Unofficial Translation

The Auditor General's Fifty-fifth Annual Report 2018

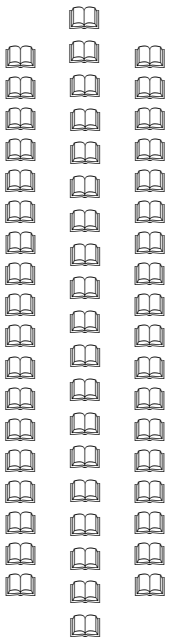
Summary Report



Office of the Auditor General
Kathmandu, Nepal.

The Auditor General's Fifty-Fifth Annual Report, 2018

Summary Report



Office of the Auditor General
Kathmandu, Nepal.

Serving the Nation and the People

Vision

We strive to be a credible institution in promoting accountability, transparency and integrity for the benefit of the people

Mission

Provide independent and quality audit service to assure our stakeholders that the public funds are efficiently used

Core Values

Integrity

Independence

Professionalism

Transparency

Accountability

Preface

The Constitution of Nepal mandates the Auditor General to conduct the statutory audit of all government offices of federation, states & local levels, and wholly-owned corporate bodies by federal or state government in consideration with regularity, economy, efficiency, effectiveness and propriety thereof. This Fifty-fifth Annual Report has been prepared, within almost 11 months of my tenure after assuming office as an Auditor General, incorporating the findings and recommendations witnessed on the this year's (2016/17) audits of financial transactions of 6 thousand 616 entities and the audit backlogs of prior to this fiscal year. In the course of the audits and in the preparation of audit reports, the practices adopted by this office in the past, international practices, and standards adopted by International Organization of Supreme Audit Institution (INTOSAI) and Asian Organization of Supreme Audit Institution (ASOSAI) have been followed. In order to acknowledge the people on the works performed by the public entities by an independent an impartial analysis, this Summary Report has been prepared by consisting significant issues of the Annual Report .

This year, the total amount of NRs. 4 trillion 687 billion 910 million has been audited comprising of the transactions of government entities, corporate bodies, local Bodies/levels and District Development/Coordination Committees, and total irregularity of NRs. 94 billion 820 million or 5.41 percent has been noticed from the audits of NRs. 1 trillion 752 billion 930 million of 4 thousand 812 government entities. Pursuant to 744 local levels including then 3,374 local bodies, the total amount of NRs. 180 billion 310 million of 738 local levels has been audited, and irregularities of NRs. 14 billion 250 million or 7.90 percent have been witnessed. During this year, the total of NRs. 2 trillion 754 billion 670 million has also been audited pursuant to public enterprises, District Development Committees and other institutions. In addition, the consultations for audits have been provided to 21 public enterprises.

Out of outstanding irregularities up to previous years' NRs. 222 billion 530 million, NRs. 169 billion 620 million has remained as outstanding after settlement of NRs. 52 billion 910 million during this year, and the total outstanding irregularity of NRs. 290 billion 530 million has been stood at with the addition of this year's irregularity NRs. 120 billion 910 million. This year, the recovery of NRs. 14.9 billion has been made during audits and follow-up audits. Total amount of irregularities that require to be recovered and to be settled through required action has totalled NRs. 500 billion 80 million at the end of this year that was remained at NRs. 396 billion 260 million up to last year,.

In course of auditing, weaknesses & lacunae have been witnessed pertaining to compliance with laws, internal control arrangements, safeguards of government properties, receipts & application of resources & means, budget management & certainty of funding, mobilization of foreign aid, revenue receipts, public procurement management, project management, approval & implementation of programs, grant disbursement and its monitoring, reconstruction and rehabilitation, conservation of natural resources & cultural heritages, service delivery, among other. Pertinent suggestions/ recommendations have been provided in this report to make improvements in the areas of public administration, financial administration, promotion of accountability & transparency and service delivery in addition to the above mentioned weaknesses & lacunae observed in course of audits. We do believe that implementation of these recommendations would help in maintaining fiscal discipline in public administration.

As per the Constitution of Nepal, following the transformation of the country in federal structure, people-elected governments have been formed in federation, states and local levels. Huge resource gaps are expected pursuant to budgetary management as development works, service delivery and administrative expenses are required to be undertaken by these threetiers government. Such gaps could be bridged only if available government resources are economically & efficiently mobilized for the essential activities to be performed by the governments, and external sources along with private sector are mobilized for the rest of services & works to be performed.

Finally, in course of accomplishment of constitutional responsibility, I would like to express my gratitude towards all concerned inclusive of Legislature-Parliament, Constitutional Bodies, all entities of Government of Nepal, public enterprises, Audit Advisory Committee, development partners, civil society, media persons, general public among other; for their supports by providing suggestions in preparation of this Audit Report. In addition, I would like to extend a very special thanks to all staff of my office for their valuable contributions in preparation of this report by timely completion of audit works through their round the clock engagement into it.

(Tankamani Sharma, Dangal)
Auditor General

Auditor General
Of Nepal

Babar Mahal, Kathmandu
Nepal

Summary Report

In accordance with Article 241 of the Constitution of Nepal, the Fifty-fifth Annual Report has been submitted today to the Rt. Honourable President of Nepal. The Report has been made public through the official website- on www.oagnep.gov.np of this office.

This report has been published as a Summary extracted from the Fifty-fifth Annual Report with a view to enhance financial accountability & transparency by acknowledging general public about the results of the country's public fiscal affairs noted through the way of audits.

12 April, 2018

(Tankamani Sharma, Dangal)
Auditor General

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Auditor General's Annual Report, 2018
Summary Report

1. Background

1. **Legal Provision** – Under the Article 241 of the Constitution of Nepal, the Auditor General (AG) has been mandated to carry out the audits of all government offices of the federation and states, local levels and other institutions in accordance with the methods as prescribed by law with due regard to, inter alia, the regularity, economy, efficiency, effectiveness and the propriety thereof; and all Constitutional Bodies are required to submit their annual reports to the President in accordance with the Article 294 of the Constitution. The Audit Act, 1991 (First Amendment) stipulates the methodology, scope and the matters to be audited by the Auditor General, and the audit matters pertaining to the wholly and substantially owned corporate bodies by the Government of Nepal. Audits have been carried out in conformity with the legal mandate as conferred by the Constitution and the Audit Act.

2. **Objectives–** The objective of audit was to provide appropriate conclusions & recommendations with assurance on the following matters, by examining with due consideration to regularity, economy, efficiency, effectiveness and propriety thereof pursuant to acquisition and utilization of public resources, and give reasonable assurances on the financial statements:

- Financial statement has been prepared in the prescribed formats and transactions are presented in true and fair manner,
- Expenditure has been incurred only for the very purpose and specified task within the limit approved for as set by Appropriation Act,
- All receipts including revenue are properly collected and deposited,
- Adequate arrangements have been made for maintaining records of government property, its usage and safeguarding,
- Arrangements for internal control and internal audit are effective,
- Financial transactions are conducted complying with laws and supporting evidences have been sufficiently maintained,
- The progress is achieved as per the program within the specified time frame,
- Services have delivered by the public entities as specified,
- Target and progress as per approved program of public entities have been achieved, and
- Accountability and responsibility have been assumed.

3. **Scope** - In this year, Audit has been carried out of the financial transactions of fiscal year 2016/17 (2073/74) and audit backlogs of accounts of prior to the year to the extent submitted, has been carried out by covering all Government Offices, Corporate Bodies, Committees, Boards, Trust/Funds, Authorities and Universities, other institutions as prescribed by law. The financial audit as well as the performance, information & technology, environmental and concurrent audits have been carried out in conformity with the approved annual plan. When

assessing service delivery and other necessary subject matters, data and information have been taken up to the audit period.

4. **Methodology** - Audits have been completed in compliance with Audit Act, 1991, Government Auditing Standard, Founding Principles adopted by the International Organization of Supreme Audit Institution (INTOSAI), audit guidelines and the best audit practices. The audits also include the use of test of controls and conducting analysis for the identified subjects after performing the risk assessment, and the application of sampling techniques and detailed examination procedures, as deemed necessary, to collect sufficient and appropriate evidences. The audit process has been depicted in the chart.



5. **Audit Criteria** - In course of the audit, prevalent laws, Rules, Guidelines, procedures, norms, agreement, administrative decisions, decisions of the Parliament and Parliamentary Committees have been taken as the criteria. The auditing standards and guidelines being used are given below:

▪ Auditor General's Action Plan	▪ Government Auditing Policy Standards
▪ Audit Guide of Project Financial Statements	▪ Public Procurement Audit Guidelines
▪ Performance Auditing Guide	▪ Administrative Expenditures Audit Guide
▪ Guidelines for the Audit of Public Enterprises	▪ Revenue Audit Guidelines
▪ Audit related Directives and Circulars	▪ Local Level Audit Guidelines
▪ Quality Assurance Handbook	▪ Auditor's Code of Ethics
▪ Financial Audit Manual	▪ Participatory Audit Procedures

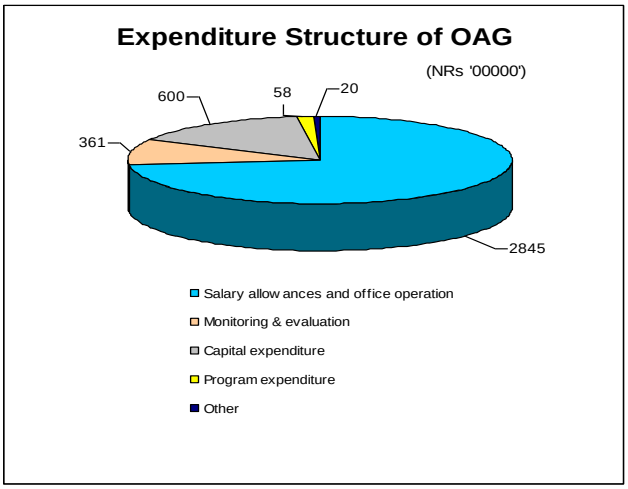
6. **Quality Control and Review** - The Office has adopted internationally developed the Quality Management Framework for a Supreme Audit Institution. This framework includes the arrangements in pursuant to promoting of the auditors' independency, enhancing auditors' professional knowledge and skills continuously by hiring the capable & competent staffs, developing the auditing standards & guidelines, and audit execution & reporting by preparing annual plan. The audit works have been supervised by senior-level officials on every phase of audit, and monitoring are being carried out in respect to adherence to code of Ethics and internal control activities. With maximum use of available office resources and maintaining work-relationship with the stakeholders, a system of communicating the audit results has been established for the improvement of public financial management.

After the completion of audits, the post quality review of 48 files has been undertaken in accordance with Quality Assurance Handbook covering every file of all directorates, each audit teams and each audit types. In addition, the reviews of audit files on the basis one file of each audit team have been undertaken for the purpose of evaluation of the Performance based Incentive System.

7. **Organizational Management and Budget** - Under the office's approved organization structure, there are 4 Divisions, 14 Departments and 27 Sector-wise Directorates. There is a

practice of conducting one hundred percent field-based audit of the offices by sending the office's staffs in the offices existed throughout the country. The office has 448 approved positions. The office's available human resources are more confined with accounts & audit related subjects, but lack multi-disciplinary skills and have little opportunity for the professional capacity development. Subject related specialists (Health Expert, Economist, Sociologist, IT Expert, Engineer, Press & Information Expert etc.) are needed for the purpose of the audits. In view of addition of the responsibility of conducting audit of states and local level and non-review of the office's organizational position since the last 24 years, the Organization & Management (O&M) Survey of the office has been undertaken recently for the expansion of the office's organizational set up in states, and the organizational positions as per the survey are under phase of approving. Legal provisions are to be framed for strict adherence of the Code of Ethics and give continuity of the existing incentive system with reviews in order to make the auditors free from the pressures, influences and allurement.

Of the total allocated budget Rs.535.9 million in fiscal year 2016/17 (2073/74), NRs.388.4 million has been expended. Details of expenditure have been depicted in the graph picture. As presented, the percentages of expenses incurred on training and capital expenditure against the office's total allocated budget have stood 0.51 percent and 15.45 percent respectively. When compared the office's expenses of the fiscal year 2016/17 with the corresponding total figure NRs.1 trillion 113 billion 415 million that audited by the office's human resources, the audit cost per one-hundred thousand Rupees comes to NRs. 8.28.



8. **Effect of Audit** - For promoting public interests, the office is playing the role of a whippier or warner through the medium of the audits in the event of conduct of financial transaction against the prevalent laws, prevalence of lacunae & weaknesses in delivery of services to people by the public entities, and implementation aspect of public policies by highlighting matters with purview of regularity, economy, efficiency, effectiveness and propriety thereof. Consequently, it has contributed in prevention of misspending, misuse, loss & damage and checking of leakages of states resources, and has also contributed in maximization of returns from the usage of means & resources. As a result of subject matters highlighted by the office, misused public monies are being recovered and deposited in the Consolidated Fund, and additional revenues are being received to state's coffer as a result of improvement in laws, rules, policies and organizational reforms. From this, it has brought economy & efficiency in public expenditure and effectiveness in delivery of services to people. Thus, the contribution of the auditors has remained vital in maintaining fiscal discipline.

Revenues have been deposited in the state's coffer every year after the pointing out of audit observations for recovery as regards to short collection of revenues, monies kept in various Funds without use, excess payment made and expenses incurred without complying

with the prevailing laws. The comparative statement of the recovered amounts during the previous three years has been stated below:

(NRs. in Millions)

Report	Recoverable Irregularity Amount	Recovered Amount
Fifty-third Report	4,870.40	2,572.80
Fifty-fourth Report	41,386.70	2,089.70
Fifty-fifth Report	18,707.90	14,091.10

2. Audit, Regularity and Follow-up Audit

1. **Audit** - This year, the office has performed audits as follows:

1.1 This year, audits of 4 thousand 812 government offices amounting to NRs.1 trillion 752.93 billion have been carried out inclusive of appropriation, revenue and deposit accounts as follows:

(NRs. in Billions)

S.No.	Transaction	Audited Figure of 2016/17
1.	Appropriation Disbursement (Release)	838.77
2.	Revenue Recovery	603.73
3.	Deposit Receipt	34.29
4.	Others	276.14
	Total	1,752.93

1.2 **Audit of Local Level** - This year, audits of NRs. 180.31 billion of 738 local levels have been completed inclusive of 6 metropolitans, 11 sub-metropolitans, 275 municipalities and 446 rural municipalities (village bodies).

1.3 **Corporate Bodies, Boards and other institutions** - This year, audits of NRs.2 trillion 401.64 billion of 85 corporate bodies, NRs. 138.81 billion of 897 boards and other institutions and NRs. 214.22 billion of 75 District Coordination Committees (DCCs) have been completed.

1.4 **Performance and Special Audit**- This year, performance audits of 7 topics, environment audit of one topic, and information technology (IT) - based audit of one software have been completed.

1.5 **Audit Backlog -** Pursuant to government offices, the audit backlog as of this year has reached NRs. 3.380 billion of 2,899 units, clearing NRs. 1.926 billion of 26 units through audit during this year, as compared to NRs. 5.306 billion of 2,925 units up to previous year. Likewise, in case of corporate bodies, this audit backlog as of this year has stood 43 financial years of 8 institutions as compared to 53 financial years of 21 institutions as of previous year.

2. **Irregularity** — Section 2 (da) of Financial Procedures Act (FPA), 1999 (2055) defines irregularity as a financial transaction carried out without fulfilling such requirements as to be fulfilled in accordance with the prevailing law or accounts as to be maintained has not been maintained and a transaction which has been carried out in an irregular or unreasonable manner. Irregularity status that observed from this year's audit are as follows:

2.1 The cumulative amount to be settled by the audited entities inclusive of recovery requirements has reached to NRs. 500.08 billion this year as compared to NRs. 396 billion 266 million of the previous year. This amount has increased by 26.26 percent as compared to amount of last year.

(NRs. in billions)

S.N.	Particulars	Amount
1	Irregularities of Government Offices	213.67
2	Irregularities of District Coordination Committees, Other Institutions and Committees	62.61
3	Irregularities of Local Levels	14.25
4	Audit Backlogs	3.38
5	Revenue Arrears	161.16
6	Foreign Grant to be reimbursed	20.58
7	Foreign Loan to be reimbursed	22.38
8	Overdue Principal and Interest of Guaranteed loans	2.05
	Total	**500.08**

Note: *As the records of irregularities of audited corporate bodies are not maintained and their follow-up audits are not conducted by this Office, such figures of corporate bodies have not been included in the above figures.*

2.2 The comparative status of audited figure and irregularity figure of the government offices of last 3 years are as follows:

(NRs. in millions)

Report	Audited Figure	Irregularity	Percent
Fifty-third	1,043,238.4	48,778.8	4.67
Fifty-fourth	1,295,449.2	88,855.9	6.68
Fifty-fifth	1,752,923.8	94,815.4	5.41

The irregularity figure as compared to audited figures, which appeared 6.86 percent in previous year, has stood 5.41 percent in this year.

3. **Classification of Irregularities** - Irregularities are categorized into recoverable, irregular (non-compliance), evidence/document not submitted, reimbursements not received, and advances outstanding. Advances are grouped into staff advances, mobilization advances, Letter of credit (LC) advances and institutional advances. The irregularity figure pointed out by the audits pertaining to government offices, committees and other institutions are as follows:

(NRs. in millions)

Classification	Government offices	Local levels	Boards & other Institutions	Total	Percent of total irregularity
Total irregularity	**94,815.4**	**14,246.0**	**11,848.7**	**120,910.1**	**100.00**
1. Recoverable	**17,259.4**	**702.4**	**746.1**	**18,707.9**	**15.47**
2. To be regularized	**33,350.7**	**7,469.5**	**7,898.5**	**48,718.7**	**40.29**
Irregular (non-compliance)	7,469.6		3,897.7	11,367.3	9.40
Evidences/documents not submitted (Unsubstantiated)	25,876.2		3,518.8	29,395.0	24.31
Balance not brought forward	0.3		209.1	209.4	0.17
Reimbursements not received	4.6		272.9	277.5	0.23

3. Advance	**44,205.3**	**6,074.1**	**3,204.1**	**53,483.5**	**44.23**
Staff Advance	412.3		98.9	511.2	0.42
Mobilization Advance	24,578.6			24,578.6	20.33
Letter of Credit (LC) Advance	7,279.6			7279.6	6.02
Institutional Advance	11,934.8		3,105.2	15,040.0	12.44

4. **Clearance of Irregularities**- The status of irregularity clearance including settlement through follow up audits are as follows:

(NRs. in millions)

Description	Previous years' Irregularity	Adjustment plus (minus)	Cleared/ Settled	Irregularity of Current year	Cumulative Outstanding Irregularity
Government Offices	167,492.6	220.4	48,860.5	94,815.4	213,667.9
Corporate bodies, Boards, other Institutions	54,399.8	419.2	4,054.9	11,848.7	62,612.8
Local Levels	0	0	0	14,246.0	14,246.0
Total	**221,892.4**	**639.6**	**52,915.4**	**120,910.1**	**290,526.7**

Of the government offices' total irregularities NRs. 48 billion 860 million cleared/settled in this year, the amounts cleared through follow up audits by ministries - Water Supply, Urban Development, Irrigation, and Physical Infrastructure & Transportation has stood NRs. 13 billion 32 million. Of the irregularity cleared through follow up audit, the share of mobilization advances settled is NRs. 9 billion 648 million, which is 74.04 percent. Such advances are automatically cleared while making payments of interim bills of the construction works. Except this, the concerned entities have not given adequate attention in settlement of other types of irregularities. Out of the irregularity records as of 2002/2003 that handed over to Kumari Chowk and Kendriya Tahasil Karyalaya (Central Recovery Office) as per 2012/09/27 (2069/6/11) decision of Council of Ministers, NRs. 162milliom has been cleared.

3. Glimpses of Some Audit Observations

1. **Public Accountability Status** - Pursuant to compliance with public accountability, the issues observed by the audits, have been presented in brief as mentioned below:



Economic Indicators and Income-Expenditure

2. **Overall Economic Situation -** It is essential to make improvements in overall economic indicators to transform the country into a middle income country by 2030 (2087) through achieving the goals of sustainable development. While studying the implementation status of the policies adopted by the Ministry of Finance in pursuant to this, the situations of 2015/16 (2072/73) (last year of Thirteenth Plan) and 2016/17 (2073/74) (starting year of Fourteenth Plan) are as follows:

(In Percentage)

Particulars	2015/16 (2072/73)		2016/17 (2073/74)	
	Target as per Thirteenth Plan	Achievement	Target as per Fourteenth Plan	Achievement
Economic Growth Rate	6.00	0.77	7.20	6.94
Inflation Rate	7.00	9.90	7.50	5.10
Total Revenue/Gross Domestic Product (GDP)	21.10	20.50	19.57	22.30
Total Expenditure/GDP	25.06	31.20	32.12	31.59
Recurrent Expenditure/GDP	18.63	19.30	22.00	23.67
Capital Expenditure / GDP	6.44	7.10	10.12	7.92
Foreign Grant / GDP	3.37	3.00	3.76	1.52
Foreign Loan / GDP	2.54	2.60	6.85	1.48
Domestic Loan GDP	2.25	3.90	2.28	3.36
Trade Deficit/ GDP	-32.10	-31.8	-32	-34.40
Remittance Income/ GDP	not available	32.10	32.28	26.90
Total Consumption/ GDP	91.10	94.70	93	89.70
Gross National Saving/ GDP	not available	5.30	10.50	10.30
Export/ GDP	4.70	3.30	3.50	3.00
Import/ GDP	36.75	35.10	35.51	37.40
Budget Deficit/ GDP	0.59	7.60	7	6.5

Source*: Fourteenth Three year Plan and Economic Survey 2017 (2074), Nepal Rastra Bank.*

2.1 The ratio of trade deficit on GDP has reached to 34.4 percent in this year in comparison to 32 percent of previous year owing to high import and low export. Pursuant to international trade, the import to various goods which figured NRs. 781.15 billion in 2015/16, has reached to NRs. 985.95 billion in 2016/17 with a rise by 26.22 percent. As regards to export, the goods export which figured NRs. 71.13 billion in 2015/16, has reached to NRs. 73.13 billion in 2016/17. When compared the two year figures, the export growth rate becomes 2.79 percent. With the rapid rise in import and low rate of growth in export, the trade deficit has reached to NRs. 912.83 billion up to end of 2016/17. The analysis import-export shows that the import of unproductive and luxury type of goods like- gold, silver, vehicles, petroleum products has surged up 20 to 77 percent. The export of goods having unique identification of Nepal like - woolen carpets, readymade garments, cardamom and ginger has declined to 9 to 62 percent. The import, which was 9.1 times more than the exports in fiscal year 2014/15 (2071/72), has increased by 13.5 times more in this year which affected in the balance of payment of the country.

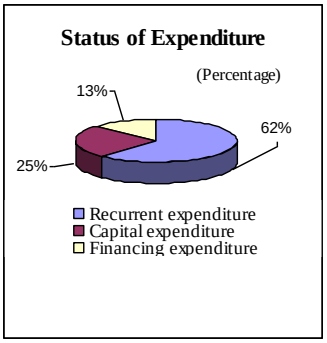
The remittance income in comparison to GDP has dropped from 32.01 percent to 26.9 percent. As against the target set to make the capital expenditure/GDP ratio 10.12 percent, it has stood 7.92 percent only.

3. **Income-Expenditure Situation -** The status of income-expenditure of the Government of Nepal of previous three years as per Financial Comptroller General Office are as follows:

(NRs. in billions)

Description	2014/15 (2071/72)	2015/16 (2072/73)	2016/17 (2073/74)	
			Estimate	Actual
Total Revenue	413.93	498.91	575.89	615.47
Tax Revenue	355.95	421.09	510.59	553.80
Non-Tax Revenue	49.91	60.86	55.30	55.31
Principal Repayment	2.08	13.94	10.00	2.94
Others	5.98	3.26	0.0	3.41
Foreign Grants	38.27	39.54	106.90	40.82
Foreign Loans	25.62	33.23	195.71	59.02
Domestic Loans	42.42	87.59	111.00	87.53
Total Income	520.24	659.27	989.51	802.84
Recurrent Expenditure	339.41	371.29	617.16	518.62
Capital Expenditure	88.84	123.25	311.94	208.75
Financing Expenditure	103.31	106.46	119.81	109.88
Total Expenditure	531.56	601.01	1,048.92	837.25
Surplus (Deficit)	-11.32	58.26	-59.41	-34.41

Of the total expenditure, the recurrent expenditure, capital expenditure and financing expenditure has remained 61.94, 24.93 and 13.13 percent respectively, which are also shown in graph picture.



The recurrent expenditure occupies a huge share of government expenditure. As the revenue and recurrent expenditure of 2016/17 has increased by 39.13 percent and 81.83 percent respectively as compared to 2014/15, an effort should be made to make the recurrent expenditure economical.

4. Government's Spending Capacity - The government has been collecting revenues every year almost par to revenue estimate, but the actual expenditure as compared to budget estimate has been appearing 73 to 86 percent only, which exhibits a situation of weak capacity to mobilize the government resources, and lack of the prudent budget estimation system. The status of the government's revenue collection and expenditure of previous three years has been given below:

(NRs. in Tens of millions)

Fiscal year	Budget Appropriation		Percent	Capital Expenditure		Percent	Revenue		Percent
	Estimate	Actual		Estimate	Actual		Estimate	Actual	
2014/15	61810	53156	86.00	11675	8884	76.09	42475	41393	97.45
2015/16	81947	60101	73.34	20888	12325	59.00	50196	49892	99.39
2016/17	104892	83725	79.82	31194	20875	66.92	57589	61547	106.87

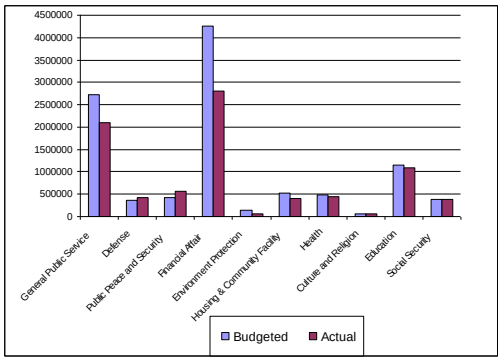
5. **Expenditure Head-wise Analysis** - Details of main head-wise expenditure and matters observed thereon are as follows:

(NRs. in millions)

Name of Expenditure headings	Actual Expenditure of 2014/15	Actual Expenditure of 2015/16	2016/17			
			Annual Estimate	Expenditure	Expenditure percent in comparison to annual estimate	Expenditure percent in comparison to total expenditure
Recurrent Expenditure		371,294.9	617,164.1	518,616.1	84.03	100.00
Remuneration Service	88,543.2	89,268.2	132,331.7	118,835.4	89.80	22.91
Retirement Facilities	34,401.1	35,762.4	58,020.5	47,622.8	82.08	9.18
Program related Exps	14,947.9	19,771.3	39,487.3	24,660.2	62.45	4.76
Foreign loan Interest	3,034.2	18,614.7	5,360.9	3,263.5	60.88	0.63
Domestic loan Interest	6,229.0	50,335.0	17,328.4	6,760.2	39.01	1.30
Grants to Local levels	32,998.0	33,858.4	49,785.0	54,736.9	109.95	10.55
Social Service Grants	124,273.4	185.2	211,462.4	189,011.1	89.38	36.45
Social Security	14,157.0	19,019.2	35,637.1	37,616.1	105.55	7.25
Capital Expenditure		123,251.4	311,946.3	208,748.3	66.92	100.00
Vehicles	2,713.3	2,119.7	3,054.7	6,713.4	219.	3.22
Machinery Tools	5,164.4	5,153.2	10,831.7	7,704.3	71.1	3.69
Civil Works	64,990.3	88,664.8	180,199.0	151,455.2	84.	72.55
Financing Arrangement		106,467.0	119,810.9	109,883.3	91.71	100.00
Loan Investment	28,339.0	24,816.6	53,644.6	29,000.9	54.	26.39
Share Investment	10,510.4	12,700.8	22,690.5	19,617.8	86.	17.85
Foreign Loan	17,027.9	18,614.7	25,467.1	22,703.2	89.15	20.66
Domestic Loan	47,430.0	50,334.9	18,008.7	38,561.4	214.13	35.09

5.1 The main portion of the government budget has been expended in employee's salary, allowances and retirement facilities. The share of such expenses represents 22.91 percent of this year's total expenditure. It is also observed that such expenses have also been borne from the recurrent grants that were being provided to local levels & other entities, committees and boards. Since the share of recurrent grants that granted to the entities, occupies 10.55 percent of total expenditure, the share of employee's remuneration and retirement facilities on total expenditure will appear furthermore.

5.2 While analyzing budget on the basis of sector-wise, it is noticed that the expenses inclusive of infrastructure construction, economic affairs & their service delivery related expenses, and education, health & their service delivery related expenses have declined as compared to the estimate, whereas the defense, public peace & security related expenses have inclined in comparison to the estimate. Decrease in infrastructure & its service related expenses and increase in defense, peace & security expenses cannot be considered appropriate.



5.3 Of the total recurrent expenditure, the unconditional & conditional grants expenses have appeared 54.25 percent inclusive of local level grant 10.55 percent, social service grant 36.45 percent and social security grant 7.25 percent. As all type of grants are recorded in recurrent expenditure but some of them are also expended for the capital generating purposes, the classification of recurrent expenditure and capital expenditure is becoming unrealistic. There has been a situation that all grants provided to concerned entities, committees and other institutions are being shown as expenditure despite of non-utilization. Since the grants amounting to NRs. 124.57 billion provided to various committees and boards for

capital generating purposes are recorded in recurrent expenditure, the capital expenditure has also been found unrealistic.

5.4 In pursuant to appropriation of NRs, 3 billion 54.7 million for the purchase of vehicles under capital expenditure, the budget has been revised to NRs. 6 billion 713.4 million (219.77percent) along with increment through virement. When compared this year's vehicle expenses with the corresponding NRs. 1.17 billion of 2012/13 (2069/70), an increment is noticed by 6 times during 5 years period. Except the amount, expenditure of NRs. 714.1 million has also been incurred this year for the same purpose through making procurement under contingency budget of various projects and items included in construction contracts, and thus, this year's total expenses incurred on vehicle purchase has been NRs. 7 billion 427.5 million. Hence, such type of unproductive expenses should be controlled.

5.5 As against this year's appropriation of NRs. 18 billion 8.7 million for the payment of principal of domestic loans, NRs. 38 billion 560 million (214.13 percent) has been expended. In the absence of budget appropriation as per the amortized schedules of principal repayment of foreign and domestic loans, such expenses have been expended either in more or little than the allocated budgets as per the availability fund balances. Since this practice is not in conformity with the budget principle, such expenses should be incurred only on the basis of appropriation of necessary budgets.

6. **Revenue Arrears -** Revenue arrears have been increasing every year. In comparison of previous year's figure NRs. 132.18 billion, it has increased to NRs. 161.16 billion in this year with an increment by 22 percent. Out of the figure, the overdue principal & interest alone constitutes NRs. 65.23 billion. Of the amount, major arrears include NRs. 30.98 billion of Nepal Electricity Authority, NRs. 4.50 billion of Nepal Water Supply Corporation, and NRs. 3.35 billion of Kathmandu Valley Water Supply Management Board.

Revenues have not been recovered due to delay in tax assessment for the cases of tax leakages and evasion of capital gain tax and other probable taxes. There has been no activeness in the recovery of determined taxes. As a result, the tax arrears of Inland Revenue Department as of 2016/17 have reached NRs. 79.40 billion. Of the arrears, the cases have been gone for appeals in pursuant to NRs. 42.15 billion (53 percent). To recover all revenue arrears, effectiveness in recovery should be brought taking actions as per prevalent laws.

Accuracy of public Accounts

7. **Consolidated Fund** - As per the Statement of Consolidated Fund submitted by the Financial Comptroller General Office, the refund of loan investment of this year has been stated NRs. 2 billion 940 million in comparison to NRs. 13 billion 694 million of previous year. Out of the amount, the principal refund from Nepal Electricity Authority constitutes NRs. 1.67 billion. In comparison to last year's figures, the foreign loan and foreign grant have increased by 42.76 percent and 6.46 percent respectively. Other issues observed by the audits relating to this are as follows:

7.1 The Government of Nepal has been maintaining government accounts on the basis of cash basis system. However, annual balance of the Consolidated Fund has been shown as negative (deficit). The balance of the government fund, which figured negative by NRs. 22 billion 651.6 million up to last year, has surged to negative of NRs. 71 billion 261.6 million up to this year with a growth of NRs. 48 billion 610 million in the year. In the financial statement of the Consolidated Fund that prepared based on cash basis system, negative balances have been shown, and as such, the financial statement has not been represented the true picture. Hence, accounts pertaining to this should be verified and reconciled.

7.2 In financial statement of the Consolidated Fund, the foreign loan has been shown NRs. 39 billion 154.5 million. However, in the central treasury account prepared by the Nepal Rastra Bank, the foreign loan receipt is shown as NRs. 47 billion 806.5 million. Thus, in the financial statement submitted by the Financial Comptroller General Office and central treasury account presented by the Nepal Rastra Bank, a difference of NRs. 8 billion 652 million in foreign loan receipt has been witnessed. The cause of the difference should be verified and the accounts should be reconciled accordingly.

7.3 In financial statement of the Consolidated Fund, foreign grant of NRs. 40 billion 265.5 million has been shown as income. Likewise, Nepal Rastra Bank has shown this year's foreign grant receipt NRs. 14 billion 476.8 million. Since a difference of NRs. 17 billion 455.5 million is observed in foreign grant receipt between the accounts of the Consolidated Fund (excluding direct grant and commodity assistance) and Nepal Rastra Bank, the accounts should be verified and reconciled.

7.4 The Financial Comptroller General Office has not still prepared the formats of the Consolidated Fund Account and has not submitted the same to Office of the Auditor General for getting necessary approval. The Office has not prepared necessary annexures and has not maintained the subsidiary accounts to support the items shown in the Fund Account. Hence, the Office, on the basis of prevailing laws and good practices, should develop a standard format of the Consolidated Fund Account and get approval for such format.

8. **Nepal Financial Reporting Standards** - The Institute of Chartered Accountants of NepaI has taken a decision on 2013/09/13 (2070/05/28) to implement the Nepal Financial Reporting Standards (NFRS) that prepared by the Accounting Standard Board of Nepal. As per decision, the Nepal Financial Reporting Standards are required to be implemented 2014/15 onwards by the multi-national companies, manufacturing companies and state-owned & listed enterprises (except banks & financial institutions) having paid up capital minimum of NRs 5 billion, by all commercial banks & enterprises from 2015/16 onwards and rest of all companies and enterprises from 2016/17 onwards, however, those standards have not been yet adopted by all corporate bodies. Out of 28 commercial banks that are operating, 27 commercial banks have not prepared financial statement in compliance with the standards, and the concerned auditors have also issued qualified audit opinions on financial statements such banks. Despite of prevalence of such situation, the Nepal Rastra Bank has granted the permission to the commercial banks for distributing dividends.

Pursuant to this, the monitoring carried out by the regulating agencies, such as - Company Registrar Office, Nepal Rastra Bank, Insurance Board, Security Board etc. have also been witnessed ineffective.

9. **Bank Account** - The books of account of 2014/15 of Nepal Tourism Board have shown the bank balance in a bank of NRs. 115.1 million, but the bank statement has shown a balance of NRs. 5.2 million only. Although the board has shown the balance of NRs. 386.3 million in another bank as per books of account, it has not obtained any bank statements. With respect to these balances, necessary verification and settlement of account should be done.

10. **Quality of Gold & Silver** - With regards to the records of 2 thousand 615 KG gold and 126 thousand 190 KG silver stock existed in Nepal Rastra Bank, the touch numbers in records are required to be provided in accordance with the purity of materials, but only weight and price of total stock have been mentioned. Physical verification of such gold & silver stocks has also not been carried out.

11. **Subsidiary Loan Agreement** - Nepal Electricity Authority, pursuant to the accrued interest NRs. 35.58 billion with respect to loans amounting to NRs. 110.68 billion borrowed from various donors agencies, foreign banks and financial institutions by making subsidiary

agreements with the Government of Nepal up to 2016/17, has shown the payment of NRs. 1.75 billion during this year and NRs. 37.38 billion as outstanding balance. However, It has not updated the record of such loans and interests.

Foreign Assistance Mobilization

12. **Receipt and Utilization** - In comparison to the estimate of acquiring the total of NRs. 302.61 billion inclusive of NRs.106.90 billion foreign grant and NRs. 195.71 foreign loan in this year, total of NRs.99.83 billion along with NRs. 40.81 foreign grant and NRs. 59.02 billion foreign loan have been expended. As against this year's budget estimate, only 38.17 percent foreign grant and 30.15 percent foreign loan, and 32.98 percent on overall average have been utilized. From the foreign assistances received, most of expenses are borne for trainings, study tours, vehicle purchases and consultancy services. Observations pertaining this are as follows:

12.1 On donor-wise basis, agreements have been made to acquire NRs. 40.27 billion grant and NRs. 39.15 billion loan from 33 donors. In addition to above figure, even though agreements are made to obtain a total NRs. 5 billion 982.6 million assistance including NRs. 5 billion 432.6 million grant and NRs.550 million loan from 13 different donors inclusive of Switzerland, Germany, Japan and other bi-lateral agencies, the stated grants and loan have not been received. An attention should be given in receiving assistances as per agreement by coordinating with donors.

12.2 As per the statement submitted by Financial Comptroller General Office, the details of ministries that have utilized grant and loan less than 50 percent in 2016/17, are as follows:

(NRs. in millions)

Ministry	Grant			Loan			Total		
	Initial Budget	Receipt	Percent	Initial	Receipt	Percent	Initial	Receipt	Percent
Finance	2264.3	895.7	39.56	–	–	0.00	2264.3	895.7	39.56
Industry	848.3	21.1	2.48	120.3	169	14.4	968.6	38.0	3.92
Energy	299.2	18.2	6.09	3233.7	75.8	2.34	3532.9	94.0	2.66
Home Affairs	2432.3	111.6	4.59	–	–	0.00	2432.3	111.6	4.59
Commerce	748.7	113.8	15.20	314.6	31.0	9.86	1063.3	144.8	13.62
Defense	1224.2	531.5	43.4	10353.2	5209.9	50.32	11577.4	5741.3	49.59
Youth & Sports	12.0	3.4	28.33	–	–	0.00	12.0	3.4	28.14
Population & Environment	3453.1	1044.9	30.26	550.9	161.6	29.34	4004.0	1206.6	30.13
Urban Development	300.0	144.8	48.2			0.00	300.0	144.8	48.26
Irrigation	1130.5	1287.0	113.8	7202.6	2861.6	39.73	8333.1	4148.6	49.78
National Planning Commission	65.0	1.8	2.76	–	–	0.00	65.0	1.8	2.76
Prime Minister & Council of Ministers	36804.3	7611.8	20.68	39379.4	14436.2	36.66	76183.7	22048.0	28.94
Finance- Financing	2723.1	1266.8	46.52	43361.8	6995.6	16.13	46084.9	8262.4	17.93

Based on above statistics, it is witnessed that Ministry of Energy could mobilize 2.66 percent foreign assistance, followed by National Planning Commission 2.76 percent, Ministry of Industry 3.92 percent, and Ministry of Home Affair 4.59 percent. Declining absorptive capacity of foreign assistance has directly affected development works and delivery of services. Hence, the responsible officials of the concerned entity should give attention in maximum mobilization of resources by coordinating with donor on timely basis.

12.3 As per Development Cooperation Report 2017 (2074) published by Ministry of Finance, it is stated that various developing partners & international community have made commitments to provide assistances of USD 4 billion 109.5 million for the reconstruction after earthquake in an

International Donor Conference held in Nepal, but agreements are signed only for equivalent to USD 2 billion 717.4 million (66 percent) only. With regards to mobilization foreign assistances, the work performance and recording system between sectoral ministries and donor need to be improved.

12.4 Although policies pertaining to mobilization of foreign assistance are framed, the receipts and mobilization of assistances have not been channeled through on-window-system. Of the assistances received, 73 percent have been mobilized through national budgetary system, whereas the rest 27 percent are still outside the national budgetary system. Due to this, there has been a situation that monitoring are becoming weak and foreign assistances are mobilized beyond the national requirements. Though the mobilization of foreign assistances is necessary in perspective of capital, knowledge & technology transfer, desirable improvements have not been taken place in its implementation and utilization aspects. Therefore, linking all assistances in one-window-system, arrangements should be made to mobilize the foreign assistance expenditure of non-government organization/institutions only through national budgetary system in the prioritized sectors.

13. **Technical Assistance** - In accordance with Statement of Technical and Other Assistance presented in Legislature-parliament, it is stated that the total technical assistances equivalent to NRs. 25 billion 554 million shall be received to 23 ministries/entities under 133 agreement arrangements. Since these technical assistances have not been included in the central financial statement as per requirements of Section 14 (2) of Financial Procedures Act, 1998 (2055), the picture of the government's overall income and expenditure have not been presented. Though the Public Account Committee has issued the direction for carrying out audits of such technical assistances, the financial statements and books of accounts have not been submitted to this office for carrying out audits of such technical assistances.

Budget Discipline

14. **Accuracy of source** - In accordance with Rule 19(3) of Financial Procedure Rules 2007 (2064), budgets should be prepared on the basis of available financial resources with due consideration to the targets & policies of periodic plan and directives of National Planning Commission. In a situation of having NRs. 22.65 billion negative balance at the end of 2015/16 as per the Consolidated Fund Account submitted by the Financial Comptroller General Office, it is mentioned in this year's budget that NRs. 59.41 billion will be borne from previous year's cash balance. Hence, a difference of NRs. 82.06 has been witnessed while estimating statistics of budget sources, as such, such matters should be given adequate attention while formulating budget.

15. **Ensuring Source** - Rule 35(2) of Financial Procedure Rules 2007 (2064) provides that the competent authority shall release funds for making expenditure only where the amount is within the approved budget and falls under the concerned expenditure heading. Some observations pertaining this are as follows:

15.1 Ministry of Finance has disbursed NRs. 32 billion 555.9 million to various ministries and projects as per their demands from its finance-miscellaneous head, in which lumpsum amount is appropriated in 2016/17. As against Appropriation Act and Financial Procedures Act, 1998 (2055), lumpsum amount has been appropriated in a budget sub-head, and on the basis of the ensuring sources, the amount has been disbursed to many other budget sub-heads on the basis separate decisions time to time.

Against the budget principle and only on the basis of ensuring source, the ministry has issued the letter to various ministries stating the matter that works are to be carried out determining amounts and the budget for incurring expenditure will be assured. Without budget

authorization and approval of the programs, works have been undertaken along with the arrangements of procurement contracts on the basis of such specified amounts. There has been no provision in existing laws for carrying out works only on the basis of the assurance of sources. As per ensuring sources, programs of most of entities are approved at last week of last month (Asadh) of fiscal year, and expenditures have been made through issuing authorizations. But, it could not be assured that what amount of progresses have been achieved from the Ministry's assurance issued at end of fiscal year as against the budget principle.

15.2 Whereas budgets are to be expended on the basis of necessity and conducting monitoring of the status of operational programs, but surplus budgets of projects & programs amounting to NRs. 24 billion 266.8 million have been transferred to various Fund, Boards, Committees and institutions at the year-end through virements and other processes, which has only increased the volume of expenditure. Incurring expenditure at year-end just for retaining budget balance is not appropriate.

15.3 By issuing a circular to subordinate entities on 2017/06/11 (2074/02/28), Department of Roads has given a direction to settle accounts of the annually run roads utilizing the budget within 2016/17 and instructed for not keeping liabilities due citing that the budget of 2017/18 of such roads have been appropriated in the name of local levels. However, liabilities amounting NRs. 23 billion 236 million have been created in respect to such projects for which the consent for assurance of source and making multi-year contract agreement are also being taken.

16. **Authorization at year-end** - Rule 32(2) of Financial Procedure Rules, 2007 provides that annual program and authority to make expenditure should be issued offices within 15 days of beginning of fiscal year. This year, unit offices operating under Ministries- Irrigation, Water Supply, Urban Development, and Physical Infrastructure & Transportation have been provided additional authorities of NRs. 23 billion 0.4 million at last month (Asadh) of fiscal year.

Out of total authorization of NRs. 89 billion 118.4 million provided by the Department of Education to its subordinate offices in this year, the authorization of NRs. 2 billion 512.5 million has been provided at last month (Asadh) of fiscal year. The School Physical Facility Extension Program has been affected due to issuance of late authorization.

As per single treasury account maintained by Financial Comptroller General Office, it is witnessed that NRs. 88.34 billion (42.33 percent) has been expended only in the month of Asadh out of the total capital expenditure NRs. 208.67 billion incurred in this year.

17. **Year-end Expenditure** - Rule 33 of Financial Procedure Rules 2007 provides that the closure of accounts should be done on 25th Asadh prior to end of fiscal year. Of the total appropriated budget NRs.1 trillion 48.92 billion in this year, the expenditure has stood NRs. 831.15 billion, of which NRs. 231.39 (27.83 percent) has been expended in the month of Asadh. Amongst the expenditure, the expenditure of Asadh 25th to 31st is NRs. 117.09 billion, which is 14.08 percent of total expenditure. Of the total budget, NRs. 24.27 billion has been transferred to various heads/subheads after 2017/07/09 (2074/03/25). The virement of 2.32 percent of total expenditure has been done at last week of Asadh. Incurring expenditure at last period of fiscal year against legal provision is not appropriate.

18. **Expenditure in Excess of budget** - Rule 35(2) of Financial Procedure Rules 2007 provides that the competent shall release funds for making expenditure only where the amount is within the approved budget and falls under the concerned expenditure heading and remains to be expended. As against the provision of the Rule, the expenditure of NRs. 965.5 billion has been incurred in various budget sub-heads in excess of their appropriated budgets. In a situation of the implementation of single treasury system, releasing disbursements and making expenditure in excess of appropriated budgets are not in conformity with Appropriation Act.

19. **Virement** - Observations related to virement are as follows:

19.1 The Appropriation Act, 2016 (2073) provides that the Government of Nepal may incur disbursement/ expenditure by making virement of the amount appropriated in one heading not exceeding 10 percentage of appropriation to another heading. Ministry of Finance, while making virement in pursuant to budget appropriated NRs. 705.56 billion in 692 sub-headings, has provided additional NRs. 290.05 billion through virement. Though virements are to be done remaining within limits specified by the law, but the Ministry of Finance, without complying the provision, has made virement in one budget heading up to 21 times, which shows lack of adherence to budgetary discipline. The above mentioned situation has emerged as the Ministry of Finance has transferred budgets of other heads to any amount in the Budget-Head 602 and further transferred the budget of the same head to another budget headings without any limit of amount, citing that the virement ceiling is not applicable to the budget appropriated in between Grant no. 501 (Financing) to 602 (Finance-Miscellaneous). While making the budget estimate, the budgets have not been appropriated for the predictable events such as- certainty about happening of elections, aircraft purchase to Nepal Army under Ministry of Defense etc. The financial accountability has been adversely affected because of incur of expenses in other irrelevant purposes rather than spending in the works or services as approved by the parliament. Hence, the legal provision needs to be revisited.

19.2 Section 8 of Financial Procedure Act, 1999, provides that if there is surplus in one or more than one budget-head specified in Appropriation Act, the Ministry of Finance may make virement in other headings specified in the Act remaining within specified limits. The Ministry of Finance, while making the virement in the Budget Sub-Head No. 6021064, Contingency-Development Programs, has made net budget of the Sub-Head negative by NRs. 165.3 million.

19.3 Pursuant to initial appropriation NRs. 83.83 million for the National Reconstruction Fund under Office of the Prime-minister & Council of Ministers, the net budget has been increased to NRs. 112.58 billion adding NRs. 51.38 billion and deducting NRs. 22.63 billion through viremens, but the budget of only NRs. 49.69 billion has been disbursed. In a situation of not being able to spend the initial budget, the budget has been added and deducted subsequently through virments. Since the net budget changed through virement are also found unspent, such type of budget appropriation and viremens have been witnessed inappropriate.

Making virments at the end of fiscal year as against the provisions of laws and budget principle should be controlled.

20. **Unproductive Expenses** - As per Classification and explanation of expenditure head, the expenses like entertainment, tea party, feast, office security, guest entertainment etc. are to be borne from miscellaneous expenses. As per financial statement submitted by the Financial Comptroller General Office, as compared to budget appropriation of NRs. 1 billion 165 million in miscellaneous expenses, a total of NRs. 6 billion 944.1 million has been expended increasing budget by 596 percent. In spite of the need for controlling such unproductive expenses, more expenses have been incurred adding budget through virements.

21. **Health Tax Fund** - Compared to the collection of NRs. 8.95 billion revenues from excise duty of tobacco related products in 2015/16, this year's programs need be approved and undertaken apportioning a budget of NRs. 2.24 billion at the rate of 25 percent of the above amount, but the budget of only NRs. 665 million has been appropriated and expenditure have been incurred approving programs of NRs. 553.2 million only. From the budget, without setting any specific standard, the authorizations to make expenditure of NRs. 305 million have been issued to B.P Koirala Cancer Hospital, Chitwan, NRs. 90 million to Sahid Gangalal National Heart Center, NRs. 10 million to Medical Science National Academy, and NRs. 441 million to other 6 hospitals. The allocation of the fund should be made preparing standards.

22. **Building Construction** - In accordance with the Government of Nepal's policy of carry on purchasing buildings for the mission under Ministry of Foreign Affairs, the total budget of NRs.

1.95 billion is appropriated in this year, but the budget has remained unutilized. Of the budget appropriated for building purchase, NRs. 166.6 million has been transferred through virement and utilized in purchasing vehicles, furniture, machinery equipment etc. The office rent of the Nepalese missions has been growing every year and has reached NRs. 745.5 million in this year 2016/17. The appropriated budgets are not utilized for purchasing land & building on timely basis, the procuring cost will grow furthermore.

23. **Funds Operation** - Pursuant to last year's balance of NRs. 67 billion 727.4 million of various funds operated under 23 ministries, the total income has figured to NRs. 257 billion 375.4 million in this year along with this year's income NRs. 189 billion 648 million, and there has been closing balance of NRs. 92 billion 820.6 million in the funds incurring expenditure of NRs. 164 billion 554.8 from the income amount. As amounts have been deposited/expended creating the various funds against the budget principle, such income & expenditure have remained out of parliamentary scrutiny.

Loans and Liabilities

24. **Per Capita Debt -** As per the statement submitted by the Financial Comptroller General Office, the accumulated debt liability of the Government of Nepal up to 2016/17 has reached NRs. 697.69 billion, out of which, the domestic debt is NRs. 283.71 billion and foreign debt NRs. 413.98 billion. The total debt amount comes 26.84 percent of GDP of 2016/17, of which domestic debt is 10.91 percent and foreign debt 15.93 percent. If compared the figure with the total estimated population 28 million 729 thousand, the per capita debt liability as of this year becomes NRs. 24 thousand 276.75. The per capita debt liability has increased by NRs. 2,147.34 as compared to previous year.

25. **Pension Liability** - Section 39(B) of Civil Service Act, 1993 (2049) provides that the Government of Nepal shall establish a separate contributory gratuity & pension fund for the purpose of providing gratuity & pension to civil servants that are to be appointed after the specified period. The burden of pension expenses has been growing every year as such fund has been provisioned up to now. The pension expenses have reached NRs. 26.01 billion in 2014/15, NRs. 34.98 billion in 2015/16, and NRs. 37.10 billion in 2016/17. This year, the pension expenditure has stood 4.49 percent of the total expenditure, and 7.19 percent of the recurrent expenditure of the Government. With regards to the increasing pension liability, audit recommendations have been provided since last some years for executing the concept of contributory pension system, however, the system has not been implemented in spite of the commitments expressed by the government through Budget Speeches.

26. **Outstanding Reimbursement -** In accordance with Rule 37, Sub-Rule 3 & 4 of Financial Procedure Rules, 2007, each project, on the basis of agreement reached with donor community, has to conduct monitoring by maintaining the records of reimbursement specifying the amount for which the reimbursement has been requested, the amount which has been disbursed & expended, the amount for which reimbursement has been received from donor, and the outstanding amount yet to be reimbursed. At the end of 2016/17, a total reimbursement of NRs. 42 billion 959.5 million is yet to be received inclusive of loan NRs. 22 billion 378.1 million and grant NRs. 20 billion 581.4 million. The reimbursement outstanding amount has grown by 16.56 percent as compared to the corresponding amount of previous year. Observations relating to this are as follow: –

26.1 As against the previous years' loan reimbursement balance of NRs. 14 billion 337.2 million that expended during succeeding years as reimbursable from foreign loan, the total amount to be reimbursed up to this year has figured NRs. 45 billion 912.2 million along with this year's reimbursable expenditure NRs. 31 billion 575 million, and the outstanding loan reimbursement to be received at the end of this year has reached NRs. 22 billion 378.1 million after deduction

of this year's reimbursement received NRs. 21 billion 871.4 million and the adjustment made NRs. 1 billion 662.8 million. This year's outstanding loan reimbursement has grown by 56.08 percent as compared to previous year.

The major outstanding loan reimbursement includes NRs. 11 billion 605.4 million of Ministry of Finance which relates to investments made in public enterprises, NRs. 9 billion 336.1 million of Ministry of Education, NRs. 5 billion 477.9 million of the Office of the Prime Minister & Council of Ministers, and NRs. 5 billion 213.8 million of Ministry of Federal Affairs & Local Development.

26.2 As compared to the previous years' reimbursement balance NRs. 22 billion 517.6 million, the total amount to be reimbursed up to this year has appeared NRs. 47 billion 276.2 million along with this year's reimbursable expenditure NRs. 24 billion 758.6 million, and grant reimbursement to be received at the end of this year has reached NRs. 20 billion 581.4 million after deduction of this year's received reimbursement NRs. 26 billion 695 million. This year's outstanding grant reimbursement has increased by 8.59 percent as compared to previous year.

Out the outstanding amount for which the grant reimbursement is to be received, the ministries that have higher amount include NRs. 8 billion 566.8 million of Ministry of Education, NRs. 3 billion 596.6 million of Ministry of Health, NRs. 3 billion 384.8 million of Ministry of Federal Affairs & Local Development, NRs. 1 billion 371.4 million of the Office of the Prime Minister & Council of Ministers, and NRs. 709.4 million of Ministry of Agricultural Development. The total outstanding of above 5 ministries becomes NRs. 17 billion 629 million, which is 85.66 percent of the total outstanding grant reimbursement.

26.3 In the statement submitted by the Financial Comptroller General Office, the figures of reimbursement to be received should be positive, but the outstanding reimbursement figures of 21 projects amounting to NRs. 11 billion 399.7 million have been shown as negative, however, the reason for appearing negative balance has not been disclosed. With respect to the previous year's outstanding reimbursement balance of NRs. 1 billion 731.2 million of Ministry of Health, the same figure has been shown in this year as negative balance. Since negative balances have also been shown in respect to closed projects and amounts of such projects are to be deducted from the total outstanding reimbursement, the submitted statement shows no actual status of the outstanding reimbursement.

Loans and Liabilities

27. **Revenue Projection -** Since the analysis of tax rate, overall economic feature, tax elasticity etc. has not been carried out and the indicators of United Nation's Accounting System have not been applied to make revenue estimate realistic, the calculation of Gross Domestic Product (GDP) figure that made on the basis of 2000/2001 bench marking has been becoming lesser, as it fails to cover in national accounting system, the contribution of subject matters such as - emerging transactions of economy, transactions of user committees, transactions of financial cooperative institutions, transactions of education sector consultancy organization, transactions of manpower companies etc. in the economy, have not come under the coverage of national accounting system. Hence, the revenue collection percentage and its growth rate have not been appearing realistic.

There has been a situation where the transactions, the like - open market in border area, under-invoicing in customs & markets, the receipt of remittances from international sector out of banking system, have not been included in national account by formulating specific standards. As per a research paper of International Monetary Fund's, publication "Shadow Economy around the World" 2018 January, the shadow (informal) economy of Nepal is estimated more than one-third. In such situation, it also implies that the existing GDP has not covered all related

transactions. Hence, the revenue projection and target setting should be done on the basis of updated data by conducting the study of shadow economy transactions, and adopting necessary strategies to bring them into formal economy.

28. **Telecommunication Service Fee -** Section 15 of the Finance Act 2016 (2073) provisions that the telecommunication service fee is not applicable in internet services except internet telephone service (V.O.I.P.). In accordance with the provision, a fee of 11 percent is to be levied in the internet telephone service and such amounts should be collected and deposited by the entity that providing the telecommunication services. In Nepal, both the telecommunication service providers as well as internet providers have been providing the internet services. Though the major chuck of internet services of the telecommunication or internet service providers are being delivered through Viber, Messenger, Skype, WhatsApp, We-Chat, Imo, the telecommunication fee in respect to use of these applications have not been collected and recovered.

All technologies transmitting the sound, video from mobile to mobile, laptop to mobile, and laptop to desktop via internet is to be considered as internet telephone service or Voice-Over-Internet-Protocol (V.O.I.P). In the collection of telecommunication & internet service fee NRs. 13 billion 800.5 million that received by the telecommunication and internet service providers, revenues amounting to NRs. 1 billion 715.4 million have not been collected, inclusive of telecommunication service fee NRs. 1 billion 518 million and the applicable value added tax on the amount NRs. 197.4 million. In addition, since the technology to transmit telephone service, photos, videos, television have already begun and greater chuck of this have been used for the purpose of telephoning and entertaining, it is necessary to make reviews of the provision of not collecting telecommunication service fee in the internet service.

29. **Scope of Tax Authority -** As per Section 67 (6) of Income Tax Act 2002 (2058), the payments received by a person who carries a business of transmitting information or news through means of communication such as wire, radio, optical fibre or satellite in respect of transmitting news or information through networks established in Nepal and originated in Nepal, shall be deemed to have source in Nepal. Section 67(6) L (2) of same Act provides that the payments made in respect of activities carried out in Nepal shall be deemed to have source in Nepal. To provide internet telephone service via internet services, the applications the like, Viber, Messenger, Skype, WhatsApp, WeChat, and Imo have been operated in Nepal without any restriction. Since these applications also fall within scope of tax administration of Nepal as per the Section 67 of the Income Tax Act, the service providers are required to pay income taxes by registering their entities prior to operations of the services, however, none of entities operating such services have done such registration. Despite of the operations of the applications as a major source of telephone services, and decrease in revenues of the telephone service providers arising from the use of telephone services due to use of these applications, the entities providing such application services have not been registered, and consequently a huge chuck of revenues to be receivable have been witnessed uncollected. Pursuant to this, the government has also not yet formulated the laws relating to E-commerce. Hence, arrangements should be made to make registration to such service providers and raise revenues from them.

30. **Tax Net -** As per directives related to disclosure of income source on purchase of land, house & land and vehicle, an income source should be disclosed while purchasing house & land or vehicle exceeding NRs. 10 million. On the basis of audit sampling conducted amongst the tax payers within jurisdiction of Large Tax-payer Office, it is witnessed that 124 persons have conducted vehicle and land building purchase transactions worth NRs. 2.73 billion in 2015/16, but such persons have not been come under tax net. Hence, they should be brought under tax net.

31. **Tax Exemption on Land Purchase -** Income Tax Directives provides that for the purpose of provisioning of assets and income tax, the amounts receivable from disposal of business stock as defined in Section 2 (A J), should be included in income in accordance with Section 7 (2) (b),

and the actual cost thereon can be deducted in accordance with Section 15 of the Income Tax Act.

Nepal Oil Corporation has entered agreements with contractors through tender process to acquire 91 bighas of land for the purpose of the construction of depots in Mechi Bazar of Jhapa, Haripur of Sarlahi, Lothar of Chitwan, and Basantapur of Rupandehi, but the bidders, without acquiring the ownership of 75 bighas 8 kathas of land, have directly completed the registration process registering from the existing land-owners to Nepal Oil Corporation, and the bidders are discharged from the final settlement of income tax only with the payment of capital gain tax based on sale of non-business taxable assets. Since the bidders have provided lands on the basis of award of contracts and have received a total payments of NRs. 1 billion 936.1 million, their acts should be treated as business-like transaction and income taxes applicable to businesses are to be recovered, however they have been discharged from the income tax liability only recovering the capital gain tax. Since such acts are in conformity with tax avoidance scheme as stipulated in Section 35 of Income Tax Act, 2002, the uncollected revenues NRs. 613.4 million should be recovered making necessary investigation.

Altogether 125 businessmen, falling within the jurisdiction of 7 Land Revenue Offices, have used their ownership lands for business purposes by developing sites along with the construction of roads, plotting of lands into small areas for house-building, making adjustment of plots with neighbors' lands, construction of sewerage, and construction of boundary walls. As such, treating these assets as the business stocks, the applicable income tax should be recovered at the rate of 35 percent on the sales amount NRs. 1 billion 512.8 million by making necessary tax assessment on the transaction amount NRs. 529.9 million instead of the recovery of capital gain tax.

Tax Compliance

32. **Value Added Tax-** Section 18 of the Value Added Tax, 1996 (2052) stipulates that the tax payers shall determine tax amount every month carrying out self-tax assessment and submit the tax description within 25 days of the elapse of the month. As per the Annual Report submitted by the Inland Revenue Department, the status of implementation of Value Added Tax up-to 2017 Mid-July is witnessed as follows:

Description	2014/15 (2071/72)	2015/16 (2072/73)	2016/17 (2073/74)
Credit Amounts (NRs. in billions)	17.77	26.4	29.16
Credit Returns in Percent	44.03	51.11	51.14
Debit Amounts (NRs. in billions)	3.4	44.8	49.32
Debit Returns Percent	18.98	13.30	13.25
Zero Returns Percent	25	35.58	35.61
Value Added Tax Refund (NRs. in billions)	5.05	4.23	4.76
Non-Filers (tax return not submitted) Percent	Not Received	30.00	30.00

Amongst the tax returns filed in this year, the tax payers submitting returns payable by the Government (credit) are 51.14 percent, zero returns (transactions not operated) are 35.61 percent, and returns receivable by the Government (debit) are 13.25 percent. The numbers of non-filers (Tax return not submitted) are 30 percent. The existence of large number of taxpayers having the returns payable by the Government, and returns filing zero transaction and returns non-filing, shows the lack of effective implementation of Value Added Tax.

32.1 The implementation of Value Added Tax has completed Twenty-one years. In the initial period of commencement of the Act, the numbers of debit returns were minimal, credit returns were more, and problems had aroused only in respect to zero returns and non-filers. With the improvement in implementation of the Act, improvements in its indicators are also to be noticed accordingly, but the following statement shows the absence of such situation:

(In Percent)

Income Year	Phase	Non-filers	Dr.Return	Cr,Return	Zero Return
1997/98 (2054/55) to 2001/02 (2058/59)	Initial Phase	12.44	24.94	52.30	22.53
2002/03 (2058/60) to 2007/08 (2064/65)	Middle-phase of implementation	21.00	18.56	43.24	33.37
2008/09 (2065/66) to 2016/17 (2073/74)	Present matured phase	31.00	16.19	49.51	34.33

To bring effectiveness in the implementation of the Value Added Tax, it is imperative to make the monitoring effective and the overall revenue administration pro-active.

32.2 In a state of growing trend in consumption of the country, the Value Added Tax collected from the domestic consumption has figured only NRs. 61 billion and 2.31 percent as compared to GDP. The Value Added Tax stands as a main base of internal revenue, but 64 percent of the taxes are being recovered from imports. Generating a significant portion of Value Added Tax relying on imports is not an appropriate. To collect the tax from domestic consumption, the scope of Value Added Tax should be expanded.

33. **Value Added Tax Gap -** For the purpose of calculation of the Value Added Tax, the presumptive amount that could be raised as Value Added Tax is the amount that come after deducting the transactions of goods & services that have been kept as remission ceiling & zero rate from the GDP of economy or transaction, and multiplying to the net amount coming as such by the prevailing rate of Value Added Tax. In the initial year 1997/98 of the implementation of the Value Added Tax, the tax gap had existed NRs. 13.69 billion, whilst it has stood NRs. 132.23 billion in 2016/17. Should all economic activities are included in the statistics of the G.D.P., the gap amount will increase furthermore. Thus, there has been a state the Value Added Tax amounting to NRs.132.23 billion which is possible to collect, has not been recovered. Hence, by making studies in respect to the Value Added Tax Gap and undertaking reforms in policy, legal and execution aspects, an effort should be made to raise such uncollected amounts.

34. **Dual Provision in Act -** As provisioned in Section 11.3A of Income Tax, 2002, a tax at the rate of 90 percent shall be levied on the taxable income earned by a special industry and information & technology industry that give direct employment to three hundred or more Nepalese citizens throughout a year, and a tax at the rate of 80 percent shall be levied on the taxable income of such industries that give direct employment to more than 1 thousand 200 citizens throughout a year. On contrary to the explanation provided in the above section of the Act, an additional provisions have been made with the addition of Section 11.3 A1 in Finance Act 2015 for levying a tax at the rate of 70 percent on the taxable income earned by the special industry that give direct employment only to at least one hundred Nepalese citizens throughout a year. It is because of reason of the remission granted though the provisioning Section 11.3A1 as against the provision of 11.3A of the Act, tax revenues amounting to NRs. 24 million that are receivable, have been not received from 7 drug industries which are selected under audit sampling. There should be review in the provision.

35. **Unrelated use of Loan** - The Section 8 of Banking Offence and Punishment Act, 2008 (2064) stipulates that if a person conducts misuse of the credit facilities availed from a bank or financial institution or cause to misuse by diverting in the purpose other than for which the credit facilities availed, the person shall be liable for an imprisonment from three years to five years along with the recovery of the claim amount, if the claimed amount is above ten million rupees or whatever amount. Since 16 taxpayers under jurisdiction of Inland Revenue Department, have taken bank loans NRs. 3.94 billion and diverted the amount as the borrowings to others, as such, tax assessment should be conducted to recover tax amounting to NRs. 97.9 million and adjust the loss of NRs. 48.2 million dis-allowing the bank interest NRs. 610.9 million calculated on the basis of an average interest rate. Pursuant to unrelated use of the loan taken by the tax-payer, an action should be taken in accordance with provision of the Act.

36. **Remuneration Tax of Doctors -** In accordance with Section 8(2) of Income Tax, 2002, any payment made by an employer in an income year inclusive of wages, salary, leave, amount in respect to overtime etc., should be included in the computation of remuneration income. Pursuant to the doctors & other health personnel's remuneration for the works performed in hospitals, the big and private hospitals have been treating as expenses on services. While taking services of consulting doctors in hospitals, the concerned hospital has been incurring expenses for meeting the required resources and facilities of supporting staffs, but the doctors have also been claiming separate expenses citing that they have engaged their own support staffs. In the state of receipt of payments by the consulting doctors in a capacity of an employee along with the use of hospitals' resources, physical infrastructure and supporting staffs, making such claims of other expenses is not justifiable.

Except the goods & services mentioned in Annex -1 of the Value Added Tax Act, all goods & services are taxable transactions for Value Added Tax purpose. In a state of the receipt of payments stating as consultancy service, the Value Added Tax is also applicable on the rendered consulting service, but the tax has not been levied. In the event of the operation of transactions without registering in Value Added Tax, the payment should be treated as income from direct employment and the deduction of staffs' salary and office operation expenses are not allowable from the income amount. Hence, disallowing the claims made by 75 doctors that submitted statements in 9 tax offices, the in-adequate amounts inclusive of 20 percent tax NRs. 147.2 million and the fees and penalty applicable on the amount should be recovered.

37. **Airport Service Tax -** As per Section 70 of Income Tax Act, 2002, a tax at the rate of 5 percent shall be levied while carrying passengers with the embarkment from Nepal, and a tax at the rate of 2 percent shall be levied in the embarkment of passengers from Nepal without arrival in other foreign countries. The airlines operating air flights have not deposited the required taxes on the basis of number of passengers embarked in accordance with the provision of the Act, and the airlines that deposited taxes have also deposited in adequate amounts. Based on the audit sampling selection, the tax amounts inadequately deposited and to be recovered from 6 airlines alone have appeared NRs. 416.8 million.

As per the statistics provided, it is noticed the applicable taxes have been calculated only on the basis of first destination. In the flights operated from Nepal, if the fares of second destinations and the amount of all cargo of connecting flights are added, the above mentioned recoverable amounts will increase furthermore. Hence, the required tax liabilities should be ascertained conducting an investigation on this issue.

38. **Change in Control -** Section 57 of the Income Tax Act, 2002, provides that in the event of change of ownership by 50 percent or more as compared to the ownership of last 3 years, the entity shall be allowed to deduct the loss suffered by that entity prior to the change in ownership in accordance with Section 20 of the Act, and Section 41 provides that in case of disposal of properties and liabilities, the entity shall be deemed to have received the amount equal to the market value. Pursuant to 46 tax payers registered in 13 offices under Inland Revenue Department, taxes should be assessed to make recovery of the necessary amounts, adjustment of losses and revaluation of properties in respect to - adjusted losses of NRs. 1 billion 567.6 million relating to change of ownership which are not eligible, tax amounting to NRs. 118.2 million to be levied on gains after deducting the dis-allowable losses as per section 20 of the Act, NRs. 317.5 million to be valued as per market price of properties, tax amounting to NRs. 69.7 million to be levied on gains that are receivable from disposals along with withhold as per Section 40 & 41, and the tax amounting to NRs. 31.9 million to be levied on gains as per Section 95 A(2) B.

39. **Capital Gain Tax in Share -** In accordance with Section 95A (2) of Income Tax Act, 2002, the entity registered in Security Board, Nepal shall be liable for 5 percent tax on the gains received from the disposal of interests. For the purpose of the calculation of gains, the Finance Ministers had made a decision on 2008/12/07 (2065/08/22) stating that a deduction of expenses will be

granted in the figure of base price of share that calculated on the basis of the average of market price after adjusting the proportion of bonus and right shares to the final price fixed at book closure of shares. The provision of determining capital gain tax was just implemented until for otherwise arrangements. But, such new arrangements have not been made till now.

More cost expenses have been claimed as the adjustments on the basis of market prices of shares are granted instead of taking the basis of actual cost borne in accordance with the Section 13 of Income Tax Act, 2002. If taken into account the sales of bonus and right shares of listed companies only, the total of expenses claimed in excess have appeared NRs. 15 billion 323 million, inclusive of excess claims of NRs. 5 billion 323 million in 2015/16 and NRs. 10 billion 266.7 million in 2016/17, and consequently, the capital gain tax, at the rate of 5 percent on the total claims amount, coming to the amount NRs. 779.5 million has been short collected. If added the capital gain tax of the promoter shareholders NRs. 287 million (calculated at the rate of 5 percent on total sales of bonus and right share NRs. 5 billion 740.2 million of income year 2015/16 and 2016/17) in above mentioned amount, the total capital gain tax short collected becomes NRs. 1 billion 66.5 million. Since such transactions might have been incurred in previous years, more investigations should be carried out. The arrangement of granting deduction of actual cost expenses should be implemented.

40. **Broker Commission -** As per the Section 10.3 of Value Added Tax, 1996, except the goods and services that mentioned in Annex-1 of the Act, the Value Added Tax at the rate of 13 percent shall be levied in all goods or services supplied within Nepal. With respect to the broker commission that received by the tax payers rendering intermediary services of stocks, the Annex has not granted the exemption of value added tax. As such, the value added taxes amounting to NRs. 166.2 million are to be recovered from the 25 tax payers that provided such services, but the tax has not been recovered.

41. **Value Added Tax on Cafeteria -** Annex-1 of Value Added Tax has given the exemption of value added tax to the education services that provided by schools and universities, but the foods and edible-items provided by the cafeteria operated by such institutes are to be treated as taxable income for value added tax. As the Annex-1 of the Act has not given the exemption of Value Added Tax in the foods and edible items supplied by of restaurants, guest-house, cafeteria business etc., the tax officer may determine the tax as per Section 20 and 29 of the Act, if any person conducts such transactions without registration. The 23 taxpayers under jurisdiction of Large Tax Office and 6 tax offices have operated food and residence related transactions of NRs. 1 billion 601.8 million in 2014/15 and 2015/16. In a state of the operation of such businesses by educational institutes beyond their objectives, the Value Added Tax has not been collected. Hence, the tax assessment should be made for recovering the uncollected Value Added Tax NRs. 208.2 million and applicable penalty thereon.

42. **Sales of Trekking businessmen** - Section 7(3) of Value Added Tax provisions that any person and organization operating taxable transactions shall collect the tax only after registering in tax and issuing tax invoices. Though the Value Added Tax is applicable in the tours & trekking packages sold by trekking businessmen to service recipients, such tax has not been collected. Pursuant to taxes to be collected on the lumpsum amount of package sales, 37 trekking business tax-payers transacting with 6 offices under Inland Revenue Department, have not collected the applicable tax NRs. 77.3 million to be levied on the sales amounting to NRs. 594.9 million. Hence, the tax inclusive of applicable fees and interests should be recovered.

43. **Value Added Tax in Infrastructure Construction -** Section 8(3) of Value Added Tax, 1996 stipulates that even though the construction of a building or apartment or shopping complex and similar other structure, of which value is more than five million Rupees, and which is built for business purpose, is procured from a person who is not registered, tax shall be assessed and collected from a person who has ownership in that structure as if such construction were procured from a registered person. Since 77 tax-payers, registered with 23 offices under Inland

Revenue Department, have built the construction of structures amounting to NRs. 9 billion 396.2 million from the unregistered persons, the tax should be assessed to recover the applicable value added tax NRs. 1 billion 221.5 million.

44. **Non-Deposit of collected Tax -** In accordance with the Section 17 of Value Added Tax, 1996, the tax should be deposited after deducting the amount of tax paid on taxable goods from the amount of tax collected**.** Though the tax-payers, that operated contract business registering as joint ventures, have shown the tax amounts to be deposited in their initial statements that submitted to the government, but they have not submitted statements and deposited the taxes after lapses of some months, and some of them have not paid the taxes by submitting the statements of non-operation of regular transactions. The tax revenues have not been recovered for the year to year from such business-persons that have made a self-declaration of the Value Added Tax that collected from individuals & state run agencies, should be deposited. With respect to the business-persons that have been disappearing without depositing the Value Added Taxes in the national treasury that raised from various customers, business-persons and the government, a total of Value Added Tax NRs. 455.9 million should be recovered from 138 tax-payers by the 15 tax offices, making responsible to the persons/accomplices involved in such ventures.

45. **Visa Processing Income -** In accordance with Value Added Tax, 1996, the Value Added Tax should be collected in payment of service fees. Even though the value added tax has been collected in visa processing fees for Malaysian visa from Nepal, the tax has not been collected in the visa processing fee that is required to pay to obtain the visa for the passengers departing to United Arab Emirates. On the basis of annual report 2015/16 of the Foreign Employment Department, three tax-payer companies are required to show total income of NRs. 532.5 million in respect to the visa processing fee of 48 thousand 338 persons at the rate of NRs. 11 thousand 16 (at the rate of NRs. 98 per USD), but a total income of NRs. 85 million only has been shown, including NRs. 45 million shown by one Express, NRs. 40 million shown by another Express, whilst one tours has not shown such income. Treating the difference amount NRs. 524 million as unaccounted income, tax should be ascertained to recover NRs. 69.2 million short-collected value added tax and applicable fees and interests on NRs. 532.3 million of such transactions that are operated beyond the thresholds as provided in illustration of Point 10.1 of the Value Added Tax Handbook, 2012 (2069).

Revenue Exemption and Leakage Control

46. **Revenue Exemption -** As per the statements obtained from the ASYCUDA of Department of Customs, the revenue exemptions of NRs. 53 billion 76.5 million have been granted in this year to various organizations for the purpose of imports of goods & services. In addition, Value Added Tax amounting to NRs. 6 billion 125.5 million has also been refunded that collected in state's coffer in course of the export of ghee, oil, mobiles etc. and thus, the total amount of revenue exemption given has been witnessed NRs. 59 billion 202 million. Though there is an international good practice of submitting a description of revenue exemption in parliament along with budget speech, but, the government has not submitted such description by maintaining the record of short collection of revenues caused by revenue exemptions. Hence, such description should be made public along with the budget speech. Significant matters pertaining to this are as follows:

46.1 The High-level Tax System Review Commission, 2014 (2071), had provided the suggestion for decreasing the tax refund that provided on the export of mobile phones, clothes, mustard oil, and sugar etc. In the International Monetary Fund's Nepal related Report 2015, a suggestion has been included for limiting the tax exemption as per international practices. The Public Accounts Committee, while holding deliberations in respect to previous annual reports, has also issued the directive for decreasing and limiting the practice of granting the tax refund, however, the suggestion has not been implemented. With respect to suggestions incorporated for granting tax

exemption on limited goods as per international practices, the government should give attention in implementation of suggestions.

46.2 In Finance Act, 2016, the provision has been made to grant the exemption on customs and Value Added Tax for the raw materials like corn, oil seeds of soya bean to be imported by the feed industry. On that basis, a revenue exemption of NRs. 3 billion 573 million has been granted in this year. With respect to the exemption, the monitoring should be carried out to ensure that the imported raw materials have been utilized only for the purpose of producing feeds of animal & birds.

46.3 In light of one-third of GDP occupied by the agriculture sector, subsidies of NRs. 10.78 billion have been distributed to the farmers through the Ministry of Agricultural Development to support their agriculture production. In the situation of the availability of such subsidies to enhance the self-sufficiency, the revenue exemption (inclusive of Value Added Tax) of NRs. 11.31 billion has also been granted. Despite of the availability of subsidies to promote the growth in internal agricultural production, the revenue exemption has also been granted simultaneously on the import of agricultural and livestock raw materials, which has affected internal production of the country.

46.4 In agreement of the projects to be implemented under foreign-aid, there has been provision to give the exemption in customs duty and taxes, and, on that basis, the revenue exemption of NRs. 916.9 million has been granted. However, the record of such revenue exemption has not been maintained capturing the exempted amount of the imported materials under such facility, and such revenue exempted amount has also not been included in cost of projects. There has been no assurance that the materials imported under such facility are being used only in the concerned projects. By including in mater-lists of projects funded under foreign-aid, the exemptions of customs, excise duty, value added tax have been granted in all materials, whilst the exemption of only customs duty in some cases and the partial exemption in some other cases have also been granted. The revenue exemption should be regularized by framing a clear policy on determining of master-list of projects and granting the revenue exemption.

46.5 With respect to the agreements made relating to projects funded under foreign-aid, there are provisions to import vehicles & equipment only keeping the records of imports. This year, the revenue exemption of NRs. 155.6 million has been provided on such imported goods maintaining records only. Though such vehicles & equipment are required to be either taken back or the customs duty are to be paid after end of purpose, but such records have not been maintained by either Department of Customs or the concerned office or projects. As a result, there has been a situation that the goods imported under revenue exemption are freely used even after the lapses of specified period.

46.6 Whereas the national industries are required to be protected and promoted granting revenue rebate inclusive of customs duties, but without doing so, the exemptions of customs duty, excise duty and value added tax have been provided on the import of goods that are also produced inside the country. This year, the exemption of customs duty and value added tax of NRs. 429.7 million has been granted to National Trading Limited in respect to import sugar, and the total revenue exemption of NRs. 108.7 million, including customs duty, excise duty and value added tax, has been granted to construction entrepreneurs for the purpose of various projects run under foreign-aid. The provision of revenue exemption affecting the production of domestic industries should be revisited.

46.7 In accordance with the provision of Finance Act 2016 (2073), the revenue exemption of NRs. 503.4 million has been granted in this year to community hospitals and institutions for importing ambulances and hearses. In the vehicles imported under such rebate facility, there are provisions for the requirements of- necessary tools to be fitted, seats to be removed, and the logo of 'the Receipt of Government of Nepal's Revenue Exemption Facility' to be kept which is visible from

far-sight. Likewise, the rate of fares to be charged in service delivery inclusive of transporting of patients should be fixed as specified by Ministry of Health & Population. However, the provision has not been fully complied and the follow-up on this matter has also not been carried out. Hence, there should be arrangements for making the registration of such vehicles & equipment by conducting physical verification only, and the coordination should be established between the concerned entities to monitor the subject matter inclusive of fares being charged by such vehicles.

46.8 As per Finance Act, 2016 (2073), there is a provision of granting the partial exemption on customs duty (SAFTA Exemption), if the goods are produced in SAARC countries and imported from the same countries along with the certificate of origin. As per the statistics of Export Promotion Center, there is no evidence that Nepal has received any such facility on goods export under the SAFTA exemption regime. However, it is observed that the total revenue of NRs. 2 billion 262.7 million has been exempted in this year by various customs offices as per such provision. The Government has not yet carried out an assessment of the impact on domestic industries caused by such exemption. The competitive capacity needs to be enhanced to obtain the benefits from provision of SAFTA agreement that signed between the SAARC countries.

47. **Value Added Tax Refund -** The refunds of value added tax provided in this year include - NRs. 2 billion 424.7 million in ghee & oil products, NRs. 892.7 million in mobiles, NRs. 8.1 million to diplomatic missions etc. In a state of the requirement to obtain the international mobile equipment identity number, the subject matter relating to refund of value added tax needs to be revisited. Other matters pertaining to this are as follows:

47.1 The decision made by the Council of Ministers on 2015/10/01 (2072/06/14) stipulates that monies will be provided to the sugar industries for the management of the cash flows, and such monies should be deposited in the government revenue by deducting the amount while giving the refund the value added tax to sugar industries. On the basis of the decision of the Council of Ministers, NRs. 450.8 million has been provided to different sugar industries. Though monies were provided to sugar industries on the condition of returning back in government revenues by making deduction at the time of refund the value added tax, the industries have not refunded all monies to the government, and debit adjustment has also not been made for the same amount either. The monies provided by the government for the management of cash flows for specific period should be taken back and deposited in the government's treasury.

47.2 In accordance with S.No.19 of Schedule-1 of Value Added Tax 1996, the sugar industries have taken the refund of value added tax which are raised in their sales, and amongst such industries, 10 tax-payers (industries) registered in Large Tax Payer Office alone have received the refund of NRs. 880.7 million in 2015/16 by making debit adjustments. While taking such refund by sugar industries, 3 sugar industries have taken a refund of NRs. 31.8 million in 2015/16 in respect to sale of molasses, which is main raw material for producing alcohol. Since molasses are used to produce the products listed in negative list - that impact to public health, the subject of granting refund of taxes raised in sale of molasses needs to be revisited.

47.3 As per the Schedule-1, Point no.18 of the Value Added Tax Act, 1996, there is a provision that 70 percent of the value added tax that raised by the textile industries in sales may be allowed in credit adjustment. However, 14 textile industries registered in Inland Revenue Office, Bara and Parsa have taken credit adjustment of 70 percent of the value added tax raised by themselves, and other industries that have purchased from such industries for selling purpose have again taken 70 percent credit adjustment, and thus, double credit adjustments have been taken with respect to NRs. 109.6 million at the rate of 70 percent of Value added tax NRs. 156.6 million that collected in sales. For the short collected amount resulting from double claims of credit, tax should be assessed along with the recovery of applicable fees.

47.4 In accordance with Rule 40(3) of the Value Added Tax Rules, 1996 (2053), in cases where any tax payer has carried on transaction of both the taxable goods or services, the tax payer shall be entitled to get the credits of the tax paid only on purchase directly related with the services. The tax payer registered with Taxpayer Service Office, Tripureswar, and constructing commercial buildings, is not entitled to collect value added tax as the taxpayer can raise rent income. In the state of in process of construction and non-operation of any transaction by the taxpayer, a refund of value added tax NRs. 20 million has been provided to the taxpayer in 2016/17 on the basis of 6 months credit outstanding. Since the refund of value added tax is provided in spite of the situation of the taxpayer non having taxable sales transactions and non-commencement of sales transactions, necessary taxes should be assessed to recover the value added tax and applicable fees.

48. **Difference in Financial Statements -** In course of audit, while conducted the sample tests of statements of 12 income years of 6 borrowers that provided loans by a bank, differences have been observed between the financial statements submitted in bank and the financial statements submitted in Inland Revenue Office. In the financial statements submitted by the tax payers for the purpose of taking loans, the income is shown as NRs. 3 billion 761.8 million, whilst the income amount has been shown as NRs. 1 billion 6.9 million as per the financial statements submitted in self-declaration of taxes. A difference of NRs. 2 billion 754.9 million has been witnessed between the two financial statements. Hence, the tax liability should be determined in the income difference, taking action to the concerned that have presented the false statements of the transactions operated along with the attestation of accounts.

49. **Fake Transaction -** Three tax-payers under jurisdiction of Inland Revenue Office, Sector No. 2, have shown tens of millions transactions, but it is witnessed that they have neither submitted income description nor deposited installment and taxes, and have not imported goods from custom points and not purchased goods from local markets. As per the confession statement, it is learnt that they are not genuine taxpayers, but their citizen certificates are taken to register firm, and the persons registered as the proprietors have no knowledge about the operation of firms' transactions. Since the registration of firms are done with the persons' citizen certificates having no knowledge about business and sales are shown without evident of the purchase sources & statements, an investigation should be made relating to doubtful transactions, and the tax should be assessed dis-allowing the tax payers' credit taken value added tax NRs.132.3 million in respect to sales transaction of NRs. 1 billion 17.7 million shown by the taxpayer during last 3 years.

Since the transactions of other 286 tax-payers, that have claimed credits of costs and value added taxes showing purchases from the above mentioned tax payers, are also witnessed doubtful, necessary tax should be assessed to recover the applicable income tax and value added tax on the purchases NRs. 132.3 million shown by the tax-payers.

50. **Related Party Transaction -** Section 45 of the Income Tax Act 1999 provides that pursuant to transactions operated between related parties, the tax should be levied on the basis of general market behavior. Major observations pertaining to this are as follows:

50.1 As per cooperative standards, the investment & saving transactions are to be undertaken among the shareholders, but one cooperative institution within the jurisdiction of Inland Revenue Office, Sector No.2, has provided the investments beyond its objectives and suffered the loss of NRs. 307.3 million. The cumulative losses of related 2 investment companies invested by the cooperative institution have reached NRs. 741.8 million up to 2015/16. The institution, as against its objectives, has invested NRs. 662.3 million in shares along with the investment companies, and it has received only NRs. 6.5 million as income in 4 years period since 2012/13. If calculated at the rate of 4 years average interest rate that offered by the cooperative in the periodic deposit collection, the amount becomes NRs. 80.3 million, and if deducted the received NRs.6.5 million on that amount, the losses suffered becomes NRs.73.8 million. Since

investments are made against the standards creating the related parties, the tax should be assessed to make adjustments of incurred losses.

50.2 Income Tax Directive, Point no. 21.2.2 mentions that the tax applicable in the payments received in respect to income earned by possessing more than one property shall not be treated as final deductible amount. One natural person, serving as the director of a departmental store under jurisdiction of Large Tax-payer Office, has purchased lands in his own name, but the buildings & structures built on the lands have been accounted in the store's leasehold assets. Thus, it appears that the director has purchased the lands with an objective to give on rent and has operated the business transaction giving on lease to the related party. The associated director has received the total payment of NRs. 128.4 million in 2014/15 and 2015/16 by leasing the lands of 8 different places. These business incomes are required to disclose submitting income description in accordance with Section 96 of the Income Tax Act, however, such disclosure has not been made. Therefore, if the income included in business income, the short of 25 percent tax NRs. 30.8 million along with applicable fee and interest thereon should be recovered.

51. **Insurance Payment to Related Party -** The Insurance Act 1992 (2049) provides that the insurer shall not make any transaction with the director or client having financial interest of his/her family as stipulated in Section 68 of Directives relating to Insurer's Corporate Governance 2013 (2069), and hence, the insurer is restricted from conducting insurance business with the director's family or the person or institution having the his/her share. One tax-payer, registered with Large Taxpayer Office and conducting insurance business, has accepted the insurance for the under-construction apartment of related company of own shareholder, and the insured is paid the compensation claim of NRs. 540 million for the damage caused by 2015 (2072) earthquake.

On 2012/09/24 (2069/06/08), same taxpayer had paid a fire insurance claim of NRs. 598.8 million to one related electronics company of the shareholder and director. Out of the claims, NRs. 274.7 million is yet to be received from re-insurance company. Since the compensation claim of NRs. 1 billion 140 million is granted insuring own business in an insurance company having own or associated director's interest against the Insurer's Corporate Governance Directives, and the business of insurance company has suffered losses due to non-acceptance of claim by the insurance and re-insurance company, tax should be assessed making an investigation on the related party's transactions that operated with conflict of financial interests in claims made.

52. **Value Added Tax of Withheld Registration -** One hospital under jurisdiction of Large Taxpayer Office registering in value added tax since 2004 (2061), has taken the value added tax credits of NRs. 287.70 million in respect to under-construction phase to 2015/16, however, it has stopped its value added tax transaction from 2016 July (2073 Srawan) and has operated its transactions to be chargeable with Health Service Fee. Section 17(4) of Value Added Tax Act, 1996 provides that if goods, for which deductions have been allowed, cease to be used for taxable transaction, tax shall be recovered treating such goods as sold at the immediate market value. As per the taxpayer's financial statement of 2016 mid-July (2073 Asadh), it has a balance of fixed assets NRs. 1 billion 25.3 million, for which credits of value added tax has been taken. Even in a state of sell of the assets at purchase price, the value added tax at a rate of 13 percent calculated to be NRs. 133.3 million needs to be levied and recovered. Since such recovery has not been made, tax should be assessed to recover the tax amount and applicable fee and interest.

53. **Value Added Tax from Un-registered -** Section 8(2) of Value Added Tax, 1996 provisions that any person receiving services in Nepal from a person who is not registered outside of Nepal shall have to assess and collect the tax at the taxable value in accordance with the Value Added Tax Act and Rules. However, taxes have not been collected while making payment of - NRs. 46.1 million by 5 taxpayers of Large Tax-Payer Office with respect to royalty/service fees of 8 income years, NRs. 8.3 million by air service related 2 tax-payers of Inland Revenue Office, Sector No.1 with respect to maintenance and contract services of 2 income years, and NRs. 2.3 million to

foreign distributors by one movie hall of Inland revenue Office, Chitwan in respect to revenue earned in income year 2015/16. So, the tax should be assessed along with applicable interest and penalty on the total payment NRs. 56.7 million.

54. **Business Abandoned -** In accordance to Section 96 of Income Tax Act, 2002, the tax-payer is required to submit income description within 3 months of lapse of income year by making self-tax assessment. Observations relating to this are as follows:

54.1 It is observed that the 4 tax-payers conducting imports of goods along with vegetables, fruits, and registered with 5 offices - including Inland Revenue Office, Sector No.3 and Biratnagar, - have imported goods equivalent to NRs. 2 billion 451.1 million in 2015/16, but they have disappeared abandoning the transactions, and have not submitted income statement and deposited applicable taxes. The concerned offices have not carried out monitoring to this matter. To the tax-payers that disappeared without operating transactions, actions should be taken in accordance with Income Tax Act, 2002 and tax should be recovered assessing income tax NRs, 18.6 million.

54.2 As per the audit sampling, altogether 100 tax-payers of 14 tax offices are required to submit the description of 34 income years' return starting from 2013/14 to 2015/16, however, the tax-payers have not submitted such return of NRs. 4 billion 723.3 million relating to income tax, despite of the presentation of statements in respect to value added tax. Hence, in the transactions of the tax-payers, a tax of NRs. 35.5 million should be assessed in accordance with Income Tax Act, 2002.

54.3 *Loan Taken from non-resident* - In accordance with Section 88 of Income Tax Act, 2002, except the payment made by a bank to the natural persons, a tax at the rate of 15 percent shall be deducted in all other interest payments. One tax-payer registered with Tax-payer Service Office, Tripureswar, has entered an agreement with a non-resident entity for taking loans of US Dollar 45 million, and has received the loan of US Dollar 28.3 million from the associated party. The tax-payer has capitalized interest expenses pertaining to the loan, even though it has mentioned in accounting policy and notes to account of the financial statements that the interest has not been paid in this year. Since the amounts are not paid through the banking system, a tax at the rate of 15 percent on the capitalized interest NRs. 420.3 million should be recovered.

55. **Money Transfer -** In Group 11 (a) of Schedule 1 of Value added Tax Act, 1996, the financial service is kept as a tax exempted service. On that basis, treating money transfer service as a financial service, the value added tax has not been collected from such tax-payers, and income tax at the rate of 30 percent has also not been collected. 25 tax-payers of 4 offices inclusive of Large Taxpayer Office are required to pay applicable income tax at the rate of 30 percent, however, the tax at the rate of only 25 percent has been paid as ordinary business, and thus, inadequate tax at the rate of 5 percent coming to NRs. 30 million should be recovered.

56. **Transaction of Tax-free Organization -** Section 2 (s) of Income Tax Act, 2002, provides that a non-governmental organisation constituted in social sector of public nature established with non-profit motive shall be registered as "Organization entitled to enjoy tax exemption". However, such tax is not exempted in income earnings of the organisations, which are of business or investments type. Therefore, the tax exemption is not entitled in total earning NRs. 1 billion 494.3 million - including the health service earnings NRs. 123.7 million of two health institutions registered with 2 revenue offices that received by charging high rate of health fees to private health service providers, the profits NRs. 1 billion 303.4 million earned by 10 institutions that registered with 6 Revenue Offices accepting deposits and granting loans, and the business savings NRs. 67.2 million of 3 non-governmental organizations registered with one revenue office. Hence, tax should be assessed to recover the uncollected tax NRs. 373.5 million along with the applicable fees.

Pursuant to the agreement entered on 2007 in between Ministry of Culture & Tourism and one international institution relating to the management of tickets of international flights for the period of 5 years, the transaction has been continued up to now in spite of the expiry of

agreement period. In the Clause No. 6 of the agreement, it is stated that the taxes applicable in Nepal shall be borne by the party itself. Although 12 travel agencies of Nepal have purchased tickets amounting to NRs. 3 billion 750.7 million from the organization, the tax-payer has not recognized income of the received amount. So, the tax should be assessed to recover the uncollected tax in service fees, conducting an investigation with respect to the transactions not shown in spite of incomes earned from service fees by the taxpayer carrying out the billions of transactions.

57. **Difference in Customs Tariff Rate** - While making the clearance of Custom duty, the customs offices should accurately determine the true code of the imported goods as per the code number mentioned in Schedule-1 of Finance Act, 2016 (2073) and Custom Tariff (Darbandi) Book. However, while examining the customs declaration forms, the Customs revenues of NRs. 729.7 million have been less recovered due to use of irrelevant codes and tariffs. Major instances relating to this are as follows:

57.1 As per Schedule-1 of Finance Act, 2016 and Section 3 of Excise Duty Act, 2002, while importing television parts, partly finish L.C.D. or L.E.D., panels, cathode ray picture tube, and allied goods in an unassembled condition, the customs duty at the rate of 20 percent and excise duty at the rate of 10 percent should be charged as per customs sub-heading 85287210. However, while importing television parts by such assembling industries through the Dry-ports- Birganj, Biratnagar, and Mechi Customs Office, the customs clearance has been given under customs sub-heading 85299010 charging only 10 percent excise duty, leaving customs duty 20 percent uncollected. A total NRs. 568.5 million, including customs duty and applicable value added tax, has been uncollected due to use of irrelevant customs tariff rates. Though a separate tariff is provided for television assembling industries, without using the rate, the rate of parts import provided for maintenance purpose has been used, and thus, the uncollected revenue amount should be recovered.

57.2 Taking the basis of the Department of Customs' classification of goods and explanations made in 1999/05/02 (2056/01/19), Birgunj Customs Office has given customs clearance to imported aseptic packaging materials under Customs Sub-head 760720 charging 15 percent customs duty and applicable value added tax. However, the customs clearance of same materials of last year was made under customs sub-head 4811590, the customs clearance of the materials are also stated under same tariff code as per international practice, the customs classification has been mentioned as 4811590 in the invoices submitted by the importer, and the customs classification of the materials also falls under customs sub-head 4811590 in accordance with World Customs Organization's Explanation Notes 2012. Hence, the basis taken by the office for customs clearance has been witnessed inappropriate. Since different tariff rate has been applied for the materials instead of charging 20 percent customs duty and 13 percent value added tax as per custom sub-head 4811590, the less collected revenue NRs. 89.9 million should be recovered pursuant to the transacted amount NRs. 1 billion 440.7 million.

58. **Wastage** - For one industry under jurisdiction of Inland Revenue Office, Bharatpur, the remission for the claim of wastage of more than 2 percent has been granted on pasteurized and packaging despite of the state of non-functioning of the flow meters. Hence, with respect to excess quantity of wastage taken than the ceiling as specified by the Rule 23(A) of Excise-duty Rules, the excise duty of NRs. 247.1 million and applicable interest & fine should be recovered carrying out an investigation.

59. **Capital Gain Tax** - Observations related to this are as follows:

59.1 As per Directives relating to Capital Gain Tax, a land owner has to fill up declaration form with evidences to make claims for the deduction in respect to making land plain, consulting, advertisement, commission expenses etc. However, the capital gain tax of NRs. 19.2 million has not been recovered from 229 disposers (sellers) of 6 Land Revenue Offices despite of non-

submission of expenditure statements & declaration forms. While making disposal of properties NRs. 2 billion 17.8 million during 5 years period, the capital gain tax at the rate of only 2.5 percent has been recovered from 217 disposers that transacted in 25 Land Revenue Offices as against the requirement of 5 percent capital gain tax, resulting short collection of capital gain tax NRs. 51.7 million. Likewise, 29 disposers that transacted in 3 Land Revenue Offices have been granted the exemption of capital gain tax NRs. 25.7 million despite of non-submission of the evidence of the area occupied by separate floor including the ground floor, and the capital gain tax NRs. 62.2 million at the rate of 5 percent on sale price of buildings NRs. 1 billion 243.3 million has not been recovered from 327 disposers that transacted in 8 Land Revenue Offices, and the capital gain tax of NRs. 65 million at the rate of 5 percent has not been recovered from 237 disposers that transacted in 17 Land Revenue Offices. Thus, altogether the capital gain tax NRs. 223.8 million should be recovered.

The Land Revenue Office, Parsa has misused the revenue NRs. 6.5 million that collected from service recipients without depositing in government revenues even after 7 months of lapse of fiscal year, however the amount has been recovered on 2018/03/26 (2074/12/12).

59.2 The capital tax NRs. 45.9 has not been collected by the Land Revenue Office, Pokhara from the concerned 162 land-owners while acquiring lands in the name of the Government of Nepal by providing the compensation of NRs. 1 billion 834.4 million, through International Airport Reform Project.

□ Acquisition, Safeguard and Use of Resources

60. **Mine Excavation License** - Any person or institution obtaining license from Department of Mines for the excavation or exploration activities by making the payments of prescribed fee is not entitled to transfer the acquired license to another person or institution, and the process of transfer may affect in the royalty receivable as such activity limit the opportunity to compete to other proximate persons or institutions that wish to carry on such excavation. As such, monitoring should be carried out with respect to the persons or institutions that have not performed works in accordance to specified condition, and have held the mines areas unnecessarily and sold licenses taking undue benefits. The licenses possessed by such persons or institutions need to be cancelled.

61. **Idle Fund** - In National Level Welfare Fund, an income of NRs. 2 billion 496.9 million has been received in this year against the previous year's cumulative balance NRs. 10 billion 64.7 million. Inclusive of the previous balance, the balance of the Fund has reached NRs. 13 billion 224.8 million up to this year. Currently, the balance of the Fund has transferred in Social Security Fund without utilizing in accordance with set objectives.

There is a provision in Income Tax Act, 2002, that the tax collected as Social Security Tax at the rate of one percent will be expended in 9 different types of social security programs - including unemployment insurance plan, employment injury or accident insurance plan, maternity insurance plan, dependency insurance plan etc. However, the money deposited in the Fund amounting NRs. 16 billion 790 million including this year's collection NRs. 4 billion 27.9 million, has not been expended in the specified activities as per set objectives as the relevant Act is approved only in 2017 (2074). The Fund's monies should be utilized by framing necessary plans and procedures.

62. **Relief Fund** - To give new life to the businesses affected by the earthquake and supply uneasiness, NRs. 5 million was deposited in Relief (punarudhar) Fund that opened in Nepal Rastra Bank in 2015/16 as per policy of giving financial motivation, and there is a closing balance of NRs. 4 billion 777.7 million in the Fund, incurring NRs. 222.3 million as re-loan expenses in this year. However, the Fund's amount has been un-utilized as per the objectives of its establishment.

63. **Use of VVIP Room** - There are 6 rooms in Bir Hospital for the treatment of V.V.I.P. persons. However, the special medical care rooms have remained unutilized since 1989 (2046).

64. **Construction of Physical Infrastructure** - Rule 45(1)'B' of Forest Rules 1995 (2051), provisions that excluding the acts specified as can be performed in action plan, other acts are not permissible in leasehold forests. The leasehold agreement made with a business firm mentions that altogether 20 to 30 cottage type environment friendly buildings having four to eight rooms will be built in Chandragari Leasehold Forest, however, infrastructure & buildings have been constructed in the place as against the Forest Rule and agreement made. Thus, action should be taken carrying out an investigation.

65. **Encroachment of Forest** - Though the Forest Encroachment Control Strategy 2011 (2068) and Forest Area Security Plan 2013 (2070) are formulated and implemented to control the growing encroachments, 30 thousand 194 houses & cottages have been built up to previous year encroaching 98 thousand 109 hectares of lands - including 94 thousand 233 hectares forest encroached by 121 thousand 234 households in 740 places of 62 districts and 3 thousand 876 hectares encroached in 6 national parks & reserves. The forest areas have not been made encroachment-free despite of the execution various programs preparing the strategy for removing encroachment.

66. **Stock of Sandalwood** - Since the sandalwood included in prohibited vegetation list, 264 thousand kilograms of sandalwood were caught in process of export-import, and amongst the quantity, 81 thousand kilograms were returned to the concerned countries. Of the of quantity balance, 20 thousand kilograms are write-off for sampling purpose and the net remaining balance 165 kilograms have been kept in stock along with the ceased transporting vehicles. The stocks of sandalwood that fall under prohibited vegetation have not been managed properly.

67. **Price Determination of Woods** - Forest Rules, 1995 (2050) provides that the auction and price determination of the government timber & firewood should be done preparing cost estimates and fixing the minimum price of woods. There has been huge difference in the price rates of Timber Corporation rate, prevalent market rate and the government assessment rate. The prices fixed by the government of 3 species of timber - sal, sisau and okhar are NRs. 800, NRs. 600 and NRs. 300 per Cu. ft. respectively, whereas the prices fixed by Timber Corporation are NRs. 1 thousand 471, NRs. 1 thousand 673 and NRs. 853 per Cu. ft. respectively, and the prevailing market prices are NRs. 6 thousand 500, NRs. 6 thousand 200 and NRs. 1 thousand 500 per Cu. ft. respectively. Since a huge difference is witnessed between prevailing market price and the government price, the auction-sale should be done by determining the prices of timbers & fire-woods considering the market prices.

68. **Management of Woods** - In accordance with the Directives for Collection and Sale & Distribution of Forest Products, 2016 (2073), information should be provided to Department of Forests determining the places of collection & stock-pile of timber & firewood maintaining such records in concerned District Forest Office. As per the statements obtained from 26 District Forest Offices, there exit a stock balance of 1 million 309 thousand Cu. ft. timbers in this year after sales. The price of timbers that are in stock becomes NRs. 7 billion 199.5 million on the basis of the prevailing market rate NRs. 5 thousand 500 per Cu. ft. The timber has been shown in stock since some years earlier, but the actual physical condition of the timber is yet unknown.

69. **Charter Fare** - The airline charter fares to be recovered by Nepal Army has appeared NRs. 47 million, including NRs. 41.1 million due fare of Mid-Airbase to be recovered from 45 entities in 2016/17, and NRs. 5.9 million due fare of VVIP-flights to be received from 28 entities of the period 1985/86 to 2015/16. Including this year's outstanding dry-fares NRs. 24.4 million recoverable from 8 entities, the total outstanding fares to be recovered has stood NRs. 71.4 million.

70. **Casino License and Royalty** - There is provision in Casino Rules, 2013 (2070) that renewal and royalty fee should be paid in time. The license-holders, that wish to get licenses renewed for 2017/18, have to pay fifty percent of renewal fee within 2016/17, however, in this year, 5 companies have not paid the license fee NRs. 140 million, 6 companies have not deposited the renewal revenue NRs. 70 million, and 3 companies have not paid royalty NRs. 72.5 million. Likewise, with respect to games to be played through the help of modern machines or equipment, the games can be played in one place from one license, but one company has run such games in four places depositing the amount of NRs. 5 million of one place only, which has resulted shortage of NRs. 15 million. Thus, the total of NRs. 297.5 million has been less recovered in this year.

71. **Unsecured Investment** - Amongst the investments made in fixed deposits by various programs run by the Citizen Investment Trust, there are NRs. 960 million matured fixed deposits that are lying with problematic development banks and financial institutions. Of the total deposit NRs. 35 billion 340 million invested by the central treasury and various plans & programs of the Fund up to mid July 2015 (2072 Asadh), the confirmation letters of NRs. 28 billion 330 million have not been obtained from the concerned banks and financial institutions. Hence, the true status of the amounts has not become clear. The due interest NRs. 497.9 million of fixed deposits lysing with the problematic financial institutions should be recovered.

Nepal Army Welfare Fund has a balance of NRs. 39 billion 615.8 million in this year. Amongst the balance, a total of NRs. 282.9 million -including principal NRs. 229.8 million and interest NRs. 53.1 million of fixed & saving accounts are still to be recovered up to the end of mid July 2017 (2074 Asadh) from 4 finance companies and 1 development banks,. The investments are at risk due to failure to recover even in this year.

72. **Investment in Fixed Deposit** - Out of total loans & investments NRs. 245 billion of Employee Provident Fund, NRs. 54.5 billion are in fixed deposits of various banks. While making such investments, the competitive interest rate and various indicators of investment, such as- the non-performing loans ratio, capital adequacy ratio, loan vs. capital & deposit ratio, net liquidity ratio etc. are to be analyzed, but such analysis has not been done.

Amongst the balance NRs. 4 billion 635.9 million existed in Renewable Energy Fund of Alternative Energy Promotion Center, NRs. 4 billion 408 million (95.03 percent) is found in a lead bank. Since the Fund is not able to select the lead bank inviting competition in due time, the fund balance has been retained in the same existing lead bank, extending agreement period of up to 2017 Mid-July (2074 Asadh)with the condition of raising the receivable interest rate from 2.038 percent to 4 percent. The same lead bank has been continued without timely selection of new lead bank on the basis of competition. The matter of benefits receivable from the surging market interest rates has not been considered.

73. **Frequency Duty** - Clause No.16 of Policy relating to Radio Frequency (Allocation and Pricing) of Telecommunication Service, 2012 (2069) stipulates that except the minimum frequency, the amounts of additional frequency, maximum frequency and V-SAT fee are to be paid within 3 months of the beginning of each fiscal year, and if the payment is not made within the period, an additional duty at the rate of 2 percent per month shall be levied as per section (C) of the same clause. This year, 4 service providers, that are required to deposit NRs. 550.1 million in respect of additional frequency duty, maximum frequency duty and advance payment of V-SAT fee, have not deposited the duty amounts.

74. **4G License** - Policy relating to Radio Frequency (Allocation and Pricing) of Telecommunication Service, 2012, mentions that since neutral policy is adopted in 4G technology, the selection of service providers will be done mainly on the basis of inviting bids of higher price, and such service providers will be allowed to run all services as per immediate available technology in bands. However, even after the 5th year of the commencement of the

policy, 2 service providers are granted the license to operate 4G service without inviting any tender competition. Since the license is issued on the basis of specified minimum duty without making competition of higher price, there has been no such situation to assure that the state has collected appropriate amount of revenues from the licensees.

75. **Minimum Frequency Fee** - Clause 11 of Policy relating to Radio Frequency (Allocation and Pricing) of Telecommunication Service, 2012, provides that the minimum frequency fee allocated for GSM mobile shall be fixed at the rate of 0.4 percent of total income of the service provider on lumpsum basis. This year, the minimum frequency fee of 2 service providers has been less recovered. Hence, NRs. 105.8 million should be recovered levying an extra duty of 2 percent per month as per Clause 16 of the Policy.

76. **Royalty and Frequency in Installment** - Pursuant to one telecommunication service provider's the outstanding royalty NRs. 1 billion 633.5 million to be settled in accordance with the condition of license, the Government of Nepal had fixed the installment on 2012/09/30 (2069/06/14) to be paid in 8 installments, however, the installment of NRs. 204.2 million to be paid by 2016/10/16 (2073 Aswin) has not been collected till the end of this year. With respect to another service provider's overdue frequency fee and additional penalty NRs.292.9 million of the period 2010/11 (2067/68) to 2016/17 (2073/74), the government has taken a decision on 2018/02/11 (2074/10/28) with the payment arrangement of five annual installments starting from 15th January 2018 (2074 Magh). However, the service provider has deposited the first installment NRs. 58.6 million only on 2018/02/11 (2074/10/28). The royalty and frequency fee should be recovered along with applicable interest.

77. **Electricity Royalty** -In Electricity Act 1992 (2049), there is a provision that the person obtaining the license is required to pay a royalty to the Government of Nepal. Department of Electricity has, however, the outstanding revenue arrear of NRs. 1 billion 986.6 million to be recovered from 62 hydropower projects till 2015/16 on the basis of production and installation capacity, and out of the outstanding amount, NRs. 1 billion 427.4 million has been recovered in this year and NRs. 559.2 million is still to be recovered. The royalty and fine amounts to be paid or deposited by the projects have not been recovered.

78. **Management of Gift/ Offering** - Pursuant to the expenses incurred through gifts/offerings, the audits have been carried out only by 12 entities that have also received budgets from the government. The number of holy places or temples existed in Kathmandu valley has been ascertained, and out of 799 holy places existed in remaining 74 districts, only some have raised revenues through issuing the cash receipts. Except those, other received monies are not included in gift/offering income, and incomes raised from putting gift boxes are not get audited by depositing such amount in Committee funds. The monies offered in temples are being kept under custody of priests instead of incomes of temples, and the incomes of religious centers are being raised and expended by local clubs. As per laws, all management committees that constituted to run of religious centers are required to maintain accounts of income-expenditure and properties registering in books of account of their organizations, however, such accounts have not been maintained and get audited. Hence, the management of gifts & offerings should be done properly.

79. **Ceiling** - Section 7 of Land Act 2014 (2071) has provisioned that the land-owner can keep lands remaining within the specified ceiling. In 29 districts including Kathmandu, Bhaktapur, Morang, Sunsari, Saptari, Siraha, Kailali, Kanchanpur, there are 1 thousand 934 hectares of land which have been kept more than the specified ceiling, and the lands are yet to be sold/distributed by making forfeiture. In the rest of districts, the records have not yet been updated by carrying out the examination whether lands above ceiling are being possessed or not.

Though 749 haters of lands have existed above the specified ceiling, for which land-owners are not identified and the ownerships are also not obtained in the name of the Government of Nepal, but the record maintained by the Department of Land Revenue has shown

a total of 5 thousand 606 hectares of land retained in excess of the ceiling - including 598 hers land that are still retained in the name of existing land-owners due to non-commissioning of acquisition and forfeiture by the Government of Nepal, 237 hectares land which retained in excess of the ceiling but the ownerships of which have already been transferred from the existing land-owners to other persons, and 154 hectares land the registration of which are yet to be done. A person that operated the transaction with Land Revenue Office, Kalanki had possessed more lands in his name than the specified ceiling, but in such a situation, 42 ropanies of land equivalent to NRs. 151.2 million as per the valuation of minimum price of rough motorable road of Chovar-Bhutkhel, has been registered in same person name in different dates since 1972 (2029) treating as omitted (unregistered) land. Hence, the land should be taken back in the name of Government of Nepal, and the officials making the registration of land in excess of the ceiling should be held responsible.

80. **Lease** - The Working Policy related to Government Land registering and providing on lease 2013 (2071), mentions that the person or entity acquiring government land on the basis of usufruct has to convert such land into lease land and has to pay the lease amount annually, however, the payment of lease amounts has not been yet received as the Department has not yet converted to the lands that acquired by 120 entities as usufruct land since last some years into lease lands. Amongst the usufruct land given to various organizations, 9 ropanies 7 aanas of land of then Dibyaswari V.D.C. Bhaktapur that are provided in the name of a multiple campus, and 58 ropanies 4 aanas land that provided in the name of Ministry of Agriculture & Cooperative, have been occupied as the shelter the landless people, 5 ropanies 8 aanas of land that provided to one non-government organization are not in use, and 60 ropanies, 4 aanas of land that provided to Tribhuvan University Teaching Hospital are witnessed not in use.

7 ropanies 3 annas land of Kathmandu that provided to Dairy Development Corporation are not traceable; 336 ropanies 14 annas land of Kathmandu that provided to one proposed industrial university are not used by the University but again given on usufruct to Sankalpa Nepal, Helping-Hand Nepal, Seti Devi Rastriya Primary School; and 110 ropanies 4 annas land of Kathmandu, Mulpani that provided for the construction of Armed Policy Force Hospital & School, have been used for excavation of sand without constructing the hospital & school. The lands used against the usufruct objectives should be taken back along with the recovery the lease amount from the dates of decisions. With respect to incomes generated with other usages of the usufruct land, necessary revenues should be collected.

81. **Handover of Vehicle** - Amongst the 5 vehicles & 28 motorcycles costing NRs. 45.7 million procured under Earthquake Emergency Assistance, 2 motor cycles worth NRs. 22.2 million have been used by the Ministry of Federal Affairs & Local Development. Likewise, 3 jeeps that procured by the Nepal Oil Corporation Limited with NRs. 30.3 million in 2016/17, have been handed-over to Ministry of Supplies.

82. **Rent to be recovered** - For the outstanding rents & charges of the properties rented by Employee's Provident Fund, the income year-wise classification has not been done. A total of NRs. 325.6 million is yet to be recovered till the end of this year. Though the bank guarantee of NRs. 72.5 million is demanded in respect to the rent dues of the Lagankhel building, the total rent of NRs. 106.2 million is still outstanding. No effort has been done to obtain the inadequate amount of bank guarantee in the name of the Fund and the recovery of due rents.

Social Welfare Council has the total dues of NRs. 42.6 million of its assets usage including land, building, stall & hall rent to be recovered from 51 institutions & persons. The Council has not deposited the rent tax of NRs. 7.7 million that applicable on rent income NRs. 77.4 million recovered from its assets in Budhanilkantha and Bhrikutimandap. As the rent rates were fixed since a long year back, the review of rates should be done.

83. **Implementation of Court's Verdict**- Pursuant to a petition made on 2015/09/23 (2072/06/06) in Lalitpur District Court relating to the rent recovery as per contract agreement of Sundhara building, the court has given a verdict on 2016/11/16 (2073/08/01) for recovering from a person the outstanding house rent and penalty dues NRs. 125.3 million. However, the Employee's Provident Fund has shown the due amount to be recovered from the person as only NRs. 108.3 million. The rent has not been yet recovered as per the court's verdict.

84. **Electricity Charge Dues**- The outstanding electricity charge to be recovered by Nepal Electricity Authority has reached NRs. 11 billion 186.8 million with an increase by 12.37 percent compared to previous year. For the outstanding debtors, NRs. 567 million that provisioned in the succeeding year has been brought forward in this year. No effort has been made to recover the due amounts. Under electricity charge dues, the amounts not recovered include NRs. 9.2 million of temporary installation charge, NRs. 5 million of domestic consumption, and NRs. 3 billion 150.2 million of road lamps. From the black-listed customers, total of NRs. 677.7 million are to be recovered.

Loss Damage and Embezzlement

85. **Embezzlement of Revenue** - Transport Management Office, Koshi has not maintained manual accounts citing that the accounts of revenue earnings and deposit have been kept in the software developed by a consultant. In accordance with the statement obtained from the office, it is observed that the revenue of NRs. 1 billion 250.7 million has been collected in 2016/17, of which NRs. 877.3 million has been deposited in two banks but NRs. 373.3 million has not been deposited. Similarly, pursuant to the revenue collection of NRs. 841.9 million in 2015/16, NRs. 600.9 million has been deposited whilst NRs. 241 million has not been deposited. The revenue collected but not deposited amount NRs. 616.2 million should be recovered from the responsible person along with the applicable fines in accordance with Section 13 (4) of Financial Procedure Act, 1999.

86. **Embezzlement -** After the audit provided an observation relating to mistakes in calculation of compensation distribution by the Budhi Gandaki Hydropower Project, NRs. 62.1 million has been recovered. When written the letters to Ministry of Home Affairs, Ministry of Energy and Financial Comptroller General Office on 2017/08/23 (2074/05/07) requesting to take action to the concerned responsible persons as per Section 15 & 26 of Financial Procedure Act, 1999 and other prevalent laws and to give information on this matters within 15 days, the Ministry of Energy has acknowledged that a decision has been taken to issue the directive for not repeating such mistakes now onwards. However, no information has been received with respect to action taken by other entities.

87. **Negative Deposit**- As compared to the negative balance NRs. 56.1 million appeared since past years in some of deposit accounts maintained at Rastriya Banijya Bank, the balance has stood NRs. 55.7 million till the end of 2016/17, which shows no sign of the improvement. The bank has made loss provision of one hundred percent in respect to the losses occurred due to taken out of monies by the depositors from their accounts in excess of the deposit amounts, but the bank has not conducted any recovery of such loss amounts identifying the concerned employees & officials responsible for making such losses to the bank.

Mis-spending of public resources

88. **Termination of Procurement Contract -** To upgrade Katunjye-Tripureswar road section lying in Dhading District of western section of Mid-Hill Highway (Madhyapahadi Lokmarga) Project, the contract agreement amounting to NRs. 64.9 million was entered with one construction contractor. However, the contract is terminated as per the letter of Budhigandaki Hydropower

Project Development Committee dated 2016/04/04 (2072/12/22), which acknowledged that the construction should be above the reservoirs line and should be undertaken only in the technically safe places, if any structures is to be constructed in upper part of the project reservoirs the existed 545 meters above the sea-level. In spite of the acknowledgement of District Administration Office-Dhading and Department of Roads on 2016 March/April for not undertaking the construction works in the places, NRs. 17 million has been spent on this contract without terminating the contract in time, which has resulted the mis-spending of resources.

Divisional Road Office - Surkhet, Dang, & Chitwan and Puspalal Madyapahadi Lokmarga, Western, in accordance with the agreement entered with the construction contractors, have not recovered the excess liability involved NRs. 38.6 million from the 5 construction contractors due to termination of contract agreement.

89. **Assessment of Construction Works -** After making procurement agreement of 2 packages for road upgradation, Dharan-Katari-Sindhuli-Hetauda Road Project- Eastern Section, has terminated 8 previous contracts of same chainage on the basis of convenience. Without terminating the earlier 8 contracts immediately after the signing of the new road upgradation contracts, the payment of NRs. 301.9 million (including NRs. 45.1 million of this year) has been provided in respect to the old contracts. While making new contract agreements, the cost estimates have not been adjusted making an assessment on the works commissioned under old 8 contracts prior to ending of the agreements, and the works related to road upgradation under new contracts have also not been commenced as per time schedule. Thus, the expenditure incurred in the road section under the old contract agreements has not been found worthwhile.

Citing that one bridge of Khokana lies in Kathmandu-Tarai Fast Track, a letter has been issued to stop the construction works of the bridge that is being undertaken by an entity under Ministry of Federal Affairs & Local Development with the expenditure of NRs. 21.5 million. Hence, the incurred expenditure is going to be worthless.

90. **Double Expenses -** Janakpur Circle Commercial Road Extension Project has entered an agreement with a construction contractor on contract price NRs. 478.7 million for the extension of road and laying-up black-top (asphalt concrete) commencing from Dalkewar to Janakpur zero-mile Dudhmati Bridge. In a situation of the road section being repaired a few year ago with black-top (surface dressing) at a total cost of NRs. 500.8 million under assistance of Asian Development Bank and the black-topped road is still not damaged condition, the new contract has been arranged to make black-tops again dismantling the old black-tops. Since the road sections constructed in few years ago are to be dismantled now, the expenditure incurred earlier is going to become useless.

91. **Mistake in Measurement -** The technical report dated 2016/12/29 (2073/09/14) mentions that the maps prepared on the basis of re-survey and the lands used by the land-owners are varying, as the Special Survey Office, Arghakanchi has done mistakes in using the control point and has prepared maps without identifying the base point. Since the survey maps prepared by taking years have become useful-less, the expense NRs.32 million incurred on the work has now become worthless, and as such, the person/institution preparing wrong maps should be held responsible making an investigation on this issue.

92. **Damage of Pipes -** Total of 10 thousand 202 meter pipes laid down by Project Implementation Directorate with cost of NRs. 24.9 million have been damaged while carrying out works by Department of Roads, Kathmandu Metropolitan, Bagmati Civilization, Ring-road Improvement & Construction Project, Telecom Office, and Chamati Land-Pulling Project. The losses have to be borne due to non-identification of possible risks while designing pipe-laying and absence of coordination & supervision during workings at the pipeline places. Moreover, the project has laid down the pipes in the middle of roads and has not given the attention on the problems to be encountered if structures, such as mono-rails, fly-overs etc., are to be constructed in future.

93. **Additional Expense Burden -** Melamchi Water Supply Development Committee had entered an agreement with one construction Contractor on 2008/02/27 (2064/11/15) for the upgradation of Lamidanda-Melamchi Road. Pursuant to the claims made by the construction contractor for granting additional payment of NRs. 37.7 million through variation through 27th running bill in 2013/14, the consultant of the project had given consent for NRs. 27.4 million. But, the construction contractor, without accepting the amount, had given an application in International Chamber of Commerce and the organization made the decision of the project needs to settle NRs. 403 million to the contractor. The Development Committee again lodged a review appeal in the High-Court Patan against the decision, and the Court gave the verdict of providing NRs. 382.7 million to the construction contractor. As per the instruction given for settling the amount through the court, the said amount has been provided to Kathmandu District Court on 2017/07/06 (2074/03/22). Since, the negotiating arrangement in accordance with the contract agreement has not been followed in respect to the claim NRs. 37.70 million made by the contractor, the situation has emerged that require to settle the compensation of NRs. 382.7 million. With regards to the giving the payment as per court's verdict, the project has, however, made a repeal in the Supreme Court on 2017/05/19 (2074/02/05). Even after making the repeal and not awaiting for final verdict of the Supreme Court, the project has already provided the payment of the amount.

While granting the compensation payment, the payment has been provided without deducting any amount of the outstanding advance NRs. 17.1 million that appeared in the name of the construction contractor. Since the transaction amount has not been included in the contractor's tax description to be submitted as per Section 18 of the Value Added Tax Act, 1996, total NRs. 31.8 million including applicable additional duty, interest and fine should be recovered.

94. **Additional Burden -** Rule 12 of the Public Procurement Rules, 2007 provides that while preparing the cost estimate of consultancy service, it is necessary to take the basis of the ministry's terms of reference of concerned service if the concerned Ministry has prepared such norms, and the actual cost incurred in the procurement of the same nature by the concerned public entity or any other public entity in the current year or in previous years. Skill Development Project and Vocational Education and Training Enhancement Project (EVENT) have been organizing similar type of trainings under the assistance of The World Bank, but the Skill Development Project has prepared the cost estimate of training services with an excess amount up to NRs. 10 thousand 986/- per person as compared to the costs of Vocational Education and Training Enhancement Project. It is because of the reason, the Skill Development project has incurred the excess expenditure burden of NRs. 393.4 million while provided training to 35 thousand 840 trainees during the program period.

95. **Additional Advance** - The provisions for providing advances have been made in Rule 113 of the Public Procurement Rules, 2007 and the procurement contract agreement. However, Melamchi Water Supply Development Project has provided total additional advances of NRs. 591.4 million - including the additional advances granted in previous year NRs. 267.8 million and this year's additional advance NRs. 322.9 million that provided without bank guarantee, beyond the advances that attainable in accordance with the terms of contract agreement.

96. **Vehicle Facility** - Section 4(B) (1) of Act related to Remuneration, Terms of Service and Facilities of the Supreme Court's Judges 1969 (2026) provides that a Chief Judge is entitled for one vehicle, 250 liters of petrol per month, 10 liters of Mobil for each quarter, and Section 4(B) (7) of the same Act mentions that such facilities will be provided up to 7 days after the end of the tenure. However, 13 vehicles costing NRs.44.9 million provided to 13 former Chief Judges have not been yet returned even after the end of their tenures. As such, the vehicles should be taken back.

97. **Loss in Power Trading -** In meeting of the Eighth Indo-Nepal Power Exchange Committee, a memorandum of understanding was reached for receiving 70 million units of electricity to Nepal at free of cost, and the electricity as required may be purchased from Electricity Power Trading

Company. In accordance with the understanding, 202.27 million units of electricity were imported during 2015/16, of which only 52.64 million units received at free of cost and the 149.63 million units received with payments. Since 17.36 million units electricity to be received at free of cost are shortly received, it has caused the losses of NRs. 82.4 million to the Government of Nepal and NRs. 13.4 million to Nepal Electricity Authority.

Economy

98. **Period of Driving License -** Section 5(4) of Vehicle and Transport Management Act, (2049) **provides** that the issued driving license shall be valid for 5 years, and smart cards are now being issued for this purpose. However, the warranty period of smart cards has been fixed for 10 years, and while distributing 218 thousand smart cards in this year on the basis of unit cost of NRs.173.29 per card with 10 years validity period, there has been the saving of NRs. 18.9 million in procurement cost and it has eased to the service recipients. Hence, if the arrangement is made for distributing driving licenses (smart cards) with 10 year validity period making amendment in the Act, it will ease to the service recipients, and the cost of procurement & printing will also become economical.

99. **Pre-determined Liquidated Damage (Compensation) -** Rule 121(1) of Public Procurement Rules, 2007 provisions that in the event of non-completion of a work within the set period set forth in the contract owing to delay caused by the construction entrepreneur, a liquidated damages should be paid to the public entity. This year, the entities under 8 ministries - including Physical Infrastructure, Irrigation, Energy, Water Supply Ministries, have not recovered pre-determined liquidated damage NRs. 229.9 million in the event of non-completion of works due to the construction entrepreneurs. Major Observations relating to this are as follows:

99.1 Rule 121(1) of Public Procurement Rules, 2007 provisions that a liquidated damage should be provided to the public entity in the event of non-completion of a work within the set period set forth in the contract owing to delay caused by the construction entrepreneur. This year, 30 offices under Department of Roads, have not recovered pre-determined liquidated damage NRs. 175.4 million in spite of non-completion of works due to the construction entrepreneurs.

99.2 Under National Rural Transportation Strengthening Program, 45 projects of 21 districts have made the decisions to recover the pre-determined liquidated damage of NRs. 134.7 million with regards to the liquidated damage to be deposited in consolidated fund, only 11 districts have deposited NRs. 78.8 million in consolidated fund, whereas 6 districts have kept NRs. 5.7 million in deposit accounts, 7 districts have withheld NRs. 43.7 million in running bills, and 4 districts have returned/adjusted NRs. 27.6 million in the accounts of construction entrepreneurs. The pre-determined liquidated damages should be deposited in the consolidated fund recovering in accordance with the decisions.

100. **Administrative Expenses** - For the implementation of Prime Minister Modernization Project, one project implementation unit, 30 zone offices and 7 Super-zone offices has been established. Total expenditure of NRs. 1 billion 377 million has been expended from those offices, of which NRs. 669.7 million (48.63 percent) has been spent in administrative expenses such as, furniture, machinery equipment, vehicles etc. Based on the project's programs, major chuck of expenditure are to be incurred for the establishment of customs hiring centers, post-harvest centers, infrastructure construction and distribution of agriculture materials to farmers to enhance the agriculture production through agriculture modernization, but more expenses are incurred in administrative works, which is not justifiable. Establishing separate project is not appropriate for the programs activities which can be undertaken from the regular organizational structure, and hence, the review should be made in this respect.

101. **Fuel Facility** - In accordance with Act relating to Remuneration and Facilities of Legislature-Parliament Authorities and Members, 1996, and Act relating to Remuneration and Facilities of Federal Parliament Authorities and Members, NRs. 5.6 million per annumn at the rate of NRs. 20 thousand per month has been provided to the leaders of parliamentary parties. The facilities have been provided despite of non-provision of such facilities while formulating the Act in 2016 pursuant to Remuneration and Facilities of Federal Parliament Authorities and Members.

102. **Facility Prior to Law Promulgation** - The Legislature-Parliament by publishing Rajpatra (Government Official Circular) on 2016/12/22 (2073/09/07) has promulgated an Act relating to Remuneration and Facilities of Federal Parliament Authorities and Members'. As per Section 1(2) of the Act, the Sections 4, 6 & 7 of the Act shall come into effect from 2016/07/16 (2073/04/01) and other sections shall come into force immediately. Thus, the Act has been formulated with the provision of the commencement of the sections having the financial implications such as, allowances, fuel facility etc. prior to the Act publication in Rajpatra. On that basis, the Parliament Secretariat has provided NRs. 49.1 million to parliamentarians in respect to the facilities prior to commencement of the Act.

103. **Foreign Tour** - The frequency of foreign tours conducted in this year include - 42 employees (Special class, officers & other staffs) of Ministry of Population & Environment in 37 countries for 445 days with 79 times under 50 donor assistances; 24 employees (Special class, officers & other staffs) of Ministry of Women, Children & Social Welfare in 10 countries for 237 days with 26 times under direct assistance of 15 donor agencies; and observation tours, study tours, training visits conducted in 10 countries by 272 different level employees of Ministry of Federal Affairs & Local Development, offices under and municipalities.

5 projects under Ministry of Agriculture Development have spent NRs. 66.4 million **for** conducting the observation tours, trainings & study tours to farmers & employees in 8 countries. The records of expenses incurred have not been maintained for which the approvals of visits are given with bearing of expenses by the donor agencies.

Tour expenses should be borne only for the productive activities.

104. **Consumption of Gold** - Boudhanath Area Development Committee has approved the cost estimate of NRs. 124.6 million for the reconstruction of Boudhanath Mahastupa, and the works have been completed with the cost of NRs. 219.8 million executing under departmental works through two members and one employee of the Committee. The cost estimate approved for constructing Harmika Trayodash Bhuvan, Chhatra Set and Gajur is NRs. 82.3 million, which is the main item of the reconstruction. By approving the cost estimate by the Committee itself, the Committee has spent NRs. 167 million 665 thousand for the usage of 31 kilograms of gold at the rate of NRs. 33 thousand 533.71 for 4 thousand 999 square feet. While making the rate analysis on the basis of the norms of Department of Archaeology, only 14 kilograms 580 grams of gold of total value NRs. 89.3 million (at the rate of one-fourth tola gold per square feet i.e. NRs.16 thousand 458.64) are to be used, however, the usage of 31 kilograms gold have been shown. On the basis of the gold consumption norms, the use of 16 kilograms 420 grams gold of total value NRs. 88.8 million has not been witnessed justifiable, as such, necessary investigation should be done in this respect.

105. **Performance of Aircraft** - Nepal Airlines Corporation had brought in Nepal the China-made MA-60 **aircrafts** in April 2014 and Y12E aircraft in November 2014. At present, the both planes are operating domestic flights. But, annual operating loss of 56 seater MA-60 aircraft is NRs. 66.7 million and 17 seater Y12E aircraft is NRs. 39.4 million. Based on the direct income and expenditure, the Corporation has been incurring financial losses from the operation of the aircrafts. For operating the aircrafts in profits, the Corporation has not yet prepared and executed specific action plan.

106. **Allowance Expenses -** Employees of Nepal Rastra Bank are entitled to get 19 types of allowances in addition to the provident fund, medical treatment fund, gratuity fund and employees security fund, and of the 19 types of allowances, 8 types of allowances are being provided to all employees, and **additional** 11 types of allowances to special group of employees. The expenses borne in respect to such allowances become up to 201 percent of the salary expenses. In fiscal year 2016/17, NRs. 1 billion 340 million has been expended for such allowances in addition to the salary expenses.

Efficiency and Effectiveness

107. **Establishment of Mission** - While creating an organizational structure and new position for establishing new government office, the organization & management (O&M) survey should be conducted on the basis of the ministry's workload and propriety. However, Ministry of Foreign Affairs **has** established the permanent mission in Vienna, consulate general in Guangzhou of China, and embassy in Madrid of Spain in this year merely on the basis of cabinet decision, without following the above mentioned process.

Nepal has established 39 embassies & consulate generals in abroad countries, and similarly, there are residential embassies of 24 other countries in Nepal. Some of countries have started outsourcing and merging the councellor services and reducing the number of embassies to reduce expenses. Hence, the number of Nepalese missions should be reviewed making the studies & analysis of the missions on the basis of geographical location and workload.

108. **International Fair** - For enhancement of exports, Trade & Export Promotion Center has incurred the international trade fair expenses of NRs. 4.6 million in India, NRs.2.5 million in Bangladesh, NRs. 4.5 million in Germany, NRs. 2 million in China, NRs. 2 million in Hong Kong, and 2.5 million in Bhutan. Amongst the countries where the trade fairs have not organized, the export growth rates have stood 252.4 percent in Russia, 96.6 percent in Turkey, 32 percent in U.A.E., 34.1 percent in Czech Republic. The export growth to India has appeared only 4 percent where the trade fair also is organized. However, the exports of goods have declined by 16.1 percent in China, 34.2 percent in Hong Kong, 13.3 percent in Bangladesh, 3.5 percent in Germany, and 49.32 percent in Bhutan.

109. **Incentive Grant** - For the promotion of the exports, Department of Industry has been providing cash incentives to business-persons since 2011/12 (2068/69). Total exports, which figured NRs. 74 billion 80 million in the commencement year of cash incentive distribution, have declined to NRs. 73 billion 120 million in the year 2016/17 after the lapse of 6 years. This indicates that the cash incentive grant has not brought any positive effect in total exports despite of increase in number of business-persons receiving cash grants.

110. **Secondary Education Examination**- In regular Secondary Education Examination of academic year 2015 (2072) and 2016 (2073), total numbers of students have stood 437 thousand 395 and 445 thousand 564 respectively, and the results of students based on grading are as follows:

Out of student appeared	Educational Year 2072 (Number of Student Appeared)			Educational Year 2072 (Number of Student Appeared)		
	Government School	Institutional School	Total	Community School	Institutional School	Total
G.P.A. 3.65- 4.00 Obtained	1,030	11,257	12,287	1,164	11,120	12,284
G.P.A. 3.25- 3.60 Obtained	5,903	34,571	40,474	6,361	36,066	42,427
G.P.A. 2.85- 3.20 Obtained	15,954	32,039	47,993	17,215	33,431	50,646
G.P.A. 3.45- 2.80 Obtained	41,235	19,533	60,768	41,466	20,489	61,955
G.P.A. 2.05- 2.40 Obtained	82,407	8,697	91,104	81,764	9,550	91,314
G.P.A. 0.0- 2.00 Obtained	179,036	4,668	183,704	179,432	4,909	184,341
Total	325,565	110,765	436,330	327,402	115,565	442,967

In accordance with the result of academic year 2015, the numbers of student that **obtained** G.P.A. 2.05 to 4.0 have stood 44.87 percent in case of community schools and 95.74 percent in case of institutional schools, and the numbers obtained G.P.A. 0.0 to 2.0 have stood 54.82 percent 4.21 percent respectively. In accordance with the result of academic year 2016, the numbers of students of community schools and institutional schools that obtained G.P.A. 2.05 to 4.00 are witnessed 44.89 percent and 95.47 percent respectively, whereas, the numbers obtained G.P.A. 0.0 to 2.0 are 55.43 percent and 4.24 percent respectively, which shows the weak performance of community schools. From the view point of investments, physical infrastructures, teachers remuneration, pension and career development, the community schools have more opportunities than the institutional schools, but the results have evidenced that the education quality of community schools are lower than the institutional schools.

111. **Use of Canal**- As per the progress report of Department of Irrigation, the irrigation system has been executed to provide irrigation facilities from 31 irrigation system in 326 thousand hectares land areas. It is stated that irrigation facilities have been provided in 296 thousand hectares from the month of Asadh to Kartick, 200 thousand hectares from Mangsir to Falgun, and in 54 thousand hectares from Chaitra to Jestha from such system. However, it is noticed that out of the command areas, 75 percent of Sunsari-Morang Irrigation Project, 71 percent of Bagmati Irrigation Project, 60 percent of Kamala Irrigation Project, 36 percent of Narayani Irrigation Project, and 19 percent of Mahakali Irrigation Project have not been irrigated, which shows lower standard of efficiency and effectiveness of irrigation projects.

To provide the irrigation facilities in some parts of Kanchanpur and Kailai district, the Mahakali Irrigation Project-Third Phase has been implemented with a target of commencing the construction work from 2006/07 and completing by 2017/18. As per the detailed feasibility study report, the total cost of the project is NRs. 11 billion 168.3 million, and the project has achieved 19.76 percent physical progress incurring expenditure of NRs. 1 billion 577.1 million till 2016/17, but there has been no such situation where main canal of the project could be operated.

Accountability and Transparency

112. **Audit**- Whereas public entities are required to adhere the financial accountability by producing the documents of expenditure transactions in audits, some observations relating to non-compliance are given below:

112.1 Total commodity assistances of health related drugs & materials - including vaccines, kits etc. equivalent to NRs. 1 billion 504.4 million have been received inclusive of the assistances of NRs. 891.9 million received by Child Health Division, NRs. 199.7 million received by Epidemiology & Disease Control Division under Department of Health Services, and NRs. 412.8 million received by National Center for AIDS & STD Control, and such assistance amounts are also included in their financial statements, however the accounts of such assistances have not been get audited. The audits of such assistances should be completed by producing relevant agreements, books of accounts, and documents.

112.2 In Department of Agriculture Roads under Ministry of Federal Affairs & Local Development, the direct payment expenditure of NRs. 645.7 million have been incurred in 4 programs, NRs. 48.2 million incurred in Decentralized Rural Infrastructure & Livelihood Reform Program, and NRs. 171.9 million incurred in Local Governance & Community Development Program, and the assistance amounts have been included in their financial statements, but the concerned accounts & documents have not been submitted for auditing.

112.3 Kathmandu Ring-Road Improvement Project has not produced accounts of the direct payment grant expenditure NRs. 900 million for auditing incurred from Chinese grant, and in the same way, the Division Roads Office Chitwan has also not produced accounts of direct payment loan

expenditure NRs. 133.6 million for auditing incurred from Exim Bank, India under Roads Improvement Project. Ministry of Labour & Employment has not produced the accounts of direct payment expenditure NRs. 252.9 million for auditing incurred under Swiss assistance. All assistances received under foreign aid should be produced for auditing.

112.4 Mechanical Office, Jhapa has not produced the accounts of NRs. 18.2 million for auditing citing that all documents & accounts have been burnt due to vandalization act & set fire in office, and Transport management Office, Mechi has also not produced accounts of NRs. 463.3 million in audits citing that the accounts have been sent to other entities for the purpose of investigation.

112.5 Out of the total 128 entities operating under Tribhuvan University, the audits of 44 entities have not been completed in this year owing to non-produce of financial statements by completing the internal audits. Amongst the audit backlogs of 377 entities, the audits of only 147 entities have been completed, whilst the audits of 94 entities of 278 fiscal years have not been carried out owing to non-produce of financial statements by completing the internal audits. Though the Public Accounts Committee had issued a directive in 2012 April (2069 Baisakh) for completing audit backlogs within 3 months, the directive has not been yet complied.

113. Employee Advance - Rule 76(4) of Financial Procedure Rules, 2007 mentions that an advance cannot be provided to chief of finance section. The letter of Ministry of Peace & Reconstruction, Relief & Rehabilitation Unit dated 2016/11/25 (2073/08/10) has stated that the payments to the conflict affected persons and concerned heirs should be provided only through banks. However, amongst the amount released for distributing financial assistances to the displaced & conflict affected persons, the District Administration Office, Bajura has provided an advance of NRs. 37.3 million to an accountant. The advance amount has not been settled yet. So, making an investigation on this issue, the advance amount should be recovered taking actions against the both persons that have given/ taken the advance.

114. Act of Conflict of Interest - Pursuant to employees and the professionals that rendering expertized services, the code of ethics have been framed. Such code of ethics mention about the acts which cannot be performed by such persons and the subject matters to be complied along with maintenance of the professional integrity with due care.

Employees Provident Fund and Citizen Investment Fund, which have made loan investments in Hydropower Companies namely - Upper Tamakoshi, Rasuwagadhi and Sanjen, have prepared capital structures of the hydro companies giving special preferences to own employees (Fund) than other persons in the purchase of ordinary shares, and on that basis, the allotment of shares have been made. Since such acts may influence in employees' decisions on the assessment of loan proposals & adequacy of guarantees and loan amounts & the recoveries of interests, the acts of making share allotments with special preferences to the employees of own institutions that provided loans cannot be considered as justifiable.

115. Audit of Corporate Bodies - Including the audit backlogs, the audits of 46 institutions of 99 fiscal years are required to be conducted in this year, however, the audits of only 38 institutions of fiscal year 56 years have been completed. Of the audit completed 56 fiscal years, final audit reports have been issued in respect to 37 fiscal years, whilst such audit reports are yet to be issued in respect to 8 institutions for 43 fiscal years. This year, consultations have been provided to 21 institutions for conducting audits. Necessary actions are to be taken to make the institutions and officials responsible for the timely completion of audits.

Though the Corporation Act, 1964 (2021), Audit Act 1991 (2048), Company Act 2006 (2063) and the Acts concerning to operations of the institutions, have provided that every institutions are required to complete final audits, there exists a situation where the timeframe has not been specified, clear provisions in respect to taking action against the officials that not completing audits have not been specified, and the responsibility of maintaining records, taking action and implementing the audit observations & recommendations has not been assigned to

any particular person. The provision relating to constitution of board of directors, audit committees are being stipulated in the specified laws, but the responsibility of doing the specified works has not been assigned to any particular person in the power & duties of authorities of such Committees. Hence, it is essential to make audit works effective to bring comfort in citizen's service & facilities through determining specific objectives & targets, and to accomplish the responsibilities & obligations of corporate bodies. For this, necessary provisions are to be made in the relevant Acts.

Service Delivery

116. **Fulfillment of Position** - Ministry of Health has a total of 33 thousand 140 approved positions in 2015/16 including administrative and health service employees, in which employees are fulfilled in 28 thousand 375 posts, whilst employees are falling vacant in 4 thousand 765 posts. Accordingly, of the total 13 thousand 785 approved positions for 75 districts, the 4 thousand 146 posts have fallen vacant. In B.P. Koirala Cancer Hospital, Chitwan, amongst the approved positions, the positions of 20 percent doctors, 55 percent nurses and 31 percent paramedics are found vacant. The services of the hospitals have been affected as the positions of doctors & paramedics have fallen vacant.

117. **Presence of Doctor -** While examined the attendance statement of 80 doctors in 2017 July (2074 Asadh) in course of audit of Kanti Children Hospital, it is observed that 11 doctors have not worked in the hospital for the specified full time. In Sagarmatha Zonal Hospital, the doctor which is required to be present in emergency room has not been found, and some of doctors working in the hospital have kept signboards stating that they are also available in private clinics even in specified office time. The private clinics are being operated against the government health policy.

118. **Unused Equipment -** The procured equipment / machines are to be used in delivery of specified services. However, the following machines/ equipment have not been brought in operation of services due to lack of specialists, infrastructures and non-commissioning of timely maintenae:

Name of Hospital	Name of Unused Equipment	Description of not using	Cost Price / Expenses (In NRs. Thousand)
Mechi Zonal Hospital	ENT Microscope, C-Arm, Flexible Phyrixgoscope, Anesthesia with Ventilator, Endoscopy Machine, Ultrasound machine	Non-availability of the required human resources in hospital for operating	1,02,58
Bhaktapur Hospital	I.C.U. Equipment,	Non-availability of the required human resources for operating the purchased equipment in 2015/16	1,22,41
Sukraraj Tropical Hospital	4 beded I.C.U.,	Non-availability of the required human resources for operating the purchased made in 2017	1,90,23
Sagarmatha Zonal Hospital	Advanced Color Doopler Eco 2 sets, Dialasis Machine & Anaesthesia Machine	Non-availability of the required human resources in hospital for operating	96,05
	Patient Monitor, Hematology, Analyzer, X-ay 500ma, Automatic Hematology Analyzer	Not installed due to lack of physical infrastructure	48,71
Dhaulagiri Zonal Hospital	Dialysis Machine & Anaesthesia machine	Operating Manpower not available in hospital	59,66
Sarlahi Hospital	Ultrasound machine- 1 set	Operating Manpower not available	Not specified
	Digital X-ray machine- 1 set	Not operated due to lack of	Not specified

Name of Hospital	Name of Unused Equipment	Description of not using	Cost Price / Expenses (In NRs. Thousand)
		electricity supply	
Narayani Sub-regional Hospital	Dialysis Machine - 1 set	Not installed due to lack of spaces	Not specified
Pokhara Health Science Academy	Autoclave- 1 set, X-ray machine 1 set, C.T. Scan Machine	Maintenance not conducted, CT Scan machine not operated since last 3 months	Not specified
Bheri Zonal Hospital	Echo Cardiograph 1 set, X-ray Machine 1 set	not operated since last 6months	Not specified
	Dialysis Machine - 1 set Ventilator 1 set	Not operated since 1 year	Not specified
	Semi-auto Analyzer & Ambulance	Not operated since 2 year	Not specified
Regional Hospital Surkhet	Dialysis Machine - 1 set	Not operated due to lack of water filtering machine	37,66
	Autoclave- 1 set	Installed but not operated	12,40
Bandipur Hospital	USG Machine- 1 set, X-ray machine -1 set, Semi-auto Analyser 1 set, ECG Machine 1set	Not operated due to lack of maintenance	31,67
Paropakar Maternity & Women's Hospital Thapathali	Baby Incubator - 2 sets, X- ray - 1 set, USG Machine 1 set, Bed-side Monitor- 2 sets, O.T. Table 1 set, Phototherapy Machine 3 sets	Not in running condition, maintenance not conducted	Not specified

118.1 It is because of situations as mentioned above the like- supply of machines & equipment prior to preparation of infrastructures, damage of equipment without operations and the non-maintenance of equipment that damaged during operations etc., there exists a situation where the ordinary patients have been referred to other places due to non-availability of services in the hospitals. This year, Sukraraj Tropical Hospital has referred 132 patients to other places in the absence of beds in I.C.U.

118.2 It is because of lack of M.R.I. and C.T. Scan machines in comparison to flow of patients in Bir Hospital, general people, in the absence of turn of such services, have to wait at least 7 days for receiving the M.R.I. service and further 4 days for getting the examination reports, and they have to wait at least 3 days for C.T. Scan service and further 3 to 4 days for getting the examination reports. Though the service charges of M.R.I. and C.T. Scan of the hospital are cheaper by NRs. 3 to 4 thousand as compared to the charges of other private health institutions, the expenses to be borne for the admitted patients and accompanying attendants are becoming expensive as an additional 7 to 12 days is required to receive such services and get test reports. So, the services of the hospital should be made quicker & easier by developing the appropriate infrastructures.

119. **Installation of Equipment** - By commissioning the installation process, B.P. Koirala Health Science Academy has not brought into operations to the Oxygen Generation System purchased at cost of NRs. 32.4 million and the equipment including dental chairs worth NRs. 26.9 million. Likewise, the Academy has not operated Automatic DNA Sequencer machine worth NRs. 24.3 million commissioning the installation that provided by the Department of Health Services to the Academy on 2014/05/20 (2071/02/06).

120. **Zero Balance of Medicine** - As per the government policy, free medicines are to be provided in regular and easy manner. As per the statement obtained from Department of Health Services, Central Medical Store, Pathlaiya has zero stock of medicines like B.C.G., B.C.G. diluter, Polio 20, Measles Rubella, Measles Rubella Diluter in 2016 July/August (2073 Srawan) and Polio 20 and Syringe 0.05 in 2017 June/July (2074 Asadh).

Similarly, zero stocks are witnessed of the 11 medicines including Amoxicillin in Sunsari; 12 medicines including Amoxicillin & Ciprofloxacin in Jhapa; 5 medicines including pills Dipo in Ilam, 8 medicines including Jeevanjal in Okhaldhunga; 4 medicines including paracetamol in Solukhumbu; 5 medicines including Salbutamol in Rapti Sub-regional Hospital; 5 medicines including Ibufen in Rapti Zonal Hospital; Ciprofloxacin 250 in District Public Health Office Bara; Chloramphenicol Eye Drop in Dhading; and 6 medicines including Metronidazole in Saptari. Similarly, zero stock has prevailed of the essential surgical goods the like- Syringes, Gauges, & Masks.

The delivery of services has been affected due to zero stock of essential medicines - including medicines that needed for free medical treatment, essential injections that needed for birthing centers, and vaccines & syringes that needed for the treatment of children.

121. **Expired Medicine** - The management of medicines need to be done properly so that the medicines which the government has declared as free distribution could be timely utilized. This year, 138 types of 521 thousand tablets & vials existed in 19 offices are found with expired dates. In National Tuberculosis Center, Bhaktapur, 164 thousand 700 tablets of Cycloserine 250 mg and 28 thousand 100 tablets of Ethanamide 250 mg costing more than NRs. 3.2 million are also found with expired dates. Likewise, in Taplejung Hospital, 51 types of medicines including Calcium Syrup, Ofloxicin, Lycyp Syrup, Trafico Injection etc. are found expired. This has caused losses of Public resources.

122. **Operation of Pharmacy** - This year, NRs. 44.5 million is disbursed to 118 hospitals for the operation of pharmacy, and with the amount, 60 hospitals have operated pharmacy, whilst 52 hospitals have not yet operated pharmacy up to now. As per Directives related to Pharmacy operation, except in a special condition, the medicines should not be prescribed to patients specifying specific brand name. While examined some of doctors' prescriptions on the basis of sampling of Kanti Children Hospital, Koshi Zonal Hospital, Ilam Hospital, Mechi Zonal Hospital, Sagarmatha Zonal Hospital, it is witnessed that doctors have prescribed medicines specifying certain brand names as against the Directives. The provisions stipulated in the Directives should be complied with.

123. **Delay in Operation** - When analyzed the description relating to surgeries of some hospitals, there has been situation where the patients need to - wait up to 12 months in Kanti Children Hospital for making surgery of hernia & hydrocele, wait up to 3 months in Paropakar Maternity & Women's Hospital for making surgery of uterus, wait up to 6 months in Bir Hospital for making the general surgery, and wait up to 2 months in Sahid Gangalal National Heart Center for making surgery of heart diseases. The concerned hospitals have acknowledged that such situations have emerged due to excessive pressure of the patients in their hospital in comparison to available physical infrastructure. There should be improvement in the situations where the patients need to visit in private hospitals for receiving treatment services because of the non-availability of timely services in the government hospitals.

124. **Labor Permits** - There are 5 offices operated under Department of Foreign Employment to issue work permits for the workers that wish to go for foreign employment and to issue workers' pre-approval and final approval to the entrepreneurs that operating foreign employment business. When conducted field inspections of the offices, situations are observed, such as- unmanaged rushes of service recipients in the offices ; no system is introduced to get first service to the first comer; uncertainties amongst the service recipients about documents to be submitted; no system of facilitation is introduced in respect to the service recipients' ambiguity about the places to stay in queue; and the service recipients have been complaining about the requirements of receiving services through the intermediaries. As such, the offices should introduce a token system to get the first comer the first service, make arrangement of the facilitation for the service recipients, and introduce the monitoring & inspection system to ensure that the service recipients are not required to make excess payments than the service fees determined by the government.

125. **Flight Cancellation** - This year, Nepal Airlines has set the target of operating 3 thousand 544 international flights, but it has operated 3 thousand 358 flights. For domestic flights, it has set the target of operating 9 thousand 168 flights, but it has operated only 4 thousand 538 fights. The passengers have been facing difficulties in receiving services from the airlines due to cancellation of flights and delay in flight operations. In addition, the expenses of the airlines have surged up, whilst the incomes have gone down.

Approval and Implementation of Policy & Program

126. **No Advertisement Policy** - Though the point no 8 of Advertisement-Less Policy 2073 states that work plan will be approved within 2016 Mid-September (2073 Bhadra) and the advertisement-less telecasting will be fully implemented from 2017 Mid-August (2074 Srawan) onwards, but the implementation of policy has been postponed at present. The down-links licenses, permits & renewal for the transmission of 155 foreign television channels have been granted in accordance with the advertisement-less policy, but foreign advertisements have been transmitted without any restriction due to postpone of the policy. As a result, the transactions of domestic advertisement producers & entrepreneurs have decreased, which have also affected in revenue earnings & employment opportunities. This policy should be implemented immediately in order to increase employment and revenues through the expansion of domestic advertisement market.

127. **Implementation of Irrigation Policy** - Irrigation Policy 2013 (2070) provides that the government of Nepal can declare as irrigated area to any suitable area having irrigation facilities and the lands of such declared area cannot be used for non-agriculture purposes without getting consent. As per the description received from the Department of Irrigation, it is stated that in the absence of declaration of irrigated area, the malpractices have appeared the like - increase in sale of lands of irrigated area by converging into settlement land, the closure of canals built for the irrigation of Narayani Lift Project, housing & settlement areas have been developed in the irrigated main lands of Biratnagar Section and partial lands of Harinagar Section of Sunsari-Morang Irrigation Project, Phewa Canal System and Seti Water Users Irrigation System of Pokhara valley have been affected by land plotting, and the irrigated areas of Rupandehi have been affected by the Bairahawa-Lumbini Underground Project. By preparing a master plan in accordance with the policy, the practice of plotting of irrigated land should be controlled.

128. **Irrigation Status** - Water Resources Strategy 2000 (2057) has set a target of providing the year-round irrigation facilities in two-third portion of irrigated area by 2017. National Water Plan 2005 (2062) has also set an objective to provide the year-round irrigation facilities in 64 percent of irrigated area by 2017. Out of the around 2.6 million hectares land suitable for the agricultural use, the irrigation facilities can be provided in around 1 million 800 thousand hectares of land. Amongst the area, the irrigation structures have been built in 1 million 433 thousand hectares area as of 2016/17. Accordingly, the irrigation structures are still to be built in around 400 thousand hectares (15.38 percent) of lands. Amongst the land where structures are built, the year-round irrigation facility is available only in approximate 477 thousand (33 percent) hectares. Thus, the target of providing year-round irrigation facilities in 64 percent of irrigated land by 2017 has not been achieved.

129. **Expenses without Program** - Rule 33 of Financial Procedure Rules, 2007 (2064) provides that the amounts that has remained balance at the year-end after making expenditure shall be returned to District Treasury & Control Office. Kathmandu Valley Development Authority, by using the previous year's balance amount NRs. 58.20 million of land compensation distribution of Melamchi Water Supply project, has incurred a total expenditure of NRs. 46.7 million in this year - including NRs. 4 million expended for distributing the compensation of lands & houses and NRs. 42.70 million expended for the roads extension and lands protection of various places

of Kathmandu. The balance amounts of budget released in previous year have not been produced in freezing, but spent in this year without getting programs approved.

This year, Kathmandu Valley Development Authority, District Commissioner's Office has brought forward the balance NRs. 803.5 million of 2015/16 including NRs. 800 million that received for distributing compensation of Kalanki-Nagdhunga Road and Chabahil-Sankhu Section Road and interest earned thereon the received amount. Without getting the approval of programs, the office has used the balance amount for making the total expenditure of NRs. 802.40 million in this year - including NRs. 450 million expended for distributing compensation of Kalanki and Chabahil Road Section, NRs. 24.90 million paid to 46 persons as the compensation of various roads of Kathmandu, and NRs. 327.50 million expended in public construction.

130. **Selection of Construction Site** - Divisional Road Office, Tanahu, has been constructing a new bridge in Marsyangdi River, which is only 1.5 KM far from the Bimalnagar Bridge. There also exits another bridge nearby the new bridge site for the smaller vehicle movements, and the strategic or subsidiary demands have not witnessed in the place where the construction of bridge is going on. Thus, the bridge sites have not been selected on the basis of the optimum utilization of resources and maximum benefits. Similarly, the construction of 8 bridges in Trishuli river and 5 bridges in Sunkoshi river are being undertaken by the Bridge Project - Mid sector, and thus, many bridges are likely to be constructed in a single river at nearby places as the standards relating to minimum distance between two bridges has not been fixed.

□ National Pride Project

131. **Progress of Project** - The national pride projects have been implemented according high priority for the development of physical infrastructure and expansion of service & facilities to people of the country. The status of expenditure incurred and progresses achieved up to 2016/17 are as follows:

(NRs. in Tens of Millions)

S. No.	Name of project	Commenced Year	Year to be completed	Total cost estimate	Total expenditure till date	Physical/ Financial Progress Percent
1	Melamchi Drinking Water Project	2001/02	2074/75	3554	2271	90.10
2	Upper Tamakoshi Project	2010/11	2074/75	4172	3345	90.50
3	Pushpalal (Mid-Hill) Highway	2007/08	2074/75	3337	1896	58.81*
4	Budi Gandaki Hydropower Project	2012/13	2077/78	27819	563	20
5	Gautam Buddha International Airport	2013/142070/71	2075/76	856	758	30
6	Rani Jamara Irrigation Project	2009/10	2074/75	1263	850	55.8
7	Sikta Irrigation Project	2002/03	2076/77	2502	1323	56
8	Babai Irrigation Project	2087/88	2078/79	1269	552	49
9	Bheri-Babai Diversion Multi-purpose Project	2011/12	2077/78	1643	234	20
10	Western Seti Hydropower Project	Not Received	Not Received	Not Received	Not Received	Not Received
11	Pashupati Area Development Trust	2000/01	2073/74	203	-	43.5
12	Lumbini Area Development Trust	2009/10	2074/75	610	134	72
13	Pokhara Regional International Airport	2014/15	2077/78	2151	303	14.08*
14	Second International Airport Nijgadh	2014/15	2078/79	12000	10	0.08*
15	Kathmandu-Tarai Fast Track	2007/08	2077/78	25000	409	1.63*
16	East West Railway	2009/10	2075/76	69517	684	8.8
17	North-South Highway Karnali	2007/08	2079/80	410	24	12.5
18	North-South Highway Koshi	2008/09	2077/78	408	118	47.2

S. No.	Name of project	Commenced Year	Year to be completed	Total cost estimate	Total expenditure till date	Physical/ Financial Progress Percent
19	North-South Highway Kaligandaki	2009/10	2076/77	2551	134	28.5*
20	Postal Highway Project	2006/07	2074/75	4724	1093	23.14*
21	President Chure-Terai Madhesh	2010/11	-	196	-	-

* Financial progress is shown as physical progress in not available.

131.1 Melamchi water Supply Project was started on 2001/02 with a target of completing by 2007/08 to supply 170 million liters of water from Malamchi River of Sindhupalchowk to Kathmandu Valley in first phase through constructing 27.5 km long tunnel, but the targeted completion year has been extended up to 2017/18 revising the period for the fourth time. As against the total project cost of NRs. 35.54 billion, the project has achieved an overall physical progress of 90.10 percent up to 2016/17. The construction work of tunnels has reached nearby completion stage, whilst only 70 percent of the construction of head-works has been completed. Out of 2 water treatment plants to be constructed, 1 plant having a capacity of 85 million liters is yet to be constructed. Likewise, the pipe laying works in valley have not been fully completed. The project's time has been prolonging owing to delay in supply of essential fevical & power supply for the operation of water treatment plant, existence of loose rocks in tunnels, obstruction in construction works, problems in use of equipment and inability of construction contractor to use means & resources.

131.2 Upper Tamakoshi Hydropower Project aims to generate 456 megawatt electricity. Initially, the project had targeted to complete by 2015/16 beginning from 2010/11, but the period has been extended up to 2017/18 due to earthquake and other obstructions. As compared to initial cost of NRs. 35.29 billion, the cost has increased to NRs. 41.72 million due to extension of construction period. The overall progress of the project has stood 90.50 percent. The project has been confronting with the problems, such as- transporting of heavy load equipment, procedural delay in payment of foreign exchange, delay in construction works of Khimti Sub-station etc. There will be a slim chance of generating electricity from all units within Mid-January 2019 (2075 Paush), if the construction works of the Sub-station is not completed.

131.3 Mid-Hill (Puspalal) Highway Project, which has a total length of 1 thousand 776 km that connects Chiyobhanjyang of Panchthar to Jhulaghat of Baitadi, was started on 2007/08 with a target of completing by 2016/17, but the targeted completion year has been revised up to 2020/21. Though the total budget of NRs. 2.85 billion is appropriated in 2016/17, but the budget has been increased to NRs. 5.17 billion adding NRs. 2.32 billion (81.40 percent) through the virement, and the total of NRs. 5 billion 155 million has been spent out of the amount. As against the target of black-topping 55 km road, gravelling 100 km road and constructing 15 bridges in this year, the black-topping of 22.5 km road, gravelling of 95 km road and constructing of 9 bridges have been commissioned. Up to this year, the project has opened 1 thousand 776 km track, graveled 125 km road and blacktopped 445 km road. Out of 110 bridges, 40 bridges have been constructed, whilst 30 bridges are still under-construction.

131.4 Budhigandaki Hydropower Project, which is situated in between the border of Dhading and Gorkha District, has a potential electricity generating capacity of 1200 MW and has been implemented with the target of completing by 2020/21 commencing from 2013/14. The project is based on reservoirs, and it intends to submerge 7 thousand hers of land. For 2016/17, the total of NRs. 5.33 billion is allocated for acquiring necessary land and NRs. 4.36 billion has been expended. Amongst the total of 58 thousand 153 ropanies of private lands to be acquired by the project, the compensation rates of Aarughat and Aarukhet of Gorkha District and Aarughat and Khahare Bazar area of Dhading District have not been

determined. The implementation of the project is likely to be delayed due to timely unsettlement of the problems the like - land acquisition, distribution of compensation, re-settlement & rehabilitation management and funding mechanism etc.

131.5 With an objective to develop the tourism sector sustainable manner by upgrading the existing Gautam Buddha Airport into an international airport, this project has been started from 2013/14 with a target of completing by 2018/19, but the progress has not been achieved as expected. The works of compensation distribution of the acquired lands or the lands yet to be acquired have not been completed. Though the construction works of international terminal building, operation & control tower, fire & rescue building are on-going, but the work of the project has not been going ahead as per expectation owing to management problems including internal conflict between the construction companies related to construction works.

131.6 In Ranijamara-Kulariya Project, there is a provision of making expenditure from the Government of Nepal and the World Bank. This project is based on the Project Appraisal Document prepared by the World Bank. Up to now, a total of NRs. 4 billion 528 million has been expended in the project. The project needs to make expenditure on the basis of D.P.R., but the expenditure have been incurred on the basis of procurement master plan. So, an integrated D.P.R. of the project should be prepared.

The project has already made the payment of NRs. 1 billion 228.9 million in a contract that related to site intake construction having capacity of 100 Cu. meter per second. In the project appraisal report prepared by the World Bank, it is mentioned that adequate water may not be available in dry and winter season as Karnali River can change its course. Likewise, it is also stated that the project will also be affected by the water discharge of Karnali River in intake upstring that are done by Upper Karnali Project at the rate of 3 hours per day for producing electricity. In Clause No. 6.3 of the agreement entered between Investment Board and the Electricity Producing Company in 2014, it is mentioned that a report will be submitted within 6 months by conducting a study on the impact to the irrigation project however, such report has not been prepared even after the lapse of 3 years period. Since permanent structures including dams are not constructed in Karnali River, and the construction of electricity may also likely to effect on the availability of water for the irrigation, the situation of continuous availability of 100 Cu. meter per second water will not persist for all time. So, it is essential to make an effort to counteract this problem.

131.7 Sikta Irrigation Project has been implemented since 2002/03 with a target of completing by 2019/20, but the branch canals for the water distribution have not been yet constructed even after the elapse of 11 years. In the command area of eastern side, the works of constructing 53.50 km long main canal are yet to be commenced to provide irrigation facilities in the irrigation suitable lands of Rapti Sonari Rural Municipality. Even in the main canal where the works are completed in 2014/15, the beds are found cracked, service roads damaged, and slope of canal cracked & collapsed in several places. The works of main canal have damaged in several places before the completion of distribution system. The responsible persons are to be ascertained by conducting an investigation on the quality of construction works performed.

131.8 Babai Irrigation Project has been commenced since 1987/88 with a target of completing by 2012/13 to provide irrigation facility in 36 thousand hectares of agriculture suitable land of Bardiya district, but the time has been extended up to 2021/22 due to delay in construction works. The revised cost of the project has reached NRs. 12.69 billion. As against the target of constructing 77 km canal, only 55 km canal has been constructed, and re-modelling works

of the constructed canal has not been fully completed. The overall physical progress of the project is 49 percent. The project construction time has been increasing due to delay in supply of construction materials and conflict in acquisition of lands.

131.9 Bheri-Babai Diversion Project has been commenced since 2011/12 with an objective to generate electricity by diverting 40 Cu. Sec. water of Bheri River into Babai River and to provide irrigation facility in 51 thousand hectares of land. The major three works included in this project are the construction of head-works in Bheri River, construction of 12 km long tunnel and construction of power house in Babai River. The total cost of project is NPR 16.43 billion, which is to provide irrigation facility in 51 thousand hectares land of Bardiya and Banke District and to generate 48 megawatts of electricity by utilising the diverted water of Babai River channelling through Babai Canal. As per the statement obtained from the project, the total of NRs. 2 billion 336 million has been expended up to 15th July 2017 (2074 Asadh) inclusive of project management, construction works and consultancy services. In the progress Report prepared by the project the cumulating expenditure are not shown. The project has achieved cumulative physical progress of 14.24 percent as against the total cost and expenditure.

131.10 Pachhim-Seti Hydropower Project has been commenced with an objective of generating a total of 750 megawatt electricity. A memorandum of understanding is entered between Nepal Electricity Authority and one Chinese Company for constructing this project under joint-venture model, but the progress have not been made as the Chinese company has not submitted the necessary report. The implementation modality of the project has not been finalized. Though joint financing agreement is signed on 2017/11/16 (2074/07/30), the project's construction works have not gone ahead due to non-preparation of joint investment plan along with timeframe & work schedule.

131.11 This project has been commenced since 2000/01 with a target of completing by 2016/17 to develop the Pashupati area as a model place of religious, cultural and eco-tourism based on Pashupati Area Master Plan. Though the works of 17 subject area such as - road construction, conservation, protection & repairs of religious houses (Satal), development & protection of parks, drainage construction etc. have been regularly undertaken, but the works have not completed as per expectation. The total cost of the project is NRs. 2.03 billion. It appears that the targets set by the project will not be achieved in due time due to lack of construction materials & skilled human resources, delay in contract management.

131.12 Lumbini Area Development Trust Project has been undertaken with an objective to establish the holy land of the birth place of Lord Gautam Buddha as an international attraction centre for Buddhists & peace loving community. The revised cost of the project is NRs 6.1 billion. Though the works have been undertaken since 1985 (2042) in accordance with Lumbini Master Plan, but the completion time still remains uncertain. The overall physical progress of the project is 72 percent. The project has problems, the like - lack of dumping site for the solid waste management, lack of human resources, and absence of security in sensitive areas. The works of land acquisition for the archaeological site of Dev Daha-Ramgram, construction of staff colony as per master plan, black-topping of service roads, construction of electricity transmission lines have not been totally completed.

131.13 This project has been commenced since 2014/15 with an objective to promote the tourism by constructing Pokhara Regional International Airport setting the target of completing by 2020/21. As per the project execution agreement reached between the Government of Nepal and the Chinese government on 2017 April (2073 Chaitra), the loan agreement has been effected from 2017 March (2073 Jestha) and the works have begun from 2017/07/11 (2074

Asadh 27). For the implementation of this project, which is to be constructed under loan assistance of Axim Bank, an agreement is signed with a foreign company for executing under engineering procurement construction model and the construction works of runway are going on.

131.14 This project has been commenced since 2014/15 with an objective to develop the tourism sector in sustainable manner by constructing the Alternative International Airport at Nijgadh of Bara. There is a situation where the works of E.I.A. not completed, works of distribution of land compensation not completed, and selection of international consultant for preparing detailed design is delayed. Despite of the receipt of report from the committee that constituted for determining modality of investment for the construction of the airport, the works have not been finalized. The construction works of the airport has been delayed due to non-finalization of the subject matters, such as - design, cost, investment modality, trees cutting in forest area, and the location of runways. The total cost of the project is NRs. 120 billion and the estimated completion time is 2021/22. The project has spent only NRs. 100 million as against the appropriation of NRs. 1.5 billion.

131.15 The total length of the Kathmandu-Terai-Madhesh Fast Track is 76 km, which connects the Capital with Tarai Madhesh. The construction works of this Fast-Track Project has been started since 2007/08. In Fiscal Year 2016/17, the total budget of NRs. 10 billion 1.3 million is appropriated for the distribution of compensation, contract management and consultancy services, but the budget is reduced to NRs. 2 billion 113.7 million decreasing NRs. 7 billion 887.6 million (78.87 percent) through virement, and only NRs. 1 billion 959.3 million has been expended out of the amount. The project has not made other progress in this year except providing of advances for distribution of land compensation.

The Budget Speech 2014/15 had spelled out that the construction of this project would be done in accordance with public-private partnership, and accordingly while invited the proposal in 2014 for the construction & operations of infrastructural structure, three companies were selected. Of the companies selected, 2 companies had submitted proposals and a notice for intend of contract was issued to an Indian Company. However, the Budget Speech 2016/17 has mentioned that the project will be undertaken by Government of Nepal, and accordingly the project works has been handed over to Nepal Army for completing within 4 years as per decision of 2017/05/04 (2074/01/21) of Council of Minister cancelling all processes initiated for the selection of the company.

131.16 The work of railway and metro construction has been commenced since 2009/10 with an objective of constructing & operating of railway network having length of 946 K.M. starting from Mechi of east to Mahakali of west. In 2016/17, the total budget of NRs. 1 billion 984.2 million is appropriated for the project, and the budget is increased to NRs. 2 billion 328.2 million adding NRs. 344 million (17.34 percent) through virement, and NRs. 2 billion 327.5 million has been expended out of the amount. Under this project, the detailed project report of Bardibas-Kakadvitta Section has already been prepared, whilst the detailed project report of Butwal-Gaddachauki Section is under process of preparation. Likewise, 80 percent construction works of track beds of Bardibas-Nijgadh are completed, and the procurement agreements have been made for the construction of 10 bridges lying in between Bardibas and Nijgadh.

131.17 North-South Highway, Koshi Corridor has set an objective to construct and upgrade 162 km road starting from Basantapur of Tehrathum District to Kimathanka of Sankhuwasabha District. As against this year's target of opening track 8 km and gravelling of 10 km roads, the work of track opening of 5.5 km has been completed. Up to now, the work of 80 km

track opening has been already completed and the design works of 10 bridges out of 12 bridges are still going on.

131.18 Kali Gandaki Corridor has set an objective to construct and upgrade 435 k.m. roads starting from Gaidakot of Nawalparasi District to Korala of Mustang District. As against this year's target of opening 12 km track and gravelling of 28 km roads, the works of track opening of 10 km and gravelling of 27 km roads have been completed. Up to now, 276 km roads are broadened, 79 km roads are graveled and 33 km gabion wall are constructed in the places where tracks are fully opened.

131.19 Karnali Corridor has set an objective to construct 196 km road beginning from Khulalu of Kalikot District to Simikot of Humla District and 88 km roads from Hilsa to Simikot. Up to now, 83.2 km tracks are opened (including 7 km of this year) 25 km roads are broadened, and 0.75 km gabion walls are constructed.

131.20 Hulaki (Postal) Highway has been commenced since 2006/07 to build as an alternative highway by upgrading the exiting Hulaki Road of the tarai area. This project has spent NRs. 3 billion 655.3 million in 2016/17 for carrying out black-topping of 5.5 km roads, gravelling of 34 km roads, and constructing 15 bridges. Inclusive of black-topping of 5.5 km, gravelling of 30 km and construction of 10 bridges commissioned in this year, the project has completed the construction of 1 thousand 644 km muddy standard roads, 68 km gravel standard road and 80 km blacktop standard roads, and out of 150 bridges, 50 bridges are completed and 70 bridges are under construction.

131.21 Rastapati (President) Chure-Tarai Project has been commenced since 2010/11, and annual programs are being undertaken every year. This program has been classified as a national pride project since 2013/14 with an objective to protect tarai area from the relationship between upper and lower coastal environment. The total budget of NRs. 1.84 billion has been appropriated in 2016/17 for purchase of new plants, production of different species of plants, fire controls, control of forests encroachment & export smuggling, conducting of employment-oriented afforestation programs to poor community and conducting program for group networking between the coastal residents, and the project has achieved the financial progress of 93 percent in the year. The physical progress of the project has not been achieved as per expectation owing to problems, the like - lack of integrated settlement management, non-regulation of excavation works of stone-mines run in private lands, unimplementation of land use policy strictly, confusion in programed budget implementation while transferring the District Offices to local levels, non-fulfillment of subject-wise experts as per approved positions of the committee, and progress of stakeholder entities not received timely basis.

Significant audit observations noticed in course of the audits of National Pride Projects have been included in concerned thematic portions. Remaining observations are included in Ministry wise section.

Norms and Cost Estimate

132. **Approval of Norms** - Rule 10(2) of Public Procurement Rules, 2007 provides that the approval norms are to be received from Government of Nepal, Council of Ministers. However, the consent of Director General is taken while constructing bridges on the basis of design & build procedures by the Department of Roads, and similarly, cost estimates of the offices under Ministry Urban Development are being prepared on the basis of norms approved by the Department of Urban Development & Building Construction. Norms,

which are required to be approved from the Government of Nepal, are being approved by the Departmental heads only, which is not in compliance with laws.

133. **Variance in Norms** - In the norms used by the Department of Roads, the wastages in cutting, binding & fixing of iron rods are allowed at the rate of 15 percent, whilst such wastages as per the norms used by the entities under housing and irrigation are to be calculated at the rate of 5 percent only. As a result, if calculated this year's excess wattages of iron rods that arranged by 12 entities under Department of Roads related to 75 procurement agreements, the cost of works has surged by NRs. 92.1 million.

In the norms prepared by the Department of Roads, it is stated that 4.5 man-days labor are needed for each Cu. meter work requiring 30 meters transportation for the stone masonry work with 1:4 cement joints. In the norms prepared by Department of Building Construction, it is stated that 5 maydays of labor are needed for the same works requiring 10 meters transportation. Similarly, Department of Building Construction has prepared the norms of the requirement of 0.159 metric tons cement for the same work, whereas Department of Roads has provided the norms of the requirements of 0.155 metric tons cement. Thus, if calculated the cost of 54 thousand 526 Cu. meter masonry works of 211 packages that carried out by District Commissioner Office, Kathmandu in this year, the cost estimates approved by the office has sustained an excess financial burden of NRs. 20.8 million than the norms of the Department of Roads.

134. **Approval of Norms without Authority** - Rani-Jamara Kularia Irrigation Project, without using the norms approved by the Government of Nepal, has used the norms approved by the Director General of Department of Irrigation in 2002, and accordingly, the project has prepared cost estimates with requiring 12 skilled workers for each metric ton of iron rod works in accordance with the norms. Since the project has prepared cost estimates with an excess of the requirements of 4 skilled workers in each metric ton of works, the cost estimates have grown by NRs. 32.9 million in the construction works inclusive of main canal, barrel, settling basin, canal lining, road improvement etc.

135. **Brick Size** - In the norms used by the Department of Roads, it is stated that 560 pieces of small size bricks (measuring 224x108x57mm) are required for each Cu. meter brick masonry work with 1:4 cement and sand joints, and the cost estimates are to be prepared by increasing or decreasing the quantity of bricks in accordance with the shape & size of bricks. However, Commercial Demand Extension Project, Sunsari has prepared the rate analysis on the basis of use of 430 bricks in 2 construction works and 560 bricks in 4 construction works. Since big size (measuring 250x125x75mm) bricks are used in the construction, only 335 pieces of brick are to be used in each Cu. meter masonry work. The cost estimates will decrease by NRs. 52.8 million, if the rate analysis is prepared with the use of 430 bricks in the construction works. Hence, cost estimates should be prepared by identifying the quantity bricks to be used as per brick size.

136. **Transportation Rate** - In the situation of the availability of permanent road facilities in the district headquarter of the Rukum, the rate analysis of road construction has been prepared by including the transportation cost of cements & iron from Tulsipur-Dang. As a result, the cost has increased by NRs. 27.7 million in this year with respect to transportation cost of cements & iron rods in the roads constructed by the Mid-Hill Highway Project-western section in Rukum district.

137. **Cost Estimate for Maintenance** - Rule 13(5) of Public Procurement Rules, 2007 provides that the cost estimates for the repair & maintenance of machines, tools, & equipment are to be prepared by including overheads & profits in item rates. However, Department of Health

Services, while approving the cost estimate of NRs. 523.70 million of three lots for maintenance of machines, tools, & equipment existing in hospitals & health institutions of 73 districts except Kathmandu valley, has included a total of NRs. 104.70 million amounts separately including NRs. 41.90 million as 10 % overheads and NRs. 62.80 million as 15% profits. Thus, the overheads and profits, which are required to be included in the item rates, have been added separately in cost estimates and the payment of same have been granted on that basis, which is not in conformity with the laws. While conducted reviews by Public Procurement Monitoring Office in pursuant to this, the office has suggested that this matter needs to be investigated by the ministry, but the contract agreements have been arranged without making such investigation.

138. **Lumpsum Cost Estimate** - Rule 11 of Public Procurement Rules, 2007 provisions that pursuant to cost estimate of goods, the prevailing market rates, previous year's purchased rates or the rates published by the industry & commerce association should be taken as the basis. Urban Development & Building Construction Division, Nuwakot has prepared the total cost estimate of NRs. 220.8 million for the construction of conference hall and amongst the amount, a lumpsum NRs. 30 million is included for the works inclusive of VRF CD Inverter System, sound system, air cooling system etc. The contractor has quoted NRs. 0.5 million only for those items. For such items, the cost estimates are to be prepared on the basis of item-wise rate analysis along with description of necessary goods, but such analysis is not carried out while preparing the cost estimate and the contract agreement has been made without making any assessment of the items in bid evaluation.

139. **Excess Valuation** - Gautam Buddha International Project has prepared cost estimate of NRs. 23 billion in respect to the compensation of 498 bighas of lands to be acquired for the project. The project has distributed the compensation of NRs. 7.7 million only up to 2017/07/15 (2074 Asadh), but has distributed NRs. 5 billion 700 million up to 2018/02/13 (2074/11/01). The Compensation Determination Committee is required to distribute the compensations by preparing prices on the basis of realistic standards, but such basis has not been witnessed. While determining prices, the averages of government rates, current registration record prices and prices fixed for the purpose of bank's pledges are taken, but the prices have been fixed by adding again 5 times amounts in case of main road land and adding 8 times amounts in case of the lands other area. Since the compensation amounts of lands have been raised by fixing unusually high prices, the total cost of the project has been increasing.

Public Procurement Management

140. **Competition in Purchase** - Public Procurement Act 2007 (2063) has arranged the provision for the assuring equal opportunity to compete, promote and participate in public procurement process without making any discrimination. This year, 41 offices under Department of Roads have invited 1 thousand 291 tenders having the cost estimates of the total NRs. 103 billion 254.5 million, and the procurement contract have been arranged with total contract price NRs. 82 billion 796.2 million, which is 19.81 percent below of the cost estimate amounts. Of the procurement agreement made by some offices in this year, the competition status has appeared 0.14 percent to 3.49 percent as given below:

(NRs. in Millions)

Office	No. of Procurement Agreement	Cost Estimate	Approved Amount	Low Percent
Department of Roads, Foreign Division	8	1031.3	1029.9	0.14
Mid-Hill Highway, Western Section	6	5606.0	5569.6	0.65
Dharan-Chatara-Gaighat-Katari-Sindhuli–Hetauda Road	4	18715.9	18348.8	1.96
North-South & Commercial Road Extension Project Directorate (Rani-Biratnagar-Itahari-Dharan)	2	1864.8	1807.4	3.08
Department of Roads (Galchhi-Trishuli-Rasuwagadhi Road)	1	3263.0	3149.0	3.49

Major observations relating this are as follows:

140.1 Department of roads, Foreign Division has entered a total of 11 procurement agreements with the contract price NRs. 2 billion 61.2 million through the tender processes to carry out bridge & road security works in the districts where Road Sector Development Project are implemented, and of such agreements made, 2 tenders each have been received for 8 packages, in which one bid is received above the contract and another is received around the estimate amounts (ranging only 0.003 to 0.464 percent below) . Similarly, amongst the 6 procurement agreements made by the Mid-Hill Highway, Western Section in 2016/17, the contract agreements have been made with 0.65 percent below the cost estimates, which shows low rate of competition in bidding process.

140.2 With respect to the construction of 256.6 km road & 76 km bridges of Daran-Gaighat-Sindhuli-Hetauda Section and upgrading of 82 km road of Galchhi-Syafrubesi- Rasuwagadhi Section, the total cost estimates of NRs. 21 billion 978.90 million in 5 packages as mentioned below are approved and the procurement agreements given below have been arranged through the tender process by approving tenders that quoted just 0.51 to 3.49 percent below the cost estimates:

(NRs. in Millions)

Description	Cost Estimate	Approved Tender	Low Percent
Dharan-Chatara-Gaighat-Katari-Sindhuli-Hetauda Road Upgrading (Eastern Section)139.9 km	6385.4	6303.7	1.28
Dharan-Chatara-Gaighat-Katari-Sindhuli-Hetauda Road Upgrading (Western Section)115.7 km	6438.4	6361.9	1.19
Galchhi-Trishuli-Mailung-Syafrubesi -Rasuwagadhi Road Upgrading 82 km	3263.0	3149.0	3.49
Dharan-Chatara-Gaighat-Katari- Hetauda Road Upgrading (Eastern Section) - 43 bridges	3317.7	3300.9	0.51
Dharan-Chatara-Gaighat-Katari- Hetauda Road Upgrading (Western Section) - 33 bridges	2574.4	2560.8	0.53

For constructing Dharan-Gaighat-Sindhuli-Hetauda Road within 3 years and Galchhi-Syafrubesi-Rasuwagadhi Road within 2 years under the Government of Nepal source, the national- level tenders have been invited keeping different provisions than the provisions mentioned in standard bidding document approved by the Public Procurement Monitoring Office.

The Public Procurement Monitoring Office has mentioned that the appropriate numbers of packages could be prepared as the construction works are of ordinary nature, but

bigger packages are prepared limiting the competition, and the prices received are also not witnessed appropriate & justifiable. The office has stated that when analyzed the participation in bidding process, the instances such as - sale of equal number of tender documents, receipt of equal number of tender bids, non-receipt of tenders through E-bidding process, the receipt of all bid prices near around the cost estimate prices, the frequent receipt of bids from certain bidders repeatatively, and the obtaining of certain contract by almost all bidders that participated in bidding should be considered well-organized & well-planned acts instead of incidental occurrence. The office has further mentioned that when fixed the qualifications of the construction contractors, more experiences of average transactions are demanded than that require as per size & complexity of construction works and specified by standards, which is not in conformity with established practices & principles of public procurement. Hence, these matters should be made clear carrying out an investigation.

141. **Land Purchase** - Section 5 of Public Procurement Act 2007 (2063) and Rule 11 of Public Procurement Rules 2007 stipulate that while making any purchases by public entities, the procurement activities should be undertaken in a competitive manner preparing the cost estimates on the basis of local market prevalent rates. But, Nepal Oil Corporation, without making proper competition, has made the procurement agreement of NRs. 2.31 billion for purchasing 91 bighas of lands in Jhapa, Chitwan & Rupandehi and has made the payment of NRs. 1.96 billion purchasing 75 bighas 8 kathas lands. In Financial Administration & Procurement Bylaw of the Nepal Oil Corporation, there is a provision that the approval of the Board of Directors should be obtained for making any purchase the cost estimate of which is above NRs. 2 million, however, the Board of directors of the Corporation has delegated such authority to the executive director for purchasing 91 bighas of land at NRs. 2.31 billion.

Out of 26.8 bighas of land purchased in Rupandehi district at NRs.607.8 million, the ownership registrations have not been transferred in respect to 14.35 bighas of land costing NRs. 315 million, but the payment of NRs. 290 million has been granted for the same lands by acquiring the bank guarantee of NRs. 350 million at the rate of 110 percent. Though the notice is published for purchasing 20 bighas of land in Jhapa, but 23.15 bighas of land have been purchased at NRs. 626.40 million in excess of the proposed quantity. Similarly, the approach road are not found as specified in notice with respect of lands purchased in Sarlahi,, and the lands of 21.25 bighas have been purchased at NRs. 674.90 million in chitwan in spite of the existence of poles & trees in purchased lands.

Section 5 of Public Procurement Act 2007(2063) and Rule 19 of Public procurement Rules 2007 (2064) stipulate that a tender bid should be invited by preparing only the cost estimates, but the total payment of NRs. 1 billion 960 million - including NRs.135.10 million in Jhapa, NRs. 96.10 million in Sarlahi, NRs 158.50 million in Chitwan, and NRs. 109.30 million in Rupandehi, have been provided, stating that the rates are as per the Revenue Offices assessed prices and the prevalent market prices. But, while making the registration of ownership, it is witnessed that the purchased prices are more than 17 times than the assessment prices of the concerned Land Revenue Offices. The suppliers have received payments by entering agreement with the corporation through the tender process, but the registration of land ownerships have been transferred directly from the name of other land owners to the corporation. Rule 19 of the Public Procurement Rules 2007 requires making purchase transactions only with the firms that have acquired Permanent Accounts Number (PAN), but the lands have been purchased without having such evidences, which is not in conformity with prevalent law.

142. **Aircraft Purchase** - For purchasing wide-body A330-200 aircrafts, Nepal Airlines Corporation has prepared a cost estimate of US Dollar 118 million 163 thousand 773 for each

aircraft. Rule 236(1) of Financial By-Laws 2009 (2065) of the Corporation provisions that new aircrafts can be purchased with the manufacturer of aircraft, but international tender bid has been invited without following the procedure prescribed in the Bylaws. Out of tender bids received, the tender of one group of supplier (which is established primarily with an objective to transport passengers, goods and parts, operate charter flights, and lease & rent the air transport equipment) quoting the lowest price of US Dollar 104.80 million for each aircraft and US Dollar 209.6 million for two aircrafts have been approved and an agreement has been entered with the supplier. For purchasing new aircraft, tenders need to be invited only from the manufacturers, but the procedures for purchasing through intermediaries have been followed, which is against the prevalent laws.

As per the website of the Airbus Company, it is known that the company used to give a huge discount on the published prices while selling aircrafts. Though the Corporation had purchased the narrow-body aircraft from the same manufacturer in past years and had direct communication relation with the Airbus Company, but the Corporation has not made any attempt to compare the prices to be paid on making direct purchase from Airbus Company with the bid prices that quoted in the tender. Since there is minimum possibility that the supplier will supply aircraft without having any profit, it cannot be assured that the purchase made through the intermediate supplier has become economical.

143. **Purchase of Light Helicopter** - When invited a tender by approving a cost estimate of Euro 3 million 190 thousand 871 for the purchase the light helicopter for the enhancement of the disaster management capacity development of Nepal Army, the manufacturers of the France and United States America have submitted tender bids. The lowest bid of Euro 2 million 567 thousand 376 (19.54 percent below the estimate) quoted by one agent of Singapore on behalf of the French Company has been approved. In the approval received from the Government of Nepal Council of Ministers on 2016/06/30 (2073/03/16), the permission is granted for purchasing one medium and two light helicopters and accordingly the tender is also invited for purchasing two light helicopters, but only one light helicopter has been purchased under this process.

When invited a financial proposal for purchasing another one light helicopter, only one tender of Bell Helicopter Company of United States of American is received and the procurement agreement has been made for purchasing from the same company at cost of US Dollar 3.8 million. The helicopters having different specifications have been purchased than the specifications specified in the permission granted by the Council of Ministers, which is not appropriate.

144. **Design and Built** - In Schedule - 4 provisioned under Rule 22 Public Procurement Rules 2007, there is provision for making lumpsum contract. Of the bridges which are under construction under Department of Roads, the design & built procedure has been followed for the construction of 146 bridges. The major observations witnessed in course of the audits are as follows:

144.1 For making the construction works through design & built procedures, the Public Procurement Act and Rules have not made a detailed provision, and Public Procurement Monitoring Office has also not prepared the sample bid document, and thus, there has been no consistency in conditions of price adjustment and variation specified in the contract agreements. In addition, the Government of Nepal has also not approved the norms for conducting the construction works under this procedure.

144.2 The cost varies in accordance with shape, nature and foundation of bridges. The cost of deep foundation bridge becomes much more as compared to shallow foundation. However,

Department of Roads has made the agreements with equal cost of all types of foundations to be constructed under design & built procedure. It is because of the reason the construction contractors usually give preferences in constructing bridges with low cost design, the designs of most of bridges have been prepared with the construction of shallow foundation.

144.3 In procurement agreements the works - including detail survey, bridge construction, approach road construction and river controls, are included and mobilization advances are provided on the basis of total contract price. Though there is provision for not to start the construction until the design is approved, but the advance amounts that provided on the basis of the total contact prices have been used by the contractors. It because of this reason, a total of advances of NRs. 5 billion 93.10 million that provided under two budget heads have remained still to be settled. Hence, the initial advances to the construction contractors should be provided only for the design works and the advances for the construction works should be provided only after the approval of bridge designs.

145. **Contract Management** - In Financial Procedure Rules 2007, it is provisioned that the works of approving contract agreement should be done during the first trimester period. This year, 6 ministries - including Physical Infrastructure, Irrigation, Urban Development, Water Supply - have entered the total of 5 thousand 344 contract agreements amounting to NRs. 175 billion 430 million, and of the agreements entered, 4 thousand 873 contract agreements amounting to NRs. 124 billion 830 million have been arranged in second and third trimester period. Of the agreement arranged in third trimester, 664 agreements amounting to NRs. 30 billion 760 million have been made in the last month of fiscal year (Asadh Month). For the works included in the annual program, the works are not completed within the relevant fiscal year but carried forward in subsequent years. Such practices should be controlled and improved.

146. **Head-works and Tunnel Construction** - By making cancellation of the agreement made with a construction contractor for the construction of infrastructure including head-works, Melamchi Water Supply Development Committee had entered an agreement on 15th July 2013 with another construction contractor that quoted the bid price NRs. 7 billion 723.50 million with the condition of completing the construction works within 14/07/1016. Up to 2018/11/14 (2074 Falgun), the payment of 98.83 percent of the tunnel construction works and NRs. 6 billion 142.70 million in respect to soil excavation for head-works construction have been provided. As per the Sub-clause 13.5 of the agreement, the project is entitled to incur up to 15 percent of the agreement amount i.e. NRs. 1 billion 7.40 million, but a total of 1 billion 707.40 million has been expended as of 2017/07/15 (2074 Asadh) inclusive of NRs. 103.20 million paid in variation, NRs. 373.80 million paid in price adjustment, NRs. 1 billion 56.60 million paid in Claim settlement, NRs. 43.80 million reimbursement made to dispute board, and NRs. 130 million expended in day-works. Thus, an excess payment of NRs. 700 million has been granted than the amount specified in the contract agreement, which has increased the project's financial burden.

147. **Monitoring of Advances** - As per Section 52A of Public Procurement Act, 2007, there is a provision that the payment should be arranged by opening a separate bank account for the advances that provided to the project having more than NRs. 20 million cost estimate and monthly statement relating to expenses incurred from such advances along with disclosure of purposes should be submitted to public entities. In subordinate entities under Ministry of Physical Infrastructure & Transportation, the total advances of NRs. 27 billion 121.30 million have remained as outstanding up to this year inclusive of previous years' unsettled advances NRs. 16 billion 505 million, but the monitoring has not been carried out by acquiring the monthly statement of expenses incurred from the advances provided.

148. **Coordination and Construction Site** - Rule 6(3) of Public Procurement Rules, 2007 provides that procurement works should not be initiated without the arrangement of construction sites and Rule 20(3) of Financial Procedure Rules 2007 mentions that the correspondence & discussion works relating to the assistances and approvals to be obtained from other entities should be completed within first trimester period. Major observations relating to this are as follows:

148.1 The works of roads and bridges construction in Nepal are being carried out by the entities including Department of Roads, Department of Local Infrastructure Development & Agriculture Roads, Kathmandu Valley Development Authority, and local levels. However, the scope of roads & bridges works to be undertaken by those entities has not been clearly specified. In addition to the works performed by Ministry of Physical Infrastructure & Transport Management, the works of road construction are being undertaken with the budget appropriation in 11 budget sub-heads under Ministry of Federal Affairs & Local Development, and 4 budget sub-heads under Ministry of Urban Development. Since many entities are involved in roads construction, the works of road construction are to be undertaken by establishing close coordinating between such entities.

148.2 Bridge Project Mid-Sector No. 2 has entered an agreement of NRs. 156.60 million with one construction contractor to build a bridge in Trishuli River and has provided the payment of NRs. 12.80 million till the end of this year. However, the construction work has not been yet commenced, as it is acknowledged that one Power Limited is going to execute the construction work of an electricity project in the area of the bridge construction.

148.3 Divisional Roads Office, Kathmandu No. 1 has entered a procurement agreement of NRs. 191.10 million with one construction contractor to construct the roads in Manohara Corridor and has incurred payment of NRs. 72 million. However, Kathmandu Valley Water Supply Limited and High Powered Bagmati Civilization Integrated Development Committee have requested the Division to stop the construction works, and the all structures prepared for construction of roads will be damaged as the work of laying sewerage pipes are performed by the Committee. Divisional Roads Office, Kathmandu No. 2 has entered an agreement of NRs. 121.50 million with one construction contractor to construct the roads from Naya Bazar Bridge to Ring-road, and has granted the payment of NRs. 83.3 million. However, High Powered Bagmati Civilization Integrated Development Committee has written correspondence requesting the Division to postpone the construction works immediately.

148.4 Divisional Roads Office, Kathmandu No. 2 has entered the total agreement amounts of NRs. 1 billion 717.50 million with 19 construction contractors to construct 34.05 km roads in various areas - including Samakhusi, Galkopakha, Basundhara, Dhapasi, and Tokha and has granted the payment of NRs. 812.4 million (47.30 percent). However, the road construction has remained in incomplete stage as the contracts are arranged without clearance of construction sites. In the construction area, there are 470 obstructions to be cleared for the roads construction, which include the prevalence of electricity & telephone poles, monasteries, temples, religious houses, house compounds etc. Likewise, Kathmandu Valley Road Extension Project has arranged 15 procurement contracts to construct 9 different roads, but the physical progress is achieved 0 to 32 percent only. There has been delay in the construction works as the contracts are arranged without removing the structures - inclusive of 1 thousand 669 electricity poles, 90 transformers, 833 telephone poles, 2 thousand 868 houses/huts.

149. **Direct Purchase** - Section 8 (2) of Public Procurement Act, 2007provisions that the procurement works shall not be made piece-meals as to limit the competition. However,

against the provision, Ministries - Irrigation, Urban Development, Cooperatives, Water Supply, Health and Home Affairs- have made direct purchases of NRs. 1 billion 409.30 million without making any competition. There should be control in such purchases by taking actions against the responsible persons that have undertaken direct purchases by slicing the cost estimates instead of inviting a single tender.

150. **Price Adjustment** - Section 55 (1) of Public Procurement Act, 2007 provisions that the price adjustment may be granted in the contracts having more than 15 months duration in course of execution of procurement contract, and Section 55 (2) mentions the price adjustment cannot be granted where the work under the contract is not completed in specified time due to the delay by the person making procurement contract or if procurement contract is arranged on the basis of fixed budget. This year, the entities running under 6 Ministries inclusive of Physical Infrastructure, Irrigation, and Water Supply, have granted the total payment of NRs. 1 billion 486 million to various construction contractors as price adjustments, and major observations relating to this are as follows:

150.1 The total of ineligible price adjustments NRs. 64.50 million have been granted inclusive of NRs. 62.20 million granted by the Mid-Hill Highway, Eastern Section to 16 construction contractors that have made delay in works and NRs. 2.30 million granted by the Divisional Road Offices, Bhaktapur and Surkhet and Mid-Hill Highway, Western Section that provided using irrelevant indicators.

150.2 In design and built contracts arranged by the offices under Department of Roads, only fixed amount should be provided as the contracts are entered on the basis of payment of fixed amounts to the construction contractors. However, against the provisions of the contracts, Bridge Project, Eastern Sector No. 1, Mid-Sector No. 2 and Western Sector No. 3 have granted the payments of NRs. 200 million 562 thousand as the price adjustments. Since the overall risks relating to bridge construction lie on the construction contractors and the agreement are made on the basis of lumpsum cost for the construction of bridges, it is not appropriate to give additional payments with the arrangements of price adjustments.

150.3 Melamchi Water Supply Development Board has granted a total payment of NRs. 373.80 million as price adjustments - including NRs. 302.80 million in local currency and NRs. 71 million in foreign currency - to a construction contractor till 33rd running bills. As the Board has provided ineligible price adjustments of NRs. 66.90 million to the contractor - including price adjustment provided even in the claim amounts received by the contractor, price adjustment granted even in variation of new items, and price adjustment granted even in provisional sum items that are to be paid as per produce of bills, the ineligible amounts should be recovered.

151. **Variation** - There is provision for issuing the variation order in accordance with the public procurement laws and procurement contract, but 5 ministries - including Physical Infrastructure, Irrigation, Water Supply, Urban Development - have incurred excessive expenditure by issuing variation orders of total NRs. 1 billion 22.20 million even in various situations, such as the variation orders issued for the nature of works which can be predicted, variation orders issued from the official levels which have no such authority, variation orders issued for acquiring more goods without identifying the need assessment, and more payment granted without issuance of variation order in respect to the works performed in SAARC Summit. Incurring such expenses by issuing variation order is not in conformity with the laws.

152. **Contraction through Non-Government Organization** - Valley Development Authority, District Commissioner Office Kathmandu has granted the payments of NRs. 491.50 million

in respect to the works of road extension, massionary wall construction etc. of various places carried out through147 non-governmental organizations, and similarly, Dhobikhola Corridor Project has granted the payments of NRs. 109 million in respect to the works of road extension, massionary wall construction etc. carried out from 34 non-governmental organizations. Since the Public Procurement Act & Rules have not made any provision for carrying out the construction works through non-governmental organizations, the payment granted in respect to such works are witnessed inappropriate.

153. **Contingency Expenditure** - Rule 10 (7) of Public Procurement Rules 2007 has provided that 2.5 percent as work charge staff expenses and 2.5 percent as petty other expenses can be included in the cost estimates of construction works. In a situation of lack of clear policy for making contingency expenses, the offices under 6 ministries - inclusive of Physical Infrastructure, Irrigation, Water Supply, Energy, Urban Development, - have expended NRs. 6 billion 909.20 million such expenses in this year in respect to the vehicles and administrative purposes. By framing a clear policy relating contingency expenses, the provision of maintaining record up-to-date and making expenses remaining within ceiling should be strictly followed.

154. **Engineering Facilities** -Financial Procedure Rules 2007 mentions that while making cost estimates of construction works, only items related to construction works should be included, and Public Accounts Committee has issued an instruction for not including unrelated expenses related to road construction while making the contract agreement after 2012/12/17 (2069/09/02). However, the contract agreements of the construction of various works arranged by various offices under Ministries - Urban Development, Energy, Irrigation, and Water Supply- in this year have included the supplies of vehicles, laptops, printer, motorcycles, and vehicle rents worth NRs. 61.50 million.

Kathmandu Sustainable Urban Transport Project has included the items of the appointed consultant's office establishment, vehicles, office operations, and subordinate staffs etc. in bills of quantity of the contract agreement made with the construction contractor, and has paid NRs. 26 million for such expenses up to 11th running bill. The consultant is primarily responsible for supervising the works of construction contractor and maintaining quality standards, but the contract has been made with the arrangement of making payment of the consultant's facilities through the construction contractor, which has created a situation of conflict of interest. Such acts should be controlled by conducting monitoring by the controlling entities.

155. **Consultancy Service** - Section 29 of Public Procurement Act 2007 stipulates that the consultancy service shall not be taken for the works which can be performed through the office's own human resources, however, some of significant observations relating to payment given in respect to studies, designing, cost estimates, tender document preparation works carried out through the consultants are given below:

155.1 This year, various unit offices under ministries - Physical Planning & Construction, Urban Development and Water Supply have expended the total of NRs. 616.70 million in respect to consultancy services taken. The projects costs have been rising due to procurement of consultants for the works which can be performed through the departmental human resources. The consultancy expenses should be controlled by procuring consultants only in very essential services and mobilizing the departmental human resources.

155.2 Of the total cost NRs 18 billion 298 million of 4 projects run under Ministry of Agriculture Development, NRs. 13 billion 586.90 million has been expended, of which NRs. 1 billion 911.30 million has been expended for consultancy services. There should be control in

consultancy expenses as 6.67 to 21.84 percent expenses as mentioned below have been incurred for consultancy services:

(NRs. in Millions)

Name of Project	Total Cost	This year's Expenses	Cumulative Expenses till this year	Consultancy Service Expenses	Consultancy Service Expenses Percent
Vocational Agriculture & Trade Project	60000	19232	56878	5422	9.53
Small & Medium Farmers' Income level Growth Project	25920	2349	21204	4632	21.84
Agriculture & Food Security Project	49300	14403	37604	7713	20.51
Improved Seeds for Farmers Program	47760	6963	20183	1346	6.67
Total	182980	42947	135869	19113	14.64

155.3 Melamchi Water Supply Board had made an agreement on 2002/02/07 of Japanese Yen 550 million for the consultancy services that appointed for supervision of the construction works and the time of the consultant has been extended due to delay in the construction works of water treatment centers. The agreement amount has reached to Japanese Yen 972.10 million (an increase of 76.47 percent compared to initial agreement) as 6 variation orders are already issued. There has been a situation where the services of the consultant are to be taken until the completion of construction works, and the payments of remunerations of the consultant are to be provided even though any construction works are not being carried out in some of the contract period.

155.4 In the agreement entered with a developing partner for Decentralized Rural Infrastructure & Livelihood Improvement Program, it is mentioned that NRs. 2 billion 773.60 million will be expended in construction works and NRs. 210.40 million in consultancy services, but the revised statement has shown the expenditure of NRs. 4 billion 976.70 million in construction works and NRs. 629.30 million in consultancy services. Thus, the consultancy service has occupied 12.64 percent of the project's construction cost.

155.5 Despite of the provision made in Section 29 of Public Procurement Act 2007 for not to take the consultancy service for the works which can be performed through the own human resources, 4 unit offices under Department of Roads have incurred the total expenditure of NRs. 808.30 million by taking the consultancy services for conducting feasibility studies, designing, and preparation of cost estimates & tender documents. Despite of availability of the positions such as highway engineers, geo-technical engineers, hydrologists etc., the works of detailed surveys, feasibility studies, designing have been carried out through the external consultants. It is not appropriate to engage consultants without using the departmental human resources.

Procuring the consultants even for ordinary nature of works has been practiced due to lack of policy & standards relating to incurring expenses in consultancy services. As a result, the government expenditure has not been becoming economical.

□ Construction Works and Quality of Materials

156. **Damage in Bridge** - Divisional Roads Office, Nepalgunj had entered an agreement on 2011/06/22 (2068/03/22) with a construction contractor for constructing a bridge at Jabdighat on Babai River at a contract price NRs. 166.80 million to be completed within 42 months, and the contractor has been provided the payments of NRs. 197.50 million. The contract period has been extended up to 2016/11/15 (2073/07/30) upon the condition of the recovery of pre-determined liquidated damages, but such liquidated damage amounting to NRs. 16.70 million has not been recovered. In a state of substantial completion of works of

the bridge, the bridge is damaged by the floods that occurred on 2017/08/13 (2074/04/29). Though the office has made repetitive requests to the construction contractor for the completing the construction works and resolving the damages occurred in the bridge at the earliest, the contractor has not resumed the works till 2018 Mid-February (2074 Magh).



While conducted observations in course of audit, the bridge is found in unusable condition along with settling down one pier in soil, tilting of some piers, displacing of some slabs causing imbalance of upper surface of the bridge with ups & down. With respect to damage occurred in the bridge in the state of near to completion of the construction works, an action should be taken by identifying the responsible officials.

157. **Damage in Road** - - Divisional Roads Office, Kathmandu 2 has entered an agreement with a construction contractor for black-topping of 1.1 k.m. road beginning from Kirtipur Laboratory School to Kirtipur Entry Gate and constructing pedestrian foot-paths at a contract price NRs. 93.20 million and has provided the payments of NRs. 59.50 million. While conducted field observation, the road is found in the condition of having the seepage of water coming from the ground, development of cracks & break-open of blacktops, and break ups & down of patches. Since the office has acknowledged that payment is yet to be provided by completing the measurements of the construction works, the construction works should be corrected by making necessary investigation. Likewise, while conducted the field observation of one road that completed at cost of NRs. 38.20 million under Election Sector Development Program, the road is found with ups & down high gradients, landslides have fallen in several places and settled down the roads where the gabion walls are constructed. Since the road is still within defect liability period, the damaged & demolished portions should be repaired & corrected through the construction contractor.

158. **Otta-seal Technique** - Under National Rural Transport Strengthening Program the total agreements of NRs. 6 billion 390.60 million (including variation) have been made to use otta-seal techniques in 67 programs for making blacktops, maintenance and sand-seal of roads. The otta-seal technique has been used without making adequate analysis of matters, such as - roads can be sand-seal only after 40 to 45 days of the use of otta-seal techniques, the minimum temperature should be at least 17 degree Celsius for using otta-seal, otta-seal is not appropriate for curved, damped & sloped land, the roads should be in ready condition at least for 19 days after completion of surfacing works and otta-seal can be done if the rain not appears during the period, flows of vehicles will rise before and after black-topping etc. For the maximization of results and usages, the agreement's provisions should be implemented to conduct the works in accordance with basic standards.

This otta-seal technique has been used in Waling-Huwas Rural Road and Bandkhola-Taksar-Dulegauda Rural Road that have excessive pressure of vehicles & high gradients, and Kuledkhani-Fakhel- Humane Bhanjyang Road of Makwanpur, and the otta-seal roads have been damaged within the defect liability period. However, the roads have not been repaired yet.

159. **Damage in Structure** - Even after elapse of 11 years of the targeted completing time of Sikta Irrigation Project, the branch canals have not been constructed for the distribution of water. In the command area of eastern side, the works of constructing 53.50 km long main canal are yet to be commenced to provide irrigation facilities in the irrigation suitable lands

of Rapti Sonari Rural Municipality. Even in the main canal where the works are completed in 2014/15, the beds are found cracked, service roads damaged, and slope of canal cracked & collapsed in several places. The works of main canal have damaged in several places before the completion of distribution system.

Project Implementation

160. **Low Progress** - Amongst the 1 thousand 510 programs operated by 6 ministries/entities in this year, the progress achieved are witnessed zero percent progress in 280 program, up to 25 percent progress in 101 programs, 26 to 50 percent progress in 164 programs and 51 to 75 percent progress in 965 programs. Though Rule 26 of Financial Procedure Rules, 2007, provisions that the controlling entities should conduct the reviews of the physical & financial aspects and take action by identifying causes responsible for the attainment of low progress, but such actions have not been taken yet.

161. **Incomplete Project** - Under Department of Water Supply & Sanitation, there are 5 thousand 37 on-going water supply projects up to 2016/17 - inclusive of 2 thousand 693 continuous projects and 2 thousand 344 new projects. Of the continuous projects, 449 projects of 63 districts, which were commenced prior to 2011/12 (2068/69), has been witnessed still incomplete. Out of the total cost estimate NRs. 19 billion 306.30 million of the projects, only NRs. 9 billion 228.90 million (47.80 percent) has been spent. With respect to 237 incomplete projects which are run under Water Supply & Sanitation Division/Sub-Division Offices in 25 districts- including Ilam, Makwanpur, Kathmandu, Rautahat, Dadeldhura, Darchula - the initial total cost estimate amount is NRs. 6 billion 620.60 million, but the revised cost estimate has increased to NRs. 8 billion 140.80 million after the issuance of variations. Thus, the total costs of the projects will increase by NRs. 1 billion 520.20 million. Moreover, 2 million 188 thousand population out of 2 million 764 thousand which are targeted to be benefitted from the incomplete projects have been still deprived from the availability of water supply services.

162. **Incomplete Construction Work** - Pursuant to whether works are completed within the timeframe specified in procurement agreements, when analyzed the statements obtained from 19 offices - inclusive of Division Roads Office, Kathmandu 1 & 2, Bhaktapur, Lalitpur, Chitwan- on sampling basis, the total of 231 contracts having total contract price NRs. 3 million 866.40 million have been witnessed incomplete stage. Under such incomplete projects, the total mobilization advances of NRs. 94.90 million provided to construction contractors by 10 offices - including Mid-Hill Highway-Western Sector and Divisional Roads Offices, Kanchanpur, Dang, Palpa, Kathmandu-1, have been found yet to be cleared.

163. **Incomplete Bridge** - As per Bridge Management Information System maintained by Bridge Division, there are 1 thousand 790 strategic bridges which are in operations. Likewise, there are 1 thousand 555 bridges under construction including strategic road bridges and local road bridges. Of the bridges under construction, the construction works of 109 bridges which started before 2013 (2070) and the initial contract periods have been found overdue since a long time, but the construction works have remained incomplete stages. With respect to the incomplete bridges, only NRs. 4 billion 306.10 million has been spent up to this year against the total procurement contract price NRs. 7 billion 254.20 million.

164. **Work Performance** - 16 District Coordination Committees have not recovered the pre-determined liquidated damages of NRs. 16.60 million from 29 construction contractors that have not performed works in accordance with work schedules, and 35 District Coordination Committees have yet to recover NRs. 447.70 million in respect to the usage of natural

resources. 32 District Coordination Committees have incurred administrative expenses NRs. 223.70 million in excess of internal incomes generated by them, and similarly, 25 District Coordination Committees have transferred NRs. 138.60 million in District Development Funds which are required to be freezed. Though 14 District Coordination Committees have spent NRs. 301.40 million in 106 projects, the returns of the expenses have not been received due to non-completion of project works.

165. **Building and Other Construction** - As per directives issued by Department of Education along with the authorizations, it is instructed that the contract agreements for the construction of building & other construction should be made with the school management committees within first trimester period. However, the construction works have not been completed within the end of fiscal year (Asadh) due to late disbursement of budgets affecting the timely selection of schools. This year, the total of NRs. 4 billion 113.20 million has been expended for the construction of schools infrastructure & ladies toilets and maintenance of the schools' infrastructures, but the construction works have been found incomplete stages. Likewise, the construction works of 919 health institution buildings are still going on, of which the construction works of 24 buildings are becoming problematic due to timely non-completion.

166. **License Renew** - Section 5(1) of Electricity Act, 1992 (2049) stipulates that the licenses to be issued for electricity survey shall be of the maximum of 5 years. Such licenses become invalid if not renewed within the due dates. However, Department of Electricity Development has not cancelled the licenses of 10 projects even after the elapse of 5 years of licenses issue. Similarly, Arun-3 Hydropower with generating capacity 1 thousand 800 Megawatts and Upper Karlnali Hydropower Limited, which have acquired survey licenses for conducting the works through the Indian Companies, have not completed the specified survey works even after 9 years of the establishment of their offices.

167. **Tunnel Road** - As per Private Investment Act 2006 (2063) and Rules 2007 (2064), an agreement was signed with Nepal Infrastructure Development Company Limited on 2013/05/14 (2070/01/31) for the construction of Kathmandu-Hetauda Tunnel Road Project having cost estimate of NRs. 34.88 billion and operations of the project up to 30 years. In a situation of non-commencement of the construction works even after elapse of long period from the agreement date, the time extension has been granted on 2017/10/30 (2074/07/13) along with amendment of certain conditions of the agreement extending work completion date till 2021 December. So, it is necessary to make critical reviews in respect to the selection of company without making competition and non-commencement of the construction works even after the elapse of long period, and monitoring should be carried out pertaining to the status of resources that collected the company from people at large.

Grant Distribution and Monitoring

168. **Grant Distribution** - This year, Ministry of Agriculture has appropriated NRs. 13 billion 948 million in grant distribution for undertaking 29 projects by including program activities such as- One Product in One District, One Village One Product, promotion of floriculture, procurement of chemical fertilizers, fruit seeds development, fisheries development, crops protection, crop development, agriculture extension, agriculture & food security, vegetable farming, ponds construction and agriculture tools etc. and has spent NRs. 10 billion 782.60 million. With an objective to increase the production in agriculture sector, the following grants have been distributed in last 5 subsequent years, and the status of agriculture production has been witnessed as given below:

Fiscal Year	Grants in NRs. Tens of millions	Food Grain Production (in Thousand Metric tons)		Vegetable Production (in Thousand Metric tons)		Fruit Production (in Thousand Metric tons)	
		Target	Progress	Target	Progress	Target	Progress
2012/13	489	8580	8738	3301	3421	939	939
2013/14	899	9968	9563	3472	3589	940	979
2014/15	1071	10210	9266	3600	3629	1180	992
2015/16	1004	10881	8614	3656	3643	1260	1097
2016/17	107	9325	9345	3700	4125	1211	975

When compared grant money with agriculture production, it is witnessed that against the 83.38 percent increase in grant money in 2013/14, the food grain, vegetables and fruits production have increased by only 9.44 percent, 4.91 percent and 4.25 percent respectively, and in 2014/15 the grant money has increased by 19.13 percent, but the production of food grain has decreased by 3.10 percent. Similarly, in 2015/16, the grant money has decreased by 6.53 percent, and grain production has also decreased by 7.03 percent whilst the vegetable and fruits production have increased by 0.38 percent and 10.58 percent respectively. In 2016/17, against the 7.37 percent rise in grant money, the food grain and vegetable production have increased by 8.48 percent and 13.23 percent respectively whilst the fruit production has declined by 11.12 percent. There are many factors that influence the agriculture production and productivity, but there has been no correlation between the grant money and agriculture production. So, programs should be implemented by establishing linkage between the grant distribution and productivity.

This year, grants of NRs. 3 billion 320.70 million has been provided to Agriculture Inputs Company and NRs. 1 billion 423.20 million provided to Salt Trading Corporation Limited for the procurement of chemical fertilizers, but the ministry, without making any analysis on the operating expenses to be incurred in procurements of chemical fertilizers, has provided the grant moneys to include in their costs, which has caused more financial burden to the Government of Nepal. Grant should be distributed by framing a clear basis to provide grants for operating expenses.

169. **Agricultural loan/Grant** - Ministry of Finance has provided NRs. 253.20 million to Agriculture Development Bank, Small Farmer's Development Bank, and Deposit & Credit Guarantee Corporation for the implementing the community program, animal-wealth (pashudhan) credit guarantee, cattle & crop insurance and green-house construction, but the ministry has prepared any progress statement by conducting monitoring & evaluation of the expenses incurred thereon.

With respect to grants NRs. 500 million provided in 2014/15 for agriculture credit interest subsidy, only NRs. 322 million has been spent and NRs. 168 million is still lying as balance. Hence, there has been a situation where the targeted groups have not entertained the full benefits from the grant distribution.

Tax Deduction and Deposit

170. **Remuneration Tax** - As per Income Tax Act 2001 (2058) the income tax of employees working in Nepalese missions in abroad under Ministry of Foreign Affairs, should be computed by adding the balance money that comes after deducting 75 percent of foreign allowance from the taxable income. However, without following the provision of the Act, 37 missions have less deducted NRs. 20 million income taxes in this year with respect to the tax applicable in income from salary & foreign allowance of 173 officials of different levels. The uncollected tax amount should be recovered.

Nepal Airlines Corporation has paid NRs. 124.20 million to crew members as fooding allowance in this year, but the amount has not been included in the incomes of the concerned persons. Therefore, the remuneration tax calculated at the rate of 25 percent on average amounting to NRs. 31 million has not been recovered.

Pursuant to various types of credit privileges provided to its employees, Nepal Rastra Bank has recovered the applicable tax NRs. 55 million that are required to be calculated on the basis of difference in rates between prevalent interest rate and privileged rate as per Section 27 of Income Tax Act 2001. The remuneration tax should be recovered and deposited in government revenue.

171. **Recovery of Value Added Tax** - As per Section 7 of Value Added Tax 1996, the statement of tax returns relating to recovered Value Added Tax in a month should be submitted to the concerned Inland Revenue Office within 25th day of next month. While conducted verifications from the website of Department of Inland Revenue in respect to the payments of value added taxes that provided by 63 unit offices under 6 ministries in this year to the construction contractors under procurement agreements, it is witnessed that the construction contractors have been shown as non-filers due to non- submission of the monthly tax returns in the concerned tax offices. Hence, pursuant to the payment of value added tax NRs. 211.40 million, necessary taxes along with fines in respect to timely non-submission of tax returns should be recovered as per Section 29 of the Act.

Section 15(3) of Value Added Tax 1996, provides that the value added tax should be recovered if any public enterprises carries out the sales of value added taxable goods or services. Road Board has collected value added tax NRs. 12 million 397 thousand at the 13 percent along with the collection the Road Toll Tax, but the tax amount has not been deposited in the government revenue. So the tax amount should be recovered and deposited in the government revenue.

Deposit in Consolidated Fund

172. **Consolidated Fund -** Several entities have deposited the appropriated budget amounts creating different funds and the amounts received from different sources are kept as balance without making expenses. Such un-utilized amounts are NRs. 61 billion 358 million, which should be deposited in consolidated fund. Significant observations relating to this are as follows:

172.1 Rule 33 of Financial Procedure Rules 2006 stipulates that except the amounts specified as non-freezable by the Financial Comptroller General Office, all amounts should be freezed. Of total grants NRs. 28 billion 928.40 million disbursed to 8 ministries & subordinate entities in this year, only NRs. 22 billion 352.30 million has been spent, and NRs. 6 billion 576.10 million has remained as balance at the year-end which need to be deposited in the Consolidated Fund.

172.2 In Section 45 (3) of Telecommunication Act 1996 (2053), it is mentioned that Nepal Telecommunication Authority can ask money with the Government of Nepal, if the funds obtained are not adequate for its operations and any excess amount provided by the Government of Nepal need to be refunded to the government. The cumulative reserves of the Authority has reached NRs 32 billion 198.40 million in this year as compared to previous year's reserves NRs. 29 billion 273 million. Out of the amount, if to exclude Rural Telecommunication Fund, the balance NRs. 16 billion 608.40 million is not expendable. So, the amount should be deposited in the consolidated Fund.

172.3 Financial Comptroller General Office had released NRs. 18.26 billion to National Reconstruction Authority Fund on 31st Asadh of 2015/16 with an objective of not freezing of budgets, but the amount has not been expended till now. There is a balance of NRs. 28.26 billion in the Reconstruction Fund along with previous balance NRs. 10 billion. For the Reconstruction Authority, the Appropriation Act has appropriated separate budget head in 2016/17, and accordingly, the disbursement and expenditure of NRs. 49 billion 691.70 million has been made in this year from the budget. However, the balance amount of the unfreezable fund has been retained without utilization in spite of situation of not required for mobilization. The reserve amount of the fund has not been shown in the Central Treasury Accounts prepared by the Financial Comptroller General Office. Hence, the amount of the fund should be deposited in the consolidated Fund.

172.4 When analyzed the income & expenditure of last 5 subsequent years of Foreign Employment Promotion Board, it is observed that it has expended only 7.74 to 10.44 percent as compared to the income earned. So, an attention should be given in framing the required procedures only to maintain certain amount that is necessary for implementing the programs to protect the workers' rights & interests than have gone for employment and their families' economic upliftment. By ascertaining the amount that required for such works, the balance amount NRs. 4 billion 34.90 million should be deposited in the Consolidated Fund.

172.5 When compared income-expenditure of Insurance Board and if deducted the expenses from last 3 subsequent years, it has accumulated reserve of NRs. 3.19 billion. Since there exits the provision to provide the necessary amount to the Board by the Government of Nepal, it is appropriate to retain such a huge reserve in the board.

172.6 Rule 33(A) of Financial Procedure Rules 2006 stipulates that except the amounts specified as non-freezable by the Financial Comptroller General Office, all outstanding amounts after making expenditure under all budget sub-heads should be refunded prior to end of fiscal year. However, the total of NRs. 1 billion 345.30 million - including the outstanding balance amount NRs. 1 billion 282.20 million of Road Board Nepal that remained after making expenses from the disbursed amount, and outstanding NRs. 63.10 million that remained in contingency account of Department of Roads - are yet to be refunded and deposited in the Consolidated Fund.

172.7 Inter-model Transportation Development Board has been earning incomes by letting on rent to the big infrastructures that constructed by the Government of Nepal. Of the amounts earned by the renting of the infrastructures, NRs. 995.60 million has remained as reserve in the accounts of the Board. The Government of Nepal has taken loans to construct the infrastructures, but the incomes earned from renting of the infrastructures have been kept in the accounts of the Board without utilization. There has been no specific policy framed to utilize such incomes of Board either for constructing additional infrastructures or depositing in revenue account of the Government of Nepal.

172.8 In the grant amount NRs. 1 billion 423.20 million that provided by the government to Salt Trading Corporation for the procurement of chemical fertilizers, the adjustments are to be made by deducting the amount received from the selling price of fixed by the Government of Nepal, difference amount in stock prices, and amount to be deducted in quantity to be imported and budget quotas, and as such, only NRs. 1 billion 245.40 million is to be provided to the Corporation as the grant. Hence, the excess grant NRs. 177.80 million provided to the Corporation should be recovered and deposited in the Consolidated Fund.

173. **Embossed Number Plate** - Department of Transport Management has entered a procurement contract to keep embossed number plates in vehicles by approving a tender

quoting the contract price of US Dollar 38.70 million through international competitive bidding procedure. As per the contract agreement, the contractor shall supply the number plates as a final product to the Department by making the required complete investments and the payment to the contractor is to be made in accordance with the amounts raised from the service recipients within the 30 days. However, a total payment of NRs. 79.70 million has been granted to a Customs Office in this year in respect to customs duty, fee and value added tax applicable in various materials including machines & equipment, plates that imported by the supplier company. Under this procurement arrangement, the government is not required to bear any financial burden and the payments to the supplier are to be made on the basis of the recovery of revenues after the commissioning of installation of number plates by the company. Therefore, the above mentioned payment provided by the Department should be recovered and deposited in the Consolidated Fund.

174. **Excess Bill Number** - Department of Transport Management has sent 426.40 million sets E-invoices to all subordinate offices for printing VRS and DLRS statistics, but the payments of NRs. 22.30 million have been provided to two consultants showing that the 678.50 million sets have been printed. Since the printing of more 252.10 million sets are shown than the actual quantity sent by the Department, the excess paid NRs. 10 million 56 thousand should be recovered.

175. **Excess Disbursement** - As per Education Rules 2002 (2059), disbursements should be provided in a manner where the excess payments and duplication in payments are controlled. However, total excess disbursements of NRs. 50.50 million have been provided in this year - inclusive of NRs. 25.50 million disbursed by 30 District Education Offices along with Sarlahi, Rautahat and Kathmandu for salary and allowance payment than the entitlement, NRs. 18.60 million disbursed by 30 offices along with District Education Office Kathmandu and Bara in respect to the salary and allowance of the retired and on leave teachers, and NRs. 8 million disbursed by 9 offices along with District Education Office Taplegunj in reading materials management. The amount should be recovered and deposited in Consolidated Fund.

176. **Excess Grade** - Total excess payment of NRs. 24.10 million has been made in this year inclusive of NRs. 2 million paid by 13 health offices/hospitals than the amount specified in pay-sheet report, NRs. 11.40 million provided by 20 health offices/hospitals by converting the existing grades into new grades, and NRs. 10.70 million paid by Department of Forest & 38 subordinate entities. The amount should be recovered and deposited in Consolidated Fund.

Return of Investment

177. **Return on Share Investment** - As per the statement obtained from the Financial Comptroller General Office, it is shown that the Government of Nepal has made total share investments of NRs. 181 billion 913.50 million in 108 institutions including public enterprises up to now, and 12 public enterprises having the government's share investments NRs. 42 billion 552.50 million have earned profits NRs. 3 billion 416.90 million in 2015/16, but the enterprises have not paid any the money to the government by declaring the dividends.

However, out of above mentioned 108 institutions, dividends of NRs. 15 billion 58.50 million have been received from 10 enterprises. The major enterprises providing dividends include Nepal Rastra Bank NRs. 7 billion 250 million, Nepal Telecom NRs. 6 billion 999.20 million, and Agriculture Development Bank NRs. 386.20 million. However, no dividend has

been received from the remaining 98 institutions. Considering the receipt of low return as compared to investments, steps should be taken to enhance the efficiency of the Government's public enterprises.

178. **Loan Investment for Administrative Expenses -** The government has been making loan investments in public enterprises for bearing their administrative and operating expenses such as - the payment of salary, allowance, travelling expenses and daily allowance etc. In 2016/17, total loan of NRs. 239.20 million has been invested in the enterprises, which include NRs. 13.80 million in Orient Magnesite Company, NRs. 110 million in National Trading Company Limited, NRs. 80 million In Janakpur Cigarette Factory Limited, NRs. 30 million in Gorakhkali Ruber Industry Limited and NRs. 5.4 million in Nepal Metal Company Limited. The practice making loan investments merely for bearing administrative expenses of the public enterprises should be stopped.

179. **Return and Assessment of Land -** 150 ropanies of lands owned by Taragaun Development Committee have been given on lease to Taragaun Regency Hotel Limited, but revaluation of land has not been yet done till now. Though the Committee has acquired 39.77 percent ordinary shares of Taragaun Regency Hotel Limited in respect to NRs. 170 million investments (NRs. 150 million price of land and NRs. 20 million price of building) made in 1993/94, but the Committee has not yet received any return till now. The share ownership of Taragaun Development Committee in the hotel has been decreased from 39.77 percent to 9.01 percent at now on the basis of addition of investments of other shareholders. It is not appropriate to decrease the share investment of the committee without making any revaluation through the experts of land & building provided to the hotel on the basis of market rate. As per the directive issued by the Public Accounts Committee, the government's share ownership should be increased by making the revaluation of land.

180. **Provision for Bonus -** Section 5 of Bonus Act, 1973 (2030) provides that the percentage of bonus to be distributed and other matters related to bonus shall be as decided by the Government of Nepal, and as per Section 9(2) of the Act, the allocated bonus should be distributed within 8 months of end of fiscal year and an application should be registered in labor office along with reasoning if the bonus cannot be distributed within the specified period. Civil Aviation Authority has set aside NRs. 591.30 million in respect to bonus of 2011/12 to 2015/16, but the bonus amount needs to be recognized as income since it is ineligible for the distribution.

Gorkhapatra Sansthan has set aside NRs. 28.90 million as employees bonus along with NRs. 5.30 million deposited in this year pursuant to net profit NRs. 48.30 million earned in 2015/16. The Corporation has made inadequate provision of NRs. 449 million in respect to gratuity expenses, and if accounted the amount, the corporation will bear loss instead of profit in this year. The Corporation, which has incurred loss, has set aside the provision for bonus. So, the amount should be recognized as income.

Rastriya Banijya Bank has provisioned NRs. 591 million 475 thousand for employees bonus up to this year including this year's provisioning NRs. 317.30 million. The provisioned amount also includes NRs. 11 million 167 thousand that provisioned for 1996/97 and 1997/98. The provision made for bonus that is ineligible for distribution has not been recognized as income.

181. **Debtors -** Nepal Civil Aviation Authority has NRs. 2 billion 600 million debtors for which the recoveries are to be made. Of the debtors, NRs. 1 billion 120 million is doubtful debtors, and it has written off the amount in this year by recognizing an expense in profit & loss

account without making any effort for the recovery. Such amounts should be recovered as per the provision of laws.

182. **Hazing -** One portion of assets of Nepal Rastra Bank has been maintained in foreign currency and gold reserves in international markets, and normal fluctuation in forex rates has been bringing the major consequences in financial position of the Nepal Rastra Bank. In this fiscal year, the bank has to bear NRs. 23.75 billion loss as a result of 3.63 percent fall in the US Dollar rates and NRs. 3.88 billion loss as a result of 4.02 percent fall in gold prices. To mitigate such possible losses, the Bank should adopt appropriate strategic measures of the international market.

Monitoring and Regulating

183. **Monitoring of Grant -** Rule 41 of Financial Procedure Rules 2007 provisions that the Ministry of Finance, while providing disbursement to institutions for the amounts included in budgets, shall obtain progress report of the amount so sanctioned and shall carry out monitoring and evaluation in respect to the matters as to whether or not the amount has been expended in the work for which such amount provided, whether or not the progress has been made as per target set, and whether or not the audit has been carried out in accordance to the prevailing law. This year, for the government entities, Committees & boards, local entities, NRs 226.63 billion has been provided as conditional recurrent and capital grants and NRs. 37 billion 616.10 million has been provided as social security grant in accordance with the budget appropriation. However, the monitoring of such grants provided to committees & boards have not been carried out.

184. **Regulatory Entities -** As per Directives relating to the Health Institutions' Establishment, Operation and Upgrading Standard 2013 (2070), the work of carrying out monitoring is assigned to the Ministry of Health and subordinate entities. Health services have been provided by the medical colleges that operated on the basis of licenses issued by Ministry of Education and by the academies constituted under specific laws. Since the ministries have not carried out the monitoring and regulating of all such entities effectively, the quality of health services and cost charges have been affected due to existence of weaknesses in the hospitals' establishment, operations, renewals, fixation of fees & charges, and service delivery as per standards. Hence, an independent & high powered regulating entity should be constituted to carry out effective regulating and monitoring works of all health institutions.

The quality of goods has not been assured by conducting the monitoring of activities/produced goods of drug sellers & producers, health materials producers & sellers, food items producers, distributors, processors and businessmen involved in making foods edible. Though such works have been carried out by two separate entities, namely- Department of Drugs Management and Department of Food Technology & Quality Controls, however the monitoring works have not become effective. Since these subjects are interrelated with one another and can have significance impact in the health of human life, a high powered Food & Drugs Regulating Authority should be constituted by restructuring the existing entities.

185. **Permission and Operation -** Under Ministry of Health, there are altogether 538 hospitals in operations - which includes 73 district & equivalent hospitals, 15 regional, sub-regional, zonal & equivalent hospitals, 14 central level hospitals, 14 medical colleges, 7 mission hospitals and 415 private, community & cooperative hospitals, and the hospitals have a total capacity of 30 thousand 287 beds. In Directives relating to the Health Institutions

Establishment, Operation and Upgrading Standard 2013 (2070), there are provisions for granting licenses to the community or cooperative hospitals, renewals of licenses and the health institutions failing to renew the licenses will be cancelled automatically. With respect to the licenses issued to 415 private community & cooperative hospitals by the Ministry of Health, when assessed the status of hospitals that operating more than 51 beds, it is witnessed that only 16 hospitals out of 82 hospitals have renewed their licenses and 76 hospitals have been operating their services in spite of expiry of due dates of their licenses. The Ministry has not taken any action in the circumstance the hospitals have operated sensitive services of public health without making the renewal of their licenses.

186. **Disappeared Cooperative Director -** As per statistics furnished by Department of Cooperative, it is witnessed that directors of 87 cooperative institutions of 12 districts have disappeared. The disappeared directors of such cooperative institutions have embezzled total of NRs. 286 million. However, the embezzled amounts have not been recovered by taking action against the disappeared directors of the cooperatives. So, efforts should be made to make safe of deposits & savings of shareholders being vigilant of operation results, collection of deposits and investment portfolios of the cooperative institutions and conducting monitoring on whether or not such institutions have adhered to the financial discipline. Likewise, the risky savings should be converted into good by carrying out search & actions against the disappeared directors.

187. **Registration of Cooperative -** As per the statement furnished by the Department of Cooperatives, the total number of cooperatives operating up to end of Mid July 2017 (2074 Asar) has figured 34 thousand 512 along with addition of 595 cooperatives and deduction of 961 cancelled cooperatives in this year in comparison to availability of 34 thousand 874 cooperative institutions up to previous year. In addition, there are one National Cooperatives Association, 20 Central Subject-wise Cooperatives Associations, 69 District Cooperatives Associations, and 256 Subject-wise District Cooperative Associations. If classified cooperative institutions on the basis of their work nature, 40.5 percent are saving & credit cooperatives, 30.3 percent are related with agriculture, 12 percent are associated with fiscal & production sector works, 12 percent are multi-purpose and 4.2 percent are consumer associated cooperatives. Similarly, the cooperative institutions have also been found workings in the fields such as - health, electricity, communication, herbal production etc. Amongst the cooperatives, the regular monitoring has been carried out to 7 thousand 661 cooperatives and intensive monitoring has been carried out to 2 thousand 451 cooperatives. The government has reduced the number of Divisional Cooperatives Offices to 38 districts from 68 districts that existed ahead of 2004 (2061), and has also reduced the number of employees to 4 hundred trimming down from around 1 thousand 200 of before 2004. On the contrary, the number of cooperatives has inclined to 34 thousand 512 increasing from the figure 8 thousand 45 of 2004. Consequently, the monitoring works of cooperative institutions, and their registrations & operations have not been carried out effectively due to availability of lesser number of employees.

188. **Regulation of Ground Water -** Section 7 of Kathmandu Valley Water Supply Management Board Act 2006 (2063), mentions that the Board within its own geographical area can regulate, control or prevent the works of taking out and use of ground water, or can grant the permission for using water. As per data available, there are 421 deep-boring that obtained permissions from the Board up to now. The record of deep-boring plants implemented by Water Supply & Sanitation Division Office - Kathmandu, Lalitpur, Bhaktapur and Department of Water Supply & Sewerage has not been maintained. The above Offices, which

are operating within Valley, have not taken any permission from the Board prior to constructing the deep-boring.

189. **Tanker Water -** Kathmandu Valley Water Supply Management Board has approved on 2016/12/21 (2073/09/06) the Directives relating to Tanker Business Service Operations 2016 (2073). Accordingly, 3 water tanker businesses have been registered on 2017/04/18 (2074/01/05). In the directives, the provisions are made for standardizing service operations of tanker businesses, the requirements of compulsory registration, using stickers of blue color for drinkable water, green color for domestic purpose water and yellow color for other purpose water by the tanker business, and making colors in tankers exhibiting the water standard within six months of the receipt of licenses. In Kathmandu valley, it is estimated that there are around 500 water supply tankers in operation, but the record of such tankers has not been maintained systematically. Among them, 267 tankers have obtained stickers along with licenses and 156 tankers have deposited the revenues for obtaining licenses. But, all tankers have been brought under frameworks of regulation.

190. **Monitoring Quality Standards -** The monitoring Report of 91 industries conducted by the Department of Nepal Standards & Metrology stipulates that industries have undertaken works against the Nepal Standards (Certification Marks) Act 1980 (2037), and out of 36 industries, the comprehensive strength standards of one cement industry is not in accordance with Nepal Standards, another Cement Pvt. Ltd has continued its production despite of the cancellation of its license, the mass per meter run of one Steel Pvt. Ltd. is not in accordance with Nepal Standards, and one Plastic & Pipe Industry has been selling H.D.P. pipes specifying Nepal Standards Mark- 40 without obtaining any license. However, the Department has not taken any action against the industries that have undertaken works against the prevalent Act.

191. **Visa Sticker -** Department of Immigration has not maintained the statement of income, expenditure & balance of visa stickers with attestation by the competent authority. As per inventory register, the Department has incurred the expenses of 561 thousand 340 units of visa stickers of 22 different types in this year. With the expenses of 3 types of 93 thousand 36 visa stickers, which are being issued from Nepalese diplomatic missions /embassies situated at abroad, the revenue recovery of NRs. 429 million 548 thousand from 36 missions has been shown. Monitoring has not been carried out in respect to whether revenues are generated as per the expenses of visa stickers or not. All online records of arrived and departed foreign citizens maintained by immigration offices have not been linked with the computerized system of Department of Immigration. In addition, the Web-based Online Visa System has not been fully implemented.

192. **Action Taking and Expelling -** Section 3 of Immigration Act 1992 (2049) provides that no foreigner shall be entitled to enter into Nepal without getting approval from Government of Nepal either specifying or not specifying period and any foreign citizen committing crime activities can be expelled from Nepal . As per the statement obtained from the Department of Immigration, it is revealed that altogether 935 foreigners have been expelled/extradited within the period 2013/14 to 2015/16 on the proofs of acts committed against the prevalent laws, and cases have been filed against 1 thousand 412 foreigners for the engagement of criminal activities. The offenders committing illegal acts such as - violation of immigration law, banking offence, call by-pass, narcotic drugs transaction, human trafficking etc. have been expelled in more number. Necessary steps should be taken to maintain the record of the persons engaged in criminal activities, and make effective the coordination between stakeholder entities by developing a tracking system based on networking & technology.

193. **Regulating International Non-governmental Organization -** The monitoring is to be carried out in respect to works performed by International Non-governmental Organizations that are operating in Nepal by obtaining permission from Social Welfare Council. Some significant observations related to this are as follows:

193.1 This year, the Council has given approvals for conducting programs of NRs. 29 billion 28.40 million to International Non-governmental Organizations and NRs. 18 billion 951.70 million to Non-governmental Organizations. However, arrangements have not been made to mobilize the assistances of International Non-governmental Organizations in the national priority sectors as determined by Development Assistance Policy.

193.2 The approvals for the mobilization of international assistances are required to be provided on the basis of national priority, however, Social Welfare Council has provided the approval to one national non-governmental organization for using assistances of NRs. 21.7 million during the period 2015/16 and 2016/17 pursuant to transform all Hindus into Christianity through trained Christian priests. The Council entered a project agreement of NRs. 52.4 million with Tearfund-UK on 14th June 2013 for improving living standards and enhancing capabilities to sustainable livelihood of the marginalized groups of 3 districts of Nepal, however, the institutional objective of the fund has been specified as to promote Christian teachings & knowledge by overcoming from poverty, sufferings and diseases to people around the world. The monitoring has not been carried out in respect to whether or not the assistances are used in accordance with the government policy to mobilize assistances receivable from international non-governmental organizations in prioritized sectors.

194. **Effectiveness of Internal Audit** - Internal audits of all government offices are being conducted through Financial Comptroller General Office and subordinate offices in accordance with Section 2(P) of Financial Procedure Act 1999 and Rule 96 of Financial Procedure Rules 2007. Observations pertaining to internal audit are as follows:

194.1 Though internal audit plays important role in bringing effectiveness and systematic operations in public financial management, some weaknesses have been witnessed in the areas such as - organizational arrangements for internal audit, arrangements of conflict of interests in behavior, approved positions & positions fulfillment of human resources to be engaged in audits, capacity development and audit work-performance procedures. Likewise, Internal audits have not been conducted trimester basis, audit works have not been supervised & monitored by high-level supervisors, persons being involved in audits also lack the situation to functioning in an independent & impartial manner, and matters such as double payment, excess payments have not been pointed out by audits. Hence, it is essential to take steps for making internal audit independent and effective.

194.2 Since the internal audits are not being carried out timely basis, it has not become possible to make the financial transactions and financial statements realistic by improving the committed errors & weaknesses by the auditee management. In absence of effective internal audits, the final or statutory audit conducted by this office need to ascertain or examine the initial subject matters the like - accuracy and regularity of transactions. Therefore, the arrangements should be made for completing the internal audits timely basis and making correction of errors & weaknesses concerning the accuracy & regularity of transactions prior to conduct of final audits.

Reconstruction and Rehabilitation

195. **Status of Reconstruction** - In Section 3 of Act related to Reconstruction of Earthquake Affected Infrastructures, it is mentioned that one year period may be extended if

reconstruction works are not completed within 5 years tenure of the Reconstruction Authority. As per Sector-wise Plan and Financial Projection prepared by National Reconstruction Authority, the targets have been set to complete the reconstruction works of private houses within 2 years, educational & health institutions within 3 years and archaeological & cultural heritages within 5 years. The status of reconstruction & rehabilitation works after 3 years of happening of earthquake and 2 years of the establishment of the Authority are as follows:

S.No.	Reconstruction Sector	Structures to be Reconstructed	Reconstru-ction Completed	Progress Percent	Remarks
1	Private House Construction	767705	60003	7.81	As of 2018 March 15 (2074 Chaitra 1)
	To be Retrofitted	24924	0	0	
2	Health Institution Buildings	1197	575	48.03	As of 2017 Dec 15 (2074 Marga)
3	Community Schools	7553	2741	36.29	
4	Archaeological & Cultural Heritages	753	79	10.49	
5	Buildings under Universities	16	2	12.5	
6	Public Buildings	483	177	36.64	
7	Security Agencies' Buildings	686	123	17.93	
8	Strategic Roads (k.m.)	140	0	0	
9	District-level Roads (k.m.)	1060	0	0	
10	Water Supply & Sanitation Projects	3112	904	29.04	
11	Tourist Foot-trials	12	0	0	

195.1 While analyzed the status of reconstruction works, the status as of 14th March 2018 shows that the works have not been going ahead as per the action plan. As per the plan, the construction works of private houses are required to be completed within 2 years, but only 7.81 percent work has been completed if the distribution of third installment is taken as the basis. The statuses of construction of other infrastructures are also not going ahead as the target set. Hence, in order complete the reconstruction works within coming 3 years, it is essential to make the implementing entities more responsible, increase the participation of stakeholder parties, and carry out monitoring & evaluation of implementation status continuously establishing coordination among executing entities.

195.2 As per Private House Damage Survey Report, the number of households prevalent in 6 districts out of 14 districts highly affected by the earthquake has been witnessed in excess of 52 thousand 551 households than the number of households that mentioned in 2011 (2068) Population Census. In those districts, all houses are not damaged by the earthquake. The census had mentioned that the average growth of 27 percent (at the rate of 2.7 percent per year) in the number of households during last 10 years, and on that basis the growth of number of households should be 10 to 11 percent during 4 years from 2011 to 2015. However, except the case of Dhading and Ramechhap District, for the rest other districts, more households than the average annual growth rates have been mentioned in the report, and the number of households of Dolakha District accounted for the distribution of grants has been stated as 63 thousand 467 households (39.05 percent increase) in comparison to 45 thousand 658 households of the 2011 Census. Hence, it cannot be assured that the survey report presents true status of the districts. Altogether 205 thousand Complaints were registered in the highly affected 14 districts, and 41 thousand beneficiaries had been added up to 2017/03/27 (2073/12/14) while making the settlement of lodged complaints. Out of the

number, 24 thousand 122 beneficiaries have been added in 6 districts only, whereas 143 thousand complaints lodged in 14 districts during the period 2017 Mid-July to Mid-November (2074 Shrawan to Kartick) have not been settled yet. In absence of realistic survey work, there has been the situation where the beneficiaries that need to be included, have been excluded, whilst the beneficiaries that need to be excluded have been included in the survey report.

195.3 As per the responsibility conferred to the project, total cost of NRs. 230 billion 3.10 million was determined to reconstruct 767 thousand 705 households in 5 years period. However, the project has constructed only 60 thousand (7.81 percent) houses till 2018/03/14 (2074 Falgun) incurring expenditure of NRs. 69 billion 227 million. The progress has not been achieved in accordance with target fixed.

195.4 Pursuant to reconstruction of private houses, there has been the provision to provide grants of NRs. 50 thousand as first installment, NRs. 150 thousand as second installment and NRs. 100 thousand as third installment. It is mentioned that the first installment will be provided after making contract agreement as well as opening of accounts in banks, second installment after completing the construction works up to plinth level, and third installment after completing all necessary construction works ahead of the roofing works. For constructing houses, NRs. 34 billion 298.40 million has been provided to 685 thousand 969 persons as the first installment, and NRs. 29 billion 890 million provided to 259 thousand 282 persons as the second installment. Of the persons receiving the first installment, the payment of the third installment has been provided to only 60 thousand (7.81 percent) persons incurring expenditure NRs. 18 billion 900 thousand. Since the second and third installment have not been taken after receiving the first installment, it cannot be assured that the grants taken by beneficiaries have been utilized for building houses as per prescribed designs. Thus, the reconstruction works have been witnessed incomplete.

□ Environment Protection and Sustainable Development

196. **Air Pollution** - Air pollution measurement centers have been established in 6 different places within Kathmandu Valley to measure the quantum of 3 air pollutants (PM10, PM2.5/ TSP) as mentioned in National Standard relating to Air Quality, 2012 (2069). While conducting the measurement of pollution, the specified standards need to be complied with at least 95 percent of days, but the pollutants are found above especially in winter seasons having high air pollution. As per Health Management Information System Statistics 2014/15 of Department of Health Services, the topmost and lowest cause related to respiratory problems out of 10 main causes for visiting patients in hospitals have been mentioned 5.7 percent and 5 percent respectively. Since the attractions of Kathmandu valley heritages and archaeological & cultural heritages that listed in world heritages are decreasing, and agriculture crops, ecological system and bio-diversity have been adversely affected by air pollution, the necessary technologies & capabilities should be developed to measure all pollutants specified in National Standards, and the necessary programs should also be implemented for the proper management of responsible factors to pollution. The monitoring should also be carried out in respect to the implementation of programs.

197. **Construction of Sewerage** - Project Implementation Directorate under Ministry of Water Supply & Sanitation has entered a contract agreement of NRs. 696 million with a construction contractor on 27th March 2016 to construct 36.67 km interceptor sewages in rivers and streams within Kathmandu Valley with the condition of completing by 2 years. Since the consultant has provided report lately, there has been delay in making procurement agreement, and the physical progress of 22.57 percent and financial progress of 11.91 percent

only have been achieved in the construction work till 2016/17. There is no possibility for completing the works within the period specified in the contract agreement. The interceptor sewers are designed for the management of the used water of 170 million liters per day that are going to be supplied by Melamchi Water Supply Project, but delay in construction of the sewars may likely to obstruct the flows of polluted water and may increase pollution due to mix-up of such polluted water in rivers.

198. **Operation of Crusher** - Standards relating to Operations of Crusher Industries 1016 (2073) mentions that the crusher industry cannot be established within 300 meters of rivers/streams banks and highways. However, crusher industries have been operated 10 industries in Sindhupalanchowk, 26 industries in Dhading, 2 industries in Chitwan, 10 industries in Makwanpur and 20 industries in Lele-Nallu area of Lalitpur (including licenses not obtained/license not renewed) district as against the standards.

199. **Sustainable Development Goal** - The sustainable development goals have been adopted in accordance with the resolutions of Sustainable Development Agenda 2030 by the General Assembly of United Nations on 2015 September ratified by Head of States & Governments of 193 countries. There are 17 main goals, 169 targets and 230 indicators of the sustainable development. The main pillars of Sustainable Development Goals are based on human, earth, progress, peace and partnership. For the execution of the mission to sustainable development goals, each nation should - work to transform the goals as per national ecology, determine mid-term mission to compare with the achievable progress, provide necessary policies & resources to attain the set mission and formulate budgets accordingly, and develop machineries for conducting monitoring & evaluation.

While preparing budgets, the work has been started to determine the budgets in accordance with the main goals, but the works of transforming mission & indicators as per national ecology, making institutional arrangements, appointing focal persons, disseminating information, and establishing monitoring system have not been undertaken. Since the works of coordinating among the stakeholders, exchanging information & reports and updating of statistics are important for the attainment of sustainable development goals, National Planning Commission and Office of Prime-minister & Council of Minister should play leading role for this. For monitoring, it is essential to mobilize the participation of the federal sector-wise ministries, state government, private sector and civil society.

Protection of Natural and Cultural Heritage

200. **Encroachment of Fewa Lake** - As per report submitted by Fewa Lake Land Encroachment Investigation Committee to Government of Nepal on 2012/05/17 (2069/02/04), the area of 9 lakes situated at Pokhara that listed in Ramsar are 1 thousand 273 hectares. Among them, 985 hectares are covered by water portion, 70.47 hectares are not yet cultivated but filled with muds, and 217.25 hectares are cultivated making encroachment.

After break-down of Pardi Dam that constructed in 1962 (2019) on 1975/01/01 (2031/09/17) and out flow of 50 percent water from Fewa lake, some portion covered with the water has been converted into land, and the support survey conducted in 1976/77 mentions 1 thousand 692 ropanies of lands have been encroached illegally making measurement and registration in the personal names of 673 persons. With the study of map, the investigation committee has recommended for making the cancellation of the registration of the lands citing that the illegal plots are more than 650 meters in length, some of plots have now submerged under water, the shape & nature of lands are different from maps of ordinary lands, however, the registrations of the encroached lands have not been cancelled till now. The lake should be preserved cancelling the registration of encroached lands.

201. **Reconstruction** - Under Ranipokhari reconstruction & beautification program, Kathmandu Metropolitan has entered an agreement of NRs. 62.90 million on 2016/04/22 (2073 Baisakh 10) by including the works of reconstruction of Balgopal Temple, cleaning of pond, beautification of Ranipokhari (inclusive of greenary promotion, track construction etc.), and electrification, and the foundation stone of the work was laid down by Rt. Honourable President. The payment of NRs. 23 million has been provided in accordance with the agreement till 2016 Mid-November (2073 Kartick), however, the construction has been postponed due to conflict arising out of the work of Balgopaleswar temple to be built by the Department of Archaeology and use of cement in reconstruction works. For the significance place like Ranipokhari, the foundation stone of which was laid by Rt. Honourable President, it is not appropriate to keep the reconstruction works incomplete without settling the disagreement between two entities - Kathmandu Municipality and Department of Archaeology.

Likewise, for the reconstruction works of Rato Machhindranath temple, an agreement of NRs. 52.20 million was entered on 2016 May (2073 Baisakh) with the condition of completing by 2017 Mid-June (2074 Jestha). The foundation stone of the work was laid down by the Rt. Honourable Prime-minister on 2017/01/15 (2073/10/02), but only 22 percent work has been completed till now,

Local Level

Pursuant to local levels, the total audit of NRs. 180.31 billion of 738 out of 744 local levels, that existed up to 2017 Mid-July (2074 Asadh), has been completed, and the irregularity of NRs. 14 billion 250 million (7.90 percent) has been witnessed from the audits. The audited figure has appeared the highest of NRs. 40.49 billion in the local levels of State No. 3, whereas the lowest of NRs. 11.14 billion in the local levels of State No. 6. The irregularity percent has appeared the lowest of average 3.68 percent in local levels of State No. 7, and the highest of 13.27 percent in local levels of State No.2. Significant observations related to this are as follows:

202. **Project Implementation** - Rule 35(2) of Financial Procedure Rules, 2007 provides that programs are to be implemented on the basis of approved budgets. However, Kathmandu Metropolitan has not implemented 59 programs appropriated with total budget NRs. 556.70 million that approved by its Council for completing within this year, and Dudhauli Municipality, Sindhuli has not implemented the 27 programs costing NRs. 16.20 million that approved by its Council.

203. **Handover of Assets** - Rule 53 of Financial Procedure Rules 2007 stipulates that if it is decided to dissolve or merge any Office, the report of inventory goods shall be prepared within the thirty-fifth day of such decision and the take-over and hand-over works of such goods should also be conducted. The Government of Nepal has taken a decision to merge the existing 3 thousand Village Development Committees operated under 75 District Development Committees into newly structured Rural Municipalities & Municipalities with effective from 2017/03/10 (2073/11/27) and instructed for completing such handover of the financial transactions, however the handover works have not been done by preparing the inventory of various goods - including buildings, lands, vehicles, motorcycles, televisions, computers, laptops, printers, cabinets, sofa-sets etc.

Though previous 3 thousand 157 Village Development Committees are merged into 744 Rural Municipalities/ Municipalities, but the cash balances of NRs. 157.40 million that existed in previous 542 Village Development Committees, which are required to be handed

over to existing 120 Rural Municipalities, have not been transferred yet. As per prevalent laws, the safeguard, transfer and usages of government assets should be done.

204. **Invoice and Receipt** - Rule 46(3) of Local Body Financial Administration Rules, 2007, mentions that accounts should be maintained along with invoices/ receipts while making the expenditure. This year, altogether 278 Rural Municipalities/Municipalities - including Doramba Rural Municipality of Ramechhap, Gaumule Rural Municipality of Bajura, and Bharatpur Metropolitan have paid NRs. 228.20 million to various persons running programs, firms and entities from various programs without keeping supporting invoices & receipts. Actions should be taken by conducting investigations on this matter.

205. **Accounts not presented** - Rule 97 of the Financial Procedure Rules 2007 provides that the office head is required to complete the final audit by submitting necessary the financial statements. This year, Gaushala Municipality and 5 Village Development Committees (Pipara, Manohari, Mahottari, Loharpatti, Samsi) of Mahottari, and 68 previous Village Development Committees - including 66 Village Development Committees of Parsa, 1 Village Development Committee of Saptari, 1 Village Development Committee of Kavre - have not completed the final audits. Likewise, the audits of NRs. 237.80 millions have not been completed by previously existed 42 Village Development Committees - including 12 of Dhanusa, 4 of Bara, 1 of Siraha, 5 of Rautahat, 3 of Lalitpur, 11 of Makwanpur, 1 of Sindhupalchowk, 2 of Mugu, 2 of Gorkha and 1 of Nawalparasi district. Audits should be completed as per prevalent laws by taking necessary actions against the officials that have not produced accounts.

206. **Manipulation & Embezzlement** – Section 26 of Financial Procedure Act 1999 has provisioned that if any money of the government is embezzled, the money should be recovered taking actions against the persons that committed such embezzlement. Since a secretary of previous Pokhari V.D.C. office has manipulated/ embezzled NRs. 3.8 million including the amount disbursed during the period from 2016/07/16 (2073 Srawan) to 2017/03/10 (Falgun 27) for capital expenditure, and another secretary of Shikhar Municipality (previously Gigodamandu V.D.C.) of Doti has manipulated/ embezzled NRs. 3 million, the amounts should be recovered along with applicable interests by taking actions as per prevalent laws.

Rule 22(5) of Local Body Financial Administration Rules 2007, provides that the balance amount which remains unutilized at the end of each fiscal year should be carried forward in the upcoming year and maintain accounts of such amount. However, Khanbari Municipality has not brought down the total balance of NRs. 14.60 million (inclusive of NRs. 12.30 million of Operating Fund, NRs.1 million 313 thousand of Deposit Account and NRs. 1 million of Welfare Fund), the bank balance of the office has appeared a shortfall of NRs. 7.70 million than the balance shown by the books of account, and has not submitted the detailed statements & accounts relating to the construction expenses shown NRs. 54.50 million. Hence, the amounts should be recovered from the responsible persons making an investigation on these issues.

207. **Bank Reconciliation** - The bank reconciliation statements have not been prepared pursuant to excess bank balances by NRs. 147.60 million than the books of accounts of 32 local levels - inclusive of Dachhinkali Municipality Pharping, Jiri Municipality Dolakha, Temal Rural Municipality of Kavrepalchowk, and the f shortfalls in bank balances by NRs. 48.40 million than the books of accounts of 39 local levels - inclusive of Phidim Municipality Panchthar, Naukunda Rural Municipality Rashuwa, Uttargaya Rural Municipality Rasuwa. As a result,

the audits cannot ascertain the fairness of their bank balances. Hence, these matters should be made clear by making inquiries relating to shortfalls/excess in bank balances.

Kathmandu Metropolitan has not included the banks accounts balances of NRs. 685.20 million in its financial statements since past some years, and thus, it cannot assured that the cash and bank balances shown at the year-end present true & fair state of the actual balances. Hence, all bank balances should be included in its Balance-Sheet.

208. **Social Security Allowance** - As per Section No. 24(I) of Social Security Program Operations Procedures 2015 (2072), pursuant to the beneficiaries for which allowances are being distributed through the banks, it is provisioned that an account needs to be withheld if any transaction is not operated within a fiscal year and the balance lying in such accounts should be returned. However, Hetauda Sub-Metropolitan has retained NRs. 18.80 million without returning, which the concerned offices as well as banks have also ascertained that the beneficiaries have not drawn any amount since 2014/15 and 2015/16 to the present days. The amount should be deposited in government revenue.

209. **Internal Income** - Local Self-Governance Act, 1999 provides that the municipality/rural municipality Office can generate income through tax, duty, service fee and sales. The total of NRs. 110.30 million are still to be recovered by 207 rural municipalities/ municipalities including arrears of NRs. 71.30 million of previous years and NRs. 39 million recoverable from 280 institutions/persons in this year. The arrears amounts should be recovered. Other significant matters are as follows:

209.1 On the basis of sample test of the description of only 7 tax-payers of Birganj Metropolitan, Parsa, it is revealed that the Metropolitan is yet to recover the consolidated property tax NRs. 269 million 711 thousand from the tax-payers.

209.2 Based on the sample test of house & land tax conducted by Biratnagar Metropolitan, it is noticed NRs. 37.80 million is yet to be recovered from 12 tax-payers.

209.3 As per record prepared by Lalitpur Metropolitan, it is revealed that the revenue dues till 2013/14 (2070/71) to be paid by a Cinema Pvt. Ltd. has been shown NRs. 10 million, but the Ltd. has not paid house & land tax and entertainment tax since 1998/99. The Ltd. has not paid the entertainment tax from the date of establishment. The Metropolitan has also not written any reminder for the recovery of revenues.

209.4 Kathmandu Metropolitan has not recovered the rent NRs. 44.80 million (except penalty) due to a Multi-purpose institution up to 2016/17, NRs. 3.6 million from a trader of Sundhara and rent NRs. 50.60 million from the sky bridge operator as per the contract agreements.

The recoveries should be made by adding applicable fine amounts in the above mentioned rent arrears amounts in accordance with the condition of contracts.

210. **Tax Deduction at Source** - Section 88 & 89 of Income Tax Act, 2002 provides that the tax deduction at source is to be made while making payment. This year, 675 Municipalities/Rural Municipalities have not deducted NRs. 50.50 million tax at source pursuant to applicable remuneration tax, income tax and rent tax. The above mentioned tax should be recovered and deposited in revenue.

211. **Amounts not Freezed** - Rule 33 of Financial Procedure Rules, 2007 provides that any amount unutilized at the year-end should be deposited in Consolidated Fund. This year, 71 Rural Municipalities/Municipalities - including Madi, Ratnanagar of Chitwan - have not deposited NRs. 219.20 million in the Consolidated Fund that reminded balance at the year-

end. The amounts should be deposited in the Consolidated Fund in accordance with the provision of the Rule.

212. **Payment of Unperformed Work** - In the Item No. 8.1 of a contract agreement made by Janakpur Sub-Metropolitan with a construction contractor, the specification specifies the requirements of the settlement of all excavated materials, but further payments have been granted by provisioning the additional work item for transportation and settlement of excavated materials. While conducted field observation of the works, it is witnessed that the settlement of more materials have not been done, and most of excavated materials are being used in bridging the holes/hollow of the road. Hence, the payment granted NRs. 15.30 million, by adding separate item, the work of which is actually not performed, should be recovered and the outstanding payment NRs. 25 million should not be provided. Likewise, the payments granted by Biratnagar Metropolitan of NRs. 3.9 million for the same nature of soil settlement works should be recovered and the outstanding NRs. 10.30 million should not be provided.

213. **Approval of Bid** - Section 26 of the Public Procurement Act 2007 mentions that the public entity may reject the tender if bid amount of the lowest evaluated tender is materially high than the cost estimate amount. However, Janakpur Sub-Metropolitan, with respect to a construction works run under the assistance of Asian Development Bank having the cost estimate NRs. 818 million, has approved the lowest tender having bid price NRs. 874.50 million (6.83 percent above than the cost estimate) without getting the adequate reasoning of the bid price is not materially high. As such, the officials that recommended for approving the tender having high bid price than the cost estimate, and approved the tender should be held responsible for this.

214. **Administrative Expenses** - Rule 34 of Local Body Financial Administration Rules, 2007 provides that the local body could spend 25 percent to 60 percent of the incomes generated from the tax, fee, service fee, duty and rent as provisioned in Act remaining within the approved budget limits. However, 25 local bodies - including Biratnagar, Parsa, Bharatpur and Lalitpur Metropolitan, Janakpur, Hetauda, Butwal Sub-Metropolitan, and Dhankuta, Lahan, Bidur, Byas, Siddharthanagar, Bheri, Bhimdutta Municipality - have incurred excess administrative expenses of NRs. 716.60 million than the specified limits. Lalitpur Metropolitan Office has incurred budget expenses by including the recurrent expenses NRs. 81.80 million in capital budget. The practice of incurring such expenses needs to be controlled.

215. **Tax Invoice** - In Section 14 of Value Added Tax Act, 1996, it is provisioned that except in the specified circumstances, each registered person should issue tax invoices while supplying services, the recipient should also receive such invoices, and the invoices should be issued in accordance with the specified format. Biratnagar Metropolitan has entered a contract agreement with a partnership institution for 5 year-period in a contract price NRs. 68.40 million for the collection and management of solid wastes. The municipality has granted the payment of NRs. 13.70 million in spite of the situation of non-issue of tax invoices by the institution in the prescribed format, which has caused the loss of value added tax.

216. **Approval of Design and Work Completion** - Section 149 of Local Self-Governance Act, 1999 provisions that the work of building construction cannot be undertaken within the area of municipality without getting permission, and Section 160 states that the work of building construction need to be completed within 2 years of the receipt of such permission. The following matters are observed while examined the status of approval drawings and completion of construction works of Kathmandu Metropolitan:

216.1 Though the construction approvals, drawings sanctions, and work completion reports are being issued pursuant to private & community buildings, the records of the government, commercial & private buildings constructed within the area of Metropolitan up to now have not been maintained systematically. The records of institutions/persons commencing the construction works amongst the institutions/persons that obtained the permissions for building construction as per the Act have also not been systematically maintained. Hence, such records should be systematically maintained by conducting monitoring in respect to the persons/institutions that obtained work completion reports and not constructed the buildings in accordance with the specified standards.

216.2 Since last some years, the private sector has executed the construction works of joint housing & apartment for the organized settlement. Since proper monitoring of such structures constructed within the Metropolitan has not been carried out, the circumstance may appear where the structures the permissions of which are taken for residence purposes are used for commercial purposes, and the necessary infrastructures that required for commercial building are not available. Hence, buildings should be constructed only in accordance with the building codes.

216.3 The Metropolitan has started maintaining data in computers after 1999 (2056) and has digitized 90 archives up to now. The Metropolitan has issued the sanctions of 58 thousand 614 drawings during last 18 years, but it could provide information relating to the works completion of 12 thousand 517 buildings only. The Metropolitan has not maintained records by ascertaining the status of the rest of buildings.

216.4 As per the Local Self-Governance Act, all types of building are to be constructed only getting approvals of the drawings, but the approvals of drawings of most of government buildings have not been taken. Hence, the Metropolitan should carry out the monitoring of such constructed buildings the drawings of which have not been approved.

217. Construction of Kathmandu View Tower - The 18th City Council of the Kathmandu Metropolitan had made a decision for constructing 29th floor multipurpose building in the 23 ropanies 6 aanas land of old bus-park. When invited the letter of intends for this, a construction entrepreneur, which has bided with the highest royalty, has stated that - the total cost estimate of NRs. 3.75 billion for constructing & operating the tower for 30 years; will make a royalty payment of NRs. 9.8 million per annumn until the building is completed and the total of NRs. 664 million for 27 years at the rate of NRs. 23.5 million per annumn after the completion of the construction building; and the ownership of the building will be transferred to the Metropolitan after 30 years. Though the construction entrepreneur has submitted the proposal of constructing 29th floor building in the letter of intends and the approval has been provided on that basis, but the approval of drawings has been provided only for 12th floor building due to happening of earthquake. The construction entrepreneur has, however, demanded the permission for constructing 29th floor building in accordance with the contract agreement, but such approval has not been provided till now. The conflict should be settled keeping in view of the geological condition.

218. **Excess Payment** - Kavre Valley Integrated Water Supply Project is required to make the payment of NRs. 627.90 million along with NRs. 583.90 million in Nepalese Currency and NRs. 44 million in foreign currency for acquiring foreign exchange while making payment of the 12th running bill to construction contractor, but NRs. 642.90 has been provided. Hence, the excess paid NRs. 15 million should be recovered.

219. **Variation** - Section 54(1) (D) of Public Procurement Act, 2007 stipulates that variation order may be issued by specifying the reasons that the circumstances could not be foreseen at

the time of signing of procurement contract. Medium Town Integrated Town Environmental Improvement Project run under Biratnagar Metropolitan has entered the contract amount of NRs. 2 billion 391.30 million for constructing infrastructures, but the contract amount has been increased to NRs. 2 billion 956.30 million by issuing 3 variation orders, raising the amount 13.89 percent in comparison to the cost estimate and 23.62 percent in comparison to the contract amount. Variations orders have been issued for the items the rates of which are quoted more in comparison to the cost estimate and by approving new rates, which have resulted an increase of excess liability NRs. 232.70 million. The benefit of NRs. 38.30 million has been provided to the construction contractor due to increment in the quantity of high quoted items and deduction in the quantity of low quoted items. The amount should be recovered.

220. **Price Adjustment in New Rate** - Biratnagar Metropolitan has made alteration in some items and added some new items in accordance with the provision of contract agreement signed with construction contractor. The new items rates have been quoted on the basis of rates of labor & material that prevailed in 2013/14. Though all new rates have been approved on the basis of Variation Order-2 conducted in 26th April 2016 and Variation Order-3 conducted in 26th June 2016, the price adjustments have been given on the basis of rates prevailed on 3rd July 2013. Hence, the price adjustments granted in excess NRs. 38.30 million should be recovered.

Chapter 4
Areas for Improvement

1. **Budget and Expenditure Management** - It is necessary to make control in the practice of not including all types of foreign assistances in budgets, including budgets in foreign assistances without assurance of the sources, and allocating budgets in Finance - Miscellaneous and providing disbursements through virements on the basis of decisions of Ministry of Finance. Likewise, the practices, the like - making transfers just for increasing the volume of expenditure, making virements as against the prevalent laws, and giving assurance to the source that not provisioned by laws should also be stopped. Steps should be taken to control - the unproductive expenses, implement the contribution-based pension scheme, and making expenditure through establishing separate funds against the budget principle. Arrangements should be made for depositing the amounts of various funds that have not been utilized in accordance with the objectives.

2. **Development Works and Project Management** - Programs/projects should be selected by carrying out the feasibility study, detailed survey, cost - benefit analysis; and the contract management should be made only after conducting the environmental impact study & acquisition of land, arrangements of work place and inter-ministry coordination. There should be arrangements for establishing the linkage between periodic plan and Budget & program, not hiring consultants for the works which can be performed through departmental human resources, preparing standards for incurring expenses from contingency, and allocating adequate budgets in prioritized projects. Steps should be taken to make the project chiefs responsible by making evaluations on the basis of result-oriented indicators and making the monitoring and evaluation system effective. In addition, necessary improvements in prevalent laws should be made to resolve the obstructions that have been witnessed in implementation of development projects.

3. **Public Procurement Management** - Steps should be taken to grant time extension by determining the reasons and responsible persons for non-accomplishment of timely works as per procurement contract, not to give works to user groups that require using heavy machines & equipment and are of complex in nature, make the tender submission through electronic system mandatory, conduct quality tests as per specified manner, keep the construction contractors in black-list that have not made progresses as per contract agreements, abandoned contract works without completing works, and not completed contract works in specified time. Clear legal provisions should be formulated in subject matters, the like - environment-friendly development works management, preparation of norms for making cost estimates in Design-As-Built Contract, tender documents, price adjustment etc. In addition, service contracts should be made consistent by preparing standards.

4. **Reform in Revenue Administration** - There should be arrangements for controlling under invoicing/minimum assessment in import-export, house & land, sale of goods & services, bringing all professionals & businesses in tax net through inter-organization exchange of information; and the submission of tax clearance papers should be made mandatory while procuring shares, house & land and property above the specified amounts. Steps should be taken to make customs assessment realistic, make the explanations of customs duty further clearer through updating, an maintain the records of revenue exemptions and reporting to the Parliament in respect to revenue loss occurred due to such exemptions and their impacts. There should be arrangements for the improvement in the quality of tax assessment, monitoring markets and enforcement of billing system. Arrangements should also be made for timely settlement tax disputes, recovering revenue arrears strictly, and making tax auditors

more responsible by adopting the international practice related to the determination of loan-capital ratio for tax purpose. Efforts should be made to collect taxes if the non-governmental organizations have operated taxable transactions, widen tax net by framing laws related to electronic trade, and harmonize the income tax related provisions of other prevalent laws with the Income Tax Act and increase tax compliance.

5. **Safeguard and Use of Public Property** - The records of government properties including buildings, lands, vehicles etc. should be updated and their safeguards, usage and repair & maintenance should be timely done, and the auction-sale works should be done in an integrated manner for the goods to be auctioned. Recoveries of profits and principals & interests are to be made by maintaining records of government's share/loan investments systematically, and the management of government lands & forest area should be done by preparing clear standards for leasing, using, giving usufruct and managing undue exploitation of means & resources, so that the resources are properly used and returns are received. The management of mines excavation, electricity generation licenses & their renewals should be done making the monitoring work effective. Improvements should be made in the management of grants/offerings that are being offered by worshipers/visitors in public shrines, temples, monasteries, holy places etc.

6. **Public Service Delivery** - For making public service delivery qualitative & effective, the service standards should be determined; the roles of intermediaries & middle-persons should be minimized by implementing cyclic-time system, tokan system, one-door service system and help desk system; and the electronic service delivery should be introduced to reduce time & costs of service recipients. For making easy access to health services, the standards of human resources, equipment & human resources should be determined, and arrangements should be made for making timely procurement on the basis need identification and supplying & distributing medicines only on the basis of demands, and monitoring should be carried out by providing compensations to service recipients if the services are not delivered in accordance with Citizen Charters. Improvements are to be made in complains receiving and public hearings process.

7. **Accounting and Reporting** - Nepal Public Sector Accounting Standards should be implemented in federal, states and local level governments. With respect to development and implementation of separate accounting software by various entities without getting approval from the Auditor General, the pre-approval should be taken before using such software. Initiatives should be taken for getting approval and implementing the formats for the preparation of Consolidated Fund Accounts of federal, state and local levels, and reporting of the income & expenditure of states & local levels to federation, and revising accounts related forms to make relevant as per time.

8. **Internal Controls and Internal Audit** - All levels of government offices and corporate bodies should prepare and implement subject-wise and sector-wise internal control procedures to further strengthen the internal control system through the optimum use of public resources and making public service delivery economical, effective and efficient. Steps should be taken to adopt sector-wise code of ethics along with the mechanism for strict adherence and monitoring of such codes.

   Internal control system should be made effective by adopting good international practices along with the enhancement of operational independency, professional capabilities, standards & procedures, supervision methods, organizational frameworks for report submission etc.

9. **Financial Management of Local Levels** - For making improvements in the financial arrangements of the local levels, standards are to be prepared in relation to the use of

authority & revenue collection in pursuant to subject matters prescribed in common list of the federal, states and local levels; the responsibilities and accountabilities of elected officials and employees are to be made clear; for the improvement in accounting system, the accounting system and use of software should be made consistent by approving the formats of financial statements of all entities; local level consolidated fund account should be maintained systematically, and periodic reporting to states and federation of such accounts should be arranged; and the payment centers should be confined in urban or rural municipality office areas.

There should be consistency in formulation of budget, policy & program and laws; standards are to determined; and controls & consistency are to maintained for proper management of the facilities to be provided to local level officials; arrangements are to be made for - spending the conditional grant, equalization grant and special grants only in concerned purposes, managing/transferring funds & properties that existed in existing entities, utilizing & proper management of property & infrastructures; and steps are to taken to maintain economy in expenditure and enhance efficiency & effectiveness in programs implementation and enhance transparency & competitiveness in procurements.

10. **Responsibility and Accountability** - Audit recommendations should be implemented, irregularities are to be timely settled and monitoring are to be carried out for the improvement of weak accountability situation owing to non-accomplishment of the conferred responsibilities by the chief accountability officers and responsible persons in effective manner. Attempts should be made for non-appearance irregularities instead of making settlement after appearance of irregularities. Laws related financial accountability should be formulated along with the provisions of the employees & elected officials need to accountable for their decisions made and need to face actions if conducted any mis-utilization.

    While giving responsibilities in public posts on the basis of work experiences, preference should be given to those which have maintained high performance standards in past performance evaluation and have complied with financial accountability requirements.

11. **Laws related to Financial Management** - For maintaining financial governance through promoting public accountability & transparency, the provisions of fines provided in Section 16, 26 & 33 of Financial Procedure Act, 1999 should be revisited as per relevancy of time, and the responsibility and accountability of the 'controlling' and 'controlled' entities of public sector should be established. The provision of giving advances to employees should be reviewed by making arrangement of making all payments through cheques, and audit committees should be constituted for promoting organizational good governance. Clear legal provisions should be provided in Financial Procedure Act & Rules relating follow-up audits to be conducted after passage of one year time in respect to the observations pointed out by the final audit. Audit Act should amended by including the subjects related to submitting reports immediately in case of the sensitive subjects that observed in course of auditing, the matters for which the Auditor General may issue directives, and the matters for which a written request may be issued for taking actions against the officials that have not accomplished the responsibility as specified by laws and not maintained the financial discipline.

    Pursuant to granting of advances, laws should be amended specifying the matter that public entities can provide advances for the construction works only on the basis of the evidence of the commencement of works as per contract agreement. More clear provision should be made to make responsible the officials that have prepared and approved faulty

drawings, design or cost estimate. To control low bidding, the provision should be made for approving the bidder's tender that have quoted nearer figure of the average price - calculated on the basis of the bid prices of all bidders but excluding the highest and lowest bid prices amongst all responsive bidders. The work volume of the construction contractor should be determined on the basis of analysis of their capital, equipment, human resources for controlling the practice of obtaining more works than the available capacity by a single construction contractor but not completing such works in due time. Procedures are to formulated for the proper management of procurements to be done by security, strategic or defense, entities that require making competition with private sector, international fair, carnivals, trade fair, procurements to be made by foreign embassies, and entity operating airlines services.

12. **Enhancing Final Audit** - Autonomy should be maintained in personnel management and necessary budgets & physical resources should be provided for maintaining professional independency of audit institution, head of institution and involved employees, and establish administrative & financial autonomy as per good international practices of public sector auditing. Audit policies, standards and procedures are to be updated on the basis of good international practices. Audit Quality Controls & Assurance Review System should be made more effective. More resources are needed to enhance the capacity development of auditors relating to financial, compliance, performance, environmental, IT, concurrent audit. Organizational structures and approved positions of employees are to be reviewed keeping in view of the extended audit scope which require auditing of local levels.

13. **Audit of Corporate Bodies and Committees** - Corporate bodies and Committees should complete their audits timely basis by preparing their financial statements as per prescribed accounting standards. Appropriate alternatives for the management reforms should be adopted by analyzing the causes of the receipt minimal returns in comparison to investments made by the government in corporate bodies. In addition, the consultation of Auditor General should be timely taken while appointing auditors in substantially government-owned corporate bodies and the audits of such bodies should be timely completed.

14. **Flow of Information and Coordination** - A machinery should be created to exchange the financial management related information between various regulatory bodies, such as - Commission for Abuse of Authority, Office of the Auditor General, Office of the Prime Minister & Council of Ministers, Ministry of Finance, Financial Comptroller General Office, Department of Money Laundering Investigation, Department of Inland Revenue, Department of Customs, Department of Revenue Investigation, Nepal Rastra Bank etc.

15. **Implementation of Public Accounts Committee's Decision -** Discussion on the Auditor General's Annual Reports should be timely undertaken, and the monitoring should be carried out more effective in respect to the implementation of the committee's decisions.

Chapter 5
Office Activities

1. **Preparation of Strategic Plan** - This office has prepared and implemented the third Strategic Plan (2016 - 2020) since previous year. The Strategic Plan has determined the Vision as " *We strive to be a credible institution in promoting accountability, transparency and integrity for the benefit of the people*" and Mission as "P*rovide independent and quality audit service to assure our stakeholders the public funds are efficiently used*". The strategic imperatives identified by the Plan include - improve quality and impact of audit, strengthen independence and mandate, develop organizational capability, enhance professional relations with external stakeholders, and enhance internal governance. The Annual Operational Plan has been framed and executed for the implementation of the Strategic Plan. The technical assistance of Auditor General Office of Norway has been obtained in the preparation the Strategic Plan and Annual Operation Plan.

2. **Action Plan** - The Action Plan of Auditor General (2017-2023) has been prepared by covering special reform areas of the office's - independency, audit methodology and procedure to be adopted by the office, internal controls and governance, physical infrastructure, human resource management and relations with stakeholders after making assessment on the internal and external environment. In course of the preparation of this Action Plan, considerations are given to various studies & researches conducted in the field of financial sector, previous reports and operational plans of the Auditor General, and the recommendations incorporated in the peer reviews conducted by other Supreme Audit Institutions. The six-year Action Plan includes activities, such as - reform in organizational structure and working system, reform in policy and legal provision, reform in audit procedure, enhancement of the audit effectiveness and quality assurance, financial discipline and accountability, institutional relations and communication. This Action Plan remains as an integral part of the Office's Strategic Plan and Operational Plan.

3. **Audit Advisory Committee** - Audit Advisory Committee has been constituted by including the eminent persons that have acquired experiences in different specialized fields and the Committee is functioning in the office with the objective to enhance audit quality and get suggestions and advices relating to audit procedure, subject matters and reporting with consideration to good international practices. The Committee has provided various suggestions and advices to Auditor General in 2 meetings held in this year pertaining to audit procedures, methodologies, matters to be focused in audit and reporting arrangements.

4. **Participation of Civil Society** - The Office has adopted the approach of involving the participation of civil society in audit process as per necessity. In course of performance audits, the civil society organization and beneficiary groups have been involved in planning phase (in identification of risks) and in implementation phase without compromising the independency of the audit. In addition, the office plans to involve them in dissemination of results of the prepared audit reports at local level.

5. **Institutional Relation and Communication** - The relationship with stakeholders has become vital for enhancing the impact of audit results. Keeping in view to this matter, the Office has adopted the policy of acknowledging the status of compliance with the financial discipline by conducting regular interactions with the officials of parliament, parliamentary committees, government offices, business/professional associations/organizations, public enterprises, and officials of local levels, private sector, media and other stakeholders. The Office has been conducting regular monitoring of the implementation of audit plans, conducting mass

educating, training and orientation programs pursuant to financial management, implemented the communication strategies, making public of the reports through the website, press briefings, bulletin publication and acknowledging the status of state's financial management to citizens through enhancing the relation with communication media.

6. **Internal Activities** - The 59th Anniversary of Auditor General was observed on 2017/07/29 in the presence of Rt. Honorable President. A director of the office has received the decoration of 'Prabal Janasewashree' on the occasion of Republic Day, and another director has received 'Civil Service Prize' on the occasion of Civil Service Day 2016. This year, new recruitment and placement of 29 staffs have been done - including 10 audit officers, 9 audit superintendents, 5 audit inspectors, 2 assistant computer operators, 1 junior electrician and 2 junior mechanics.

Likewise, 2 assistant auditor generals participated in Senior Executive Development Program, 229 staffs participated in 34 different types of national level trainings/seminars/ workshops and 370 staffs participated in Continuous Professional Education (CPE) program.

7. **Internal Reform** - Since the works of organizational restructuring of the central office and the establishment of field offices in state-level are in final stage, the audits of all government offices have been carried out at field level in this year under 3 phases. The construction of new building has been accelerated along with lay-down of the foundation stone after the damage of exiting old building due to earthquake. Efforts have been made to enhance the capacity of employees through various international and national level trainings and teachings. Performance based incentive system has been implemented not to impair auditors code of ethics and behaviors and maintain the high morale among the employees. A audit directive is developed relating to auditing and reporting of local levels. Corporate body audit guideline has been approved to facilitate the audit works of corporate bodies. Internal reform measures taken by the office also include - carrying out concurrent audits so as to enable taking immediate preventive and timely reform actions in respect to the shortcomings/weaknesses witnessed in public financial management and service delivery, and the execution of pro-active follow-up audits system, - in which the chief accountability officers and responsible persons are being asked to present their action plans for the irregularities to be settled and follow-ups are being carried out relating to these matters.

8. **International Relation** - The following activities have been undertaken in this year with the objective to enhance audit as per international standards through adopting good practices prevailed in public sector audit, acknowledge the works performed by this office to other countries and increase the Nepal's presence in regional and international arena :-

8.1 Supreme Audit Institution of Norway has been supporting to Nepal since 2008 in the audit capacity development. Under this, a workshop on audit quality control was conducted in 2017 July and discussions had taken place on the issues of bilateral cooperation, and the technical support has been received to the office's 3 employees pursuant to quality control in performance audit on the topic 'health service delivery'.

8.2 A three member team under leadership of Auditor General visited United Kingdom - England in 2017 October and met the Comptroller General & Auditor General of the country and discussions were made on audit related practices along with the sharing of experiences and the various areas for which common interests and supports could be made in days to come. The team also participated in the 'International Conference on Regulation' organized by Association of Chartered Certified Accountants. In 2017 November/December, a team led by the Auditor General met the Comptroller General of Government Accountability Office - the Supreme Audit Institution of United States of

America and in the meeting discussions had taken place on the areas of mutual co-operation & capacity development along with the exchange of mutual experiences. The visiting team also participated in 'Conference in Audit Accountability' organized by the institution namely International Budgetary Partnership. In the Conference, discussions took place on the participation with civil society and the role of effective information system in the implementation of recommendations incorporated in Auditor General Annual Report.

In 2017 July, a team of this office also participated in the meeting conducted on the topic 'Audit of Implementation Preparation Plan of Sustainable Development Goals' organized by United Nations Federal Department and INTOSAI Development Initiative in United Nations Head Quarter. In the meeting, discussions were made on audit of Sustainable Development Goals and other related agenda.

8.3 The participation at Deputy Auditor Generals level was made from this office in 'United Nations and INTOSAI Symposium on Open Data and Data Analysis and Implementation of Sustainable Development Goals' held in Vienna Austria in 2017 May, 'Workshop on Public Administration' organized in China in 2017 September, and Seminar and Working Group Meeting on 'Seventh Environmental Audit' organized by Asian Organization of Supreme Audit Institutions held in Thailand in 2018 January.

8.4 With an objective to enhance capacity development relating to the audit of local levels and acquire knowledge about good international practices, 11 member team led by Deputy Auditor General of this office conducted the observation tour of Indonesia, Malaysia and Singapore in 2017 July. The visit provided the opportunity to enhance the knowledge of participants and the team met Auditor General Offices of the respective friendly countries covering discussions on common interests and areas of support.

8.5 The participation from employees of this Office was made in INTOSAI Development Initiative and capacity development programs organized by Asian Organization of Supreme Audit Institutions and employees of this office also participated as the resource persons in the programs organized by those institutions.

8.6 The participation from employees of this Office was made in foreign trainings, workshops, seminars, and study programs organized by the Supreme Audit Institutions of friendly countries - China, India, Philippines and Hungary. Two employees of this office represented in the joint audit team for carrying out the audit of South Asian Association of Regional Cooperation (SAARC) Secretariat and its regional centers. Altogether 43 employees of this Office have participated in 29 programs of foreign training, study tour, and observation tour.