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Service Contract Management and Fiscal Accountability in Nepal's Local Governments: A Mixed-Methods Assessment Based on Audit Data and Municipal Surveys

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ABSTRACT

Service contracts have now become a major source of filling long-term staff gaps by the federal and local governments of Nepal. This paper will focus on the relationship between service contract management and fiscal accountability in such governments. It is based on a convergent mixed-methods design that uses national audit data, a survey of 150 local governments, interviews and focus group discussions with officials and contract staff. Service Contract Management Index is used to measure adherence to rules in relation to advertising, selection, written contracts, and renewal. The Audit Irregularity Ratio is a ratio that represents the audit arrears as a percentage of total expenditure. Pearson correlation indicates that there is a strong negative correlation between the two indicators ($r = -0.61, p < 0.05$). Simple regression indicates that an improvement in the quality of the contract management by one point decreases the audit irregularity ratio by an average of 0.43. On average, local governments hire about 20 to 25 contract employees, many of them in core roles, but only 58 % of them state that they operate under formal procedures. Workers in contracts are moderately to lowly satisfied, social security access is low, and security concerning renewal is weak. The qualitative analysis highlights administrative reliance on contract employees, poor documentation and internal controls, employee insecurity, and policy uncertainty. The results indicate that service contracts managed more appropriately can help to minimize fiscal risk and promote more responsible and equitable local governance.

INTRODUCTION

The federal government model, as enshrined in the Constitution of Nepal 2015, decentralized and devolved much administrative, financial, and legislative authority to 753 local governments nationwide (Government of Nepal, 2015). These local governments have since been given core functions of provision of basic service, local infrastructure, and local-level planning and budgetary provision, which is further outlined in the Local Government Operation Act 2017 (Government of Nepal, 2017).

This legal structure imagines strong and responsible local institutions, which are able to handle human resources and government funds transparently and efficiently (Bovens, 2007). Nonetheless, the swift growth of responsibilities has not necessarily been accompanied by timely staff readjustment, a proper administrative framework, or sufficient technical capacity at the local level (MoFAGA, 2024).

After the move to federalism, most of the permanent jobs in local governments took a long time to fill, with delays in the adjustment of staff between the federal and provincial levels (MoFAGA, 2024). In reaction, most local governments embraced service contracts called *sewa karar* as a feasible option for addressing the pressing human resource shortage in administration, finance, health, education, and engineering services (Koirala, 2022).

The service contracts are written, time-bound contracts whereby individuals offer certain services in exchange for remuneration, and most times there is limited or no access to pension, tenure, and career advancement (Atkinson, 1984). The literature on the international management of human resources has termed such arrangements as a wider move towards flexible employment arrangements where the organization can change the number of people to work and the skills based on the varying needs and budgets (Atkinson, 1984). This has become a structural aspect, and not a temporary intervention in Nepal, especially at the local governments, which are increasingly pressured to provide visible outputs with limited resources (Bista, 2020).

The experience in the global and regional regions is that contractual and temporary public employment can only assist in efficiency when integrated into obvious rules, performance benchmarks, and social protection norms (ILO, 2022). International organizations, including the ILO, UNDP, and the World Bank, emphasize that all subnational governments need to provide transparent recruitment, fair working conditions, and proper performance monitoring of all types of personnel, including contract workers (ILO, 2022; UNDP, 2023; World Bank, 2024). These institutions also note that the poor regulation of temporary employees can frequently result in so divided responsibility, demotivation, and

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increasing chances of embezzlement of state finances (UNDP, 2023). This general evidence has a direct application to Nepal, which has experienced the growth of the magnitude and duration of service contracts in the local governments to an extent exceeding the initial purpose of short-term elasticity (World Bank, 2024).

The current audit evidence demonstrates that the local governments of Nepal have significant fiscal implications in the manner of designing and executing service contracts. According to the 62nd Annual Report of the Office of the Auditor General (FY 2080/81), the national audit arrears are NPR 91.59 billion, of which approximately NPR 25.32 billion or approximately 27.6 %, is related to local governments (OAG, 2024). Most of these irregularities concern flaws in the contractual management, such as appointment without the open contest, renewal of the contracts upon expiry, payment of the salaries without the proper documentation, and the employment of the contract staff that is not part of the approved staffing schemes (OAG, 2023; OAG, 2024). According to survey and administrative data that MoFAGA has compiled, an average local government now employs approximately 20 to 25 individuals on service contracts, usually on varying terms of reference, pay scales, and renewal criteria (MoFAGA, 2024). These trends show that contract arrangements have come to the center of local government operations, but they are poorly standardized and not well monitored (Bohara & Pandey, 2023).

Theoretically, the developments can be explained using the Contract Theory, Public Accountability Theory, and the Human Resource Management Theory. According to the Contract Theory, well-designed contracts correctly align the incentives between the principals and the agents and alleviate the chances of opportunistic behavior (Hart & Holmström, 2017). Lack of complete contracts through lack of contracts in which the responsibilities, deliveries, and sanctions are not spelled provides scope for moral hazards and principal-agent problems, particularly in public organizations where there is low capacity to monitor (Jensen & Meckling, 1976). Most of the service contracts in the local governments of Nepal are short and generic and not strictly implemented, which makes the possibility of work not being properly verified before the payment or roles being more influenced by informal relationships than formal agreements more likely (Koirala, 2022).

The Public Accountability Theory underlines that decisions and allocation of resources should be justified to citizens and other oversight mechanisms by the public officials and institutions (Bovens, 2007). In the case of local governments, it entails maintaining a systematic record of recruitment procedures, employment agreements, attendance, output, and remuneration to contract employees (Shrestha & Adhikari, 2022). In case of incomplete, fragmented, and incomplete documentation stored in manual files only, internal auditors, assemblies, and the Office of the Auditor General can hardly oversee

it (OAG, 2024). The recurring instances of audit arrears associated with the management of the contract in the recent examinations are hence indicative of a larger accountability chain and internal controls weaknesses of local governments (Bohara & Pandey, 2023).

The Human Resource Management Theory introduces another dimension that employment conditions relate to motivation, satisfaction, and performance. There are both classic and modern-day studies of HRM that demonstrate that employees are motivated to commit and be productive through fair pay, job security, recognition, and progression opportunities (Herzberg, 1966; Maslow, 1943). In the municipality of Nepal and rural municipalities, it has been reported that the contract employees are usually paid less than the permanent employees who undertake the same tasks; they do not have access to many social security programs, and they do not know whether their contracts will be renewed (Thapa & Poudel, 2023). This disparity may undermine morale, staff turnover, and deter the consistency and quality of the public service, despite the number of staff on paper suggesting that it is enough (PMC, 2023). Such a mix of fiscal risk and human resource pressure explains the necessity to consider service contract management as a fundamental governance concern and not a small administrative concern (Mainali, 2021).

In the study of local government in Nepal, research topics that included decentralization, participation, budgeting, and community-based service delivery have been analyzed; however, very few studies have addressed the relationship between service contract governance and fiscal accountability in a systematic manner (Bista, 2020; Mainali, 2021). Part studies are on audit trends on the national level or on contract employment in particular industries like health, but they do not always clearly combine the treatment of human resource practices and audit results on the holistic range of local governments (PMC, 2023; Shrestha & Adhikari, 2022). Similarly, quantitative evidence is few to establish the relationship between improvements in the contract management procedures with the changes in the scale or pattern of the audit irregularities in the local bodies (Bohara & Pandey, 2023). Such an empirical gap has a significant policy implication, as staffing system reforms are frequently discussed without firm evidence connecting HR decisions with financial outcomes (World Bank, 2024).

The current research addresses this research gap by investigating the relationship between service contract management in the local governments of Nepal and fiscal accountability as well as the overall governance outcomes. It is based on quantitative data of the 62nd Annual Report of the Office of the Auditor General and a designed survey of 150 local governments in all seven provinces and qualitative information about the views of the key informants, interviews with the officials, and focus group discussions with the contract employees (OAG, 2024; MoFAGA, 2024). This mixed evidence base study examines the scope and character of contract-

based employment, the compliance of procedures in the hiring and renewal process, and the connection between such practices and audit arrears and other signs of fiscal discipline (Creswell & Plano Clark, 2018). The study also captures the attitudes of contract employees and the local authority about fairness, motivation, and transparency of regulations of their work (Thapa & Poudel, 2023).

In this general purpose, the research answers four questions that are related to each other. First, it seeks to find out the prevalence of service contracts use in the local governments of Nepal and the categories of roles that the contracts address (MoFAGA, 2024). Second, it looks at the extent to which local governments use formal processes to advertise, select, contract, and renew contract staff and the relationship between the processes in various provinces and the type of local government (Koirala, 2022). Third, it examines the connection between the quality of contract management and fiscal anomalies, as found in audit reports, and arrears of local governments (OAG, 2024; Shrestha & Adhikari, 2022). Fourth, it examines the perceptions of contract staff regarding their working conditions and their relationship with motivation and service delivery performance (Thapa & Poudel, 2023). These questions will be placed in the integrated perspective of the Contract Theory, Public Accountability Theory, and Human Resource Management Theory, which will be a systematic manner to analyze the quantitative and qualitative results (Hart & Holmström, 2017; Bovens, 2007; Herzberg, 1966).

The study extends to the whole federal local government system of Nepal, and empirically, it is focused on a representative sample of 150 local governments, and the latest national audit data that was available when the research was conducted (OAG, 2024; MoFAGA, 2024). The analysis does not seek to examine all facets of local governance; instead, it focuses on the interface between service contract management and fiscal accountability, as this has been identified as a consistent weakness in recent audits (Bohara & Pandey, 2023). It is assumed that the results will apply to federal ministries, including MoFAGA, or the Office of the Auditor General, provincial institutes, and development partners involved in supporting reforms in the local governance and public financial management (ADB, 2022; UNDP, 2023). The study will contribute to the development of a more accessible, fair, and performance-based system of managing service contracts in Nepal's local governments, in line with its national law, and the global best practices of decent work and responsible governance (ILO, 2022; World Bank, 2024).

LITERATURE REVIEW

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The current research addresses this research gap by investigating the relationship between service contract management in the local governments of Nepal and fiscal accountability, as well as the overall governance outcomes. It is based on quantitative data of the 62nd Annual Report of the Office of the Auditor General and a designed survey of 150 local governments in all seven provinces and qualitative information about the views of the key informants, interviews with the officials and focus group discussions with the contract employees (OAG, 2024; MoFAGA, 2024). This mixed evidence-based study examines the scope and character of contract-based employment, the compliance of procedures in the hiring and renewal process, and the connection between such practices and audit arrears and other signs of fiscal discipline (Creswell & Plano Clark, 2018). The study also captures the attitudes of contract employees and the local authority about fairness, motivation, and transparency of regulations of their work (Thapa and Poudel, 2023).

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MATERIALS AND METHODS

Study design and overall approach

This study employed a mixed-method design. Quantitative and qualitative data were collected in the same period, analyzed separately, and then integrated at the interpretation stage. The quantitative component measured the extent and pattern of fiscal irregularities and service contract practices in local governments. The qualitative component explored how key actors understand rules, incentives, and constraints in daily work. It was a convergent approach in general. Interviews and focus group discussions were supplemented with survey data by the local governments and audit statistics by the Office of the Auditor General. This mixture assisted in attaching numerical patterns to experienced life. The choice of design was contraindicated by the contract theory, the theory of accountability of the people, and

the theory of human resource management, so that the findings could be perceived in a definite frame of analysis.

Study area and coverage of local governments

The whole federal local government system in Nepal was the study area. It has 753 local governments, comprising metropolitan cities, sub-metropolitan cities, municipalities, and rural municipalities. These units are spread in seven provinces and are governed by the constitution of Nepal and the Local Government Operation Act.

In this universe, analysis has considered service contract management as a countrywide attribute of local governance. Local governments provide core services, including administration, basic delivery services, and local-level planning. They are also in charge of personnel and service contract deployment. The paper was concerned with the practice of these authorities.

Sources of data

Secondary audit data from the Office of the Auditor General

The primary secondary source was the 62nd Annual Report of the Office of the Auditor General and related audit documents. Such reports give a standardized amount of audit arrears, undocumented payments and compliance observations and other fiscal abnormalities to every local government. The research gathered information about the degree and category of violations of the local governments, giving much preference to matters that concerned the staffing and contracts.

Other secondary sources were also incorporated, and they were the relevant laws, regulations, and guidelines on labor, local government and public financial management. Ministry of Federal Affairs and General Administration human resource reports and published reports of development partners were also examined to gain an insight of the bigger policy and institutional environment.

Primary survey data from local governments

The main sources of quantitative data were a structured survey of the local governments. The 150 sampled local governments in all seven provinces were used as the respondents of the survey. The respondents were officials who were directly engaged in the management of contracts and financial administration, like Chief Administrative Officers, Accounts officers and the human resource focal persons.

The survey was on the magnitude of contract employment, recruitment and renewal processes, documentation processes, internal controls, and views on compliance and transparency. It also contained perceived political influence items, staff motivation items and satisfaction with the existing systems. The majority of items applied five-point Likert scales in order to be able to conduct quantitative analysis.

Key informant interviews and focus group discussions

Key informant interviews and focus group discussions were used as a way of collecting qualitative primary data. The most important sources of information were senior officials of the Office of the Auditor General, the Ministry of the Federal Affairs and General Administration, the representatives of the local government associations, and the heads of employee unions. These interviews covered policy views, implementation issues, and new reforms. Contract staff and permanent officials were involved in group discussions that were organized on the local level. These debates obtained group perceptions about the recruitment processes, the terms of the contract, motivation, perceived fairness and practical consequences of the contract arrangements on service delivery. Audio records and notes were transcribed so as to be analyzed. Sampling procedures for local governments and respondents

The sampling frame for the survey was the list of 753 local governments. A stratified random sampling method was used. Provinces formed the main strata. Within each province, municipalities and rural municipalities were selected using probability proportional to size, based on the total number of local governments in that province. This procedure resulted in a sample of 150 local governments, covering all provinces and both urban and rural types. Within each sampled local government, one senior official with direct responsibility for human resources and financial management was selected as the main respondent. Where necessary, that official consulted internal records or colleagues while completing the questionnaire.

Data collection instruments and procedures

Three main instruments were used. The structured questionnaire collected quantitative information from local governments. It was administered through a combination of online and in-person methods, depending on internet access and local conditions. Before the main survey, the questionnaire was pre-tested in a small number of local governments to check clarity and length.

A semi-structured interview guide supported the key informant interviews. It contained open questions on legal interpretation, policy enforcement, audit practices, and reform priorities. A separate guide supported focus group discussions, with prompts on recruitment experience, working conditions, staff morale, and perceived links between contract management and service quality.

Data collection followed a standard sequence. First, official permission letters were shared with selected local governments and institutions. Second, appointments were arranged with respondents. Third, the questionnaire and interview or FGD guides were administered, with notes taken and, where consent was given, an audio recording.

Operational definition of key variables

Several variables were defined and measured consistently. Service contract management quality was defined as the degree of compliance of a local government with

standard procedures for advertising posts, selection, documentation, renewal, and payment of contract staff. It was measured using a composite index derived from survey items and document checks, coded on a five-point scale from very low to very high.

Fiscal irregularities were defined as the value of audit arrears and other financial observations reported for each local government by the Office of the Auditor General. These values were recorded in Nepalese rupees and normalized where necessary using ratios, for example, arrears as a share of total expenditure.

Employee satisfaction was defined as the level of perceived fairness, pay adequacy, job security, and recognition among contract staff. It was measured using Likert scale responses in the survey and qualitative statements in focus groups. Political influence captured the reported presence of political interference in recruitment and renewal. It was measured as a binary variable and through qualitative descriptions. Transparency was defined as the extent to which recruitment and contract information is disclosed through public notices, websites, or reports.

Data processing and analysis

Descriptive statistics and cross tabulation

Survey responses were coded and entered a statistical software package. Descriptive statistics such as frequencies, percentages, means, and standard deviations were calculated for all key variables. These statistics described the profile of sampled local governments, the scale and type of contract employment, and the distribution of management quality scores and satisfaction levels.

Cross tabulations were used to explore differences between provinces and between municipalities and rural municipalities. This helped to identify geographic and institutional patterns in contract use and irregularities.

Correlation and regression analysis

A multivariate analysis was performed to examine associations between service contract management quality and fiscal irregularity indicators. Pearson correlation coefficients were calculated to test the strength and direction of these relationships.

Where the data met basic assumptions, simple regression models were estimated, using fiscal irregularity measures as dependent variables and contract management quality as a main independent variable, along with selected control variables such as the size of the budget or number of staff. These models provided an estimate of how changes in management quality relate to changes in fiscal risk.

Qualitative coding and thematic analysis

Interviews and focus group discussions were transcribed and translated where necessary and provided as qualitative data. The qualitative analysis software was loaded with transcripts. A preliminary coding frame was created on the research questions and theoretical framework, and included categories, like, policy compliance, political influence, documentation practices, motivation and

perceptions of fairness.

Codes were developed with the emergence of new themes. Thematic analysis discovered patterns of recurrence and contrasting perceptions of the groups of respondents. Quantitative findings were then compared to these themes and confirmed, qualified, or furthered the interpretation of survey and audit results.

Reliability, validity, and trustworthiness

There were multiple measures to improve reliability and validity. The questionnaire and guides have been pre-tested and corrected where there were complexities and flow concerns. Survey composite scales were tested on internal consistency, and the value was acceptable. The construct validity was enhanced through triangulation between methods and sources. Where possible, responses to the survey were verified by referring to the official records. Qualitative statements were perceived in terms of audit data and provisions of the law. In the case of qualitative data, the credibility was enhanced by doing

adequate transcription, systematically using codes and comparing the views of various respondent groups.

RESULTS AND DISCUSSION

Profile of sampled local governments and respondents
The survey covered 150 local governments drawn from all seven provinces out of the national total of 753 units. These include metropolitan cities, sub metropolitan cities, municipalities, and rural municipalities.

On average, each local government employs between 20 and 25 staff on service contracts. The typical contract duration is one year, with a range from six to twenty-four months.

Local governments account for NPR 25.32 billion of audit arrears out of a national total of NPR 91.59 billion, which is 27.6 % of all arrears. Only 58 % of the local governments surveyed reported following formal contract rules. The mean satisfaction score among contract staff is 3.1 on a five-point scale, and only about one-third of

Table 1: Profile of sampled local governments and service contract employment

Indicator	Findings
Total local governments in Nepal	753 (6 metropolitan, 11 sub metropolitan, 276 municipalities, 460 rural municipalities)
Average number of contract employees per local government	20 to 25
Average contract duration	1 year (range 6 to 24 months)
Share of total national audit arrears attributed to local governments	NPR 25.32 billion out of NPR 91.59 billion (27.6 %)
Local governments following formal contract rules	58 % of sampled local governments
Employee satisfaction	Mean 3.1 on a 1 to 5 scale (about 35 % high satisfaction)

respondents fall in the high satisfaction category.

Status of service contract use in local governments

Service contracts have become a structural feature of local administration. They cover core positions in finance, administration, engineering, social mobilization, health, and education.

Most surveyed local governments use service contracts to fill long-term vacancies rather than only short-term gaps. Contract duration often extends beyond one year through repeated renewals. This pattern confirms that the system has shifted from a temporary measure to a routine staffing practice.

The number of contract staff per local government is high relative to the permanent cadre in many rural municipalities and small municipalities. This increases the dependence of front-line service delivery on workers who have limited job security and weak social protection.

Contract management practices and internal control systems

Only about 58 % of local governments report following formal steps such as public advertisement, written

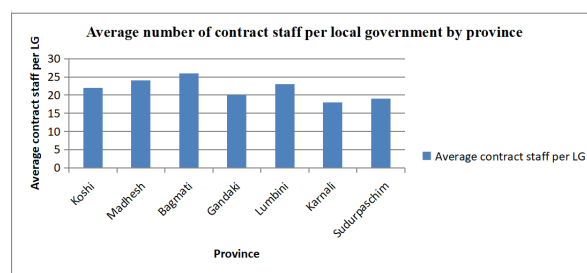


Figure 1: The average number of contract staff per local government by province.

contracts, and documented renewal decisions.

Qualitative evidence shows that many local governments rely on informal referrals, political influence, and direct appointments, especially for low and mid-level posts. In several cases, HR records are incomplete, and contract files are scattered across sections rather than maintained in a central register.

Internal control systems are weak in many units. Internal audit cells often lack dedicated staff or do not systematically review human resource and payroll

practices. In several provinces, local governments use manual salary sheets rather than integrated HR and payroll systems. This practice makes verification difficult and increases the risk of errors and misuse.

The 62nd Annual Report of the Office of the Auditor General shows that local governments contribute about 27.6 % of national audit arrears. These arrears arise from undocumented payments, deviations from budget codes, and irregular appointment and renewal of staff, including

Patterns of fiscal irregularities from audit data

Table 2: Provincial distribution of audit irregularities (FY 2080/81)

Province	Estimated Irregularities (NPR in Billion)	Main Patterns
Koshi	3.5	Payments without supporting documents
Madhesh	4.8	Irregular recruitment and renewal processes
Bagmati	5.6	Mixing of project and contract budget lines
Gandaki	2.7	Deviations from budget codes
Lumbini	3.2	Payment after contract expiry
Karnali	2	Dual payments and off cadre appointments
Sudurpaschim	3.5	Low procedural transparency

contract employees.

Relationship between contract management quality and fiscal irregularities

The Service Contract Management Index (SCMI) measures how far each local government complies with rules on recruitment, documentation, and renewal. The

Audit Irregularity Ratio (AIR) expresses audit arrears as a share of total expenditure.

Correlation analysis for 150 local governments shows a Pearson correlation of $r = -0.61$ between SCMI and AIR. The p-value is less than 0.05. This is a strong and

Table 3: Correlation between contract management quality and audit irregularities

Variables	Pearson Correlation Coefficient	p-value	Interpretation
SCMI vs AIR	-0.61	< 0.05	Higher contract management quality is associated with lower audit irregularities

statistically significant negative relationship.

Local governments that score higher on transparent recruitment, written contracts, and clear renewal

procedures show lower levels of fiscal irregularities. Those with weak or informal contract practices exhibit higher

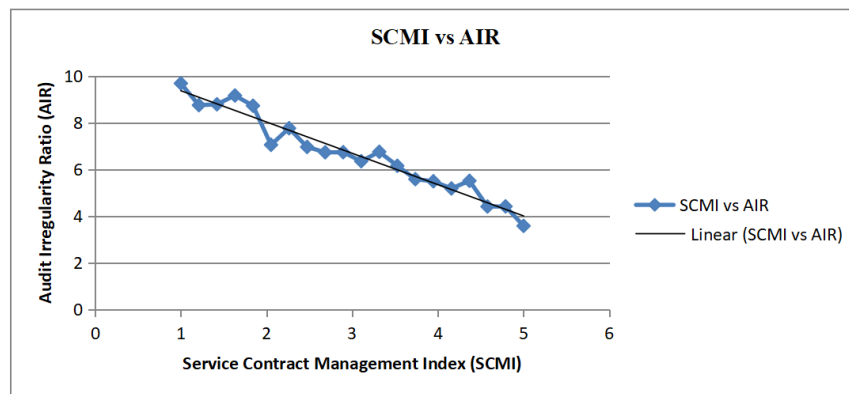


Figure 2: Scatter plot of SCMI on the horizontal axis and AIR on the vertical axis with a downward sloping trend line.

arrears and more frequent negative audit observations.

Regression results and interpretation

A simple linear regression model uses AIR as the

dependent variable and SCMI as the main independent variable. The estimate shows that a one-point increase in SCMI reduces AIR by about 0.43 units. This effect is

Table 4: Simple regression of audit irregularity ratio on contract management quality

Model	Slope Coefficient β_1	Significance p-value	Interpretation
$AIR = \beta_0 + \beta_1 SCMI + \epsilon$	-0.43	< 0.05	Improved contract management quality predicts lower fiscal irregularities

significant at the 5 % level.

The model confirms that improvements in contract management are not only associated with lower irregularities, but they also have predictive value. This result supports the view that reforms in recruitment, documentation, and renewal can produce measurable

gains in fiscal discipline.

Perceptions and experiences of contract employees
Survey results and focus group discussions reveal mixed but mostly cautious views among contract staff. Table 5 summarizes mean scores on key aspects.

Qualitative quotes deepen this picture. Contract

Table 5: Mean scores of contract employee perceptions (Likert 1 to 5)

Indicator	Mean Score (1 -5)	Interpretation
Transparency of the recruitment process	3.4	Moderate compliance
Clarity of contract terms and renewal conditions	2.9	Low clarity
Timeliness of payment	2.7	Below average
Access to social security benefits	2.6	Weak coverage
Overall job satisfaction	3.1	Moderate to low

employees report that they often perform the same tasks as permanent staff but receive lower pay and limit or no social security benefits. Many feel insecure because renewal depends on political changes or personal relations, not on clear performance criteria.

Qualitative themes from interviews and focus group discussions

Thematic analysis of interviews and group discussions identifies four dominant themes.

Administrative necessity

Chief Administrative Officers describe contract staff as essential for the continuity of services because permanent positions remain vacant. This theme confirms that service contracts respond to real staffing gaps.

Fiscal vulnerability

Officials from the Office of the Auditor General note that many arrears arise from unverified deliverables and weak record-keeping. Contract-related payments are frequently flagged due to missing files or unsigned attendance sheets.

Employee insecurity

Contract employees repeatedly highlight lower pay, absence of benefits, and uncertainty about renewal. They feel that this situation is unfair given their similar workloads.

Policy ambiguity

Officials at MoFAGA report that each local government applies its own rules for contracts. The absence of a unified national guideline leads to wide variation in contract design and oversight.

These themes show that service contracts sit at the intersection of urgent administrative needs, weak fiscal controls, and contested employment conditions.

Integration of quantitative and qualitative findings

Surveys, audit data, and interviews yield the same results. Quantitative analysis indicates that there is a negative

and strong correlation between the quality of contract management and fiscal anomaly. Qualitative data describes the way the trend is brought about by undocumented procedures, partisanship, and unstable regulations.

To the extent that local governments also post vacancies, keep records of document selection, contract files and relate renewal to performance, they demonstrate lower arrears and reduced negative audit comments. The expectations and predictable work environments are also reported to be clearer in these units and have more predictable work environments by the respondents.

Contrarily, with informal contracts, there are disaggregated records, and renewals are based on political favors, fiscal anomalies increase and employees become uncertain. These settings are characterized by interviews as being confusing and stressful environments, with low trust among employees, elected officials, and auditors.

In Figure 3, a very simple conceptual model is provided to connect the transparent contract management to better fiscal management and subsequently better governance

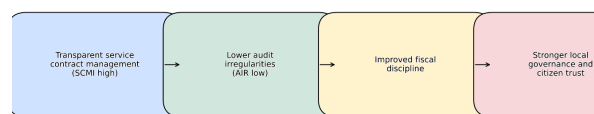


Figure 3: Conceptual model linking contract management and fiscal accountability

and trust.

Discussion concerning contract theory and accountability theory

According to the contract theory, there is an alignment of incentives, as well as less moral hazard, through clear and enforceable contracts. Many service contracts are not finalized in the local governments of Nepal. They do not have elaborate deliverables, performance clauses, or renewal criteria. The negative correlation and regression findings reveal a strong negative correlation, indicating that in areas with clear and more closely monitored contracts, the level of fiscal irregularities is lower. This validates the main assertion of the contract theory in an

actual administration environment.

The theory of public accountability aims at transparency and responsibility in how the available public resources are used. It has been demonstrated that the chain of accountability includes weak controls over the local governments generating more than a quarter of national audit arrears, including a significant fraction of their total accountability related to contract payments. Meanwhile, there is better fiscal discipline, where the cases have better documentation and open reporting. This helps to believe that internal control, public disclosure, and prompt audit responses are not technical but essential accountability mechanisms.

There is an additional layer presented by human resource management theory. The dissatisfaction rates, poor access to social security, and the impressions of unfair treatment in the context of contract employees demonstrate that the existing system fails to comply with the fundamental HR concepts of equity and recognition. This demoralizes and can be used to compromise the quality of services, despite the regulation of fiscal risks.

Broadly, it is evident that the service contract system in Nepal provides short-term flexibility but lacks contractual efficiency and accountability to the population, where rules are not clear and are not enforced fairly.

Implications for local governance and fiscal discipline

There are clear policy implications of the results to federal, provincial and local players. To begin with, there is a need of a national Service Contract Management Guideline. This guideline must come up with minimum procedures on the advertisement, selection, content of contracts, renewal, and termination in all local governments.

Second, integrated human resources and payroll systems are required by the local governments. An eHRIS and electronic audit trail would facilitate the monitoring of contract staff, the connection of attendance and payment, and even supply evidence in an audit. This would limit the cases of undocumented payments and ghost employment.

Third, the level of social protection and equity should be extended to encompass contract staff. At least, local authorities must start to shift towards equal pay for equal work in similar positions and provide the opportunity to join the social security fund. This would enhance the motivation and push down the turnover.

Fourth, municipal assemblies and internal audit cells should consider contract management as one of their priorities. Periodical review of contract files, decisions on renewing and payroll should be incorporated in routine auditing.

Fifth, the capacity building on contract design, documentation and digital systems can be supported by the development partners and oversight bodies. Simple templates and training and specific technical support would assist local governments in converting rules into practice.

When these measures are taken, Nepal will be able to keep the benefits of flexible staffing in operation and minimize fiscal risks and increase the quality of local governance.

CONCLUSION

The paper has discussed the impacts of service contract management on fiscal responsibility in the local governments of Nepal. It presented an evident and stable trend based on audit data, a national survey, and qualitative evidence. There are less audit irregularities in local governments which adhere to transparent recruitment, renewal contracts written, and renewed. In places of inadequate practices, there is increased fiscal risk.

Local government has taken the form of a contract employment. Local governments are strongly dependent on contract staff to service essential positions. This dependency has increased more rapidly than systems, rules, and controls, however. Consequently, numerous units experience unregistered payments, unofficial renewals and poor internal controls. These loopholes directly translate to increased arrears in the audits and financial discipline.

The correlation validates that quality of contract management and financial anomalies have a strong negative correlation. Less audit risks can be achieved better management. This observation is true in correlation and regression analysis. It is also consistent with the qualitative data of officials and staff. Authorities admit that it is necessary to hire contract workers to work, and employees complain about the lack of security, discriminatory treatment, and ambiguous conditions. These circumstances undermine the drive and responsibility.

Governance wise, the results support the main concepts of the contract theory, public accountability theory, and human resource management. Incomplete contracts, ineffective oversight and documentation of the same, all violate the chain of accountability and leave room to misuse government funds. Simultaneously, discriminatory and unstable working terms decrease employee loyalty and productivity.

Enhanced service contract management is not a technicality, therefore. It is a core reform priority. Fiscal risk can be mitigated with the help of clear rules, digital records, fair employment standards, and enhanced oversight, which will boost the morale of the staff and enhance confidence in the local governments. The facts provide evidence of urgency in terms of the federal, provincial, and local institutions to professionalize service contract systems as a component of more extensive public financial management reforms.

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