from October to April, rainy season from May to September.	No project impacts. Relevant for considering climate change. See Section on Water.
	Air	Air quality: air contamination probably not (or not yet) a problem; potential sources: traffic, use of fuel, brick kilns. Settlements rather small. Still, vehicle maintenance should be controlled. The one problem is dust, which stems mainly from unpaved roads and road shoulders (especially also in settlements); places from where dust originates turn to mud during the rainy season.	Only to be considered in case any potentially polluting industry should be developed. Improvement of roads as project component could contribute to a reduction in dust. Construction work will have to be carried out in a way as to minimise dust.
1.2	Water	Major issue, which can be summarised in the following way: problems caused by shortage of water during the dry season problems caused by surplus of water during the rainy season	Very important component for the Project, in various aspects (see below). Negative impacts on water stemming from project components are not expected. In the contrary, waste water treatment and solid waste management will have a positive effect on water.
1.2.1	Water quality	No information on water quality available.	Monitoring water quality will be an important part of the proposed drinking water supply systems.

No.	Item	Short description	Relevance to the Project
1.2.2	Rivers	<p>All the rivers in the project region come from the mountains and hills to the North of the area and flow in a generally southward direction through the plain (Terai). During the dry season, all the rivers in the area show a braiding pattern, water flows only in narrow channels within the river bed. During the rainy season however, the entire river bed is filled. In times of higher flows, smaller or larger parts of the surrounding floodplains are temporarily flooded.</p> <p>All the settlements as well as the agricultural area are located within the floodplains of the rivers and therefore prone to seasonal flooding. The rivers also tend to shift their beds. Works are ongoing for flood protection (most importantly: the massive flood dike in Bheemdatt Municipality along the Mahakali River, which follows more or less the western border to India..</p> <p>See short description of river dynamics in Section 2.1.2.</p>	<p>Important aspect, as projects might have an impact on rivers, or might be exposed to effects from (damage caused by) rivers.</p> <p>This will have to be analysed in detail in the parts of the study dealing with (i) climate change (e.g. the risk for more irregularity in precipitation, results of glacier melt, and therefore increased overall river discharge and potentially higher flood peaks), and (ii) flood management (need for improved flood protection, but also addressing potential adverse effects of such measures further downstream).</p>
1.3	Soils	<p>In a very general way, three types of soils can be found in the project area:</p> <p>Soils on low ridges (extensions from the hills reaching into the plain; rather poor soils, not very suitable for agriculture, mostly covered with forest.</p> <p>Soils in floodplains: fertile soils (fine river alluvions), as good as completely used for agriculture; under threat from expanding urban areas.</p> <p>Soils in the river beds: these are coarse river alluvions (sand and gravel, which are also exploited as raw material for construction), constantly moved by water during the rainy seasons; no vegetation.</p> <p>Not considered as a problem. Erosion is limited (with the exception of the edges of river beds), as the slopes are very gentle, if any, and the soils are well covered with vegetation (either forests or agricultural crops).</p>	<p>Not of relevance in the sense of potential impacts of project on soils, but of high relevance with respect to land use (scarcity of land for, and encroachment on agricultural land by, expansion of built up areas (see under the topic of land use, section 2.3.4).</p>
2.	Biological environment		
2.1	Vegetation	<p>Slightly higher ground, the low ridges coming down from the hills between rivers, are covered with forest. Sal forest is the most important forest type, made up largely by one tree species, sal (<i>Shorea robusta</i>). The hills are mainly covered with chir pine (<i>Pinus roxburghii</i>) forest, with a transition zone of mixed forest between the two. Narrow bands of riverine forest are growing along the rivers.</p> <p>The floodplains of the rivers, outside protected areas (see below) are used almost completely for agriculture; very little of the natural floodplain vegetation is left.</p>	<p>Impacts on natural vegetation as such, outside protected areas, is not a major concern for the project. However, impacts in the form of encroachment (whether due to the present situation or as a potential consequence of the project) on agriculture and forest have to be taken into account.</p>

No.	Item	Short description	Relevance to the Project
2.2	Fauna	Wildlife is mainly restricted to protected areas (see below). Outside these areas, pressure on wildlife from poaching, competing with livestock etc. is rather low. Still the large forest areas certainly have an importance for different species of wildlife. Hunting is illegal, but poaching seems to be a common problem. Smuggling of parts of illegally hunted wildlife, mainly tigers and leopards, from India to China occurs.	Like for vegetation, direct project impacts on wildlife are not considered as probable. However, continuing encroachment, especially on forests, will also lead to an increasing pressure on wildlife.
2.3	Protected areas	There is one major protected area in the region, the Shukla Phanta Wildlife Reserve, in Kanchanpur District. It is located immediately South of Bheemdatt Municipality and stretches to the border with India. In the Eastern part of the Reserve, one extension of it, between Bheemdatt and Jhalari Pipaladi Municipalities, stretches Northwards beyond the national highway. The reserve serves mainly for the protection of the swamp deer, but it also contains spotted and hog deer, tiger, leopard, elephant and a small population of rhinos (brought here from Chitwan National Park). The vegetation of the Northern part of the sanctuary is sal and riverine forest, the southern, lower lying part, which is its central part, is covered with grasslands and wetlands of different types, vegetation types which have disappeared almost completely outside of the protected area. The sanctuary seems to be rather well managed and protected. Still, encroachment on it is a problem.	It is not expected that the project will have any direct negative impact on the sanctuary. Still, it is a critical habitat in the sense of the environmental safeguard. It will have to be checked whether any project will have any indirect effect on this area. Since polluted water from the settlements to the North of it will flow towards this area, sewage treatment could have an indirect positive effect. It will have to be assured that e.g. improved drainage in Bheemdatt Municipality will not lead to more waste loaded water will flow into the sanctuary or in the rivers flowing into or along it.
3.	Human environment	This section covers shortly the main socio-economic issues to be addressed for the implementation of sub-projects.	
3.1	Population		
3.1.2	Indigenous peoples, ethnic minorities	The people who are the original (indigenous) inhabitants of the region are the Tharu; they are split in two groups, the Rana Tharu and the Dagura Tharu. They qualify as indigenous peoples in the sense of the ADB Safeguard Requirements 3: Indigenous Peoples, in that they are closely related to the land, consider themselves as different from other groups in the society, and are considered as different by the others, have their own culture and language.	It is not anticipated that the project will propose any large scale sub-projects for implementation which could have significant effects mainly on indigenous peoples. For this reason, it will not be required to prepare a separate IPP (Indigenous Peoples Plan). However, whenever indigenous communities are concerned by a sub-project, special attention will have to be paid to the conditions defined in the ADB Safeguard Requirement 3.

No.	Item	Short description	Relevance to the Project
3.1.3	Vulnerable groups	<p>There are vulnerable persons within each community (the poor, elderly, handicapped, female headed households etc.) as defined in the Safeguard Requirements 2: Involuntary Resettlement.</p> <p>One group of the population has to be considered as vulnerable: the so-called Freed Kamaiya; they were formerly bonded labourers who lived and worked on lands owned by landlords. They were "freed" about 15 years ago, however, no provisions were made for them to grant a livelihood. Kamaiya are mainly Tharu.</p>	<p>Whenever a sub-project will affect vulnerable persons in any way, special efforts will have to be made in case compensation is required. If possible, such sub-projects should contribute to improve the situation of vulnerable people.</p> <p>The GESI framework formulated under this TA will have to be applied.</p>
3.2	Settlements	<p>The settlements (urban as well as rural) in the four municipalities (and probably most of the settlements in the two districts) are located in the floodplains.</p> <p>Floods: most or all settlements are prone to flooding. Flood protection would require massive structures along the rivers; one such structure is under construction in Bheemdatt along Mahakali Nadi.</p> <p>Drainage: location in floodplains also means absence of slope, which makes drainage difficult; most drainage structures seem to be in a bad condition.</p> <p>Sewage: there are no sewage systems, no sewage treatment; most houses are equipped with septic tanks and soak pits, but maintenance (periodic emptying of septic tanks) and disposal of sludge from septic tanks is not done in a sustainable manner. This leads to contamination of open drains and surface water, which again is a serious public health issue.</p>	<p>This is one of the focal points of the TA. Every sub-project will have to be checked on its impact on drainage, flood situation (including the risks from flooding), water quality.</p> <p>The sub-projects proposed under this TA will contribute to a general improvement of the situation in this respect. Positive effects will have to be described as well.</p>
1.2.2	Drinking water	<p>During the dry season drinking water gets locally scarce as wells run dry; in some places, inhabitants mentioned that the water then tends to get muddy. Only a minority of HHs is connected to a piped drinking water supply system.</p> <p>Some information indicating arsenic contamination of drinking water from wells.</p>	<p>Important aspect; the TA proposes a number of sub-projects which will contribute to an improvement of the situation.</p> <p>Information on water quality will have to be collected (as far as available), or analyses will have to be carried out, since there is a risk of water sources contaminated with arsenic.</p>
1.2.3	Waste water	<p>Definitely a problem. More information (on waste water handling, e.g. in septic tanks) is being collected, together with information on drainage and sewerage. As far as known until now, no sewage systems exist in the municipalities.</p> <p>The combination of untreated waste water, absence of sewage systems and lack of or deficient drainage leads to contamination of the rivers (no data available) and presents a serious public health risk.</p>	<p>Important aspect; as for drinking water, the project is expected to contribute to an improvement of the situation.</p> <p>Capacity building will certainly be required in case waste water treatment plans should be considered as part of the project.</p>

No.	Item	Short description	Relevance to the Project
1.2.4	Drainage	Drainage in settlements is an issue, and due to the fact that the area is generally very flat, not easy to be achieved, since drainage systems often do not have a sufficient slope as to allow runoff.	The TA proposes a number of road improvements, and this will include drainage channels along these roads.
1.2.3	Solid waste	<p>This is a major problem in all municipalities. Waste is being collected, but the waste collection system is not very efficient, and there are no suitable and state of the art waste disposal sites. Waste is disposed of in open spaces and very often on river banks.</p> <p>Littering often leads to solid waste being swept into road drainage ditches, blocking them and leading to a further deterioration of the already precarious drainage of such areas. This also increases the public health risk presented by unhygienic situations.</p>	<p>The TA proposes solid waste disposal sites and, to the extent possible at this stage, integrated waste management systems in all four municipalities.</p> <p>This will contribute greatly to reducing the problems associated with solid waste. The projects will have to be designed carefully especially concerning risk of flooding and groundwater contamination.</p>
3.3	Health	<p>Two types of health issues are relevant in relation to the TA, namely:</p> <p>Waterborne diseases like diarrhoea etc., due to or at least exacerbated by hygiene problems related to contaminated drinking water, waste water and solid waste.</p> <p>Vector-borne diseases like malaria and dengue, which are transmitted by mosquitoes (malaria more or less eradicated, but efforts need to continue to prevent a relapse).</p>	Sub-projects proposed under the TA, mainly concerning drinking water supply, sewage treatment and solid waste management, will contribute to an improvement of the situation.
3.4	Land Use	With the exception of a regulation for forest land, there is no comprehensive land use planning in the area. This leads to a haphazard spreading of settlements, which in turn is not a sustainable form of land use and will make organised development increasingly difficult.	<p>The TA does not cover the aspect of overarching land use planning.</p> <p>However, it is strongly recommended that the Region and the Districts start this form of planning as an urgent priority. Risks like flood risk and potentially increasing risk of flash floods due to climate change should be taken into account.</p>
3.5	Economy	This is not a complete analysis, only some areas are mentioned which are potentially affected by the project (or the absence of such a project).	

No.	Item	Short description	Relevance to the Project
3.5.1	Agriculture	<p>Mostly or exclusively irrigated agriculture in the river floodplains. The alluvial soils are fertile, and (gravity) irrigation is possible. Main crops: wheat (dry season) and rice (rainy season). Agriculture is the most important economic activity of the area.</p> <p>Like settlements, agricultural areas are prone to flooding.</p> <p>Agriculture comes under increasing pressure from the expansion of built-up/urban areas. Construction takes place mainly along roads, and there does not seem to be any overall planning.</p>	<p>The TA does not include an analysis or evaluation of irrigation systems, and improvements of such systems will not be part of the proposed sub-projects, and no sub-projects aiming at flood protection are proposed. However, if flood protection measures should be envisaged, potential impacts (positive, like flood protection, or negative, like damage to irrigation systems) would have to be assessed.</p> <p>All projects will have to be assessed for their impacts on agriculture (in terms of land use).</p>
3.5.2	Forestry	<p>The higher lying areas are mainly covered with forest, which in the four municipalities is predominantly sal forest.</p> <p>Presently, the forests are not managed and used to their full capacity. On the other hand, there is pressure on forests from encroachment (e.g. by landless people who do not have much alternative).</p>	<p>Some of the sites proposed for sub-projects are located in forest land, although in areas of already degraded forest.</p> <p>In such cases, feasibility (in terms of legal conditions, compensation etc.) will have to be checked in an early stage of planning.</p>
3.5.3	Tourism	<p>At present, tourism, is not well developed in the area, or only just starting. However, it is an activity with a potential for the regional economy, although there are some difficulties.</p> <p>Possible tourist attractions of the area are adventure tourism (trekking, river rafting), ethnic/cultural tourism, religious tourism (visitors to important Hindu temples in the area), nature tourism (wildlife in the Game Reserve; possibly ornithology).</p> <p>Problems are, among others, the difficulty of access (only two border posts with India, both of them with restrictions), and absence of tourist infrastructure. (See Section 2.3.5 for a more detailed discussion).</p>	<p>Direct investment in tourism will not be part of the TA. However, improvement of basic infrastructure (roads, water systems) could also have indirect positive effects on tourism.</p> <p>Furthermore, under the Group No. 5, Municipality Infrastructure, some improvements in sites with a potential tourism could be included in the program.</p> <p>Sub-projects and sites identified so far do not negatively affect sites with a potential for tourism. In any case, each sub-project will have to be checked for potential negative impacts on assets of value for tourism.</p>

No.	Item	Short description	Relevance to the Project
3.6	Physical cultural resources	Two sites of at least regional importance were identified, one temple in Bheemdatt, and one in Dhangadhi (see Section 2.3.6). Both of them are important as sites of worship for the local population, but have also an economic importance in that they attract visitors from other parts of Nepal, but mainly from India (religious tourism).	<p>Sub-projects proposed by the TA will have to be assessed for potential negative impacts on these two sites (and possibly on others, which are of merely local significance). Positive effects (like e.g. improved access or drainage) will also have to be identified.</p> <p>The sites identified so far do not have any negative impact on these sites of cultural importance.</p>

3.2 Observations on Some Specific E&S Issues

3.2.1 Regional Planning

55. Present development, especially development of built-up areas, is being done without any overarching plan. Basically, each land owner builds whatever he wants wherever he wants. This will make planning of infrastructure like e.g. roads ever more difficult in the future, and it is not a sustainable way for managing the land, which will become an increasingly scarce resource.

56. The one exception to this is forest land, which is well defined and legally protected. Any impact on forest needs to be compensated. However, even in this legally well-defined case the reality looks somewhat different. There are numerous incidences of encroachment on forest land.

57. A comprehensive land zonation and land use planning would be required for channelling future development. Such a plan would have to define, besides forest land, also agricultural land which is not available for construction, and would have to set aside land for the development of settlements, potentially also identifying industrial areas etc.

58. One basis for such an overarching planning that should be prepared is a risk map, which in the case of the two districts in question would mainly identify risks of flooding. Flooding, including the fact that rivers can occasionally shift their course, is a major risk in this area and should be taken into consideration in all development plans. It would also have to consider changing (mostly: increasing) risks brought about by the effects of climate change (see Section 3.2.4).

3.2.2 Wetlands

59. ADB safeguards specify that a project should not significantly convert or degrade a natural habitat. Wetlands are mentioned as example, and wetlands are usually considered as valuable natural habitats.

60. It is inevitable that e.g. the construction of a sanitary landfill in a wetland would "significantly convert" this area: flooding would have to be prevented, drainage would have to be provided, and the site would be permanently changed by the material brought in for filling the site. Other projects in wetlands would have comparable effects.

61. However, in the case of the four municipalities involved, it has to be seen clearly that they are located entirely or predominantly in river floodplains, i.e. in wetlands. In addition to that, any small depression, be it of natural origin (e.g. an ancient river bed) or manmade (e.g. an abandoned clay pit for brick manufacturing) will immediately accumulate water and will be transformed into a wetland.

62. For this reason, it has to be considered that "not affecting wetlands" cannot be an absolute rule here. Careful planning, implementation and operation will be required in any case, but the conversion of some parts of wetlands will have to be accepted.

3.2.3 Squatters, Vulnerable Households (HHs)

63. In the region live a number of marginalised groups, mainly freed former bonded labourers. Since no land was made available to them, the only option they often had was to encroach on forest land.

64. In other cases, it is possible that rights of way (ROW) for roads were defined, but not used entirely (since no drainage and footpaths were built along such a road), and gradually

people owning land and/or living along such roads may have encroached on the ROW, often probably not even aware of the fact that they were actually encroaching. This can now create difficulties when the original ROW will have to be liberated for expanding and upgrading such a road.

65. It has to be noted that in such cases, even if the affected people do not have legal rights to the land they use or occupy, they are nevertheless entitled to compensation under ADB safeguards.

66. Whenever a scheme might affect vulnerable persons, the principles as set forth in the GESI (Gender Equality and Social Inclusion) framework is applicable.

3.2.4 Climate Change

67. Climate change can bring an increase or a decrease in rainfall, depending on the specific situation of an area.

68. However, one phenomenon that is already happening, and that is likely to affect the four municipalities, among others, is the accelerated melting of glaciers. This leads to an increase in river discharge, as least as long as glaciers are still in place. This can lead to a gradual increase of river flow until towards the end of this century. This, together with normal rainfall, more precipitation in higher areas falling as rain rather than as snow, and earlier snow melt, can lead to an increased risk of floods, and also floods earlier in the year as they occurred in the past.

69. An additional risk is the increased probability of GLOFs (glacier lake outbreak floods). Melting water from glaciers can accumulate behind instable barriers formed by ice and/or mud. Such dams can break and lead to occasionally massive flash floods in the downstream area.

70. These risks should be considered in future planning in the region (see Section.3.2.1).

3.2.5 Environmental Management

71. Presently, none of the four municipalities has any institutional structure or capacity for dealing with environmental issues. However, problems are many and increasing.

72. The municipalities should consider to create a specific Environmental Department.

73. Capacity building programs might be required.

74. These points were included in the TOR for the Institutional Development Consultant (IDC), to be hired for the next phase of the urban development project.

4 Safeguards Implementation Framework

75. ADB safeguards require the preparation of an Environmental Assessment and Review Framework and a Resettlement Framework.

76. This Chapter contains these two frameworks. It is organised in three Sections as per the following:

- Section 4.1 comprises the parts which are applicable to both frameworks, as e.g. a short description of projects and potential impacts, legal framework, grievance redress mechanism and public consultation.
- Section 4.2 is the Environmental Assessment and Review Framework, describing and defining requirements for the environmental assessment to be carried out, reports to be prepared, and mechanisms to be followed for implementation.
- Section 4.3 is the Resettlement Framework, defining entitlement, compensation procedures, preparation of resettlement plans, and mechanisms to be followed for implementation.

77. This structure was chosen mainly in order to avoid unnecessary repetitions in the report.

4.1 Safeguards Framework for Environment and Resettlement

4.1.1 Introduction and Scope

78. This Safeguards Implementation Framework is being prepared in the context of the project preparation technical assistance [TA] for an ADB loan for Integrated Urban Development in four municipalities in the Terai region of Far Western Region of Nepal. The loan is largely expected to fund urban infrastructure such as city roads, water supply, sanitation infrastructure, solid waste management structures, public buildings such as municipal buildings, etc. The TA covers four municipalities, namely, Bheemdatt and Jhalari Pipaladi in Kanchanpur District and Dhangadhi and Attariya in Kailali District.

79. In the first stage of this TA, in close cooperation with the municipalities and a number of public discussions, types of schemes to be implemented under this project along with possible sites for such schemes were identified, which correspond with the needs expressed by the stakeholders involved.

80. In the present document, Chapter 3, a rapid environmental and social screening of the types of schemes is provided. However, since specific scheme still need to be developed in the following phase, environmental assessment will have to be done in the detailed planning phase of these individual scheme, taking into account observations made here.

4.1.2 Schemes and Potential Impacts

81. The schemes as far as possible at this stage, are described in Chapter 2, and a rapid environmental assessment in Chapter 3; this is summarised here, for more details refer to these two Chapters.

Table 4-1: Main scheme types and anticipated impacts

No.	Scheme	Expected impacts	Comments
1	Drinking water supply <ul style="list-style-type: none"> • boreholes • processing and storage plant • distribution net 	Will have beneficial effects by providing good quality drinking water. Main concerns: <ul style="list-style-type: none"> • water quality (risk of arsenic contaminated water in the area) • land needed for plant and boreholes • potential impact during construction, e.g. of the distribution grid: damage to land and/or crops 	Negative impacts are expected to be minor and easy to be mitigated. Category B projects, IEE required. The concerns mentioned here have to be addressed, mainly concerning water quality (monitoring required) and impacts on land or assets (compensation required).
2	Waste water treatment <ul style="list-style-type: none"> • on-site (septage treatment plants) • sewers and DEWATs 	Will have beneficial effects on the environment by reducing the risk of water and soil contamination (public health problem). Main concerns: <ul style="list-style-type: none"> • land required for septage treatment plants and possibly for treatment ponds • quality of output (treated waste water, compost, biogas) • risk of flooding of sites 	Septage treatment plants are most likely to be categorised as B projects, IEE required. Sewers and DEWATs are small local structures with very little if any negative impact, Category C. Still, any impacts, as e.g. land requirement for treatment ponds, will have to be addressed according to safeguards principles.
3	Solid waste management <ul style="list-style-type: none"> • Solid waste disposal sites 	Will have overall beneficial effects by bringing a solution to the waste management problems clearly visible now (no sufficient collection of waste, unsuitable waste disposal leading to contamination of land and water and to public health problems). Main concerns: <ul style="list-style-type: none"> • land required for waste disposal sites • risk of flooding • risk of contaminating surface and ground water by seepage from disposal sites • permanently closing of site once it is full. See comments on sites in Annex.	Category B projects, IEE required. Of special concern, given the situation of the project area, is the flood risk. This will have to be addressed during detailed planning, and suitable structural measures to be taken for flood protection. Likewise, drainage and treatment of drainage water is an issue. Permanent closing of filled sites by impervious clay layer and topsoil, to make land available for other uses (agriculture or forestry; sites probably not suitable for housing).
4	Road upgrading <ul style="list-style-type: none"> • widening existing roads • blacktopping • drainage • footpaths along roads • in specific cases possibly realignment of road 	Will improve the situation in settlement by providing more space for traffic, drainage, increased safety for pedestrians (footpaths), and reduction of problems caused by dust and mud. Main concerns: <ul style="list-style-type: none"> • land acquisition for widening or realigning roads • reclaiming of existing, but not used ROW: conflicts with 	Category B projects, IEE required; small local interventions probably C. Land will have to be acquired according to rules. If squatters or other land users without a title will be affected, compensation will have to be provided according to ADB safeguards principles. Construction will have to be carried out with the aim of

		encroachers <ul style="list-style-type: none"> impacts during construction 	minimising nuisances. Any temporary occupation of land, and any damage to land, assets or structures caused by construction activities, will have to be compensated.
5	Municipal infrastructure <ul style="list-style-type: none"> municipal buildings bus parks other smaller interventions (e.g. contributing to improvement of sites with a potential for tourism) 	Municipal buildings and other small interventions will improve the situation for the municipality, and will have very little if any negative impacts. Bus parks will help improving the situation concerning public transport. Negative impacts can be: <ul style="list-style-type: none"> land requirements noise due to increased traffic need for upgrading or new construction of access roads 	Municipal buildings and other smaller interventions: Category C. Bus parks Category B, IEE required. In case road construction or upgrading is required, this will have to be addressed as under No. 4 above.

82. One additional group of schemes are summarised as community infrastructure. These are small local structures of different kinds; mainly aiming at improving the situation of individual vulnerable household or of groups of vulnerable households and can comprise improvements in the drinking water supply, access, etc. These are very small interventions with very limited if any negative impacts.

4.1.3 Legal Framework

4.1.4 National Regulations

83. The main legislations and procedures to follow are:

- Environment Protection Act, 2053 (1997)
- Environmental Protection rules, 2054 (1997); this documents lists, in its Schedule 2, the types of projects which require an IEE. The following are relevant in the context of this project:
 - Improvement, upgrading and reconstruction of national highways and feeder roads.
 - Supply of drinking water to a population ranging from two thousand to twenty thousand.
 - Waste Management activities to be undertaken with the objective of providing services to a population ranging between two thousand and ten thousand.
 - Filling of land with one hundred to one thousand tons of waste a year; (landfills of more than 1000 t per year would require an EIA).
 - Selecting, picking, disposing, and recycling waste through chemical, mechanical or biological techniques in an area up to two hectares.
 - Activities relating to compost plants in an area ranging between one to five hectares.
 - Operations of sewerage schemes.

- Clearing of national forests covering up to one hectare in the hills and five hectares in the Terai.
- Schedule 2, the list of projects requiring an EIA, mentions projects to be implemented in "Flood prone and other dangerous areas"; it is therefore recommended, especially in the case of larger schemes (the largest being waste disposal sites, where flood risks are an issue!), to clarify this question with the competent authorities in an early stage of project preparation.
- National Environmental Impact Assessment Guidelines, 1993.

84. Concerning the EIA guidelines, it should be noticed that Nepal is in the process of enacting a revised set of EIA guidelines. No additional or more detailed information was available on this at the moment when this report was prepared. However, these revised guidelines will have to be followed as soon as they become official.

85. For the environmental assessment process, but in general for project preparation and implementation, a number of other texts might be relevant, depending on the type of the scheme in question. Such text could be, among others:

- Solid Waste Management Act, 2011
- Water Resources Act, 1992
- Forest Act, 2049 - 1993
- Land Acquisition Act, 2034 - 1978
- Land Reform Act 2021 - 1964
- Lands Act 2021 - 1964
- Solid Waste (Management and Resources Mobilisation) rules, 2009
- Water Resources Rules, 1993
- Forest Rules, 1994

86. The Environmental Protection Rules also define the procedure to be followed in an environmental assessment.

87. Nepal does not have a specific resettlement policy or an act defining procedures to be followed in cases of project induced resettlement. The most relevant texts here are the Land Acquisition Act, which defines conditions and procedures for the acquisition of land by the state for carrying out projects, and the procedures for valuation and compensation, as well as the Land Reform Act; this latter also defines compensation to be made to tenants in case of land acquisition.

4.1.5 ADB Safeguards

88. The ADB Safeguards do not provide a list of projects which would be subject to environmental assessment. The document states that

- "Environmental safeguards are triggered if a project is likely to have potential environmental risks and impacts" (ADB SPS 2009, p. 16); and
- "The involuntary resettlement safeguards covers physical displacement (relocation, loss of residential land, or loss of shelter) and economic displacement (loss of land,

assets, access to assets, income sources, or means of livelihoods) as a result of (i) involuntary acquisition of land, or (ii) involuntary restrictions on land use or on access to legally designated parks and protected areas. It covers them whether such losses and involuntary restrictions are full or partial, permanent or temporary" (ADB SPS 2009, p. 17).

89. Projects are grouped in the categories described shortly in Table 4-2.

Table 4-2: ADB project categories and applicability

ADB Category	Description	Applicability
A	Projects likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. These impacts may affect an area larger than the sites or facilities subject to physical works. An EIA is required.	None of the projects proposed under this program is anticipated to be in this category.
B	Projects with potential adverse environmental impacts that are less adverse than those of category A projects. These impacts are site-specific, few if any of them are irreversible, and in most cases mitigation measures can be designed more readily than for category A projects. An IEE is required.	The following types of sub-projects are expected to be in this category: <ul style="list-style-type: none"> • drinking water supply systems • septage treatment plants • solid waste disposal sites • major road upgrading, all new or realigned roads • bus parks
C	Projects likely to have minimal or no adverse environmental impacts. No environmental assessment is required although environmental implications need to be reviewed.	All sub-projects not listed above are expected to be in Category C.

90. This means that for each project, a screening of potential environmental impacts needs to be done, and the appropriate category has to be identified.

4.1.6 Grievance Redress Mechanism

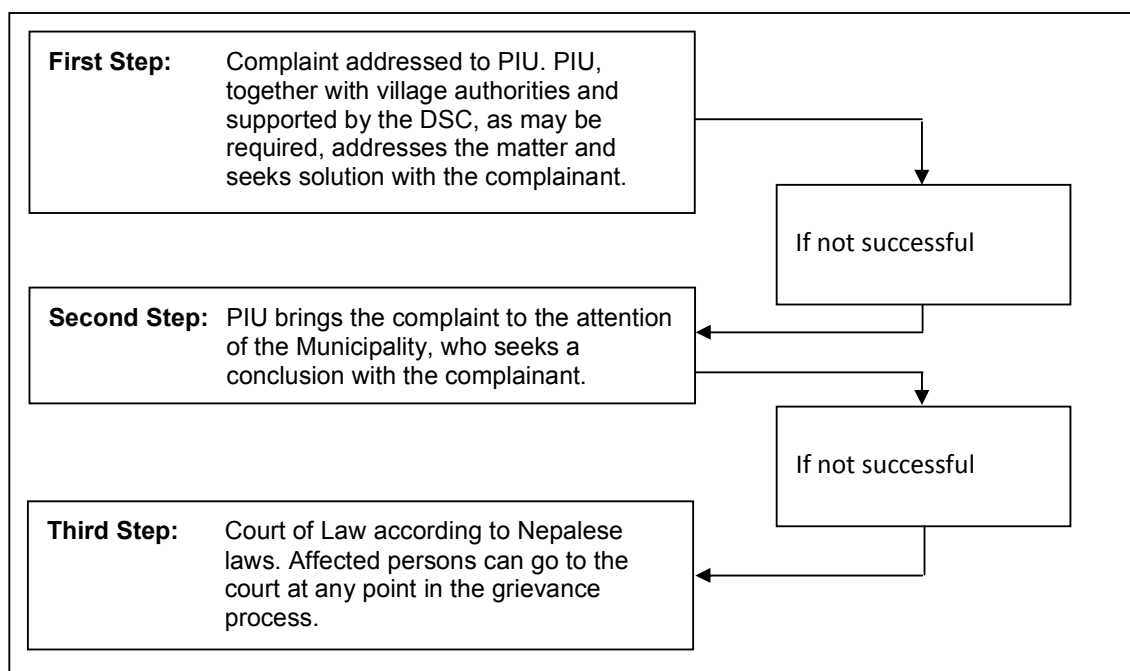
91. A grievance redress mechanism will have to be put in place by the municipalities. This is usually a three-tier process as illustrated in **Figure 4-1**.

92. PIU will be the main responsible body for handling grievances. For this reason, PIU will appoint one Grievance Officer in charge of receiving, handling, and documenting all cases. PIU, supported by the DSC as may be required, will also be responsible for informing the affected population on their rights to grievance and the mechanisms to be followed.

93. Once an affected person submits a grievance, PIU, after registering the complaint, will seek in a first step to find a solution and come to an agreement with the complainant. Depending on the nature of the complaint, this may also involve the contractor, DSC or other involved parties.

94. If a solution cannot be found, PIU will report the case to the municipality. Municipality will appoint an arbitration board to hear and settle the case.

95. If again a solution cannot be reached, or if the parties do not agree with the decision of the arbitration board, each party can take the case to court according to applicable legislation. The court verdict will be final and binding for all parties.

Figure 4-1: Grievance Redress Mechanism

4.1.7 Public Participation

96. ADB requires project proponents to engage with communities, groups, or people affected by proposed projects, and with civil society. For category B projects it is recommended that public consultation be carried out during the early stages of the EA process and throughout the project implementation to address any environmental issues that affect the local communities, NGOs, governments, and other interested parties. ADB requires meaningful consultation, which is defined as a process that "(i) begins early in the project preparation stage and is carried out on an ongoing basis throughout the project cycle; (ii) provides timely disclosure of relevant and adequate information that is understandable and readily accessible to affected people; (iii) is undertaken in an atmosphere free of intimidation or coercion; (iv) is gender-inclusive and responsive, and tailored to the needs of disadvantaged and vulnerable groups; and (v) enables the incorporation of all relevant views of affected people and other stakeholders in decision making, such as project design, mitigation measures, the sharing of development benefits and opportunities, and implementation issues." (ADB SPS 2009: p. 49).

4.2 Environmental Assessment and Review Framework

4.2.1 Environmental Assessment for Sub-Projects

4.2.2 *Necessity for EA*

97. As mentioned in the previous Section, none of the proposed sub-projects is anticipated to be a Category A project; this means that EIAs will not be required to be prepared under this project.

98. However, a number of core schemes in this project are Category B, and for these an IEE will have to be prepared for the project.

99. Most of the schemes identified so far can be considered as projects for environmental protection, since they will have positive environmental (and social) impacts, such as:

- Drinking water supply systems: will improve drinking water quality for the population served by the system, improving hygiene and reducing the risk of waterborne and water related diseases.
- Small bore sewerage and septage treatment systems: will reduce contamination of surface water and ground water, and generally improve hygienic conditions in settlements and surface water bodies.
- Solid waste disposal sites: will improve solid waste management, reducing problems caused by littering and unsustainable waste disposal.
- Roads and drainage system: will reduce negative effects such as dust and mud, will improve runoff of storm water, thus reducing local flooding.

100. In spite of these overall positive environmental effects of the schemes, it is still important that they are planned, designed, implemented and managed by taking into account potential environmental impacts. For this reason, IEEs, including EMPs, are required.

4.2.3 *IEE Preparation*

101. The overall aim is always to

- avoid impacts where they can be avoided,
- minimise impacts that cannot be avoided, and
- identify appropriate mitigation measures for relevant, but unavoidable impacts.

102. The objective of IEE preparation is the identification of all potential (negative and positive) impacts. Impacts considered to be potentially relevant have to be described and categorised according to the following criteria:

- **Frequency and duration:** Will the effect be a one-time only occurrence (temporary impact)? Will it be a short-term or long-term/permanent effect?
- **Location and magnitude:** Will it be local, regional, national or international in scope? What is the anticipated scale of the effect?
- **Timing:** Is the effect likely to occur at a time that is sensitive to a particular environmental feature?

- **Risk:** Is there a high level of risk associated with the effect, such as exposure of humans to contaminants or pollution, or a high risk of accident?
- **Irreversibility:** Is the effect likely to be irreversible?
- **Cumulative nature:** Is the effect likely to combine with other effects in the region in a way that could threaten a particular environmental component?
- **Mitigation:** is the effect of a nature which requires specific mitigation measures? can it be mitigated? What will be the residual impact after mitigation?

103. The preliminary environmental screening and the list of criteria commented on in Table 3-1 and Table 3-2 can be used as a guideline for this assessment.

104. For all impacts identified as unavoidable and relevant, appropriate compensation or mitigation measures will have to be identified. Where specific legal requirements for compensation exist, like e.g. in the case of converting forest land for project purposes, these are applicable.

105. The IEE will be a short, but still comprehensive document with the elements mentioned above. It will have to be made publicly available (see Section 4.1.6) and will be submitted to the competent authority (MoE) as well as to ADB for approval.

4.2.4 EMP Preparation

106. All measures identified will be described in detail in the EMP. For each of these measures, the following information will be provided:

- Identification of measure
- Type of impact to be mitigated
- Description of measure, with details on implementation
- Responsibility for implementation
- Required input, material, equipment etc.
- Expected result, remaining impact after implementation
- Monitoring: what, how and by whom?
- Corrective measures to be taken in case aim is not achieved
- Reporting
- Identification of costs for implementation of measure, if possible.

107. In relation to the last point, it has to be seen that a considerable part of the measures will be required during the construction phase. Implementation of these measures will be the responsibility of the contractor. This means, that the tender documents will have to contain the relevant measures to be taken, and they will have to be factored into the proposal of the contractor. In these cases, an identification of measure-specific costs is usually not possible at the time of EMP preparation.

EH&S During Construction

108. One aspect of specific importance are the required Environment, Health and Safety (EH&S) regulations to be defined and maintained on construction sites. These regulations define mainly:

- Environmental management on site: solid waste management (including handling and disposal of hazardous waste), waste water treatment, site rehabilitation, management of noise and dust, etc.
- Health provisions for the work force: first aid provided on site, instruction to workers for first aid, evacuation/referral plan in case of accidents (identification of hospital and means of evacuation).
- Safety of the work force and the public: equipment of workers with standard PPE (personal protection equipment) like hard hats, safety boots and reflectors; safety measures and material for specific types of work, like welding, work in high places, work in dusty or noisy places, requiring specific protection material like goggles, gloves, hearing protection, harnesses, etc.; control of access to prevent accidents.

109. The contractors, in addition to other requirements, will have to present a EH&S plan prior to the start of work, which will have to be approved by PIU.

4.2.5 Institutional Arrangements

110. The project proponent, in this case the municipality, represented by the PIU, is responsible for the preparation of the IEE and EMP. A Design Support Consultant (DSC) will be engaged to support the PIU in all its activities; it will also prepare the IEEs and RAPs, and will make sure that the relevant conditions formulated in the EMP will be included in the scheme construction Tender Documents, in order to allow the bidders to include these measures and conditions in their bids.

111. The DSC will have qualified personnel to carry out this task.

112. Besides preparation of IEEs and related documents, PIU will also be responsible for the public participation process as outlined above, and for the grievance redress mechanism.

4.2.6 Monitoring and Reporting

113. Monitoring will be done at three levels, as per the following paragraphs:

114. First, the contractor will have his internal monitoring system for ensuring compliance with measures formulated in the EMP. This will cover all measures in his responsibility, but mainly the aspects of EH&S on the construction site(s). Results of this internal monitoring will be included in the contractor's reports to PIU.

115. Second, PIU, represented by the DSC, will be responsible for monitoring all environmental issues, including measures that might not be in the responsibility of the contractor, but may be carried out by other entities (as an example; like reforestation in case of a use of forest land). The EMP will list the required measures and their expected outcome. Monitoring will be done in a way as to check implementation and effect of all measures against the expected outcome. In cases of non-compliance, corrective measures and actions will have to be defined, and a delay set for their implementation. Monitoring will be part of the periodic reporting (monthly, quarterly and annual reports) and submitted by DSC to PIU, for further distribution to MOUD, ADB and other involved parties, as may be the case.

116. Third, independent monitoring may be carried out periodically or sporadically, by external experts recruited for this purpose, if required.

4.3 Resettlement Framework

4.3.1 Purpose and Aim

117. The resettlement framework specifies conditions and work to be carried out for ensuring that all negative impacts on persons affected by the implementation of a scheme under the project are being taken into consideration, and that identification of impacts and compensation is being done according to national legislation and ADB standards.

118. The overall aim of all resettlement related activities is to make sure that no affected person is made worse off, or will be driven into poverty, by any of the schemes to be realised under this Urban Development Project, that standard of living and livelihood will be at least the same as they were without the project, and that wherever possible the situation of affected persons is improved.

119. This latter point is especially important in the case of vulnerable persons.

4.3.2 Main Requirements of ADB SPS

120. The main objectives of ADB's Resettlement Safeguards are to

- i. avoid involuntary resettlement wherever possible;
- ii. minimize involuntary resettlement by exploring project and design alternatives;
- iii. enhance, or at least restore, the livelihoods of all displaced persons in real terms relative to pre-project levels; and
- iv. improve the standards of living of the displaced poor and other vulnerable groups.
- v. The safeguards cover two main categories of involuntary resettlement caused by a project, namely
- vi. physical displacement (relocation, loss of residential land, or loss of shelter); and
- vii. economic displacement (loss of land, assets, access to assets, income sources, or means of livelihoods).

121. If resettlement cannot be avoided, the following has to be provided to affected persons or households:

- i. compensation to replace lost assets, livelihood, and income;
- ii. assistance for relocation, including provision of relocation sites with appropriate facilities and services; and
- iii. assistance for rehabilitation to achieve at least the same level of well-being with the project as without it.

122. In addition to that, the SPS document defines a number of other principles to be observed, as per the following:

- i. Consultation: in the process of project development, meaningful consultation with affected persons has to be carried out; this is defined in Section 4.1.7.
- ii. Absence of a land title or other proof of land ownership is not a bar to compensation; this means that tenants, but also squatters, are eligible for compensation, not for the land, but for any assets they may lose.

- iii. Special attention has to be paid to vulnerable groups; this is specified in the Gender Equality and Social Inclusion (GESI) framework prepared for this project, which will also have to be followed.
- iv. All compensation has to be done before land or other assets of affected persons are taken over by the project.

123. National legislation does not include any entitlement for compensation in the case of squatters. However, ADB safeguards specifically point out that such persons are entitled, not to a compensation for the land they occupied, but for any structures they may have, and for a restoration of their livelihood. In addition, since squatters are often landless, marginalised people, they have to be considered as especially vulnerable, in need of additional support for restoring or improving their situation. This is spelled out in the entitlement matrix (see Table 4-3).

4.3.3 Expected Impacts

124. Main categories of impacts expected or anticipated to be caused by project schemes are listed in Section 4.1.2. Here, the impacts specifically to be taken into account for compensation are listed.

125. First it has to be emphasised that none of the schemes proposed will cause a massive involuntary displacement of people. While it cannot be excluded that a few single houses or households will have to be relocated for a specific scheme, none of the schemes is expected to have a more important impact, like e.g. requiring the physical displacement of entire communities or major parts thereof.

126. Having said this, the major expected impacts will be the following:

- Acquisition of private land; this can be land used for agriculture, pasture or any other purpose (including privately owned land that is barren at the time of acquisition), or land with structures like houses, stables, barns, wells, fences, etc.; the land can be used by the owner or by a tenant.
- Temporary use of private land, e.g. during construction of a project. This can be land of the types mentioned above.
- Utilisation of public land; such land can be readily available, or it can be occupied in any way (e.g. by owners of adjacent parcels of private land, or by squatters). Public land as defined here includes forest land.
- Loss of access to resources, or other major nuisances caused by a project, either permanently or temporarily. This could be e.g. in the case that road improvement works, during construction, make a shop inaccessible, causing the loss of clients and therefore of income for the shop owner.

127. These impacts are the basis for the entitlement matrix (see Table 4-3).

4.3.4 Entitlement

128. According to ADB SPS (2009), physically or economically displaced persons in a project area can be of three types, namely:

- i. persons with formal legal rights to land lost in its entirety or in part;

- ii. persons who lost the land they occupy in its entirety or in part who have no formal legal rights to such land, but who have claims to such lands that are recognized or recognizable under national laws; and
- iii. persons who lost the land they occupy in its entirety or in part who have neither formal legal rights nor recognized or recognizable claims to such land.

129. The involuntary resettlement requirements apply to all three types of displaced persons. However, as already mentioned above, (economic) displacement is not necessarily restricted to the direct loss of land; it can also be the loss of resources or the loss of access to resources. If the livelihood of a person or a householder is affected by such a loss, this will have to be compensated as well.

130. One group of affected persons, usually called **vulnerable persons**, often require special attention, and special assistance in case of being affected by a project. These are persons living in difficult circumstances, who often are at an elevated risk of being negatively affected and of suffering adverse consequences, and who may have more difficulties for re-establishing themselves if forced to relocate, or to rebuild their (often already precarious) livelihood, if negatively affected. Such vulnerable persons or groups can be e.g. female headed households, poor, landless, elderly or handicapped people, and ethnic minorities; this list is not necessarily exhaustive. For these aspects see also the GESI framework prepared under this TA (which usually terms the persons to which it is addressed as women, poor, and excluded).

131. Special efforts to be taken in case such persons are affected can be support for moving (if relocation is required), or special support for rehabilitation or improvement of livelihood.

132. Entitlements are specified in the entitlement matrix in **Table 4-3** in the following pages.

Table 4-3: Entitlement Matrix

Impact	Type	Affected person	Entitlement	Implementation issues
1. Acquisition of privately owned land	1.1 Permanent loss of agricultural land (including pasture and fallow land)	1.1.1. Land owner	Full compensation; if the land is used by a registered legal tenant, see below.	Land can be bought (agreement with land owner on price, land acquired through payment of agreed amount). In such a case, no further steps are required. If such an agreement cannot be reached and the land has to be expropriated (i.e. no alternative site possible for the project), the legal procedure has to be followed. This includes valuation of the land by a Land and Asset Valuation Committee (LAVC), reaching an agreement with the land owner, and if required going through the grievance redress process. Compensation will usually be made in cash. However, land for land compensation can be an option.
		1.1.2 Tenant	Registered (legal) tenants will be entitled to 50% of the total land compensation amount as per the Land Reform Act.	Tenants are verified through a record of tenancy at the land revenue office (LRO).
		1.1.3 Squatters, sharecroppers	No entitlement to compensation for land.	For other entitlement, see below.
		1.1.4 Vulnerable person	Entitlement according to above categories.	If the affected person (land owner, tenant or squatter) qualifies as vulnerable person,
	1.2 Permanent loss of structures (houses, barns, stables, etc.)	1.2.1 Owner of the structure: <ul style="list-style-type: none"> Land owner Tenant Squatter 	Full compensation (replacement value) to the owner of the structure.	If an agreement to sell can be reached with the owner, the structures will be acquired, no other procedure required. Compensation will usually be in cash, but can be in kind (e.g. new house as replacement for lost house). If no agreement can be reached, the value of the structure will be determined by the LAVC). Compensation to be made at replacement value. If a house (shelter) is affected, additional compensation may be required for assistance in relocation.

Impact	Type	Affected person	Entitlement	Implementation issues
		1.2.2 Vulnerable person	Full compensation as above; additional support may be required.	Vulnerable persons or HH may experience additional problems in case they lose a structure (mainly the house where they live), as e.g. in acquiring a new house, in moving to the new place, and in re-establishing themselves there. In such cases, additional support will have to be provided with the aim of at least rehabilitating them to the former standard of living, or if possible, improving it (see GESI plan).
		1.2.3 Persons renting a house	Compensation for improvements etc. they made at their own expenses.	Such persons may, in addition, also require assistance for moving, or for finding a new place etc., especially in the case of vulnerable persons.
	1.3 Loss of annual crops	1.3.1 Owner of crop (not necessarily land owner)	Replacement of value at market prices.	Efforts will be made to allow cropping before occupying the land. If this is not possible, compensation will have to be paid. Compensation does not go to the land owner (unless he/she is the owner of the crop as well), but to the person farming the land.
	Loss of perennial crops (fruit trees etc.)	1.3.2 Owner of asset (not necessarily land owner)	Replacement at market prices.	Replacement will include replacement value of the asset (e.g. of a fruit tree) and replacement of lost harvest (calculation of harvest loss until the newly planted tree is productive). Replacement at market prices.
2. Temporary use of private land	2.1 Loss of structure	2.1.1 Owner of structure	Compensation at replacement value.	Efforts will be made to avoid temporary use of built-up land. If this cannot be avoided, compensation to be made as mentioned above.
	2.2 Temporary loss of land use rights	2.2.1 Land owner	Compensation to be negotiated.	If due to a project land cannot be used for a certain period, e.g. when it is occupied by construction site), loss of income etc. will have to be compensated for. Loss of tenants will have to be taken into consideration. Before temporarily used land is restored to its owner, it will have to be rehabilitated (e.g. removal of all temporary structures, of waste etc., and, if required, replacement of topsoil).
3. Use of public land	3.1 Permanent occupation of hitherto not occupied public land	3.1.1 Users of the land (which in such a case may be tenants, but usually will be squatters)	No compensation for land, but compensation for structures etc. Compensation as per 1.2 and 1.3 above.	While the national legislation does not foresee any compensation for squatters, under ADB safeguards these are entitled for any structures they may have erected on such land, including crops they may grow there, or other assets. Squatters often have to be considered as vulnerable people, so additional measures may be required to improve their situation.

Impact	Type	Affected person	Entitlement	Implementation issues
	3.2 Temporary occupation of hitherto not occupied public land	3.1.2 as in 3.1.1	As in 3.1.1	As in 3.1.1; in such a case (e.g. temporary use of land which is part of an existing ROW of a road), it will probably not be tolerated that this land will be occupied again as before.
	3.2 Forest land	3.2.1 Users of the land	No compensation for land, but compensation for structures, resources used, etc.	<p>If forest land is used, compensation (like replacement land for afforestation, planting of trees) will have to be done according to legal conditions.</p> <p>In addition to that, people not owning the land could be affected, mainly in two ways:</p> <ul style="list-style-type: none"> • Squatters occupying forest land: entitled for compensation for structures. Since usually these are vulnerable (landless) people, they will require assistance for finding a new place where to live, and possibly other measures for improving their situation (see GESI). • People using the forest for the collection of NTFPs, as part of their livelihood. If they actually lose a part of their livelihood (i.e. no other forest in acceptable distance available where the same activity can be carried out), compensation will have to be made.
4. Loss of access	4.1 Permanent loss of access to any resources due to occupation of land	4.1.1 Any affected person	Compensation to be defined based on type of loss.	<p>Ways will have to be sought to reestablish or maintain access.</p> <p>If this turns out not to be possible, appropriate compensation will have to be negotiated. This could be by providing a replacement for the asset (e.g. installing piped drinking water supply if access to the well used till now is no longer possible). In an extreme case, e.g. if access to a shop would no longer be possible, leading to total or partial loss of livelihood of an affected person or HH, the shop might have to be relocated to an acceptable place.</p>
	4.2 Temporary loss of access	4.1.1 Any affected person	Compensation to be defined based on type of loss.	<p>Basically two possibilities for compensation:</p> <ul style="list-style-type: none"> • making sure that permanent access is granted (e.g. access to a shop during construction), or • compensation payment to affected person for replacing the loss.

4.3.5 Responsibilities for Resettlement and Compensation

133. The main responsible for all aspects related to resettlement and compensation is the municipality, represented by the PIU. Work can be carried out by DSC or by another entity mandated for a specific purpose (e.g. an NGO), for preparing resettlement plans and implementing relocation (if required) and compensation.

134. Still, responsibility for implementing compensation according to this resettlement framework, i.e. according to legal requirements and the standards of ADB social safeguards, will remain with PIU. This includes, in addition to the direct handling of compensation issues, mainly also the public participation process, the grievance redress mechanism, and monitoring and reporting.

4.3.6 Main Steps in Resettlement Planning and Implementation

135. As mentioned above, none of the projects is expected to cause a massive relocation of affected persons. For this reason, the resettlement plan will usually be quite simple and straightforward, commensurate with the extent and degree of the impacts according to ADB SPS. Still, it will be important that all relevant steps are followed, and that compensation will be done according to set standards.

136. The main steps to be implemented are listed and briefly described here; the different steps will not necessarily always be carried out in the order shown:

- i. Final selection of scheme site; environmental and social aspects as described in other sections of this document, like e.g. risk of flooding or proximity to settlements, will have to be considered.
- ii. Detailed design of the scheme, preparation of plans.
- iii. Identification of land to be occupied, permanently and temporarily (e.g. for construction); this must include identification of present land use, existing structures etc.
- iv. Public orientation: presentation of the scheme, with advantages and disadvantages for affected persons, to the public. This orientation will also officially be announced as the cut-off date, and it must be made clear that any structure etc. implemented after this date will not be eligible for compensation.
- v. Inform people on process for land acquisition, including information on their rights (grievance redress mechanism) and on how to access it.
- vi. Identification of affected persons (land owners, owners of structures and assets, users of land, etc.; identification of those affected persons who may qualify as vulnerable. A socio-economic survey will usually not be required, with the possible exception of an analysis of the status of vulnerable groups.
- vii. Initiate negotiations with affected persons; make official valuation (to be done by LAVC) of land, assets and structures where required.
- viii. Seek agreements with affected persons; buy land etc. based on such agreements, where possible.
- ix. If not possible, and alternative layout or location of the scheme is not feasible, initiate expropriation process according to legal procedures.
- x. Respond to and keep track of all grievances presented.

- xi. Make compensation before land or other asset to be compensated is taken over by the project.
- xii. Undertake necessary actions for responding to specific needs of vulnerable persons.
- xiii. Monitor and document resettlement and compensation outcome.
- xiv. In order to be able to carry out this task, PIU will need to have:
 - xv. a community relations officer;
 - xvi. personnel in charge of grievance redress mechanism (handling, documenting);
 - xvii. a Land and Asset Valuation Committee (to be established in the municipality, not necessarily as a direct part of PIU);
- xviii. resettlement officer(s) in charge of preparing resettlement plans, implementing these plans and monitoring the outcome.

137. Staffing will have to be commensurate with the magnitude of the task, i.e. with the nature of the schemes to be implemented and the magnitude of the impacts created. Since projects can only go ahead once any required compensation has been made, it is in the interest of PIU to sufficiently staff these positions in order to avoid unnecessary delay in project implementation.

ANNEX 5-A

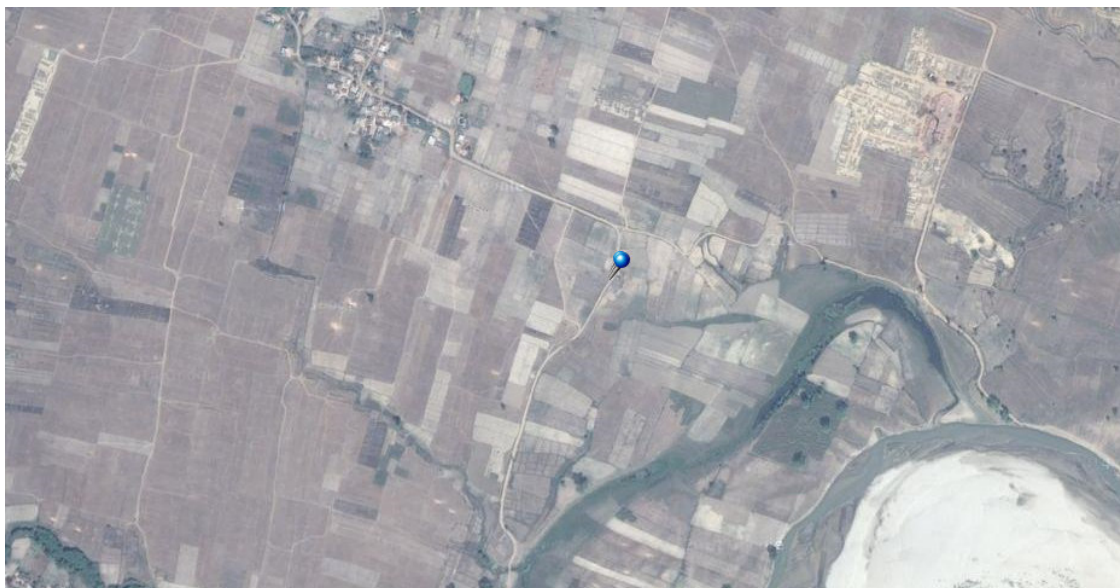
Comments on potential sites for solid waste disposal

Evaluation sheet for potential sites

Municipality: Dhangadhi

Type of Scheme: Solid waste disposal **Coordinates:** 28°38'58.73" N, 80°38'3.84" E

View of site in google earth satellite picture



Pictures of site



Observations.

Advantages of site:

- Large, of sufficient size.
- No residential area in immediate proximity; presently used for agriculture.

Disadvantages and potential risks:

- Flood risk, proximity to river.
- Risk of ground water contamination.
- Access to site presently narrow and winding road through villages, might have to be improved (realignment or construction of new road required).

Evaluation sheet for potential sites

Municipality: Dhangadhi

Type of Scheme: Solid waste disposal **Coordinates:** 28°39'16.44" N, 80°39'9.81" E

View of site in google earth satellite picture



Picture of site



Observations.

Site on the eastern district border, in immediate proximity of the confluence of 3 rivers or streams; high risk of flooding. At the time of the visit (August 6, 2015) the site itself was not directly accessible due to the high water level.

Evaluation sheet for potential sites**Municipality:** Dhangadhi**Type of Scheme:** Solid waste disposal **Coordinates:** 28°44'28.13" N, 80°33'11.66" E**View of site in google earth satellite picture****Picture of site****Observations.**

The site is an abandoned clay pit of a brick factory; the factory is no longer operating and has been dismantled.

In principal, such abandoned clay pits could be good sites for solid waste disposal. These are areas formerly used for agriculture, which however after exploitation can no longer be used for that purpose. The bottom of the pit is presumably clay, which would allow for a good impermeabilisation of the pit.

Disadvantages of the site: When use stopped, the site converted to a wetland; this however, is the case for every depression in this area, given the high ground water level, proximity of rivers and rainfall. Impacts on nearby houses would have to be assessed.

In this case, the site was excluded from further consideration since it is too close to the airport (increased risk of bird strikes with planes).

Evaluation sheet for potential sites

Municipality: Attariya

Type of Scheme: Solid waste disposal **Coordinates:** 28°48'11.12" N, 80°32'13.62" E

View of site in google earth satellite picture



Picture of site (picture taken from site indicated by pin in satellite picture above)



Observations.

Oxbow of a river, according to municipality staff no longer directly connected with the river.

Advantages of the site:

- At a sufficient distance to settlements for preventing negative impacts.
- Large site, could be developed in stages; might be suitable for a waste disposal site for both municipalities Attariya and Dhangadhi.

Disadvantages and potential problems:

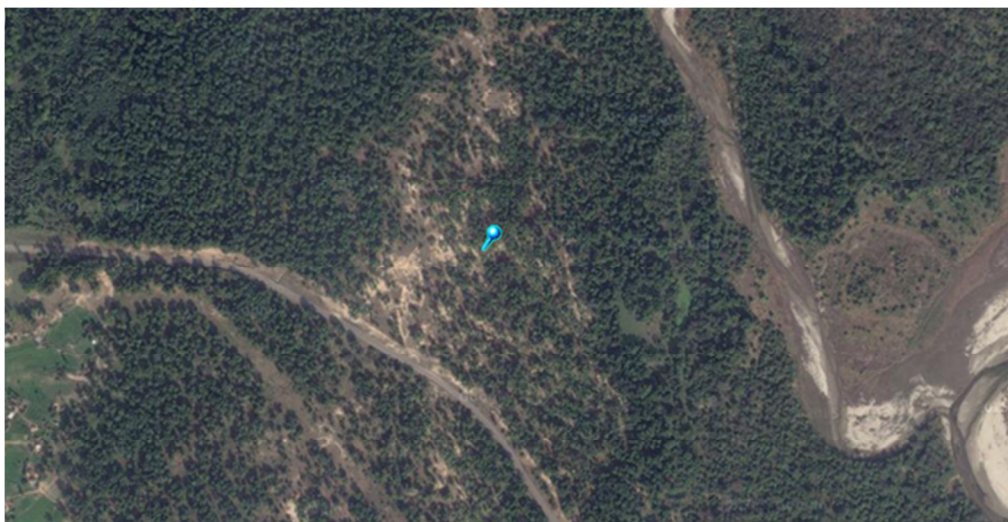
- The site is a wetland; however, there is not a rare habitat in the area.
- There is certainly a high risk of flooding, since under present conditions the site will certainly be flooded during high flow events, and river can again modify its bed and pass here. Flood Protection measures (dikes of suitable size and height) will be required.
- Risk of contamination of ground and surface water will have to be addressed.

Evaluation sheet for potential sites

Municipality: Jhalari Pippaladi

Type of Scheme: Solid waste disposal **Coordinates:** 28°54'4-28" N, 80°23'6.52" E

View of site in google earth satellite picture



Picture of site



Observations.

Advantages of the site:

- Large site, suitable for development in stages.
- Close to main highway, only short additional access road required.
- No settlements nearby.

Disadvantages and potential risks:

- Forest site, forest clearance permit would have to be obtained. It is part of a community forest, agreement with community would have to be reached.
- Relatively high ground, no risk of flooding.
- The site is crossed by a local (natural) drainage channel (background of right photo). This will facilitate drainage of the site, but the project will have to be designed in a way as not to block the channel, and for avoiding risks of erosion during high runoff.
- Once filled, the site can be covered with topsoil and reconverted to forest.

Evaluation sheet for potential sites

Municipality: Bheemdatt

Type of Scheme: Solid waste disposal **Coordinates:** 29°1'33.76" N, 80°9'49.51" E

View of site in google earth satellite picture



Picture of site



Observations.

Advantages of site:

- Large site with sufficient space.
- Mostly not used, only a few small fields.

Disadvantages and potential risks:

- A few houses in the immediate vicinity, might have to be relocated; first contacts with residents seemed to have had positive reactions.
- In proximity to river, therefore elevated risk of flooding or of erosion of dikes. This would have to be taken into consideration in design and implementation of the project.

Evaluation sheet for potential sites

Municipality: Bheemdatt

Type of Scheme: Solid waste disposal **Coordinates:** 29°2'26.66" N, 80°7'58.76" E

View of site in google earth satellite picture



Pictures of site



Observations.

Advantages of site:

- Site of sufficient size.
- Largely unused land, partly open gravel surface, partly covered by scrubs (photo left)

Disadvantages and potential risks:

- Close to small stream (photo right) and larger river, risk of flooding.
- Some houses rather nearby.
- Very close to Indian border.
- One small structure (grave or memorial) under construction on the site.

**Government of Nepal
Ministry of Urban Development**

**Second Integrated Urban Development Project
(IUDP2)
(PPTA 8817–NEP)**

**Draft Final Report
Discussion Note # 6
Municipal Governance and Financial Management**

August 2015

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Municipal Governance and Financial Management

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1 Department of Urban Development and Building Construction (FMA)

1.1 Introduction

1. The Ministry of Urban Development (MoUD) is the Executing Agency of the proposed Second Integrated Urban Development Project – IUDP2. The Ministry was established as a separate Ministry in 2012 in order to bring physical infrastructural development under one single Ministry with a view to achieve efficiency and effectiveness in urban physical development services. MoUD is responsible for the overall infrastructure development of all 191 municipal bodies of the country, in particular, the urban road network, improvement of housing and urban environmental developments, and provision of increased access to water supply and improved sanitation facilities. Considering the recent earthquake in April 2015, the importance and responsibilities of MoUD increased immensely.

2. The Department of Urban Development and Building Construction (DUDBC) under MoUD is designated to perform all functions related to urban development; housing development; and building construction. DUDBC, is therefore responsible for executing the Project under MoUD.

3. DUDBC has three Divisions, namely, Urban Development Division; Housing Division; and Building Division; with 25 Division Offices located at various urban centres plus one Building Technology Research and Training Centre (Hetauda) headed by the Under Secretary (Technical).

4. The organization structure and staffing clearly indicates the strength of the Department in terms of human resources (Five class 1 technical officers and 22 class 2 technical officers and 33 class 3 technical officers). See **Figure 1-1** for the DUDBC organizational structure. DUDBC has a Financial Administration Section headed by an Under Secretary - Accounts. Other financial positions in the section include two account officers, three accountants and four assistant accountants to carry out day-to-day financial management functions.

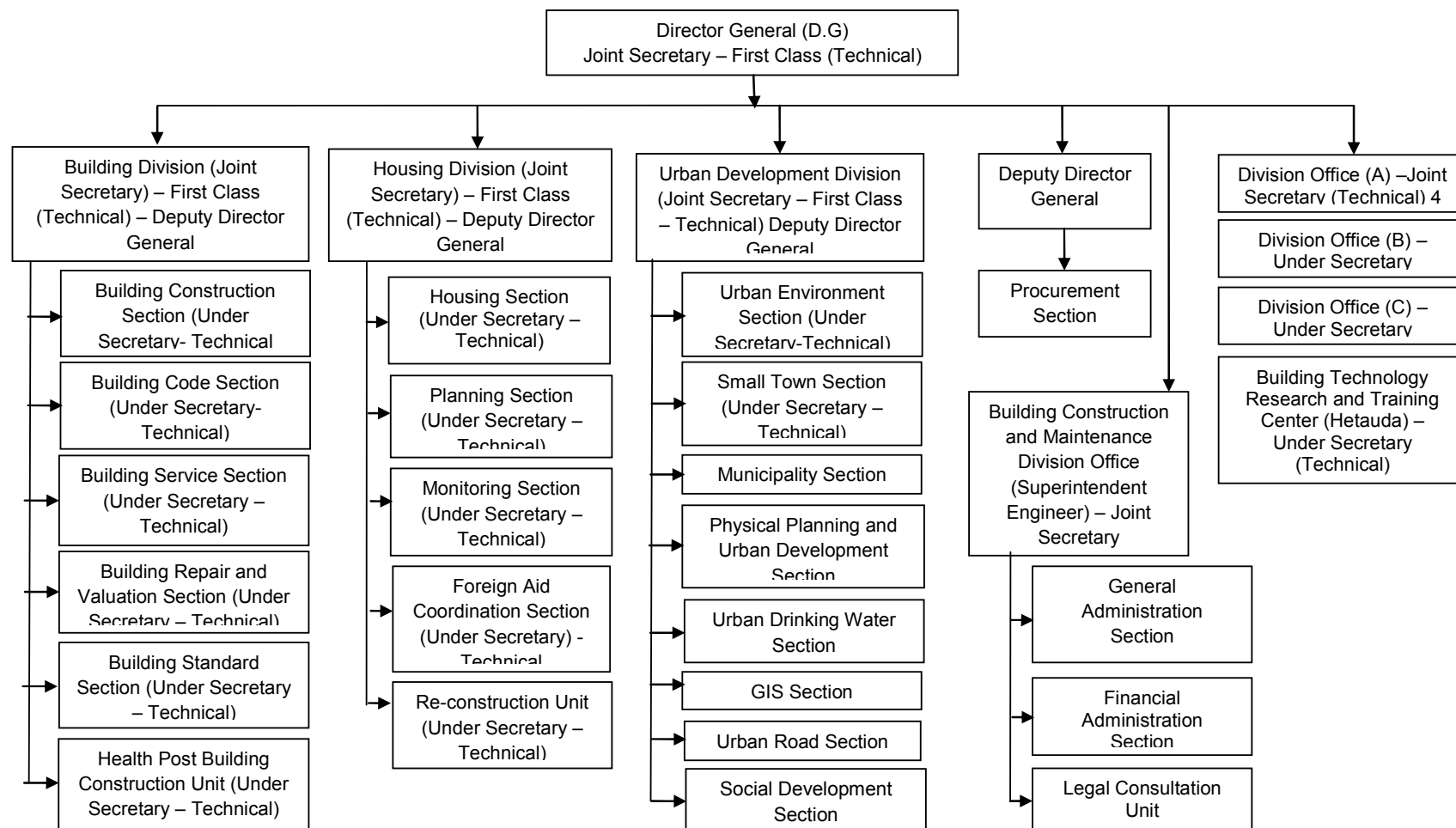
1.2 Expenditure Pattern of DUDBC

5. DUDBC receives funds from the Government of Nepal as an appropriation from the national government budget to achieve its objectives. The actual expenditure of the Department is presented in **Table 1-1**.

Table 1-1: Total Expenditure of DUDBC (in Nominal Value) (NRs. million)

SN	Description	2005-06	2006-07	2007-08	2008-09	2009-10	Increase (ave.) p.a.
1	Recurrent expenditure	220.2	238.9	242.4	199.6	226.9	1%
2	Capital expenditure	237.8	410.3	1103.8	1451.1	1804.1	66%
Total		458	649.2	1346.2	1650.7	2031	45%
% of Recurrent expenditure		48.1	36.8	18.0	12.1	11.2	

Source: Statement of Expenditure from FY 2007-08 to 2009-10, Ministry of Finance, GoN

Figure 1-1: DUDBC Organizational Structure

6. Table 1-1 indicates a very positive status of DUDBC financial statement. From the fiscal year of 2005-06 till 2009-10 of five years period's recurrent expenditure annual average growth has been only 1% which is an example of controlled unnecessary expenditure. Similarly, in the same fiscal year period, capital expenditure annual average growth is around 66%, which is extremely high performance of DUDBC in the field of capital infrastructure investment. Volume of total expenditure also indicates yearly high level of increment at nearly 45% annual growth. Meanwhile, percentage of recurrent expenditure decreased from 48.1% to 11.2% in last five years – also indicates an exceptional trend of controlled expenditure in current or re-current expenditure.

1.3 Programs under DUDBC

7. The programs of DUDBC fall under the following two categories:

- a) Housing and Urban Development
- b) Building.

1.3.1 Housing and Urban Development

Urban Sector Development and Market Centre Study Program

- c) Rural Development through Small Market Development Program
- d) Special Physical & Infrastructure Development Project
- e) Kathmandu Valley Town Development Committee-Kathmandu Valley Integrated Development Program
- f) Town Development Fund
- g) Intensive Urban Development Program
- h) Urban and Environment Improvement Project
- i) Model Integrated Settlement Development Program - Terai Madhes-Pahad-Himal
- j) Integrated Urban Development Program (IUDP 1st Phase)

1.3.2 Building

Division of Special Building Construction & Maintenance

- k) Singh Durbar Reconstruction Board
- l) Building Construction Code, Public Building Construction

1.4 Assessment of the Financial Management System of the Executing Agency

1.4.1 Executing Entity

8. The Executing Agency (MoUD through DUDBC) will be responsible for overall strategic guidance, technical supervision, project execution, and ensuring compliance with the loan covenants. DUDBC will establish a Project Coordination Office (PCO), led by a full-time Project Director to execute the project. The Project Director, supported by the PCO and contracted consultants, will: (i) coordinate all activities under the Project; (ii) will be responsible for overall project implementation, monitoring, and supervision, ensuring that gender and inclusion issues are addressed substantively during the project cycle; and (iii) will directly report to the Secretariat, MoUD.

9. DUDBC has already implemented a number of externally funded projects. It recently completed the ADB-funded Urban Environment Improvement Project (UEIP) in nine municipalities and is in the process of completing ADB funded project – Integrated Urban

Development Projects (IUDP-1). DUDBC has now started to implement the ADB-funded Secondary Town Urban Environment Improvement Project (STUEIP) in three municipalities.

10. In addition, it is also implementing the Health Building Construction Project financed through a pool of funds from various donors created under Ministry of Health and Population, as well as the World Bank funded Urban Governance and Development Project in 6 municipalities and the Saudi Development Fund funded Urban Development Project in five municipalities.

11. The results of the DUDBC Financial Management Assessment Questionnaire are provided in **Annex 6-A-2** and the Risk Analysis of DUDBC is provided in **Annex 6-A-3**.

1.4.2 Funds Flow

12. The project financing will consist of an ADB fund (ADB loan converted into government grant), government grant, municipality matching fund and community contribution and as well as co-financing (donors to be identified). The ADB share of loan converted into government grant and government grant will be provided by the Ministry of Finance (MoF) to the municipality through the PCO. The Municipality will be responsible to make arrangements for municipal fund and community contribution.

13. GoN will pre-finance the ADB share of funds. In order to ease the cash flow of the Government, the ADB will establish a US dollar impressed account at the Central Bank. The project will withdraw money from this account periodically to reimburse funds provided by the Government. PCO will submit application for reimbursement from the imprest account. In case larger amounts will be payable to the vendors, PCO will submit withdrawal applications to the ADB directly. Since DUDBC has successfully implemented the ADB funded IUDP (1st) project, it has experience with the operation of an imprest account and Statement of Expenditure (SOE) procedures. However, DUDBC encountered problems with the settlement of expenditure at the end of the project, i.e. to settle the retention money of the contractors due after the completion of contracts.

14. The Government will provide counterpart funds from the Government Treasury to the project. Since the donor supported projects are Priority 1 projects, the Government will transfer one third of the project budget to the PCO account from the Central Treasury after the beginning of each FY. The municipalities, will be required to transfer the allocated counterpart funds to the Project Implementation Unit (PIU) according to the requirements.

1.4.3 DUDBC Staffing

15. The Financial Administration Section of DUDBC will oversee the major financial management functions of the project by allocating human resources for annual budgeting, auditing and financial reporting. The regular financial administration functions of the project will be carried out by a separate Financial Administration Unit constituted under the Project (IUDP2). DUDBC will provide a competent account officer and an assistant to the project. These staff members are permanent staff of the Central Government (civil service), educated at graduate level in financial management or relevant subjects. Although the accountants working at DUDBC have experience with the ADB, further training on computerized accounting system and ADB procedures will be necessary.

16. At PIU, the municipal staff working at the financial administration section will be responsible for administrating the project funds. Since, the selected municipalities have no experience with ADB procedures, the project management will have to focus on capacity

development of municipalities by providing training and creating on-the-job support mechanisms from the PCO. However, municipal finance people of 4 selected municipalities' will be also a part of financial management of IUDP2. The municipal officials will therefore require training in ADB fund management and accounting procedures.

1.4.4 Accounting Policies and Procedures

17. The Project will follow the entity accounting system which is based on the standard government accounting system directed by the Financial Comptroller General Office. The MoUD/DUDBC as well as municipalities are using a cash-based accounting system. Financial system of the PCO/EA/IA is directed by Acts, Regulations and Directives. The system includes a budgeting system, approval of transaction, accounting system, reporting system, internal audit and statutory audit. Following are the major Government provisions, the Project will have to comply with:

- Public Procurement Act, 2063 (2007)
- Public Procurement Regulations, 2064 (2008)
- Financial Procedure Act, 2055 (1999)
- Financial Procedure Rules, 2064 (2008)
- Travel and Days Allowance Rules 2064 (2008)
- Budgeting directives
- Local Self-Governance Act (LSGA 1999)

18. The PCO financial accounting and reporting system includes project financial transaction, allocation of expenditures in accordance with the respective components, disbursement categories and source of funds. The PCO maintains two types of accounts: one for the Government and another for the ADB. Since, the PCO will be responsible for preparing the project accounts in accordance with SOE procedure; the PCO will require facilitating municipalities to adopt the same system.

19. Based on previous experience with the ADB supported UEIP and STUEIP projects, PCO and PIU will allocate responsibilities to different units for executing transactions; recording of transactions; and custody of assets. The Project Director will be responsible for authorizing transactions, the Accounting Unit will be responsible for accounting and reporting and the Store Unit will be responsible for the custody of assets.

20. DUDBC will prepare the annual budget based on the policy of medium-term expenditure framework jointly with the four concerned municipalities responsible for assisting in implementing IUDP2 various infrastructure schemes. The budget is prepared by including all significant activities with details on physical and financial targets, which will provide a benchmark for performance monitoring. Similarly to previous ADB funded projects at DUDBC, the PCO will coordinate with the PIU in preparing the program and budget.

21. The financial administration system of the Executing and Implementing Agencies is adequate for controlling the system of payments.

1.4.5 Internal Audit

22. The District Treasury Control Office (DTCO) under the Financial Comptroller General Office (FCGO) is responsible for internal audit of all government offices. Therefore, the internal audit of DUDBC and projects under DUDBC is carried out by the DTCO on a monthly basis. DTCO submits internal audit reports to the Head of Office and the Project

Director, if applicable. In case of PIU, the internal auditor appointed by the municipality will be responsible to carry out internal audit and submit reports to the Head of the municipality. In some cases, municipal internal audit section will also provide their support in different auditing activities of the Project.

1.4.6 External Audit

23. The Office of the Auditor General of Nepal is a constitutional independent body responsible to carry out statutory audit of Government transactions. The statutory audit of DUDBC and PCO is conducted after the end of each fiscal year by the staff appointed by the Office of the Auditor General of Nepal. Audit is conducted according to Nepalese Auditing Standards. These are also in compliance with International Auditing Standards. However, final audit of municipal bodies are generally performed by qualified Chartered Accountants Firm – hired by municipal council as per general norms of Institute of Chartered Accountants of Nepal (ICAN)

1.4.7 Reporting and Monitoring

24. Based on GoN accounting standards, DUDBC/PCO prepares financial statements along with the supporting schedules and the reporting system also follows the International Financial Reporting Standards (IFRS). The PIU also follows the same system. DUDBC and the municipalities prepare financial statements on monthly, quarterly and annual basis. Since the financial reporting system comprised of all the required and important statements, it provides information for management decision making. DUDBC and PCO use spreadsheets to prepare the reports.

1.4.8 Information Systems

25. Neither DUDBC nor the PCO of UEIP and STUEIP have a computerized financial management system. Both DUDBC and PCO of UEIP and STUEIP prepare financial reports manually by using spreadsheets. Realizing the need of a computerized system, the Financial Administration Section has recently started the process to procure accounting software financed from its own budget. However, municipalities are using separate accounting software (based on Local Bodies Financial Administration Regulation) developed by private vendors.

2 Attariya Municipality Financial Management Assessment

2.1 Introduction

26. May 2014 (2071), Government of Nepal declared Attariya as a Municipality bringing the total number of municipal governments to 130. The municipality was formed with the merger of 4 different village development committees (VDC) Malakheti, Shreepur, Beladevpur and Geta. It has 13 wards covering the total area of 1524 sq km with a population of 72,521 (2011)¹.

27. The municipality is centrally located with maximum possibilities of economic activities and easy access to Bheemdatt, Dhangadhi and hill areas of far-western region of the country. The results of a Financial Management Assessment Questionnaire (FMQA) are provided in **Annex 6-B**. The proposed Organization Chart for Attariya Municipality is provided in **Figure 2-1**.

2.2 Municipal Financial Budgeting

28. As a new municipality, Attariya expects quite a high amount of central government grant as "establishment fund." Up to mid-February 2015 the total income was around Rs.40.687 million of which nearly 83.65% was contributed by MoFALD.

29. The remaining income, around Rs.6.648 million, was from their Own Source; (i.e. collection of different taxes i.e. house and land tax, business tax and revenue from non-tax e.g. recommendation fee, building permit fee etc). Some of the revenue was carryover from the 4 village development committees.

30. Up to Magh 2071 (16th Feb 2015), the total capital expenditure was around Rs.4.010 million whereas total targeted capital expenditure was Rs. 46.986 million. This indicates quite a large payment on different physical development activities are still pending. Their regular or administrative expenditure Rs.6.50 million was accounted in same period.

31. The municipality was in the process of preparing the annual budget and planning for FY 2015-16 but due to uncertainty of central government funds, they were still waiting for clarification from MoFALD on the budget ceiling.

32. In the draft proposal (it was under discussion and preparation phase – during March 15 –April 15, 2015), the municipality was expecting unconditional capital grant Rs.30.116 million with Own Source as only Rs.3.60 million (45.8% less than previously).

33. The unconditional grant has been planned for the following various activities:

- a) Targeted Group Development Program: Women Health, General Health, Single Women Empowerment Program, Community Study Centre, School Physical Development Program, Road Gravelling, Water-Supply Program, Electricity Extension Program. Rs.10.200 million
- b) Economic, Social and Physical Development Program: School Road Improvement, Road Construction and Culvert Construction, Waste Management, Electricity Extension, Drainage System. Rs.11.400 million
- c) Different Promotional Activities: Child Education, Child Friendly Local Governance, Child Labour Eradication, Establishment of Information Centre, Revenue

¹ Source: Voice of Cities – by Municipal Association of Nepal

Improvement Action Plan, Tax Education Program, Initial activities on Integrated Property Tax, Promotional Activities on Public Private Partnership Program, Development of Town Profile, Preparation for Periodic Plan, Tree Plantation, Climate Change Education Program, Capacity Development of Municipal Staffs, Risk Management Plan, Sports Development, Promotional Activities on arts, literature and library etc. Rs.7.600 million.

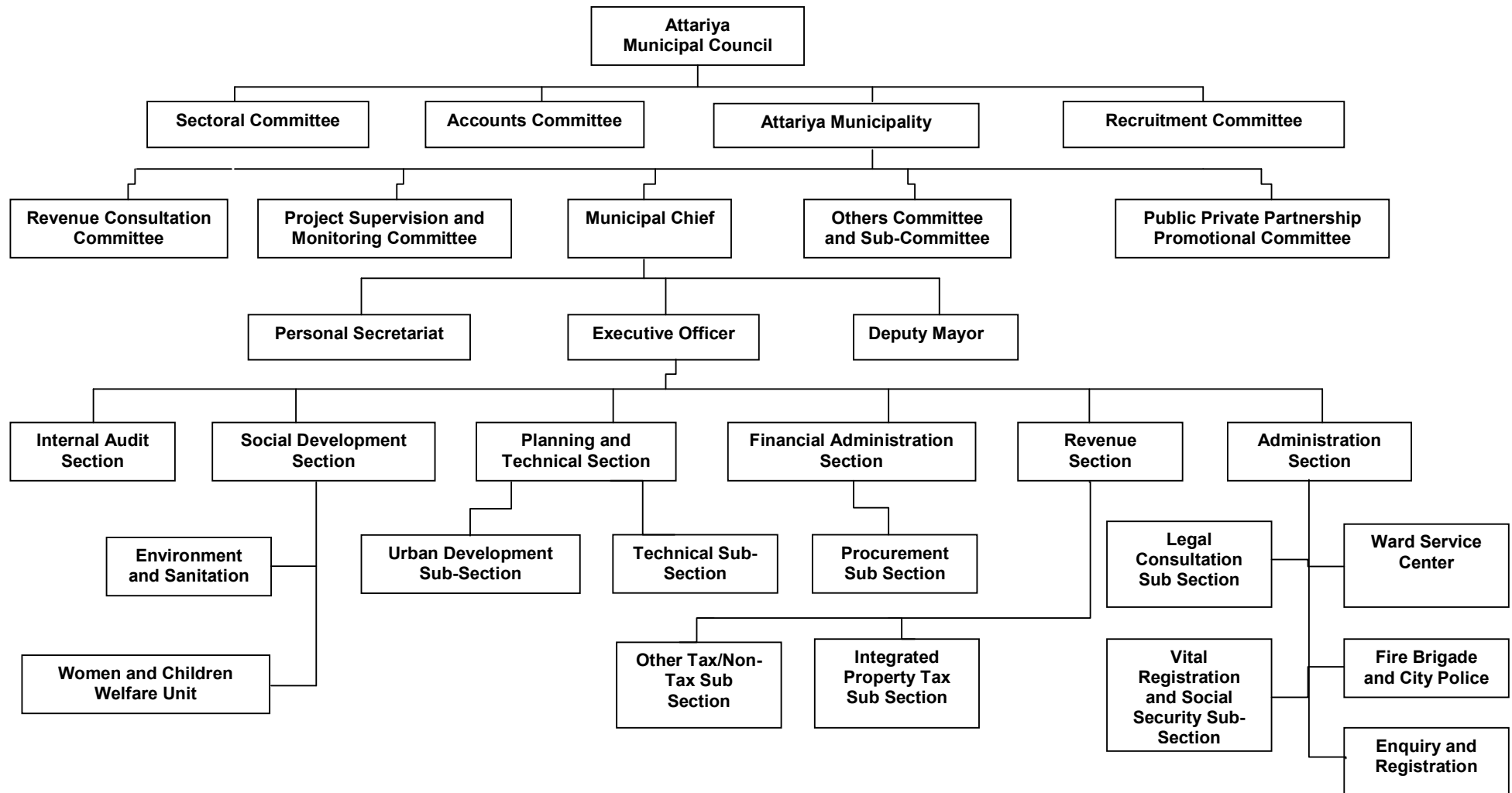
34. Due to being a newly declared municipality, the municipality has only just started their first fiscal year activities thus actual financial performance cannot be compared with budgeted activities.

2.3 Economic Development Activities

35. No figures on the Regional Domestic Product and its sectoral distribution are available. It can be said that the economy of the Attariya municipality is predominantly agricultural. In Nepal, the two Districts of Kanchanpur and Kailali are ranked as food surplus economies. Due to the scarcity of available agricultural land and low productivity of the agricultural sector, only the value added in the trade and services sectors are growing, providing increasing employment opportunities. Due to the existing open border, trade sector has increased during the last two decades. After the completion of the East-West in June 2000, transport of goods to and from the municipality has increased, mainly comprising trade in industrial goods from Indian origin (textile and agro-processing goods) from West to East, and goods from Chinese origin, from west to east. The goods are traded through the border points. Except an increase in employment opportunities in the trade and services sectors (shops, hotels and restaurants) little increase in value added in other sectors has been observed.

Due to its strategic commercial and industrial location, Attariya is becoming a new economic hub for energetic business entrepreneurs like "Awasthi Group of Industries" and others. Economic influence from the Indian border is strongly noted as this municipality is well connected with Dhangadhi and Bheemdatt. Trade in agricultural produce between the municipality's capital centres with the rural entities mainly comprises of surplus produce other than the main staple food, rice, wheat and maize.

Figure 2-1: Attariya Municipality Proposed Organizational Structure



3 Bheemdatt Municipality Financial Management Assessment

3.1 Introduction

36. Bheemdatt Municipality is the 8th largest city in Nepal after the cities of Kathmandu, Pokhara, Lalitpur, Biratnagar, Dharan, Birganj and Bharatpur. It is 8km east of the Indian border on the Mahakali River and 700km West of Kathmandu.

37. Bheemdatt Municipality is named after adopting the name of Late Bheemdatt (one of the martyrs and farmer leaders – who was the initiators of Land Reform Movements in Far West Region of the country) replacing the name “Mahendranagar NP”. The name of Mahendranagar is related to the name of late king Mahendra Bir Bikram Saha of Nepal. After becoming a republic in 2008 the city name was changed to Bheemdatt.

38. The municipality has 19 wards. The northern part of the municipality is covered by forest (38.52%) which is about 60 sq.km out of a total area of 196.5 sq.km. The population (2011) of the municipality was 104,599 persons with an average of 5.15 person per household. Indigenous people are the Tharus but many people from all over country have migrated to the area. Bheemdatt is now the unique combination of all ethnic groups representing the overall society of Nepal.

39. Bheemdatt Municipality is the main business centre of the Mahakali Zone. Bheemdatt Municipality is a major provider of education, health and employment opportunities in Far Western of Nepal. Mahakali Zonal Hospital and other private hospitals provide health care. Similarly, Siddhanath Science Campus, Siddhanath Multiple Campus, Mahendranagar Medical College and other colleges provide advanced education. It is also the headquarters for the Shukla Phanta Wildlife Reserve.

40. Bus services connect Bheemdatt Municipality to all the other parts of the country. Mahendra Highway, the longest highway of Nepal begins in Bheemdatt with the other end in the eastern city of Kakarbhitta. It is also connected by road with the hill towns of Dipayl, Baitadi, Amargadhi, and Darchula.

41. Access to Banbasa in bordering India is by a barrage across the Mahakali River; but there are severe load and timing restrictions which limits traffic. A new transport link is proposed across the Tanakpur/Bramhadev barrage but the connecting link road to the East-West highway is still to be completed.

42. The results of a Financial Management Assessment Questionnaire (FMQA) are provided in **Annex 6-C**. The Organization Chart for Bheemdatt Municipality is provided in **Figure 3-1**.

3.2 Municipal Financial Performance

43. Municipal major areas of income generation are from the tax collection, Nepal government grants and loans. In the allocated programs, educational sector, waste management and disposal, water distribution and drainage are the major funding activities of municipality. The other programs such as river training, health sector, drinking water supply were relatively small, the major investment areas were gravel road construction, sanitation and waste management, agriculture road construction, natural calamities and flood control, educational activities and tourism development.

44. Financial management and resource mobilization are the major areas where the municipality needs an action plan. To address these crucial issues, the 8th council meeting approved the policy related to 'strengthening existing financial management and resource mobilization' scheme, which will be reflected in 2071/72 (2014/15) activities, as follows:

- Tax campaign. This has already been initiated (immediately after consultation with ADB TA team) with posters placed in different areas of municipal building.
- Co-financing will be initiated for the bus-park modernization with Town Development Fund (for income generating activities) – Decision No. 23.
- Collection of Professional Tax will be done according to Public Private Partnership Scheme with Kanchanpur Chamber of Commerce and Industries – Decision No. 26
- Market management will be regularized jointly with Kanchanpur Chamber of Commerce and Industries – Decision No. 27.
- Based on the recommendation by Revenue Consultation Committee, action will be initiated for municipal resource mobilization and exploration of new avenues of revenue – Decision No 49.
- For overall municipal management and development – skill development of municipal employees is a high priority and for this purposes, budget allocation is made accordingly – Decision no. 61.
- Green Vegetable Market (ward no. 4) will be upgraded for resource mobilization and PPP model will apply jointly with Kanchanpur Chamber of Commerce and Industries – Decision No. 83.
- More revenue will be mobilized through local bus park (collection of arrears) – Decision No. 92.
- As per consultation and suggestion of Revenue Consultation Committee – new tax rates and tax ranges extended for revenue mobilization scheme – Decision No. 98.
- Collection of House Rent Tax will be initiated – Decision No. 98 (53).

3.3 Municipal Budget Allocation and Actual Performance

3.3.1 Bheemdatt Budget Allocation

45. As per the 10th council meeting, Bheemdatt has approved its plan and budgeting for FY 2071/72 (FY 2014/15). As per the budget and policy, Bheemdatt presented Rs.159.638 million – out of the total budget only Rs.36.020 million (22.56%) are expected from tax and non-tax revenue (Own Source Revenue). The largest proportion of total budget (77.44%) is expected from external revenue sources; i.e. mostly from central government grants and transfer.

46. Similarly, Rs.77.78 million allocated for different physical and capital development activities (48.72% of total budget), whereas nearly Rs.35.00 million (21.92% of total budget) is set for current/administrative expenditure. The remaining budget is allocated for social security (29.36% of total budget) for FY 2071/72 (2014/15).

47. In FY 2013/14, Bheemdatt approved a total revenue budget of Rs.152.464 million whereas actual revenue collection recorded Rs.161.831 million; 6.14% more than their targeted total revenue collection.

48. As per available financial information, projected internal revenue or Own Source Revenue of FY 2013/14 was estimated at Rs.22.854 million whereas actual collection recorded Rs.25.014 million (which increased by 9.45% in that fiscal year). With regards to internal revenue or Own Source Revenue, contribution of Integrated Property Tax was Rs.5.061 million (20.23%) and rest of internal revenue was business tax, vehicle tax, building permit fee and other fees and fines. Contribution of Own Source Revenue came to 15.45% of total revenue in same fiscal year. Whereas, the remaining revenue was fulfilled by external sources; i.e. central government conditional and unconditional grants (including social security grants; i.e. 24.44% of total revenue). As per the provision of Minimum Conditions and Performance Measurement (MC/PM), based on the assessment result, the municipality is awarded extra money (topping on Local Development Fee) of Rs.27.03 million, 16.70% of total revenue.

3.3.2 Bheemdatt Expenditure

49. Regarding of expenditure, the municipal council approved a total budget of Rs.139.854 million whereas as actual expenditure exceeded the approved budget by 3.75% (Rs.145.104 million). Out of Rs.145.104 million of actual total expenditure, current expenditure or administrative expenditure (staff salary, allowances, TADA, uniform, police administration, fire brigade, office expenses, electricity bills), consumed Rs.30.381 million (20.93 % of total expenditure). Similarly, a large proportion accounted for social security and children welfare activities (32.57% of total expenditure) and capital or development expenditure and ordinary capital consumed of nearly 46.5% of total expenditure.

3.3.3 Bheemdatt Financial Dependency

50. The municipality has a very high dependency on central governments' grants and financial support. Municipal Own Source Revenue contribution to total revenue in FY 2008/09 accounted for only 12.65% thus external grants (including loan) was Rs.104.896 million in same fiscal year. After the five years of financial transaction in FY 2012/13, Own Source Revenue contribution came nearly 14.71% of total revenue of Rs.142.414 million. Tax revenue has been increased from Rs.6.250 million to Rs. 8.686 million between FY 2008/09 to FY 2012/13. The most promising tax (Property Tax or Integrated Property Tax) increased from Rs.4.443 million to Rs.5.078 million in the same fiscal year – or duration of five years of tax collection. The revenue shown in **Table 3-1** table gives a quick overview of municipal revenue or income structure from FY 2008/09 to FY 2012/13.

Table 3-1: Bheemdatt Revenue 2008/9 to 2012/12 (Rs. in '000)

Revenue Items (FY 2008/09 – FY 2012/13)	Actual 2008/09 (2065/66)	Actual 2012/13 (2069/70)	Increment Growth
Local Taxes	62,50	86,86	38.96%
Integrated Property Tax (IPT)	44,43	50,78	14.29%
Income from Property – Service Charges	5,88	45,60	675.51%
Fees	15,30	24,28	58.59%
Other Income	32,62	36,89	13.09%
Own Source Revenue – Internal Source	132,78	209,54	57.80%
External Grants/Revenue	916,18	1214,60	32.57%
Total Revenue	1048,96	1424,14	35.76%

51. The table indicates that local taxes contributed nearly 47% of Own Source in FY 2008/09 which decreased to 41.4% in FY 2012/13 although in absolute terms it had an incremental positive trend. Income from property increased by 675.51% within the five years. Much of the revenue increase is due to the bus park which was started from FY 2010/11 with a loan agreement with Town Development Fund. After completion of the bus park the municipality received an income in FY 2012/13 of Rs.2.817 million.

52. Municipal expenditure in 2008/09 was around Rs.82.94 million which increased to Rs.160.560 million in FY 2012/13 indicating a growth of 94.8% in the last five years. Similarly, current expenditure accounted for nearly 41.92% of total expenditure in FY 2008/09. The share of current expenditure in total expenditure was nearly 55.35% in FY 2012/13 the remainder was for capital expenditure. A large portion of current expenditure was allocated for Social Development/ Security Expenses which came to nearly Rs.45.526 million (i.e. 51.21%) of Current Expenditure in FY 2012/13. **Table 3-2** indicates total expenditure of Bheemdatt Municipality covering FY 2008/09 to FY 2012/13

Table 3-2: Bheemdatt Expenditure (FY 2008/09 to FY 2012/13) (Rs. in '000)

Expenditure Items (FY 2009/10 – FY 2013/14)	Actual 2008/09 (2065/66)	Actual 2012/13 (2069/70)	Increment Growth
Consumption Exp.	163,60	303,16	85.30%
Office Adm. Exp.	18,33	33,30	81.66%
Social Development and Security Expenditure	136,33	455,26	233.93%
Service/Production Expenditure	302	28,05	828.80%
Current Expenditure	345,46	888,84	157.29%
Capital Expenditure	478,47	716,76	49.80%
Total Expenditure	823,94	1605,860	94.49%

53. The above table shows that Service/Production Expenditure had an enormous growth over the five years (i.e. 828.80%) because of the expenditure in supporting health posts management around municipal areas. Similarly, municipal authorities are keeping their promises for supporting old age people living and registered in municipality, consequently the Social Development and Security Expenditure went to Rs.45.526 million from Rs.13.633 million.

3.4 Economic Development Activities

54. No figures on the Regional Domestic Product and its sectoral distribution are available. The economy of the Bheemdatt municipality is predominantly agricultural. In Nepal, the two Districts of Kanchanpur and Kailali are ranked as food surplus economies. Due to the scarcity of available agricultural land and low productivity of the agricultural sector, only the value added in the trade and services sectors are growing, providing increasing employment opportunities. Due to the existing open border, trade sector has increased during the last two decades. Especially after the completion of the East-West highway in June 2000, transport of goods to and from the municipality increased, mainly comprising trade in industrial goods from Indian origin (textile and agro-processing goods) from West to East, and goods from Chinese origin, from west to east. The goods are traded through the border. Except an increase in employment opportunities in the trade and

services sectors (shops, hotels and restaurants), little increase in value added in other sectors has been noted.

55. Economic influence from the Indian border is strongly noted. Trade in agricultural produce between the municipalities with the rural areas mainly comprises of surplus produce other than the main staple food, rice, wheat and maize. An increased flow of rice and wheat from Indian origin is noted. Indian rice and wheat are offered at the market at far lower prices due to lower cost of production, high subsidy content in agricultural inputs and due to the higher productivity of the Indian agriculture. As a result, farmers have to accept lower market prices offered by wholesale traders.

56. The Government through its Nepal Food Corporation (NFC) procures and collects grain produce (rice, wheat and maize) from the farmers at government set prices. Recently, NFC markets only rice collected from mills. The only market for these produce are the Hillside food deficit areas. Notwithstanding this depriving market trend, increasing the food sector in the Far Western Districts of Nepal is strategically important from the national food security. Options to impose import taxation on Indian produce are difficult to pursue and the means of control would be extremely high cost. The only option for the municipality is for farmers to compete with the Indian producers. It has to increase productivity, decrease production cost, diversification of crops and increase cash/industrial crop production and organize the marketing organization strength among the farmers themselves.

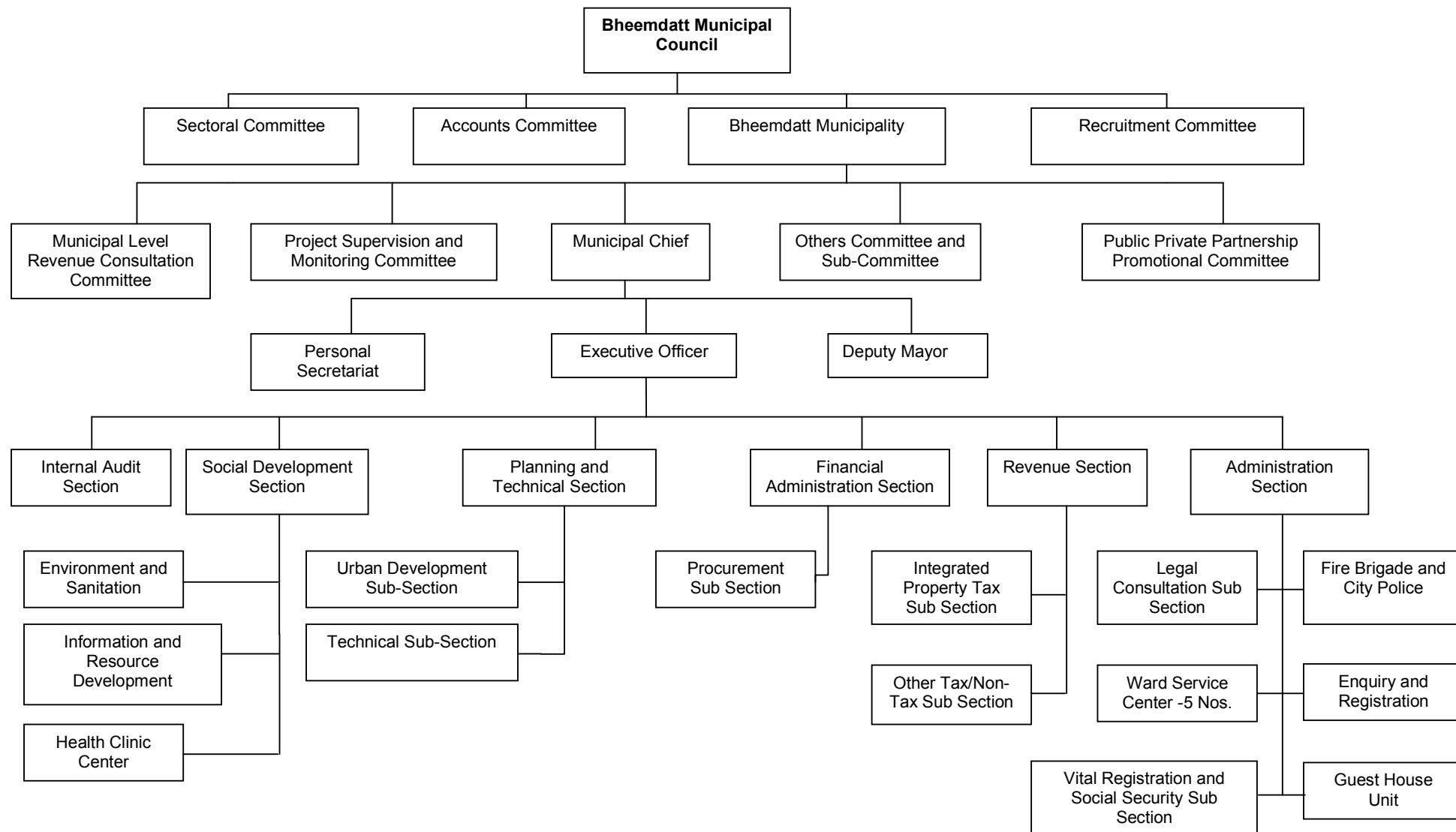
3.5 Major Development Indicators of Bheemdatt Municipality

57. The following are the major municipal statistics for Bheemdatt municipality.

Total area Bheemdatt Municipality	196.5 sq. km
Total Cultivable area	11950ha (1078 under cultivation)
Area under irrigation	5448 ha
Non-irrigated land	5340ha
Average land holding size	0.37ha
Population (1999)	104,599
• Male	51,087
• Female	53,512
Nos of households (1999)	13738
Average Family Size	5.15
Population Density	623 per sq km
Population growth p.a. (1999-2010)	3.9 %
Economically Active Population	
• Female	44.51%
• Male	55.48%
Land Use:	
• Rural Settlement Area	58.98%
• Urban Settlement Area	2.5%
• Forest Area	38.52%
Agriculture labor force	51.3 %
Life expectancy	61.5/years
Infant mortality	85/thousand
Maternal mortality	49.5/million
Literacy rate	71.4%
Adult female literacy	22.0 %
Gender empowerment= [Female's % share in job]	13.2 %

= [Female 's % share in income]	28.5 %
= [Female's % share in administration]	5.3 %
Road length (Highway, Black Top and Graveled)	174 km
Road density	0.1km/sq km
Poverty line (per capita NRs/year	5,500 NRs
Incidence of poverty in urban	35 .0 %

Source: Socio-Economic Aspects (Volume 2); Preparation of Urban Mapping of Bheemdatt Municipality – January 2011; Municipal Policy and Program (8th Municipal Council)

Figure 3-1: Bheemdatt Municipality Organizational Structure

4 Dhangadhi Municipality Financial Management Assessment

4.1 Introduction

58. Dhangadhi is a major business and industrial center of the Far West Region. It was declared a municipality in BS 2033 (1977) and has a population of 101,970 with the growth rate of 3.95% (census 2011). The municipality has 14 wards and approximately 21,030 households. Ward nos. 1, 2 and 3 are the most populated. The dominant castes are Brahmin, Chhetri and Tharu which constitute around 71.8% of total population.

59. Due to close proximity of Indian cities (Bareilly, Dehradun, Haldwani), many Indian tourists come to Dhangadhi at the weekend. Dhangadhi is also very close to the Rudrapur Industrial Estate in Uttarakhand in India. Considering these scenarios, Dhangadhi has set its long term vision with "A Prosperous City with Commerce, Industry and Multi-Culture". To achieve this long term vision, the municipality needs to have a "Multi Sectoral Master Plan" and updated "Periodic Plan". Apart from these planning tools, the municipality is still facing difficulty in obtaining the required financial resource for boosting its economy.

60. Due to its fast urban growth, the existing levels of urban services (waste management, drainage system, rain-water management) are the prime areas for attention. In addition, unmanaged urban expansion and lack of proper Landfill Site are areas where immediate action is required.

61. Financial management and resource mobilization are some of the major areas where the municipality requires an action plan. To address these crucial issues, the 10th council meeting has approved policy related with 'strengthening existing financial management and resource mobilization', which includes the following:

- Formation of task force - for reviewing the existing status of Human Resource Development – with special focus on technical areas and financial management (decision No.11).
- For proper management of "solid waste management" and business/professional tax collection – concept of public private partnership will be introduced (decision No.13).
- For the preparation of 2nd phase of "periodic plan" – request will be sent to MoUD / DUDBC (decision No.16)
- To strengthening the existing process of revenue collection, different process of 'a Tax Campaign' will be introduced with immediate effect (decision No.21).
- For maximization of different direct tax collection, concerned agencies will be contacted and coordinated (decision No.25).

62. Apart from the above major decisions, it has been further agreed that the Municipality will work jointly with District Development Committee, Kailali for overall economic and social development through different physical development projects (decision No.44).

63. The results of a Financial Management Assessment Questionnaire (FMQA) are provided in **Annex 6-D**. The proposed Organization Chart for Attariya Municipality is provided in **Figure 4-1**

4.2 Dhangadhi Municipal Budget

4.2.1 Budget Allocation

64. As per the 10th council meeting, Dhangadhi has approved its plan and budgeting for FY 2071/72 (FY 2014/15). In comparison to last year's budget, Dhangadhi increased its budget by 18.8%; i.e. to Rs.185.00 million. Out of the total budget, around Rs.57.739 million has been allocated for Current/Administrative Expenditure, 31.2% of total allocated budget. The following are major area of current / administrative expenditure:

- Social Security Allowance for Senior Citizen Rs.23.000 million
- Office Supplies and Consumption Rs.19.562 million
- Office Administration and Services Rs.6.241 million
- Service and Production Rs.3.041 million
- Natural Calamities and Fire-Brigade Rs.1.386 million
- Interest Payment Rs.0.880 million
- Others Rs.3.629 million

65. Likewise, Rs.127.260 million is allocated for different physical development or capital expenditure; 68.8% of total budget. The following are the investment areas for capital expenditure. These are defined in accordance with the "local body resource mobilization management" – working manual 2069. The allocations are:

- Reserve Fund Program Rs.20.000 million
- Road Board Program Rs.7.200 million
- Local Transportation and Agri. Road Rs.4.000 million
- Matching Fund Rs.2.000 million
- Women Welfare Development Rs.9.200 million
- Children Welfare and Development Rs.9.200 million
- Economically and Socially Backward Rs.13.800 million
- Physical Development Program Rs 35.880 million
- Waste Management Promotional Program Rs.10.000 million
- Street Light Management and Maintenance Rs.1.500 million
- Urban Health Clinic Operation Rs.1.200 million
- Urban Poverty Reduction, Environment Protection, Traffic Management, Urban Security, Disaster Management etc Rs.13.280 million

66. Only 19.40% is expected from internal revenue sources to meet the above expenditure. The municipality will mobilize the following internal and external income:

- Own Source Revenue (tax and non-tax revenue) Rs.35.889 million
- External Source (Government Grant /Loan) Rs.149.110 million

4.2.2 Municipal Budget Performance

67. As per available financial information from Dhangadhi Municipality, in FY 2012/13, Dhangadhi approved a total revenue budget of Rs.154.182 million whereas actual revenue collection recorded Rs.133.477 million (i.e. actual total revenue collection decreased by 13.42% of revised target budget revenue of that fiscal year).

68. Projected and revised internal revenue or Own Source Revenue of FY 2012/13 was estimated Rs.28.357 million whereas actual collection recorded Rs.27.260 million (which decreased by 3.87% in that fiscal year), in other words, only 96.1% was actual achievement of projected Own Source Revenue in FY 2012/13. With regard to Own Source Revenue, contribution of Integrated Property Tax came to 34.68% (Rs.9.545 million) and Profession/Business Tax contribution was 13.01% (Rs.3.547 million) and Building Permit Fee contributes 27.06% (i.e. Rs.7.377 million).

69. Of total revenue, contribution from Own Source Revenue was 20.42%. The majority was provided by external sources i.e. central government conditional and unconditional grants (including social security grants i.e. 24.38% of total revenue). The municipality also received different types of fund from Road Board and health office for road construction and health post management. Such funds are not regular and accounted for 10.20% of total actual revenue of FY 2012/13. Based on the MC/PM assessment result, Dhangadhi municipality was awarded extra funds (topping on Local Development Fee) of Rs.17.949 million; 13.44% of total revenue.

70. In regards of expenditure, municipal council approved a total budget of Rs.154.182 million whereas as actual expenditure came to Rs.129.809 million, only 84.19% of projected. Out of Rs.129.809 million of actual expenditure, the following are the actual and projected expenditure of current / administrative as well as capital or development expenditure of FY 2012/13, see **Table 4-1**.

Table 4-1: Projected and Actual Expenditures FY 2012/13 (Rs. million)

Major Expenditure Heads	Projected /Estimated Expenditure	Actual Expenditure	Status	Achievement (+ -)
Current/ Admin. Expenditure	49.020	48.503	37.36% total actual expenditure	< 1.05% of projection
Staff Salary	14.225	13.501	27.83% of Current Expenditure	<5.08% of projection
Allowances	2.650	2.480	5.11% Current Expenditure	<6.41% of projection
Office Services	5.360	4.830	9.96% Current Expenditure	<9.88% of projection
Grants to social organizations and Social Security Exp	21.350	23.129	47.68% Current Expenditure	>8.33% of projection
Waste Management and Sanitation	1.258	1.257	2.59% Current Expenditure	<0.08% of projection
Capital/Development Expenditure	98.412	72.723	56.02% Total Expenditure	<26.10% of projection

71. The above table indicates that Dhangadhi is quite reasonable in expenditure planning as current expenditure is around 37.36% of total expenditure but it includes all the grants to

social organizations as well as social security expenses which counted for 47.68% of total current expenditure.

4.2.3 Budget Analysis

72. As per the latest financial information (collected mid of August 2015), a very interesting scenario was revealed. In 2009/10 (2066/67), Dhangadhi projected own source revenue (OSR) was around Rs.40.352 million which was 39.76% of total municipal revenue of Rs.101.481 million. Whereas, income from external sources, i.e. central grants, was Rs.53.740 million; nearly 52.95% of total revenue. Similarly, in the same fiscal year, actual Own Source Revenue was around Rs.34.316 million (which was nearly 34.82% of total revenue. Achievement was nearly 85.04% of total projected own source revenue. Actual external income accounted around Rs.56.836 million which was exceeded by 5.76% of projected external source and shared nearly 57.67% of total actual revenue.

73. Similarly, over the five year, external grants increased by 138.19% whereas Own Source Revenue had decreased from Rs.34.316 million to Rs.34.101 million. This was due to the Local Development Fee - LDF (Rs.21.747 million) which was accounted for in Own Source in FY 2009/10 and in FY 2014/15 whereas government treated LDF as grant from central government. A very positive sign can be identified where local taxes increased from Rs.5.181 million in FY 09/10 to Rs.15.030 million in FY 014/15. In similar way, IPT had a very strong positive trend from Rs.2.203 million in FY 09/10 to Rs. 8.531 million in last fiscal year. However, maximum reliance on external source can have difficult impact of municipal finance. External grants contributed around 79.68% of total revenue of Dhangadhi Municipality in FY 2014/15.

74. **Table 4-2** indicates projected revenue and actual revenue (tax and non- tax) and internal and external revenue of Dhangadhi during five years FY 2009/10 to 2014/15.

Table 4-2: Dhangadhi Projected and Actual Revenue (Rs. in '000)

Revenue Items (FY 2009/10 – FY 2014/15)	Projection		Actual		Achievement	
	09/10	014/15	09/10	014/15	09/10	014/15
Local Taxes	6877	16993	5181	15030	75.33%	88.45%
Integrated Property Tax (IPT)	3000	9975	2203	8531	73.43%	85.53%
Service Fees	24149	6371	23624	6679	97.82%	104.83%
Own Source Revenue	40352	37992	34316	34101	85.04%	89.76%
External Grants/Revenue	53740	131948	56836	135378	105.76%	102.6%
Bank/Cash (Balance Forward)	7389	419	7389	419	100.00%	100.00%
Total Revenue	101481	170359	98541	169898	97.10%	99.73%

75. Dhangadhi Municipal expenditure in 2009/10 was projected as Rs.33.468 million which was 32.98% of total expenditure of Rs.101.480 million. Actual current expenditure was 31.74% of total expenditure in the same fiscal year. Capital Expenditure or Physical Development consisted around 68.25% of total expenditure in FY 09/10. **Table 4-3** gives a comparative expenditure trend within the five years 2009/10 to 2014/15.

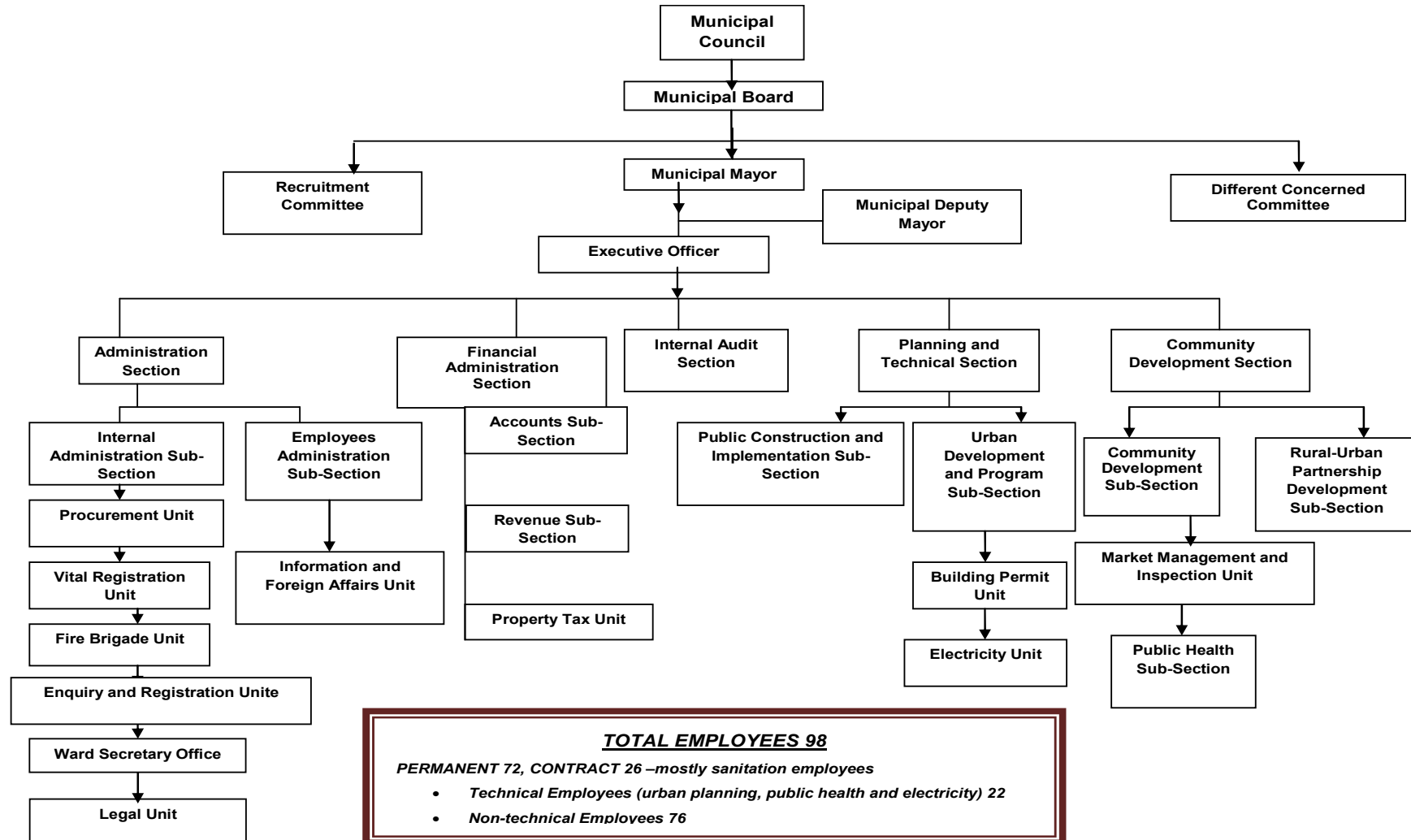
76. The table indicates actual growth trend of consumption expenditure within the five years from Rs.12.995 million (FY 2009/10) to Rs.19.749 million in FY 2014/15 with the growth of 51.97%. Similarly office expenditure had a growth of 94.04%, social expenditure had 142.94% (it is due to heavy increment of OLD AGE ALLOWANCES), current expenditure increased from Rs.31.007 million to Rs.60.632 million (nearly 95.54% growth

during last five years) and Capital or Physical Development Expenditure has a very positive growth from Rs. 66.680 million in FY 2009/10 to Rs. 95.568 million in FY 2014/15 with nearly 43.32% within last five years. In actual terms capital/physical development shared nearly 61.18% of total expenditure whereas current expenditure consisted nearly 38.8% of total actual expenditure in FY 2014.15.

Table 4-3: Dhangadhi Comparative Expenditure (2009/10 to 2014/15) (Rs. in '000)

Expenditure Items (FY 2009/10 – FY 2066/67)	Projection		Actual		Achievement	
	09/10	014/15	09/10	014/15	09/10	014/15
Consumption Exp.	13882	21888	12995	19749	92.82%	90.22%
Office Adm. Exp.	3269	6561	2889	5606	88.37%	85.44%
Social Expenditure	13800	26957	12811	31124	92.83%	115.45%
Service/Production Expenditure	2235	3236	2140	2332	95.75%	72.06%
Current Expenditure	33468	60253	31007	60632	92.64%	100.62%
Capital Expenditure	68012	114529	66680	95568	98.01%	83.44%
Total Expenditure	101480	174782	97687	156200	96.26%	89.36%

Figure 4-1: Dhangadhi Municipality Organizational Structure



5 Jhalari Pipaladi Municipality Financial Management Assessment

5.1 Introduction

77. Government of Nepal declared Jhalari-Pipladi as a Municipality on 2nd December 2014 (16th Mangsir, 2071) bringing the total number of municipalities to 191. Jhalari Pipaladi municipality has 11 wards covering the total area of 1496 sq km with a population of 42,026. The municipality is located between Attariya Municipality to the East and Bheemdatt Municipality to the West. The municipality was formed by merging 2 adjoining village development committees (Jhalari VDC and Pipladi VDC). The results of a Financial Management Assessment Questionnaire (FMQA) are provided in **Annex 6-E**. The proposed Organization Chart for Attariya Municipality is provided in **Figure 5-1**

5.2 Municipal Budget Allocation

78. Until municipal declaration, Jhalari-Pipladi (then VDCs) jointly collected around Rs.8,570 million in which only Rs.1,222 million was collected from House Land, Vehicle Tax, Professional/Business Tax and different fees/fines. The Own Source Revenue counts only for 14.28% of total revenue whereas external (central government development and administrative grants including social security grants) sources counts around 71.90%. The balance forward is around 13.82% of total revenue of these two VDCs – now municipality.

79. Immediately after the declaration of municipality, Jhalari-Pipladi drafted their annual plan and budget for FY 2072/73 (i.e. 2015/16) and forwarded to MoFALD. As per available information, the municipal council approved the budget for FY 2015/16 (see **Table 5-1**).

Table 5-1: Jhalari Pippaladi Municipality Annual Budget (FY2072/73) (Rs. million)

SN	Budget Head	Proposed Expected Budget	% of Total Budget
1	Own Source Revenue (Internal Source of Municipal Income)	24,75,000	2.95%
1.1	House Land Tax	175,000	
1.2	Land Revenue	425,000	
1.3	Vehicle Tax	50,000	
1.4	Entertainment Tax	5,000	
1.5	Unclaimed Land Tax (Bahal Bitauri)	15,000	
1.6	Advertisement Tax	5,000	
1.7	Professional/Business Tax	350,000	
1.8	Service Charges	20,000	
1.9	Recommendation Fees	1350,000	
1.10	Revenue Sharing	50,000	
1.11	Fines	20,000	
1.12	Miscellaneous Income	10,000	
2.	External Source	815,87,895	97.05%
2.1	Grants – from GoN	620,00,000	
2.2	Grants – DDC	37,895	
2.3	Grants – Other Institutions	550,000	
2.4	Social Security Grant	190,00,000	
	TOTAL INCOME	840,62,895	

80. As a new municipality, Jhalari-Pipladi is expecting quite a high amount of central government grant as "establishment fund" which comes to nearly 73.75% of total income. Consequently, Own Source Contribution is only 2.95% of total income. The above statement indicates a very gloomy picture of municipal own source revenue status. Due to being a newly declared municipality, it has just started their first fiscal year activities thus financial performance cannot be compared with budgeted activities.

5.3 Budget Allocation Strategy

81. During the budget and plan preparation (FY 2015/16), Jhalari-Pipladi has forwarded and approved the long term vision – "A Manageable Green and Model City with Agriculture and Industries". To fulfill the vision, the municipality authorities agreed on the following objectives and aim: ***"With the sustainable development of infrastructure for agriculture and industries – a green and clean city will be merged with economic prosperity"***.

82. To achieve the above vision and objective, the following policy and strategies will be followed for overall municipal development. The municipal budget has been allocated based on the following strategies.

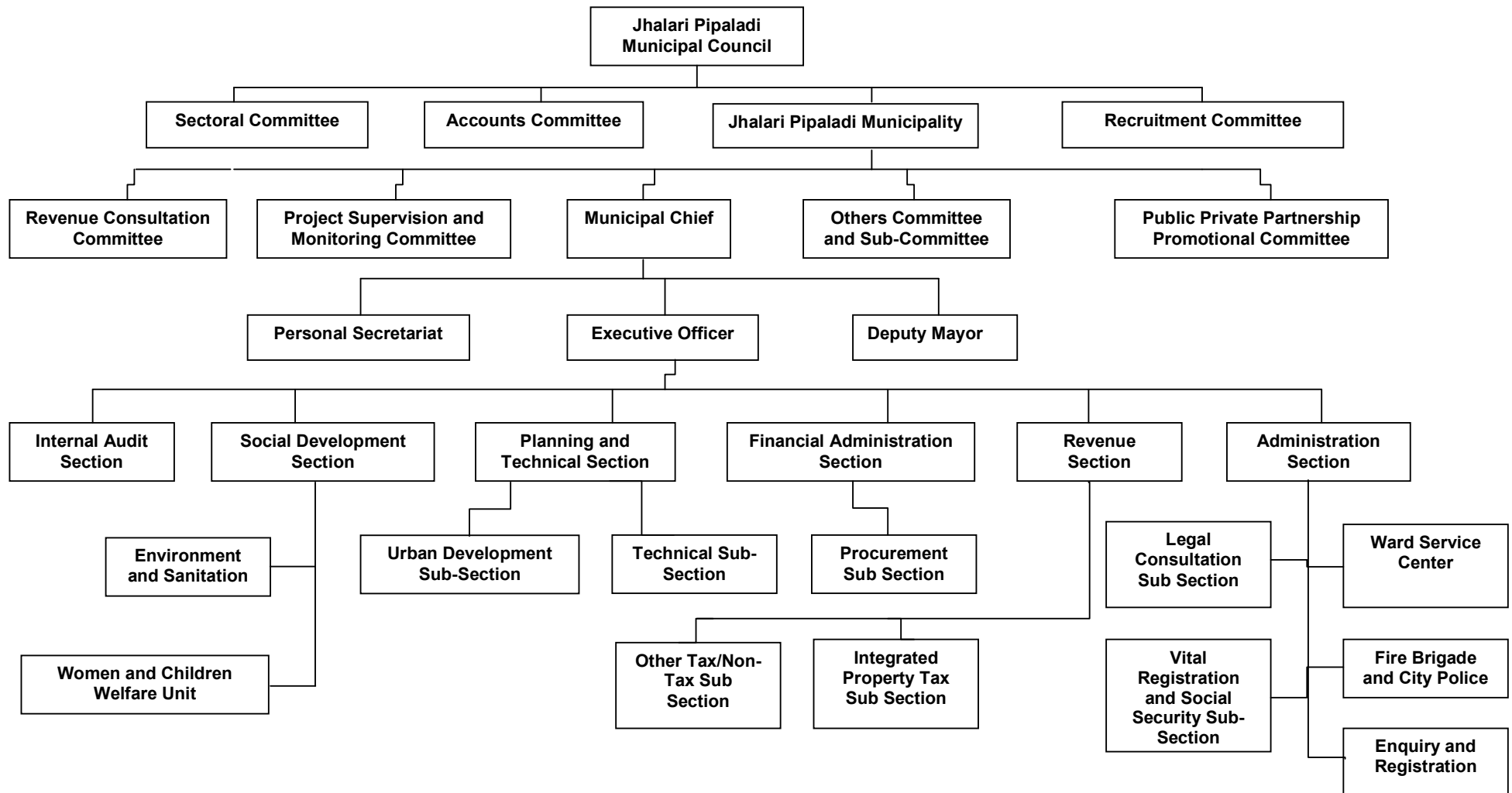
a) Urban Development Policy/Strategy:

- i. Preparation of Municipal Master Plan and Periodic Plan with close coordination of MoUD, MoFALD and other concerned institutions.
- ii. Preparation of Drainage Master Plan of entire urban settlement with close coordination of concerned institutions
- iii. Concept of Zero Landfill Site - as per LSGA (Financial Administration 2064)
- iv. Implementation of Building Bye-Laws
- v. Implementation of Earthquake Resist Building Construction Policy with effective way – within the core urban areas
- vi. Building Permit is compulsory during any construction
- vii. Regular monitoring of construction sites by municipal technicians.
- viii. For waste management: three different places are identified and will implement accordingly (Ban Samittee, Jhalari and Kaluwapur Market Area) with public-private partnership basis.
- ix. Management of street light with users committee or community involvement
- x. Urban Land Ownership Program – Mapping
- xi. Urban Linkage Road Construction and Road Standardization
- xii. Quality Education Assurance
- xiii. Construction of Urban Small Bridges
- xiv. Initiation for establishment town development committee and local chamber of commerce
- xv. Initiation of bus park construction – with concerned stakeholders and agencies

b) Finance and Revenue Resource Mobilization Policy/Strategy

- i. Felicitation to highest tax payers and regular tax payers – 4 people
- ii. 5 to 10% discount will be provided who paid taxes in given time frame
- iii. No Tax, No Urban Services – policy will be initiated
- iv. Business/professional tax will be collected with close coordination of business community/market management committee
- v. Initiation for IPT implementation after proper ground-work and preparation of city profile

- vi. Instead of increasing tax rate – more emphasis will be given on increasing of tax coverage
- c) Good Governance and Organization Development Policy/Strategy:
 - i. TOR will be developed for all municipal employees
 - ii. HRD Plan will be prepared
 - iii. CITIZEN CHARTER will be prepared and followed accordingly
 - iv. Municipal Website will be developed for easy flow of municipal information
 - v. Help-Desk will be established for easy delivery of municipal services
 - vi. Advance filling system will be introduced
 - vii. Information of municipal management development and income/expenditure will be duly published and public hearing will be conducted on municipal service delivery system
 - viii. Study will be carried out on Municipal Existing Organization Development
 - ix. Based on the merit and other indicators, municipal employees will be rewarded and punished.
- d) Municipal Policy and Strategy on Agriculture, Forestry, Environment, Health and Sanitation
- e) Municipal Policy and Strategy on Social Development

Figure 5-1: Jhalari Pipaladi Municipality Proposed Organizational Structure

6 Municipality Training Needs Assessment

83. The present human resources in each of the four project municipalities and their skills were assessed in order to identify gaps in staff levels and needs for training. Issues assessed included: a) staffing pattern; b) preparation of annual budgeting and planning; c) existing accounting system; d) accrual accounting system (AAS); e) enhancing municipal own source revenue; f) inventory/ stock management; and g) internal audit.

84. A summary of the training needs assessment is provided in **Table 6-1**. Brief Action Plans for improving municipal financial management in each of the 4 municipalities are provided in **Annex 6-F**.

Table 6-1: Municipality Trainings Needs

Attariya <ul style="list-style-type: none"> Revenue and Accounting Software Operation Vital Registration Software Operation Concept of Accrual Accounting System Assets Valuation Liabilities Identification (gratuity, leave encashment) Preparation of first opening balance-sheet Improved collection method of tax and non-tax revenue 	Bheemdatt <ul style="list-style-type: none"> Municipal Revenue Mobilization Integrated Property Tax – focus on modified way of collection and coverage Accounting Training – How to prepare Balance Sheet (considering new accounting system – accrual accounting) Store Management – Inventory Management Internal Auditing – How to improve it in implementation (area of intervention, new method of auditing- concept clarity) Financial Report Writing – improved way of software application Integration of existing IT with new upcoming improved software Better use of existing regional learning center human resources in different training of municipal management and development
Dhangadhi <ul style="list-style-type: none"> Municipal Revenue Mobilization Integrated Property Tax – focus on modified way of collection and coverage Accounting Training – How to prepare Balance Sheet (considering new accounting system – accrual accounting) Store Management – Inventory Management Internal Auditing – How to improve it in implementation (area of intervention, new method of auditing- concept clarity) Financial Report Writing – improved way of software application Integration of existing IT with new upcoming improved software Better use of existing regional learning center human resources in different training of municipal management and development 	Jhalari Pipaladi <ul style="list-style-type: none"> Collection procedure of tax and non-tax revenue of municipality Vital Registration – how to perform Software Operation of Vital Registration Revenue (IPT) and Business Tax and Accounting Software Operation Concept of Accrual Accounting System Assets Valuation Liabilities Identification (staff gratuity) Preparation of first opening balance-sheet

ANNEX 6-A-1

DUDBC

Financial Management Assessment Questionnaire

Annex 6-A-1: DUDBC - Financial Management Assessment

Topic	Response	Remarks
1. Implementing Agency		
1.1 Which entity is the EA?	It is totally government organization - under the Ministry of Urban Development (MoUD) - Department of Urban Development and Building Construction (DUDBC)	The ministry has already executed ADB projects such as UEIP, Small Town Water Supply and Sanitation Sector Project (STWSSSP) and Integrated Urban Development Project (IUDP-1) – jointly with different municipal bodies in the country. Also assistance is on- going in 6 municipalities (capacity development and physical development) under the World Bank financial assistance.
1.2 What are the entity's legal status / registration?	MoUD is one of the line ministries of Central Government. DUDBC is one of the Departments under MoUD. DUDBC deals with housing and urban development, urban environment and building construction.	Department of Urban Development and Building Construction (DUDBC) is one of the main departments of MoUD .
1.3 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	DUDBC recently completed the ADB funded Urban Environment Improvement Project in nine municipalities of Nepal. Besides these projects, DUDBC has started to implement the ADB funded Secondary Town Urban Environment Improvement Project in three municipalities, The World Bank funded Urban Governance and Development Project in 6 municipalities and the Saudi Development Fund funded Urban Development Project in five municipalities.	Integrated Urban Development Project – IUDP 1 is near to completion.
1.4 Will financial management of the project be the responsibility of a standalone PIU? – or of a PIU using EA financial systems?	The PIU will adopt the financial management system of the EA. There will be a separate financial management system in place to manage the project funds under the municipality in general supervision of the EA.	Proposed municipalities (Attariya, Bheemdatt, Dhangadhi and Jhalari-Pipaladi) will assist in keeping all the accounting documents and book-keeping
1.5 What are the statutory reporting requirements for the entity?	DUDBC reports to MoUD and donor agencies in relation to projects. The PIU prepares reports based on guidelines provided by the Financial Administration Regulation and according to the reporting manuals provided by donors.	
1.6 Is the governing body for the project independent?	The Project Governing Body will be set up separately under MoUD. The Project Steering Committee created under MoUD will take policy decision on the Project.	
1.7 Is the organizational structure appropriate for the needs of the project?	Yes, the organizational structure of DUDBC is appropriate for the needs of the Project.	DUDBC is already experienced as Executing Agency of several ADB funded projects.

Topic	Response	Remarks
2. Funds Flow /Disbursement Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	<p>The project financing will consist of an ADB fund (ADB loan converted into government grant), government grant, municipality fund and community contribution. The ADB's share of loan converted into government grant and government grant will be provided by the Ministry of Finance (MoF) to the municipality through PCO.</p> <p>GoN will pre-finance the ADB share of funds. In order to ease the cash flow of the Government, the ADB will establish a US dollar imprest account at the Central Bank. The project will withdraw money from this account periodically to reimburse funds provided by the Government. PCO will submit applications for reimbursement from the imprest account. In case larger amounts will be payable to the vendors, PCO will submit withdrawal applications to the ADB directly.</p>	<p>The PCO at DUDBC maintains the imprest account. Project accounts are kept separate.</p> <p>There is a project steering committee in MoUD to make important decisions on the project and it is already in practice for several external donors funded projects.</p> <p>The entire project fund will be expected tentatively as:</p> <p>ADB Loan 70 Million US\$ Co-financing 24 Million US\$ GoN 15 million US\$ Municipalities 6 million US\$ Total Projects cost of around 115 US\$ million.</p> <p>Disbursement to different municipalities are tentatively:</p> <p>Attariya 26 \$ million Bheemdatt 37.5 \$ million Dhangadhi 36.5 \$ million Jhalari-Pipaladi 15 \$ million</p>
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government/Finance Ministry) to the entity satisfactory?	Yes, it is considered satisfactory as the system and procedure for such transfer already exists.	The said arrangement already used in previous ADB funded urban related projects.
2.3 Does the entity have previous experience of using imprest fund and SOE procedures?	Yes, DUDBC has successfully implemented the ADB-funded UEIP by using imprest fund and SOE procedures.	
What have been the major problems in the past in receipt of funds by the entity?	No major problem was encountered. DUDBC has experience in the operation of imprest account and SOE procedures. Two major issues faced by the UEIP projects were:	
Where there any problems or issues encountered by project staff in the operation of the imprest fund or SOE procedures in the past?	1. SOE of retention money at the end of project 2. reimbursement of variation amount due to the lack of timely reporting by municipalities to the PIU and the ADB.	
2.4 In which bank will the Imprest Account be opened?	The imprest account will be with Nepal Rastra Bank – the Central Bank of Nepal.	The Project Coordination Office (PCO) will operate the imprest account.
2.5. Does the (proposed) implementing unit (EA, IA or PIU) have experience in the management of disbursements from ADB?	EA has experience of managing disbursements from the ADB.	
2.6 a Does the entity has previous experience with imprest fund and SOE procedures?	Already mentioned in 2.3	
2.6 b Were there any problems or issues encountered by project staff in the operation of the imprest fund of SOE procedures in the past?	Already mentioned in 2.3	

Topic	Response	Remarks
2.7 Does the entity have/ need to develop to manage foreign exchange risks?	The Government will bear foreign exchange risks. Therefore there is no need to develop the capacity of EA.	In general, Ministry of Finance look after these matters
2.8 How are the counterpart funds accessed?	The counterpart funds from GoN are accessed through the central budget. EA will be responsible for preparing programs, disbursement projections and requesting budget allocations for counterpart funds. The municipalities will allocate necessary counterpart funds from their own budget following approval by the Municipal Council.	The EA gets one third of the budget in advance and once the amount is expended, another payment will be released upon submission of Statement of Expenditure and deposit of the ADB grant/loan on the imprest account. By the end of December 2015, project funding allocation should be approved by ADB and GoN and it should be immediately intimated to the Project municipalities for fund allocation in their annual planning and budgeting.
2.9 How are payments made from the counterpart funds?	The government will provide counterpart funds from the Government Treasury to the Project. Since the donor supported projects are Priority 1 projects, the Government will transfer one third of the project budget to the PCO account from the Central Treasury after the beginning of each FY.	Municipalities will transfer the allocated counterpart funds to the PIU according to the requirement. The community counterpart funds are collected from the community in the form of cash or in-kind contributions. Cash collection is deposited at the Municipality as specified in the agreement. The Municipality will transfer it to the PCO.
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Although the Procurement Act and Regulation describes the general procedure to mobilize the Community (user's committee) and NGOs, the PIU will have to develop necessary financial reporting and monitoring systems to deal with communities or NGOs.	Communities or NGOs may not be able to handle the big volume projects – however, involvement could be possible in neighborhood development projects.
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	The Project does not envisage the beneficiaries contributing to project costs. Beneficiaries will be charged once the Project is complete.	In the case of water supply, users will be charged a connection fee at the time of water supply connection. Therefore it is not considered as contribution from the beneficiaries during the project period. Consumers are ready for "service fee" or users charges once project completed – involvement during the project construction phase is not viable.
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	There is an overall organization chart but no separate chart for the Financial Administration Department. = The Financial Administration Section is responsible for the accounting and finance functions. For UEIP, a separate accounting unit was set up at PIU to deal with all project-related financial matters.	Concerned municipal finance people will be involved in financial record keeping. In many cases, CGO also depute their officers in such cases.

Topic	Response	Remarks
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	The proposed positions for the project will include an Accounts Officer and an Assistant Accountant for issuing invoices, processing, payments and accounting.	The Account Officer and Assistant Accountant will be deputed by the Central Government as and when required.
3.3 Is the project finance and accounting function staffed adequately?	Yes.	
3.4 Is the project finance and accounts staff adequately qualified and experienced?	Yes.	
3.5 Is the project accounts and finance staff trained in ADB procedures	Although, the accounts staff working at DUDBC have experience with the ADB, training is needed on computerized accounting systems and ADB procedures. The accounts staff working at municipalities do not have experience and knowledge of ADB procedures.	Training on computerized accounting system and ADB procedures will also be required for the accounts staff at PIU and similarly, some training may be needed for municipal finance staffs in ADB accounting procedures.
3.6 What is the duration of the contract with the finance and accounts staff?	The accounts staff will be deputed from the staff of Central Government in PCO and from municipalities in PIU. The staff members are permanent staff of Central Government.	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	Not relevant for this Project	
3.8 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Based on UEIP and IUDP-1, the roles and responsibilities of staff working at DUDBC are clear.	Duties and responsibilities are defined and in practice for IUDP-1
3.9 At what frequency are personnel transferred?	Generally, the Financial Comptroller General Office transfers accounts staff from one office to another every two years.	In special cases, staff may either be transferred before the completion of two years or stay in office for longer than two years. And, in case of municipal finance – they are permanently recruited in the municipalities
3.10 What is training policy for the finance and accounting staff?	The Revenue Administrative Training Centre and Staff College provides basic training to finance and accounts staff prior to taking up positions. In addition, various governmental and non-governmental agencies provide training to finance and accounts staff depending on project needs.	It is advisable to deliver training prior to project start.

Topic	Response	Remarks
4. Accounting policies and procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	The project will follow the entity's accounting system which is based on the standard government accounting system directed by the Financial Comptroller General Office. The financial accounting and reporting system includes project financial transaction, allocation of expenditures in accordance with the respective components, disbursement categories and source of funds. The PCO maintains two types of accounts: one for the Government and another for the ADB.	The financial policies of the PCO/EA are required to comply with several laws and regulations. The most important ones are: Public Procurement Act, 2063 (2007) Public Procurement Rules, 2064 (2008); Financial Procedure Act, 2055 (1999) Financial Procedure Rules, 2064 (2008); Travel and Days Allowance Rules 2064 (2008); Budgeting directives and so often, Local Self-Governance Act also referred in different payment procedure – in case of municipal joint projects.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, a controlling system is in place. The system follows approval of transactions by the Project Director, internal audit and statutory audit.	In case of municipality involvement – internal audit section also responsible for scrutiny of payment.
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Are reconciling items properly identified (with sufficient details provided) and disposition in a timely manner?	Yes. The existing chart of account is adequate for reporting on project activities and disbursement categories. The PCO reconciles financial transactions including deposits, disbursements and payments with bank and to be disposition once every month.	There is a need to prepare project accounts and sub-accounts separately as per the reporting requirement for the ADB and other agencies.
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes, the system exists.	
4.5 Are the General Ledger subsidiary ledgers reconciled and in balance?	Yes. General and subsidiary ledgers including loan register, imprest account and subsidiary accounts are balanced and reconciled on a monthly basis.	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes.	
A. Segregation of Duties		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in transaction?	Yes. Project Chief and Finance Officer will be responsible for final authorization of approval and the Accounts Unit will be responsible for accounting and reporting; and Store Unit will be responsible for custody of assets.	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	The same Store Unit is responsible for ordering and receiving of goods but payment is made by a different unit. Store requirements are identified by concerned section.	
4.9 Are bank reconciliations prepared by someone other than those who make approve payments?	Yes, the bank reconciliations are prepared by the Accounts Unit, not by the person that approves the payment.	

Topic	Response	Remarks
B. Budgeting System		
4.10 Do budgets include physical and financial targets?	Yes, the DUDBC budget includes both physical and financial targets. In case of UEIP, the physical target is not clearly specified in the yearly budget but it is now clear in IUDP-1.	The budgeting system applies a medium-term expenditure framework.
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool to monitor subsequent performance?	Yes, the budget is prepared in detail for all significant activities, providing a benchmark for monitoring performance.	
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes, the actual expenditures are compared to the budget before each transaction. Budget variations are approved by the Project Director up to certain limit and by supervising agencies above that limit.	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Variation approvals are required before the fact. The Director General of DUDBC is responsible for budget variations.	
4.14 Who is responsible in the preparation and approvals of budgets?	The PCO in coordination with the Financial Administration Section will be responsible to prepare the program and budget. The National Planning Commission and MoF are responsible for finalizing the program and budget.	
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes, the PCO will coordinate with the PIU on identifying activities, preparing programs and budget.	
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions and developed by knowledgeable individuals?	Yes, plans and budgets are realistic. Actual are very close to budgeted amount and target.	
C. Payments		
4.17 Do invoice-processing procedures provide for: (i) copies of purchase orders and receiving of reports to be obtained directly from issuing departments? (ii) comparison of invoice quantities, process and terms with those indicated on the purchase order and with records of goods actually received? (iii) comparison of invoice quantities with those indicated on the receiving reports? (iv) checking the accuracy of calculations?	Yes. Copies of purchase orders and receiving reports are obtained from issuing department. ii. Comparison always made once goods received from the suppliers with purchase orders. iii. Comparison of goods quantities are made with purchase orders and iv. Checking of accuracy also made by store as well as accounts section during final payment.	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes, invoices are stamped and marked 'PAID' after payment.	

Topic	Response	Remarks
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes. The Accounts Section is responsible for preparing payroll, which has to be approved by the authority every year. It is required to get approval from the authority to make changes to the payroll. And it is compare with new attendance machine installed recently.	
D. Policies and Procedures		
4.20 What is the basis of accounting (e.g., cash, accrual)?	The MoUD and PCO/DUDBC uses cash-based accounting system.	
4.21 What accounting standards are followed?	The accounting standards followed are set out by the Government of Nepal's Financial Comptroller General Office and Auditor General. These are based on the International Public Sector Accounting Standards, Nepalese Accounting Standards, International Accounting Standards (IAS), and International Financial Reporting Standards (IFRS)	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes. There is a code of conduct of public services and the Financial Administration Regulation has set out the job description of the finance chief. The regulation has also defined procedures of financial transactions.	
4.23 Is the accounting policy and procedure manual updated for the project activities?	Some updating has been made in the accounting policy and procedure manual but still there is a need to update the accounting policies and procedures manual procedures.	
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes	The Project Steering Committee has already initiated action to take decision on the issue based on the agreement with the ADB.
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes. The Procurement Act and Regulation; the Financial Management Act and Regulation; as well as manuals prepared by the MoF and FCGO provide guidelines covering all routine financial management activities. Besides, the PCO follows ADB procedure guidelines for procurement and SOE.	
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes.	
4.27 Are manuals distributed to appropriate personnel?	It is accessible by the personnel working on the project.	
E. Cash and Banking		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	The signatories to bank accounts will be the Project Manager and Accounts Officer (AO) from PIU and the Project Director and AO from PCO.	

Topic	Response	Remarks
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes. DUDBC maintain and adequate, up-to-date cashbook, recording receipts and payment procedure.	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes, collection, timely deposit and recording of receipts are done accordingly in each of division office of DUDBC	
4.31 Are bank and cash reconciled on a monthly basis?	Yes. Bank reconciliation done on monthly basis.	
4.32 Are usual items on the bank reconciliation reviewed and approved by a responsible official?	Yes. It is done by responsible officials base on the volume of the transaction	
4.33 Are all receipts deposited on a timely basis?	Yes, on a daily basis, all the receipts are deposited in the bank.	
F. Safeguard over Assets		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes. The Store Unit keeps records of fixed assets and stocks.	There is no system and valuation of assets on a yearly basis as it is not required for cash base accounting system
4.35 Are subsidiary records of fixed assets and stocks kept up to date reconciled with control accounts?	Yes. A store verification system exists.	Sometimes, final auditor also performs store physical verification
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes. A system for physical inventories of fixed assets and stock exists. As a rule, these are to be done on six-monthly basis at the minimum.	In accordance with the Government rule, the Head of the Institution must constitute an Inventories Inspection Committee. The system and formats are provided by laws and regulations. The assets and inventories are recorded at a historical cost.
4.37 Are assets sufficiently covered by insurance policies?	The insurance policy does not cover all assets. However, there is a system of insuring vehicles.	Insurance covered vehicle and heavy machinery but not all assets
G. Other Offices and Implementing Entities		
4.38 Are there any other regional offices or executing entities participating in implementation?	No. The Project will be executed by MoUD's DUDBC and implemented by the Municipality	In IUDP2, ADB fund should be administered by DUDBC PCO and concerned municipalities
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes, the Project will maintain procedural and control relations with the municipalities.	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes. However, the PCO has experienced delays in accurate reporting by the municipalities of UEIP.	Annual training on ADB procedures is required for municipal finance staff.
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes.	
H. Advance Payments		

Topic	Response	Remarks
4.42 Does the entity have adequate guidelines for advance payments to individual staff and regional offices (if applicable)?	Yes, the advance payment procedure is guided by the Financial Administration Regulations and Travel and Days Allowance Regulations.	
4.43 Do the guidelines clearly define proper authorizations, ceiling of advance amounts and appropriate liquidation periods?	Yes – it is guided by proper guidelines on authorizations and ceiling of advance.	
4.44 Are controls in place to monitor outstanding advances and ensure frequent liquidation? Are the outstanding advances periodically confirmed with the concerned staff?	Yes-controls are in place to monitor on outstanding advances.	
4.45 Do regional offices open separate bank accounts or maintain cash books to be used exclusively for advances from ADB financing, counterpart funding and other financiers? Are the bank account and cash book reconciled to the general ledger or sub-ledger on a monthly basis?	Yes, The PIU opens a separate bank account for the transaction. The PIU advance procedure is also guided by the regulation and Local Body Financial Administration Regulation. There is a system of advance ledger and outstanding advances are followed up regularly.	DUDBC regional offices will not get directly involved with project finances of IUDP2. But DUDBC Division office could have a role in implementation of the physical works if applicable.
I. Other		
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Yes. They may report to their respective line managers or the executive officer.	
5. Internal Audit		
5.1 Is there an internal audit department in the entity?	There is no internal audit department as such. The internal audit function is performed by the District Treasury Controller Office (DTCO), every month.	But in case of municipal involvement, internal audit section exists and can have some role in pre-audit before any big payments.
5.2 What are the qualifications and experience of audit department staff?	The DTCO sends experienced and qualified staff to perform internal audit.	
5.3 To whom does the internal auditor report?	Internal auditor reports to the project director/head of the department.	
5.4 Will the internal audit department include the project in its work program?	Yes.	
5.5 Are actions taken on the internal audit findings?	Yes.	
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. The statutory or external audit is conducted after the end of each fiscal year by staff appointed by the Office of the Auditor General of Nepal.	The Office of the Auditor General of Nepal is a constitutional independent body, reporting to the President.
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. The audit is generally completed within 9 months after the completion of FY. The audit report is issued 35 days after the completion of audit.	
6.3 Is the audit of the entity conducted according to the	Yes. Audit is conducted as per the Nepalese Auditing Standards. These	

Topic	Response	Remarks
international Standards on Auditing?	are also in compliance with International Auditing Standards.	
6.4 Were there any major accountability issues brought out in the audit report of the past three years? Were there any issues noted in prior audit reports related to the operation of imprest account or use of SOE procedure?	No major issues. Issues generally relate to advance payments. No	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	The same auditor will audit the project accounts.	
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Yes, relating to advance payments made to various contractors.	
6.7 Is the project subject to any kind of audit from an independent governmental (e.g., the supreme audit institution) in addition to the external audit	No.	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	No. It is not required.	
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Financial statements along with the supporting schedules are prepared as per GoN Accounting Standards.	These follow International Financial Reporting Standards (IFRS) and involvement of municipal accounting section could be useful.
7.2 Are financial statements prepared for the implementing unit?	Yes.	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Financial statements are prepared on a monthly, quarterly and annual basis. This provides information for management decision making.	
7.4 Does the reporting system need to be adapted to report on the project components?	Yes.	Adoption of reporting system on project components could bring more financial information and leads towards financial transparency.
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	There are different reports prepared for financial and physical progress reporting. While preparing the physical progress report, there is a need to synchronize financial data with physical progress.	
7.6 Does the project have established financial management reporting responsibilities that specify what	Yes, it does.	

Topic	Response	Remarks
reports are to be prepared, what they are to contain, and how they are to be used?		
7.7 Are financial management reports used by management?	Yes.	Use of financial management reports will bring advance information of project activities.
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes.	Basically for positive result, it is in practice and used periodically by the PCO.
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	No, the Finance Unit uses spreadsheets to generate financial and progress reports.	
8. Information Systems		
8.1 Is the financial management system computerized?	Not at DUDBC/PCO although the DUDBC Financial Administration Section is in the process of procuring an accounting software.	The financial reporting system is prepared by using spreadsheets.
8.2 Can the system produce the necessary project financial reports?	No	
8.3 Is the staff adequately trained to maintain the system?	No	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes	

ANNEX 6-A-2

DUDBC Risk Analysis Summary

Annex 6-A-2: Risk Analysis Summary**Executing Agency = MoUD/DUDBC - Implementing Agency = DUDBC/Municipalities**

Risk	Risk Assessment	Proposed Mitigation
Inherent Risks		
1a. National	M	<p>MoUD is one of the line ministries of Central Government. DUDBC is one of the Departments under MoUD. DUDBC deals with housing and urban development, urban environment and building construction. The MoUD/ DUDBC has experience with ADB and other donor funded projects such as World Bank, KFW, JICA, GIZ etc. The government has adopted standard accounting and financial management system. The municipalities' accounting and financial management system is guided by Local Bodies Financial Administration Regulation is also based on the government accounting and financial management system.</p> <p>For more than a decade, local municipalities are not represented by locally elected political parties; however it has a "all political parties mechanism" at local level. In the absence of the elected body the Accounts Committee is not functional. It is a very important committee in maintaining the financial discipline of the municipality.</p> <p>Nepal is in process of state restructuring and federal government system is under consideration. In such situation, the existing linkage and coordination mechanism between local to central and vice-versa will be changed.</p>
1b. EA and IA	M	<p>The Executing Agency of the project will be the Ministry of Urban Development (MoUD) through the Department of Urban Planning and Building Construction (DUDBC). A Project Coordination Office (PCO) will be established at DUDBC. PCO will be using the accounting system and procedures prescribed by the government.</p> <p>The municipalities will be using the financial management system and procedures prescribed by the Local Self Governance Act, 2055 (1999), Local Self Governance Regulation, 2056 (1999), and Local Bodies (Financial Administration) Rules 2007 (2064).</p> <p>The financial management system and procedures of the PCO and PIU/ municipalities are very similar based on cash basis of accounting.</p> <p>The financial reporting formats of the PCO and municipalities are different. Municipality reporting formats will have to be formatted to meet the reporting requirements of PCO.</p> <p>Moreover, the formats of PCO and PIU will need to be revised and adapted to meet the requirements of ADB. It will be essential to redesign the reporting formats of the PCO and PIU so that PCO can compile and produce the essential statements to meet the requirements of ADB for reporting and accounting.</p>
Control Risks		
2. Funds flow/ disbursement arrangements Need for Imprest Accounts(s)	M	<p>PCO and PIU will have to make the budgetary allocation for project expenditures to be incurred in the following year. Budgets are prepared and approved before the year end. PCO will have to make budgetary provision for prefunding the project expenditure for local expenditures of the PIU. Inclusion of the project activities in the annual budget and timely</p>

Risk	Risk Assessment	Proposed Mitigation
Use of Direct Payments Need for the Statement of Expenditure.		<p>approval of the budget should be given particular attention so that the project activities are not hampered. It has been anticipated that PCO will develop budgetary line items jointly with concerned municipalities for more ownership responsibilities of any physical development projects or capital intensive projects.</p> <p>An Imprest Account will be established to ease the cash flow of the ADB share of funding. It will be located at the Central Bank and will be operated by the PCO (Project Director). PCO has experience in the operation of the Imprest Account. No second generation Imprest Account will be opened. Timely submission of the statement of expenditure by the PIU to PCO will be necessary for using the Imprest Account effectively and efficiently.</p> <p>Direct payment procedures will be used for bigger payments as per the disbursement procedures of ADB.</p> <p>Statement of Expenditure (SOE) procedures will be used for smaller payments as per the disbursement procedures of ADB.</p> <p>PIU will need orientation on the fund flow and disbursement procedures of ADB. Such orientation is also necessary for concerned municipalities involved in the project implementation under IUDP2.</p>
3. Staffing	L	<p>PCO financial management staff are deputed by the Office of the Financial Comptroller General. It should be manned by two staff, one Officer and one Assistant. No problem in envisaged in making this arrangement. In the meantime, concerned municipal staffs will be also assigned for book-keeping under the IUDP2.</p>
4a. EA - Accounting Policies and Procedures	L	<p>DUDBC has experience in handling the ADB funded projects. No problem is envisaged in maintaining the accounts, meeting reporting requirements and handing disbursement procedures.</p>
4b. IA - Accounting Policies and Procedures	M	<p>The municipality follows the accounting policies and procedures prescribed in the Local Bodies Financial Administration Regulation. These procedures are quite elaborate and are sufficient in ensuring proper authorization, recording and reporting of the transactions. The procedures are adequate for procuring and recording the assets. The budgeting procedures provide guidelines and time frame for preparing budgets. Limited capacity to adopt the guidelines and accounting formats is the main weakness.</p> <p>Two of the municipalities have handled small donor funded project but has no experience in handling the ADB funded projects.</p> <p>The accounting staff will need orientation and training in keeping separate project accounts, reporting requirements and handling disbursement procedures.</p>
5. Internal Audit	L	<p>Internal audit of the PCO is carried out by the District Treasury and Controller Office (DTCO). The current practice of internal audit is satisfactory. Whereas, in municipal level, Dhangadhi and Bheemdatt has their own internal audit section. Attariya and Jhalari-Pipaladi are still waiting for recruiting process.</p>
6. External Audit	L	<p>In the past, audits of the ADB funded projects are carried out by the Office of the Auditor General. The consolidated project account (PCO and PIU) is certified by the OAG. This</p>

Risk	Risk Assessment	Proposed Mitigation
		arrangement is satisfactory. However, municipalities also conduct their final audit through Chartered Accountants Firms in general.
7. Reporting and Monitoring	L	DUDBC has satisfactory reporting and monitoring record with previous ADB funded project.
8. Information System	L	Although DUDBC has satisfactory record of information system with previous ADB funded project, there is no computerized accounting system. The introduction of computerized accounting system is required for efficient and effective financial reporting system. Meanwhile, municipalities are using software developed by different private software companies – software securities are one of the issues of such private software venders.
9. Overall Control Risks before mitigation action	L	Staffing, accounting policy and procedures of EA, external audit, reporting and monitoring, information system
	M	The fund flow system from PCO to PIU should be clearly defined and implemented. Likewise, the PIU need to oriented on disbursement and SOE procedures before starting implementation of the project activities. The municipalities are not experienced in implementing large scale projects therefore the municipalities should acquire qualified accounts officers to manage project accounts, reporting requirements and handling disbursement procedures
H = High, M = Moderate, L = Negligible or Low		

Recommendations for Financial Management Improvements

SN	Subject	Recommendation	Timeline
System Improvement			
1.	SOE of retention money of contractors	As experienced in UEIP and IUDP, retention money of contractors is due but the project offices have to settle the total project expenditure with the ADB before payment of the retention money to the contractors. This issue needs to be settled in the project agreement with the ADB.	October, 2015
2	Updating Project Financial Administration Manual	Updating of project financial administration manual and provide training to the PCO and PIU staff.	Before loan agreement for IUDP2
3	On the job support	Additional technical experts are required to provide on the job support to the PCO and PIU to install and operationalize the financial management system based on the ADB procedure, especially in the beginning and closing of the project.	Before loan agreement for IUDP2
5	Insurance	All created assets under the project should be covered by insurance including heaving machine and vehicle.	Yearly
Staff Training			
1.	Training on Project Accounting & Auditing	Training to the PIU, PCO finance staff on project accounting and auditing. Emphasis should be on ADB procedures (based on the Project Administration Manual)	Before loan agreement for IUDP2
2.	Training on Financial Reporting	Training on ADB procedure (SOE) for the concerned project staff of PCO, PIU and TDF	Two months after project commencement

ANNEX 6-B-1

Attariya Municipality Financial Management Assessment Questionnaire

Annex 6-B-1: Attariya Municipality
Financial Management Assessment Questionnaire

Financial Management Status	Response	Remarks
1. Agency (Implementing)		
1.1 What is the entity's legal status / registration?	Municipalities – are governed under the "Local Self-Governance Act - LSGA 1999). Very recently (mid of 2014) Attariya was declared as municipality	At present, altogether 191 (including Metropolitan, sub-metropolitan and municipality) 1 Metropolitan City 11 Sub-Metropolitan City 179 Municipality 3278 Village Development Committee May, 2014 – GoN declared 72 new municipalities including Attariya with total number 130
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	No such externally financed projects were implemented in the past.	
1.3 What are the statutory reporting requirements for the entity?	As per LSGA, Municipality are responsible to Ministry of Federal Affairs and Local Development (MoFALD) / Municipal Management Division for all the reporting requirements directly.	If the projects are financed by any external donor support – periodic progress report also goes to the concerned donor agencies
1.4 Is the governing body for the project independent?	Projects generally governed independently by municipal planning unit – after doing all the formal process (i.e. designing, costing, tendering and selection of contractors). Some have individual project under the supervision of municipal planning section.	Sub-Engineer is doing all the project work with the help of another Asst. Sub Engineer Another new Sub-Engineer is hired on contract basis.
1.5 Is the organizational structure appropriate for the needs of the project?	Currently only 3 technical personal are engaged with municipal activities. Existing organization status: Planning and Technical Section is under the Municipal Executive Officer. Still Organization Chart has to be prepared and approved. (A sample Proposed Organization Chart is attached)	Still waiting direction from MoFALD regarding new recruitment process. Although, 29 personals will be recruited In near future.
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Fund Flow Arrangement for the project is expected as follows: <ul style="list-style-type: none"> • ADB fund to Nepal Government • Nepal Government to Concerned Municipality – Loan Agreement • During the project implementation: DUDBC, Division Office and concerned municipality should jointly operate the accounts and book-keeping should be under the municipality office. 	Accordingly, municipality will pay back to Nepal Government (if loan) with anticipated interest rate. The fund flow arrangement will reduce the financial liabilities.
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	The above mentioned "fund flow arrangement" is ok	Municipalities are in favour to reduce "bureaucratic process" and expected quick loan process so that they can complete the program in time. Municipality is getting delay for approval due to administrative hustle-bustle.
2.3 What have been the major problems in the past in receipt of funds by the entity?	No such major problems experienced as this municipality recently declared as Municipality.	
2.4 In which bank will the Imprest Account be opened?	Municipal Accounts are with Nepal Rastra Bank (Central Bank)	

Financial Management Status	Response	Remarks
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	For Attariya Municipality – NO such previous experience.	
2.6 Does the entity have/need a capacity to manage foreign exchange risks?	Short orientation is needed for municipal staff	They don't have that capacity - orientation is enough as it will be handled by Ministry of Finance directly.
2.7 How are the counterpart funds accessed?	Municipality can allocate from his Own Source Revenue	In many cases RESERVE FUND can be used: Road Board (30% Municipality and 70% Road Board), TDF (50% Municipal Contribution and rest from TDF) MoFALD (100%)
2.8 How are payments made from the counterpart funds?	Till now, no such experience.	Generally, TDF debt-payment are directly paid to TDF by municipal accounts section (as per TDF terms). Done during municipal planning and budgeting approval process.
2.9 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Generally NGOs are not authorized to implement any part of the project but users communities (if responsible for implementation any part of the project or whole project) can be monitored as per prescribed formats of Local Self-Governance (Financial and Administrative) Rules and Regulation 2000.	
2.10 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Beneficiaries are required to contribute to project cost – basically depends on the nature of the project (water-supply, drainage, road-construction and school building construction).	Bye-laws and regulation are separately formulated for "COST SHARING" and "People Participation – Labor Contribution" project. 70:30 ratios (70% from municipality and 30% from the beneficiaries) for the projects are generally in practice.
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Accounts Section is running by a single Accountant – deputed by district treasury office) only.	At-least one more assistant is required.
3.2 Identify the (existing) accounts staff, including job title, responsibilities, educational background and professional experience.	Mr. Gajendra Joshi, Accountant – responsible for overall accounting job, BA (Economics) with 17 years of experience in government accounting system	He has long experience in government accounts keeping but not very familiar with municipal accounting system which is very close to corporate accounting system – but without Balance-Sheet preparation.
3.3 Is the project finance and accounting function staffed adequately?	Definitely not adequately staffed.	At-least one more staff (knowledge of municipal accounting system is preferable) is required.
3.4 Is the finance and accounts staff adequately qualified and experienced?	Mr. Gajendra Joshi is qualified – and knowledgeable with government accounting system only.	New recruitment is quite necessary in this regards
3.5 Is the project accounts and finance staff trained in ADB procedures?	They are not trained in ADB procedures	Till now no training opportunity in new method of accounts keeping or sharing with other municipalities

Financial Management Status	Response	Remarks
3.6 What is the duration of the contract with the finance and accounts staff?	Immediately after the declaration – central government deputed non-officer and during is not known.	Municipality has sent their demand on "staff recruitment" (around 29 people) but still they are waiting for response from MoFALD
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	All proposed 29 posts are vacant – appointment date is not known	Appointment process is not clear and municipality is waiting the direction from MoFALD
3.8 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	NOT YET -	Municipal EO is planning for it.
3.9 At what frequency are personnel transferred?	Executive Officers are generally transferred within 2 years of tenure but most of the municipal staff are hired permanently for the particular job/section.	Inter-section transfer has been observed in a few cases for local employees. Very recently, the positing of Attariya Executive Officer has been upgraded to Under-Secretary level
3.10 What is training policy for the finance and accounting staff?	Generally, no such training policy has been adopted but some internal training is being conducted through Regional Learning Centre as well from other donor agencies program.	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Attariya accounting system is based on cash base double entry system and it is guided by LSGA (financial administration rules and regulation 2064).	As a new municipality – without proper administrative set-up, their main focus on day to day administrative work and smooth flow of services to the local people.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Due to lack of proper human resources – such regularity system is not in practice but municipality is planning for recruitment process.	Payment of any consignment / transaction is made very carefully by checking accounts, engineering section and executive officer in case of "construction work" – regular payment is made by accounting with thorough checking of supporting vouchers.
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Charts of accounts are pre-defined by LSGA – financial rules and regulations and municipalities are using it accordingly.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Basically, it is according to LSGA prescribed formats.	
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Main ledger and subsidiary accounts are reconciled regularly with bank statement.	Although it is duty of internal auditor but in Attariya case, it has to be done by accountant.
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	All the supporting documents are attached with payment and receipt vouchers and it can be easily accessed to any authorized authorities.	

Financial Management Status	Response	Remarks
Segregation of Duties		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Purchase Order – prepared by procurement section; with approval by EO Once approval : procure by concerned section Recording of transaction – procurement section. Payment made by Finance Section – once approved by EO and Store Entry certificate.	Most of these functions are delegated to 3 ward secretaries and 2 other permanent employees. More or less following same system in almost all municipalities.
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Functions of ordering, receiving, accounting and storing for goods and services are segregated.	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Periodic bank reconciliation jobs are done by accounts section.	It is on-line system and they have already approached to Bank for this services.
Budgeting System		
4.10 Do budgets include physical and financial targets?	Generally, yes it is.	Without physical and financial target, budget and annual planning can't be prepared
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Every budget heads required full and details information related to all significant activities. Attariya is aware with this. Especially, physical development activities or capital expenditure required full details with allocated budget.	It is necessary during MC/PM assessment.
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Usually, in some cases, 10% variation approved by the board.	NO VARIATION is acceptable in the project under USERS COMMITTEE
4.13 Are approvals for variations from the budget required in advance or after the fact?	In some cases, it happened after the event and budget is re-allocated to cover the variation in the physical development project.	
4.14 Who is responsible for preparation and approval of budgets?	With the consultation of different section, financial chief generally prepared the draft budget. Subsequently, Executive Officer gives the final touch to present the budget into the council for approval.	Executive Officer, Accountant and employees were engaged in drafting the budget – as it was first budget of new municipality, most of the staff were consulted. At the end council approved the budget.
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	During the first budget preparation – only political consultation has been made due to time constraints. However, some ward gathering also conducted for inclusion of community views – but it was not structured.	The entire process begins from January till the end of March. The entire process has to be approved by the Integrated Planning Meeting
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	In case of Attariya – it is municipal first budget and can't say anything in this regards – however, as per MoFALD instruction, budget has been prepared (especially GRANT portion)	
Payments		
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	(i) Yes, accounts section do all the necessary steps before invoice processing for payment (ii) once approved by procurement section on invoice quantities, prices and terms – invoice go to accounts section for payment procedure.	Accounts section has to ensure with all the required processes before doing any payment to the suppliers or anyone. All those steps are pre-requisite for final payment.

Financial Management Status	Response	Remarks
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	PAID is not stamped but receipt bill – signed by the receiving company/agency attached during final payment.	Big payments require "Accounts Payee"
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Based on the attendance record, payroll is prepared in Attariya (excel sheets are used).	Only 12 employees are engaged in various municipal activities so they don't have such big problem with payroll preparation at the moment.
Policies And Procedures		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash Base / double entry accounting system is in practice	Introduction of Existing Accounting System in full could be one of the major technical support activities during implementation of IUDP2.
4.21 What accounting standards are followed?	Internationally recognized cash base accounting standard is in practices – as per provision made in LSGA (financial rules and regulation).	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Policies and other direction are delivered by MoFALD in regular basis – different manual has been drafted by MoFALD and it is followed by Attariya.	
4.23 Is the accounting policy and procedure manual updated for the project activities?	No such extra accounting policy and procedure manual is existed.	If municipality agreed in near future - Municipal Accrual Accounting System Manual should be reviewed and re-frame as per International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), International Accounting Standard (IAS) as well as Institute of Chartered Accountant of Nepal (ICAN).
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes, as per LSGA – municipality can adopt Accrual Accounting System (AAS)	A Clear provision has been made in "Local Body Financial Administration Rules, 2064 (2007)" for municipal accounts keeping procedure. In the rules of Chapter 3 of section 19 (Financial Procedure of the Municipality) it has been stated that : The accounts of the Municipality shall be maintained in accrual transaction based on the principle of double entry system". <u>Explanation</u> : "Accrual Transaction" means transaction based on corporate account.
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	No such written policy and procedure are existed. However, LSGA is guiding tools for routine financial management and related administrative activities.	
Cash and Bank		
4.28 Indicate names and positions of authorized signatories in bank accounts.	Mr. Khem Raj Joshi, Executive Officer Mr. Gajendra Joshi, Accountant.	

Financial Management Status	Response	Remarks
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes. Required documents are maintained and software are used for accounting system (only income/expenditure), which has been developed by private company. Fully depended on private company for software issues.	Existing software is not developed on "authorized and licensed base" – concerned authorities should be very serious on "SOFTWARE" application
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	All tax and non-tax collection is made in central office. Each and every collection goes to Bank deposit next morning.	
4.31 Are bank and cash reconciled on a monthly basis?	Attariya is in practice of monthly reconciliation. On line bank reconciliation is available and it is in process for using on-line.	But usually, it is done in every big bank transaction.
Safeguard over Assets		
4.32 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	All the movable/immovable properties are listed in the store register. No such adequate safeguard measure are applied due to lack of human resources	
4.33 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Procurement/Store section is responsible for maintaining fixed assets and stock record.	Yearly re-valuation is a problem – assets valuation manual should be designed and followed accordingly.
4.34 Are there periodic physical inventories of fixed assets and stocks?	Attariya is in process to adopt such physical inventories during final audit.	During the final audit, physical verification will also be covered by external auditors.
4.35 Are assets sufficiently covered by insurance policies?	Only motor-bikes are covered by insurance policy	
Other Offices and Implementing Entities		
4.36 Are there any other regional offices or executing entities participating in implementation?	No such experience so cannot comment.	Documentation responsibility should be undertaken by Municipality Office – they have to prepare balance-sheet and other accounting statement as per international accounting standard. Dhangadhi should lead for this (covering Attariya and Dhangadhi)
4.37 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	No such experience so cannot comment.	Project coordination and implementation unit should be established (jointly with Municipality and DUDBC Division Office)
4.38 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	As a local municipal government, responsibilities falls under Attariya Municipalities for information flow to different line agencies within the municipal area in accurate and timely manner.	And it should be done jointly with Dhangadhi Municipality in case of project implementation under ADB funding
4.39 Are periodic reconciliations performed among the different offices/implementing agencies?	Periodic reconciliation will be performed jointly with DUDBC, division office of Dhangadhi and concerned Municipality	
Other		
4.40 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	If such things happened, other central level agencies do all the necessary action.	
5. Internal Audit		
5.1 Is there an internal audit department in the entity?	No. Only accounts section is full responsible for any accounting payment and receipt.	
5.2 What are the qualifications and experience of audit department staff?	There is no internal auditor at present.	

Financial Management Status	Response	Remarks
5.3 To whom does the internal auditor report?	No such system has been followed by Attariya Municipality.	
5.4 Will the internal audit department include the project in its work program?	At present – no internal audit section is in operation	
5.5 Are actions taken on the internal audit findings?	Yes it is mandatory and the Municipal Council generally take action through the Municipal Board.	But, so such section is in operation
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Process will be followed for appointment of external auditor	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Not applicable	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Not applicable as this is their first fiscal year of banking transaction – The municipality is in the process of hiring external auditor	It will be conducted as per rules and regulations of LSGA
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	Not applicable as this is their first fiscal year of banking transaction – As municipality is the process of hiring external auditor	It will be conducted as per rules and regulations of LSGA Public Procurement Act 2063 is not applicable for municipality
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Final audit has to be done by external auditor and every year public notice will be published in the local media to conduct final audit and accordingly external auditor do their jobs for each and every transaction under the municipality.	As this 1st fiscal year of Attariya Banking transaction – appointment of external auditor will be done according to LSGA.
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Generally, recommendations have to be responded by the municipal authorities.	Before conducting final audit, external auditor (appointed every year to conduct final audit) generally reviewed last year audit report and it comes under their TOR as defined by Institute of Chartered Accountants of Nepal (ICAN).
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Till to-date , no such things happened	If there is any malpractice in the project implementation, than external government entity do their job – in addition to the external audit.
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Generally, external auditor is responsible for complete audit of the previous fiscal year and it is clearly mentioned in the agreement in between Municipality and the External Auditor.	
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes it is regular job – and forwarded to MoFALD in timely interval and accounts are kept as suggested/directed by LSGA	It is done according to LSGA prescribed format as well as district treasury office (which is a part of Financial Comptroller General Office)
7.2 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	It has to be done in regular basis.	1st week of every month, municipality has to provide "financial statement" to MoFALD / Municipal Management Division with cc to District Treasury Office and sometimes, Town Development Fund in a timely manner

Financial Management Status	Response	Remarks
7.3 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	No.	It is only income and expenditure status and advance payment to status
7.4 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	No	
7.5 Are financial management reports used by management?	As it is important statement it is used regular basis	Municipal Authorities are very serious on financial management report – which reflects about the financial status of concerned municipalities.
7.6 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Periodically it is in practice	Based on these reports – municipality develops annual plan and budget.
7.7 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes. Financial reports (income/expenditure statement) prepared directly by the automated accounting system.	Accounting software (designed and developed by private software company) used for preparation of financial reports but it has to be replaced by new accounting software (based on accrual accounting) – with licence key under the control of central government or with the office of financial comptroller general.
8. Information Systems		
8.1 Is the financial management system computerized?	Yes. Simple accounting software is used for income and expenditure statement preparation	However, more users' friendly expenditure accounting software is needed.
8.2 Can the system produce the necessary project financial reports?	Yes. Required accounting documents are prepared but some limitation	A detailed study on Municipal Accounting Software preparation is needed (Integrated Municipal Revenue Software and Expenditure Software)
8.3 Is the staff adequately trained to maintain the system?	Yes. Only accountant is familiar to operated income/expenditure simple software	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Unfortunately, safeguard measure for available financial data is not considered enough. Private software company developed the software and it is used by municipal accounts section.	No, this has to be studied further for entire municipal accounting system. Experience can be shared with Indian Municipality – where new accounting system (Accrual Accounting) is in practice.

Source: Interviews with:
Mr. Gajendra Joshi, Accountant;;
Mr. Lal B. Aier, Sub-Engineer;
Mr. Durga P. Joshi, Ward Secretary; and
Mr. Khagendra P Chaudhary, Ward Secretary

ANNEX 6-B-2

Attariya Municipality Financial Management Assessment Criteria

Annex 6-B-2: Attariya Municipality Financial Management Assessment Criteria

Scoring Guidelines: (i) Many are subjective and professional judgment to be exercised (ii) Overall Rating : 0-40% = High Risk, 40 – 60% = Substantial Risk, 60% – 75 % = Moderate, 75% – 100% = Low, (iii) For low risk, at a minimum must meet criteria's 1b, 1d, 2b, 4b, and 5a, else automatically at least moderate

1. Accounting and Financial Reporting (Total 20 points)		Assigned Total	Score Obtained	Guidelines/ Considerations for Scoring	Comments
a.	Accrual Basis of Accounting applied	2	1	No accrual accounting system only, cash base double entry system applied	If Dhangadhi and Bhimdatta initiate they will join.
b.	Computerized FMIS	4	2	Only accounting software used. Developed by private software company.	
c.	Monthly financial statements can be closed within 15 – 30 days	4	4	Within 7 days, after the month end- financial statement dispatched to MoFALD and District Treasury Office	Pre-require for Minimum Conditions and Performance Measurements (MC/PM)
d.	Financial statement prepared in accordance with acceptable financial reporting framework	4	2	Financial statement prepared according to prescribed act and rules (LSG Act and Financial Administration Rules and Regulation of the act	Yes, followed as per LSG Act and rules regulation.
e.	Qualified Chartered Accountant in the Accounts Department	4	2	Accountant is appointed through local district treasury office.	Mr. Gajendra Joshi, Accountant (17 years of experience) Graduate in Economics.
f.	Financial Management & Accounting Manual in place	2	2	No such manual but LSGA and financial administration rules and regulation is guiding tools for municipal financial management.	Software manual are used
2. Budgeting and Financial Sustainability (Total 20 points)					
a.	Bottom-up budgeting on annual basis with variance analysis	5	3	After completion of ward meeting/basti meeting, budgeting process started, consultation along with local political representatives also done,	Before council meeting, municipality are busy to collect program and activities from ward level and it is related with MC/PM
b.	Long term and short term budgets prepared	5	2	Only 1 year budget is being prepared - but in considering municipal future development strategy	
c.	Adequate Budget Allocation/ Releases	5	3	The municipality is running its first fiscal year transaction – even though, they considered on adequate budget allocation and releases.	
d.	Absorption Capacity	5	2	Tentative Total Income (till Magh 2071 – Feb 12, 2015) : Rs. 40.687 million (16.35% tax and non-tax revenue or Own Source and 83.65% from Central Grants.	Total Expenditure till that period Rs. 7.509 million (59.64% Capital Expenditure and 40.36% Current Expenditure)

3. Internal Audit (Total 15 points)

a. Existence of an effective IA Department	3	0	Not yet.	
b. Internal Audit Reports to Audit Committee (at least 2x a year)	3	1	Accounts Section Prepared financial report which was discussed in the board meeting and approved in the council	
c. Qualified IA department heads	3		No	
d. Risk based Internal Audit Manual	3	2	No such audit manual but LSGA and Public Procurement Act are two strong guiding documents	
e. Evidence that IA Reports are taken seriously / followed up on	3	2	Points are discussed during municipal board meeting	Refer Mr. Gajendra Joshi, Accounts Chief

4. External Audit (Total 15 points)

a. Audited financial statements issued within 6-9 months of fiscal year end	5	2	Immediately after this fiscal year (2014/15), municipality will appoint external auditor for audit.	Municipality will do it in regular basis
b. Competent independent external auditor	5	3	Yes. Independent external auditor will do all statutory audit jobs and made some remarks for further improvement in existing accounting system	
c. Limited audit observations / no serious issue repeated for more than 2 years	5	2	Not applied – as this is very new municipality. But after the end of this fiscal year, they will go through all the remarks (if any) with utmost care.	

5. Internal Controls (Total 20 points)

a. IC commensurate to business (as assessed by auditor or ADB)	10	3	Not applied – right now (but in near future, they will)	
b. Fixed Assets Register in place	5	3	Yes, as per prescribed LSGA formats and fixed assets register is maintained by Municipality Office (they have listed down almost all land and building)	External auditor also performed physical verification once a year
d. Adequately trained Staff in place (limited vacancies, low turnover OR adequate experience / qualifications)	5	3	Finance Section will do all the necessary arrangement in coming days	

6. Governance / Tone at the top (Total 10 points)

a. No alleged reports of misconduct in the media	5	2	No Serious allegation reported in the media	
b. Active and effective Governing Body/ Chief Executive	5	1	Chief Executive is prime responsible – no elected representatives	
TOTAL	100.00	47.00		

Based on observation, discussion and interview with Municipal Officials working in Accounts, Ward Secretary Office and Planning Section::

Mr. Gajendra Joshi, Accountant; Mr. Lal B. Aier, Sub-Engineer; Mr. Durga P Joshi (Khardar, Ward Secretary) and Mr. Khagendra P Joshi (Na. Su – Ward Secretary)

ANNEX 6-C-1

Bheemdatt Municipality Financial Management Assessment Questionnaire

Annex 6-C-1: Bheemdatt Municipality
Financial Management Assessment Questionnaire

Financial Management Status		Response	Remarks
1. Agency (Implementing)			
1.1	What is the entity's legal status / registration?	Municipalities – are governed under the "Local Self-Governance Act - LSGA 1999).	Altogether 191 (including Metropolitan, sub-metropolitan and municipalities)
1.2	Has the entity implemented an externally-financed project in the past (if so, please provide details)?	In regards of physical development or capital investment within municipal area, municipality borrowed capital grants or loans from the Town Development Fund in the past. Very recently, 7 school building completed under the grant agreement with Town Development Fund (TDF) and some small road projects under the Road Board.	Municipality has already initiated a loan agreement with TDF for Bus park construction. Besides this, promotional earth-quake resistance school buildings are under construction (with technical and financial support of OXFAM, NEEDS and N-SET).
1.3	What are the statutory reporting requirements for the entity?	As per LSGA, Municipality are responsible to Ministry of Federal Affairs and Local Development (MoFALD)/Municipal Management Division for all the reporting requirements directly.	If the projects are financed by any external donor support – periodic progress report goes to the concerned donor agencies also
1.4	Is the governing body for the project independent?	Projects are generally governed independently by municipal planning section – after doing all formal processes (i.e. designing, costing, tendering and selection of contractors). In some cases, it has been governed by the "users committee" of individual project under the supervision of municipal planning section.	
1.5	Is the organizational structure appropriate for the needs of the project?	Currently 22 technical persons (2 Engineer, 2 Sub-Engineers, 1 Asst. Urban Planner, 8 technicians and rest are for health, fire-persons and construction supervision) are engaged for different infrastructure and technical activities. In regards of existing organization : Planning and Technical Section is under the Municipal Executive Officer and 6 different sections are under the Executive Officer with total human resources 103 (23 are sanitation workers)	Considering the existing volume of infrastructure projects, the current technical human resources are ok but for any new bigger projects, more technical human resources might be required depending on the size and number of projects.
2. Funds Flow Arrangements			
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Fund Flow Arrangement for the project is expected as follows: <ul style="list-style-type: none"> • ADB fund to Nepal Government • Nepal Government to Concerned Municipality – Loan Agreement • During the project implementation: DUDBC, Division Office and concerned municipality should jointly operate the accounts and book-keeping should be under the municipality office. 	Accordingly, municipality will pay back to Nepal Government (if loan) with anticipated interest rate. The said fund flow arrangement certainly will reduce the financial liabilities.
2.2	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	The above mentioned "fund flow arrangement" is ok	Municipalities are in favour to reduce "bureaucratic process" and expected quick loan process so that they can complete the program in time. In fact, municipality is getting delay for approval due to administrative hustle-bustle.
2.3	What have been the major problems in the past in receipt of funds by the entity?	No such major problems experienced	

Financial Management Status		Response	Remarks
2.4	In which bank will the Imprest Account be opened?	Municipal Accounts are with Rastriya Banijya Bank (National Commercial Bank)	
2.5	Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	For Bheemdatt Municipality – No such previous experience.	But couple of other ADB funded projects in the municipalities are directly handled by PCO/PIU of DUDBC
2.6	Does the entity have/need a capacity to manage foreign exchange risks?	Short orientation is needed for municipal staffs	They don't have that capacity - orientation is enough as it will be handled out by Ministry of Finance directly.
2.7	How are the counterpart funds accessed?	Municipality can allocate from his Own Source Revenue	And, in many cases Reserve Fund can be used and generally it is: Road Board (30% Municipality and 70% Road Board), TDF (50% Municipal Contribution and rest from TDF) MoFALD (100%)
2.8	How are payments made from the counterpart funds?	Generally, TDF debt-payment are directly paid to TDF by municipal accounts section (as it has been already pre-calculated by TDF) and it has to be done during the approval of municipal planning and budgeting process.	
2.9	If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Generally NGO are not authorize to implement any part of the project but users communities (if responsible for implementation any part of the project or whole project) can be monitored as per prescribed formats of Local Self-Governance (Financial and Administrative) Rules and Regulation 2000.	Generally, municipal planning and technical section do all the periodic supervision of the projects.
2.10	Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Beneficiaries are required to contribute to project cost – basically depends on the nature of the project (water-supply, drainage, road-construction and school building construction).	Bye-laws and regulations are separately formulated for "COST SHARING" and "People Participation – Labor Contribution" project. 70:30 ratios (70% from municipality and 30% as cost sharing from the beneficiaries for the projects (as mentioned above) are generally in practice.
3. Staffing			
3.1	What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Accounts and Revenue Section is headed by 2 Accounts Officers and 1 Section Officer along with 5 others including from revenue section	Accounts Section may require 3 more assistant level people.
3.2	Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience.	Mr. Bikaram Bhandari – Accounts Officer (MA and Diploma in Financial Management – KU) Mr. Ram B. Kunwar – Accounts Officer, IA Mr. Nar B. Shah – Revenue Office, MBA Mr. Narendra Dev Bhatta, Asst Revenue Officer, M.Com Ms. Laxmi Bhatta, Asst Revenue Officer, B.Com Ms. Laxmi Bhat, Revenue Assit, I. Com Mr. Bahadur Mahara, Revenue Assistant, I. Com Mr. Netra B. Khadka, Computer Chieff, I.Com	All of them have more than one decade experience in their related field. Three of them more than 2 decades of municipal working experience.
3.3	Is the project finance and accounting function staffed adequately?	Yes.	2 officers take care of accounts section and is adequate at present – but, regular training is needed for upgrading their skills if New Project comes under the municipality

Financial Management Status		Response	Remarks
3.4	Is the finance and accounts staff adequately qualified and experienced?	Staff working in accounts and revenue section are experienced in their concerned job and qualified adequately	
3.5	Is the project accounts and finance staff trained in ADB procedures?	They are not trained in ADB procedures	But some orientation have already received in Nepalgunj through Regional Learning Centre
3.6	What is the duration of the contract with the finance and accounts staff?	Municipal finance and accounts personals are permanently hired.	Recently, 8th council (decision 32) meeting has agreed that municipality will adopt "salary scale" as per government staffs (especially salary increment).
3.7	Indicate key positions not contracted yet, and the estimated date of appointment.	No vacant post, all key positions are fulfilled	
3.8	Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	During the conduction of "Organization Development – OD", almost all employees have given written job-description, except sanitation employee (on contract basis).	Last OD reviewed 7 years back.
3.9	At what frequency are personnel transferred?	Executive Officers are generally transferred within 2 years of tenure but most of the municipal staff are hired permanently for the particular job/section.	Inter-section transfer has been observed in few cases for local employees.
3.10	What is training policy for the finance and accounting staff?	Generally, no such training policy has been adopted but some internal training is being conducted through Regional Learning Centre as well from other donor agencies program.	As per the decision made (No. 20) during 8th municipal council meeting: municipality is agreed to have more coordination with Regional Learning Centre, Dhangadhi and Municipal Association of Nepal for overall skill development of municipal staff.
4. Accounting Policies and Procedures			
4.1	Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Bheemdatt accounting system is based on cash base double entry system and it is guided by LSGA (financial administration rules and regulation 2064).	In case of TDF funded project, municipality are able to provide all the necessary information as per prescribed formats of TDF.
4.2	Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Although pre-audit of payment/receipt journal voucher is not in practices. But, vouchers has been reviewed by internal auditor before completion any bank transaction.	Payment of big consignment / transaction is made very carefully checking by accounts and internal audit section.
4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Charts of accounts are pre-defined by LSGA – financial rules and regulations and municipalities are using it accordingly.	However, municipalities are in need to adopt "Accrual Accounting System" – with software application.
4.4	Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Basically, it is according to LSGA prescribed formats and funding arrangement are done as per the agreement with financial institutions, if any.	
4.5	Are the General Ledger and subsidiary ledgers reconciled and in balance?	Main ledger and subsidiary accounts are reconciled regularly with bank statement – it is part and parcel of Internal Audit Section.	

Financial Management Status	Response	Remarks
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	All the supporting documents are attached with payment and receipt vouchers and it can be easily accessed to any authorized authorities.	
Segregation of Duties		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Purchase Order – prepared by procurement section; with approval by EO Once approval : procure by concerned section Recording of transaction – procurement section Payment made by Finance Section – once approved by EO and Store Entry certificate.	Concerned section of municipality do their job as per TOR More or less follow same system in almost all municipalities.
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Functions of ordering, receiving, accounting and storing for goods and services are segregated and every section and sub-section are responsible for doing this.	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Periodic bank reconciliation jobs are done by accounts section.	It is on-line system and they have already approached to Bank for this service.
Budgeting System		
4.10 Do budgets include physical and financial targets?	Yes it is.	Without indication of physical and financial target, budget and annual plan can't be prepared
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Every budget heads required full and details information related to all significant activities. And, Dhangadhi is aware of this. Especially, physical development activities or capital expenditure required full details with allocated budget.	It is necessary during MC/PM assessment.
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Usually, in some cases, 10% variation approved by the board.	No variation is acceptable in the project under Users Committees
4.13 Are approvals for variations from the budget required in advance or after the fact?	In some cases, it happened after the event and budget is re-allocated to cover the variation in the physical development project.	
4.14 Who is responsible for preparation and approval of budgets?	With the consultation of different section, financial chief generally prepared the draft budget. Subsequently, Executive Officer gives the final touch to present the budget into the council for approval.	
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	All the defined procedures are applied during the preparation of the budget: from ward gathering, project identification, project prioritization.	Generally, the entire process begins from January till the end of March. And, the entire process has to be approved by the Integrated Planning Meeting
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	In case of Bheemdatt, current expenditure is close to realistic but capital investment may vary from external source of income (government grant).	It is noticed that Municipal Own Source Revenue is close to projected amount but realisation of government grants are uncertain.

Financial Management Status	Response	Remarks
Payments		
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	(i) Yes, accounts section do all the necessary steps before invoice processing for payment; (ii) once approved by procurement section on invoice quantities, prices and terms – invoice goes to accounts section for payment procedure.	In fact, accounts section has to ensure with all the required processing before doing any payment to the suppliers or any –one. All those steps are pre-requisite for final payment.
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	PAID is not stamped but receipt bill – signed by the receiving company/agency attached during final payment.	Large payments require "Accounts Payee"
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Based on the attendance record, payroll is prepared in Bheemdatt (excel sheets are used).	Electronic attendance system will be introduced in Bheemdatt for more systematic administration and management.
Policies And Procedures		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash Base / double entry accounting system is in practice	Introduction of Accrual Accounting System – that could be one of the major technical support activities during implementation of IUDP2.
4.21 What accounting standards are followed?	Internationally recognized cash base accounting standard is in practices – as per provision made in LSGA (financial rules and regulation).	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Policies and other direction are delivered by MoFALD on regular basis – different manual has been drafted by MoFALD and it is followed by Bheemdatt.	
4.23 Is the accounting policy and procedure manual updated for the project activities?	No such extra accounting policy and procedure manual is existed.	Municipal Accrual Accounting System Manual should be reviewed and re-framed as per International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), International Accounting Standard (IAS) as well as Institute of Chartered Accountants of Nepal (ICAN).
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes, as per LSGA – municipality can adopt Accrual Accounting System (AAS)	Provision made in "Local Body Financial Administration Rules, 2064 (2007)" for municipal accounts keeping procedure. In the rules of Chap, 3 sec 19 (Financial Procedure of the Municipality) it is stated that : The Municipality accounts shall be maintained in accrual transaction based on the principle of double entry system". <u>Explanation</u> : "Accrual Transaction" means transaction based on corporate account.

Financial Management Status	Response	Remarks
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	No such written policy and procedure exist. However, LSGA is guiding tools for routine financial management and related administrative activities.	
Cash and Bank		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Mr. Lok Bahadur Sunar, Executive Officer Mr. Bikram Bhandari, Finance Officer	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes, required documents are maintained and software is used for accounting system, which has been developed by private company. Fully depended on private company for software issues.	But, still the existing software is not developed on "authorized and licensed base" – concerned authorities should be careful on "software"
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	All tax and non-tax collection is made in central office. Each and every collection goes to Bank deposit following morning.	
4.31 Are bank and cash reconciled on a monthly basis?	Bheemdatt is in practice of monthly reconciliation. On line bank reconciliation is available and it is in process for using on-line.	But usually, it is done in every big bank transaction.
Safeguard over Assets		
4.32 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Public places (park and other immovable properties) are well-maintained and committee is responsible for operation and maintenance. Whereas movable assets are used by municipalities.	
4.33 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Procurement/Store section is responsible for maintaining fixed assets and stock record.	Yearly valuation and re-valuation is a problem – assets valuation manual should be follow accordingly.
4.34 Are there periodic physical inventories of fixed assets and stocks?	Physical inventories of fixed assets and stock are conducted once in a year and report is placed for information by internal audit section.	During the final audit, physical verification also done by external auditors.
4.35 Are assets sufficiently covered by insurance policies?	Only vehicles are covered by insurance policy NOT others (building, bus-park etc).	
Other Offices and Implementing Entities		
4.36 Are there any other regional offices or executing entities participating in implementation?	Project will be jointly implemented under the direct coordination and guidance of DUDBC – Kailali division office and Bheemdatt Municipality	Documentation responsibility should be undertaken by Municipality – as in later part, they have to prepare balance-sheet and other accounting statement as per international accounting standard.
4.37 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Flow of fund, financial information, accountability and audits are the prime responsibilities of DUDBC-division as well as Bheemdatt Municipality.	Project coordination and implementation unit should be established (jointly with Municipality and DUDBC Division Office)
4.38 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	As a local municipal government, responsibilities falls under Bheemdatt Municipality for information flow to different line agencies within the municipal area in accurate and timely manner.	It should be done jointly with DUDBC- division office.
4.39 Are periodic reconciliations performed among the different offices/implementing agencies?	Periodic reconciliation will be performed jointly with DUDBC, Kailali division office and concerned Municipality	

Financial Management Status		Response	Remarks
Other			
4.40	Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	If such things happen, other central level agencies do all the necessary action.	
5. Internal Audit			
5.1	Is there an internal audit department in the entity?	Yes, it is well performed	Bheemdatt Municipality has "internal audit" section under LSGA
5.2	What are the qualifications and experience of audit department staff?	<ul style="list-style-type: none"> Mr. Bhawani Datt Bhatta – Internal Auditor, IA 	Audit section is under staffed. Only one person is responsible for internal auditing of Bheemdatt Municipality
5.3	To whom does the internal auditor report?	Every six month, internal auditor Mr. Bhawani Datt Bhatta prepared the report and placed to Executive Officer for further necessary action, if any.	Due to lack of proper human resources, internal audit section performance is not that high standard.
5.4	Will the internal audit department include the project in its work program?	Yes.	As mentioned above: TDF and Road Board Accounts are some example that they include project accounts/activities.
5.5	Are actions taken on the internal audit findings?	Yes it is mandatory and the Municipal Council generally take action through the Municipal Board.	
6. External Audit			
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, last time, Mr. Krishna Prasad Timalshina (Registered Auditor 03130 B) accomplished the final audit.	Final audit report already forwarded by the external auditor.
6.2	Are there any delays in audit of the entity? When are the audit reports issued?	On September 2014, final audit report was accomplished and forwarded to MoFALD/Municipal Management Division and Municipal Office.	It is on time.
6.3	Is the audit of the entity conducted according to the International Standards on Auditing?	Yes.	It is conducted as per rules and regulations of LSGA
6.4	Were there any major accountability issues brought out in the audit report of the past three years?	<p>Major points are observed during final audit:</p> <ul style="list-style-type: none"> Final audit was performed as per available books of accounts (income accounts, expenditure accounts, advance statement, deposit accounts, and report of physical verification, planning / project documents. Accounts are based on LSGA not audit standard Accounts are kept under double entry system – cash base As most of the assets are listed only with date but price are not mentioned so that "depreciation" of assets cannot be done and accordingly – real value of the assets (at present value) cannot be reflected in the books of accounts. Municipality should follow the "Public Procurement Act 2063" Rs. 5.164 million are under the "deposit accounts" from the different contractors and should nullify as early as possible (deposits are quite long outstanding) Office fuel should be used under the control mechanism Without clearance old advance – no new advance Timely deposit of any "national tax" should be considered seriously 	<p>Yes, issues are highlighted by the external auditor and municipal authorities are serious on resolving them.</p> <p>Public Procurement Act 2063 is not applicable for municipality</p>

Financial Management Status		Response	Remarks
6.5	Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Final audit has to be done by external auditor and every year public notice is published in the local media to conduct final audit. External auditor to check each and every transaction under the municipality.	Internal auditor responsible for only pre-audit and re-checking after payment. Final auditing is not their scope of work.
6.6	Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Generally, recommendations are responded by the municipal authorities.	Before conducting final audit, external auditor (appointed every year) generally reviews last year audit report. As per their TOR as defined by Institute of Chartered Accountants of Nepal (ICAN).
6.7	Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Till to-date , no such things happened	If there is any malpractice in project implementation, then external government entity do their job – in addition to the external audit.
6.8	Has the project prepared acceptable terms of reference for an annual project audit?	Generally, external auditor is responsible for complete audit of the previous fiscal year and it is clearly mentioned in the agreement in between Municipality and the External Auditor.	
7. Reporting and Monitoring			
7.1	Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes, it is a regular job – and forwarded to MoFALD in timely interval and accounts are kept as suggested / directed by LSGA	It is done according to LSGA prescribed format as well as district treasury office (which is a part of Financial Comptroller General Office)
7.2	What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	It has to be done in regular basis.	1st week of every month, municipality has to provide "financial statement" to MoFALD / Municipal Management Division with cc to District Treasury Office and sometime, Town Development Fund in a timely manner
7.3	Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	No.	It is only income and expenditure status and advance payment to status
7.4	Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	No	
7.5	Are financial management reports used by management?	As it is important statement it is used regular basis	Municipal Authorities are very serious on financial management report – which reflects the financial status of concerned municipality.
7.6	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Periodically it is in practice	Based on these reports municipality prepares annual plan and budget.

Financial Management Status	Response	Remarks
7.7 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes, financial reports prepared directly by the automated accounting system – even vouchers are prepared accordingly.	Accounting software (designed and developed by private software company) is used for preparation of financial reports but it has to be replaced by new accounting software (based on accrual accounting) – with licence key under the control of central government or with the office of financial comptroller general.
8. Information Systems		
8.1 Is the financial management system computerized?	Yes it is computerized and simple accounting software was developed by the private software company	However, more users' friendly expenditure accounting software is needed.
8.2 Can the system produce the necessary project financial reports?	Yes. Required accounting document is prepared but some limitation	A details study on MUNICIPAL ACCOUNTING SOFTWARE preparation is necessary in coming days (Integrated Municipal Revenue Software and Expenditure Software)
8.3 Is the staff adequately trained to maintain the system?	Yes.	Staff are trained enough to operate the system
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Unfortunately, safeguard measure for available financial data is not considered enough. Private software company just develop the software and it is used by municipal accounts section.	No, this has to be studied further for entire municipal accounting system – in a very broader way. Experience can be shared with Indian Municipalities – where new accounting system (Accrual Accounting) is in practice.

Source:**Interviews with:****Mr. Ram B. Kuwar, Accounts Officer****Mr. Bikram Bhandari, Accounts Officer****Mr. Bhawani Datt Bhatta, Internal Auditor****Mr. Nar B. Shah, Revenue Officer****General Information By:****Mr. Himalaya Singh Aier, Planning Chief****Mr. Hari Singh Dhami, Administrative Officer**

ANNEX 6-C-2

Bheemdatt Municipality Financial Management Assessment Criteria

ANNEX 6-C-2: Bheemdatt Municipality Financial Management Assessment Criteria

Scoring Guidelines: (i) Many are subjective and professional judgment to be exercised (ii) Overall Rating : 0-40% = High Risk, 40 – 60% = Substantial Risk, 60% – 75 % = Moderate, 75% – 100% = Low, (iii) For low risk, at a minimum must meet criteria's 1b, 1d, 2b, 4b, and 5a, else automatically at least moderate

1. Accounting and Financial Reporting (Total 20 points)	Assigned Total	Score Obtained	Guidelines/ Considerations for Scoring	Comments
a. Accrual Basis of Accounting applied	2	1	Cash base double entry system applied	Decision made for accrual accounting system
b. Computerized FMIS	4	2	Accounts Section is computerized with separate software developed by the private software company	Separate software is used for Integrated Property Tax (IPT) collection
c. Monthly financial statements can be closed within 15 – 30 days	4	4	Immediately after the month end, within 7 days- financial statement dispatched to MoFALD and District Treasury Office	It is pre-require for Minimum Conditions and Performance Measurements (MC/PM)
d. Financial statement prepared in accordance with acceptable financial reporting framework	4	4	Strictly followed all the prescribed formats for financial statement preparation	As per Local Self-Governance Act (LSGA) and Financial Administration Rules and Regulations
e. Qualified Chartered Accountant in the Accounts Department	4	2	Qualified Chartered Accountants is not placed in accounts section	However, Accounts Officer is graduate with > 10 years working experience
f. Financial Management & Accounting Manual in place	2	2	No such manual (LSGA and financial administration rules and regulation is guiding tools for municipal financial management)	Municipality has to follow LSGA and other directives from MoFALD.
2. Budgeting and Financial Sustainability (Total 20 points)				
a. Bottom-up budgeting on annual basis with variance analysis	5	4	Budgeting process started from Ward Level people consultation along with local political representatives	Before council meeting, municipality are busy to collect program and activities from ward level and it is related with MC/PM
b. Long term and short term budgets prepared	5	2	Only 1 year budget is being prepared	Multi-Year budget preparation is not in practice
c. Adequate Budget Allocation/ Releases	5	3	Own Source Revenue budget is adequately planned but central governments grants – always uncertain	
d. Absorption Capacity	5	3	Demand for capital/infrastructure investment so high every year – that indicate absorption capacity	Not possible to meet such demand with Own Source (tax and non-tax revenue) only.

3. Internal Audit (Total 15 points)

a. Existence of an effective IA Department	3	1	Yes. Separate IA Section is in the municipality but not effective	
b. Internal Audit Reports to Audit Committee (at least 2x a year)	3	2	Municipal Board regularly get audit report – periodically	Periodic basis, municipality is informed about the outcome of internal audit.
c. Qualified IA department heads	3	1	Headed by experienced staff, but not qualified accountant	
d. Risk based Internal Audit Manual	3	2	There is no such manual	LSGA and Public Procurement Act are guiding documents
e. Evidence that IA Reports are taken seriously / followed up on	3	2	Points are discussed during municipal board meeting	

4. External Audit (Total 15 points)

a. Audited financial statements issued within 6-9 months of fiscal year end	5	5	Audited report is one of the primary document / report for council meeting Audited financial report was placed during the council meeting (Pouch 14, 2071)	Municipality do it in regular basis
b. Competent independent external auditor	5	5	Yes. Independent external auditor does all statutory audit jobs.	Mr. Krishna Prasad Timilshina, Registered Auditor ("B" Class) has already submitted report on 2071/9/06 – covering FY 2070/71 (FY 2014/15)
c. Limited audit observations / no serious issue repeated for more than 2 years	5	4	Municipal fixed assets are mentioned but without value (generally for Public Land)	

5. Internal Controls (Total 20 points)

a. IC commensurate to business (as assessed by auditor or ADB)	10	5	Before making any payment – internal auditor do all verification job in regular basis (Mr. Bhawani Datta Bhatta, Internal Auditor)	
b. Fixed Assets Register in place	5	4	Yes, as per prescribed LSGA formats	External auditor also did physical verification once a year
d. Adequately trained Staff in place (limited vacancies, low turnover OR adequate experience / qualifications)	5	3	Only one staff – due to limited vacancies.	

6. Governance / Tone at the top (Total 10 points)

a. No alleged reports of misconduct in the media	5	4	Not Found	
b. Active and effective Governing Body/ Chief Executive	5	3	Chief Executive is prime responsible – no elected representatives	

TOTAL	100.00	68.00		
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Based on quick observation, discussion and interview with Municipal Officials working in Accounts and Internal Audit Section:
Mr. Ram B. Kunwar, Accounts Officer; Mr. Bikram Bhandari, Accounts Officer and Mr. Bhawani Datta Bhatta, Internal Auditor

ANNEX 6-D-1

Dhangadhi Municipality Financial Management Assessment Questionnaire

Annex 6-D-1: Dhangadhi Municipality

Financial Management Assessment Questionnaire

Financial Management Status		Response	Remarks
1. Agency (Implementing)			
1.1	What is the entity's legal status / registration?	Municipalities – are governed under the "Local Self-Governance Act - LSGA 1999).	Altogether 191 (including Metropolitan, sub-metropolitan and municipalities)
1.2	Has the entity implemented an externally-financed project in the past (if so, please provide details)?	In regards of physical development or capital investment within municipal area, municipality obtained capital grants or loans from the Town Development Fund (TDF) in the past. Very recently, a shopping complex – near the municipal offices, completed under a loan TDF.	In the past, Dhangadhi was financed for urban poverty - reduction program through GIZ – urban development through local efforts (<i>udle</i>)
1.3	What are the statutory reporting requirements for the entity?	As per LSGA, Municipality are responsible to Ministry of Federal Affairs and Local Development (MoFALD)/Municipal Management Division for all the reporting requirements.	If the projects are financed by any external donor support – periodic progress report goes to the concerned donor agencies also
1.4	Is the governing body for the project independent?	Projects are generally governed independently by municipal planning section – after doing formal processes (i.e. designing, costing, tendering and selection of contractors). In some cases, it has been governed by the "users committee" of individual projects under the supervision of municipal planning section.	
1.5	Is the organizational structure appropriate for the needs of the project?	Currently 22 technical persons (1 Division Engineer, 2 Engineers, 6 technician and rest are for health and construction supervision) are engaged for different infrastructure and technical activities. In regards of existing organization : Planning and Technical Section is under the Municipal Executive Officer	Considering the existing volume of infrastructure projects, the current technical human resources are ok but for any new bigger projects, more technical human resources would be required depending on the size and number of projects.
2. Funds Flow Arrangements			
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Fund Flow Arrangement for the project is expected as follows: <ul style="list-style-type: none"> • ADB fund to Nepal Government • Nepal Government to Concerned Municipality – Loan Agreement 	Accordingly, municipality will pay back to Nepal Government (if loan) with anticipated interest rate. The fund flow arrangement will reduce the service charges.
2.2	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	The above mentioned "fund flow arrangement" is ok	Municipalities are in favour to reduce "bureaucratic process" and expect fast loan process so that they can complete the program as planned.
2.3	What have been the major problems in the past in receipt of funds by the entity?	No such major problems experienced	But, municipality projects are delayed due to administrative approval process.
2.4	In which bank will the Imprest Account be opened?	Nepal Rastra Bank (Central Bank) – but TDF activities are linked with Rastriya Baniya Bank (National Commercial Bank)	
2.5	Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	For Dhangadhi Municipality – NO such previous experience.	But other ADB funded projects in the municipality are directly handled by PCO/PIU of DUDBC
2.6	Does the entity have/need a capacity to manage foreign exchange risks?	Short orientation is needed for municipal staff	They don't have that capacity - orientation is enough as it will be handled out by Ministry of Finance directly.
2.7	How are the counterpart funds accessed?	Municipality can allocate from its Own Source Revenue	And, in many cases RESERVE FUND can be used.

Financial Management Status		Response	Remarks
2.8	How are payments made from the counterpart funds?	Generally, TDF debt-payment are directly paid to TDF by municipal accounts section (as it has already been pre-calculated by TDF) and it has to be done during the approval of municipal planning and budgeting process.	
2.9	If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Generally NGOs are not authorize to implement any part of the project but users communities (if responsible for implementation any part of the project or whole project) can be monitored as per prescribed formats of Local Self-Governance (Financial and Administrative) Rules and Regulation 2000.	Generally, municipal planning and technical section do all the periodic supervision of projects.
2.10	Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Beneficiaries are required to contribute to project cost – basically depends on the nature of the project (water-supply, drainage, road-construction and school building construction).	By-laws and regulations are separately formulated for "COST SHARING" and "People Participation – Labor Contribution" project. 70:30 ratios (70% from municipality and 30% as cost sharing from the beneficiaries for the projects are generally practiced.
3. Staffing			
3.1	What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Financial Management Section is headed by Senior Accounts Officer along with 6 others including from revenue section (Organization Chart Attached)	Organization Chart attached for reference.
3.2	Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience.	Mr. Dilli Ojha – Chief Finance Officer, MBA Ms. Sushila Pant Joshi – Asst. Accountant, IA Mr. Member Singh, Accountant, Diploma in Municipal Finance, KU Mr. Deepak Bhandari, Accountant, IA Mr. Mohan Bahadur Khadka, Revenue Accountant, IA Ms. Usha Joshi Bhatta, Accounts Assistant, Revenue, IA Mr. Kundan Rana, Accounts Assistant, Revenue, IA	All of them have more than one decade experience in their related field.
3.3	Is the project finance and accounting function staffed adequately?	Yes.	Accounts section is adequately staffed in Dhangadhi Municipality
3.4	Is the finance and accounts staff adequately qualified and experienced?	Staffs working in accounts and revenue section are experienced in their concerned job and qualified adequately	
3.5	Is the project accounts and finance staff trained in ADB procedures?	They are not trained in ADB procedures	But some orientation already received in Nepalgunj through Regional Learning Centre
3.6	What is the duration of the contract with the finance and accounts staff?	Municipal finance and accounts personals are permanently hired.	As per approval of 10th municipal council meeting: Personals are to be hired on contract basis for Municipal Waste Management, Street Light Management, Water-Supply, Security, Public Toilet and Public Park and Garden Management. LSGA 2055 (section 252) and LSG Rules and Regulation (2056) – section 217
3.7	Indicate key positions not contracted yet, and the estimated date of appointment.	No vacant posts. All key positions are filled	

Financial Management Status		Response	Remarks
3.8	Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	During the conduction of "Organization Development – OD", almost all employees have written job-descriptions, except sanitation employee (on contract basis).	Last OD reviewed 7 years back.
3.9	At what frequency are personnel transferred?	Executive Officers are generally transferred within 2 years of tenure but most of the municipal staff are hired permanently for the particular job/section.	
3.10	What is training policy for the finance and accounting staff?	Generally, no such training policy has been adopted but some internal training is being conducted through Regional Learning Centre as well from other donor agencies program.	As per decision no 11 (10th council meeting) it has been agreed that a task force will be formed under the coordination of Finance Chief to review the existing status of service and benefit of employees and it has been expected that the task-force will come with amicable suggestion on professional skill development and training policy – to be adopted by the municipality.
4. Accounting Policies and Procedures			
4.1	Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Dhangadhi accounting system is based on cash base double entry system and it is guided by LSGA (financial administration rules and regulation 2064).	In case of TDF funded project, municipality are able to provide all the necessary information as per prescribed formats of TDF.
4.2	Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Pre-audit of payment/receipt journal voucher is not in practice.	Payment of big consignment / transaction is very carefully checked by accounts and internal audit section.
4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Charts of accounts are pre-defined by LSGA – financial rules and regulations and municipalities are using it accordingly.	However, municipalities are in need to adopt "Accrual Accounting System" – with software application.
4.4	Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Basically, it is according to LSGA prescribed formats and funding arrangement are done as per the agreement with financial institutions, if any.	
4.5	Are the General Ledger and subsidiary ledgers reconciled and in balance?	Main ledger and subsidiary accounts are reconciled regularly with bank statement – it is part and parcel of Internal Audit Section.	
4.6	Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	All the supporting documents are attached with payment and receipt vouchers and it can be easily accessed by any authorized authority.	

Financial Management Status		Response	Remarks
Segregation of Duties			
4.7	Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Purchase Order – prepared by procurement section; with approval by EO Once approval : procure by concerned section Recording of transaction – procurement section Payment made by Finance Section – once approved by EO and Store Entry certificate.	Concerned section of municipality do their job as per TOR
4.8	Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Functions of ordering, receiving, accounting and storing for goods and services are segregated and every section and sub-section are responsible for doing this.	
4.9	Are bank reconciliations prepared by someone other than those who make or approve payments?	Periodic bank reconciliation is done by accounts section.	Now days, it is on-line system.
Budgeting System			
4.10	Do budgets include physical and financial targets?	Yes.	Without indication of physical and financial target, budget and annual planning can't be prepared
4.11	Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Every budget head requires full and detailed information related to all significant activities. Dhangadhi is aware of this. Especially, physical development activities or capital expenditure required full details with allocated budget.	It is necessary during MC/PM assessment.
4.12	Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Usually, in some cases, 10% variation approved by the board.	No variation is acceptable in the project under Users Committees
4.13	Are approvals for variations from the budget required in advance or after the fact?	In some cases, it happened after the event and budget is re-allocated to cover the variation in the physical development project.	
4.14	Who is responsible for preparation and approval of budgets?	With the consultation of different section, financial chief generally prepared the draft budget. Subsequently, Executive Officer gives the final touch to present the budget to the council for approval.	
4.15	Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	All the defined procedures are applied during the preparation of the budget: from ward gathering, project identification, project prioritization.	Generally, the entire process begins from January till the end of March.
4.16	Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	In case of Dhangadhi, current expenditure is close to realistic but capital investment may vary from external source of income (government grant).	It has been generally noticed that Municipal Own Source Revenue is close to projected amount but realization of government grants are uncertain.

Financial Management Status		Response	Remarks
Payments			
4.17	Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	(i) Yes. Accounts section do all the necessary steps before invoice processing for payment. (ii) Once approved by procurement section on invoice quantities, prices and terms – invoice go to accounts section for payment procedure.	In fact, accounts section has to ensure all required process are followed before making any payment to suppliers or any –one. All those steps are pre-requisite for final payment.
4.18	Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	PAID is not stamped but receipt bill – signed by the receiving company/agency attached during final payment.	
4.19	Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Based on the attendance record, payroll is prepared in Dhangadhi (excel sheets are used).	Recently electronic attendance system introduced in Dhangadhi for more systematic administration and management.
Policies And Procedures			
4.20	What is the basis of accounting (e.g., cash, accrual)?	Cash Base accounting system is in practice	Introduction of Accrual Accounting System – could be one of the major technical support activities during implementation of IUDP2.
4.21	What accounting standards are followed?	Internationally recognized cash base accounting standard is in practices – as per provision made in LSGA (financial rules and regulation).	A Clear provision has been made in “Local Body Financial Administration Rules, 2064 (2007)” for municipal accounts keeping procedure. In the rules of Chapter 3 of section 19 (Financial Procedure of the Municipality) it has been stated that : The accounts of the Municipality shall be maintained in accrual transaction based on the principle of double entry system”. <u>Explanation:</u> “Accrual Transaction” means transaction based on corporate account.
4.22	Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Policies and other direction are delivered by MoFALD on regular basis – a new manual has been drafted by MoFALD and it is followed by Dhangadhi	
4.23	Is the accounting policy and procedure manual updated for the project activities?	No such extra accounting policy and procedure manual exists.	Municipal Accrual Accounting System Manual should be reviewed and re-framed as per International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), International Accounting Standard (IAS) as well as Institute of Chartered Accountant of Nepal (ICAN).

Financial Management Status		Response	Remarks
4.24	Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes, as per LSGA – municipality can adopt Accrual Accounting System (AAS)	But still a concrete work-plan is needed for AAS implementation.
4.25	Are there written policies and procedures covering all routine financial management and related administrative activities?	No such written policy and procedure exist. However, LSGA is guiding tools for routine financial management and related administrative activities.	
Cash and Bank			
4.28	Indicate names and positions of authorized signatories in the bank accounts.	Mr. Ram Lal Shrestha, Executive Officer Mr. Dilli Raj Ojha, Chief Finance Officer	
4.29	Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes. Required documents are maintained and software are used for accounting system, which has been developed by a private company. Depend on private company for software issues.	But, still the existing software is not developed on "authorized and licensed base" – concerned authorities should be very particular on "software" licenses
4.30	Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	All tax and non-tax collection is made in central office. Each and every collection goes to bank deposit next morning.	
4.31	Are bank and cash reconciled on a monthly basis?	Daily. Dhangadhi is using on-line reconciliation as and when required basis.	But usually, it is done in every big bank transaction.
Safeguard over Assets			
4.34	Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Public places (park and other immovable properties) are well-maintained and committee is responsible for operation and maintenance.	
4.35	Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Procurement/Store section is responsible for maintaining fixed assets and stock record.	Yearly valuation and re-valuation is a problem – assets valuation manual should be designed and followed accordingly.
4.36	Are there periodic physical inventories of fixed assets and stocks?	Physical inventories of fixed assets and stock are conducted once in a year and report is placed for information by internal audit section.	During the final audit, physical verification also done by external auditors.
4.37	Are assets sufficiently covered by insurance policies?	Only vehicles are covered by insurance policy not others (building, bus-park etc).	
Other Offices and Implementing Entities			
4.38	Are there any other regional offices or executing entities participating in implementation?	Project will be jointly implemented under the direct coordination and guidance of DUDBC – division office of Dhangadhi and Dhangadhi Municipality	Documentation responsibility should be undertaken by Municipality Office – as in later part, they have to prepare balance-sheet and other accounting statement as per international accounting standard.
4.39	Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Flow of fund, financial information, accountability and audits are the prime responsibilities of DUDBC-division as well as Dhangadhi Municipality.	Project coordination and implementation unit should be established (jointly with Municipality and DUDBC Regional Office)
4.40	Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	As a local municipal government, responsibilities falls under Dhangadhi Municipalities for information flow to different line agencies within the municipal area in accurate and timely manner.	And it should be done jointly with DUDBC- division office.
4.41	Are periodic reconciliations performed among the different offices/implementing agencies?	Periodic reconciliation will be performed jointly with DUDBC, division office of Dhangadhi and concerned Municipality	

Financial Management Status		Response	Remarks
Other			
4.42	Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	If such things happened, other central level agencies take all the necessary action.	
5. Internal Audit			
5.1	Is there an internal audit department in the entity?	Yes. It performs well	Dhangadhi Municipality has "internal audit" section as per LSGA
5.2	What are the qualifications and experience of audit department staff?	<ul style="list-style-type: none"> Mr. Lekhnath Ojha (MBA, MA) with 10 yrs. experienced in municipal finance and management Mr. Hemraj Bhandari (IA) with more than 30 years' experience in municipal accounts/revenue. 	Audit section employees are well experienced for internal audit job.
5.3	To whom does the internal auditor report?	<p>Last time, on August 2014, Internal Auditor (Mr. Lakhnath Ojha) forwarded his internal audit report to the Executive Officer (cc to MoFALD, Municipal Management Division). In his report he mentioned audit completion of the following bank accounts :</p> <ul style="list-style-type: none"> Local Body Internal Source Accounts Local Body Fund Accounts Nepal Government Grant (Current Accounts) Nepal Government Grant (Capital Accounts) Local Body Current Accounts Local Body Capital Accounts Miscellaneous Accounts Town Development Fund Accounts Road Board and Reserve Accounts Health Clinic Accounts Deposit Accounts Rural Urban Partnership Accounts 	It looks like that a system has already been established and work is accomplished accordingly.
5.4	Will the internal audit department include the project in its work program?	Yes.	As mentioned above: TDF and Road Board Accounts are some example that they include project accounts/activities.
5.5	Are actions taken on the internal audit findings?	Yes it is mandatory and the Municipal Council generally takes action through the Municipal Board.	
6. External Audit			
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Last time, Mr. Govind Raj Joshi (Registered Auditor 2100 B) accomplished the final audit.	Final audit report already forwarded by the external auditor.
6.2	Are there any delays in audit of the entity? When are the audit reports issued?	On September 2014, final audit report was accomplished and forwarded to MoFALD/Municipal Management Division and Municipal Office.	It is on time.
6.3	Is the audit of the entity conducted according to the International Standards on Auditing?	Yes.	It is conducted as per rules and regulations of LSGA

Financial Management Status	Response	Remarks
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	Major points were observed during final audit: <ul style="list-style-type: none"> • Different 24 sources are municipal total income sources including tax and non-tax revenue (in internal or own source revenue) and grants and loans from external sources. • Accounting are kept under CASH BASE whereas, provision are also made for ACCRUAL ACCOUNTING • Periodic Assets Valuation are not done and accordingly no BALANCE-SHEET prepared • Nearly Rs. 6.336 million are tax arrears – so concerned authorities should take action. • Altogether 109 (permanent/contract basis and daily wages) employees are working for Municipalities. Right now 102 employees are assigned for different municipal activities 	Yes, issues are highlighted by the external auditor and municipal authorities are serious on resolving them.
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Final audit has to be done by external auditor and every year public notice is published in the local media to conduct final audit and accordingly external auditor do their jobs for each and every transaction under the municipality.	Internal auditor is responsible for only pre-audit and re-checking after payments. Final auditing is not their scope of work.
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Generally, recommendations are responded to by the municipal authorities.	Before conducting final audit, external auditor (appointed every year) generally reviewed last year audit report as per their TOR as defined by Institute of Chartered Accountants of Nepal (ICAN).
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	It happens sometimes, for example, if somebody complains to central government ministry.	If there is any malpractice in the project implementation, then external government entity do their job – in addition to the external audit.
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Generally, external auditor is responsible for complete audit of the previous fiscal year and it is clearly mentioned in the agreement in between Municipality and the External Auditor.	
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes. It is regular job – and forwarded to MoFALD on timely interval.	It is done according to LSGA prescribed format as well as district treasury office (which is a part of Financial Comptroller General Office)
7.2 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	It has to be done on a regular basis.	1st week of every month, municipality has to provide "financial statement" to MoFALD / Municipal Management Division with cc to District Treasury Office and sometimes, TDF and it has to do in timely manner
7.3 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	No.	It is only income and expenditure status and advance payment to status

Financial Management Status		Response	Remarks
7.4	Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	No	
7.5	Are financial management reports used by management?	As it is important statement it is used on a regular basis	Municipal Authorities are very serious on financial management report – which reflects about the financial status of concerned municipalities.
7.6	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Periodically it is done	Based on these reports municipality further designs for annual planning and budgeting
7.7	Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes. Financial reports prepared directly by the automated accounting system – even vouchers are prepared accordingly.	Accounting software (designed and developed by private software company) is used for preparation of financial reports, but it has to be replaced by new accounting software (based on accrual accounting) – with licence key under the control of central government or with the office of financial comptroller general.
8. Information Systems			
8.1	Is the financial management system computerized?	Yes it is computerized and simple accounting software was developed by the private software company	However, more user friendly expenditure accounting software is needed.
8.2	Can the system produce the necessary project financial reports?	Yes. Required accounting document is prepared but some limitation	A detailed study on Municipal Accounting Software is essential for international standard accounting.
8.3	Is the staff adequately trained to maintain the system?	Yes.	Staffs are trained enough to operate the system
8.4	Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Unfortunately, safeguard measure for available financial data is not considered enough. Private software company just developed the software and it is used by municipal accounts section.	No, this has to be studied further for entire municipal accounting system – in a very broader way. Experience can be shared with Indian Municipality – where new accounting system (Accrual Accounting) is in practice.

Source:**Interviews with:****Mr. Dilli Raj Ojha, Senior Finance Officer****Mr. Lekhnath Ojha, Internal Auditor****Ms. Sushila Pant, Accountant****Mr. Member Singh, Accounts Officer****Mr. Deepak Bhandari, Accountant****Mr. Hemraj Bhandari, Assistant Auditor**

ANNEX 6-D-2

Dhangadhi Municipality Financial Management Assessment Criteria

ANNEX 6-D-2: Dhangadhi Municipality Financial Management Assessment Criteria

Scoring Guidelines: (i) Many are subjective and professional judgment to be exercised (ii) Overall Rating : 0-40% = High Risk, 40 – 60% = Substantial Risk, 60% – 75 % = Moderate, 75% – 100% = Low, (iii) For low risk, at a minimum must meet criteria's 1b, 1d, 2b, 4b, and 5a, else automatically at least moderate

1. Accounting and Financial Reporting (Total 20 points)

	Assigned Total	Score Obtained	Guidelines/ Considerations for Scoring	Comments
a. Accrual Basis of Accounting applied	2	1	Cash base double entry system applied. Waiting for Technical Assistance for first opening balance-sheet preparation	Decision made for accrual accounting system implementation –
b. Computerized FMIS	4	3	Accounts Section is computerized – vouchers and cheque are print out through software – developed by private company	Separate software is used for Integrated Property Tax (IPT) collection
c. Monthly financial statements can be closed within 15 – 30 days	4	4	Immediately after the month end, within 7 days- financial statement dispatched to MoFALD and District Treasury Office	Pre-requisite for Minimum Conditions and Performance Measurements (MC/PM)
d. Financial statement prepared in accordance with acceptable financial reporting framework	4	4	Financial statement prepared according to prescribed act and rules (LSG Act and Financial Administration Rules and Regulation of the act)	Yes, followed LSG Act and rules regulation.
e. Qualified Chartered Accountant in the Accounts Department	4	3	Qualified Chartered Accountants is not placed in accounts section	However, Sr. Accounts Officer is MBA with > 15 years working experience
f. Financial Management & Accounting Manual in place	2	2	No such manual but LSGA and financial administration rules and regulation is guiding tools for municipal financial management.	Software manual are used

2. Budgeting and Financial Sustainability (Total 20 points)

a. Bottom-up budgeting on annual basis with variance analysis	5	4	Using bottom-up budget preparation process. Budgeting process started from Ward Level people consultation along with local political representatives	Before council meeting, municipality are busy to collect program and activities from ward level and it is related with MC/PM
b. Long term and short term budgets prepared	5	4	Only 1 year budget is being prepared - but in considering municipal future development strategy	Periodic Plan need to be reviewed and updated
c. Adequate Budget Allocation/ Releases	5	4	Basically tax and non-tax revenue (Own Source) budget is adequately planned but external but funding from central fund is not confirmed.	Budget release are done as per allocation (if it is within the scope of Own Source)
d. Absorption Capacity	5	4	Absorption capacity is quite high (average target within municipal budget are Rs. 150 million)	Revenue Mobilization Strategy required for regular high capital investment

3. Internal Audit (Total 15 points)

a. Existence of an effective IA Department	3	2	Yes. Separate IA Section is in the municipality works with effective way	
b. Internal Audit Reports to Audit Committee (at least 2x a year)	3	3	Internal Audit report goes to EO for board discussion on regular basis. Also cc to MoFALD (Letter No.1346 - Shrawan 26, 2071 (August'15)	Periodic basis, municipality is informed about the outcome of internal audit.
c. Qualified IA department heads	3	3	Headed by experienced and well qualified staffs	
d. Risk based Internal Audit Manual	3	2	No such audit manual but LSGA and Public Procurement Act are two strong guiding documents	
e. Evidence that IA Reports are taken seriously / followed up on	3	2	Points are discussed during municipal board meeting	Refer Mr. Lekhnath Ojha

4. External Audit (Total 15 points)

a. Audited financial statements issued within 6-9 months of fiscal year end	5	5	Audited report is a primary document/report for council meeting. Audited financial report was placed during the council meeting	Municipality do it in regular basis
b. Competent independent external auditor	5	5	Yes. Independent external auditor does all statutory audit jobs and made some remarks for further improvement in existing accounting system	Mr. Govind Raj Joshi, Registered Auditor ("B" Class) has already submitted report covering FY 2070/71 (FY 2014/15)
c. Limited audit observations / no serious issue repeated for more than 2 years	5	4	Municipal fixed assets are mentioned but without value (generally for Public Land)	Record can be checked with Procurement Section

5. Internal Controls (Total 20 points)

a. IC commensurate to business (as assessed by auditor or ADB)	10	7	Before making any payment – internal auditor do all verification job in regular basis (Mr. Lekhnath Ojha, Internal Auditor and his team)	
b. Fixed Assets Register in place	5	4	Yes, as per prescribed LSGA formats and fixed assets register is maintained by Procurement Section	External auditor also performed physical verification once a year
d. Adequately trained Staff in place (limited vacancies, low turnover OR adequate experience / qualifications)	5	4	Adequately trained staff is in place (Internal Audit Section)	

6. Governance / Tone at the top (Total 10 points)

a. No alleged reports of misconduct in the media	5	4	No Serious allegation reported in the media	
b. Active and effective Governing Body/ Chief Executive	5	3	Chief Executive is prime responsible – no elected representatives	
TOTAL	100.00	81.00		

Based on observation, discussion and interview with Municipal Officials working in Accounts and Internal Audit Section: Mr. Dilli Raj Ojha, Chief Finance Officer; Mr. Lekhnath Ojha, Internal Auditor; Ms. Sushila Pant, Accountant; Mr. Member Singh, Accountant; Mr. Hemraj Bhandari, Internal Auditor and Deepak Bhandari, Accounts Assistant.

ANNEX 6-E-1

Jhalari Pipaladi Municipality Financial Management Assessment Questionnaire

Annex 6-E-1: Jhalari Pipaladi Municipality
Financial Management Assessment Questionnaire

Financial Management Status	Response	Remarks
1. Agency (Implementing)		
1.1 What is the entity's legal status / registration?	Municipalities – are governed under the "Local Self-Governance Act - LSGA 1999). Jhalari-Pipladi was declared as municipality on 2nd December 2014.	At present, 191 (including Metropolitan, sub-metropolitan and municipality) 1 Metropolitan City 11 Sub-Metropolitan City 179 Municipality 3278 VDCs May, 2014 – GoN declared 72 new municipalities with total number 130 then end of Dec 2014 (16 Mangsir 2071) 61 new municipalities were declared bringing total to 191
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	No such externally financed projects were implemented in the past.	
1.3 What are the statutory reporting requirements for the entity?	As per LSGA, Municipality are responsible to Ministry of Federal Affairs and Local Development (MoFALD) /Municipal Management Division for all the reporting requirements directly.	If the projects are financed by any external donor support – periodic progress report goes to the concerned donor agencies also
1.4 Is the governing body for the project independent?	Projects are generally governed independently by municipal planning unit – after doing all the formal process (i.e. designing, costing, tendering and selection of contractors). And some cases, it has been governed by the "users committee" of individual project under the supervision of municipal planning section.	2 Sub-Overseers are doing all the project work with the help of Acting Executive Officer
1.5 Is the organizational structure appropriate for the needs of the project?	Currently only 2 technical personal are engaged with municipal activities. In regards of existing organization status: Planning and Technical Section is under the Municipal Executive Officer. Still Organization Chart has to be prepared and approved. (A sample Proposed Organization Chart is attached)	Still waiting direction from MoFALD regarding new recruitment process. Although, 25 personals will be recruited In near future.
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Fund Flow Arrangement for the project is expected as follows: <ul style="list-style-type: none"> • ADB fund to Nepal Government • Nepal Government to Concerned Municipality – Loan Agreement • During the project implementation: DUDBC, Division Office and concerned municipality should jointly operate the accounts and book-keeping should be under the municipality office. 	Accordingly, municipality will pay back to Nepal Government (if loan) with anticipated interest rate. The said fund flow arrangement certainly will reduce the financial liabilities.

Financial Management Status	Response	Remarks
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	The above mentioned "fund flow arrangement" is ok	Municipalities are in favour to reduce "bureaucratic process" and expected quick loan process so that they can complete the program in time. In fact, municipality are getting delay for approval due to administrative hustle-bustle.
2.3 What have been the major problems in the past in receipt of funds by the entity?	No such major problems experienced as this municipality recently declared as Municipality.	
2.4 In which bank will the Imprest Account be opened?	Municipal Accounts are with Nepal Rastra Bank (Central Bank)	
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	As a new municipality – NO such previous experience.	
2.6 Does the entity have/need a capacity to manage foreign exchange risks?	Short orientation is needed for municipal staffs, once recruitment process fulfilled	They don't have that capacity - orientation is enough as it will be handled out by Ministry of Finance directly.
2.7 How are the counterpart funds accessed?	Municipality can allocate from his Own Source Revenue	And, in many cases RESERVE FUND can be used and generally it is : Road Board (30% Municipality and 70% Road Board), TDF (50% Municipal Contribution and rest from TDF) MoFALD (100%)
2.8 How are payments made from the counterpart funds?	Till now, no such experience.	Generally, TDF debt-payment are directly paid to TDF by municipal accounts section (as it has been already pre-calculated by TDF) and it has to be done during the approval of municipal planning and budgeting process.
2.9 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Generally NGO are not authorize to implement any part of the project but users communities (if responsible for implementation any part of the project or whole project) can be monitored as per prescribed formats of Local Self-Governance (Financial and Administrative) Rules and Regulation 2000.	
2.10 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Beneficiaries are required to contribute to project cost – basically depends on the nature of the project (water-supply, drainage, road-construction and school building construction).	And in this regards, bye-laws and regulation are separately formulated for "COST SHARING" and "People Participation – Labor Contribution" project. 70:30 ratios (70% from municipality and 30% as cost sharing from the beneficiaries for the projects (as mentioned above) are generally in practice.
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Accounts Section is running by Acting Executive Officer – who used to be Secretary of Pipladi Village Development Committee	At-least one accountant and one assistant accountant is needed

Financial Management Status	Response	Remarks
3.2 Identify the (existing) accounts staff, including job title, responsibilities, educational background and professional experience.	Mr. Sher Bahadur Budha, Acting Executive Officer cum Accountant – responsible for overall accounting (B.Com) with 22 years of experience in government administration system	He has long experience in government accounts keeping but not very much familiar with municipal accounting system which is very much close to corporate accounting system – but without Balance-Sheet preparation.
3.3 Is the project finance and accounting function staffed adequately?	Definitely not adequately staffed.	As acting executive officer is looking after accounts section – in this regards, 2 new personals in required immediately for accounts handling.
3.4 Is the finance and accounts staff adequately qualified and experienced?	Mr. Sher Bahadur Budha is qualified – and knowledgeable with government accounting system only.	New recruitment is quite necessary in this regards
3.5 Is the project accounts and finance staff trained in ADB procedures?	They are not trained in ADB procedures	No training opportunity in new method of accounts keeping or sharing with other municipalities
3.6 What is the duration of the contract with the finance and accounts staff?	Immediately after the declaration – central government assigned Mr. Budha as acting executive officer but duration of his assignment is not known.	As municipality has already forwarded their demand on "staff recruitment" (around 25 people) but still they are waiting for green signal from MoFALD
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	All proposed 25 posts are vacant – appointment date is not known	Appointment process is not clear and municipality is waiting the direction from MoFALD
3.8 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	NOT YET – All these administration status are not known and not clear as the municipality are running with total staffs of 8 (3 from Pipladi VDC and 5 from Jhalari VDC)	Municipal Acting EO is planning for it.
3.9 At what frequency are personnel transferred?	Executive Officers are generally transferred within 2 years of tenure but most of the municipal staffs are hired permanently for the particular job/section. Meanwhile, for this municipality it is very much unclear about the deployment of personals.	Inter- section transfer is generally happened but
3.10 What is training policy for the finance and accounting staff?	Not yet thought on it – general administration is one of the key issues of this newly created municipality.	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Accounting system is based on cash base double entry system and it is guided by LSGA (financial administration rules and regulation 2064).	As a new municipality – without proper administrative set-up, their main focus on day to day administrative work and smooth flow of services to the local people.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Due to lack of proper human resources – such regularity system is not in practice but municipality is planning for recruitment process.	Payment of any consignment /transaction is made very carefully checking by existing human resources... no such big project is going on.

Financial Management Status	Response	Remarks
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Charts of accounts are pre-defined by LSGA – financial rules and regulations and municipalities are using it accordingly.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Basically, it is according to LSGA prescribed formats.	
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Main ledger and subsidiary accounts are reconciled regularly with bank statement.	Right now, only main ledger maintained.
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	All the supporting documents are attached with payment and receipt vouchers and it can be easily accessed to any authorized authorities.	
Segregation of Duties		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	No such practices are followed due to lack of proper units, section and human resources.	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Right now not possible in absence of adequate staffs	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Periodic bank reconciliation done by acting executive officer.	Now days, it is on-line system and they have already approached to Bank for this services.
Budgeting System		
4.10 Do budgets include physical and financial targets?	Generally, yes it is.	Without indication of physical and financial target, budget and annual planning can't be prepared
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Every budget heads required full and details information related to all significant activities. And, municipality is aware with this. Especially, physical development activities or capital expenditure required full details with allocated budget.	Considering MC/PM, now they will follow all the steps during the preparation of annual budget and planning.
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Usually, in some cases, 10% variation approved by the board.	NO VARIATION is acceptable in the project under USERS COMMITTEE
4.13 Are approvals for variations from the budget required in advance or after the fact?	No such cases are experienced till now.	

Financial Management Status	Response	Remarks
4.14 Who is responsible for preparation and approval of budgets?	At present situation, the acting executive officer is aware the process and he told us that he tried to accommodate the suggestions of local political parties. With the consultation of different section, financial chief generally prepared the draft budget. Subsequently, Executive Officer gives the final touch to present the budget into the council for approval.	In case of Jhalari-Pipladi – Acting Executive Officer was solely engaged in drafting the budget – as it was first budget of new municipality, local politicians and other stakeholders were consulted in preparation of budget and at the end of all preparation, council approved the budget.
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	During the first budget preparation – only political consultation has been made due to time constraints. However, some ward gathering also conducted for inclusion of community views – but it was not structured.	Generally, the entire process begins from January till the end of March. And, the entire process has to be approved by the Integrated Planning Meeting
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	In case of Jhalari Pipladi – it is municipal first budget and can't say anything in this regards – however, as per MoFALD instruction, budget has been prepared (especially GRANT portion)	
Payments		
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Without invoice-processing procedures payment cannot be done. (i) Yes, accounts section do all the necessary steps before invoice processing for payment (ii) once approved by procurement section on invoice quantities, prices and terms – invoice go to accounts section for payment procedure.	In fact, accounts section has to ensure with all the required process before doing any payment to the suppliers or any –one. All those steps are pre-requisite for final payment.
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	PAID is not stamped but receipt bill – signed by the receiving company/agency attached during final payment.	Big payment required "Accounts Payee"
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Based on the attendance record, payroll is prepared	Only 8 employees are engaged in various municipal activities henceforth they don't have such big problem with payroll preparation.
Policies And Procedures		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash Base / double entry accounting system is in practice	Introduction of Existing Accounting System in full fledged – that could be one of the major technical support activities during full-fledged implementation of IUDP2nd.
4.21 What accounting standards are followed?	Internationally recognized cash base accounting standard is in practices – as per provision made in LSGA (financial rules and regulation).	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Policies and other direction are delivered by MoFALD in regular basis – different manual has been drafted by MoFALD and it is followed by Bheemdatt.	

Financial Management Status	Response	Remarks
4.23 Is the accounting policy and procedure manual updated for the project activities?	No such extra accounting policy and procedure manual is existed.	Municipal Accrual Accounting System Manual should be reviewed and re-frame as per International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), International Accounting Standard (IAS) as well as Institute of Chartered Accountant of Nepal (ICAN).
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes, as per LSGA – municipality can adopt Accrual Accounting System (AAS)	Provision been made in "Local Body Financial Administration Rules, 2064 (2007)" for municipal accounts keeping procedure. In Chapter 3 of section 19 (Financial Procedure of the Municipality) it is stated : Accounts of Municipality shall be maintained in accrual transaction based on principle of double entry system". <u>Explanation:</u> "Accrual Transaction" means transaction based on corporate account.
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	No such written policy and procedure are existed. However, LSGA is guiding tools for routine financial management and related administrative activities.	
Cash and Bank		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Mr. Sher Bahadur Buddha, Acting Executive Officer Mr. Ganesh Datt Joshi, Administrative Chief (NaSu)	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes. Required documents are maintained and software are used for accounting system (only income/expenditure), which has been developed by private company. Fully depended on private company for software issues.	But, still the existing software is not developed on "authorized and licenced base" – concerned authorities should be very serious on "SOFTWARE" application
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	All tax and non-tax collection is made in central office. Each and every collection goes to Bank deposit next morning.	
4.31 Are bank and cash reconciled on a monthly basis?	Jhalari-Pipladi is in practice of monthly reconciliation. On line bank reconciliation is available and it is in process for using on-line.	But usually, it is done in every big bank transaction.
Safeguard over Assets		
4.32 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	All the movable/immovable properties are listed in the store register. No such adequate safeguard measure are applied due to lack of human resources	
4.33 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Procurement/Store section is responsible for maintaining fixed assets and stock record. One very junior level staff is assigned for keeping all fixed assets register	Yearly valuation and re-valuation is one of the problem – assets valuation manual should be designed and follow accordingly.
4.34 Are there periodic physical inventories of fixed assets and stocks?	Jhalari-Pipladi is in process to adopt such physical inventories during final audit.	During the final audit, physical verification will also be covered by external auditors.

Financial Management Status	Response	Remarks
4.35 Are assets sufficiently covered by insurance policies?	No such assets are covered by insurance policy	
Other Offices and Implementing Entities		
4.36 Are there any other regional offices or executing entities participating in implementation?	No such experience so cannot comment.	Documentation responsibility should be undertaken by Municipality Office – as in later part, they have to prepare balance-sheet and other accounting statement as per international accounting standard. In this case, Bheemdatt should lead for this (covering Jhalari-Pipladi and Bheemdatt)
4.37 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	No such experience so cannot comment.	Project coordination and implementation unit should be established (jointly with Municipality and DUDBC Division Office)
4.38 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	As a local municipal government, responsibilities falls under Jhalari-Pipladi Municipality for information flow to different line agencies within the municipal area in accurate and timely manner.	And it should be done jointly with Bheemdatt Municipality in case of project implementation under ADB funding
4.39 Are periodic reconciliations performed among the different offices/implementing agencies?	Periodic reconciliation will be performed jointly with DUDBC, division office of Dhangadhi and concerned Municipality	
Other		
4.40 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	If such things happened, other central level agencies do all the necessary action.	
5. Internal Audit		
5.1 Is there an internal audit department in the entity?	No. Only accounts section is full responsible for any accounting payment and receipt.	
5.2 What are the qualifications and experience of audit department staff?	There is no INTERNAL AUDITOR at present.	
5.3 To whom does the internal auditor report?	No such system has been followed by Jhalari Pipladi-Municipality.	
5.4 Will the internal audit department include the project in its work program?	At present – no internal audit section is in operation	
5.5 Are actions taken on the internal audit findings?	Yes it is mandatory and the Municipal Council generally take action through the Municipal Board.	But, so such section is in operation
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Process will be followed for appointment of external auditor	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Not applicable	

Financial Management Status	Response	Remarks
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Not applicable as this is their first fiscal year of banking transaction – As municipality is the process of hiring external auditor	It will be conducted as per rules and regulations of LSGA
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	Not applicable as this is their first fiscal year of banking transaction	It will be conducted as per rules and regulations of LSGA Public Procurement Act 2063 is not applicable for municipality
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Final audit has to be done by external auditor and every year public notice will be published in the local media to conduct final audit and accordingly external auditor do their jobs for each and every transaction under the municipality.	As this is 1st fiscal year of Jhalari-Pipladi Banking transaction – appointment of external auditor will be done according to LSGA.
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Generally, recommendations have to be responded by the municipal authorities.	Before conducting final audit, external auditor (appointed every year to conduct final audit) generally reviewed last year audit report, and it comes under their TOR as defined by Institute of Chartered Accountants of Nepal (ICAN).
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Till to-date , no such things happened	If there is any malpractice in the project implementation, than external government entity do their job – in addition to the external audit.
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Generally, external auditor is responsible for complete audit of the previous fiscal year and it is clearly mentioned in the agreement in between Municipality and the External Auditor.	
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes, it is regular job – and forwarded to MoFALD in timely interval and accounts are kept as suggested/directed by LSGA	It is done according to LSGA prescribed format as well as district treasury office (which is a part of Financial Comptroller General Office)
7.2 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	It has to be done in regular basis.	1st week of every month, municipality has to provide "financial statement" to MoFALD/Municipal Management Division with cc to District Treasury Office and sometime, Town Development Fund and it has to do in timely manner
7.3 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	No.	It is only income and expenditure status and advance payment to status
7.4 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	No	

Financial Management Status	Response	Remarks
7.5 Are financial management reports used by management?	As it is important statement it is used regular basis	Municipal Authorities are very serious on financial management report – which reflects about the financial status of concerned municipalities.
7.6 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Periodically it is in practice – but Mr. Budha do it in regular basis.	Based on these report – municipality further designed for annual planning and budgeting
7.7 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes. Financial reports (income/expenditure statement) prepared directly by the automated accounting system.	Accounting software (designed and developed by private software company) is used for preparation of financial reports till now but it has to be replaced by new accounting software (based on accrual accounting) – with licence key under the control of central government or with the office of financial comptroller general.
8. Information Systems		
8.1 Is the financial management system computerized?	Yes. Simple accounting software is used for income and expenditure statement preparation	However, more users' friendly expenditure accounting software is needed.
8.2 Can the system produce the necessary project financial reports?	Yes. Required accounting documents are prepared but some limitation	A details study on Municipal Accounting Software preparation is necessary in coming days (Integrated Municipal Revenue Software and Expenditure Software)
8.3 Is the staff adequately trained to maintain the system?	Yes. Only accountant is familiar to operated income/expenditure simple software	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Unfortunately, safeguard measure for available financial data is not considered enough. Private software company just develop the software and it is used by municipal accounts section.	No, this has to be study further for entire municipal accounting system – in a very broad way. Experience can be shared with Indian Municipality – where new accounting system (Accrual Accounting) is in practice.

Source:**Interviews with:****Mr. Sher Bahadur Budha, Acting Executive Officer****Mr. Keshav Datt Joshi, Assistant Technician (Sub-Oveseer)****Mr. Ganesh Datt Joshi, Administrative Chief****Mr. Sawari Lal Dangora, Office Assistant**

ANNEX 6-E-2

Jhalari Pipaladi Municipality Financial Management Assessment Criteria

ANNEX 6-E-2: Jhalari Pipaladi Municipality Financial Management Assessment Criteria

Scoring Guidelines: (i) Many are subjective and professional judgment to be exercised (ii) Overall Rating : 0-40% = High Risk, 40 – 60% = Substantial Risk, 60% – 75 % = Moderate, 75% – 100% = Low, (iii) For low risk, at a minimum must meet criteria's 1b, 1d, 2b, 4b, and 5a, else automatically at least moderate

1. Accounting and Financial Reporting (Total 20 points)

- a. Accrual Basis of Accounting applied
- b. Computerized FMIS
- c. Monthly financial statements can be closed within 15 – 30 days
- d. Financial statement prepared in accordance with acceptable financial reporting framework
- e. Qualified Chartered Accountant in the Accounts Department
- f. Financial Management & Accounting Manual in place

Assigned Total	Score Obtained	Guidelines/ Considerations for Scoring	Comments
2	0	Cash base double entry system applied	
4	0	No Computerized FMIS	EO is looking after accounts
4	2	As EO is handling accounts section, so he is trying to close accounts within 30 days	It is pre-require for Minimum Conditions and Performance Measurements (MC/PM)
4	2	Financial statement prepared in accordance with acceptable financial reporting framework as prescribed by LSGA	As per Local Self-Governance Act (LSGA) and Financial Administration Rules and Regulations
4	0	NO ACCOUNTANT. EO is doing accounting job.	Still in very initial stage.
2	1	No such manual (LSGA and financial administration rules and regulation is guiding tools for municipal financial management)	Municipality has to follow LSGA and other directives from MoFALD.

2. Budgeting and Financial Sustainability (Total 20 points)

- a. Bottom-up budgeting on annual basis with variance analysis
- b. Long term and short term budgets prepared
- c. Adequate Budget Allocation/ Releases
- d. Absorption Capacity

5	2	Due to lack of human resources, most of the meeting organized at office and some at the ward level for annual budget preparation	Partial process followed due to lack of municipal staffs.
5	1	Only 1 year budget is being prepared	Municipality just prepared 1st year budget
5	1	Just practicing – budget preparation	Very new Municipality
5	3	Can't say anything in this situation. Nearly 52.17% is allocated for capital development expenditure out of Rs 62.00 million expected as central grants.	

3. Internal Audit (Total 15 points)

a. Existence of an effective IA Department	3	0	No – recruiting will start after couple of months	
b. Internal Audit Reports to Audit Committee (at least 2x a year)	3	0	It will in near future but not in this current year.	
c. Qualified IA department heads	3	0	Not yet.	
d. Risk based Internal Audit Manual	3	1	There is no such manual	LSGA and Public Procurement Act are two strong guiding documents
e. Evidence that IA Reports are taken seriously / followed up on	3	0	Currently, it is not in practice	

4. External Audit (Total 15 points)

a. Audited financial statements issued within 6-9 months of fiscal year end	5	0	After this fiscal year (July15, 2015) – external auditor will be appointed	
b. Competent independent external auditor	5	0	Planning to hire external auditor after this fiscal year (2014/15)	
c. Limited audit observations / no serious issue repeated for more than 2 years	5	0	Not applied as they are currently running in first fiscal year of their business/transaction	

5. Internal Controls (Total 20 points)

a. IC commensurate to business (as assessed by auditor or ADB)	10	0	Not Applicable	
b. Fixed Assets Register in place	5	2	Yes, as per prescribed LSGA format (Only land and building – old assets transferred from VDC itself)	External auditor will also do physical verification
d. Adequately trained Staff in place (limited vacancies, low turnover OR adequate experience / qualifications)	5	0	Position is still to be fulfilled.	

6. Governance / Tone at the top (Total 10 points)

a. No alleged reports of misconduct in the media	5	3	Not Yet.	
b. Active and effective Governing Body/ Chief Executive	5	2	Chief Executive is prime responsible – no elected representatives	

TOTAL	100.00	20.00		
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Based on observation, discussion and interview with Municipal Acting Executive Officer Mr. Sher Bahadur Budda – also doing accounting and book-keeping.

ANNEX 6-F-1

Attariya Municipality Financial Management Improvement Action Plan

ANNEX 6-F-1: Attariya Municipality
Financial Management Improvement Action Plan

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
1. Staffing Pattern	Out of 30 approved positions – only 15 people recruited (9 permanent and 6 contract basis)	Attariya has already sent their request for staff recruitment to MoFALD – and still waiting Completion Time Frame: By the end of FY 2015/16 (Poush 2072)	Attariya Municipality – Staff Recruitment Committee	MoFALD	Recruitment Committee – action delayed	
2. Preparation of Annual Budgeting and Planning	Timely completed with all the formalities with ward consultation and council meeting as per notion of LSGA	Dissemination of actual income and expenditure – monthly basis (regularly) Financial information with major completed physical infrastructure will be displayed at major junction of municipality Will be initiated by the end of Kartik 2072 (October 16, 2015)	Municipality	No External Support Needed		
3. Existing Accounting System	Cash Base Accounting System as per LSGA is used Only Expenditure Accounting Software is used	Once vacancies fulfilled, orientation and training (manual as well operation of software will be conducted as early as possible)		GoN/ MoUD/ DUDBC	Proper registration and licensing – not clear	

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
4. Accrual Accounting System (AAS)	Not in practice	By the end of September 2015 a committee will be formed for AAS implementation Orientation program on AAS Concept Completion: By the end of December 2015 (Poush 16, 2072) Preparation of assets valuation and 1st Opening Balance-Sheet Completion: By the end of March 2016 (Chaitra 17, 2072)	Municipality Municipality Municipality	GoN/MoUD/ and the team of Chartered Accountants and Finance Expert (IDC) GoN/MoUD/DUDBC and team of Chartered Accountant and External Finance Expert (IDC)	Too early to assess. However, conceptual clarity is necessary for future implementation of AAS.	But the concept should adopted for future implementation strategy It will help municipality to determine their assets and liabilities and financial strength.
5. Enhancing the Municipal Own Source Revenue						
5.a Preparation / Development of Revenue Improvement Action Plan (RIAP)	Preparation of RIAP not yet started	RIAP committee will be formed (Revenue Consultation Committee will be re-activated) Completion: By the end of Dec' 2015 (Poush 16, 2072)	Municipality	GoN/MoUD/DUDBC External consultants – experienced in this activities will be hired for the preparation of RIAP		
5.b Tax-payers information collection and updating	Not Yet Started	Design and development of tax payers information format Completion: By the end of October 2015 (Kartik 14, 2072) Public information will be disseminated for municipal door to door survey by November 2015 (Mangsir 14, 2072)	Municipality	College students will be hired for survey activities – Orientation will be provided by Municipality to the hired students – How to use the formats to collect tax information.		

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
5.c Initiation of Tax Education Program		Slogans and contents developed and approved for poster and flex print Completion by October 2015 (Kartik 14, 2072)	Municipality	Tax slogans and contents will be displayed in the major streets of municipality		
5.d Computerization of House and Land Tax - HALT/Integrated Property Tax – IPT	Already in operation	Updating is required	Municipality			
5.e Computerization of Business/ Professional Tax	Not yet started	Software will be installed – will be enacted				Depends on hiring of human resources
5.f Computerization of Other taxes	Not yet started	Software will be installed – will be enacted				Depends on hiring of human resources
5.g Computerization of Building Permit Fee		Software will be installed – will be enacted				Depends on hiring of human resources
5.h Computerization of other fees/revenue		Software will be installed – will be enacted				Depends on hiring of human resources
6. Inventory/Stock Management						
Not Yet		Waiting for new recruitment				Depends on hiring of human resources
7. Internal Audit						
Not Yet		Waiting for New recruitment				Depends on hiring of human resources

Training Needs Assessment

- Revenue and Accounting Software Operation
- Vital Registration Software Operation
- Concept of Accrual Accounting System
- Assets Valuation
- Liabilities Identification (gratuity, leave en-cashment)
- Preparation of first opening balance-sheet
- Improved collection method of tax and non-tax revenue

Consultation:

Mr. Khemraj Joshi, Executive Officer, Attariya Municipality Office

Mr. Gajendra Joshi, Accountant, Attariya Municipality Office

ANNEX 6-F-2

Bheemdatt Municipality Financial Management Improvement Action Plan

ANNEX 6-F-2: Bheemdatt Municipality
Financial Management Improvement Action Plan

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
1. Staffing Pattern	Only 3 people are working in accounts section – including 1 in internal audit section	After commencement of new ADB funded project – atleast 2 new people in accounts section will be needed Completion Time Frame: Once new project commence	Bheemdatt Municipality – Staff Recruitment Committee	Ministry of Federal Affairs and Local Development (MoFALD)	Action is delayed due to other priority of MoFALD	
2. Preparation of Annual Budgeting and Planning	Timely completed with all the formalities with ward consultation and council meeting as per notion of LSGA	Dissemination of actual income and expenditure – monthly basis (regularly) Financial information with major completed physical infrastructure will be displayed at major junction of municipality Will be initiated by the end of Kartik 2072 (October 16, 2015)	Municipality	No External Support Needed		
3. Existing Accounting System	Cash Base Accounting System as per LSGA are in used Only Expenditure			GoN/MoUD/DUDBC Even in the existing situation regular	The expenditure software were purchased from the private software	

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
	Accounting Software are in used			training/orientation/di scourses are necessary on local municipal accounting system.	company – so licensing and ownership is not clear	
4. Accrual Accounting System (AAS)	NOT IN PRACTICE	In a very near future a committee will be formed for AAS implementation Orientation program on AAS Concept Completion: By the end of December 2015 (Poush 16, 2072) Preparation of assets valuation and 1st Opening Balance-Sheet Completion: By the end of March 2016 (Chaitra 17,2072)	Municipality Municipality Municipality	GoN/MoUD/and the team of Chartered Accountants and Finance Expert GoN/MoUD/DUDBC and team of Chartered Accountant and External Finance Expert	AAS implementation business plan will be developed by the end of this fiscal year 2015/16	But the concept should adopted for future implementation strategy It will help municipality to determine their assets and liabilities and financial strength. Whatever training and orientation on AAS will be designed, it should be done jointly with Dhangadhi Municipality.
5. Enhancing the Municipal Own Source Revenue						
5.a Preparation / Development of Revenue Improvement Action Plan (RIAP)	Preparation of RIAP not yet started	RIAP committee will be formed (Revenue Consultation Committee will be re-activated) Completion: By the end of Dec' 2015 (Poush 16, 2072)	Municipality	GoN/MoUD/DUDBC External consultants – experienced in this activities will be hired for the preparation of RIAP	Designing of new tax rate and implementation strategy and timely public approval?	Hiring of consultant should be done jointly with Dhangadhi Municipality

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
5.b Tax-payers information collection and updating	Not Yet Started	Design and development of tax payers information format Completion: By the end of October 2015 (Kartik 14, 2072) Public information will be disseminated for municipal door to door survey by November 2015 (Mangsir 14, 2072)	Municipality	College students will be hired for survey activities – Orientation will be provided by Municipality to the hired students – How to use the formats to collect tax information.		
5.c Initiation of Tax Education Program	Recently, some posters on tax-education developed and it has been affixed in some part of municipal building – arguing tax payers for timely payment of their tax and non-tax liabilities to municipality.	Slogans and contains developed and approved for poster and flex print Completion by the end of October 2015 (Kartik 14, 2072)	Municipality	Tax slogans and contains will be displayed in the major streets of municipality		
5.d Computerization of House and Land Tax - HALT/Integrated Property Tax – IPT	Readily available IPT software installed and waiting for its final output (once					
5.e Computerization of Business/Professional Tax	Collection of business/professional tax – simple billing system is in practice	Updating and new advance software will be procured as early as possible	Municipality By the end of September 2015		New information of business tax collection	Additional human resources is needed – for data entry

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
5.f Computerization of Other taxes	Other major taxes are collected manually	New updated software is needed	Revenue Section By the end of FY 2015/16	MoUD/DUDBC		
5.g Computerization of Building Permit Fee			After analyzing the output of business/professional tax software, computerization of building permit fee will be initiated.			
5.h Computerization of other fees/revenue			After analyzing the output of business/professional tax software, computerization of building permit fee will be initiated.			
6. Inventory/Stock Management						
Inventory/Stock Management is in operation with all required formats		New software on stock management is needed				During the preparation of opening balance-sheet, external chartered accountant will design "functional requirement" of store management and software.
7. Internal Audit						
Internal Auditor is in placed	As per TOR – internal auditor performed all the activities. Pre-audit is also performed before doing any					Updating information on internal audit needed – more action will be

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
	payment activities.					designed once external chartered accountant will complete his opening balance-sheet

Training Need Assessment on Municipal Finance Area

1. Municipal Revenue Mobilization
2. Integrated Property Tax – focus on modified way of collection and coverage
3. Accounting Training – How to prepare Balance Sheet (considering new accounting system – accrual accounting)
4. Store Management – Inventory Management
5. Internal Auditing – How to improve it in implementation (area of intervention, new method of auditing- concept clarity)
6. Financial Report Writing – improved way of software application
7. Integration of existing IT with new upcoming improved software
8. Better use of existing regional learning center human resources in different training of municipal management and development

Report Prepared with the help of :

- a. Mr. Himalaya Singh Aier, Acting Executive Officer and Planning Chief
- b. Mr. Bikram Bhandari, Finance Chief
- c. Mr. Nar Bahadur Shah, Revenue Chief
- d. Mr. Ram Bahadur Kunwar, Accounts Officer
- e. Mr. Bhawani Datt Bhatta, Internal Auditor
- f. Mr. Thapa, Revenue Officer

ANNEX 6-F-3

Dhangadhi Municipality Financial Management Improvement Action Plan

ANNEX 6-F-3: Dhangadhi Municipality
Financial Management Improvement Action Plan

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
1. Staffing Pattern	4 people are working in accounts book keeping	Once new project (ADB funded) in operation – at least 2 new people in accounts section will be needed Completion Time Frame: Once new project commence	Dhangadhi Municipality – Staff Recruitment Committee	MoFALD MoUD/ DUDBC	It should be within the municipal budget limitation – otherwise external financial support is needed	As per Local Self Governance Act – it is clearly mentioned that municipality should not exceed 25% in Current Expenditure of total Own Source Revenue
2. Preparation of Annual Budgeting and Planning	Timely completed with all the formalities with ward consultation and council meeting as per notion of LSGA	Dissemination of actual income and expenditure – monthly basis Financial information with major completed physical infrastructure will be displayed at major junction of municipality.(quarterly basis) Will be initiated by the end of October 2015	Municipality – Finance and Planning Section	No External Support Needed		It has been agreed that quarterly (revenue and physical development only) completed activities will be displayed at public places.
3. Existing Accounting System	Cash Base Accounting System as per LSGA are in use Only Expenditure Accounting Software are in use			GoN/ MoUD/ DUDBC Regular training /orientation and sharing on new approach of accounting system	Proper registration and licensing – not clear	
4. Accrual Accounting System (AAS)	Not in practice	By the end of October 2015, a committee will be formed for AAS implementation	Municipality	No external support is needed	It's too early to step in AAS.	But the concept should adopted for future implementation strategy

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
		<p>Orientation program on AAS Concept Completion: By the end of December 2015 (Poush 16, 2072).</p> <p>Preparation of assets valuation and 1st Opening Balance-Sheet – Preparation of Assets Valuation Manual Completion: By the end of March 2016 (Chaitra 17, 2072)</p>	<p>Municipality</p> <p>Municipality</p>	<p>GoN/MoUD/and the team of Chartered Accountants and Finance Expert</p> <p>GoN/ MoUD/ DUDBC and team of Chartered Accountant and External Finance Expert</p>		<p>It will help municipality to determine their assets and liabilities and financial strength.</p>
5. Enhancing the Municipal Own Source Revenue						
5.a Preparation / Development of Revenue Improvement Action Plan (RIAP)	Preparation of RIAP not yet started	<p>RIAP committee will be formed (Revenue Consultation Committee will be re-activated) Completion: By the end of Dec' 2015 (Poush 16, 2072)</p>	Municipality	GoN/ MoUD/ DUDBC External consultants (IDC) – experienced in this activities will be hired for the preparation of RIAP		
5.b Tax-payers information collection and updating	Not Yet Started	<p>Design and development of tax payers information format Completion: By the end of October 2015 (Kartik 14, 2072)</p> <p>Public information will be disseminated for municipal door to door survey by November 2015 (Mangsir 14, 2072)</p>	Municipality	College students will be hired for survey activities – Orientation will be provided by Municipality to the hired students – How to use the formats to collect tax information.		

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
5.c Initiation of Tax Education Program		Slogans and contents developed and approved for poster and flex print Completion by the end of October 2015 (Kartik 14, 2072)	Municipality	Tax slogans and contents will be displayed in the major streets of municipality		
5.d Computerization of House and Land Tax - HALT/ Integrated Property Tax – IPT	Readymade IPT software recently installed and is in operation (result is waiting -)					
5.e Computerization of Business/ Professional Tax	Collection of business/ professional tax – simple billing system is in practice	Updating and new advance software will be procured as early as possible	Municipality By the end of September 2015		New information of business tax collection	Additional human resources is needed – for data entry
5.f Computerization of Other taxes	Other major taxes are collected manually	New updated software is needed	Revenue Section By the end of FY 2015/16	MoUD/ DUDBC		
5.g Computerization of Building Permit Fee		After analyzing the output of business/ professional tax software, computerization of building permit fee will be initiated.				
5.h Computerization of other fees/ revenue		After analyzing the output of business/professional tax software, computerization of building permit fee will be initiated.				

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
6. Inventory/Stock Management						
Store Management – Manually		New software on stock/ asset management is needed				During the preparation of opening balance-sheet, external chartered accountant will design "functional requirement" of store management and software.
7. Internal Audit						
Internal Auditor is in placed	As per TOR – internal audit on-going					Updating information on internal audit needed – more action will be designed once external chartered accountant completes the opening balance-sheet

Training Need Assessment on Municipal Financial Management

1. Municipal Revenue Mobilization
2. Integrated Property Tax – focus on modified way of collection and coverage
3. Accounting Training – How to prepare Balance Sheet (considering new accounting system – accrual accounting)
4. Store Management – Inventory Management
5. Internal Auditing – How to improve it in implementation (area of intervention, new method of auditing- concept clarity)
6. Financial Report Writing – improved way of software application
7. Integration of existing IT with new upcoming improved software
8. Better use of existing regional learning center human resources in different training of municipal management and development

Report Prepared with the help of:

- a. Mr. Ram Lal Shrestha, Chief/Executive Officer
- b. Mr. Deej Raj Bhatta, Planning Chief
- c. Mr. Dilli Raj Ojha – Chief, Finance Section
- d. Mr. Lekhnath Ojha, Internal Auditor / Revenue in-charge
- e. Mr. Member Singh, Accountant, Finance Section
- f. Ms. Sushila Pant (Joshi), Accountant, Finance Section
- g. Mr. Mohan B. Khadka – Na.Su (Revenue Section)
- h. Ms. Usha Joshi – Kharidar (Revenue Section)
- i. Mr. Krishna P. Joshi (Na. Su – Store Section)
- j. Mr. Dilli Raj Joshi (Kharidar – Store Section)

ANNEX 6-F-4

Jhalari Pipaladi Municipality Financial Management Improvement Action Plan

ANNEX 6-F-4: Jhalari Pipaldai Municipality
Financial Management Improvement Action Plan

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
1. Staffing Pattern	Out of 25 – only 8 people are working in different position (5 are permanent and 3 are contract basis). 5 are hired by different organizations.	Jhalari-Pipaladi has already sent their request for staff recruitment to MoFALD Completion Time Frame: By the end of FY 2015/16 (Poush 2072)	Jhalari-Pipaladi Municipality – Staff Recruitment Committee	Ministry of Federal Affairs and Local Development (MoFALD)	Action is delayed due to other priority of MoFALD	
2. Preparation of Annual Budgeting and Planning	Timely completed with all the formalities with ward consultation and council meeting as per notion of LSGA	Dissemination of actual income and expenditure – monthly basis Financial information with major completed physical infrastructure will be displayed at major junction of municipality Will be initiated by the end of (TBD)	Municipality	No External Support Needed		
3. Existing Accounting System	Cash Base Accounting System as per LSGA are in used Only Expenditure Accounting Software are in used			GoN/MoUD/DUDBC	The expenditure software were purchased from a private software company – so licensing and ownership is not clear	
4. Accrual Accounting System (AAS)	NOT IN PRACTICE	By the end of (TBD) a committee will be formed for AAS implementation	Municipality	GoN/MoUD/and the team of Chartered Accountants and	It's too early to step in AAS.	But the concept should adopted for future

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
		<p>Orientation program on AAS Concept Completion: By the end of December 2015 (Poush 16, 2072)</p> <p>Preparation of assets valuation and 1st Opening Balance-Sheet Completion: By the end of March 2016 (Chaitra 17,2072)</p>	<p>Municipality</p> <p>Municipality</p>	<p>Finance Expert GoN/MoUD/DUDBC and team of Chartered Accountant and External Finance Expert</p>		<p>implementation strategy It will help municipality to determine their assets and liabilities and financial strength.</p>
5. Enhancing the Municipal Own Source Revenue						
5.a Preparation / Development of Revenue Improvement Action Plan (RIAP)	Preparation of RIAP not yet started	<p>RIAP committee will be formed (Revenue Consultation Committee will be re-activated) Completion: By the end of Dec' 2015 (Poush 16, 2072)</p>	Municipality	GoN/MoUD/DUDBC External consultants – experienced in this activities will be hired for the preparation of RIAP		
5.b Tax-payers information collection and updating	Not Yet Started	<p>Design and development of tax payers information format Completion: By the end of October 2015 (Kartik 14, 2072)</p> <p>Public information will be disseminated for municipal door to door survey by November 2015 (Mangsir 14, 2072)</p>	Municipality	<p>College students will be hired for survey activities Orientation will be provided by Municipality to the hired students – How to use the formats to collect tax information.</p>		

Activities	Present Status	Further Action	Major Responsibilities	Expected External Support	Risk Factors	Remarks
5.c Initiation of Tax Education Program		Slogans and contains developed and approved for poster and flex print Completion by the end of October 2015 (Kartik 14, 2072)	Municipality	Tax slogans and contains will be displayed in the major streets of municipality		
5.d Computerization of House and Land Tax - HALT/ Integrated Property Tax – IPT	Already in operation	Updating is required	Municipality	GoN/MoUD/DUDBC		It should be done jointly with Attariya – during hiring of external consultant (software company)
5.e Computerization of Business/ Professional Tax	Not yet started	Software will be installed – will be enacted		Through ADB new project		Depends on hiring of human resources
5.f Computerization of Other taxes	Not yet started	Software will be installed – will be enacted		Through ADB new project		Depends on hiring of human resources
5.g Computerization of Building Permit Fee	Not yet started	Software will be installed – will be enacted		Through ADB new project		Depends on hiring of human resources
5.h Computerization of other fees/ revenue	Not yet started	Software will be installed – will be enacted		Through ADB new project		Depends on hiring of human resources
Inventory/Stock Management						
	Not Yet	Waiting for new recruitment				Depends on hiring of human resources
Internal Audit						
	Not Yet	Waiting for new recruitment				Depends on hiring of human resources

Training Needs Assessment

- Collection procedure of tax and non-tax revenue of municipality
- Vital Registration – how to perform
- Software Operation of Vital Registration
- Revenue (IPT) and Business Tax and Accounting Software Operation
- Concept of Accrual Accounting System
- Assets Valuation
- Liabilities Identification (staff gratuity)
- Preparation of first opening balance-sheet

Consultation:

Mr. Raghunath Awasthi, Executive Officer, Jhalari-Pipaladi Municipality Office
Mr. Amardeep Mahato, Accountant, Jhalari-Pipaladi Municipality Office
Mr. Rajendra Bahadur Singh, Revenue Section

**Government of Nepal
Ministry of Urban Development**

**Second Integrated Urban Development Project
(IUDP2)
(PPTA 8817–NEP)**

**Draft Final Report
Discussion Note # 7 –
Project Management and Implementation Arrangements**

September 2015

Draft Final Report

Discussion Note #7 –

Project Management and Implementation Arrangements

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Annex

Annex 7-A: Invitation for EOI and TOR for Project Management Consultant

Annex 7-B: Invitation for EOI and TOR for Design and Supervision Consultant

Annex 7-C: Invitation for EOI and TOR for Institutional Development Consultant

1 Project Management

1.1 Executing Agency

1. The executing agency will be the MOUD, working through its Department of Urban Development and Building Construction (DUDBC). It will be responsible for overall strategic guidance, technical supervision, execution of the project, and ensuring compliance with the loan covenants.

1.2 Project Steering Committee

2. At the central level, a project steering committee (PSC) will be established to be chaired by the secretary of MOUD.

3. The Director General (DG) of DUDBC and Department of Water Supply and Sewerage (DWSS), joint secretaries of the MOUD, MOFALD, the Ministry of Finance (MOF), the National Planning Commission (NPC), the Ministry of Environment (MOE), and the Ministry of Women, Children and Social Welfare, the general managers of Nepal Water Supply Corporation (NWSC) and Solid Waste Management and Resource Mobilization Center (SWMRMC), the executive officers of the project municipalities, and the President of the Municipal Association of Nepal (MuAN), the heads of the GESI units of MOUD, DUDBC and DWSS as members.

4. The project director will be member and convener of the PSC. The PSC will review overall progress and recommend key policy decisions. Other relevant officials may be invited as necessary.

5. Once the project is made effective, the PSC will meet regularly, at least once in three months or more frequently if necessary, to review project performance and decide on major issues, such as counterpart funding, implementation bottlenecks, land disputes, special procurement, policy reforms, etc.

1.3 Project Coordinating Office

6. The DUDBC has established a Project Coordinating Office (PCO), led by a full-time Project Director to execute ADB urban projects. The Project Director, supported by a Deputy (PDD), the PCO and Project Management Consultant (PMC), will: (i) coordinate all activities under the Project; and (ii) will be responsible for overall project implementation, monitoring, and supervision, ensuring that gender and inclusion issues are addressed substantively in the project cycle.

7. Representatives from Department of Roads, DWSS, and SWMRMC will be nominated to work with the PCO in reviewing technical reports of subprojects, ensure policy and design coherence, and advise the PCO and PIU on technical matters of subproject components.

8. A unit established in the MOUD will support the implementation of capacity building of project municipalities for greater GESI results. The unit will coordinate with the PCO on all GESI-related capacity development activities in the project municipalities.

9. The PCO will be responsible for (i) appointing Project consultants; (ii) approving the design of the investment components in consultation with the Project Implementation Unit (PIU) and participating Municipalities; (iii) advising the PIU on procurement activities

including preparing standard bid documents; (iv) monitoring the tendering process bid evaluation and preparing bid evaluation reports for approval by ADB; (v) advising the PIU on project implementation; (vi) advising the PIU in implementing public relations and community awareness programs; (vii) coordinating with ADB on matters related to disbursements and implementation progress; (viii) organizing and supervising the training and capacity building programs; (ix) providing support under the institutional development assistance; (x) maintaining project documents and submitting reports (including monthly project performance reports, quarterly progress reports) to ADB; (xi) ensuring compliance with undertakings and covenants; (xii) providing overall guidance to the PIU in implementation of subprojects, contract management and progress reporting. In all the above tasks the PCO will ensure that GESI aspects are mainstreamed as relevant.

1.4 Project Implementation Unit

10. A PIU will be established in the DUDBC Kailali Divisional Office (KDO) in Dhangadhi in association with the project municipalities' sections and units. The responsibilities of the PIU include: (i) carrying out detailed surveys, investigations and engineering designs of municipal infrastructure components; (ii) preparing bid documents, tendering, evaluating bids and awarding works, contract administration, supervision and quality control; (iii) measuring works carried out by the contractors and certifying payments; (iv) conducting public awareness campaigns, (v) preparing and implementing resettlement plans; (vi) preparing and implementing environmental management plans; (vii) ensuring project municipalities compliance with loan covenants; and (viii) preparing monthly reports. The Design Supervision Consultant (DSC) supports the PIU in all the aforesaid activities.

11. A Project Manager will head the PIU and will be supported by technical and safeguard specialists, as appropriate. The PIU will also comprise staff involved in procurement, accounts and community development. Staff deputed from the Revenue Department shall handle all land acquisition and resettlement and rehabilitation issues. The Project Manager at the PIU will report to each municipal EO, and the PDD at the PCO. All administrative and project co-ordination related issues will be handled by the PDD, PCO. The Project Manager will also be authorized to release payments to contractors. The municipal EO shall interface with the Municipal Council and PCO regarding Project progress.

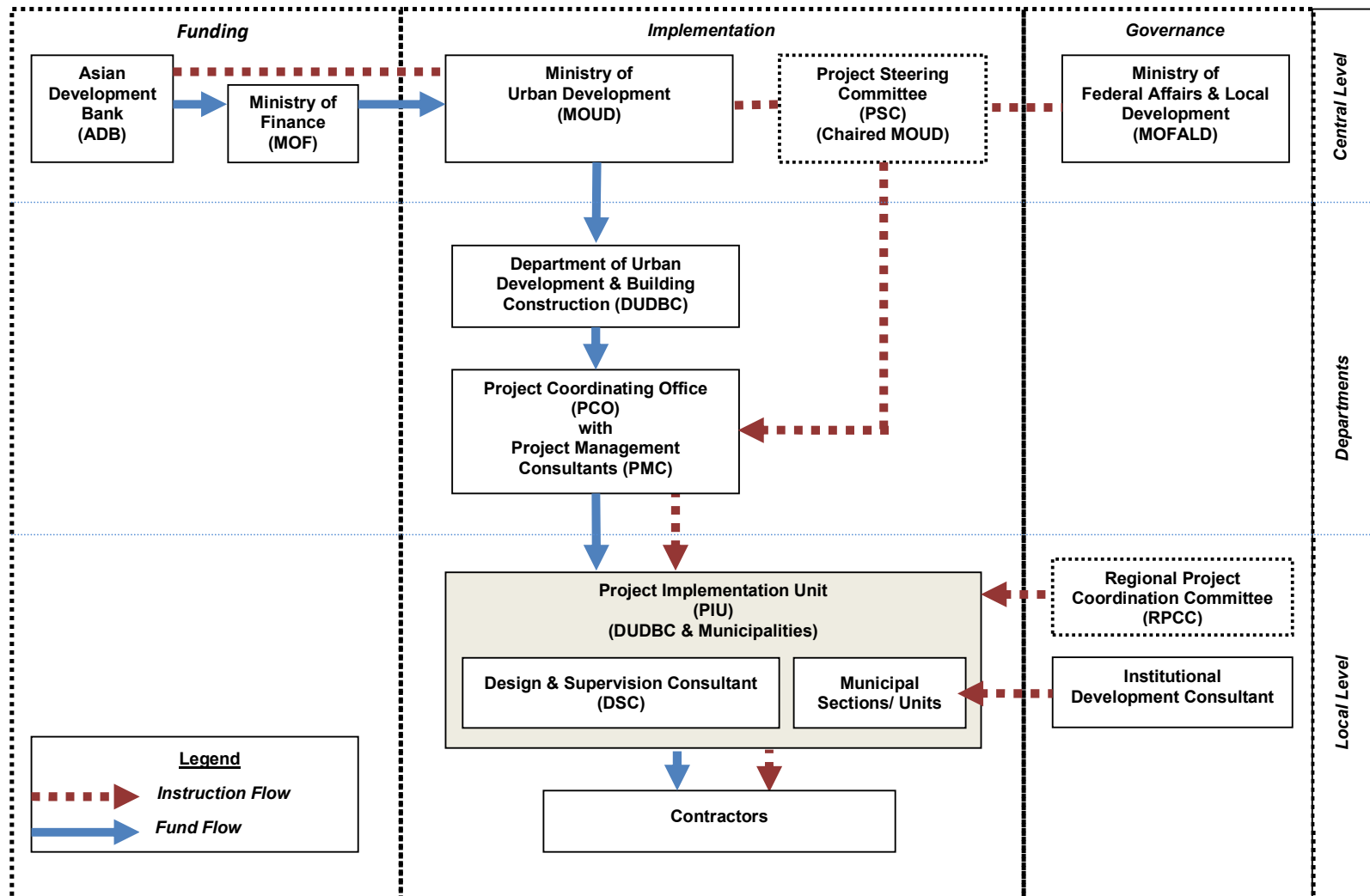
1.5 Regional Project Coordination Committee

12. A Regional Project Coordination Committee (RPCC) will be established to coordinate regional aspects of project implementation between the project municipalities and the numerous other development line agencies. The Project Manager will be member and convener of the RPCC. Once the project is made effective, the RPCC will meet regularly, at least once in three months or more frequently if necessary.

1.6 Project Implementation Support

13. Consulting services are required for project management support, engineering design, construction supervision, procurement of goods and services, GESI/Community Development, public relations and awareness, and project monitoring. The institutional capacity of the municipalities would also be enhanced. Consultants would be selected and engaged in accordance with ADB's Guidelines on the Use of Consultants and other arrangements satisfactory to ADB for selecting and engaging international and domestic consultants. **Figure 1-1** shows the proposed project implementation arrangements.

Figure 1-1: IUDP2 Project Implementation Arrangements



1.6.1 Project Management Consultant

14. A Project Management Consultant (PMC) firm comprising international specialists and national experts will assist the PCO in project management activities including reviewing engineering designs, procurement, and implementation. The PMC also assists the PCO and the PIU in project formulation, management, monitoring and evaluation, financial and environmental management aspects including climate change analysis, public relations and awareness, training and capacity building, and institutional development / strengthening ensuring that the language and messages are gender sensitive and are appropriate for women, poor and excluded groups. Request for Expressions of Interest (EOI) and Terms of Reference for the PMC are provided in **Annex 7-A**.

1.6.2 Design and Supervision Consultant

15. Design and Supervision Consultant (DSC) will support the PIU. The objectives of the DSC are in project formulation and management; preparing urban development plans; undertaking financial and economic due diligence; determining social and environmental risks, and preparing safeguard management plans including monitoring and evaluation; project financial management aspects; plus public relations and awareness. It will also update maps and plans, undertake survey, investigations and prepare detailed designs of various project components for each project municipality, prepare technical specifications and contract documents, assist in construction supervision and quality control, and undertake measurement of completed work.

16. The DSC will engage social and environmental specialists to assist each project municipality in public awareness campaigns, GESI and community development activities. The specialists will help identify and implement poverty alleviation components. They will have experience in community mobilization, training, information dissemination, communication and media development covering the fields of municipal service provision, socio-economic surveys, environmental health, income generation, education, gender and inclusion issues and in resettlement. Request for Expressions of Interest (EOI) and Terms of Reference for the DSC are provided in **Annex 7-B**.

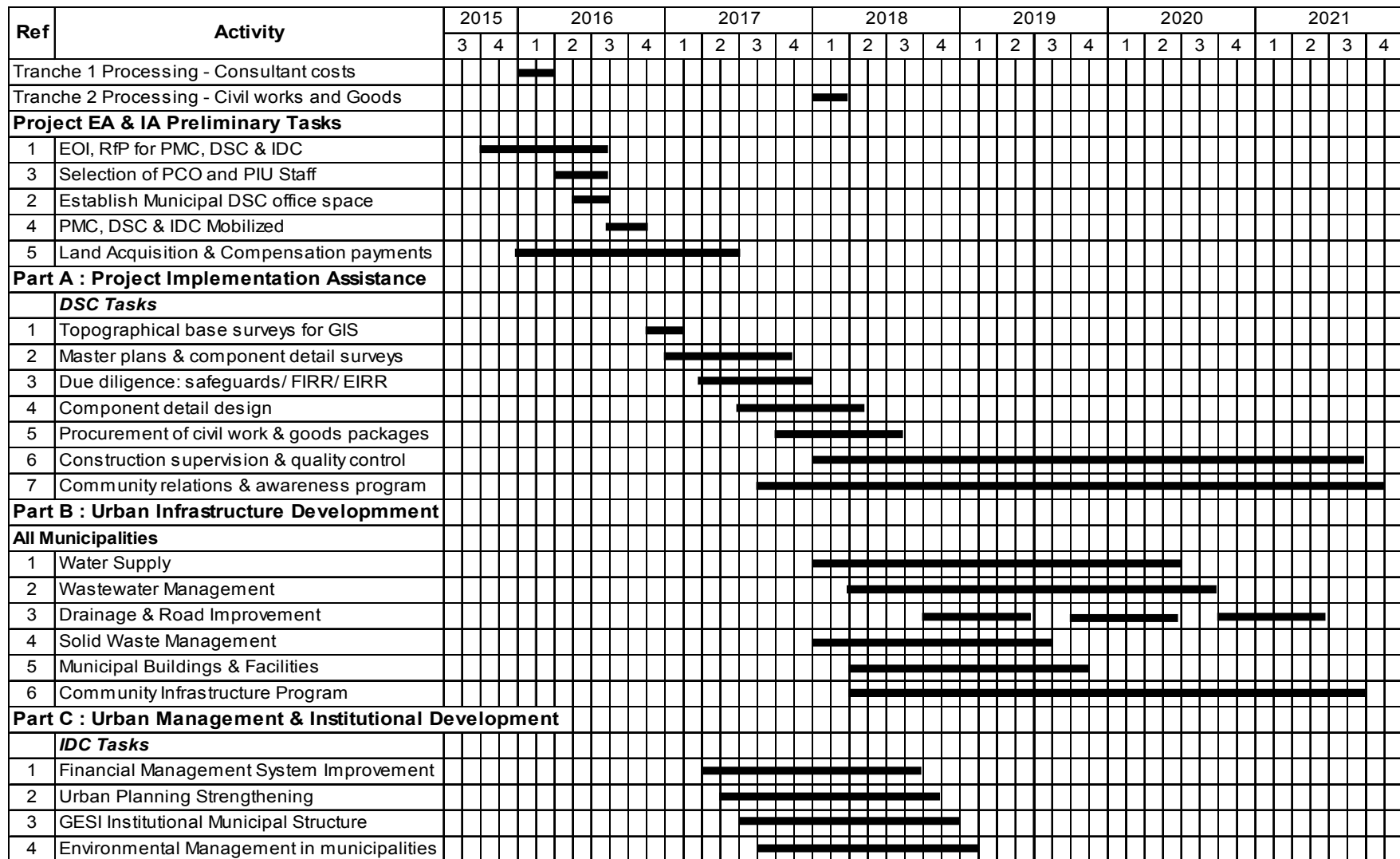
1.6.3 Institutional Development Consultant

17. A consulting firm with international and national consultants or institutions will be engaged to strengthen the institutional capacity of Attariya, Bheemdatt, Dhangadhi, and Jhalari Pipaladi municipalities for improved urban planning, municipal asset and financial management and GESI responsive urban service delivery.

18. The consultancy has three components: (i) improving the financial management system, including revenue enhancement; (ii) strengthening urban planning and asset management by developing and implementing building bylaws and building codes supported by geographic information system (GIS)–based municipal information system; and (iii) establishing and making functional a GESI institutional structure in each municipality, building on existing structure and practices. Request for Expressions of Interest (EOI) and Terms of Reference for the IDC are provided in **Annex 7-C**.

19. The timeline for the recruitment of the consultants is indicated in the Project Implementation Schedule provided in **Figure 1-2**. The time intervals are subject to efficient evaluation and processing of various review periods.

Figure 1-2: Project Implementation Schedule



2 Procurement and Disbursement Procedure

2.1 Procurement of Goods and Works

20. Goods, works, and services financed by ADB will be procured in accordance with ADB's Guidelines for Procurement. Procurement will generally be carried out by the PIU. Equipment and selected materials will be acquired using international competitive bidding (ICB), international shopping (IS), and National Competitive Bidding (NCB) procedures.

21. To the extent possible, goods to be procured will be grouped into packages larger than \$2 million to be suitable for ICB procedures. Miscellaneous goods for immediate use that cannot be grouped into a larger contract and that cost less than \$2 million per contract will be procured through IS or NCB procedures. Off-the-shelf items and standardized products costing \$100,000 or less will be procured following the Government's applicable procurement procedures acceptable to ADB.

22. Given the project area geographic location and the nature of works, civil works contracts valued at less than \$5 million each would not be attractive to international bidders, and therefore will be carried out using NCB procedures acceptable to ADB. Some civil works such as septage treatment plants, pumping stations, and solid waste management sanitary landfill disposal sites could be undertaken on a turnkey basis. As per the GESI guidelines of MOUD, special considerations will be made for women workers who will be provided opportunities according to their capacity (e.g. earth works, gabion work etc for those not very experienced and higher level works for those with more experience). Local women's groups/cooperatives will be promoted for such contracts.

23. Equipment, materials or civil works costing \$100,000 or less including for use by community organizations for poverty alleviation activities will be procured following the Government's applicable procurement procedures acceptable to ADB.

2.2 Disbursement Procedures

24. The loan will be disbursed in accordance with ADB's Loan Disbursement Handbook and Interim Guidelines for Disbursement Operations, ADF-Based Loan and Grant Products. An imprest account will be established by the PCO at the Nepal Rastra Bank (Reserve Bank) at the request of the EA (MOUD) to the MoF to expedite implementation of the Project through the timely release of loan and grant proceeds. The initial amount to be deposited in the imprest account will not exceed the lesser of the equivalent of six months expenditures or 10% of loan amount. The PCO will be responsible for consolidating the accounts, and submitting applications to ADB for reimbursement.

3 Project Accounts and Reporting

3.1 Project Accounting

3.1.1 Accounts

25. The PCO and the PIU will establish and maintain separate accounts and records adequate to identify the incomes and expenditures related to the Project. They will be assisted by an adequate number of suitably qualified staff including an accounts officer.

3.1.2 Auditing

26. Detailed consolidated annual project accounts, as maintained by the PCO, will be audited by independent auditors acceptable to ADB and will be submitted to ADB within 6 months of the close of the fiscal year. The annual audit report will include the audit of the imprest account, an opinion whether compliance has been met with all the financial covenants contained in the loan or grant agreements, and a separate audit opinion on the use of the SOE procedures.

27. Apart from financial audit, social and public audits will be conducted bi-annually; MOFALD's guidelines for public audits will be followed. Guidelines for social audits will be developed for the project based on MOUD GESI guidelines framework.

3.2 Project Reporting and Monitoring

3.2.1 Reporting Requirement

28. The PCO will provide ADB with quarterly progress reports on Project implementation. The PCO will be responsible for obtaining and consolidating relevant information from the PIU. The progress reports will describe physical progress, details of any modification required to the project implementation schedule, problems encountered, and an outline of the work for the next quarter. These reports will provide disaggregated data as relevant and will assess progress from a GESI perspective. The report will also provide summary financial accounts of the Project; expenditure during the quarter, year-to-date expenditure during the quarter, year-to-date expenditure, and expenditure to date. The progress report is an executive summary of the detailed reports; with format and content permitting ADB staff to readily capture key information for inputting into the project performance report (PPR). In case ADB formats do not demand disaggregation and GESI analytical evidence, revised formats will be used by the project.

3.2.2 Project Review

29. Project performance will be reviewed in a three-tier system. First, quarterly performance reports (with disaggregated data) will be prepared for each project municipality by the PIU, assisted by the DSC, and submitted to the PCO. The PCO will review progress on each component and the performance of the PIU and each municipality. The Project Steering Committee (PSC) will conduct the second tier review during its quarterly meetings. The quarterly project performance reviews and major policy issues will be reviewed and actions to be taken by the respective authorities will be recorded. The third tier review will be conducted by ADB every 6 months, with the ADB Review Mission visiting project towns, to discuss major issues with DUDBC and the project municipalities and forward their opinion for action at central government level.

30. The project review will be supplemented by a formal comprehensive midterm review with the participation of senior Government officials as well as ADB staff — when detailed design is completed and major contracts have been awarded and started. Following the review, corrective measures, as appropriate, will be introduced to remedy any identified weaknesses.

3.2.3 Project Performance Management System

31. The Project Performance Management System (PPMS) forms an essential part of Project Implementation and is a systematic set of procedures aimed at monitoring Project progress. The Project performance is measured through a set of defined indicators, which

assist in evaluating the Project's achievement in terms of the Impact, Outcome and Outputs established in the Design and Monitoring Framework (DMF).

32. The responsibility for ensuring that the project PPMS is established and undertaken rests with the PCO. PPMS indicators broadly cover (i) physical progress of infrastructure works; (ii) institutional development and capacity building; and (iii) impact assessment. The PPMS will be designed to also capture GESI analytical evidence.

ANNEX 7-A

Invitation for Expression of Interest and Terms of Reference for Project Management Consultant

ANNEX 7-B

Invitation for Expression of Interest and Terms of Reference for Design and Supervision Consultant

ANNEX 7-C

Invitation for Expression of Interest and Terms of Reference for Institutional Development Consultant