

4th National Convention of Professional Accountants

**PFM Reform Initiatives &
Role of Professional Accountants**

CA. Nanda K Sharma / April 8, 2025



BACKGROUND

“The sustainability of the accountancy profession depends upon the **quality of the services provided** by its members and on the profession’s capacity **to respond** effectively and efficiently to the **demands of the economy and society**.”

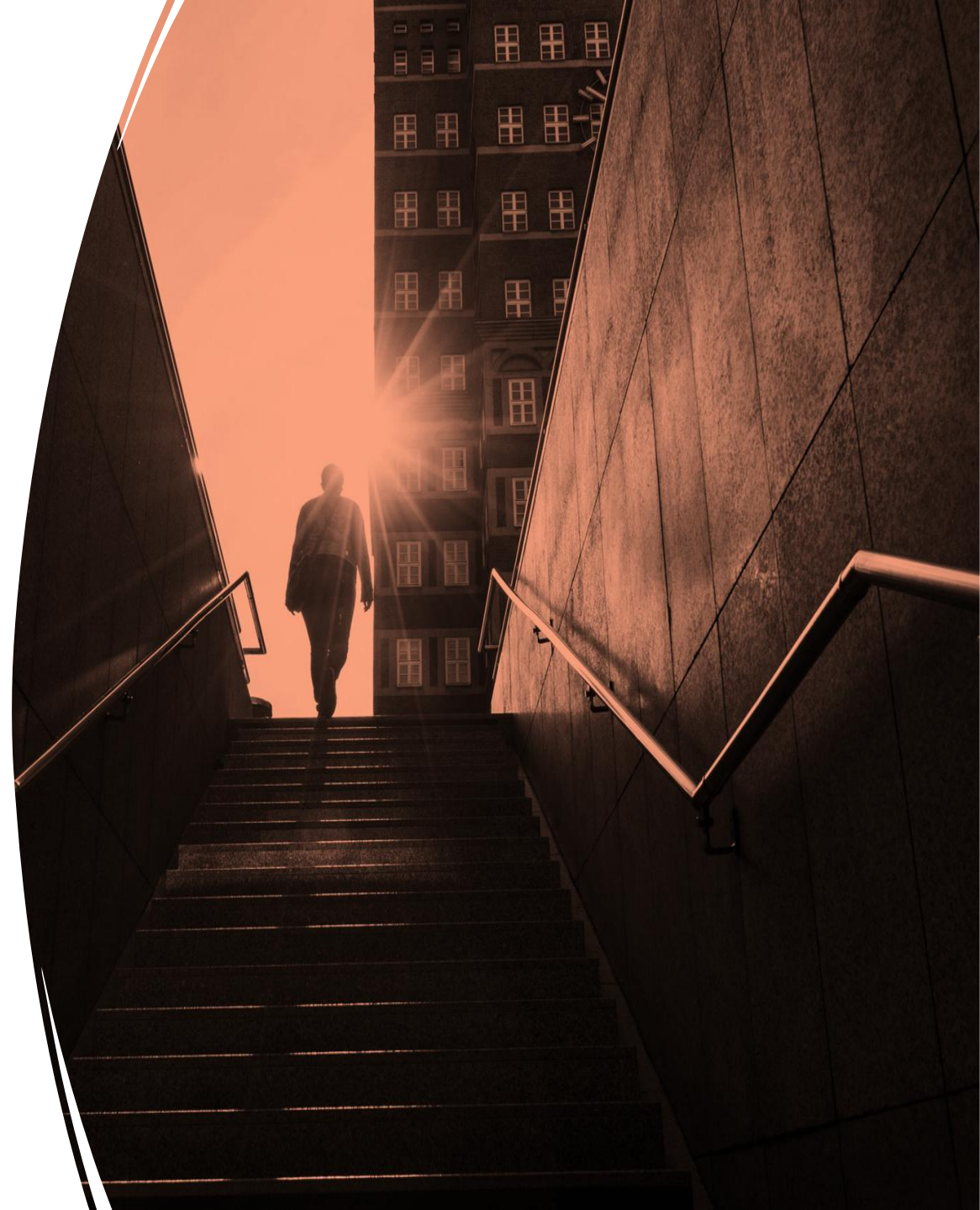
IFAC Policy Position: Regulation of the Accountancy Profession, Dec 2007

PFM: What, Why and Players

- Important tool to implement public policies; embraces institutions, processes and systems.
- Ensures **transparency** and **accountability** in the use of public resources and efficient public service delivery.
- Involvement of multi-sector stakeholders.

Today's Challenges: **GLOBAL**

- ✓ Global Pandemic
- ✓ Impact of Climate Change
- ✓ Disruption in Supply Chain
- ✓ Fast Evolution in IT System and AI



Tomorrow's Opportunities: GLOBAL


-
- ✓ Setting country on a pathway to recovery,
 - ✓ Fostering green, resilient, and inclusive development,
 - ✓ Tackling rising poverty and inequality,
 - ✓ Better management of, and accountability for, public funds.



PFM Reforms:

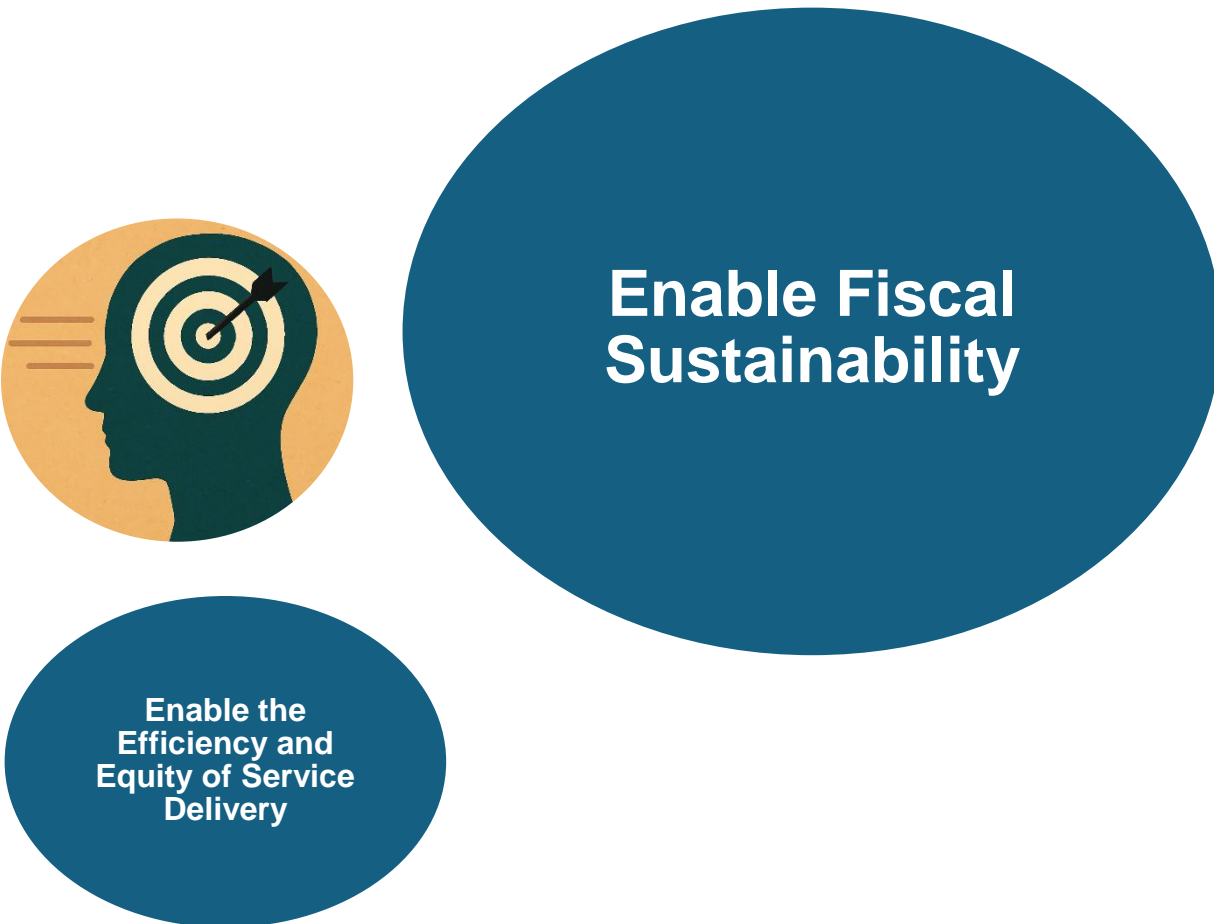
Fundamental to the achievement of development results

Because:

- Fiscal discipline and debt sustainability can foster economic growth and private sector investments,
 - Effective resource allocation and use can enable equitable and quality public services,
 - Prioritized and managed infrastructure investments and assets can stimulate economies through capital formation,
 - Financial controls, accounting, reporting, and transparency can deliver efficiency gains through better fiscal discipline, accountability and decision making.
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PFM Reforms:

Critical areas of focus



- Critical for accurate reporting of public sector financial position, incl. reporting of debt, commitment & contingent liabilities.
- To ensure efficient and predictable in year borrowing and cash management and commitment control to maintain debt ceilings

PFM Reforms:

Critical areas of focus

Enable Fiscal
Sustainability



Enable the
Efficiency and
Equity of Service
Delivery

Enable
Governments to
Prepare for and
Respond to
Situations
(including crisis,
disaster, etc.)

- How resources are allocated and spent by spending agencies at the national and sub national levels.
- How resources and the inputs they finance are channeled to the point of delivery, containing fiduciary risks.

PFM Reforms:

Critical areas of focus

Enable the
Efficiency
and Equity of
Service
Delivery



Enable
Governments to
Prepare for and
Respond to
Situations
(including crisis,
disaster, etc.)

- To make trade-offs between short and long-term spending priorities
- Effective control and accounting for funds during the crisis itself, and mainstreaming climate into PFM systems

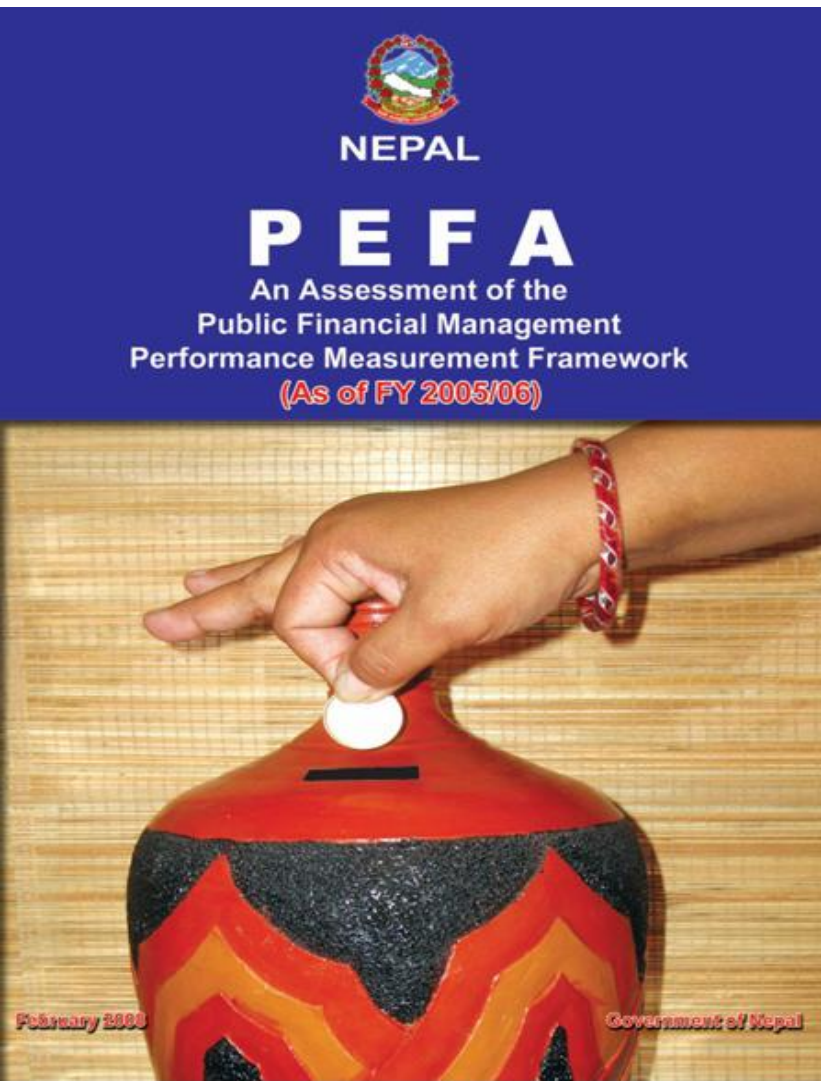
PFM Reforms:

Requirements

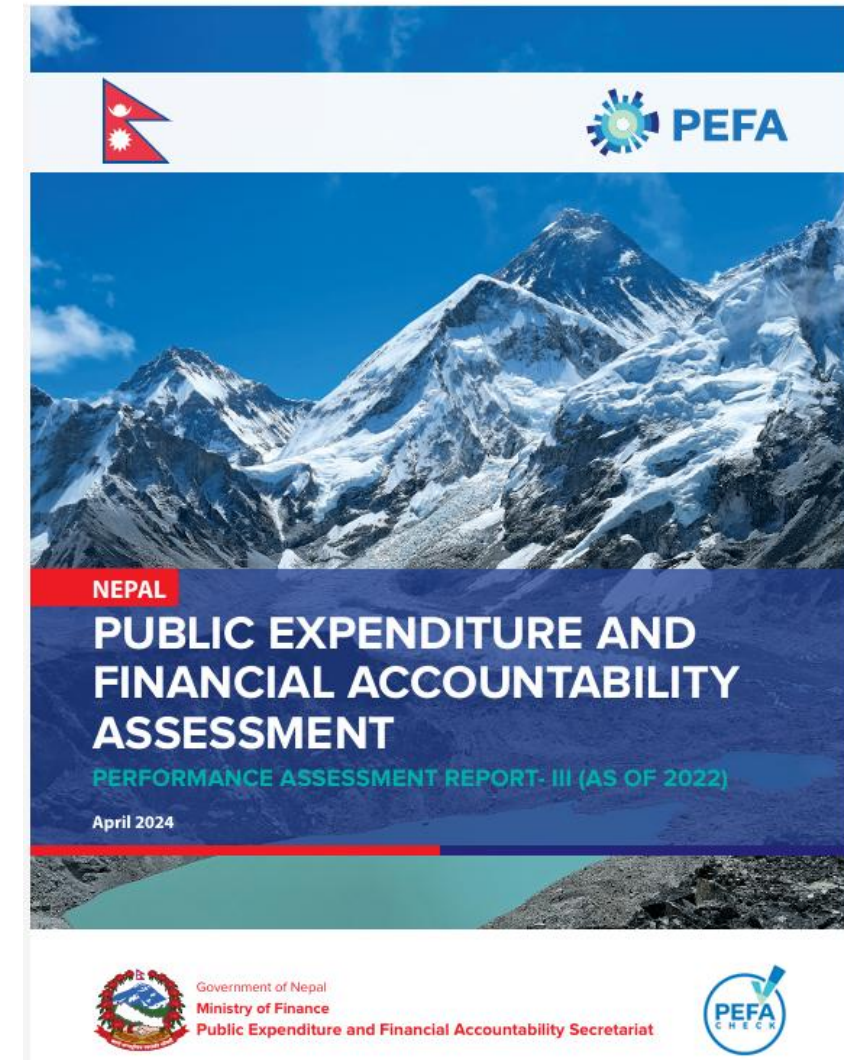
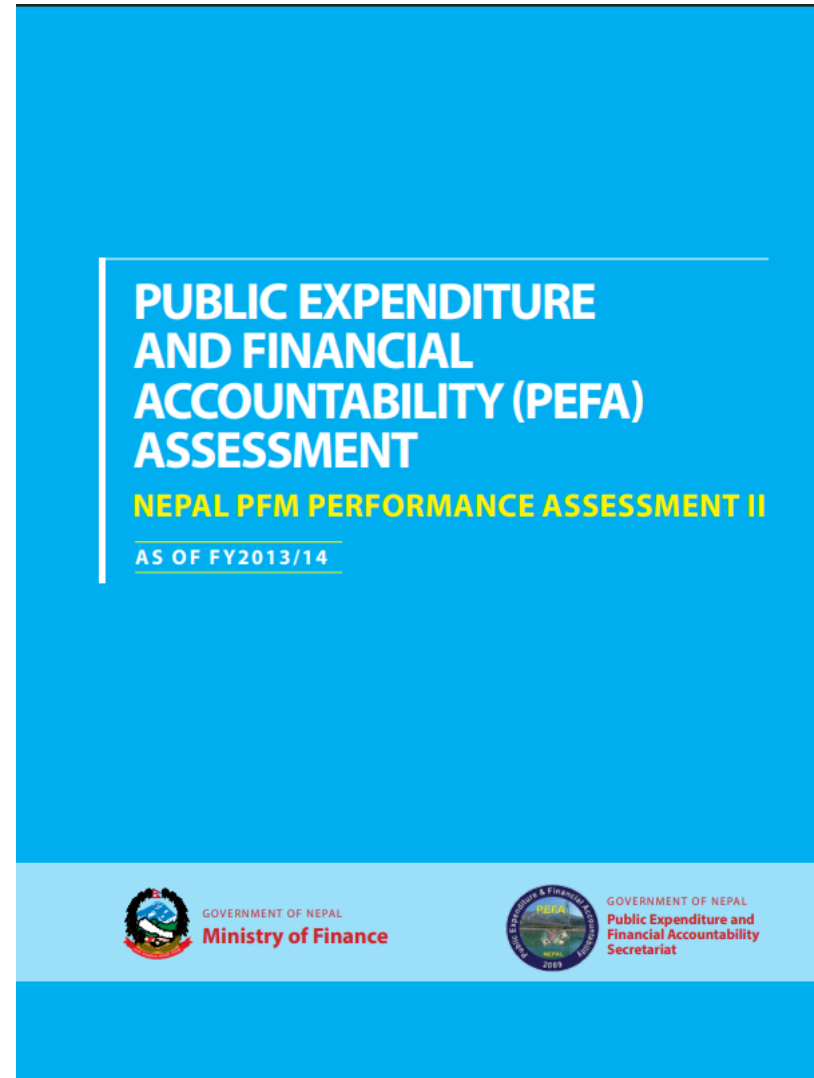
- Requires reform processes that target **change in behaviors**, focusing on the **‘how’** of PFM reform, not just the **‘what’**

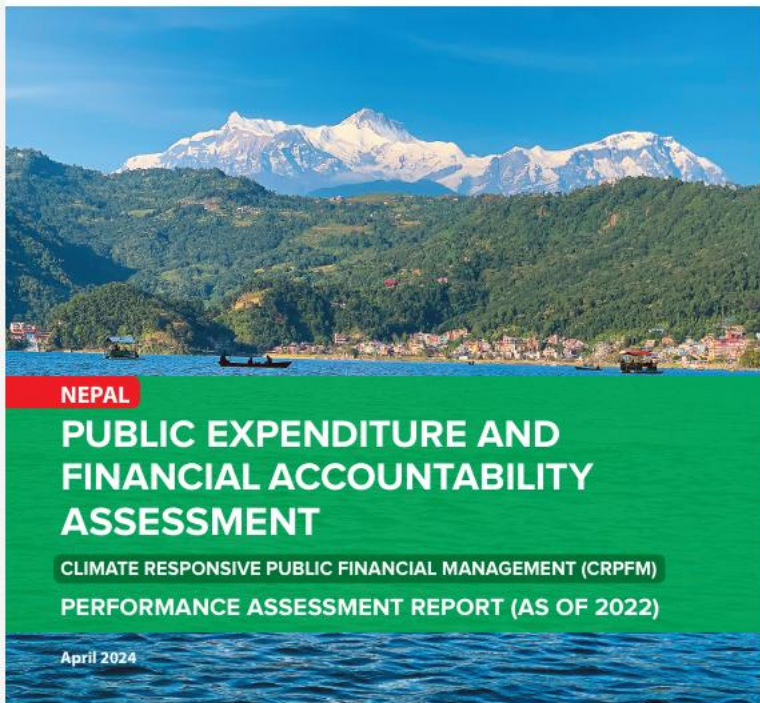
Key activities:

- ✓ Assessment of country PFM systems,
- ✓ Design and Implement PFM reforms,
- ✓ Fiduciary Risks Reviews, and
- ✓ Strengthening PFM systems.



Assessment of PFM systems: PEFA

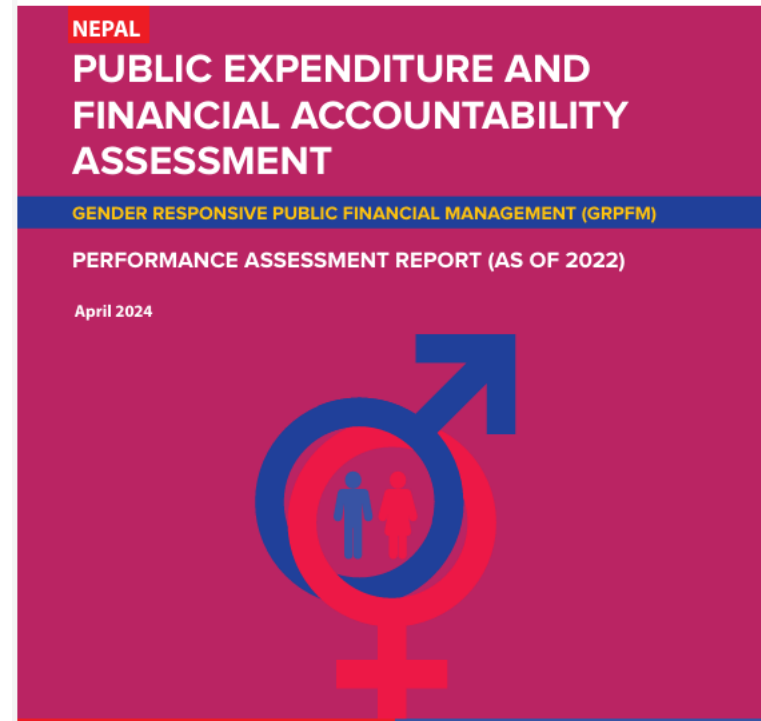
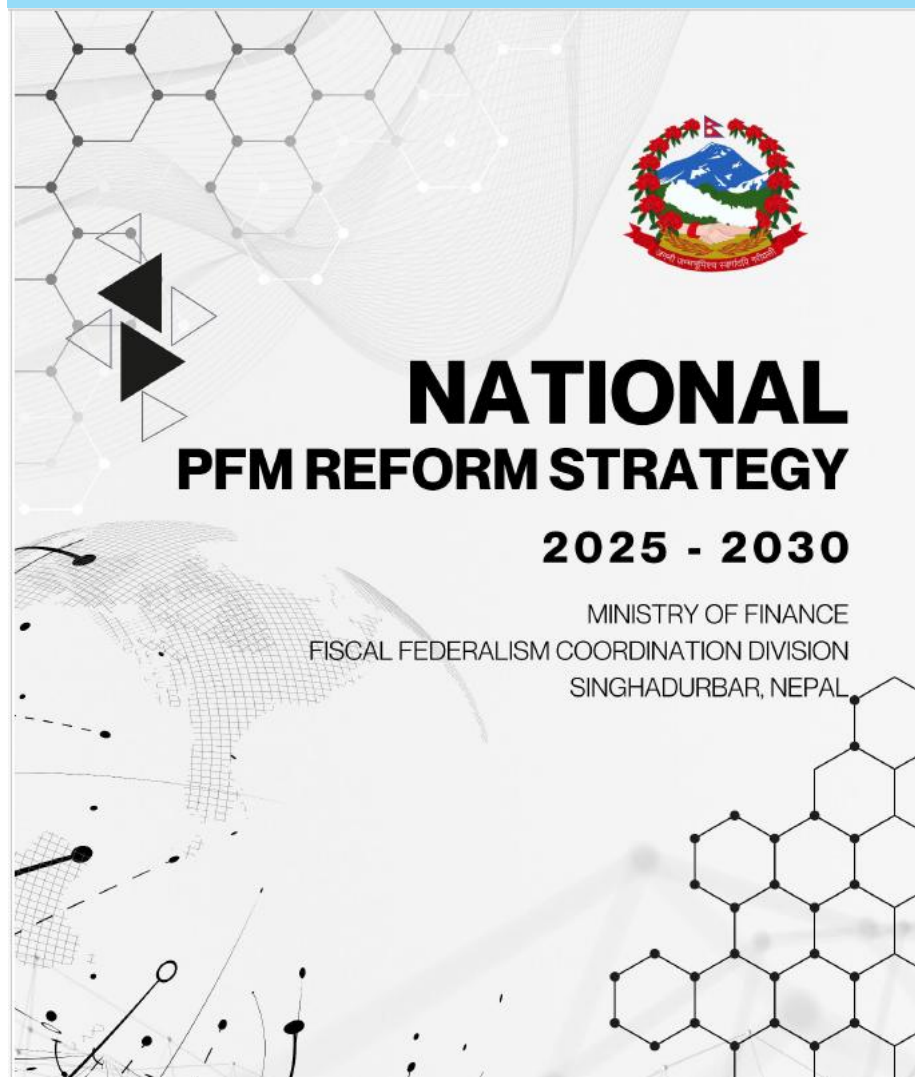




Government of Nepal
Ministry of Finance
Public Expenditure and Financial Accountability Secretariat



Implementing PFM reforms: PFM Strategy



Government of Nepal
Ministry of Finance
Public Expenditure and Financial Accountability Secretariat



PEFA Assessment: 7 Pillars/31 Performance Indicators

- Pillar 1: Budget Reliability, 3 PIs
- Pillar 2: Transparency of Public Finances, 6 PIs
- Pillar 3: Management of Assets & Liabilities, 4 PIs
- Pillar 4: Policy-based Fiscal Strategy & Budgeting, 5 PIs
- Pillar 5: Predictability & Control in Budget Execution, 8 PIs
- Pillar 6: Accounting & Reporting, 3 PIs
- Pillar 7: External Scrutiny & Audit, 2 PIs.

PEFA Score: Where we stand (overall)

Performance Indicators		1 st PEFA	2 nd PEFA	3 rd PEFA	Change
PI-1	Aggregate expenditure outturn	B	B	D	↓
PI-2	Expenditure composition outturn	C	C+	D+	↓
PI-3	Revenue outturn	A	A	D+	↓
PI-4	Budget classification	C	A	A	—
PI-5	Budget documentation	B	A	C	↓
PI-6	Central govt operations outside financial reports	C	D+	D	↶↷
PI-7	Transfers to subnational governments	C	C+	C+	—
PI-8	Performance information for service delivery			B+	

Performance Indicators		1 st PEFA	2 nd PEFA	3 rd PEFA	Change
PI-9	Public access to fiscal information	B	A	C	↓
PI-10	Fiscal risk reporting	D+	C	D	↓
PI-11	Public investment management			C+	
PI-12	Public asset management			C	
PI-13	Debt management	C+	C+	C	↔
PI-14	Macroeconomic and fiscal forecasting			D+	
PI-15	Fiscal strategy			D	
PI-16	Medium term perspective in exp. budgeting	C+	C	C+	↔
PI-17	Budget preparation process	D	A	B	↓
PI-18	Legislative scrutiny of budgets	D+	D	C+	↑
PI-19	Revenue administration	C+	B	C+	↓
PI-20	Accounting for revenue	D+	D+	C+	↑

Performance Indicators		1 st PEFA	2 nd PEFA	3 rd PEFA	Change
PI-21	Predictability of in-year resource allocation	C+	C+	B	↑
PI-22	Expenditure arrears			C+	
PI-23	Payroll controls	C+	C+	C+	—
PI-24	Procurement management	C	D	C	↶↷
PI-25	Internal controls on non-salary expenditures	C	C	C+	↑
PI-26	Internal audit	D+	D+	D+	—
PI-27	Financial data integrity	C+	C+	B	↑
PI-28	In-year budget reports	C+	C+	C+	—
PI-29	Annual financial reports	C+	C+	C+	—
PI-30	External audit	D+	C+	D+	↶↷
PI-31	Legislative scrutiny of audit reports	D	D	C	↑

Summary of Changes in Indicator Ratings

- From 1st to 2nd PEFA Assessments

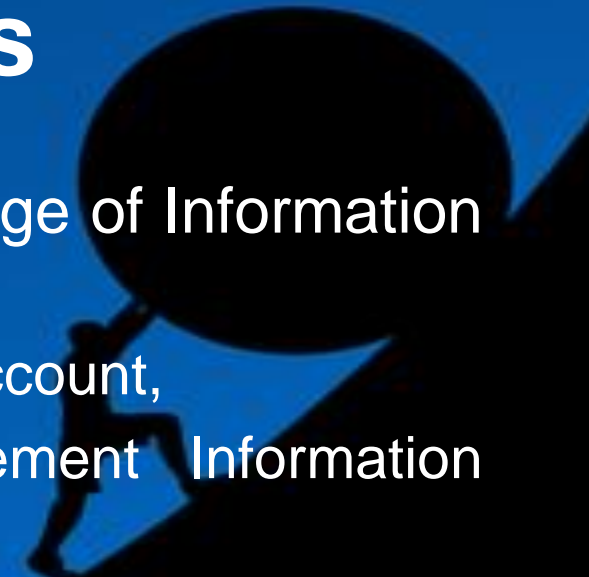
Change in Ratings	Number of Indicators	% Indicators
Upwards	19	61
Downwards	2	7
Remained the same	10	32
TOTAL	31	100

- From 2nd to 3rd PEFA Assessments:** Out of the total of 28 indicators, the scores of 6 indicators improved, 7 experienced a decline in scores, while 15 indicators remained the same.
- Status as at 3rd PEFA Assessment**

Score	A	B+	B	C+	C	D+	D	D*	NA	Total
No. of Indicators	1	1	3	11	5	6	4			31
No. of Dimensions	16		22		27		27	1	1	94

PFM Nepal: Strengths/Progresses

- Robust legislative and institutional framework
 - ✓ Financial procedures and fiscal accountability Act (2019) and Regulations (2021),
 - ✓ Gender responsive and climate responsive budget guidelines (2017, 2023),
 - ✓ Nepal Public Sector Accounting Standards (NPSAS),
 - ✓ Nepal Financial Reporting Standards (NFRS).
- Deployment of a range of Information Systems
 - ✓ Treasury Single Account,
 - ✓ Revenue Management Information System,
 - ✓ Line Ministry Budget Information System,
 - ✓ Sub-national Treasury Application,
 - ✓ Centralized Government Accounting System,
 - ✓ Public Asset Management System,
 - ✓ Electronic Fund Transfer, etc.



PFM Nepal: Strengths/Progresses

- Adherence to International Standards [Government Finance Statistics Manual (GFSM) and Classification Of the Function Of Government (COFOG)],
- Budgets designed with Medium Term Expenditure Framework (MTEF),
- Costed sector strategies,
- Fiscal transfers exhibiting transparency and adherence to established rules,
- Extensive audit scopes and coverage (both external and internal audit), etc.

PFM Nepal: Weaknesses

- Ambitious macroeconomic and fiscal projections and absence of coordinated fiscal strategy,
- Absence of robust national revenue forecasting tool and revenue improvement action plans,
- Underperformance in Budget (revenue/expense) Outturns,
- Lack of comprehensive explanation for discrepancies/ deviations and corrective measures,
- Lack of documentation in fiscal risks reporting and monitoring,
- Lack of dependable database for procurement monitoring,

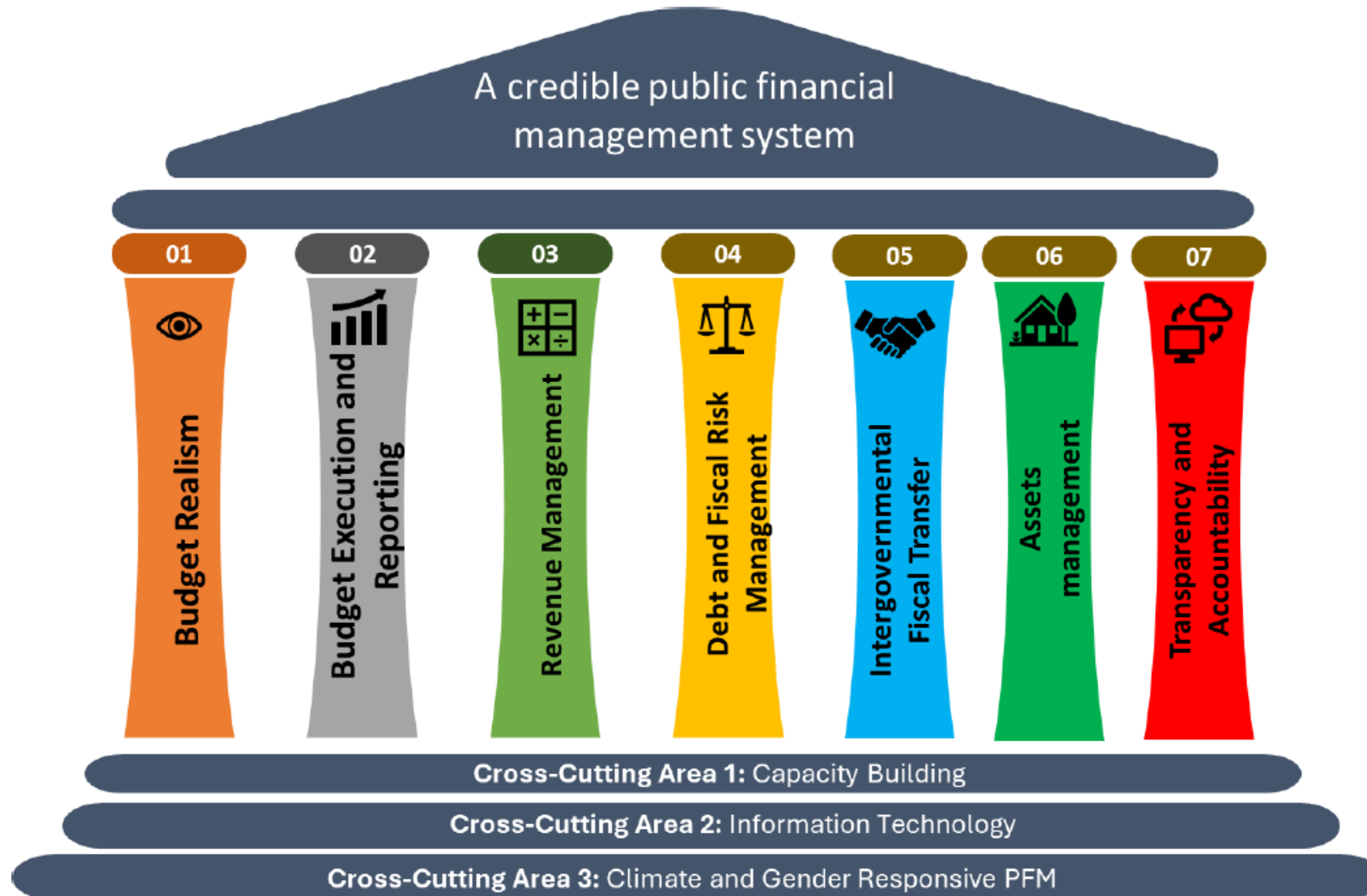


PFM Nepal: Weaknesses

- Issues related to data quality, inconsistent reporting and public disclosures,
- Fragmented financial management systems and limited digitization,
- Rising public debts and unassessed fiscal risks,
- Underutilized public assets management system,
- Weak audit follow-up mechanism, delays in irregularities settlement,
- Climate and gender considerations inadequately integrated into PFM system,
- Institutional and technical capacity gaps across all government levels, etc.



National PFM Reform Strategy: 2025-2030



Accountancy profession's support for better PFM

Lessons learnt from previous PFM reforms implementation:

- **Insufficient Technical Capacity,**
- **High Staff Turnover, and**
- **Excessive Reliance on External Consulting Services.**

Accountancy profession's support for better PFM : HOW ?



Capacity Building

Focus on the cadre of public sector accountants, including through certification and continuing professional development



International Standards and Transparency

Advocate and support in implementing accrual accounting and citizen engagement



Engagement

Partner with development agencies engaged in strengthening PFM, fostering public accountability and green-resilient inclusive public finances



Visibility

Proactively engage in policy dialogue and action to link PFM to agendas such as climate, pandemic (crisis), service delivery and fiscal sustainability



Specialization

Enhance capacity of firms in providing advisory services to the public sector



Bhagavad Gita: Chapter 3, Verse 35

श्रेयान्स्वधर्मो विगुणः परधर्मात्स्वनुष्ठितात् ।
स्वधर्मे निधनं श्रेयः परधर्मो भयावहः ॥35॥

*śhreyān swa-dharmo viguṇaḥ para-dharmāt sv-anuṣṭhitāt
swa-dharme nidhanaṁ śhreyaḥ para-dharmo bhayāvahaḥ*

**Better is one's own duty, though devoid of merit,
than the duty of another well discharged.**

परधर्म राम्ररी सम्पन्न गर्नुभन्दा त्रुटिपूर्ण तरिकाले भए पनि स्वधर्म पालन गर्नु नै
उपयुक्त छ । परधर्ममा लाग्नुभन्दा आफ्नै धर्ममा रहेर मर्नु बरु श्रेयस्कर हुन्छ,
किनभने परधर्ममा लाग्नु भयानक हुन्छ ।



CONCLUSION



Professional Accountants: True partners in “Nation Building”

FINAL TIPS

We shall endeavor to carry forward the legacy of Trust, Excellence and Integrity and Meet Stakeholders' Expectation, through:

- **Learning**



- **Adaptation**



- **Engagement**



Thank you

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A background image showing a business meeting with people in suits, hands gesturing, and documents with charts on a table. A semi-transparent blue rectangle is centered over the image.

PANEL DISCUSSION