

Strengthening Public Financial Accountability: A Legal Analysis of Nepal's Budgetary and Expenditure Control Mechanisms

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Abstract

This paper provides a comprehensive legal analysis of Nepal's public financial management (PFM) system, focusing on budgetary and expenditure control mechanisms and their role in ensuring accountability. Nepal's constitutional framework establishes the Office of the Auditor General (OAG) as the central oversight institution, supported by Appropriation Acts and the Financial Procedure and Fiscal Accountability Act (FPFAA). However, implementation faces significant challenges including weak expenditure controls, inadequate cash planning, provincial capacity deficits, poor inter-agency coordination, and limited audit follow-up. This study has examined the legal and constitutional foundations of Nepal's PFM system, analyzes the effectiveness of existing control mechanisms, identifies challenges, and proposes recommendations. Key recommendations are clarifying legal mandates, enhancing cash management systems, strengthening OAG capacity and enforcement mechanisms, building provincial financial management capabilities, improving inter-agency coordination, and increasing transparency with effective sanctions for non-compliance. The analysis from scholarly sources examining Nepal's fiscal legal framework, budgetary practices, audit systems, and reform initiatives to provide evidence-based insights for policy makers and practitioners.

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Keywords: *Public financial management, budgetary control, expenditure accountability, Office of Auditor General, fiscal federalism, Nepal, constitutional framework, appropriation acts.*

Background of the Study

Context of Public Financial Management in Nepal

Public financial management in Nepal has undergone significant transformation over the past two decades, particularly following the adoption of the 2015 Constitution which established a federal system of governance. The transition from a unitary to a federal structure has fundamentally reshaped the country's fiscal architecture, creating three tiers of government federal, provincial, and local, each with distinct expenditure responsibilities and revenue-raising powers (Asian Development Bank, 2022; Bhattarai, 2024). This constitutional shift creates both an opportunity to enhance local accountability and a challenge to maintain fiscal discipline between multiple government levels.

Nepal's PFM system operates within a complex legal and institutional environment characterized by multiple statutes, regulations, and oversight mechanisms. The budgetary system, which became more systematic following the advent of democratic governance in 1951 and the first scientific budget in 1958/59, has evolved to incorporate modern principles of fiscal management, transparency, and accountability (Sharma, 2016). However, persistent challenges including weak expenditure controls, inadequate cash planning, limited institutional capacity, and coordination gaps continue to undermine the effectiveness of these mechanisms (Pokharel, 2022; Shrestha, 2019).

The importance of robust budgetary and expenditure control mechanisms cannot be overstated in Nepal's development context. Effective PFM is essential for translating policy priorities into tangible outcomes, ensuring efficient use of scarce public resources, maintaining macroeconomic stability, and building public trust in government institutions (Sigdel, 2014). Yet, evidence suggests that Nepal faces significant implementation gaps between its legal framework and actual practice, with consequences including budget

execution delays, accumulation of expenditure arrears, unspent allocations, and elevated corruption risks (Khanal, 2024; Shrestha, 2019).

Table 1: Budget Performance Indicators in Nepal

Indicator	Value
Total Budget (FY 2025/26)	NPR 1,964.11 billion
Actual Expenditure (FY 2024/25)	81.87% of budget
Revenue Collection	82.88% of target
Fiscal Deficit	~9% of GDP

Source: Ministry of Finance (2025); Office of the Auditor General (2024)

As illustrated in Table 1, Nepal's fiscal performance reflects persistent gaps between budgetary projections and actual outcomes. Despite a large national budget, both revenue collection and expenditure execution are below targets, indicating weaknesses in fiscal discipline and implementation capacity.

Legal and Constitutional Framework

Constitutional Foundations

The Constitution of Nepal (2015) provides the foundational legal authority for the country's fiscal system, establishing the basic principles and institutional arrangements for revenue mobilization, expenditure authorization, and financial accountability. The Constitution mandates that budgets at all three levels of government; federal, provincial, and local, must be presented and approved before the commencement of each fiscal year, ensuring democratic oversight and authorization of public spending (Mainali, 2023). This constitutional requirement reflects the fundamental principle that no public expenditure can occur without legislative approval, a cornerstone of parliamentary democracy and fiscal accountability.

The Constitution also delineates expenditure responsibilities across the three tiers of government through detailed schedules. Schedule 6 defines provincial powers, Schedule 7 outlines concurrent powers between federal and provincial governments, Schedule 8 specifies local level powers, and Schedule 9 identifies concurrent powers for all three levels (Bhattarai, 2024). This

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constitutional assignment of functions provides the legal basis for fiscal decentralization and establishes the framework within which each level of government operates. The Constitution further provides for financial rights of subnational governments, including the authority to prepare and implement budgets within their respective territories (Dhakal, 2023).

Beyond expenditure assignments, the Constitution establishes the legal foundation for Nepal's fiscal legal regime, enabling the enactment of multiple revenue, expenditure, and auditing laws that operationalize constitutional principles (Acharya, n.d.). The constitutional framework also ensures the independence and authority of key oversight institutions, particularly the Office of the Auditor General, whose appointment, terms, duties, and powers are explicitly addressed in Articles 240 and 241 of the Constitution (Bhul, 2023). This constitutional entrenchment protects the OAG from political interference and ensures its capacity to fulfill its oversight mandate.

Provisions of the Constitution on fiscal federalism are operationalized through several key pieces of legislation. The National Natural Resources and Fiscal Commission Act (2017) and the Intergovernmental Fiscal Management Act (2017) provide mechanisms for revenue sharing and fiscal transfers between levels of government, while the Local Government Operation Act (2017) establishes operational frameworks for local fiscal management (Asian Development Bank, 2022). Together, these create a comprehensive legal architecture for public financial management in Nepal's federal system.

Office of the Auditor General and Audit Mechanisms

The Office of the Auditor General (OAG) occupies a central position in Nepal's public financial accountability framework, serving as the supreme audit institution with constitutional authority to examine all public accounts and report on financial discipline and irregularities. The OAG's mandate extends to auditing all legislative, executive, and judicial offices, constitutional bodies, local governments, and security agencies, making it the primary guardian of fiscal accountability across the entire public sector (Bhul, 2023). This comprehensive audit jurisdiction ensures that no public entity operates beyond the reach of independent financial scrutiny.

Overall responsibility for auditing public finances and reporting publicly on accounts and financial discipline is under the Auditor General (Upadhayay, n.d.). The OAG's audit reports, which identify unaccounted expenditure and irregularities, play a crucial role in the budgetary discharge process the formal closure and accountability mechanism through which ministries and agencies account for their use of appropriated funds (Sigdel, 2014; Adhikari, n.d.). The discharge of funds occurs only after the Auditor General's report is issued, and ministries must act on the findings contained in these reports, creating a direct link between audit findings and administrative accountability (Adhikari, n.d.).

The OAG's audit function encompasses multiple dimensions. Financial and regularity audits understand whether expenditures comply with appropriations and financial regulations, while performance audits assess the economy, efficiency, and effectiveness of public spending (Shrestha, 2019). The OAG also conducts investigative audits when fraud or corruption is suspected, providing a critical tool for combating financial misconduct (Bhul, 2023). Auditors must consider obligations set out by current anti-corruption laws and auditing standards, ensuring that audit work meets professional quality standards and contributes to broader integrity objectives (Bhul, 2023).

To support its expanded mandate under federalism, the OAG has developed an ICT-based online audit management system that covers all levels of government. For local governments specifically, the Subnational Treasury Regulatory Application (SuTRA) provides a digital platform for financial management and audit oversight (Asian Development Bank, 2022). These technological investments reflect the OAG's commitment to increasing audit coverage and improving audit quality, objectives that are explicitly prioritized in Nepal's Public Financial Management Reform Strategy (Expenditure et al., n.d.).

The OAG's audit reports are subject to parliamentary scrutiny through the Public Accounts Committee, which deliberates on audit findings and can summon officials to explain irregularities and corrective actions (Shrestha, 2019; Chapagain, n.d.). Such parliamentary oversight mechanism creates an additional accountability, ensuring that audit findings translate into policy

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attention and, ideally, corrective action. However, the quality and timeliness of audits, as well as the capacity and enforcement strength of oversight mechanisms determines the effectiveness of this system.

Appropriation Acts and Budget Authorization

Appropriation Acts constitute the primary legal instrument through which legislative bodies authorize government expenditure in Nepal. These acts, passed annually by Parliament at the federal level and by legislative assemblies at provincial and local levels, provide the legal authority for spending units to incur expenditure and make payments from the Consolidated Fund (Acharya, n.d.). Without an Appropriation Act, no public expenditure is legally permissible, reflecting the fundamental constitutional principle that the executive cannot spend public money without legislative approval.

These Acts set maximum spending limits for different budget heads, ensuring that executive agencies adhere to legislative priorities and preventing unauthorized expenditure (Mainali, 2023). The “Red Book” operationalizes these allocations by translating them into specific programs and projects for budget execution (Sigdel, 2014).

Nepal's legal framework also provides for several supplementary authorization mechanisms to address unforeseen circumstances or timing issues. The Supplementary Estimates Act allows for additional appropriations during the fiscal year when original allocations prove insufficient or when new needs emerge (Acharya, n.d.). The Votes of Account Act provides interim spending authority when a new fiscal year begins before the full Appropriation Act is passed, while the Votes of Credit Act authorizes expenditure for urgent, unforeseen needs that cannot wait for regular appropriation procedures (Acharya, n.d.). The Contingency Fund Act establishes a reserve fund for emergency expenditures, subject to subsequent legislative approval (Acharya, n.d.).

A specific provision in Nepal's constitutional framework addresses the scenario where the budget is not passed before the start of the fiscal year. The Interim Constitution Article 96 (now reflected in the current Constitution)

allows spending units to use an "Advanced Law" permitting expenditure of up to one-third of the preceding year's appropriation until the new budget is approved (Sigdel, 2014). While this provision ensures continuity of government operations, it also creates potential for reduced fiscal discipline if budget approval is routinely delayed.

The effectiveness of appropriation controls depends not only on the legal framework but also on the capacity of legislative bodies to scrutinize budget proposals, the clarity of appropriation categories, and the existence of mechanisms to prevent unauthorized virement (transfer of funds between budget heads) and off-budget spending. Evidence suggests that flexible virement rules and off-budget spending practices in Nepal have reduced transparency and accountability, undermining the control function that appropriations are meant to serve (Sigdel, 2014).

Financial Procedure and Fiscal Accountability Act

The Financial Procedure and Fiscal Accountability Act (FPFAA) of 2019 is a landmark legislation that institutionalizes financial discipline and establishes procedures for budgeting, expenditure control, accounting, and reporting across all levels of government in Nepal. Together with its implementing regulations, it provides the operational framework that translates constitutional principles into practical financial management (Asian Development Bank, 2022; Mainali, 2023).

The FPFAA sets out the rules governing the budget cycle and clearly defines the roles and responsibilities of key actors in the public financial management system, including the Ministry of Finance, Financial Comptroller General's Office, and line ministries (Shrestha, 2019). This clarity helps reduce institutional overlap and strengthens accountability. A key focus of the Act is expenditure control. It introduces commitment controls to prevent spending beyond approved limits and mandates cash planning to align expenditures with available resources, addressing issues such as payment delays and arrears (Pokharel, 2022; Shrestha, 2019).

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The FPFSA also requires all government entities to maintain proper accounts, prepare financial statements, and submit them for audit by the Office of the Auditor General. It promotes consistency in financial reporting and strengthens oversight through parliamentary review of audit findings (Mainali, 2023).

Implementation is supported by regulations and guidelines issued by relevant authorities. However, its effectiveness depends on institutional capacity, supporting systems, and enforcement of compliance.

Analysis

Mechanisms of Budgetary and Expenditure Control

Nepal's budgetary and expenditure control system operates through interconnected mechanisms across the entire budget cycle, from formulation to audit. The budget is prepared based on established guidelines and policies, involving key institutions such as the National Planning Commission, Ministry of Finance, Financial Comptroller General's Office, and line ministries, each playing a defined role in translating policy into allocations (Sigdel, 2014). The legal framework also reflects differences across federal, provincial, and local levels, with budgets requiring legislative approval and formalization through the Appropriation Act, which sets legal spending limits and ensures democratic authorization (Pokharel, 2022; Mainali, 2023).

Budget execution is governed by financial procedures designed to ensure compliance with appropriations and regulations. These include commitment controls, cash planning systems, and procurement rules under the Public Procurement Act and Regulations of 2007, all aimed at promoting transparency, value for money, and accountability in public spending (Shrestha, 2019; Pokharel, 2022). Internal control mechanisms such as segregation of duties, authorization hierarchies, and reconciliation processes help detect and prevent irregularities, while internal audit functions provide additional assurance on risk management and governance, though their strength varies, particularly at the subnational level (Asian Development Bank, 2022; Shrestha, 2019).

External audit by the Office of the Auditor General (OAG) serves as the final layer of accountability by assessing compliance, accuracy, and performance of public expenditure (Bhul, 2023; Shrestha, 2019). Audit findings and recommendations are submitted to the parliamentary Public Accounts Committee, linking technical audit with legislative oversight (Shrestha, 2019). Together, this system of legislative authorization, internal controls, and external audit reflects a multi-layered framework aligned with international public financial management practices.

Implementation Challenges

Despite the comprehensive legal and institutional framework, Nepal's budgetary and expenditure control system faces significant implementation challenges that undermine its effectiveness in practice. These challenges span multiple dimensions including weak operational controls, capacity deficits, coordination failures, and accountability gaps.

Weak Expenditure Control Systems

A fundamental challenge is the weakness of expenditure control systems at the operational level. Inadequate cash planning and forecasting result in misalignment between expenditure commitments and available cash resources, leading to payment delays, accumulation of arrears, and bunching of expenditure at the end of the fiscal year (Pokharel, 2022; Shrestha, 2019)

Table 2: Capital Expenditure Utilization Trends in Nepal

Fiscal Year	Utilization Rate
2024/25	41.01%
2023/24	63.47%
2022/23	61.44%
2021/22	57.23%

Source: Office of the Auditor General (2025); Ministry of Finance Nepal (various years).

As shown in Table 2, capital expenditure utilization remains low and volatile, indicating structural inefficiencies in project execution, procurement, and

expenditure control despite the existing legal framework. This bunching pattern reflects poor planning and increases risks of waste, corruption, and low-quality implementation (Shrestha, 2019). Weak commitment control systems allow expenditures beyond available appropriations, creating unfunded liabilities and undermining budget discipline (Pokharel, 2022). This is further aggravated by flexible virement rules and off-budget spending, which reduce transparency and hinder effective oversight (Sigdel, 2014). In addition, internal control systems especially at the subnational level, remain weak due to poor segregation of duties, inadequate authorization, lack of reconciliations, and limited internal audit functions, while non-digitized systems further increase risks of errors and fraud (Asian Development Bank, 2022; Shrestha, 2019).

Provincial and Local Capacity Deficits

Federalism has exposed significant capacity constraints at provincial and local levels, where many governments lack resources, systems, and institutional frameworks necessary for effective financial management. Provincial governments face challenges in preparing realistic budgets and executing expenditures efficiently, while limited internal revenue generation increases dependence on federal transfers and reduces fiscal autonomy (Asian Development Bank, 2022; Khanal, 2024). As a result, subnational governments often struggle to utilize allocated funds, leading to unspent balances and low budget absorption (Asian Development Bank, 2022; Khanal, 2024). Particularly these challenges are evident in capital expenditure, where weak project preparation, procurement delays, and limited technical capacity hinder infrastructure development despite constitutional mandates (Bhattarai, 2024).

These capacity constraints are further reinforced by weaknesses in financial management personnel and institutional continuity. Various officials lack adequate training in accounting, budgeting, and procurement, while frequent staff transfers ads disrupt institutional memory (Sigdel, 2014). Limited career incentives and inadequate compensation also make it difficult to attract and retain skilled professionals. The absence of sustained capacity-building programs perpetuates these challenges, undermining effective fiscal

management as subnational governments assume greater responsibilities under federalism.

Coordination and Communication Gaps

Poor coordination among government agencies remains a critical implementation challenge in Nepal's public financial management system. Weak inter-agency coordination between central and local authorities, as well as between the National Planning Commission and the Ministry of Finance, leads to discrepancies between planning and budgeting, delays in fund releases, and duplication or gaps in service delivery (Sigdel, 2014; Asian Development Bank, 2022). This disconnect often results in budget allocations that do not reflect genuine priorities or realistic implementation capacity, thereby contributing to low execution rates and weak development outcomes (Shrestha, 2019). These coordination challenges are further intensified under the federal structure, where unclear functional assignments, overlapping responsibilities, and inadequate mechanisms for intergovernmental consultation create confusion and delays in decision-making (Asian Development Bank, 2022).

Communication gaps further compound these coordination failures. Ambiguities in project prioritization, along with inadequate communication of budget ceilings, allocation decisions, and procedural requirements, leave spending units uncertain about expectations and processes (Sigdel, 2014). The lack of formal, institutionalized coordination mechanisms means that interactions often depend on informal or ad hoc relationships, making the system vulnerable to disruption when personnel change. Additionally, conflicts between systems such as the federal MARS and the local-level SuTRA highlight how poor coordination in system development can create inefficiencies and hinder the goal of integrated financial management (Asian Development Bank, 2022).

Audit Quality and Follow-Up Weaknesses

Audit quality and follow-up in Nepal face several challenges despite improvements in audit coverage and institutional capacity. Resource constraints and limited specialized expertise reduce the OAG's ability to

conduct complex audits and comply with auditing standards, affecting the credibility of audit findings (Bhul, 2023). Audit reports are often delayed, which reduces their usefulness for timely corrective action and slows the budgetary discharge process (Expenditure et al., n.d.; Adhikari, n.d.). Moreover, weak follow-up mechanisms mean that audit recommendations are rarely implemented, and accountability for irregularities remains limited (Asian Development Bank, 2022).

Table 3: Audit Irregularities and Arrears in Nepal

Category	Amount (NPR Billion)
Total Arrears 733.19	Total Arrears 733.19
Annual Increase 91.59	Annual Increase 91.59
Federal 47.74	Federal 47.74
Local 25.32	Local 25.32
Provincial 4.2	Provincial 4.2

Source: Office of the Auditor General, Annual Report (2025).

As shown in Figure/Table 3, the accumulation of arrears exceeding NPR 733 billion highlights significant gaps in enforcement and recovery, despite the OAG's capacity to detect irregularities. Parliamentary oversight also remains weak due to limited technical capacity and political constraints within the Public Accounts Committee, reducing its ability to scrutinize audit findings and ensure corrective action (Shrestha, 2019). Consequently, audit findings fail to create a strong deterrent effect, allowing irregularities to persist.

Transparency and Corruption Risks

Limited transparency in budget processes and financial reporting creates significant opportunities for corruption and undermines public trust in government. Although legal provisions such as freedom of information laws

exist, their effectiveness remains limited without strong enforcement mechanisms (Transparency and Accountability in Public Administration, 2025). These challenges are further compounded by digital literacy gaps and bureaucratic resistance, which reduce the impact of transparency reforms even when digital platforms are introduced. At the subnational level, the expansion of public spending has been associated with financial misconduct, unspent funds, and misuse of resources, reflecting weak controls, inadequate oversight, and limited consequences for malfeasance (Khanal, 2024). Political favoritism in project selection further distorts resource allocation, prioritizing patronage over objective development needs (Mainali, 2023).

Table 4: Public Debt Indicators in Nepal

Indicator	Value
Total Public Debt	NPR 2,729.41 billion
Debt-to-GDP Ratio	~42–45%
External Debt Share	53.25%

Data compiled from the Public Debt Management Office and Ministry of Finance Nepal (2025).

The rising level of public debt, as shown in Table 4, raises concerns regarding fiscal sustainability and the effective utilization of borrowed resources, particularly in the context of weak capital expenditure performance. Procurement processes, despite being governed by formal regulations, remain vulnerable to corruption through practices such as bid-rigging, collusion, and inflated specifications (Shrestha, 2019). The absence of real-time budget tracking and transparent procurement systems further limits public oversight and accountability. Without strengthened transparency measures and credible sanctions for corruption, the integrity and effectiveness of Nepal’s public financial management system remain significantly compromised.

Strategic Recommendations

Strengthening Nepal's budgetary and expenditure control mechanisms requires a comprehensive, multi-faceted reform strategy addressing legal frameworks, institutional capacity, operational systems, and accountability mechanisms. The following recommendations synthesize evidence from the literature and reflect international good practice adapted to Nepal's context.

Legal and Regulatory Reforms

First, Nepal should clarify legal mandates and institutional roles to reduce ambiguity and overlap that undermine accountability. A consultative national-level process involving key institutions should define clear responsibilities for budget formulation, execution, and oversight, and these roles should be codified in updated legislation to ensure legal certainty (Sigdel, 2014).

Second, the legal framework should be strengthened by setting clear rules on appropriation limits, supplementary spending, and virement. A unitary budget law with sanctions for procedural delays and unauthorized spending, along with provisions covering off-budget expenditure and strengthened transparency laws, would enhance fiscal discipline and accountability (Sigdel, 2014).

Third, the fiscal federalism framework should be reviewed and harmonized to address inconsistencies across laws. A comprehensive reform should clarify subnational functions, financing arrangements, and accountability requirements, while clearly defining service-level obligations to enable effective performance assessment (Asian Development Bank, 2022).

Strengthening Institutional Capacity

Addressing capacity deficits, especially at subnational levels, is essential for effective implementation of budgetary and expenditure controls. A long-term, systematic approach to capacity development should be adopted, moving beyond ad hoc training to structured programs that strengthen institutional capability (Asian Development Bank, 2022). This includes comprehensive

training in budget systems, accounting, procurement, and financial reporting, particularly for new staff who often lack procedural knowledge (Sigdel, 2014).

Capacity building should also focus on systems development, including financial management information systems, internal controls, and internal audit functions at subnational levels (Shrestha, 2019; Asian Development Bank, 2022). Digitalization of PFM systems can improve efficiency, reduce errors, and enable real-time monitoring, but must be supported by digital literacy and effective change management (Shrestha, 2019; Transparency and Accountability in Public Administration, 2025). Additionally, institutional arrangements and human resource practices should be reformed to ensure proper staffing, clear reporting lines, reduced staff turnover, and incentives for performance and compliance (Sigdel, 2014; Shrestha, 2019).

Enhancing Audit Effectiveness

Strengthening the Office of the Auditor General (OAG) is critical for ensuring accountability. This requires adequate resources, specialized staff, and continued professional development, along with improvements in audit methodologies and quality assurance to ensure compliance with auditing standards (Bhul, 2023; Expenditure et al., n.d.). The OAG should also adopt risk-based audit approaches and maintain a balanced mix of financial, performance, and investigative audits, with performance audits helping to assess efficiency, economy, and effectiveness in public spending (Bhul, 2023).

Equally important is strengthening audit follow-up through binding procedures, clear timelines, and defined responsibilities for implementing recommendations (Asian Development Bank, 2022). Parliamentary oversight should be enhanced by building the capacity of the Public Accounts Committee, while auditors should be encouraged to focus on promoting organizational learning and improvement rather than merely identifying faults (Shrestha, 2019; Brodtrick, 2004).

Improving Transparency and Citizen Engagement

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Transparency reforms should be pursued vigorously, as transparency is necessary but not sufficient for accountability. Real-time budget tracking systems should be made publicly accessible to enable citizen and civil society oversight, while transparent procurement processes, such as online publication of tenders, evaluations, and contract awards, can help reduce corruption and build public trust (Transparency and Accountability in Public Administration, 2025).

Beyond disclosure, the government should actively inform the public about budget priorities, responsibilities, and performance results under federalism, while institutionalizing participatory mechanisms such as community monitoring and citizen feedback (Asian Development Bank, 2022; Transparency and Accountability in Public Administration, 2025). At the same time, transparency must be reinforced with accountability through clear sanctions for violations and strong, independent anti-corruption bodies to ensure effective enforcement and deterrence (Bhul, 2023; Transparency and Accountability in Public Administration, 2025).

Building Provincial and Local Capabilities

Given the capacity constraints at subnational levels, targeted support for provincial and local governments is essential. This should include technical assistance in developing financial management systems, internal controls, and internal audit capacity, along with support for project preparation and prioritization to improve budget execution and capital expenditure performance (Asian Development Bank, 2022; Shrestha, 2019). Subnational governments should also be involved in budget ceiling-setting to ensure allocations reflect local needs and capacities (Sigdel, 2014).

Additionally, phased adoption of medium-term expenditure frameworks and a shift toward outcome-based budgeting can improve strategic planning and service delivery (Asian Development Bank, 2022). Strengthening subnational revenue generation through improved tax administration, new revenue sources, and reforms to fiscal transfer systems will reduce dependence on federal transfers and enhance accountability (Khanal, 2024). A strong fiscal federalism

framework with clear roles and equitable resource distribution is essential for effective decentralization (Shrestha, 2019).

Conclusion

Nepal has established a comprehensive legal and institutional framework for budgetary and expenditure control, anchored in constitutional provisions, operationalized through the Financial Procedure and Fiscal Accountability Act and related legislation, and overseen by the constitutionally independent Office of the Auditor General. This framework reflects international good practice and provides, in principle, the tools necessary for effective public financial management and accountability. The transition to federalism, while creating new challenges, also offers opportunities to enhance local accountability and responsiveness through decentralized fiscal decision-making.

However, significant gaps exist between the legal framework and actual implementation. Weak expenditure control systems, inadequate cash planning, provincial and local capacity deficits, poor inter-agency coordination, limited audit follow-up, and persistent corruption risks undermine the effectiveness of formal control mechanisms. The result is a PFM system that, despite its sophisticated legal architecture, struggles to ensure that public resources are used efficiently, effectively, and in accordance with legislative intent. Budget execution delays, unspent allocations, expenditure bunching, and accumulation of arrears are symptoms of these deeper systemic weaknesses.

Strengthening the system requires coordinated legal, institutional, and capacity-building reforms. These include clarifying mandates, tightening appropriation controls, enhancing subnational capacity, and improving audit effectiveness through stronger follow-up mechanisms. Transparency must be paired with credible enforcement to ensure accountability and deter misconduct. Empirical indicators, including capital expenditure utilization rates below 50%, audit arrears exceeding NPR 733 billion, and persistent fiscal deficits, clearly demonstrate that Nepal's primary challenge lies not in the absence of legal frameworks, but in the failure of effective enforcement and institutional coordination

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Nepal's development aspirations, poverty reduction, inclusive growth, improved service delivery, and sustainable development, depend fundamentally on effective public financial management. Without robust budgetary and expenditure control mechanisms that ensure public resources are used wisely and accountably, these aspirations will remain elusive. The legal and institutional foundations are in place; the challenge now is to make them work in practice through sustained implementation of the reforms outlined in this analysis. With political will, adequate resources, and sustained effort, Nepal can strengthen its public financial accountability and build a PFM system worthy of its citizens' trust.

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