



The Auditor General's Fifty-Eighth Annual Report 2021 (2078)



Unofficial translation of some sections



**Office of the Auditor General
Kathmandu, Nepal**



The Auditor General's Fifty-Eighth Annual Report 2021 (2078)



Unofficial translation of some sections



**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

Table of Content

Chapter	Heading	Page No.
	Foreword from Auditor General	2
	Audit Objectives, Scope and Methodology	16
	Opinion on the Consolidated Fund	20
Chapter 1 :	Details of Audited Entities.....	25
Chapter 2 :	Status of Audit Irregularity.....	30
Chapter 3 :	Major Audit Observations.....	36
Chapter 4 :	Implementation Status of Audit Reports.....	47
Chapter 5 :	Reforms to be Undertaken in Future.....	56

Note: *This English Version of the Auditor General's Annual Report, 2021 (2078) excludes the translation of specific audit observations related to the Federal Ministries & Entities, Provincial Ministries & Entities and Local Levels, which are provided in Part- 1, Part - 2 and Part - 3 respectively of Chapter - 3 and Office Activities of Chapter-6 of Nepali Version Annual Report.*

Foreword from Auditor General

The Article 241 of Constitution of Nepal and Audit Act 2075 (2019) stipulates that the Auditor General is responsible to conduct the statutory audits of all government offices of the Federation, Provinces & Local Levels and the corporate bodies wholly-owned by Government of Nepal, Provincial Governments or Local Levels and the institutions or entities that specified as to be audited by the Auditor General with regard to, *inter alia*, the regularity, economy, efficiency, effectiveness and propriety thereof. This Report has been submitted to Rt. Honorable the President in accordance with Article 294(1) of the Constitution completing the audits of fiscal year 2019/20 and audit backlogs. This Report is the Auditor General's 58th Annual Report and the Fourth Annual Report of my tenure. This Report covers the major observations witnessed in the audits of the Federation, Provinces and Local Levels, and wholly or substantially-owned by the governments.

As per the Article 294(3) of the Constitution of Nepal, separate reports have been prepared pursuant to the activities of Provinces, and submitted to the concerned Chief of Provinces. The reports of audited Local Levels have been issued to the concerned Local Levels in accordance with Section 20(2) of the Audit Act, 2019. The audit observations witnessed in course of the audits of corporate bodies and performance & special audits have been included in the observations of concerned Ministry Sections. Similarly, a summary of Annual Report has been developed as previous years by incorporating the significant subject matters of the Annual Report to acknowledge the stakeholders in respect to the activities performed by public entities. This year, a separate audit report has been prepared and submitted by carrying out special audit concerning to the management of Covid-19 Pandemic.

Management of Audits

Audits have been completed complying with/following provisions of the Constitution of Nepal, Audit Act, 2075, relevant Acts, Rules, Policies and Plans of the Federation, Provinces and Local Levels, Code of Ethics and Other Directives issued by the Auditor General, Government Auditing Standards and good practices. In this context, the entities to be audited have been classified based on risk-based indicators, and the audit examination have been done through the test of details concentrating the audit resources pursuant to high-risk entities, the examination

based on selective transactions have been done pursuant to the medium-risk entities, and the audits have been completed with remote audit methodology by collecting information and statements from internal audit reports and Treasury Single Account pursuant to the low-risk entities. In course of the audits, discussions and interactions from various levels through electronic medium have been undertaken with the Chief Accounting Officers (Secretaries) in case of the Federal and Provincial Governments and with the responsible officials in case of Local Levels and corporate bodies. Audits have been completed phase-wise manner, and prior to commencement the actual audit works, necessary information relating to this year's annual audit plan and audit time-Schedule have been provided to all levels of government entities through the Chief Secretary in case of the Government of Nepal and from the office's website in case of other concerned parties.

Efforts have been made to make the performance audits more qualitative by involving beneficiary groups and stakeholders in such audit processes. Auditor's adherence to the code of ethics and monitoring of such activities has been made effective. Special preference has been given in monitoring and supervision from higher levels in each and every phase of audit works in order to maintain quality controls in audit works. In addition, the quality assurance reviews have also been carried out independently selecting some of the audited files. Observations witnessed in audits have been provided to the responsible officers of concerned entities, and the acknowledgement of observations that unsettled even after the receipt of replies have been provided to the concerned Chief Accounting Officers and Ministers as per the provisions of prevalent laws. The observations unsettled even after completion of all above-mentioned processes have been incorporated in the Annual Report.

This Report comprises of 6 Chapters, namely - Details of Audited Entities, Status of Audit Irregularities, Major Audit Observations, Implementation Status of Audit Reports, Reforms to Be Undertaken in Future, and the Office Activities. Though the Office's Approved Annual Plan and Time Schedule of this year has a schedule to submit annual report within 15th July 2020 (end of Ashadh 2077), but, there has been some delay in the report submission due to Corona Virus Pandemic as compared to the specified time schedule. Though the Office has taken attempts to submit a separate report on the activities and expenditure related to Covid-19 as soon as possible, but it has become possible only to submit the separate report as an

integral part of the annual report, as the Office could mobilize the audit teams only after 30th November 2020 due to the existence Covid-19 Pandemic.

Audited Figure and Irregularity

This year, total amount of NRs. 5 trillion 327.91 billion has been audited comprising of the transactions of government entities of the Federation, Provinces and Local Levels, Corporate Bodies, Boards & Other Institutions and District Co-ordination Committees. Out of the amount, total of NRs. 1 trillion 555.81 billion of 3 thousand and 79 Federal Government Entities has been audited, which has resulted total irregularity of NRs. 44.39 billion (2.85 percent). Likewise, total of NRs. 237.41 billion of 1 thousand and 19 entities of Provinces has been audited, which has resulted the total irregularity of NRs. 6.50 billion (2.74 percent), and total of NRs. 815.99 billion of 699 Local Levels inclusive of 694 Local Levels of this year and 5 Local Levels of audit backlogs has been audited, which has resulted total irregularity of NRs. 40.83 billion (5 percent). In the same way, total of NRs. 163.57 billion of Boards and Other Institutions has been audited.

Pursuant to Corporate Bodies total of NRs. 2 trillion 555.13 billion has been audited. In addition, pursuant to the consultations provided to 33 Corporate Bodies for auditing in this year, total of NRs. 1 trillion 120.79 billion has been audited. Thus, altogether, total of NRs. 3 trillion 675.92 billion has been audited in this year. It is because of the Covid-19 Pandemic witnessed in world-wide, total of 133 entities inclusive of 60 federal entities, 14 provincial entities and 59 local level entities have not been audited in this year, which has remained as audit backlog of this year.

In comparison to total outstanding irregularity NRs. 418.32 billion existed up to previous year, the total outstanding irregularity has stood to NRs. 418.85 billion up to this year after considering the deductions in respect to adjusted and settled amounts and addition of this year's irregularity amount. Total of NRs. 6.17 billion has been recovered in course of audits and follow-up audits. As against total of NRs. 246.12 billion to be settled by taking actions up to previous year, the amount has increased to NRs. 257.56 billion up to this year after addition of this year's figure NRs. 11.44 billion. In the total figure of the outstanding irregularity to be settled, if the amount to be settled by taking action is added the total amounts to be settled becomes NRs. 676.41 billion. The total amount to be settled was NRs. 664.44 million up to previous year. As compared to previous year, the total amount has surged by 1.81 percent.

While compared the audited figures of 3 preceding years with the irregularity amount of the Federal Government Entities, the irregularity figures had remained 5.29 percent and 4.05 percent of the audited figures in the fiscal year 2017/18 and 2019/20 respectively, whilst it has remained only 2.85 percent in this year. Likewise, the total irregularity settled amount of the Federal Government Entities has been NRs. 85 billion 432.9 million in this year in comparison to NRs. 83 billion 482.9 million of previous year.

The total irregularity amount of the Provincial Governments has remained 2.47 percent as compared to the total audited figure in this year as compared to 4.33 percent of previous year. In comparison to the previous year irregularity settled amount NRs. 0.9 million of the Provinces, the settled amount has stood NRs. 2 billion 413.7 million in this year. Similarly, the regularity amount of the Local Levels has stood 5 percent as compared to the corresponding audited figure of this year. The irregularity amount was 5.15 percent of the audited figure in previous year. The total irregularity settled amount of the Local Levels has been NRs. 7 billion 513.7 million in this year in comparison to NRs. 4 billion 273.6 million of the previous year. The advances not due have not been accounted in the irregularity figure in this year. It is one of the reason that has caused a decline in the percentage of irregularity against the audited figure in this year.

Financial Discipline

For maintaining financial discipline, it has become imperative to establish effective internal controls & internal audit system, make the final audits qualitative, and implement the observations pointed out by the audits timely basis. However, the country's financial discipline has existed in weak condition due to non-adoption of the principle of regularity, economy, efficiency and effectiveness in making expenditures, not performing works by the public officials assuming financial accountability, ineffectiveness of internal controls and internal audits, and unsettlement of the observations pointed out by the final audit in specified time. For this, it has become essential to constitute the Audit & Internal Controls Committees and make the internal audits independent, qualitative and effective in accordance with the provisions of Financial Procedures & Accountability Act, 2019. Special considerations are also to be given to comply strictly with the provisions of the Audit Act in order to make improvements in implementation status of annual reports. In addition, it has become essential to end present practices of not taking any action to

the public officials that have not assumed their financial accountability or not settled irregularity, and the system of reward & punishment also needs to be adopted.

Financial Management

The improvement in financial management will not take place unless the improvements are made in related fields, such as - the budget formulation and implementation, expenditure management, revenue administration, accounting and reporting. But, the financial management has existed in weak condition due to disobedience of budget discipline by the Federation, Provinces and Local Levels, most of the Provinces and Local Levels are still depending upon federal grants, no growth in capital expenditure despite of rise in recurrent expenditure, growing grants dependent culture, and ineffectiveness reporting system between the Federation, Provinces and Local Levels. Hence, the budget formulation process needs to be made realistic by appropriating budgets only on the basis of spending capability, and ending the practice of appropriating initial budgets as contingent or miscellaneous or unallocated budgets and dividing such budget amounts afterwards only, and controlling the practice of increasing/decreasing huge amounts at the end of fiscal year through virements, as such practices generally impact on the maintenance the budget discipline. Since making expenditure through non-budgetary expenditure and operational Funds weakens the parliamentary controls, such practices need to be controlled. Initiatives are to be taken to enhance the absorbing capacity of foreign-aid, make expenditure within the national budgetary system by controlling the off-budget mobilization of foreign assistances, and mobilize foreign assistances only in the productive sectors in conformity with national interests instead of mobilizing assistances by accepting the unsuitable conditions.

The main source of the government budgets is to be borne from revenues. However, the Provinces and Local Levels have been yet depending on the Federal Government treasury, as they have not been able to mobilize adequate revenues. Hence, the Provinces and Local Level are required to give focus on the mobilization of revenues by expanding their revenue scope along with the improvements in monitoring system and institutional reforms. In context of the governments are still relying on imports for revenues, they need to take initiatives for increasing the share of internal revenues. For this, it has become necessary to implement activities, the like - the reviewing of the non-tax revenue rates, recovering revenue arrears strictly, developing the capabilities of the human resources working in revenue

administration, expanding the scope and quality of tax examination, and implementing integrated tax code. As several studies have shown that the informal sector still occupies the significant portion of revenues, necessary strategies are to be adopted to improve the situation.

In context of adverse impacts on the revenue collection that resulted from Covid-19 Pandemic, it has become essential to increase the capital expenditure with the control in recurrent expenditure. The Directives related to expenditure curtailment (Economy) issued for controlling the recurrent expenditure are to be effectively adhered to, standards related to grants and assistances are to be formulated, and the work of restructuring organizations are to be done without having duplication in the scope of the Federation, Provinces and Local Levels. The Funds, Councils, Commissions, Boards etc. which constituted for the works that can be done from the ministries/departments of the governments should be liquidated or merged with one another on the basis of justification and relevancy. Government entities should not purchase luxurious goods including the vehicles, and the standards related to facilities receivable to various officials inclusive of the Local Levels should also be formulated and implemented.

Pursuant to the accounting and reporting system, which is an important sector of financial management, initiatives are to be taken for improvements. Though the accounting systems of the governments have been made the information and technology based, there exist challenges in timely preparation of the financial reports. Hence, keeping ultimate destination to converse into the accrual accounting system, it has become essential to give continuity to reform measures in order to prepare the financial reports within short span of time, along with the arrangements of making the existing computer-based accounting system paperless, preparing financial statements by all entities in compliance with the Nepal Public Sector Accounting Standards, and preparing consolidated financial statements of three tiers of governments.

Public Accountability and Good Governance

The Government of Nepal has adopted a policy of zero tolerance pursuant to the corruption controls and has also prepared a strategic work plan for this. Though the government has taken some initiatives to control corruption, but such initiatives have not been found effective. From the analysis of past three year's reports of the Commission for Investigation of Abuse of Authority, it is witnessed that the highest

number of complaints has been registered in this fiscal year. As per the latest report of Transparency International, Nepal has been included in the list of the countries having the highest rate of corruption. As per the analysis of Corruption Perception Indexes (CPI) of total 180 countries published by the institution, Nepal has secured only 33 points out of 100 points, and Nepal's rank has deteriorated to 117th position in this year from 113th position of last year. This shows an increase in corruption as compared to previous years. In context of the maintenance of good governance is not possible without controlling the practice of misuse of the state's resources and assets for the individual benefit, the campaign related to the promotion of integrity within the government machineries and every segments of society need to be implemented effectively in order to control the corruption and promote the ethical behavior in a manner it is realizable to people at large. For this purpose, it has become essential to promote transparency and accountability in the functioning of public officials, bringing the corruption related activities of private sector within the bracket of investigation, issuing code of ethics for public officials, and showing exemplary ethical behavior by high-ranked political and administrative personalities.

Development Works

As per the Fifteen Plan, various policies and programs have been implemented. In addition to the programs, the Sustainable Development Goals adopted by United Nation's General Assembly have also been implemented. But, the goals fixed by the governments in periodic plans have not been satisfactorily achieved. The time and cost of the most of development works have been increasing due to non-completion of projects in time. For the purpose of accelerating the development works, the project management, public procurement and contract arrangements are to be made effective. In this context, necessary steps are to be taken to select projects of sustainable nature by conducting the cost-benefit analysis, establishing project banks in all three tiers of governments, making the monitoring and evaluation effective, and making inter-entity coordination organized. In addition, the situation of getting cost and time overruns of projects need be checked by approving projects only after commissioning pre-preparation works and completing projects within scheduled time by allocating budgets as per requirements. The Province and Local Levels should internalize the sustainable development goals, and should establish appropriate machineries for doing monitoring and giving directions along with the allocation of financial resources as per requirements. To run development projects in efficient manner, it is imperative to make the procurement

procedures transparent, economical, fair and competitive, make the cost estimates scientific and reliable, make monitoring and supervision effective so as to get assurance on the quality of construction works, and adopt the E-procurement system by all three tiers of governments.

Public Service Delivery and Administration

Initiatives have been taken to make reforms in civil service. But, there still exist problems in delivery of services due to non-fulfillment of employees in vacant positions in the Provincial and Local Levels that emerged from problems in employee adjustments. There exists a situation where the Federal Civil Service Act has not been promulgated yet. After the adjustment of employees, the Provinces and Local Levels are required to conduct Organization and Management (O&M) Surveys, but such works have not been completed yet. In this context, it has become essential to take initiatives to promulgate of the Federal Civil Service Act, formulate Civil Service Act of the concerned Provinces without having disagreement with the Federal Act, and formulate the Acts related to condition of services of employees of local levels maintaining consistency with the provisions and facilities as provided in the Federal and Provincial Civil Service Act. To address grievances related to delivery of services, it is necessary to provide services through electronic system and give focus in the satisfaction of people. The government entities need to give attention in making their services fast, swift, and intact through the adoption of various reform measures, such as - public hearings, management of grievances, simplification of procedures, mobile governance etc. The Provinces and Local Levels should stop making recruitments and granting promotions to their employees without getting consultation of the Provincial Public Service Commission.

Management of Covid-19 Pandemic

Pursuant to the prevention, control and treatment of Covid-19 Pandemic, the activities, such as - establishing laboratory infrastructures, purchasing goods and equipment related to health, regulating borders, conducting tests and examination, doing relief management etc. are to be undertaken, but the act related to control of the Pandemic has not been done properly. Hence, in order to control the Pandemic, the works, such as - risks projection and pre-preparatory works, constituting a permanent machinery, regulating border entry points in proper time, managing infrastructures for drugs and equipment, running the prevention, controls and treatment programs by all three tiers of governments in coordinated manner are to

be undertaken. In addition, separate procurement procedures are to be formulated to prescribe the procurement procedures related Pandemic systematic.

Protection and Use of Public Resources

There exists a situation where the assets of public entities of the Federation, Provinces and Local Levels have not been recorded systematically. The lands publicly owned have been encroached and the protection and usage of the government assets have not been done efficiently. In addition, no proper returns have been received from the investments made in public enterprises. Hence, the works of updating of record of all assets by using information and technology, preparing and implementing of standards related to leasing of usufruct public lands, and protecting public lands by clearing encroachments are to be done effectively. Pursuant to the investments made in public enterprises, necessary arrangements are to be made to maintain systematic record of investments and operate the public enterprises efficiently.

Relation with Stakeholders and Parliamentary Committee

Since the matters included in annual reports are finalized only after discussions in respective Public Accounts Committees of the Federation and Provinces and Account Committees of Local Levels, there must be proper coordination in between the Office of the Auditor General and concerned Accounts Committees in carrying out the irregularity settlement works. The Office has already taken initiatives to perform such works by establishing close contact with the Public Accounts Committees and other parliamentary committees of the Federal Parliament and Provincial Assemblies through conducting regular discussions and establishing relation and coordination. The conclusions and decisions made by the parliamentary committees based on the studies, researches and analysis, have been taken as the basis of our audits. Pursuant to the audit reports submitted by the Auditor General after carrying out audits as per prevailing laws, the concerned entities should give more attentions to ensure that the recommendations mentioned in the audit reports are being implemented by making the arrangements of effective discussions in House of Representative of the Federal Parliament and Public Accounts Committees of the concerned Provinces and Rural Municipality or Municipality Assemblies in accordance with the Constitution of Nepal, Audit Act and other prevalent laws. Pursuant to the attainment of common goals amongst the constitutional bodies, arrangements are to be made to establish coordination and sharing of information

with one another. In this context, it is believed that the support and coordination received from the institutions such as - the stakeholders, media and civil society will contribute in enhancement of the quality and effectiveness of audits and create conducive environment for implementation of the recommendations incorporated in audit reports.

International Relations

Office of the Auditor General Nepal is a member to International Organization of Supreme Audit Institutions (INTOSAI) and Asian Organization of Supreme Audit Institutions (ASOSAI) and has also been a member of Governing Board of the ASOSAI presently. Pursuant to public sector audits, the Office has been obtaining a specific identity and presence at national and international forum. The Office of Auditor General Nepal has been conducting various international level programs through the joint collaboration with the INTOSAI and ASOSAI. Such types of international level presence and collaboration have provided the opportunity to share mutual experiences with each other and have assisted in the enhancement of Nepal's presence and credibility at international arena.

Challenges in Audits

Many challenges have been experienced in the functioning of the Office of the Auditor General, Nepal (OAGN). The availability of limited human and physical resources has posed additional challenges to the Office in combating with newly emerged situations, such as - the growth of financial transactions in public sector, status of non-adherence to financial discipline, and Corona Virus Pandemic etc. In such situations, it has become essential to make radical changes in the Office's organizational set-up and management of human resources, working system and procedures, formulation of policies and plans, and working culture and rituals in order to perform the Office's responsibility in an effective manner. To transform our overall working system and procedures into IT based in line with present science and technology era, Nepal Audit Management System (NAMS) has been introduced in OAGN, which is still in development phase. At present, the system has been in piloting phase. The OAGN has a plan to carry out audits through the electronic medium from next fiscal year. This Report has been prepared in accordance with the the Office's plan to prepare a separate report by carrying out audits of the activities and expenditure concerning with the Covid-19 prevention and related matters. The

OAGN has also a policy to carry out such audits in future, focusing on the area of people's concerns and public importance.

Initiatives Taken for the Improvement in Audits

For undertaking reforms in auditing, we need to revise some of legal and policy provisions. Presently, the implementation of the Office's Fourth Strategic Plan is going on. This strategic plan includes the subject matters, such as - improve audit quality, strengthen autonomy and internal governance, improve organizational and professional competency, enhance relations with stakeholders etc. Likewise, our performances have been evaluated by Supreme Audit Institution, Thailand, in line with the international practice of evaluating the performance of every Supreme Audit Institution periodically. Reform plans are to be implemented as per the report. Audit Act, 2019 has been formulated and implemented. To implement the provisions of the Audit Act systematic manner, Audit Rule is in the process of formulation. Similarly, a separate Rule related to Nepal Audit Service (Formation, Class Division and Recruitment), 2077 has been formulated and implemented for the operations of services of the employees working in audit service. The audit service will be made more organized by adding the subject matters inclusive of - the mobilization of employees of audit service, skill and capacity development, motivational incentive system, professional ethics and behavioral aspect, career development etc.

In line with the auditing standards adopted by International Organization of Supreme Audit Institutions (INTOSAI), we have also issued Nepal Government Audit Standards. For the implementation of the auditing standards, the works of preparing and updating of the financial, compliance and performance audit guidelines are on-going. Similarly, the INTOSAI Standards has been adopted and implemented since Mid-July 2020 to make the audits in compliance with international standards. The 'Audit Research and Documentation Center' will be established for the institutional capacity development and 'Audit Excellence Center' will be established for the human resource development of the OAGN.

The follow up and clearance system of the OAGN need to become effective for conducting monitoring of the implementation of audit observations. Since the Audit Act has empowered the Auditor General to make the examination whether any public official has assumed the financial accountability based on accepted principles of auditing, the Office has a plan to prepare reports by evaluating the compliance with financial accountability and make public of such reports making classification of

offices and responsible officials. Likewise, initiatives will be taken for making the arrangements of considering every official's level of compliance to the financial discipline and financial accountability while giving special responsibility to such official working in public post.

Discipline and Ethics

The final audit being carried out by Office of the Auditor General is contributing in adherence of the financial discipline and promotion of good governance in public entities. To enhance the credibility of the institution and individuals along with the promotion of professional behavior of the human resources engaged in auditing, the specified code of ethics are to be adhered without compromising in values and norms. The government auditing is not only limited to the process of seeing whether the books of account are correctly prepared and examining the related invoices and vouchers. This is also a mechanism to examine the fairness of the governance system. However, as per existing system, the personnel administration of the OAGN and operations of audit service are being administered by the Government of Nepal. Hence, it has become essential to make reviews in existing system, and the legal arrangements are to be made to give the responsibility of such operations to the Auditor General.

Expectation of the Office

After my appointment as the Auditor General, I had made public of the Auditor General's 6 years Work Plan by incorporating the matters to be improved during my work tenure. At present, we have arrived at the implementation phase of the Fourth Strategic Plan of the Office of the Auditor General. During the period, we have already made revisions in some of legal, policy and managerial subject aspects related to auditing, and I want to assure all concerned that this work will also be continued in days to come.

The Auditor General has the responsibility of carrying out the audits of all government offices and public enterprises of the Federal, Provincial and Local Levels. Since Offices of the Auditor General have not yet established any branch at Provincial level, there exists a situation where the Office has been mobilizing audit teams from the center for carrying out the audits outside valley. In this context, I expect constructive supports from the Government of Nepal in the matters of the establishment of the Office's branch offices at provincial level and creation of the

essential job positions and personnel management of the Office. The Office has main objective to enhancing good governance and playing positive role in life of mass citizen with the promotion of public integrity, morality, transparency and accountability through audits. I believe, this report will help in understanding the situation of development works, public service, revenue and expenditure, and government work procedures. For enhancing audit quality and effectiveness, the OAGN needs unrestricted access to the financial, physical and human resources that are essential to maintain the independency of the Office of the Auditor General as adopted by Lima and Mexico Declaration of the INTOSAI and the proposals endorsed by the United Nations' General Assembly. For this, I expect that necessary support will be received from the Federal Parliament and Government of Nepal to provide adequate financial resources and personnel management related independency to the Auditor General in line with international norms.

Altogether 58 annual reports have been submitted to Heads of State after the establishment of the Office of the Auditor General. But, similar observations have been almost repeated in the audit reports every year as the implementation status of the reports has not become satisfactory. In this context, I expect that the concerned parties will take necessary steps to table annual reports of the Auditor General and audit reports issued by the Office in the Federal Parliament and Provincial Assemblies in timely manner, and effective implementation of recommendations incorporated in such reports.

The OAGN employees have been confronting with the challenges to carry out audits at field level every year with limited means & resources and skills. Presently, there are 614 approved employees' positions in the OAGN. The Office has excessive work-loads to be performed. The employees working in the Office will have more encouragements to work for the protection of public resources if some special facilities and incentives are provided to them. Hence, I am expecting necessary supports from the Government of Nepal pursuant to this matter.

Lastly,

Pursuant to the public financial management and delivery of services, I believe that the implementation of recommendations incorporated in the Auditor General's annual report and other audit reports would contribute significantly in promotion of the public integrity, ethical behavior, transparency and accountability. I would like to

express my sincere gratitude to Rt. Honorable the President for providing me the guidance and, express gratitude to the Federal Legislature, Provincial Assemblies, Constitutional Bodies, all tiers of Governments, Public Entities, Audit Advisory Committee, Development Partners, Civil Society, Media Persons, general public for providing me valuable suggestions that received in course of the preparation of this report by completing audits in accordance with the constitutional responsibility. In addition, I would like to extend special thanks to all office staffs for their contributions in preparation of this report by timely completing audit works even in the difficult situation of Covid-19 Pandemic.

A handwritten signature in black ink, appearing to be 'Tanka Mani Sharma', written over a horizontal line.

(Tanka Mani Sharma, Dangal)
Auditor General

Audit Objectives, Scope and Methodology

- 1. Constitutional and Legal Provision** - Article 241 of the Constitution of Nepal mandates the Auditor General to carry out the audits of accounts of all Federal and Provincial Government Offices including the Office of the President and Vice -President, Supreme Court, Federal Parliament, Provincial Assembly, Provincial Government, Local Level, Constitutional Bodies and offices thereof, Courts, Office of the Attorney General and Nepal Army, Nepal Police or Armed Police Force, Nepal in accordance with law, having regard to, *inter alia*, the regularity, economy, efficiency, effectiveness and the propriety thereof. In addition, the Auditor General has to carry out the audits of any other offices or bodies as per provisions made in Federal Laws. In accordance with Article 241(2) of the Constitution, the Auditor General needs to be consulted in the matter of appointment of an auditor to carry out the audit of a corporate body of which the Government of Nepal or Provincial Government owns more than fifty percent of the shares or assets. Section 3 of the Audit Act, 2075 provides that the Auditor General requires to carrying out the audits of a corporate body which is wholly owned by any Government Office, Government of Nepal, Provincial Government or Local Level.

Article 294 (1) of the Constitution requires the Auditor General to submit the annual reports of its functioning to the President. Article 294 (2) specifies that the matters to be set out in the annual report shall be as specified in Federal Law. Article 294 (3) provides that the Auditor General may prepare a separate report pursuant to the functioning of any Province and submit such report to the Chief of Province. Section 20(1) of Audit Act, 2019 stipulates that each Rural Municipality and Municipality requires to get audited by the Auditor General and Section 20 (2) of same Act provides that the Auditor General may issue a separate audit report after completing the audits of each Rural Municipality and Municipality.

- 2. Objectives** - The main objective of audit is to provide practical suggestions for improvement of public financial management by pointing out the observations witnessed on examination of the financial statements & related transactions and service delivery of all Federal, Provincial and Local Level Government Offices as per the Constitution, and other Offices and Entities as

specified by Federal Laws with purview of the regularity, economy, efficiency, effectiveness and propriety thereof. To attain the main objectives, the audit also includes examining the following subject matters as the additional objectives, whether:

Financial audit

- the financial statements and reports of Consolidated Fund and other Government Funds have been prepared as per the prescribed formats and represent the true and fair state of the financial transactions,
- the expenditure are incurred for the specified purposes remaining within the ceilings as fixed in the Appropriation Act,

Compliance Audit

- all revenues inclusive of overall incomes, revenues and deposit have been identified, recovered and deposited in conformity with laws, and the revenues so collected have been allocated between all three tiers of governments in accordance with prevalent laws,
- the prevalent laws have been complied with in making financial transactions and the evidences supporting transactions have been adequately maintained,
- the legal arrangements to check the misuse of expenditure and regulation and control arrangements related to this have been adequate, and the arrangements made thus have been followed,
- the system of internal control and internal audit are effective,

Performance Audit

- the expenditure are incurred economical manner, and the progresses have been achieved in accordance with set programs and goals,
- the arrangements to protect from the loss & damage and misuse of cash, inventory and other government assets and its usages have been made, and such arrangements have been complied,
- the organization & management and work divisions have been adequate and pertinent, and such arrangements are free from duplication,

- the progresses have been achieved by formulating and implementing programs as per pre-determined objectives, and the quality and quantity of works are as per prescribed standards,
- the protection work and management of environment have been done complying with the policy, law and standards related to environment,

Others - Special Audit

- the activities operated and expenditure incurred with respect to the prevention, control and treatment of Covid-19 Worldwide Pandemic are in conformity with law and efficiently managed,
- the status of the attainment of periodic goals from the activities launched to achieve the sustainable development goals are satisfactory, and the monitoring and information collection are systematic, and,
- the information technology system has been appropriately developed and effectively used.

3. Scope of Audit - The scope of audit includes the financial transactions and relevant documents of fiscal year 2019/20 (2076/77) of the constitutional bodies, all offices of the Federal, Provincial Governments or Local Levels, Corporate Bodies, Committees, Boards, Trust/Funds, Authorities and Universities wholly owned by the governments, and other entities prescribed as to be audited by Auditor General in Federal Law. The scope of audit also includes the examination and evaluation of the subject matters, such as - the true & fairness of financial statements, internal controls system, expenditure management, revenue fixation, collection and deposit, budgets, inventories, project management, public procurement, public service delivery, responsibility and accountability etc. In addition, the scope of audit also includes the evaluation of expenditure incurred in 2019/20 with respect to the prevention and treatment of the Covid-19 Worldwide Pandemic and activities launched for the attainment of sustainable development goals.

4. Audit Methodology - Audits have been completed in compliance with the provisions of Audit Act, 2019, Nepal Government Auditing Standards, Financial, Performance, Disaster Management, Environmental and other Audit Manuals, Guidelines and good practices.

Audits have been carried out on the basis of risks assessment classifying the audited entities into low, medium and high risk entities and the audits of high-risk entities have been completed by conducting test of details, examining selective transactions in case of medium-risk entities, and examining through remote audit methodology based on information collected from internal audit reports and Treasury Single Account Fund in case low-risk entities.

Pursuant to the examination of subject matters identified on the basis of overall and entity-wise risk assessment, the matters involving high risks have been included in Entity Level Plans in order to collect pertinent, sufficient, relevant evidences and the audits have been completed on the basis of sample selection. In respect to performance audits, the civil societies have also been involved in case of the audits of some issues. The services of the pertinent experts of the concerned subject matter have been taken with respect to complex subject matter. In addition, the suggestions from Audit Advisory Committee have also been obtained. To enhance the quality of audit, necessary supervision and inspection at field level and the reviews prior to issuance of preliminary reports have been done in accordance with Quality Assurance Handbook, and the quality assurance reviews have been conducted for the audits that completed on the basis of sample selection.

5. **Annual Report** - This Report has been prepared in accordance with the provision of Article 294(1) of the Constitution that require the Auditor General to prepare and submit the Annual Report of its functioning to the President. This Report consists of 6 Chapter and 23 Annexures. Chapter-1 provides Details of Audited Entities, Chapter-2 Status of irregularity witnessed from Audit, Chapter-3 Major Audit Observations, Chapter-4 Implementation Status of Audit Reports, Chapter-5 Improvements to be Undertaken in Future and Chapter-6 Office Activities. In addition, a Summary of Annual Report has been prepared by incorporating main subject matters of this Annual Report, and separate reports have been prepared in respect to functioning of each Province. The final reports of Local Levels have been issued to the concerned Local Levels. Special study report related to management of Covid-19 Pandemic has also been produced as an integral part of this Report.

नेपालका
महालेखापरीक्षक



बबरमहल, काठमाडौं
नेपाल

प.स. २०७८।७९

च.नं. ५४



मिति २०७८।५।२

Subject: **Audit Report on Annual Financial Statements
of the Federal Consolidated Fund**

**Mr. Finance Secretary,
Ministry of Finance,
Singh durbar, Kathmandu.**

- 1. Qualified Opinion** - We have audited the accompanying Annual Financial Statements and the related adopted basis including the Accounting Policies and Explanations to Account of the Federal Consolidated Fund of fiscal year 2019/20 (2076/77) B.S.

In our opinion, except the effect of the matters mentioned in the basis for qualified opinion section in this report, the Annual Financial Statement and related Accounting Policies and Explanations to Account of fiscal year 2019/20 ending on 15th July 2020, in all material respect, give true and fair view of the financial position in accordance with prevalent laws inclusive of the Financial Procedures & Accountability Act.

2. Basis for Qualified Opinion

- 2.1** The Financial Comptroller has not prepared the Financial Statement of the Federal Consolidated Fund as per approved accounting formats.
- 2.2** Though the government accounts are maintained on cash basis in accordance with the prevalent laws, a negative net cash balance of the Consolidated has been witnessed. As compared to the negative cash balance

of NRs. 231 billion 39.9 million up to last year, the negative balance has appeared NRs. 216 billion 695.6 million at the end of this year after adjustment of this year surplus NRs. 14 billion 344.3 million. The existence of negative balance in spite of accounts maintained adopting the cash basis accounting system shows that payments have been made in excess of the receipts. It is stated that the excess payments have been borne from the balances of various accounts including the operational funds, deposit accounts, foreign assistances existed in the name of the Government of Nepal, but the account-wise details of the amounts utilized have not been mentioned.

- 2.3** In financial statements of the Consolidated Fund, the foreign grants and loans obtained have been shown NRs. 29 billion 745.2 million and NRs. 127 billion 297.8 million respectively. However, in the Central Treasury Account submitted by Nepal Rastra Bank, the receipts of foreign grants amounting to NRs. 18 billion 570 million and loans amounting to NRs. 127 billion 421.4 million have been shown, and hence, as per the financial statements of Consolidated Fund submitted by the Financial Comptroller General Office and Central Treasury Account submitted by Nepal Rastra Bank, the net difference in grants amounting to NRs. 11 billion 175.2 million and loans amounting to NRs. 123.6 million have been witnessed. Pursuant to the difference amounts, no reconciliation statements have been submitted.
- 2.4** Direct payments expenditure of NRs. 383 million 893 thousand, which incurred through two donor agencies in previous fiscal year, has been included in this year's expenditure.
- 2.5** Amongst the conditional, complementary and special grants NRs. 59 billion 707 million and NRs. 153 billion 295 million released to the Provinces and Local Levels respectively, the Provinces and Local Levels have spent NRs. 45 billion 191.2 million and NRs. 135 billion 912.5 million respectively and NRs. 14 billion 515.8 million in Provinces and NRs. 17 billion 382.5 million in Local Levels have remained as balances. Of the balance amounts, the Provinces have refunded NRs. 13 billion 551.8 million and Local Levels have refunded NRs. 10 billion 818.1 million in the Consolidated Fund. Remaining NRs. 964 million in the Provincial Consolidated Funds and NRs. 6 billion 564.4 million in Local Consolidated Funds are yet to be refunded. Since the grant amounts

which recognized as expenditures of fiscal transfer from the Federal Consolidated Fund have remained as balances without incurring expenditures in the concerned levels, and hence, the total grant amounts shown as expenditure in the Consolidated Fund have not been actually spent.

- 2.6** Section 6 of Intergovernmental Fiscal Arrangement Act, 2017, provisions that of the amounts receivable from value added tax and excise duty raised from internal production, 70 percent are to be allocated in the Federal Consolidated Fund and 15 percent in Provinces and 15 percent in Local Levels. Likewise, Sub-section (5) of same Section provides that the amounts to be received by each Province shall be provided on a monthly basis by depositing in concerned Provincial Consolidated Fund and the amounts to be received by Local Levels in concerned Local Consolidated Fund. Though the divisible amount is shown as nil in the financial statement of Divisible Fund making adjustments at the end of fiscal year (Ashadh), the value added tax and excise duty amounting to NRs. 20 billion 601.2 million which collected after 4th July 2020, have been allocated to the Federation, Provinces and Local Levels deposited only on 10th November 2020 after expiry of the fiscal year. It shows not allocating amounts within the specified time. Though the share of federal revenues is allocated only after expiry of the fiscal year, the amount has been shown as deposited in the Federal Consolidated Fund at the end of the fiscal year. Thus, the Federal Consolidated Fund Account does not exhibit the realistic position. Since the shares of revenues divisible to the Provinces and Local Levels are not timely deposited in their concerned Consolidated Funds, a shortfall of revenues by NRs. 6 billion 180.4 million have been witnessed in those Consolidated Funds.
- 2.7** Section 7 of Intergovernmental Fiscal Arrangement Act, 2017 provides that of the amounts receivable as royalties, 50 percent are to be deposited in the Federal Consolidated Fund, 25 percent in Provincial Divisible Funds and 25 percent in Local Divisible Funds. Total of NRs. 5 billion 430.9 million that collected in Divisible Fund Account in this year, has been allocated only on 11th January 2021. But, the share of federal revenues has been shown as deposited in the Federal Consolidated Fund at the end of Ashadh Month, and hence, the account has not been witnessed realistic. The shares of

revenue amounts to be received by Provinces and Local Levels have not been received in specified time.

2.8 In accordance with provision of Article 115(2) of the Constitution of Nepal, the statement related to loans provided through the guarantees of the Government of Nepal as per federal laws have not been mentioned. Pursuant to the possible liabilities that may arise from such guarantees, no disclosure has been made in Notes to Account.

2.9 From this year's audits, total irregularity of NRs. 44 billion 392 million have been witnessed, which includes NRs. 20 billion 292.1 million as to be recovered, NRs. 5 billion 679.9 million as irregular, NRs. 12 billion 584.7 million as evidences not produced, NRs. 1.7 million as reimbursement not received, NRs. 3.9 million as revenue arrear figures not brought forward, and NRs. 5 billion 829.7 million as advance irregularity. In addition, revenue arrears amounting to NRs. 215 billion 568.7 million and reimbursements of foreign grants amounting to NRs. 9 billion 13.6 million and foreign loans amounting to NRs. 12 billion 734.3 million are to be received and settled.

2.10 We have carried out the audit works in accordance with arrangements of the Constitution of Nepal, Audit Act, and the Government Auditing Standards and Guidelines adopted by Office of the Auditor General and other prevalent laws that concerned with auditing. We are independent from the Government of Nepal, which prepares financial statements. For this purpose, we have carried out the audit works in accordance with the constitutional and legal provisions and approved code of ethics. We are confident on the matter that the audit evidences we have obtained in course of audits is sufficient and appropriate to provide the basis for expressing our audit opinion.

3. Report on Other Matters - We have witnessed that reforms are to be undertaken pursuant to the matters - the safeguard of assets, receipt and use of means & resources, management of budgets, mobilization of foreign assistances, recovery of revenues, public procurement management, project implementation, management of public loans, distribution and monitoring of grants, delivery of services, prevention and control of Covid-19 Pandemic, sustainable development etc.

4. Management Responsibility for the Financial Statements - The Financial Comptroller General Office is responsible for the preparation of the Financial

Statements with true & fair representation of the state of affairs of financial transactions in accordance with Nepal Public Sector Accounting Standards (Cash Basis), and the implementation of necessary internal control systems relevant to preparation of financial statements that are free from material misstatement, whether due to fraud or other error. The Ministry of Finance is responsible for conducting the monitoring of the processes of preparation of the financial statements.

- 5. Auditor's Responsibility for the Audits of Financial Statements** - Our audit objective is to issue the audit report with audit opinion obtaining the adequate assurance on whether the financial statements are free from material misstatement due to fraud or other error. The reasonable assurance obtained in auditing provides the basis for high level of assurance. In spite of the completion of our audits in accordance with the Constitution of Nepal, Audit Act, and the Government Auditing Standards and Guidelines adopted by Office of the Auditor General and other prevalent laws that concerned with auditing, it may not be certain that our audits will detect all types of frauds or other errors existed in the financial statements or financial transactions due to our inherent limitations, such as - the nature of internal controls and financial reports, audit methodology and time taken for carrying out audit works etc. Any or overall information related to fraud or error witnessed in our audits that normally change the condition of financial decisions made by users of the financial statement, have been regarded as material misstatement.



(Tanka Mani Sharma, Dangal)
Auditor General

Chapter -1

Details of Audited Entities

• Overall Audit

Audited Entity and Subject	Number	Amounts in NRs. Billions
(A) Financial Audit		
1. Federal Ministry and Entity	3079	1555.81
2. Provincial Ministry and Entity	1019	237.41
3. Local Level (Including 5 backlogs)	699	815.99
4. Committee & Other Institution	584	163.57
5. Corporate Body	81	2555.13
(B) Performance Audit	11	-
(C) Environmental Audit	1	-
(D) Special Audit	1	-
(E) IT Audit	2	-
Total	5462	5327.91

This year, the audits of overall amount of NRs. 5 trillion 327.91 billion, inclusive of NRs. 1 trillion 555.81 billion of 3 thousand 79 Federal Ministries/Entities, NRs. 237.41 billion of 1 thousand 19 Provincial Ministries/Entities, NRs. 815.99 billion of 699 Local levels (including 694 out of 753 Local Levels and 5 Local Levels of last year's backlog), NRs. 163.57 billion of 584 Universities, Committees, Institutions and Academies, and NRs. 2 trillion 555.13 billion of 81 Corporate Bodies, have been completed. In addition to the financial audit, the performance audit of 11 issues, environmental audit of 1 issue, special audit of 1 issue, and IT audit of 2 issues have also been completed. The descriptions of audited entities have been provided in Annex-1, 1A, 1B, 2, 4, and 21.

- 1. Federal Ministry and Entity** - This year, the audits of the following appropriation/revenue/deposit and other transactions of 3 thousand 79 Federal Government Entities have been completed :-

(NRs. Billions)

S.N.	Transaction	Audited Amount
1	Appropriation - Disbursement	658.40
2	Revenue - Recovery	734.31
3	Deposit- Income	56.39
4	Other Transactions	106.71
Total		1,555.81

The descriptions of audited entities have been provided in Annex-1 and audited amount in Annex-2. Pursuant to the audit backlog of Federal Government Offices amounting NRs. 3.68 billion existed up to last year, none of the offices have submitted any account for the auditing even in this year.

2. **Provincial Ministry and Entity** - This year, the audits of NRs. 237.41 billion of 1 thousand 19 entities operating under 7 Provinces have been completed. Description relating to this has been provided in Annex-2. Major observations witnessed in the audits of Provincial Levels have been provided in Part -2 of Chapter-3
3. **Local Level** - This year, the audits of NRs. 815.99 billion of 699 local levels, inclusive of 6 Metropolitans, 11 Sub-Metropolitans, 262 Municipalities and 420 Rural Municipalities (including 5 audit backlogs of previous year) have been completed. Statement relating to this has been provided in Annex-21. Major observations witnessed in audits of local levels have been provided in Part-3 of Chapter 3.
4. **Committee and Other Institution** - This year, the audits of NRs. 163.57 billion of 584 Committees and other Institutions have been completed. Detailed descriptions of the Committees have been mentioned in Annex 1A, 4, 5, 6, and 7, and major observations witnessed in the audits have been provided in Chapter 3.
5. **Corporate Body** - This year, the audits of NRs. 2 trillion 555.13 billion of 81 units of corporate bodies have been completed. In addition, the consultations for carrying out the audits of NRs. 1 trillion 120.79 billion have been provided to 33 institutions and the audits of such bodies have been completed accordingly. Detailed descriptions relating to have been mentioned in Annex 1A, 4, 5, 6, and 7, and major observations witnessed in the audits have been provided in Chapter 3.
6. **Performance Audit** - This year, the performance audits of 11 topics have been completed. Detailed description of the audited topics has been provided in Annex 1B, and major observations witnessed in the audits have been provided in Chapter 3.
7. **Environmental Audit** - This year, the environmental audit of 1 topic has been completed. Detailed description of the audited topic has been provided in

Annex 1B, and major observations witnessed in the audit have been provided in Ministry Section of Chapter 3.

8. **Special Audit** - This year, the special audit relating to the topic 'Prevention, Control and Management Covid-19' has been completed. A separate report related to the major observations witnessed in the audit has been prepared as the integral part of this report.
9. **IT Audit** - This year, the IT audits of 2 topics have been completed. Detailed description of the audited topics has been provided in Annex 1B, and major observations witnessed in the audit have been provided in Ministry Section of Chapter 3.

• **Implementation Status of Government Budget and Revenue**

10. **Budget and Expenditure of the Government** - As per the statement obtained from the Financial Comptroller General Office, the actual expenditure of 2017/18 and 2018/19 and budget estimate and Heading-wise and Sector-wise actual expenditure of 2019/20 of the Federal Government, are as follows:

Heading/Sector	Actual Expenditure of 2017/18	Actual Expenditure of 2018/19	(NRs. in Millions)		
			Budget Estimate	Actual Expenditure	Percent
Recurrent Expenditure	696,919.6	716,417.6	957,101.4	784,148.9	81.93
Capital Expenditure	270,013.7	241,562.5	408,005.9	189,084.7	46.34
Financing Arrangements (Principal Interest Repayment)	217,048.8	152,477.0	167,859.8	117,901.6	70.24
Total	1,084,682.1	1,110,457.1	1,532,967.1	1,091,135.2	71.18
General Public Service	403,628.1	494,035.7	459,053.2	522,948.9	113.92
Defense	48,006.7	50,014.6	50,106.1	49,791.4	99.37
Public Law Order and Security	53,921.3	47,984.9	56,118.8	51,863.8	92.42
Economic Affairs	388,929.9	344,671.8	541,367.0	264,436.5	48.85
Environmental Protection	13,512.7	14,738.6	26,789.7	13,593.2	50.74
Housing and Community Amenities	50,913.8	38,438.0	78,754.5	35,189.4	44.68
Health	35,921.1	35,999.3	78,404.4	40,195.7	51.27
Culture and Religion	5,265.1	6,042.2	7,231.6	6,848.9	94.71
Education	45,019.0	36,217.8	163,755.9	39,400.9	24.06
Social Security	39,564.4	42,314.2	71,385.9	66,866.5	93.67
Total	837,247.8	1,084,282.1	1,532,967.1	1,091,135.2	71.18

11. **Status of Expenditure** - As per the statement obtained from the Financial Comptroller General Office, the five ministries plus other entities incurring

excessive expenditure on the basis of the amounts of this year's total recurrent and capital expenditure, are as follows:

(NRs. in Millions)

Recurrent Expenditure				Capital Expenditure			
S.N.	Ministry/Entity	Amount	Percent	S.N.	Ministry/Entity	Amount	Percent
1	Ministry of Home Affairs	127,340.0	16.24	1	Ministry of Physical Infrastructure & Transportation	74,589.7	39.45
2	Ministry of Finance	76,236.5	9.72	2	National Reconstruction Authority	25,328.5	13.40
3	Ministry of Defense	47,199.0	6.02	3	Ministry of Urban Development	19,972.4	10.56
4	Ministry of Education, Science & Technology	39,359.9	5.02	4	Ministry of Energy, Water Resources and Irrigation	19,665.5	10.40
5	National Reconstruction Authority	27,315.7	3.48	5	Ministry of Water Supply	8,407.4	4.45
6	Other Ministries and Entities	466,697.8	59.52	6	Other Ministries and Entities	41,121.2	21.74
Total		784,148.9	100.00	Total		189,084.7	100.00

Besides the recurrent and capital expenditure, the expenditure incurred in financing has been NRs. 117.90 billion. The grant amounts provided to the Provinces and 753 Local Levels also include in the recurrent expenditure of other entities.

- 12. Source-wise Expenditure** - As per the statement obtained from the Financial Comptroller General Office, the source-wise actual expenditure of 2017/18 and 2018/19 and estimate and actual expenditure of 2019/20 of the Federal Government, are as follows:

(NRs. in Millions)

Source	Actual Expenditure of 2017/18	Actual Expenditure of 2018/19	2019/20		Increase Percent as compared to Last Year
			Estimated	Actual Expenditure	
Government of Nepal	955,759.2	963,186.0	1,176,138.2	951,430.7	(1.22)
Foreign Grant	39,318.7	22,898.6	57,995.6	23,215.7	1.38
Foreign Loan	89,604.2	124,372.5	298,833.3	116,488.8	(6.34)
Total	1,084,682.1	1,110,457.1	1,532,967.1	1,091,135.2	(1.74)

- 12.1** Amongst the this year's expenditure of NRs. 951.43 billion in Government of Nepal source, NRs. 753.06 billion (64.03 percent) has been borne from revenues.
- 12.2** Against the this year's estimate of receiving NRs. 58 billion as foreign grants in 17 entities, NRs. 23.22 billion (20.03) has been received, and against the this

year's estimate of receiving NRs. 298.83 billion as foreign loan in 14 entities, NRs. 116.49 billion (38.98) has been received.

- 13. Revenue Recovery** - As per the statement obtained from the Financial Comptroller General Office, the status of source-wise revenues actually recovered in 2017/18 and 2018/19 and estimate and actually recovered in 2019/20 by the Federal Government, are as follows:

(NRs. in Millions)

Description	Actual Recovery of 2017/18	Actual Recovery of 2018/19	2019/20		
			Estimated	Recovered	Percent
Total Revenue	782,391.4	842,741.0	1,112,033.2	755,575.2	67.94
1. Tax Revenue	659,491.5	737,272.6	1,009,161.8	613,390.5	60.78
2. Other Revenue (Including previous year's Cash Balance and Irregularity recovery)	67,226.1	102,402.3	102,871.4	139,675.7	73.65
3. Principal Repayment	55,673.8	3,066.1	-	2,509.0	-

As compared to previous year, the revenue recovery has decreased by 10.43 percent in this year. The recovery of fiscal year 2019/20 includes NRs. 47.56 billion related to the previous year's cash balance and amounts recovered with respect to irregularities. Without mentioning in the budget estimate, NRs. 2.51 billion has been received in respect to principal repayment. The statements relating to revenue is provided in Annex 13. Major observations witnessed by the audits pursuant to revenue recovery have been included in Ministry Section of Chapter-3.

Chapter -2

Status of Irregularity Witnessed From Audit

- 1. Irregularity** — Section 2 (Ta) of Financial Procedures and Accountability Act, 2019 (2076) defines the irregularity as the financial transaction that has been pointed out or ascertained in auditing as it has been 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 improper manner.

The Act has classified irregularities into 3 main categories - recoverable, to be regularized, and advances. While making classification of irregularities, the Office has further classified the recoverable irregularities into 3 categories - embezzled and falsified, loss & damage, and other recoverable, and irregularities to be regularized have also been re-classified into four categories namely - irregular, evidences/documents not submitted, balances not brought forward and reimbursement not received. The advances have been further classified into staff advance, mobilization advance, and other institutional advance.

Pursuant to the Federal Government Offices, Provincial Government Offices, Local Levels, Other Committees and Institutions, the total irregularity of NRs. 104 billion 384.3 million has been ascertained by the audits in this year. The irregularity figures as per classification are as follows:

(NRs. in Millions)

Classification	Federal Government Office	Provincial Government Office	Local Level	Committee/ Other Institution	Total	Percent on Total Irregularity
1. Recoverable	20,292.1	636.4	5,474.9	746.1	27,149.5	26.01
2. To be regularized	18,270.2	4,832.5	28,179.9	10,980.8	62,263.4	59.65
2.1 Irregular (non-compliance)	5,679.9	2,105.6	10,751.8	6,002.9	24,540.2	23.51
2.2 Evidences/documents not submitted (Unsubstantiated)	12,584.7	2,726.9	17,166.5	4,977.3	37,455.4	35.88
2.3 Balance not brought forward	3.9		244.9	-	248.8	0.24
2.4 Reimbursements not received	1.7		16.7	.6	19.0	0.02
3. Advance	5,829.8	1,030.8	7,179.9	930.9	14,971.4	14.34
3.1 Staff Advance	34.2	93.3	2,929.6	68.6	3,125.4	2.99

3.2 Mobilization Advance	1,280.9				1,280.9	1.23
3.3 Other Advance	4,514.7	937.5	4,250.3	862.3	10,564.8	10.12
Total irregularity	44,392.1	6,499.7	40,834.7	12,657.8	104,384.3	100.00

Note: 1. The above irregularity figures do not include the advances not yet due.

2. The above irregularity figures do not include the irregularities of corporate bodies as the record of such irregularities and follow-up audits are being maintained/carried out by the concerned entities themselves.

The statements relating to classification of irregularities have been provided in Annex-15, 16 and 21.

- Cumulative Irregularity** - The cumulative irregularity to be settled by the Federal Government Offices, Provincial Government Offices, Local Levels, and other institutions has reached to NRs. 418 billion 850.5 million up to this year. The amount has increased by 0.13 percent as compared to the corresponding cumulating irregularity of previous year.

Details of Cumulative Irregularity

(NRs. in Millions)

Particulars	Last Year's Irregularity	Adjustment Plus (Minus)	Cleared/ Settled	Last Year's Net Balance	Current Year's Irregularity	Cumulative Outstanding Irregularity
Federal Government Office	273,579.1	1.0	85,435.0	188,145.1	44,392.0	232,537.1
Provincial Government Office	8,392.6	0	2,413.3	5,979.3	6,499.7	12,479.0
Local Level	69,810.9	-94.2	7,513.7	62,203.0	40,834.7	103,037.7
Other Committee/ Institution (Including Provincial)	66,534.7	0	8,395.9	58,138.8	12,657.9	70,796.7
Total	418,317.3	-93.2	103,757.9	314,466.2	104,384.3	418,850.5

The details of cumulative irregularity have been provided in Annex-17 and 18.

- The cumulative amount of action to be taken** – The cumulative amount of action to be taken by Federal and Provincial Government Offices, Local Levels, Other Committees & Institutions along with irregularities as well as the audit backlogs, revenue arrears, and reimbursable foreign grants & loans, has stood NRs. 257 billion 560.1 million. The amount has increased by 4.65 percent in this year as compared to last year.

(NRs. in Millions)

S.No.	Particulars	Up to last Year	This Year's Plus/ Minus	Up to This Year
1	Audit Backlogs (including Provincial)	4,741.2	13,452.3	18,193.5*
2	Revenue Arrears	197,841.1	17,727.6	215,568.7
3	Foreign Grants to be reimbursed	14,916.8	-5,903.2	9,013.6
4	Foreign Loans to be reimbursed	26,568.9	-13,834.6	12,734.3
5	Overdue Principal and Interest of Guaranteed loans	2,050.0	0.0	2,050.0
	Total	246,118.0	11,442.1	257,560.1

* Amongst the audit backlogs NRs. 18 billion 193.5 millions, the audit backlogs of NRs. 14 billion 492.6 million have existed due to Covid-19 and Mrs. billion 700.9 due to non-submission of accounts.

If added the cumulative outstanding irregularity NRs. 418 billion 850.5 million on the above amount, the cumulative amount to be settled taking actions becomes NRs. 676 billion 410.6 million. The amount figured NRs. 664 billion 440 million in last year. The cumulative amount to be settled taking action has grown by 1.81 percent in as compared to the corresponding figure of the last year. Major causes responsible for the rise in the amount to be settled taking action include the growth in the audit backlogs and revenue arrears of Government Offices.

4. Analysis of Irregularity - The irregularity status of Federal and Provincial Government Offices, Local Levels, Corporate Bodies, and Other Committees are as follows:

- 4.1. While conducted the audits of NRs. 5 trillion 327 billion 91 million of the Federal and Provincial Government Offices, Local Levels, Corporate Bodies, and Other Committees in this year, the irregularity of NRs. 118 billion 746.3 million has been witnessed from the audits. Out of the amount, NRs 1 billion 436.2 million (12.09 percent of total irregularity) has been settled through follow up audits within the reporting period, and hence, NRs 104 billion 384.3 million has remained as outstanding to be settled. The outstanding total irregularity to be settled as of this year has been NRs 418 billion 850.5 million. Details relating to this have been stated in Annex-15, 16, 17 and 21.
- 4.2. Section 39 of the Financial Procedures and Accountability Act, 2019 provides that the foremost responsibility and liability to settle the irregularities shall be of the responsible person and officers that involved in financial transactions,

and if any irregularity remains unsettled, the concerned Chief Accountability Officer shall be held liable for the settlement of such irregularities. Section 37 of the same Act mentions that irregularities pointed out by audits are to be settled within 35 days or the extended period if any extensions has been granted, and if the irregularities are not settled within such period, information thereof are to be furnished accordingly to the Chief Accountability Officer as per Section 37(4) and to the Departmental Minister or Minister of State as per Section 37(6) of the same Act. Accordingly, the information relating to unsettled irregularities have already been provided to the concerned officials in accordance to the provisions of the Act. Section 50 of the same Act provides that it shall be duty of the concerned Chief Accountability Officer to take the responsibility of financial accountability inclusive of the settlement of irregularities. In accordance with the provision, a name list related to the responsible Chief Accounting Officers served during this year and irregularity amounts, has been provided in Annex-20 and 22 of this Report.

Pursuant to the Provinces, information relating to irregularities has also been provided to the concerned Chief Accountability Officers and Departmental Ministers of Provincial Ministries in accordance with provisions of the Financial Procedures Act of the respective Provinces.

- 4.3. Pursuant to Federal Government Offices, the Ministries having the excessive irregularities on the basis of amounts of this year are as follows:

(NRs. in Millions)

S.No.	Ministry	Audited Figure	Irregularity Figure				Percent of Total Irregularity	Irregularity Percent as Compared to Audited Figure
			Recoverable	To be Regularized	Outstanding Advance	Total		
1	Finance	908,652.4	15,352.2	7,487.2	7.3	22,846.7	51.47	2.51
2	Physical Infrastructure and Transportation	102,582.5	1,164.3	3,101.2	2,553.9	6,819.5	15.36	6.65
3	Agriculture and Livestock Development	20,535.9	1,077.9	1,499.5	78.3	2,655.7	5.98	12.93
4	Water Supply	12,785.7	271.1	1,685.7	302.8	2,259.6	5.09	17.67
5	Health & Population	23,961.6	9.3	812.4	1,020.6	1,842.3	4.15	7.69
6	Communication and Information Technology	38,567.2	1,222.4	250.2	49.5	1,522.1	3.43	3.95

7	Urban Development	32,799.0	126.8	693.2	387.8	1,207.9	2.72	3.68
8	Office of the Prime Minister and Council of Ministers	65,260.7	178.2	599.9	268.2	1,046.3	2.36	1.60
9	Federal Affairs and General Administration	20,823.6	96.5	143.3	739.7	979.5	2.21	4.70
10	Land Management, Cooperative & Poverty Alleviation	28,926.1	173.1	620.7	40.3	834.1	1.88	2.88
	Others	300,912.7	620.2	1,376.8	381.2	2,378.2	5.36	0.79
Total		1555,807.5	20,292.0	18,270.2	5,829.7	44,392.0	100.00	2.85

The irregularity of the above ten ministries alone represents 94.64 percent of total irregularity of the Federal Government Offices. Similarly, the total irregularity figure as compared to audited figure of Provincial Government Offices has appeared 2.14 percent, of which the highest of 5.75 percent existed in Province-2 and the lowest of 1.42 percent existed in Bagmati Province. The total irregularity figure as compared to audited figure of Local Levels has stood 5 percent, of which the highest of 37.97 percent existed in Pipara Rural Municipality of Mahottari District and the lowest of 0.61 percent existed in Shivashatachhi Municipality of Jhapa District. The numbers of local levels having irregularities less than 5 percent witnessed from audits are 462 Local Levels, 5 to 15 percent are 202 Local Levels and more than 15 percent are 35 Local Levels.

- 4.4. When conducted the audits of 3 thousand 79 Federal Government Offices in this year, the irregularities carrying figures have not been witnessed with respect to 1 thousand 506 offices (48.91 percent). Similarly, when conducted the audits of 1 thousand 19 Provincial Government Offices, the irregularities carrying figures have not been witnessed with respect to 333 offices (32.67 percent).
- 4.5. Total of 108 thousand 907 irregularity sections have been witnessed when conducted the audits of 5 thousand 462 Federal Government Offices and Provincial and Local Levels in this year, out of which 69 thousand irregularity sections are conceptual and 39 thousand 54 section are figurative.
- 4.6. Total recoverable irregularities of NRs. 28 billion 820.9 million have been witnessed from the audits of the Federal Government Offices, Provincial Government Offices, Local Levels, and Other Committees & Institutions in this year. Out of the irregularity amounts, total amounts of NRs. 6 billion 166.7

million have been recovered, which include NRs. 95.3 million recovered by the Federal Government Offices under 22 ministries/ entities in course the auditing, NRs. 447.6 million recovered by the offices under 20 ministries/entities after issuance of preliminary audit reports, and NRs. 3 billion 958.4 million recovered by the Federal Government Offices under 20 ministries/ entities, NRs. 40.7 million recovered by other entities, NRs. 516.5 million recovered by the entities under Provincial Governments and NRs. 1 billion 108.2 million recovered by Local Levels in course of follow up audits of previous years' irregularities.

Of the total outstanding NRs. 20 billion 292 million to be recovered by the Federal Government Offices in this year, the recoverable irregularities by 10 ministries/entities has been NRs. 19 billion 938.2 million (98.26 percent) and the remaining recoverable NRs. 353.8 million (1.74 percent) is related to the rest of ministries/entities. Details relating to this have been provided in Annex-9 and 15.

- 4.7. Of the outstanding overdue advances NRs. 100 billion 649.1 million existed up to last year, NRs. 31 billion 589.5 million (31.38) has been settled in this year and NRs. 69 billion 59.6 million has remained as outstanding to be settled, and after the addition of this year's advance of NRs. 5 billion 829.6 million, the total outstanding advance as of this year has reached NRs. 74 billion 889.2 million. Out of the outstanding amounts, the staff advance has been NRs. 984.9 million (1.31 percent), mobilization advance NRs. 28 billion 224.2 million (37.69 percent), Letter of Credit NRs. 12 billion 976.1 million (17.32 percent), and other advance NRs. 32 billion 704 million (43.67 percent). In addition to the advances, the advances not yet due has been NRs. 23 billion 452.4 million. Details of the outstanding cumulative advance have been provided in Annex-8.

No significant irregularity has been observed in the Constitutional Organs/Bodies - Office of the President, Office of the Vice-President, Commission for Investigation of Abuse of Authority, Office of the Auditor General, National Human Rights Commission, National Dalit Commission, National Natural Resource & Fiscal Commission, National Women Commission, National Inclusion Commission, Indigenous Nationalities Commission, Madeshi Commission, Tharu Commission, Muslim Commission. and Judicial Council.

Likewise, the total outstanding advances of the Committees and Other Institutions under the Federation and Provinces of this year has been NRs. 14 billion 971.4 million. Out of the amount, staff advance has been NRs. 3 billion 125.7 million (20.88 percent) and other advances NRs. 11 billion 845.7 million (79.12 percent). Details relating the advances have been provided in Annex-16.

Chapter -3

Major Audit Observations

- 1. Audit Backlog of Appropriation** - Section 29 of the Financial Procedures and Accountability Act, 2019 provides that the Chief Accountability Officer shall submit the Central Financial Statements consolidating the statements of offices there under; and the responsible person shall submit accounts and financial statements of own office within the specified time; if it is not possible to submit within the specified time, the time extension to the maximum of 30 days may be taken making requests for that; and the Auditor General may issue directives to the concerned officer and may also sent written request for departmental actions if any responsible officer has not taken such time extension or fails to submit the accounts and financial statements within the extended time. There has been the audit backlog of 186 entities in this year as the some of the Government Offices, Tribhuvan University, Corporate Bodies, Committees and other institutions have not submitted accounts and financial statements within the time specified as required by laws. Major observations witnessed pertaining to this are as follows:
 - 1.1** Pursuant to the Federal Government Entity, the audit backlogs of NRs. 3 billion 682.8 million of 2 thousand 941 units existed up to last year, but none of entities have submitted accounts for conducting audits in this year. As of this year, the figure of total audit backlogs has increased to NRs. 15 billion 742.4 million along with the addition of this year's audit backlogs of NRs. 12 billion 59.6 million.
 - 1.2** Pursuant to the Provincial Ministry and Entity, out of the audit backlog of NRs. 1 billion 58.5 million that remained up to last year, the audits of NRs. 1 billion 40.4 million has been completed in this year, and the audit backlog figure as of this year has increased to NRs. 2 billion 451.1 million along with the addition of this year's audit backlogs of NRs. 2 billion 433 million.
 - 1.3** Pursuant to the Local Level Entity, out of the audit backlog of 16 entities that existed up to last year, the audits of 5 entities have been carried out in this year, and the audit backlog up to this year has increased to 70 entities along with the addition this year's audit backlog of 59 entities. Pursuant to the audit backlogs of 10 Local Levels of Dhanusha, Rautahat, Parsa and Ramechhap District of fiscal year 2018/19, only 5 local Levels have completed the audits in

this year. There has been audit backlogs of 59 Local Levels in this year due to Covid-19 Pandemic and non-submission of accounts by 1 entity each in Jhapa, Morang, Parsa, Ramechhap, Rolpa, Pyuthan, Palpa, Dolpa and Humla District, 2 entities each in Dhankuta, Sarlahi, Rautahat and Rasuwa District, 3 entities of Bardiya District, 4 entities each in Nawalparasi East, Banke and Mugu District, and 9 entities each in Sindhupalchowk, Dhading and Darchula District. With respect to the audit backlogs of Balara Municipality of Sarlahi District and Samsi Rural Municipality of Mahottari District owing to non-submission of accounts of 2017/18, none of the entities have produced accounts for conducting audits in this year. Though the requests have been made to Local Levels - Gaushala, Pipara, Samsi and Loharpatti of Mahottari District for producing accounts of 2016/17 in this year, none of the entities have produced the accounts for conducting audits.

- 1.4** The audit backlog of 14 fiscal years of 11 Public Enterprises existed up to previous year. Amongst the public enterprises, only 13 enterprises have completed audited as of fiscal year 2019/20 till the period Mid June 2021, but 25 enterprises have not produced any accounts of fiscal year 2019/20 for carrying out audits. The enterprises not completing audits includes 2 fiscal years of Food Management & Trading Company (including fiscal year 2019/20), 4 fiscal years of Bishalbazar Company Limited, and 8 fiscal years each of Rastriya Beema Sansthan and Rastriya Beema Company. There has been audit backlog of 12 fiscal years of 9 institutions in this year.

Section 11(2) of the Audit Act, 2019, provides that the corporate bodies substantially owned by Federal and Provincial Government require consulting the Auditor General while appointing auditors for carrying out audits. The number of corporate bodies that require taking consultation for the appointment of auditors has not been yet ascertained. This year, only 30 corporate bodies have sought the consultation for appointing the auditors of 42 fiscal years.

- 2. Revenue Arrears** - Section 27 (5) of the Financial Procedures and Accountability Act, 2019 provides that each Office Chief is responsible for maintaining records and accounts of revenues, reconciling accounts, preparing financial statements and get audits completed.

- 2.1** As compared to the last year's cumulative revenue arrears of NRs. 197.84 billion, it has grown to NRs. 215.57 billion in this year with an increment by 8.96 percent. Amongst the arrears, the figure of Ministry of Finance represents 93.69 percent. Since the records of arrears amounts related to Value Added Tax (VAT) have not been yet maintained and not disclosed in the financial statements, the actual status of total revenue arrears has not been ascertained yet. It is because of the arrears related to inland revenues which are under consideration in courts have been posted as appellate in revenue records and deducted such amounts from arrears of financial statements, the arrears amount as shown by the financial statements and integrated tax system have not been complying. Hence, for ascertaining the amounts of arrears, the arrears amount as shown by the system and annual report of Inland Revenue Department have been taken as the basis for auditing. There exist legal arrangements to make recoveries by withholding transactions and current & fixed assets in the event any person fails to deposit the revenues within the specified time to be deposited as per the prevalent laws, but the Revenue Offices have not been taking such actions in accordance with the laws, and thus, the revenue arrears amount have been increasing. The details related to entity-wise revenue arrears are provided in Annex-10.
- 2.2** Total outstanding rents to be recovered has been NRs. 28 million 717 thousand, which includes the shutter rents of NRs. 9 million 195 thousand recoverable by Regional Hospital of Province No. 2 from 19 businessmen, shutter rent of NRs. 1 million 964 thousand recoverable by Lumbini Regional Hospital, and NRs. 17 million 558 thousand recoverable by Tikapur and Seti Regional Hospital of Far-West Province.
- 2.3** The total amounts to be recovered by 147 Local Levels in this year has been NRs. 836 million 310 thousand. The Local Levels have also not maintained the records of the amounts to be recovered by them.

There should be arrangements to recover the revenues by preparing records of the revenues to be realized and including such receivable outstanding amounts in the financial statements.

- 3. Tax Deduction in Payment** - Section 87, 88 and 89 of Income Tax Act, 2002 provision that the amounts that are taxable as per the Act, shall have to be deducted at source in making payments, but 148 offices under 20 entities of

the Federal Government Offices have granted payments without deducting taxes at source amounting to NRs. 67.7 million, and 174 Provincial Offices/Entities have granted payments without deducting taxes amounting to NRs. 24.1 million. Likewise, 27 Corporate Bodies, Committees and Other Institutions have not deducted taxes at source amounting to NRs. 93.6 million, and hence, the total amount of taxes not deducted has been NRs. 93.6 million, which is to be recovered along with applicable interests. Details pertaining to this have been given in Annex-12.

4. **Technical and Other Assistance** - In Statement of Technical & Other Assistance submitted by Finance Minister along with Budget Speech in Legislative Parliament, it is mentioned that the total technical assistances equivalent to NRs. 21 billion 268.6 million will be received to 18 ministries/entities under the arrangements of 131 agreements in this year. The true position of overall income and expenditure of the Government has not been represented, as the description related to foreign technical which are to be included in the Consolidated Financial Statement as per Section 29 (1) of the Financial Procedures and Accountability Act, 2019 has not been included in the statement. Though the Public Account Committee already issued the directives for carrying out audits of technical assistances, but the audits of such technical assistances have not been completed by submitting the financial statements and related accounts. Details pertaining to this have been provided in Annex-11.
5. **Operational Funds** - In 52 operational funds operated by the Federal Government Offices, total income of NRs. 148.85 billion has appeared including the previous year's balance and this year's income, of which NRs. 80.63 billion has remained as balance at the end of this year after incurring expenditure of NRs. 68.22 billion in this year. Such Funds comprised of the Nepal Army Welfare Fund, Nepal Police Welfare Fund, Armed Police Force Welfare Fund, Journalist's Welfare Fund, Environment Protection Fund, Student Education Fund etc.

In the Operational Funds that established for the attainment of specific objectives, amounts have been deposited, but the deposited amounts have not been utilized by preparing necessary procedures. As a result, total of NRs. 51.9 million has been lying in the operational funds of 8 entities as unutilized

since past some years, which include - the Girl's Education Fund, Child Labor Eradication Fund, Guarantee & Terror Affected Fund, Environment Protection Fund, Operational Fund of Ministry of Industry etc. Although the Ministry of Finance had taken a decision on 14th August 2008 stating that if any entity operates any operational fund such funds are to be close down and the essential budget expenditures are to be incurred provisioning in the Appropriation Act, but such Funds have been operated till these days.

As per the Consolidated Annual Financial Statement prepared by the Financial Comptroller General Office, out of the previous year balance NRs. 1 billion 363.3 million and this year's receipt NRs. 16 billion 617.6 million, there exists total closing balance of NRs. 7 billion 816.9 thousand in Local Level's Miscellaneous Expenditure Account, Miscellaneous Fund Account, Emergency Fund Account and Local Level Disaster Management Account at the end of this year after incurring expenditure of NRs. 10 billion 164 million in this year. However, most of local levels have not prepared yet the operating procedures and standards of such Funds.

6. **Project Account** - As per the agreements signed between the Government of Nepal and donor countries/agencies, the project accounts of 67 projects are to be submitted to the Office for certification in this year. However, the project accounts of only 54 projects have been submitted and issued along with the certification and audit reports. Of the project accounts issued with audit reports and audit opinions, 27 are of Asian Development Bank, 16 are of the World Bank/International Development Agency and 11 are of other donor countries/agencies. Remaining 13 projects have not submitted the project accounts for certification. There should be arrangements to submit the project accounts within specified time.
7. **Contract Management** - As per Financial Procedure Rules, 2007, the work of approving contract agreement shall have to be done within the first trimester period. As per the statements collected by the audits in this year, total 2 thousand 989 contracts amounting to NRs. 67 billion 988.1 million have been arranged by the Federal Government Entities/Ministries, of which 2 thousand 394 contracts (80.09 percent) amounting to NRs. 52 billion 814 million (77.67 percent) have been arranged during second and third trimester. Of the contracts arranged in third trimester, 623 contracts amounting to NRs. 16

billion 802.1 million have been arranged in the last month of this fiscal year (Ahsadh Month).

8. **Consultancy Service** - Section 29 of Public Procurement Act, 2007, provides that the procurement of consultancy service shall be obtained only if any work cannot be done from the manpower available in concerned public entities, however, the consultancy services have been taken by government offices for the works which can be done through the available manpower of the offices. This year, 10 ministries/entities including the Ministry of Physical Infrastructure & Transport, Urban Development, Energy, Water Resources & Irrigation and Water Supply have incurred NRs. 2 billion 605.9 million by acquiring consultancy services. The cost of projects has been rising due to incur of expenditures by acquiring such consultancy services for which the works that can be done through departmental manpower. Besides the very essential services, the departmental manpower is to be mobilized and the expenditures incurred for the consultancy services are to be checked.
9. **Achievement of the First Year of Fifteenth Plan** - There has been some desirable improvements witnessed in the first year of the implementation of the Fifteenth Plan (2019/20-2022/23). However, the anticipated progress has not been achieved in the most of indicators. The indicators and their progress status are as follows:

S.No.	Indicators	Base Year (2018/19)	Target of 2019/20	Progress of 2019/20
1	Annual Average Economic Growth Rate (As per Base Price, Percent)	6.8	8.5	(-2.10)
2	Annual Average Growth Rate of Agriculture Sector (Percent)	4.8	4.7	2.2
3	Annual Average Growth Rate of Industry Sector (Percent)	12.2	15.1	(-3.7)
4	Annual Average Growth Rate of Service Sector (Percent)	7.9	8.7	(-4.0)
5	Annual Average Price Rise(Percent)	4.6	6.0	6.2
6	Per-capita National Income (In US Dollar)	1047	1127	1126
7	Population below Poverty Line Absolute Poverty (Percent)	18.7	17.1	16.7
8	Human Development Index	0.579	0.591	0.602
9	Life Expectancy (At the time of birth, Year)	69.7	71	71
10	Population with Access to Drinking Water Service (Percent)	89	92	91
11	Literacy Rate of 15-24 Age Group	92	92	92
12	Electricity Generation (Installed Capacity,	1250	2219	1555.4

	Megawatt)			
13	Families with Access to Electricity (Percent)	88	92	90
14	Irrigation Facility (Hectare in One Hundred Thousand)	14.7	14.93	14.87
15	Population with Access to Internet Service (Percent)	65.9	68	68

Source: Fifteenth Plan and Economic Survey 2020/21 and National Planning Commission, Annual Report 2019/20, Sustainable Development Goals - Progress Evaluation Report, 2019/20.

From the above table, it is obvious that the progresses achieved with respect to the indicators - the annual economic growth rate, annual growth rate of agriculture sector, annual growth rate of industry sector and annual growth rate of service sector, have been -2.10 percent (negative), 2.2 percent, -3.7 percent (negative) and -4 percent (negative) respectively, as compared to their corresponding projected targets of achieving 8.5 percent, 4.7 percent, 15.1 percent and 8.7 percent. Likewise, the progress achieved in the indicator - Per-Capita National Income has been US Dollar 1 thousand 126 as against the target of raising to US Dollar 1 thousand 127; the progress of the Population with Drinking Water Service has been 91 percent as against the target of providing to 92 percent; the progress of the electricity generation has been 1 thousand 555.4 megawatts as against the target of raising the installed capacity to 2 thousand 219 megawatts; and the progress of the Irrigation Facility has been 1.487 million hectares as against the target of raising to 1.493 million hectares. By making analysis of the impacts caused by Covid-19 Pandemic, natural disaster etc. in human health and education system, employment and overall economy, the affected sectors are to be addressed in a proper manner.

- 10. National Pride Projects** - With the objectives of raising agriculture production and productivity through irrigation facilities and developing infrastructures in order to build the foundation for prosperous Nepal, the Government of Nepal has declared the national pride projects on 2011/12 to the 17 projects that are significant to implement according high priorities. The number of such projects has reached to 24 up to this year. The expenditures incurred and progresses achieved in the national pride projects up to 2019/20 are as follows:

(NRs. Billions)

S. No.	Name of Project	Commenced Year	Estimated Completion Year	Total Cost Estimate	This Year's Expenditure	Total Expenditure Till Date	Physical/ Financial Progress Percent
1	Pushpalal (Mid-Hill) Highway Project	2007/08	2022/23	101.50	6.73	46.14	49
2	Railway and Metro Development Project	2009/10	Not Specified	955.22	5.39	19.68	2.06
3	North-South (Karnali Corridor) Highway	2008/09	2022/23	11.00	0.22	2.46	20
4	North-South (Koshi Corridor) Highway	2008/09	2023/24	16.20	0.63	3.04	19
5	North-South (Kaligandaki Corridor) Highway	2009/10	2023/24	28.80	2.05	6.36	22
6	Postal Highway Project	2008/09	2022/23	65.20	7.87	35.46	54
7	Rani Jamara Kulariya Irrigation Project	2010/11	2023/24	27.70	1.59	13.13	48
8	Sikta Irrigation Project	2004/05	2020/21	25.02	1.05	16.69	59
9	Babai Irrigation Project	1988/89	2022/23	18.96	0.84	8.49	52
10	Pashupati Area Development Trust	2000/01	2021/22	2.01	0.16	0.87	86
11	Lumbini Area Development Trust	2009/10	2021/22	6.10	0.71	5.51	85
12	Mahakali Irrigation Project	2006/07	2027/28	35.00	0.57	3.64	10
13	Bheri-Babai Diversion Multi-purpose Project	2011/12	2022/23	36.80	1.29	11.63	40
14	Budi Gandaki Hydropower Project	2012/13	2027/28	260.00	5.82	36.20	10
15	Sunkoshi Marine Diversion Project	2019/20	2023/24	46.19	0.02	0.26	0.5
16	Upper Tamakoshi Hydropower Project	2010/11	2019/20	49.29	1.00	46.23	99
17	Pachhim Seti Hydropower Project	2010/11	0	273.85	0	0	0
18	Pokhara Regional International Airport	2014/15	2022/23	21.60	7.68	11.29	62
19	Nijgadh International Airport Project	2014/15	2028/29	165.00	0.08	0.61	10
20	Gautam Buddha International Airport	2013/14	2019/20	30.91	1.63	23.01	91
21	Melamchi Drinking Water Project	1998/99	2020/21	35.54	1.83	29.48	97
22	Kathmandu-Tarai Madhesh Fast Track	2007/08	2023/24	213.95	1.91	20.29	11
23	President Chure-Terai Conservation Development Board	2009/10	2036/37	249.70	1.41	9.21	9
24	Electricity Transmission Project	2010/11	0	75.00	0	0	0

The above table shows that physical progresses of the National Pride Projects have been witnessed mix in nature. The works Pachhim Seti Hydropower Project and Electricity Transmission Project have not been commenced yet and the overall physical progresses of Nijgadh International Airport, Kathmandu-Tarai Madhesh Fast Track, Mahakali Irrigation, Sunkoshi Marine Diversion, Railway & Metro Development, President Chure-Tarai Madhesh Conservation and Budhi Gandaki Hydropower Project have been witnessed less than 15 percent.

On the overall, the National Pride Projects have not been completed within scheduled time due to lack of implementation capacity, weak contract management, problem and delay in land acquisition and tree cutting, disputes in alignment, demarcation and boundary, shortage of construction materials, lack of coordination between entities, delay in determination of implementation modality, and preparation of detailed feasibility studies and detailed project report of some of projects. The situation of being both time and cost overruns of projects need to be overcome. For making project management more effective, it has become essential to get assurance on the adherence to accountabilities through due compliance and monitoring of the performance contracts signed between the concerned ministries and project chiefs. The concerned entities should also give attention to make the project implementation effective through the estimation, identification and proper management of risks.

- 11. Audit of Corporate Bodies** - This year, the final reports have been issued completing the audits of 56 fiscal years of 40 Public Enterprises (PEs) as against the audit requirements of 68 fiscal years of 49 PEs (including backlogs). The audits of 12 fiscal years of 9 PEs are still outstanding. No actions have been taken to make responsible to the PEs and officials that not completed timely audits. Section 11(2) of the Audit Act, 2019, provides that the corporate bodies substantially owned by governments are required to get consultation of the Auditor General while appointing auditors for the audits. The number of corporate bodies that require taking such consultation for the appointment of auditors has not been yet ascertained. This year, only 33 corporate bodies have sought the consultations for appointing the auditors of 36 fiscal years. The concerned officials that not completed audits should be held responsible.
- 12. Operating Performance of Corporate Bodies/Committees** - Of the audited Corporate Bodies, Committees and Other Institutions, the financial positions of 85 Corporate bodies, Committees and other institutions that are preparing Balance Sheets based on business accounting have been included in this Report. In this year, altogether 56 Corporate Bodies, Committees and other institutions have earned total operating profits of NRs. 169 billion 362.9 million, whilst 29 Corporate Bodies, Committees and Other Institutions have incurred total operating losses of NRs. 3 billion 820 million. Details pertaining to the operating profits/losses have been provided in Annex-6.

Likewise, pursuant to the Corporate Bodies, Committees and Other Institutions that prepare only income & expenditure accounts without maintaining business accounts, altogether 99 enterprises have earned total operating profits of NRs. 8 billion 597.4 million, whilst 45 enterprises have incurred total operating losses of NRs. 843.7 million. Details relating to the operating profits/losses have been provided in Annex-7.

- 13. Monitoring of Grants** - This year, the Ministry of Agriculture & Livestock Development has provided grants amounting to NRs. 3 billion 83.4 million for the chemical fertilizers, machinery & equipment, open-stall markets, construction of sheds & buildings, and marketization, and Ministry of Finance has provided grants amounting to NRs. 576 million 11 thousand for the cattle insurance programs, livestock & credit guarantees, and NRs. 104 million 941 thousand for 11 private nature of cold storages and food-stuff storages.

The Ministry of Land Management, Agriculture & Cooperatives, Forest and entities there under under seven Provinces have provided NRs. 4 billion 833.8 million to 23 entities for the works of strengthening infrastructures of the agriculture and livestock farms, purchases of tractors, milk cans, cooling vats, containers, and 128 Local Levels have provided NRs. 258 million to the cooperative institutions established for earning profits. Necessary monitoring & evaluation are to be done on whether or not such grants provided have been utilized and expended for the specified works.

- 14. Grants to be Refunded** - For the grants provided by the Government of Nepal and Provincial Governments, if any amount is not expended for the specified purposes, the unspent balance amounts shall have to be refunded to the concerned governments. However, out of total NRs. 59 billion 707 million grants provided to Provincial Governments from Federal Consolidated Fund as conditional, special and complementary grants in this year, NRs. 14 billion 515.8 million has remained as the balance after incurring expenditure of NRs. 45 billion 191.2 million. Out of the balances, NRs. 13 billion 551.8 million has been refunded, but the remaining balance of NRs. 964 million has been still retained by some of Provinces - which includes NRs. 379.9 million retained by Province No. 1, NRs. 82.7 million by Karnali Province, and NRs. 501.4 million by Far-Western Province. Out of total NRs. 153 billion 300 million grants provided to Local Levels as conditional, special and complementary grants,

NRs. 17 billion 392.5 million has remained as balance after incurring expenditure of NRs. 135 billion 910 million, and out of the balance, NRs. 10 billion 818.1 million has been refunded, but the remaining NRs. 964 million has been still retained by the Local Levels. The balance amounts should be refunded to the concerned governments' treasury.

Chapter - 4

Implementation Status of Audit Reports

- Audit Report** - Audit Reports of 5 thousand 462 entities have been issued by completing audits of all government offices, local levels and other institutions specified by laws as per prescribed methods with due consideration of the matter the regularity, economy, efficiency, effectiveness and propriety thereof in accordance with Article 241 of the Constitution of Nepal. Pursuant to the irregularities amounting NRs. 118 billion 746.3 million observed from this year's audits, the irregularities amounting to NRs. 14 billion 362 million have been settled within 35 days of the issue of audit reports of 2019/20 in accordance with Section 37 of Financial Procedures & Accountability Act, 2019, whilst the irregularities amounting to NRs. 104 billion 384.3 million are yet to be settled.

(NRs. Millions)

Particulars/ Entities	Preliminary Report		Settlement from Response		This year's to be settled	
	No. of Section	Amount	No. of Section	Amount	No. of Section	Amount
Federal Government Office	8,149	47,256.2	593	2,864.2	7,556	44,392.0
Provincial Government Office	4,291	11,857.8	552	5,358.1	3,739	6,499.7
Local Level	28,028	46,749.8	2,749	5,915.1	25,279	40,834.7
Other Institution/ Committee (including Province)	2,619	12,882.5	140	224.6	2,379	12,657.9
Total	43,087	118,746.3	4,034	14,362.0	39,053	104,384.3

Likewise, the performance audits of 11 issues, environmental audit of 1 issue, special audit related to prevention, controls and management of Covid-19, and IT audits of 2 issues have been completed, and the reports of the audits have also been issued along with recommendations. Pursuant to the public enterprises, committees and other institutions, the audit reports along with operating results have been issued by completing audits of 665 fiscal years. With regard to local levels, the preliminary audit reports 694 out of 753 local levels of this year and 5 previous year's backlogs have been issued, and final reports have also been issued considering the comments, replies and evidences obtained thereon.

- 2. Irregularity Figure and Record** - Sub-Section (1) of Section 38 of Financial Procedures & Accountability Act, 2019 provisions that the record of irregularity shall have to be maintained at each entity level, and Sub-Section (2) mentions that the central record of irregularity shall have to be maintained at each central level entity. Likewise, Sub-Section (4) of same Section provides that the records of irregularity along with updating of the settlements or clearance shall have to be presented before the audits for examination in subsequent year. Since the irregularity figures and records are not updated by the central level and operational level entities in accordance with the provision of the Act, the concerned entities do not have actual descriptions of irregularity, and hence, the works of irregularity clearance and follow up audits have also not becoming effective. The concerned entities should give attention in maintaining the records of irregularities up-to-date in accordance with the provision of the Act.
- 3. Irregularity Clearance and Follow up Audits** - Sub-Section (1) of Section 38 of Financial Procedures & Accountability Act, 2019 provides that the irregularity pointed out by audits shall have to be cleared by submitting evidences or by regularizing or recovering the irregular amounts and scrutinizing irregularities through the concerned Chief Accountability Officer. The irregularities thus cleared shall have to be presented before Office of the Auditor General for follow up audits. The status of irregularity clearance and follow up audits since 2003/04 are mentioned below:

Details of Irregularity Clearance and Follow up Audits

(NRs. in Millions)

Particulars	Last Year's Irregularity	Adjustment Plus (Minus)	Cleared & Settled in Follow up	Last Year's Net Balance	Current Year's Irregularity	Cumulative Outstanding Irregularity
Federal Government Office	273,579.1	1.0	85,435.0	188,145.1	44,392.0	232,537.1
Provincial Government Office	8,392.6	0.0	2,413.3	5,979.3	6,499.7	12,479.0
Local Level	69,810.9	(-94.2)	7,513.7	62,203.0	40,834.7	103,037.7
Other Institution/ Committee (including Province)	66,534.7	0.0	8,395.9	58,138.8	12,657.9	70,796.7
Total	418,317.3	(-93.2)	103,757.9	314,466.2	104,384.3	418,850.5

- 3.1. Out of total outstanding irregularity amounting to NRs. 418 billion 317.2 million that remained up to Auditor General's 57th Annual Report, 2020, the statement relating to the clearance of irregularities amounting to NRs. 103 billion 757.8 million (24.80 percent) has been obtained. Out of the cleared irregularities, the recovered amount has been NRs. 4 billion 451.5 million (4.29 percent), regularized or evidence produced NRs. 63 billion 417 million (61.12 percent) and cleared advances NRs. 35 billion 889.3 million (33.59 percent).
- 3.2. Pursuant to total cumulative irregularity NRs. 418 billion 317.2 million outstanding up to previous year, NRs. 103 billion 757.8 million has been settled through follow up audits and NRs. 93.2 million has been subtracted with adjustment in this year, which resulted the outstanding irregularity amount to become NRs. 314 billion 466.2 million, and the total cumulative balance of irregularity as of this year has reached to NRs. 418 billion 850.5 million after addition of this year's irregularity NRs. 104 billion 384.3 million in the figure. When analyzed this year's added irregularity amounts, the added amount of the Federal Government has been less than the settled amounts, whereas the added amounts of the Provinces and Local Levels has been in excess of settled amounts.

Pursuant to the irregularity records as of 2002/2003 maintained by Kumari Chowk & Kendriya Tahasil Karyalaya (Central Recovery Office) as per the decision taken by Council of Ministers on 2012/09/27 (2069/6/11), it is acknowledged that total irregularity amounting to NRs. 139.1 million has been settled in this year, of which the irregularity cleared with respect to the government offices has been NRs. 108.5 million and the irregularity cleared with respect to the Committees and other Institutions has been NRs. 30.6 million. Out of the irregularities cleared amounts of the governments, NRs 105.6 million has been cleared through regularizing and remission processes and NRs. 2.9 million cleared through making recoveries.

4. **Irregularity Clearance arrangements of Local Level** - Section 20(3) of Audit Act, 2019 provisions that the audit reports issued by the Auditor General after completing audits of the rural municipality or municipality shall be presented by the concerned local level in its rural municipal council or municipal council for further deliberation. There has been a situation of conflict of interests in

the settlement of irregularities as the rural municipal/municipal council is the sole entity that has been entrusted with the responsibility of formulating policies and laws and implementation of budgets as well as the regularization and settlement of irregularities. For this, it has become essential to make the arrangements for making deliberation and implementation of audit reports in local level by making necessary amendments in the Audit Act, 2019, Local Government Operations Act, 2017 and other relevant laws.

There exists the constitutional arrangement to carry out the audits of local levels by Office of the Auditor General, but no specific machinery has been specified for the deliberation of audit reports. This matter was also incorporated in the Auditor General's Annual Reports of past years. For the proper usage of public means & resources and establish financial transparency & accountability, an independent and effective machineries are to be established, which can conduct discussions and follow-up of audit reports of the local levels.

5. **Work Plan** - Section 21 of the Audit Act, 2019 provisions that it shall be the duty of the concerned responsible official to implement the audit report issued by the Auditor General, and the Auditor General may, in order to ensure whether the matters set forth in the report issued have been improved and the suggestions have been implemented, do acts including to obtain report of activities carried out, specify the period for implementation, make re-examination and give necessary direction on the matter to the concerned body. In accordance with the provision, the Office of the Auditor General has urged to all Chief Accounting Officers of ministries/entities to submit the implementation status pursuant to the audit observations pointed out by the Auditor General's annual reports in previous years and the work plan for its implementation in this year, but such status and work plans have not been obtained from most of them. Hence, the concerned entities of the Federation, Provinces and Local Levels should be serious for the implementation of audit reports after the issuance of audit reports. No significant improvements have been witnessed in maintenance of the financial administration and financial discipline because of lack of proper implementation of the recommendations incorporated in audit reports. Same nature of audit observations has been repeated every year since past some years, as the implementation status of the annual reports of Auditor General and audit reports issued at entity levels

have not become satisfactory. The public entities have been facing many non-financial related problems, e.g. improvements related laws, policy etc. This has created huge financial impacts on their system. The financial and non-financial nature problems are to be resolved by implementing the suggestions provided in respect to systemic and policy matters.

- 6. Implementation of Reports** - Pursuant to works performed and operated as per the periodic plans, policies, annual budgets, functional and structural arrangements, the Office of the Auditor General has incorporated suggestions in its 55th, 56th, 57th annual reports, the implementation status of which has appeared as follows:
 - 6.1.** To bring economy in budgets and expenditure, the Government of Nepal has formulated and implemented the 'Standards Related to Maintaining Economy in Public Expenditure, 2020', 'Financial Procedures & Accountability Act, 2019' and 'Arrangements Related Work Performance Contract'.
 - 6.2.** To complete the construction works that remained incomplete due to non-completion of works within specified time as per procurement contracts, necessary amendments have been done time to time in public procurement management and arrangements relating to time extension as provided in Rule 120 of Public Procurement Rules, 2007. Likewise, it has been provided in Rule 145A of the same Rules that the Government of Nepal shall establish a 'Government Procurement Service Office' to support in the selection of suppliers and procurement of goods at central level.
 - 6.3.** Pursuant to the reforms in revenue administration, the 'Third Reform Work Plan (2018/19-2020/21)' of Revenue Administration, and 'Second Strategic Plan (2018/19-2022/23)' of Tax Leakages Controls have been implemented; Directives related to the registration of business, income statement, tax returns, and other fee statement, 2078 (2021) has been put into operation; and the facility of obtaining the Personal Identity Number through citizen apps has been provided. In this year's budget and program, the policies related to extension of revenue scope and reduction of the taxes and non-tax rates have been adopted. In the Third Reform Work Plan of Inland Revenue Management, the policies related to the institutionalizing work of the professional and cadre-based manpower development and the use of

software, such as- ASYCUDA, Revenue Management Information System (RMIS) have been incorporated.

- 6.4.** Pursuant to the organizational structure and service delivery, the Land Management has prepared the drafts of E-governance Master Plan, and Transport Management Office has started to maintain accounts in digital formats. Various entities have started to give the online service systems and implemented the citizen charter along with compensation.
- 6.5.** Rule 6(3) of Public Procurement Rules, 2007 provisions that no project shall be operated inviting tenders without approval of the environmental study report. Similarly, Rule 26 of the Financial Procedures & Accountability Rules, 2020 stipulates that any budget shall not be appropriated for the projects that are not enlisted in national project bank. The policy and programs of the governments include the arrangements that the project banks and integrated project banks are to be established at every federal and provincial level and the projects are to be operated and selected only on basis of such banks.
- 6.6.** The Financial Procedures & Accountability Act, 2019, stipulates that the offices of the Federation, Provinces and Local Levels are required to prepare and implement the internal controls system of its own and the offices there under and establish the Internal Controls & Audit Committee as provisioned in the Act. In addition, the Financial Comptroller General Office has also formed a separate sub-group to carry out internal audits from 2021/22 onwards.
- 6.7.** Pursuant to the accounting and reporting system, the Government Accounting Standards has been adopted and implemented; Nepal Public Sector Accounting Standards has been implemented; Electronic cash transfer has been done under the Treasury Single Account System; and the software, such as the Computerized Government Accounting System (C-GAS), Revenue Management Information System, have been operated.
- 6.8.** The Financial Procedures & Accountability Act, 2019, Section 52 has specified the responsibility for the operations of financial administration; Section 53 of the same Act has stated that the Departmental Minister has also to be responsible for making the person serving in public responsible posts accountable; and Section 57 has provisioned the punitive actions against the person that has not assumed the responsibility and accountability. Financial Procedures & Accountability Rules, 2020 has provisioned that the district-wise

financial statements are to be prepared and the central accounts & financial statements are to be prepared and submitted to Office of the Auditor General.

- 7. Annual Report** - Article 294(1) of the Constitution of Nepal has provisioned that the annual reports submitted by the Auditor General shall have to be tabled to House of Representative through the Prime Minister. Likewise, Section 19(5) of the Audit Act, 2018 has provisioned that the separate audit reports related to functioning of the Provinces that submitted to the concerned Chief of Provinces as per Article 294(3) of the Constitution, shall have to be tabled to the concerned Province Councils through the Chief of Provinces.
- 7.1.** In accordance with the arrangements of the annual reports submitted by Auditor General are to be discussed in Public Accounts Committee of House of Representatives, the Fifty-seventh Annual Report of the Auditor General of previous year submitted to the President on 15th July 2020 has been tabled only in the Eighth Session of House of Representative on 23rd July 2021 (2078/04/08). Though the previous Seventh Session of House of Representatives was run from 7th March 2021 to 19th April 2021, but the Fifty-Seventh Annual Report of the Auditor General had not been tabled in the session. Hence, necessary arrangements should be made for making the tabulation of Annual Reports of the Auditor General in Federal Parliament immediately after submission of the Report, and making timely discussions and implementation of such Annual Reports.
- 7.2.** Though the Annual Reports of the Auditor General of Provinces submitted to all Chief of Provinces on 15th July 2020, but the concerned Chief Ministers of the Provinces have been tabled the Reports only on - 24th July 2020 in the Provincial Council of Province No-1, 31st May 2021 in Bagmati Provincial Council, 29th September 2020 in Gandaki Provincial Council, 24th September 2020 in Lumbini Provincial Council, 26th September 2020 in Karnali Provincial Council and 15th August 2020 in Far-Western Provincial Council. However, the report of Province No-2 has not been yet tabled in its Provincial Council.

There should be timely discussions of the Auditor General's Annual Reports of the Provinces by making timely tabulation of the Annual Reports in the immediate session of the concerned Provincial Council after submission of such Reports. The financial discipline and financial accountability can only be

enhanced only with the arrangement of making timely tabulation of the annual reports in Provincial Councils and making discussion in the concerned Committees.

- 8. Discussion on Annual Report** - Section 41 of the Financial Procedures & Accountability Act, 2019, has specified that pursuant to the irregularities mentioned in the annual reports of the Auditor General, it shall be duty of the Auditor General and concerned Chief Accounting Officer to implement and cause to be implemented the suggestions as per approval of the House of Representatives that submitted to the House after having discussions in Public Accounts Committee of the House of Representatives. Major observations witnessed in this respect are as follows:
 - 8.1.** In the 20th Report of Public Accounts Committee of House of Representatives, discussions and decisions have taken place pursuant to the matters related to 13 entities including Supreme Court, Federal Parliament Secretariat, Election Commission and Ministry of Finance mentioned in 56th Annual Report of the Auditor General.
 - 8.2.** In accordance with the directives issued by Public Accounts Committee for clearing the irregularity records after having discussions on the Auditor General's Annual Report, the acknowledgements related to clearance of total irregularity of NRs. 926.3 million has been provided to the concerned Chief Accountability Officers after making follow up audits. The total settled amount includes NRs. 712.4 million of Ministry of Water Supply, NRs. 112.3 million of Ministry of Health & Population, NRs. 49.6 million of Ministry of Finance, NRs. 48.7 million of Ministry of Forest & Environment and NRs. 3.3 million of Ministry of Education Science & Technology.
- 9. Clearance Irregularity Record** - Section 38(1) and (2) of the Financial Procedures & Accountability Act, 2019, provides that the records of irregularities are to be maintained at each office level and the central records at each central level entity. Similarly, Section 40(3) stipulates that the Chief Accounting Officer may write to Office of the Auditor General by regularizing such irregularities as seemed to have been irregular merely because of failure to meet the requirements of the prevailing law but no loss and damage of governmental cash or kind has been occurred thereof, and Section 40(4) states that the Office of the Auditor General shall have to give the

acknowledgement of clearance of such irregularity records within seven days. In addition, Section 41(3) mentions that pursuant to the subject matters endorsed by the House of Representatives with respect to the irregularity records to be cleared in accordance with the reports of the Public Accounts Committee, the Auditor General shall have to give the acknowledgement by clearing such records within 30 days.

There has been no consistency between the provision of the records of irregularity are to be maintained at each office level and central level and the records of irregularities regularized by Chief Accounting Officers are to be cleared by Office of the Auditor General within 7 days as provisioned in Section 40(4) of the Act, and hence, these provisions should be reviewed. Likewise, pursuant to the decisions made for clearing the irregularity records in accordance with the reports of the Public Accounts Committee, there exists a provision that the Auditor General has to give acknowledgements by clearing the irregularity records within 30 days. The provision of decisions of the Public Accounts Committee shall be implemented by the Chief Accounting Officers and submitted to Office of the Auditor General for follow up audits as provisioned in Section 41(3) of the Act should be amended.

Chapter - 5

Reforms to be Undertaken in Future

Public accountability, transparency and financial discipline help to maintain overall fiscal good governance. For this, continuous reforms are imperative in components of the financial management, such as - the formulation of plan & budget, disbursements and expenditure system, reporting, service delivery, monitoring & evaluation, auditing and regulation aspects. The matters of overall reforms to be undertaken in various fields including the public financial management have been stated below:

- **Planning and Budgeting**

- 1. Sustainable Development Goals**

- 1.1. To attain sustainable development goals, appropriate structures and procedures are to be arranged in all Sectorial Ministries of the Federation and Provinces and Local Levels in order to undertake the works of the formulation of plans & programs and its implementation, coordination and monitoring & evaluation.
- 1.2. To internalize the sustainable development goals, and address the impacts created by Covid-19 pandemic along with the analysis of its impact on education, health, employment, income earnings and overall economy, it has become essential to establish the linkages between planning and budgeting of all levels of governments with the sustainable development goals, and mobilize public, private and cooperative sectors, foreign assistances and establish inter-relation between all three levels of governments for generating the necessary investment resources.
- 1.3. To measure and assess the progresses of implementation of sustainable development goals, an efficient legal and institutional mechanism is to be formed for collecting, analyzing and publishing necessary data in coordination with all levels of governments.

- 2. Budget Management**

- 2.1. Efforts are to be undertaken to formulate budgets in line with economic and functional classifications and prepare only the implementable budgets by analyzing the actual implementation status of budgets.

- 2.2. There should be arrangements of making expenditure only under budgetary system to discourage the act of making expenditure beyond national budgetary system through establishing various funds without parliamentary scrutiny. In addition, regular works are to be done from the existing normal structures by integrating all types of scattered funds within overall budgetary system.
- 2.3. By identifying and analyzing the contingent or emergency liabilities and other financial risks, such liabilities and risks are to be addressed by provisioning necessary budgets.
- 2.4. The provision related to inclusion of projects in annual budgets only on the basis of the completion of feasibility study, detail survey, drawing & design and inclusion in project banks should be strictly implemented. In addition, the system of preparing project banks and including budgets for the projects that included in the project banks should also be implemented in Provincial Government and Local levels.
- 2.5. By analyzing the necessity of overall expenditure and the status of source mobilization, Public debts should be mobilized only in those areas that contribute in creation of production and employment without having burden on future generation. For the projects implemented under foreign assistances, budgets should be included only on the basis of certainty of the receipt of the foreign assistances.
- 2.6. While making virements of appropriated amounts from surplus Budget head to deficit budget head, the virements are to be done remaining within the limits as fixed by the prevalent Appropriation Act. There should be control in the act of providing non-budgetary amounts in the services and works that not included in budgets after the passage of budget and dividing the budget amounts later on by appropriating budgets under headings in Finance-miscellaneous or unallocated budget. It has become essential to keep the virements within certain limits by checking the practice of appropriating huge amounts in the budget head in which the transfer limits are not applicable and transferring such appropriated amounts in other budget heads.
- 2.7. There should be arrangements for effective implementation of the budget implementation schedules and the activities divided in trimester, and doing the monitoring of such activities. By making the budget formulation processes

transparent and participative, the findings of mid-term reviews and budget implementation related feedbacks should be utilized in the formulation coming budgets.

3. Foreign Aid

- 3.1. Keeping in view of the national interest and preferences and making the processes of acquiring foreign assistances more transparent, the receivable foreign assistances should be mobilized through national budgetary system and the consolidated funds only in such situation where it is needed for the national expenditure and available national resources are insufficient.
- 3.2. Foreign assistance should be mobilized in the sectors or projects that contribute in enhancement of the production and productivity, creation of employment, make import substitution and export promotion with high yields, and contribute in becoming the self-reliant economy from the support of the development and sustainability of physical and human capital.
- 3.3. While mobilizing the foreign assistances, the knowledge, skill and efficiency of the engaged manpower should be enhanced, and the institutional structures and coordination between entities should be strengthened. By using economic diplomacy, efforts are to be taken to attain all appropriate types of foreign assistances.
- 3.4. Where possible, the policy of not accepting any conditional foreign assistance should be followed. Preferences should be given to the foreign assistances that are receivable to support the national budgetary system rather than the assistances which are receivable based on specific projects and programs to be utilized in the fragmented multi-sectors and multi-entities.
- 3.5. Since huge gaps are witnessed between the commitments of the development partners and the actual receipt of assistances, initiatives are to be taken to obtain the development assistances in accordance with the commitments.
- 3.6. To make the foreign assistances transparent and accountable that are being mobilized through national and international governmental Organizations (NGO/INGO), a separate monitoring machinery needs to be created and mobilized within the government organization.
- 3.7. More steps are to be taken to obtain timely reimbursements in the projects being implemented under foreign assistances, as the failure to receive timely

reimbursements may cause not only the loss of grants to be receivable to the state but also create more pressure towards the government sources. There should be appropriate arrangements to make timely reporting of the foreign assistances mobilized by the Provincial and Local Levels, and sending the requisitions for reimbursements within specified time.

4. Project Management

- 4.1. By prioritizing and selecting projects on the basis of the detailed surveys and cost-benefit analysis, the system of using project banks should be applied in actual practice. To systematize the information related to the projects and make available of the information needed for monitoring & evaluation, a project management information System should be developed and implemented. Modern techniques are to be used to carry out monitoring & evaluation of projects.
- 4.2. By making work performance contracts with the officials heading projects, the policy of not making transfer of such officials within the project-period should be adopted and their work performances are to be linked with their career developments.
- 4.3. The procurement process should be commenced only after the completion of pre-preparation works, such as - the acquisition of lands, environmental studies, inter-entity coordination and approval etc. that are necessary for the implementation of projects. The works of acquiring lands necessary for the project, making their valuation and distributing compensation should be made simplified, transparent, scientific and systematized.
- 4.4. To ensure the quality of construction works, the supervision of construction works should be made efficient and effective and the quality standards are to be adequately examined. The system should also be determined to make assurance on whether the specified quality standards have been maintained or not.
- 4.5. While implementing projects, the works are to be carried out in coordination between the inter-related entities, such as - the road, electricity, telephone, irrigation, water supply, forest etc.
- 4.6. Based on the availability of human resource, heavy machinery equipment and construction materials that are required for the construction of

infrastructures, the overall national construction capacity of each construction entrepreneur should be evaluated along with its business and technical capacity.

- 4.7. The works are to be done through consultants only in the situation where there exist sufficient basis and evidences the works such as - preparing drawings & design, cost estimates, surveys, projected financial statements etc. cannot be performed or are not possible to be performed from the available departmental human resources.

5. Public Procurement Management

- 5.1. By making timely revisions of legal provisions related to public procurement, the Public Procurement Monitoring Office should prepare necessary directives and guidelines as per requirements to simplify in the implementation process. The bid documents issued by the Public Procurement Monitoring Office are to be used by the Provinces, Local Levels and all public entities.
- 5.2. The norms used for making cost estimates of the construction works should be updated and implemented in accordance with changes in technology.
- 5.3. By determining the maximum amount-wise and number-wise limits of works that can be done on the basis of assessment of the business and technical capacity of each construction entrepreneur, the participation of the construction entrepreneurs in competition should be allowed only in the situation if the construction works falls within its limits.
- 5.4. By carrying out in-depth study and analysis of the works that can be done through the user groups considering the subject matters, such as - the economy in works, enhancement of competitive capacity, condition of qualitative and timely completion of works, technical and professional capability requirements, transparency and audits of expenditure etc., the prevalent legal provisions are to be revised as per necessity.
- 5.5. The act of making slicing and packing of the public procurement works into too many pieces in order to limit the competition should be controlled and managed.
- 5.6. The arrangements to make purchases through the use of electronic procurement system should be mandatorily used, and such electronic

procurement system should also be used in the procurements of donor agencies/countries.

- 5.7. In order to make the preparation of drawings & design works of the construction of structures inclusive of the infrastructures trustworthy, scientific and qualitative, the technical employees or consultants involved in such works are to be made legally accountable.
- 5.8. Since the failure to complete any construction works on time will prevent the service recipients from getting services, initiatives are to be taken to create conducive environment for the timely completion of works, make the supervision and monitoring works effective and timely resolving the obstacles appeared in implementation phase. There should be arrangements for proper coordination and collaboration between all concerned entities.
- 5.9. The exists the legal provisions of making financial settlement and getting compensation along with the termination of contracts if any work has not been completed within the time as specified in procurement contract. This provision should be strictly followed.

6. Expenditure Management

- 6.1. Pursuant to incurring expenditure with maximization of returns by controlling unproductive expenditures, the recommendations provided by working teams of public expenditure review studies that constituted time to time, should be implemented by preparing the work schedule. In addition, the provision related to keeping economy in expenditure adopted by the government should be strictly implemented, monitored by obtaining reports, and necessary reform works are to be undertaken.
- 6.2. The work of organizational restructuring should be done in accordance with the Constitution of Nepal to perform works without having duplication in scope of works of the Federation, Provinces and Local Levels. Existing Funds, Councils, Commissions, Boards which established for the works that can be done through the ministries and departments, should be liquidated or merged on the basis of justification and relevance by evaluating their work efficiency and effectiveness.

- 6.3. The provisions related to assumption of the financial accountability, responsibility and accountability as provided in the Financial Procedures & Accountability Act, 2019, should be adopted and followed.
- 6.4. The high ranked officers should show economical, respectful and exemplary behaviors, and the miscellaneous expenditure and other expenditures to be incurred for the activities, such as - meetings, assemblies, conferences, gatherings, annual anniversaries, foreign tours etc. need to be controlled.
- 6.5. A clear standard is to be framed pursuant to the facilities to be provided as facilities to the politically appointed persons. Standards are to be determined and implemented pursuant to the buildings, office rooms, furniture, equipment and vehicles to be used by each government office and office employee.
- 6.6. The practices of purchasing costly vehicles, keeping private number plates in government vehicles and purchasing new vehicles instead of doing maintenance of the vehicles that can be operated by repairing, should be abandoned. By considering the condition of ceased vehicles in course of illegal imports and the expenses to be incurred for such vehicles for making operational, such vehicles should be made available to the government entities that are in need of vehicles.

7. Grants and Assistance

- 7.1. By determining a clear scope of works pursuant to the distribution of grants and financial assistances through multi-agencies of the Federation, Provinces and Local Levels, the distribution of grants and financial assistances should be made transparent along with making legal provisions.
- 7.2. standards relating to providing cash and kind grants should be developed. In providing grants, the achievements attainable from such grants should be assured. Special attention should be given on the matters that such grants will contribute in the formation of capital, creation of public assets, economic and social upliftment of the people of targeted group and area, development of entrepreneurship and infrastructures, capacity development, professionalism and modernization and promotion of value chain. The practice of providing grants and financial assistances merely for the consumption should be

stopped. The monitoring and evaluation are to be done pursuant to the utilization of such grant amounts.

- 7.3. The beneficiaries should be selected in transparent manner by determining a clear basis for the selection of beneficiaries. The practices of giving grants time to time to a single beneficiary, giving grants for same purpose by various entities, and giving grants without participation of beneficiaries in costs, should be abandoned. Common people should be benefitted from the grants being provided to private entrepreneurs.
- 7.4. If the Government of Nepal needs to implement any national policy, plan and program through the Provincial and Local Governments on the basis of certain preferences, the grants should be provided only for the programs which must be implemented through the Provincial and Local Governments.

- **Revenue Administration**

8. **Revenue Management and Expansion of Scope**

- 8.1. Attentions should be given in the expansion of scope of internal revenues as the share of revenues based on imports has been still too high. Codes relating to the integrated tax should be developed and implemented.
- 8.2. The international practices of submitting report in the Parliament relating to the amount-wise revenue losses incurred from the revenues remission granted through Finance Act should be followed. Monitoring is to be done pursuant to the revenue remission granted under Special Act, Rules, Formation Order or loan & grant assistance agreements to assure that such remission amounts have been used in accordance with the specified conditions. There should be arrangements for submitting reports in the Parliament about the losses of revenue amounts from the granting of such overall revenue remissions and the attainment of anticipated progresses from such remission amounts.
- 8.3. Considering the delivery of services, costs involved, facilities, use of technology and time required, the non-tax revenues should be revised as per relevancy of time making cost effective.
- 8.4. Revenue arrears should be recovered by enforcing the legal provisions. The practice of granting remission facilities in succeeding years to the persons that have not settled the previous revenue arrears should be abandoned.

- 8.5. To make customs declaration of goods, classification and valuation realistic and transaction price-based, the work are to be done for sharing the electronic information with inter-country customs administration and making the explanations of customs tariff further clear.
- 8.6. The electronic transactions such as - the social network, social media, virtual meeting platform, online business etc. that have been carried out without any geographical boundary restrictions should be brought into legal jurisdiction.
- 8.7. The system of examining taxes based on risks should be strengthened.
- 8.8. The concept of right taxation should be implemented through the capacity development of human resources involved in revenue administration and the adoption of peer reviews system based on risk indicators.
- 8.9. The minimum subject matters to be examined by the auditors while certifying the income statement on the behalf of taxpayers should be ascertained and actions are to be taken against the auditors that fail to comply with the requirements.
- 8.10. By making improvement in existing information technology system, the system of preparing financial statements of inland revenue offices based on automation should be introduced, and arrangements are to be made to reconcile various statements inclusive of the recovery of revenue arrears based on automation, upload of the tax examination reports, and make reconciliation between the information & technology based Integrated Tax System and Revenue Management Information System (RMIS) with one another.
- 8.11. With the maximum use of information & technology facilities, the Face-less Tax System, that provides services through electronic medium, should be developed. In addition, the artificial intelligence in tax examination should be used by conducting researches and regular monitoring of tax returns.
- 8.12. The Central Invoice Monitoring System which has been implemented with the objective to have access of the Department on the invoices issued by the taxpayers should be implemented in the context of all taxpayers. In addition, the monitoring of markets should be done effectively.
- 8.13. The work of exchange of information between all concerned entities and monitoring of markets should be done more effectively in order to discourage

the under-valuation in customs, under-valuations in purchase and sale of houses & lands, under-invoicing in sale of goods and services in markets, and less income declaration of house & land rents.

- 8.14. A Tax Information Network should be established by obtaining information from the regulating agencies that make the registration of industries, trades, professions, businesses, institutions etc. and tax administration through electronic medium.
- 8.15. By considering the necessities and good practices, the appropriate legal and structural arrangements are to be made by conducting studies pursuant to timely short-out and settlement of disputes related to tax assessment.
- 8.16. For the purpose of making the taxation realistic as per Arm's Length Principle by stopping the acts of transfer pricing, fragmentation of incomes and preparing tax evasion plan, the act of making coordination and collaboration with the international associations/organizations should be done to obtain necessary information from such foreign agencies.
- 8.17. The programs related to the tax participation and tax service enhancement should be conducted to bring effectiveness in revenue collection. To control the revenue leakages, it has become essential to enhance the organizational and investigative capabilities focusing on inter-entity information transfer and coordination.

- **Management of Public Assets and Public Enterprises**

9. **Safeguards and Usage of Public Assets**

- 9.1. The integrated and district-wise records of public assets of the Federation, Provinces and Local Levels as well as other public entities need to be updated. A consolidated statement of such assets should be prepared and made public by updating the records of all assets in Public Assets Information System.
- 9.2. For proper management of functions relating to the utilization of natural resources including the use or usufruct of governmental lands to various persons or organizations and utilization of natural resources, such as the excavation, collection and export of river based and mine based materials etc., the standards relating to these need to be formulated. Proper managements

of such resources are to be done utilizing such records to receive the optimum returns.

- 9.3. By clearing the encroachments of public and trust (guthi) lands owned by the governments, public entities and universities, such lands should be brought under controls and use of the concerned entities.
- 9.4. The management of records, repairs & maintenance, protection works and usages of religious places including public abbeys, temples, monasteries etc. are to be properly done. The grants/offerings being gifted by visitors/worshippers in religious places are to be properly managed, and the records and protection works are to be effectively managed.
- 9.5. Monitoring are to be done pursuant to whether or not the protection works and usage of lands that acquired for public use have been done in accordance with the objectives.
- 9.6. By timely commissioning the handover works of the assets including machineries, equipment, vehicles etc. that received as commodity assistances or gifts from donors, the records of such assets and their management are to be done as other procured assets.
- 9.7. The historical documents including records, files, maps, design, pacts, agreements etc. are to be kept safely along with the making arrangements of digitization, and necessary managements are to be done in order to keep such documents physically safe for long-term period.

10. Public Enterprises Management

- 10.1. In context of restructuring of the country, various alternatives, such as, liquidating, merging and changing of operating structures of the existing existing public enterprises (PEs) need to be considered by making analysis on the services provided by the PEs, their competitiveness capabilities, operating costs and relevance.
- 10.2. The accounts related to share and loan investments of the governments in PEs and receipt of interests and dividends thereon are to be updated by making the reconciliation of accounts regularly. Necessary financial plans need to be prepared for the repayment of the principal and interest to be paid to the Government of Nepal.

- 10.3. For effective operations and management of PEs, the laws pertaining to such operations and managements need to be formulated. By giving responsibilities to the specialists having business skills in the appointment of board of directors of the PEs, and appointing executive chiefs of the PEs on the basis of the evaluation of business work plans, the decisions related to whether or not to give continuity such appointed officials are to be taken on the basis of measurement of their performances.
- 10.4. Nepal Financial Reporting Standards are to be implemented to maintain financial discipline in PEs. There should be arrangements to comply strictly with the requirements of completing the final audits timely basis along with making internal controls effective and implementing the recommendations pointed out by audits.
- 10.5. Special works plans are to be prepared and implemented for the reforms in the public enterprises - Nepal Electricity Authority, Nepal Civil Aviation Authority, Nepal Telecom, Nepal Airlines Corporation, in which the Government has made huge investments.
- 10.6. There should be proper arrangements for maintaining records, preparing reports and making usage & safeguards of assets inclusive of lands, buildings owned by the PEs.
- 10.7. Appropriate control measures are to be taken to keep controls in the office operating expenditure, expenditure related to vehicles purchase and use, and staffs/officials facilities of the PEs within the desirable limits.
- 10.8. The disputes of the privatized PEs that have been unsettled since a long time are to be shorted out. Monitoring is to be done pursuant the implementation of provisions mentioned in agreements of the privatized PEs. The management of all assets inclusive of lands, buildings, machinery & equipment of the liquidated or non-operational PEs are to be done by obtaining the records of such assets.

- **Public Service Delivery**

- 11. Regular Service Delivery**

- 11.1. To reduce time, distances and costs of service delivery and make the service delivery safe, reliable and sustainable, the services of the service providing entities are to be linked with the electronic and mobile governance system.

The paperless services are to be delivered from a single service point in accordance with the good governance concept.

- 11.2. To introduce the exemplary works, methodologies, procedures and methods being adopted in delivery of services by the private, community and non-governmental sectors in public organizations, necessary collaborations are to be done with these sectors giving emphasis on studies and researches.
- 11.3. Effective Monitoring are to be done pursuant to whether or not the services are delivered by maintaining the citizen charters along with provision of the compensation, and whether or not the arrangements of giving compensation has been put into practice if any services are not delivered as per specified time. Suggestions are to be obtained by conducting the public hearings and survey on the service recipients' satisfactions and the suggestions thus received need to be implemented.
- 11.4. The quality standards of services need to be set and implemented by obtaining the feedbacks in respect to service deliveries through the medium of the public audits, social audits and public hearings.
- 11.5. The services are to be delivered by consolidating the statistics relating to the nature, numbers and places of service recipients. Various methods of delivering services including the rotation time system, token system, layout management, complains hearing system and help desk system etc. are to be implemented as per necessity.
- 11.6. The procedures related to service delivery should be understandable to all common people. The number of documents to be submitted need to be reduced. The system of using the integrated description of service recipients in various government entities need to be arranged to end the situation of the requirements of producing same document in government entities time to time.
- 11.7. The fees amounts to be paid by the service recipients and methods of payments should be transparent. By assuming the responsibility of governments, the service fees are to be fixed in such a way that it will not put substantial economic burden to the service recipients.
- 11.8. To make service delivery effective, the systems are to be established for using the social networks and electronic medium in grievances hearing

management, enhancing the credibility of grievance hearings through the use of the monitoring & evaluation system by all subordinate and regulatory entities and independent entities, and arrangements are to be made to make the officials/ human resources engaged in delivery of services accountable and responsible towards the service recipients.

12. Emergency Services Delivery

- 12.1. By identifying risks, making projections, assessments and mappings of the effects and impacts created by natural disasters or unnatural disaster including pandemics on human, social and economic aspects, necessary pre-information are to be timely furnished and pre-preparation works are to be done within time.
- 12.2. For the prevention, controls and treatment of Covid-19, the works of Covid testing, and constructing quarantines and isolation centers are to be effectively done. There should be arrangements for easy supply of the drugs & medical equipment, ventilators, ICUs and oxygen. Necessary vaccines are to be provided to all citizens timely manner.
- 12.3. The details of all expenditures incurred for the management of Covid-19 are to be made public. The collaboration between the Federation, Provinces and Local Levels are to be strengthened.
- 12.4. Separate procedures are to be prepared for making procurements under special circumstances, inclusive of the pandemics, crisis, emergency situations, natural calamities and disasters.
- 12.5. For making the disaster management works effective, necessary collaboration and coordination between the governmental, private and Non-governmental organizations are to be done, which are operating within the Federation, Provinces and Local Levels. Single door policy should be adopted to mobilize assistances for conducting the disaster related reliefs, rescues, reinstatements and reconstructions works.
- 12.6. The Funds as provisioned in laws for the management of disasters are to be mobilized, and the work of creating other type funds for same purpose has to be abandoned.

13. Use of Information and Technology (IT)

- 13.1. To make the public services easily accessible, reliable, trustworthy and less expensive, an emphasis is to be given in the use of information & technology. Necessary systems are to be developed to maintain the records and integrate the systems being used by various government entities and to have access to the information and can exchange the information of regulating entities and other concerned entities.
- 13.2. For making the operations of electronic and digital transactions systematic and credible, appropriate legal provisions are to be formulated and provisions related to electronic signature are to be implemented.
- 13.3. As the work of operating separate data centers by each government entity has become challenging from the economic, technical and security view point, an integrated data center is to be developed as per international standards and arrangements are to be made to operate the system mandatorily for all government entities. In addition, the data center is to be operated as per 'cloud computing concept'.

14. Human Resource Management

- 14.1. The delivery of services of the Provinces and Local Levels are being affected as the human resources as per approved positions have not been fulfilled. Hence, the approved positions are to be revisited and human resources are to be fulfilled in accordance with the approved positions.
- 14.2. There should be arrangements to establish consistency in career development amongst the various service groups within civil service, make transfer and promotion of employees predictable, and give responsibility of departmental heads and project chiefs by evaluating the leadership capabilities.
- 14.3. Necessary arrangements are to be made to attract the intelligent persons in public services. Arrangements are to be made to develop the knowledge, skills, capabilities that enable the employees to present effective manner at international forum and utilize the knowledge, skills and capabilities that gained from foreign studies and trainings.
- 14.4. Arrangements are to be made for getting continuous trainings to civil servants to update the subject-wise sectorial knowledge and skills related to them. The necessary skills determined as essential for performing certain works are to be tested as per necessity at an interval of some years.

- 14.5. Necessary arrangements are to be made for the capacity development inclusive of the educational and professional qualifications and trainings that are essential for entering the employees working in public procurement, revenue administration, accounts, and auditing, which fall under non-technical services but require certain knowledge and skills.
- 14.6. By determining the essential human resources of the Public Enterprises, Commissions, Boards and Academics, necessary works are to be done to approve the positions and make the recruitments, placement and career development transparent and scientific. There exist situations where the records and reports of the entities have not been prepared due to lack of human resources and absence of the essential capabilities that required for procurements, accounting and reporting works of the entities, and hence, appropriate steps are to be taken to improve the situation.

- **Accounting & Reporting and Internal Control System**

15. Accounting and Reporting

- 15.1. All levels of governments and other entities which require to get audited through the Auditor General should prepare their financial statements as per the prescribed formats as approved by the Auditor General. The Integrated Economic Codes & Classification and Explanations are to be used while maintaining accounts of income & expenditure by all levels of government entities. In addition, necessary arrangements are to be made for accounting and preparing the financial statements and reports on the basis of the functional classifications, sustainable development goals' codes, gender responsible budget codes, climate change budget codes and the like.
- 15.2. Nepal Public Sector Accounting Standards (NPSAS) should be updated in accordance with the changes taken place in International Public Sector Accounting Standards (IPSAS). The existing cash based accounting system of the Government of Nepal should be changed into the accrual based accounting system preparing a work plan.
- 15.3. The Consolidated Financial Statements should be prepared by incorporating the transactions of all three tiers of governments and budgetary and non-budgetary entities.

- 15.4. The Computer Based Government Accounting System (C-GAS) which has been used for maintaining accounts of the government offices should be fully implemented and arrangements are to be made to prepare the basic accounting statements automatically. The paperless accounting system should be introduced making the arrangements to upload the accounts related documents in the system.
- 15.5. System to consolidate all government assets and properties should be implemented fully. There should be arrangements to maintain accounts of the liabilities and commitments created under multi-year projects or other transactions. In addition, the accounts of loans issued under government guarantees should also be disclosed by maintaining necessary accounts.
- 15.6. The amounts deposited in divisible funds, that created to deposit the amounts receivable from revenues and natural resources to be divided as per Inter-Governmental Fiscal Arrangement Act, 2017, should be allocated to all concerned levels within the specified time.
- 15.7. To avail the essential human resources concerned with the public finances in public sector of Nepal, the work of accrediting the financial management experts needs to be done. Appropriate structures are to be formed and the regulating works are to be done to enhance the capacity of human resources engaged in financial administration.
- 15.8. The persons specified as accountable by the Financial Procedures & Accountability Act should get certified their Consolidated Financial Statements from Ministry of Finance. While publishing the financial statements, the attested financial statements as well as the report of the Auditor General should also be published.
- 15.9. While making disbursements of grants under fiscal transfer, there exists a situation where the expenditures may not become realistic despite of the accounting of such expenditures. Necessary arrangements are to be made to avoid the possibility of double accounting of income & expenditure incurred under fiscal transfers between three tiers of governments, and to prepare overall statistics related to income & expenditure of the governments.

16. Internal Controls System

- 16.1. To identify risks, make projection and analysis that may appear in course of the attainment of objectives by all levels of public entities and corporate bodies and manage such subject matters on the basis of preferences, necessary internal control systems are to developed and implemented.
- 16.2. The code of ethics prescribed for the officials working in public accountable posts of all levels that specified in prevalent laws as well as adopted by offices as per their work nature should be strictly adhered to and monitoring are also to be done in this respect. There should be arrangements especially to identify the activities that will create the conflict of interests to such officials, create records of such activities and prevent the officials from doing the activities that will create conflict of interests, and monitoring are to be done whether the officials have been involved in such activities.
- 16.3. Continuous and periodic monitoring & evaluation are to be carried out pursuant to whether or not the responsibility and accountability of internal administration and financial administration as specified by laws or other methods have been complied with, and the system of reward & punishment has to be developed as per necessity.
- 16.4. The internal Controls & Audit Committees as constituted as per Financial Procedures & Accountability Act, 2019 are to be made effective. In addition, considering the international good practices, necessary revisions in composition of committee structure are to be made to include the officials of entities charged with governance in the committees rather than the officials working in operations.
- 16.5. To enhance the legal and administrative knowledge related to financial responsibility and accountability to high ranked officials, appropriate arrangements are to be made to share and acknowledge such knowledge to the officials.
- 16.6. By conducting regular monitoring & evaluation of the subordinate entities, the central entities should give directives for the immediate improvements in the flaws or weaknesses witnessed in delivery of services, development works and other works, and the records of such directives should also be maintained.

Actions should be taken in accordance with the prevalent laws if any manipulations or negligence are witnessed.

- **Auditing and Regulation**

- 17. Internal Audit**

- 17.1. To make internal audits effective, structural reforms are to be done to keep independent from the managerial and operational responsibilities as per international good practices. ,
- 17.2. Necessary arrangements are to be made to implement effectively the internal audit standards and directives, enhance the capacity of employees, carry out monitoring, inspection and supervision of audit works, and make timely settlement of the audit findings mentioned in audit reports as specified in Financial Procedures & Accountability Act, 2019 with the arrangements of making discussions in the internal control and audit committees.
- 17.3. Improvements are to be made in the internal audits so that it can have the assess to the subject matters of the risk management, internal controls system and administration of governance of entities, not only limiting its works merely on the examination of accounts related to transactions.
- 17.4. There should be arrangements to carry out internal audits effectively of the universities, Committees, Boards, Corporate Bodies and Local Levels.
- 17.5. By enhancing the effectiveness of internal audits, the coordination between final audit and internal audit needs to be improved. Considering the good practices of other countries, the legal provisions are to be amended to empower the Auditor General to carry out audit works through the internal auditors.

- 18. Final Audit**

- 18.1. To make the audit processes simple, smart, economical, efficient and effective, the paperless audit concepts need to be implemented making all audit processes digitized with the maximum use of information & technology. In addition, the remote audits are to be carried out by establishing access to information & technology of the concerned entities, making improvements in the existing condition of verifying the physical documents by auditors at work places. Pursuant to the collection of information and evidences and

acknowledgement of risky and irregular matters to audit teams, the mobile Apps need to be developed and implemented.

- 18.2. The concept of risk-based audits needs to be effectively implemented and the scope of performance audits needs to be extended.
- 18.3. In addition to the financial and compliance audits, attentions are to be given in carrying out the concurrence audits, disaster and pandemic audits, environmental audits, sustainable development audits as well as special audits on other contemporary and new issues.
- 18.4. To enhance quality of audits, essential resources are to be provided for the capacity development of employees engaged in audits. There has been the situation where the involvement of professional specialists needs to be increased and the office needs to consider establishing own lab to conduct the quality tests of technical works. For this, the office needs to establish the Audit Documentation & Excellence Center along with the arrangements of necessary physical infrastructures.
- 18.5. To make the office's geographical presence up to the Province Levels as per existing federal structure, the existing organizational structure of the office needs to be extended. To bring improvements in work environment, necessary information & technology friendly physical infrastructures are to be established.
- 18.6. To make the follow up audits systematic, the legal provisions provided in the Financial Procedures & Accountability Act and audit related laws are to be amended and the works of institutional reforms are to be undertaken. Improvements are to be undertaken to conduct the follow-up audits of the implementation status of recommendations of the performance and special audits.
- 18.7. There should be arrangements to take actions against the person that fails to submit the financial statements and accounts related documents on time, fails to maintain accounts as per specified formats and not able to complete audits within specified time.
- 18.8. There should be arrangements to present and hold timely discussions of the Auditor General's annual reports of the Federal and Provincial Governments and the audit reports of Local Levels in the concerned legislative bodies.

Appropriate procedures and machineries are to be formed pursuant to the settlement of irregularities of the Local Levels.

- 18.9. Section 16 of the Audit Act, 2019 provisions that no employee of the Office of the Auditor General shall be personally liable for any damage or error that has arisen from the audit work, the audits of which have been completed in accordance with the standards, policies, directives, guidelines and audit plans issued by the Auditor General. Necessary coordination are to be establish in sharing the information to mass stakeholders pursuant to the matters that the errors or weaknesses which the auditors have not identified in carrying out audits on the basis of the auditing standards and directives approved by the office, shall not be reviewed by any entity, except for the purpose of the peer reviews to be carried in accordance with Section 14 of the Audit Act, 2019. In addition, additional efforts are to be undertaken for the enhancement of financial discipline by carrying out regular monitoring by the employees engaged in auditing pursuant to whether or not the responsible officials have complied with the financial discipline.
- 18.10. The involvements of citizens and stakeholders in auditing and other works need to be increased for the enhancement of credibility and effectiveness of audits. By making collaboration with citizens and civil society organizations, the inputs of such organizations need to be utilized in the collection of evidences, dissemination of audit results and conducting monitoring.
- 18.11. The government entities should support in maintenance of financial discipline by furnishing timely information as requested in course of audit works, becoming irregularity free through being presence in audit periods and participating in audit discussion, and setting irregularities within the specified period if any irregularity arises.
- 18.12. To maintain the financial, administrative and functional independency of the Auditor General in accordance with the Lima and Mexico Declaration of the International Organization of Supreme Audit Institutions and the proposals endorsed by the United Nations' General Assembly time to time, necessary means & resources are to be provided.

19. Regulation Arrangements

- 19.1. By enhancing efficiency of the Nepal Rastra Bank, Security Board, Department of Co-operatives, Insurance Board, Civil Aviation Authority, Institute of Chartered Accountants Nepal, Office of Company Registrar and the regulating agencies responsible for keeping quality controls of foods, beverages, drugs items, and the regulatory roles of such entities should be made effective. To bring effectiveness in the works of regulating entities, attentions are to be given in inter-entity coordination and functional independency.
- 19.2. The capabilities of the government regulating entities need to be enhanced pursuant to filing of cases by conducting studies on the matters of crime investigation, corruption and frauds, money laundering, and revenue and tax evasion.
- 19.3. To resolve problems related to the selling goods with excess profits than that specified, supplying goods and services in markets of low quality, less weight and date expired, creating artificial shortage of essential goods, increasing prices, creating obstructions and doing irregular behavior including concealing in the sales and distribution of petroleum products and LP gases in shortage time, the arrangements relating to monitoring of markets and taking actions should be effectively implemented in coordination the concerned entities.
- 19.4. There should be arrangements to give proper compensation, if any loss and damage of a financial, physical, physiological or other nature is caused to any entity, user or service recipient from the faulty works of public procurement or service providing entities.
- 19.5. The effectiveness is to be brought in the works of free legal assistances, mutual legal assistances and the implementation of penalties, fines, and imprisonment as per final verdict of courts.
- 19.6. The systems of monitoring of the universities operated in Nepal by receiving affiliation from foreign universities and community and institutional schools need to be strengthened.
- 19.7. There should be arrangements to conduct regular monitoring of the services provided by private, community and government hospitals. To stop malpractices, the like - not providing services or charging high fees in a state of pandemic without assuming social responsibilities, strict legal provisions are to be adopted and implemented.

- 19.8. Since the regulation of health institutions and drugs & food items has not been becoming effective as such works are done by various entities and the foods and drugs are important subject matters having interrelation with one another which impacts on human health, a High Powered Food & Drug Regulation Authority should be constituted for performing such regulatory works.

- **Implementation of Federalism**

20. Financial Management for implementing Federalism

- 20.1. Necessary laws are to be formulated and implemented as per the list of sole and concurrent powers of the federal, provincial and local level governments that specified in schedules of the Constitution of Nepal.
- 20.2. Projects under the jurisdiction of the Federation, Provinces and Local Levels should be implemented in accordance with the Standards related to Development Program & Project Classification & Allocation, 2019. Necessary coordination is to be established between all three levels while executing the projects, such as roads, electricity transmission lines, irrigation etc. that will be implemented in more than one province.
- 20.3. The Provincial Governments and Local Levels should implement projects by keeping the records of the Detailed Project Reports (DPR) prepared through consultants. In addition, necessary arrangements are to be made to avoid duplication in studies by making handovers of the reports prepared by the Federation to Province and Local Levels.
- 20.4. The revenues collected under the concurrent powers of the Federation, Province and Local Level should be allocated by depositing in concerned divisible funds.
- 20.5. On the basis of public financial accountability indicators, the Federation, Provinces and Local Levels should regularly conduct self-assessment of the accountability of its own public financial management, and should prepare and implement the integrated financial management strategies.
- 20.6. Pursuant to facilities receivable to officials of the Local Levels, distribution of financial assistance and purchase of vehicles, necessary national standards are to be specified to control and maintain consistency in such expenditures.

Likewise, necessary legal provisions are to be formulated in respect to terms of service and facilities receivable to the employees of Provincial Governments and Local Levels, as such governments have been providing additional facilities to their employees making decisions of its own. In addition, the Federation should play coordinating role to maintain consistency in the services and facilities to be receivable to officials of the Provincial and Local Levels.

- 20.7. The revenues collected by the Government of Nepal should be distributed in such a way that it will minimize the gaps existed in between the internal incomes of provincial and local levels as per crux of the federalism.
- 20.8. The Federal Government should take opinions and suggestions of the concerned Provinces and Local Levels while formulating any laws and selecting projects that will directly affect to any or more Provinces and Local Levels.
- 20.9. By making reviews of the organizational structures and personnel management of the Provincial Governments, necessary arrangements are to be made to avoid duplication in works that are to be carried out or being carried out by the Federal Government and Local Levels, and establish necessary coordination and collaboration between the Federation and Local Levels in development works and delivery of services.
- 20.10. Appropriate measures are to be taken to reduce high dependency on the federal transfer gradually through increasing internal incomes and bring effectiveness in the revenue collection that fall under own authority areas in accordance with the Intergovernmental Fiscal Arrangements Act, 2017.
- 20.11. Local Levels should formulate procurement rules for the proper management of their public procurement works.
- 20.12. As provisioned in the Intergovernmental Fiscal arrangements Act, 2017, the the local levels need to submit their trimester statements of income & expenditure to the Provinces, and this provision needs to be strictly adhered to. All Local Levels should use Sub-national Treasury Regulatory Applications (SUTRA).
- 20.13. To make the Local Level's internal audits independent, reliable and effective, separate internal controls entities should be formed at provincial or district level.

- 20.14. Local Levels should take initiatives to make expenditures economical and result-oriented by properly managing the administrative expenditures, such as - official and employee's facilities, vehicles, fuel, meeting allowance, monitoring etc., and controlling the practice of incurring expenditures on distributive and fragmented programs.
- 20.15. The Provincial Governments and Local Levels should prepare their financial statements as per approved formats by the Auditor General. Necessary trainings related to financial administration and presentation of financial statement are to be provided to the human resources involved in financial management.
- 20.16. Necessary programs are to be conducted for the capacity development of the officials of executive body of Local Levels pursuant to the subject matters, such as - the list of powers provided in the Constitution, law formulation processes, public procurement, project management, monitoring & evaluation etc.
- 20.17. The role and effectiveness of the Provincial Coordination Council should be enhanced to strengthen the collaboration and coordination between the Provinces and address possible disputes through mutual discussions and understandings.
- 20.18. Necessary steps are to be taken to make the services delivered by the Provincial and Local Levels trustworthy, simple, intact and cost effective.
- 20.19. To enhance the financial administration and financial discipline of the Provinces and Local Levels, necessary legal and structural reforms are to be undertaken as per necessity by conducting studies pursuant to the enhancement of the monitoring & evaluation and adherence to responsibility and accountability.

- The End -