



The Auditor General's Fifty-Seventh Annual Report 2020 Summary Report

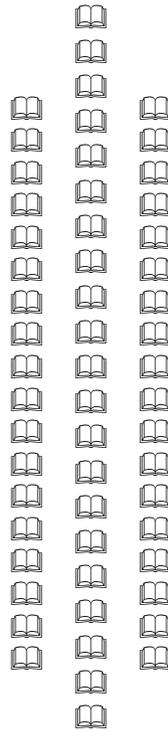


Office of the Auditor General
Kathmandu, Nepal.

Unofficial Translation



The Auditor General Fifty-Seventh Annual Report 2020 Summary Report



Office of the Auditor General
Kathmandu, Nepal.

Vision

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

Mission

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

Core Values

Integrity

Independence

Professionalism

Transparency

Accountability

Preface

The Constitution of Nepal and Audit Act 2075 (2018) mandate the Auditor General to conduct the statutory audit of all government offices of federation, provinces & local levels and wholly government-owned corporate bodies considering regularity, economy, efficiency, effectiveness and propriety thereof. This 57th Annual Report has been prepared by carrying out the audits of financial transactions of 5 thousand 619 entities inclusive of the regular fiscal year and audit backlogs of prior fiscal years, and by including major audit findings, conclusions and recommendations. In the course of the audits, previous experience & international practices and the auditing standards adopted by International Organization of Supreme Audit Institution (INTOSAI) have been followed. This Summary Report has been prepared by covering the significant issues of the Annual Report with an objective to acknowledge the stakeholders pursuant to the results of an independent and impartial evaluation on the works performed by the public entities.



This year, total amount of NRs. 5 trillion 171.64 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 Coordination Committees. Out of the amount, total amount of NRs. 1 trillion 756.04 billion of 3 thousand 110 federal government entities and 77 District Coordination Offices have been audited, resulting total irregularity of NRs. 71.06 billion i.e 4.05 percent. Likewise, pursuant to provinces, total amount of NRs. 189.25 billion of 998 entities has been audited, resulting the total irregularity of NRs. 8.20 billion i.e 4.33 percent, and total amount of NRs. 740.65 billion of 747 local levels has been audited, resulting total irregularity of NRs. 38.13 billion i.e 5.15 percent. Similarly, pursuant to public enterprises and other institutions, total amount of NRs. 2 trillion 498.87 billion has been audited. In addition, with respect to the 32 corporate bodies, the consultations for which are provided for auditing in this year, total amount of NRs. 747.80 billion has been audited. Thus, altogether, the total amount of NRs. 6 trillion 122.49 billion has been audited in this year.

In comparison to total outstanding irregularity NRs. 377.48 billion that remained up to previous year, the total outstanding irregularity has reached to NRs. 418.32 billion in this year after deducting the settlement and adding this year's irregularity amount of NRs. 40.84 billion. Total of NRs. 7.48 billion has been recovered in course of audits and follow-up audits. As against the total amount of action to be taken, which stood NRs. 683.66 billion up to previous year, the total amount has appeared NRs. 664.44 billion in this year showing a slight decrease in figure caused by reasons such as- the activeness shown in settlement

of previous years' irregularities, adjustment & recovery of revenue arrears, improvement made in reimbursements etc.

In course of audits, recommendations have been provided for the improvement of the lacuna & weaknesses witnessed with respect to subject matters - the budget formulation & implementation, revenue administration, project & procurement management, expenditure curtailment, monitoring & regulating of grants, service delivery, application of information technology, public enterprises operations, accounting & reporting system, internal controls system, internal and external audits, safeguard & usage of public properties, implementation of federalism, financial management of provinces & local levels etc. It is believed that implementation of the recommendations will contribute in enhancement of the financial accountability in public administration through making the financial management system more responsive, transparent, result-oriented and accountable.

Though this office's Annual Audit Plan of this year has a time schedule to submit annual report within 12th April 2020 (end of Chaitra 2076) by preparing the risk-based audit plans of specified entities and carrying out audits starting from 17th July 2019 (2076 Srawan) to 13th. March 2020 (2076 Falgun), but there has been some delay in reporting due to lock-down arose from the worldwide pandemic of Corona Virus. I would like to express my sincere gratitude to Rt. Honorable the President, Honorable Speaker of House of Representative of Federal Legislature for providing their valuable guidance and express my gratitude towards to all concerned inclusive of the Federal Legislature, Provincial Assemblies, Constitutional Bodies, all level of Governments, public entities, Audit Advisory Committee, Technical Committee, development partners, civil society, media persons, general public for providing the valuable suggestions in the preparation and implementation of audit plan. 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 engaging throughout the day & night even in difficult situation.

(Tanka Mani Sharma, Dangal)
Auditor General

Table of Content

Chapter	Headings	Page
1.	Background	1
2.	Audit, Irregularity and Follow-up of audit	6
3.	Glimpses of Some audit Observations	11
	• Economic Indicators and Income Expenditure	12
	• Accuracy of Government Accounts	18
	• Revenue Exemption and Arrears	21
	• Foreign Assistance	26
	• Budget Formulation and Execution	28
	• Loans & Liabilities	32
	• Public Enterprises Operations	34
	• Revenue scope	39
	• Tax Compliance	43
	• Revenue Recovery	62
	• Acquisition, Safeguard and Usage of Means & Resources	70
	• Loss Damage and Embezzlement	74
	• Excess Payment & burden	78
	• Economy	81
	• Efficiency and Effectiveness	83
	• Accountability and Transparency	93
	• Scope of Work	96
	• Services Delivery	97
	• National Pride Projects	100
	• Public Procurement Management	107
	• Contract Management	111
	• Project Management	117
	• Grant Distribution	120
	• Treasury Mobilization and Consolidated Fund Deposit	122
	• Monitoring and Regulating	125
	• Reconstruction and Rehabilitation	128
	• Sustainable Development	131
	• Province Government Offices	135
	• Local Levels	141
4.	Reforms To Be Undertaken In Future	157

1. Background

- 1. Legal Provision** – Article 241 of the Constitution of Nepal mandates the Auditor General (AG) to carry out the audits of all government offices of the federation and provinces, local levels and other institutions as specified by laws in accordance with the methods as prescribed in law with due regard to, inter alia, the regularity, economy, efficiency, effectiveness and the propriety thereof; and Article 294 of the Constitution requires all Constitutional Bodies to submit their annual reports to the President. The Audit Act, 2019 stipulates about the methodology, scope of audits and the matters to be audited by the Auditor General, and the audit matters pertaining to the corporate bodies wholly-owned by Government of Nepal, Province Government, and Local Bodies. Audits have been carried out by approving audit plan in accordance with the legal mandate as conferred by the Constitution and the Audit Act.
- 2. Objectives** – The objective of our audits has been to provide appropriate conclusions & recommendations on assurance of the following matters by examining with due consideration to regularity, economy, efficiency, effectiveness and propriety thereof pursuant to acquisition and utilization of public resources, and to give reasonable assurances in the presentation of financial statements:

Financial Audit

- whether the financial statements are prepared in accordance with prescribed formats and present true and fair state of financial transactions,
- whether the financial transaction and reporting system are in accordance with the approved formats,
- whether adequate arrangements have been made for recording, utilization and safeguard of cash, inventories and other government properties in order to check the loss & damages and misuse, and the arrangement so made have been followed,
- whether the accounts of revenues, other overall incomes and deposits are properly maintained,
- whether the internal controls system are effective,

Compliance Audit

- whether the expenditure are incurred for specified purposes remaining within the approved ceilings in accordance with Appropriation Act,
- whether accountability and responsibilities are accomplished,
- whether the applicable laws are complied and evidences are sufficiently maintained while conducting financial transactions,

- whether the revenues, other incomes and deposits have been ascertained, realized and deposited in accounts complying the prevalent laws,
- whether the monitoring are conducted as per the arrangements of prevalent laws,

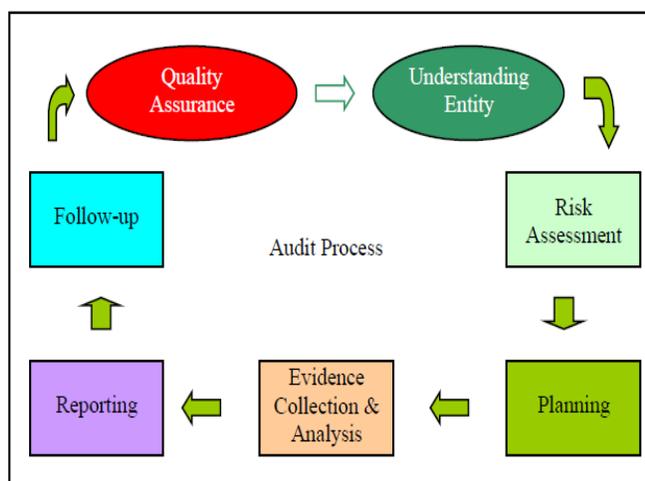
Performance Audit

- whether the economical procedures are followed in incurring expenditure,
- whether the progress has been achieved within scheduled time in accordance with programme,
- whether the standards of service delivery are appropriate and effective as per nature of work of the office,
- whether the target and progress are achieved in accordance with objective, programme of the office/entity,
- whether the arrangements for maintaining records relating to target, progress and cost are adequate and reliable,
- whether the return is satisfactory in comparison to cost involved,
- whether the organizational management is appropriate and the works are performed without duplication, and
- whether the outputs are achieved commissioning the programme/project within scheduled time.

3. **Scope** - In this year, audits have been carried out to the financial transactions of fiscal year 2018/19 (2075/76) of constitutional bodies, all Government Offices of Federation and Provinces, Local Levels, Corporate Bodies, Committees, Boards, Trust/Funds, Authorities and Universities, and other institutions as prescribed by law, and the audit backlogs of prior fiscal years to the extent the accounts of which submitted. The financial audit as well as the performance, environmental, disaster management & sustainable development, information & technology and special audits have been carried out in conformity with the approved annual audit plan.

While assessing to service delivery and other subject matters by the audit, necessary data and information have been used up to the period of conducting audit.

4. **Methodology** - Audits have been completed in compliance with Audit Act, 2019, Government Auditing Standard, Founding Principles adopted by



the International Organization of Supreme Audit Institution (INTOSAI), audit guidelines and good audit practices. The audit methodology adopted also include making the risk assessment in accordance with audit plan and use of test of controls & analysis to the issues identified and the application of sampling techniques and detailed examination procedures, as deemed necessary, to collect sufficient and appropriate evidences. The audit process followed has been depicted in the chart.

5. **Audit Criteria** - For the audits, the prevalent Acts, Rules, Guidelines, procedures, norms, agreement, administrative decisions and directives have been taken as the criteria. The auditing standards and guidelines being followed in audits are given below:

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

6. **Quality Control and Review** - The Office has adopted the international standard of the Quality Management Framework developed for the Supreme Audit Institutions. This framework requires the arrangements to promote the auditors' independency, enhance auditors' professional knowledge & skills continuously by deputing the capable & competent staffs, develop auditing standards & guidelines, and audit execution & reporting by preparing annual plan. The audit works have been supervised by senior-level officials on every phase of audit, and the monitoring has been carried out in respect to adherence to Code of Ethics and internal control activities. For the improvement of public financial management, the Office has established a system of communicating audit results with the maximum use of resources available and maintaining working relationship with the stakeholders.

In course of the audits, the pre- issuance reviews have been undertaken for the 49 audits covering one preliminary report of each team that deputed outside Kathmandu Valley for conducting field-based audit. In this year, the policy of issuing reports only after completing reviews has been adopted by sending all preliminary audit reports to the concerned supervisors though the emails.

7. **Organizational Management and Budget** - Under the Office's approved organization structure, there are 4 Departments namely - Finance & Economic Sector Audit Department, Social Service & Performance Audit Department,

Infrastructure Development Audit Department, and Governance Management Audit Department, 14 Divisions and 29 Sector-wise Directorates. As compared to the Office's total 448 approved positions of previous year, the total approved position has increased to 614 positions with the increment in this year. Amongst the increased positions, 114 positions are fulfilled and the remaining 69 positions are under the process of fulfillment. To make field-based audit effective in upcoming days and carry out audit works through establishing the necessary field offices at province level, the Office has again completed Organization & Management Survey and has made requests to the concerned entity for approving the necessary additional positions. This will help to enhance the quality of audits through making the audit works prompt, swift and effective.

In comparison the total allocated budget of NRs. 868.9 million in fiscal year 2019/20 (2076/77), the Office has spent NRs. 378.7 million (except supplementary budget). As per the expenditure, the training and capital expenditure of the Office against the total allocated budget have stood 0.15 percent and 3.37 percent respectively. When compared the office's expenses with the total audited figure NRs. 51 trillion 171.64 billion, the audits of which are completed by the office's human resources, the audit cost per One Hundred Thousand Rupees comes to NRs. 7.33 only.

- 8. Effect of Audit** - The audit enables to be vigilant through the assessment of lacunae & weaknesses of financial transactions that prevailed in development works and service delivery and the implementation of public policies in purview of the matters with due regard to regularity, economy, efficiency, effectiveness and the propriety thereof. Consequently, it has been contributing in the prevention of mis-spending, misuse, loss & damage and checking leakages of national resources, and has also been contributing in maximization of returns from the use of means & resources. As a result of the subject matters highlighted by the Office, the misused public monies are being recovered and deposited in the Consolidated Fund. Additional revenues are being generated to state's coffer as a result of the improvement in laws, rules, policies and organizational reforms. There has been growth in revenue collection due to reviews are being made in the system of granting the revenue exemption and refund. It has brought economy & efficiency in the public expenditure and effectiveness in the service delivery to people. Thus, our audits have been contributing significantly in maintaining the fiscal discipline.

After identifying the audit observations for recovery of the short collection of revenues, monies kept in various Funds without use, excess payment made and expenses incurred without complying with the prevailing laws, the total amounts of NRs. 14 billion 91.1 million in 2016/17, NRs. 9 billion 700.4 million in 2017/18

and NRs. 7 billion 478 million in 2018/19 have been recovered and deposited in the national treasury. The comparative statement related to this has been mentioned below:

(NRs. in Millions)

Report Year	Recoverable Irregularity Amount	Recovered Amount
Fifty-fifth Report, 2018	18,70,79	14,09,11
Fifty-sixth Report, 2019	32,03,52	9,70,04
Fifty-seventh Report, 2020	23,04,57	7,47,80

2. Audit, Irregularity and Follow-up Audit

1. **Audit** - This year, the office has performed the audits of NRs. 5 trillion 171 billion 649.8 million of 5 thousand 619 entities. The description of audited entities and subject matters are as follows:

(NRs. in Millions)

Audited Entity and Subject	Number	Amount	Irregularity	Irregularity Percent
(A) Financial Audit				
1. Federal Ministry/Entity	3,110	1,742,867.1	70,695.8	4.05
2. District Co-ordination Committee	77	13,168.4	364.9	2.77
3. Provincial Ministry/Entity	998	189,254.3	8,198.4	4.33
4. Local Level	747	740,654.9	38,127.9	5.15
5. Committee & Other Institution	577	130,628.0	15,608.9	11.95
6. Corporate Bodies	93	2,355,077.1	-*	-
(B) Performance, IT and Special Audit	17	-	-	-
Total	5,619	5,171,649.8	132,995.9	

*Note : *The irregularity figure of corporate bodies has not been disclosed as the record of irregularity and follow-up audits works of such bodies are being maintained by the concerned entities themselves.*

- 1.1 This year, the audits of NRs. 1 trillion 742 billion 867.1 million inclusive of the appropriation, revenue, deposit and other accounts of 3 thousand 110 federal government offices, NRs. 13 billion 168.4 million of 77 District Coordination Offices, NRs. 189 billion 254.3 million of 998 government entities under 7 provinces, and NRs. 740 billion 654.9 million of 747 local levels (including the audit backlogs of 4 local levels) inclusive of 6 metropolitans, 10 sub-metropolitans, 274 municipalities and 457 rural municipalities, have been completed.
- 1.2 This year, the audits of NRs. 130 billion 628 million of 577 Committees and other institutions, and NRs. 2 trillion 355 billion 77.1 million of 93 units under corporate bodies have been completed.
- 1.3 This year, the consultations for the appointment of auditors have been made to 32 institutions for carrying out the audits of NRs. 950 billion 850 million.
- 1.4 This year, the performance audits of 11 topics, information technology (IT) audits of 3 topics, environment audit of 2 topics, and special audit of 1 topic have been completed.
- 1.5 Pursuant to the government offices, the audit backlogs of NRs. 3 billion 402.1 million of 2,900 units prevailed up to previous year, but none of entity has produced any document for auditing during this year. The audit backlog of the government offices has reached to NRs. 3 billion 682.8 million up to this year along with an addition of the audit backlog of NRs. 280.7 million of 2 entities of this year, which

include Ministry of Foreign Affairs, and Education, Science & Technology. Likewise, pursuant to the corporate bodies, the audit backlogs as of this year has prevailed 14 fiscal years of 11 institutions as compared to the audit backlogs of 33 fiscal years of 7 institutions as of previous year.

2. **Irregularity** — Section 2 (Ta) of Financial Procedures and Accountability Act, 2019 (2076) defines the irregularity as a financial transaction carried out without fulfilling such requirements as to be fulfilled in accordance with the prevailing law or accounts as to be maintained has not been maintained and a transaction which has been carried out in an irregular or unreasonable manner.

The irregularities have been classified into - recoverable, to be regularized, evidence/document not submitted, balance not brought forward, reimbursement not received and outstanding advances. The advances have been further classified into staff advance, mobilization advance, Letter of Credit (LC) advance, and other institutional advance. This year, the audits have ascertained the total irregularity of NRs. 133 billion as mentioned below with respect to Federal and Province Government Offices, Local Levels, Corporate Bodies, Committees and other institutions. The irregularity figures as per classification are given below:

(NRs. in Millions)

Classification	Government Office and District Coordination Committee	Province Government Office	Local levels	Committee / Other Institution	Total	Percent on Total Irregularity
1. Recoverable	17,406.8	380.2	5,258.7	1,282.7	24,328.4	18.29
2. To be regularized	20,390.5	3,877.5	24,811.3	13,092.0	62,171.3	46.75
• Irregular (non-compliance)	3,763.7	1,217.8	98,24.2	2,497.3	17,303.0	13.01
• Evidences/documents not submitted (Unsubstantiated)	16,479.8	2,659.7	14,946.0	10,559.7	44,645.2	33.57
• Balance not brought forward	0	0	29.8	33.8	63.6	0.05
• Reimbursements not received	147.0	0	11.3	1.2	159.5	0.12
3. Advance	33,263.4	3,940.7	8,057.9	1,234.2	46,496.2	34.96
• Staff Advance	76.0	169.9	1,540.5	48.0	1,834.4	1.38
• Mobilization Advance	18,082.0	3,325.1	0	0	21,407.1	16.10
• Letter of Credit (LC) Advance	10,576.1	49.9	0	0	10,626.0	7.99
• Other Advance	4,529.3	395.8	65,17.4	1,186.2	12,628.7	9.50
Total irregularity	71,060.7	8,198.4	38,127.9	15,608.9	132,995.9	100.00

Note: The irregularity figures of corporate bodies have not been disclosed in the above figures as the record of the irregularities and follow-up audits of such bodies are being maintained by the concerned entities themselves.

3. **Cumulative Irregularity** - The cumulative irregularity to be settled by the federal government offices, province government offices, local levels, district coordination committees, other committees & institutions has reached to NRs. 418.32 billion up

to this year. The amount has increased by 10.82 percent as compared to the corresponding amount of last year.

(NRs. in Millions)

S.No.	Particulars	Up to last year	This year's plus/ minus	Cumulative Irregularity		
				Advance	Other	Total
1.	Federal Government Office	286,001.2	-1,2422.1	100,917.2	172,661.9	273,579.1
2.	Province Government Office	195.1	8197.5	4048.3	4,344.3	8,392.6
3.	Local Level	35,992.5	3,3818.4	8,057.9	61,753.0	69,810.9
4.	Other Institution & Committee	55,287.7	1,1247.0	0	66,642.4	66,534.7
	Total	377,476.5	4,0840.8	113,023.4	305,401.6	418,317.3

4. **The cumulative amount of action to be taken** - The cumulative amount of action to be taken by federal government offices, province government offices, local levels, district coordination committees, other committees & institutions in addition to irregularity such as audit backlogs, revenue arrears, reimbursable foreign grants & loans, has been NRs. 246.12 billion in this year. The amount has declined by 19.62 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	3,402.1	1,339.1	4,741.2
2.	Revenue Arrears	252,130.1	-54,289.0	197,841.1
3.	Foreign Grants to be reimbursed	20,762.6	-5,845.8	14,916.8
4.	Foreign Loans to be reimbursed	27,836.0	-1,267.1	26,568.9
5.	Overdue Principal and Interest of Guaranteed loans	2,050.0	0	2,050.0
	Total	306,180.8	-60,062.8	246,118.0

If added the cumulative outstanding irregularity NRs. 418.32 billion on the above amount, the cumulative amount to be settled taking actions becomes NRs. 664.44 billion. The amount was NRs. 683.66 billion in last year. The cumulative amount to be settled taking action has decreased by 2.81 percent in this year as compared to the corresponding figure of the last year. Major causes affecting decrease in the amount to be settled taking action include- the activeness brought in the settlement of irregularities, rise in the receipt of reimbursements from development partners and other agencies, adjustment being made in tax determination in accordance with the court verdicts, and the growth in the recovery amount of the overdue principal and interest from public enterprises. As a result, the amount of revenue arrears and reimbursement to be received has fallen down by

NRs. 60 billion, and consequently, the amount to be settled taking action has also declined.

5. **Comparative Irregularity Status** - The comparative status of audited figure and irregularity figure of the federal government offices of last 3 years are as follows:

(NRs. in Billions)

Report	Audited Figure	Irregularity	Percent
Fifty-fifth, 2018	17,529.2	948.2	5.41
Fifty-sixth, 2019	20,088.4	1,063.4	5.29
Fifty-seventh, 2020	17,560.4	710.6	4.05

The irregularity figure as compared to audited figure has become 4.05 percent in this year, against the 5.29 percent in previous year.

- 5.1 The irregularity figures as compared to audited figure of province government offices and local levels have become 4.33 percent and 5.15 percent respectively in this year, as against the corresponding figures of 7.25 percent and 4.22 percent of previous year.

6. **Irregularity Clearance** - The status irregularity clearance and settlement through follow-up audits of this year are as follows:

(NRs. in Millions)

Entity/ Particulars	Federal Government Office	Corporate Bodies, Committee Other Institutions	Province Government Office	Local Level	Total
Previous Year's Irregularity	286,001.3	55,287.7	195.1	35,992.4	377,476.5
Adjustment Plus (Minus)	0	-30.0	0	-35.9	-65.9
Cleared/Settled	83,482.9	4,331.8	0.9	4,273.5	92,089.1
Balance	202,518.4	50,925.8	194.2	31,683.0	285,321.4
Current Year's Audit Irregularity	71,060.7	15,608.9	8,198.4	38,127.9	132,995.9
Cumulative Outstanding Irregularity	273,579.1	66,534.7	8,392.6	69,810.9	418,317.3

This year, out of total irregularities cleared/settled amount NRs. 83 billion 482.9 million of the federal government offices, the total amount of irregularity settled through follow-up audits by the ministries - Water Supply, Urban Development, Irrigation, and Physical Infrastructure & Transportation has been NRs. 27 billion 703.9 million. Out of the irregularity settled through follow-up audit, the amount of mobilization advances has been NRs. 21 billion 790.7 million, which becomes 78.65 percent. Such advances are automatically cleared up while making the payments of interim bills of the civil works. Except such type of

irregularity clearance, there has been no improvement in the past practices of the concerned entities of not giving adequate attention in the settlement of other types of irregularities.

Pursuant to the irregularity records as of 2002/2003, which handed over to the Kumari Chowk & Kendriya Tahasil Karyalaya (Central Recovery Office) as per the decision of Council of Ministers made no 2012/09/27 (2069/6/11), NRs. 85.4 million has been cleared during this year. This year, out of total irregularities cleared/settled amount NRs. 83 billion 482.9 million of the federal government offices, the total amount of irregularity settled through follow-up audits by the ministries - Water Supply, Urban Development, Irrigation, and Physical Infrastructure & Transportation has been NRs. 27 billion 703.9 million. Out of the irregularity settled through follow-up audit, the amount of mobilization advances has been NRs. 21 billion 790.7 million, which becomes 78.65 percent. Such advances are automatically cleared up while making the payments of interim bills of the civil works. Except such type of irregularity clearance, there has been no improvement in the past practices of the concerned entities of not giving adequate attention in the settlement of other types of irregularities.

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3. Glimpses of Some Audit Observations

1. Auditor General's Prospective on Public Accountability

Budget Discipline

- Excess virement done than that specified by law,
- About one forth of foreign aid is not included in budget, audit not carried out, low utilization of foreign aid,
- Growth in a amount of reimbursement to be received,
- No improvement in the trend of incurring expenses at year - end,
- No control in the growth of recurrent expenditure, no satisfactory growth in capital expenditure, no define criteria adopted for distributing financial assistances,
- Foreign aid mobilized through NGOs and lack of accountability and transparency in such mobilization,,
- National Grant Policy has not been prepared and weak monitoring of utilization of grant monies,

Contract Management

- Works are not completed on time, time extension granted without proper justification,
- No recovery of pre-determined liquidated damages,
- Assigning works beyond capacity resulted delay in completion,
- No justification for variation, ineligible price adjustment granted,
- Weak supervision, no adequate attention to construction and procurement

Service Delivery Management

- Service delivery affected due to non-fulfillment of approved positions, lack of token system and service are to be received through mediators,
- Services are not delivered through electronic medium,
- Health services affected due to lack of equipment and human resources,
- Identification system of beneficiary group is not effective,
- Unsatisfactory service regulating and monitoring,
- Social security program has not been integrated and effective,
- Public health affected due to air & environmental pollution
- Public hearings, grievance management and monitoring not effective.

Public Procurement Management

- Design/cost estimate found not realistic,
- Direct purchases made by slicing cost estimates,
- No preparation of environmental study, land acquisition and site clearance done prior to contract arrangements,
- Contraction capacity not analyzed,
- Lack of professionalism and fair competition, E-procurement system not fully implemented
- Delay in contract arrangements,
- Complex & technical works undertaken through user groups,
- Modern methodology of procurement not used.

Revenue Administration

- No adequate attention given in protection of tax-base and extension of tax-net,
- Weak tax compliance, taxpayears not shown real transaction,
- Reliable standard related to wastages of industrial production not determined,
- High number of non-filer taxpayers & taxpayers having VAT credit amount,
- Less customs duty recovered due to use of different duty rate,
- The problem of under-invoicing in customs and market remained status quo,
- Continuous growth in revenue arrears and records of such arrears not maintained systematically,
- Weak monitoring of tax administration & quality of tax assessment,
- Electronic transactions not brought under tax net,
- Financial statements not prepared using IT system.

Internal Control, Responsibility & Accountability

- Internal controls and internal audit is not effective,
- Weak responsibility and accountability due to lack of actions to the persons not completing audits & not settling irregularities,
- The implementation of performance aggrement is not effective,
- Lack of system to eliminate duplications while making income & expenditure through fiscal transfer in tiers of governments,
- Nepal Financial Reporting Standard is not fully implemented,
- Computer-based accounting system has not been implemented,
- Huge amount is remained ideal due to non operation of fund as per objective,
- Coordination between large number of Monitoring & regulating agencies is lacking,
- Weak fiscal accountability as timely audit not completed.

Provincial Government Management

- Programs not formulated as per sustainable development goals & periodic plan and Midium Term Expenditure Framework,
- Provincial laws not harmonized with the federal laws,
- Duplication in programs,
- No coordination in plan formulation and implementation,
- More emphasis given in grants mobilization but weak monitoring,
- No preference accorded in revenue mobilization,
- Income Expenditure Reports of provinces local levels as specifind by law was not sent to federation trimisterly,
- No consistency in officials' facilities of provinces & local levels

Local Level Management

- Budgets dependent on federal grants, unproductive & distributive programs, problems in sustainability of programs,
- Statement of Consolidated Fund is not prepared,
- Budget discipline is not maintained, expenditure incurred by keeping unallocated budget,
- Lack of human resources, capabilities & laws/directives,
- No interlization of sustainable development goals, weak plan formulation & implementation,
- Local levels not sent trimister Income Expenditure Reports to the concerned provinces as prescribe by law,
- Behaviour of conflict of interests existed in local level to settle audit irregularities,
- Administrative expenditure remained high.

Project Management

- Projects are included in budget without pre-preparation,
- Projects are not prioritized as per overall/sectoral goals,
- Complexities found in execution of national pride projects & other projects, no timely repair & maintenance done to completed projects,
- Most of projects with weak implementation remained incomplete, time & cost overruns due to delay in completion of the projects,
- Lack of coordination between entities in operations of projects,
- The sustainability of operation of projects affected due to excessive reliance on consultants.

Operations of PEs

- Low returns due lack of professionalism amongst directors and officials,
- Accounts of assets, share & loan investment not updated/unrealistic,
- Price of goods & services is not determined analyzing time & cost,
- Problems in assets management, lack of control in unproductive expenses,
- Privatized institutions not operated as per agreements.

• Economic Indicators and Income-Expenditure

2. **Overall Economic Situation** - The matters observed from the analysis of the country's existing economic indicators, economic growth rate, status of government expenditure, mobilization of foreign aid, price inflation, import-export and balance of payment and the change in gross domestic product (GDP) are as follows:

Particulars	Target as per Fourteenth Plan	Base year 2015/16	Achievement		
			2016/17	2017/18	2018/19
Economic Growth Rate	7.20	0.77	6.94	6.30	7.1
Inflation Rate	7.50	9.90	5.10	4.20	4.6
Total Revenue/Gross Domestic Product (GDP)	19.57	20.50	22.30	24.68	24.8
Total Government Expenditure/GDP	32.12	31.20	31.59	36.01	31.6
Recurrent Expenditure/GDP	22.00	19.30	23.67	24.57	20.6
Capital Expenditure / GDP	10.12	7.10	7.92	7.80	6.88
Foreign Grant / GDP	3.76	3.00	1.52	1.41	0.4
Foreign Loan / GDP	6.85	2.60	1.48	2.80	3.75
Domestic Loan/ GDP	2.28	3.90	3.36	4.72	2.77
Trade Deficit/ GDP	(32)	(31.8)	(34.40)	(36.96)	-38.1
Total Consumption/ GDP	93	94.70	89.70	84.99	79.5
Export/ GDP	3.50	3.30	3.00	2.70	2.8
Import/ GDP	35.51	35.10	37.40	41.33	40.9
Budget Deficit/ GDP	7	7.60	6.5	8.94	8.8

Source: Fourteenth Plan, Ministry of Finance, Financial Comptroller General Office and Nepal Rastra Bank.

- 2.1. The above data show that the progress status of the inflation rate and revenue growth rate in comparison to Gross Domestic Production (GDP) has remained fine at the final year of the fourteenth plan as against the target. The economic growth rate of this year has remained 7.1 percent as against the target of achieving an economic growth rate of 7.2 percent in the fourteenth plan period. As against the target of raising the capital expenditure 10.12 percent of GDP, it has remained only 6.88 percent, which is found less as compared to the target. Likewise, the ratio of foreign grant in comparison to GDP has appeared only 0.4 percent as against the target of 3.76 percent, which shows grants are not mobilized as per the expectation. Against the target of keeping the overall budget deficit within 7 percent of GDP, it has appeared 8.8 percent. The ratio of trade deficit compared to the GDP has reached to 38.1 percent against of the target to limit within 32 percent in this year due to failure to check imports and promote growth in exports.

Keeping given the status of the overall economy, it becomes necessary to take steps by the government in coordination with the private sector for controlling imports, promoting exports, managing government expenditure and mobilizing foreign aid.

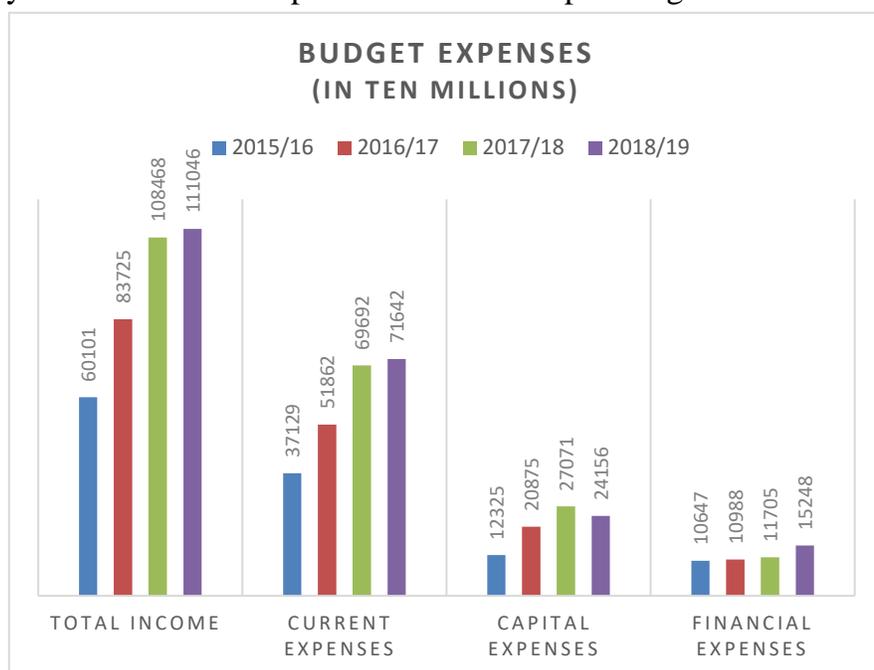
3. **Income-Expenditure Status** - The status of income-expenditure of the Government of Nepal of the previous four years are as follows:

(NRs. in Billions)

Description	2015/16	2016/17	2017/18	2018/19	
				Budgeted	Actual
Total Revenue	498.91	615.47	782.39	945.56	842.74
Tax Revenue	421.09	553.80	659.49	838.35	737.27
Non-Tax Revenue	60.86	55.31	67.23	107.21	102.40
Principal Repayment	13.70	2.94	55.67	0	3.07
Others	3.26	3.42	0	0	0
Foreign Grants	39.54	40.82	39.32	58.82	22.90
Foreign Loans	33.23	59.02	89.60	253.03	124.37
Domestic Loans	87.59	87.53	14.47	172.00	96.38
Total Income	659.27	802.84	925.78	1,429.41	1,086.39
Recurrent Expenditure	371.29	518.62	696.92	845.45	716.42
Capital Expenditure	123.25	208.75	270.71	314.00	241.56
Financing Expenditure	106.47	109.88	117.05	155.72	152.48
Total Expenditure	601.01	837.25	1,084.68	1,315.17	1,110.46
Surplus (Deficit)	58.26	(34.41)	(158.90)	114.24	-24.07

Out of the total expenditure, the ratios of recurrent expenditure, capital expenditure and financing expenditure is 64.51 percent, 21.75 percent and 13.74 percent respectively. The recurrent expenditure has occupied big chunk of the government expenditure.

As compared to fiscal year 2015/16, the revenue has increased by 49.62 percent and recurrent expenditure by 92.95 percent in fiscal year 2018/19. In 2015/16, there was a situation



where the government's revenue recovery could meet the recurrent expenditure and financing expenditure. The recurrent expenditure was 74 percent of the revenue. But, in 2018/19, the recurrent expenditure has increased to 96 percent of the revenue and the revenue is not sufficient to meet the recurrent expenditure plus financing

expenditure. This is a serious matter from the view point of expenditure management. The status of total expenditure of the previous four years and share of recurrent, capital and financing expenditure on the total expenditure have been depicted in graph picture.

4. **Government Expenditure** -The status of the government revenue and expenditure of five years is given below:

(NRs. in Billions)

Fiscal year	Budget Appropriation			Capital Expenditure			Revenue		
	Budget	Actual	Percent	Budget	Actual	Percent	Budget	Actual	Percent
2014/15	61810	53156	86.00	11675	8884	76.09	42475	41393	97.45
2015/16	81947	60101	73.34	20888	12325	59.00	50196	49892	99.39
2016/17	104892	83725	79.82	31194	20875	66.92	57589	61547	106.87
2017/18	127900	108468	84.81	33518	27071	80.77	74505	78239	105.01
2018/19	131516	112046	84.44	31400	24156	76.93	94556	84274	89.13

Though the government collected revenues almost par to or more than the revenue as forecasted in the past four years, but it could collect only 89.13 percent revenues as compared to the estimate in this year. The government has spent 84.44 percent as compared to the budget in this year. However, the capital expenditure has remained 76.93 percent as compared to the estimate. **This exhibits a weak capacity to mobilize the government means & resources, and as such, it has become imperative to enhance the capacity of incurring budget expenditure and recovering of revenues.**

5. **Expenditure Head-wise Analysis** - Details of expenditure by main head-wise and the matters observed while analyzing the data are as follows:

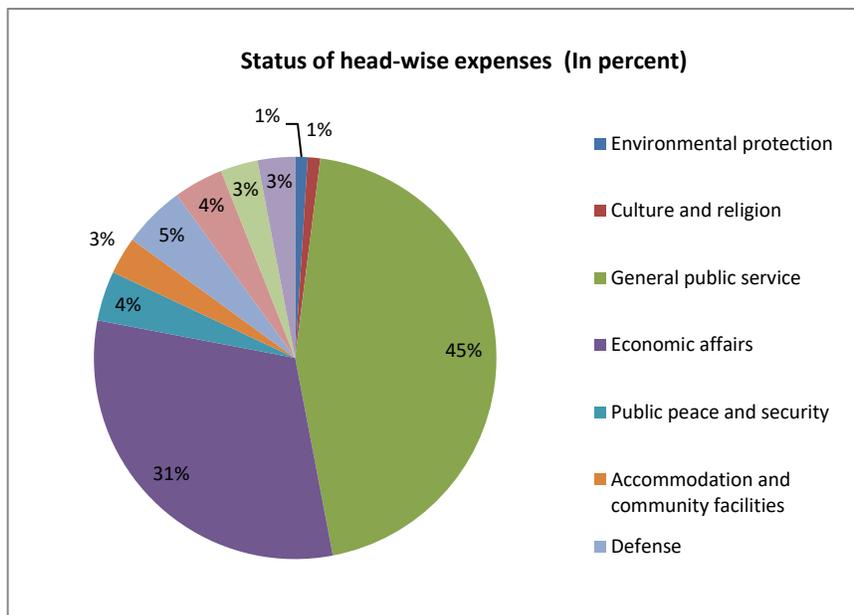
(NRs. in Millions)

Expenditure heading	Actual Expenditure of 2015/16	Actual Expenditure of 2016/17	Actual Expenditure of 2017/18	2018/19			
				Annual Budget	Actual Expenditure	Expenditure percent in comparison to annual estimate	Percent in comparison to total Expenditure
Remuneration Service	89,268.2	118,835.4	111,483.8	117,330.4	99,935.8	85.17	9.00
Retirement Facilities	35,762.4	47,622.8	53,767.0	68,197.7	67,715.6	99.29	6.10
Program related Exps	19,771.3	24,660.2	22,552.2	21,944.3	12,587.8	57.36	1.13
Foreign loan Interest	18,614.7	3,263.5	3,860.4	4,335.6	4,505.1	103.91	0.41
Domestic loan Interest	50,335.0	6,760.2	12,386.9	22,125.6	16,209.4	73.26	1.46
Grants to Provinces				123,434.1	110,471.7	89.49	9.95
Grants to Local levels	33,858.4	54,736.9	8,905.0	205,053.1	210,710.7	102.76	18.98
Social Service Grants	185.2	189,011.1	159,182.8	165,903.1	107,970.8	65.08	9.72
Social Security	19,019.2	37,616.1	40,999.7	44,866.8	45,384.2	101.15	4.09
Vehicles	2,119.7	6,713.4	6,614.5	1,442.6	5,868.2	406.78	0.53
Machinery Tools	5,153.2	7,704.3	9,743.4	14,093.0	12,278.3	87.12	1.11
Civil Works	88,664.8	151,455.2	177,473.7	170,285.2	148,589.9	87.26	13.38
Loan Investment	24,816.6	29,000.9	16,597.9	38,971.3	39,365.7	101.01	3.55
Share Investment	12,700.8	19,617.8	44,777.0	58,080.5	58,698.0	101.06	5.29
Foreign loan principal repayment	18,614.7	22,703.2	18,589.2	23,599.7	20,038.9	84.91	1.80

Expenditure heading	Actual Expenditure of 2015/16	Actual Expenditure of 2016/17	Actual Expenditure of 2017/18	2018/19			
				Annual Budget	Actual Expenditure	Expenditure percent in comparison to annual estimate	Percent in comparison to total Expenditure
Domestic loan principal repayment	50,334.9	38,561.4	37,084.6	35,064.5	34,313.1	97.86	3.09

5.1. The major share of the government budget has been spent in employee's salary, allowance, and retirement benefits. The portion of such expenses represents 40 percent of the total recurrent expenditure of this year. Since such expenses have also been borne from the recurrent grants provided to other entities, committees and boards, the actual share of employee's remuneration and retirement benefits on total expenditure become furthermore.

5.2. While comparing the head-wise expenditure against the total expenditure, it is witnessed that the highest amount has been spent in general public services and the economic affairs sector, which is 45 percent and 31 percent respectively. The expenditure on education sector and health sector has shown only 3 percent each.



Since an integrated record of the grants provided to local levels for the

education and health sector has not been maintained, the updated status of the expenditure incurred in the sectors can not be ascertained.

5.3. Under the capital budget, although NRs, 1 billion 442.26 million is appropriated for the purchase of vehicles, total of NRs. 5 billion 868.2 million (406 percent more than allocation) has been spent by transferring budgets through virement. Besides, the vehicles are also being purchased through collecting the contingency amount by the department from the underlying entities and by including such amounts in construction contracts. If to include the amounts spent by the local levels for the purchase of vehicles, the total expenditure becomes furthermore. **There should be control over making such unproductive expenditure.**

5.4. Pursuant to the Province and local-level grants, although NRs. 5/5 billion each appropriated in special grant to province and local level and complementary grant to local levels, only NRs. 2 billion 811 million (56.22 percent), NRs. 1 billion 808.7 million (36.17 percent) and NRs. 2 billion 907.2 million (58.14) has been spent releasing lesser grants amount than the appropriation.

6. **Import Export Situation** - As per the statement submitted by Trade & Export Promotion Center, the situation of Nepal's import export of the last 3 years are as follows:

(NRs. in Billion)

Fiscal Year	Export	Import	Total Trade	Trade Deficit	Ratio
2016/17	74.12	985.95	1059.07	913.05	1:13.5
2017/18	81.33	1245.19	1326.52	1163.86	1:15.3
2018/19	97.11	1418.56	1515.67	1321.45	1:14.6

As per the above table, the export has increased by 19.40 percent in 2018/19 as compared to the 9.72 percent increase in 2017/18. Similarly, the import has increased by 13.92 percent in 2018/19 as compared to 26.30 percent increase in 2017/18. The Import-Export Ratios of the subsequent 3 fiscal years have remained 1:13.5, 1:15.3 and 1:14.6 in fiscal years 2016/17, 2017/18 and 2018/19 respectively, which shows huge imports in compare to exports. Despite of 19.40 percent growth in export in fiscal year 2018/19, the effect of export growth on total trade has not been witnessed due to the minimal share of export in total trade. Likewise, the trade deficit, which was NRs. 913.05 billion in 2016/17, has reached to NRs. 1 trillion 321.45 billion in 2018/19. The trade deficit has increased by 44.73 percent during the past 2 fiscal years.

6.1. Although the palm oil is not exported in previous years, such oil worth NRs. 10.33 billion has been exported in this year. This represents 10.63 percent of the total exports. Despite of 217.38 percent rise in export of ginger in last fiscal year, it has dropped by 33 percent in this year. Likewise, the export of meat has fallen by 55.9 percent, hide (skin) by 37.9 percent, footwear by 26.9 percent, rosin & acid by 13.3 percent, wool & pasmina shawls by 16.1 percent and cardamom by 11.7 percent. However, the export of instant noodle has increased by 38.9 percent, lentils pulse by 26.9 percent, woolen felt by 25.3 percent and handicraft goods by 16.4 percent. Since the export quantum of goods having export growth is very minimal, the effect of such exports on total trade has not been witnessed insignificant.

6.2. Pursuant to imports, the imports of palm oil has increased by 151.7 percent, ready-made garments by 98.2 percent, cotton by 68.1 percent, chemical by 39.7 percent, synthetic yarn by 39.5 percent, electric equipment by 36 percent, iron & iron products by 25.2 percent in this year. But, the import of cement clinker has declined

by 61.3 percent, soybean crude oil by 10.6 percent and telecommunication goods by 7.7 percent.

7. **Achievement of Fourteenth Plan** – The targets have not been achieved in most of indicators during the Fourteenth Plan period (2016/17-2018/19) despite of fact that the progresses of some of indicators are found as anticipated. The indicators and progresses status are mentioned below:-

S.No.	Indicators	Base Year (2015/16)	Target up to 2018/19	Progress up to 2018/19
1	Annual Average Economic Growth Rate (As per Base Price, Percent)	0.8	7.2	6.9
2	Annual Average Growth Rate of Agriculture Sector (Percent)	1.3	4.7	4.2
3	Annual Average Growth Rate of Non-Agriculture Sector (Percent)	0.6	8.4	8.0
4	Annual Average inflation (Percent)	9.5	7.5	4.6
5	Per-capita Gross Domestic Production (NRs. in Thousands)	79.4	116.5	117.5
6	Population below Poverty Line (Percent)	21.6	17	18.7
7	Human Development Index	0.54	0.57	0.579
8	Gender Empowerment Indicator	0.56	0.58	0.568
9	Life Expectancy (At the time of birth, Year)	69	72	69.7
10	Population with Drinking Water Service (Percent)	83.6	90	89
11	Net Enrolment Rate at Secondary Level (Percent)	37.7	45	46
12	Literacy Rate of 15-24 Age Group	88.6	92	92
13	Electricity Generation (Installed Capacity, Megawatt)	851	2301	1250
14	Families with Access to Electricity (Percent)	74	87	88
15	Irrigation Facility (Hectare in One Hundred Thousand)	13.9	15.2	14.7
16	Population with Access to Internet Service (Percent)	44.4	65	65.9

From the study of data shown in the above table, it is obvious that targets have been achieved in the indicators such as the per capita GDP, human development index, net enrolment at secondary level, literacy rate of 15-24 age group, and families with the access to electricity. The progresses achieved in respect to the indicators such as the annual average economic growth rate, annual average growth rate of agriculture sector and annual average growth rate of non-agriculture sector, are only 6.9 percent, 4.2 percent and 8 percent respectively till 2018/19, as compared to their corresponding anticipated targets of 7.2 percent, 4.7 percent and 8.4 percent. Likewise, the progress achieved in the indicator- the population below poverty-line is 18.7 percent as against the target of reducing to 17 percent, the gender empowerment index is 0.568 as against the target of 0.58, the life expectancy has reached to 69.7 year against the target of raising to 72 year,

and the population availed with drinking water service has reached to 89 percent as against the target of increasing to 90 percent. The installed electricity generation capacity has reached to only 1 thousand 250 megawatt, as against target of increasing to 2 thousand 301 megawatt. The irrigation facilities are provided in 1.47 million hectares against the target of extending to 1.52 million hectares.

• Accuracy of Government Accounts

8. **Consolidated Fund** - As per the financial statement of the Federal Consolidated Fund, it has been witnessed that the foreign loans receipt has increased by 54.13 percent, but the grants receipt has decreased by 30.28 percent as compared to the respective receipts of the previous year. Significant matters related to the consolidated fund are as follows:
 - 8.1. As per the legal arrangements, the government accounts should be maintained on cash basis system, however, the annual closing balance of the consolidated fund was shown as negative balance by NRs. 123 billion 64.5 million up to the last year. The closing balance of the fund has remained as NRs. 231 billion 39.7 million negatives up to this year with a rise in the negative balance amount. With the short collection of revenue resources in comparison to the estimate and the growth in government expenditure, the deficit cash amount has been borne from the cash balance of various accounts of the Government of Nepal inclusive of Operational Funds, deposit accounts etc. But no disclosure has been shown how much amount from which account has been spent from borrowing, and no borrowing has been accounted prior to making such expenditure. **There should be arrangement to take borrowings and make adjustments at the end of each fiscal year, if any expenditure is borne for the fund borrowing from other accounts.**
 - 8.2. The accounts of the Consolidated Fund should be prepared by including the amounts of all types of commodity aids, but the expenditures incurred pursuant to agreements of signed with donors for executing projects on turnkey basis- the construction of Ring-Road Extention Project at a cost of RMB 312 million (NRs. 4.96 billion) and Durbar High School at a cost of RMB 55 million (NRs. 875 million), have not been included in the Consolidated Fund Account. The actual expenditure of the Fund has not been witnessed, as such expenditure amounts are not included by obtaining statements from projects despite of the situation that the works are completed and expenditures are incurred.
 - 8.3. Out of the total NRs. 110 billion 466.9 million released to the concerned province levels as the conditional, fiscal equilization, complementary and special grants from the Federal Consolidated Fund, the NRs. 39 billion 227.2 million has existed as balance in the consolidated funds of the concerned provinces without utilizing the

released amounts. Likewise, amongst the total NRs. 226 billion 870.4 million released to the local levels, the local levels have spent NRs. 195 billion 5.8 million and NRs. 31 billion 286.2 million has been remained as balance in the consolidated funds of the concerned local levels. Hence, of the released amounts from the Federal Consolidated Fund, total of NRs. 70 billion 513.4 million has remained unspent in the province and local level consolidated funds. Although expenditures are recognized from the Federal Consolidated Fund to the amounts provided as grants through fiscal transfer, some of amounts have remained as bank balances at province and local levels, and this shows that all grant amounts recognized as expenditure in Federal Consolidated Fund have not been actually spent in works/services. Amongst the amounts released as conditional grants, it is found that total of NRs. 33.79 billion has been refunded/deposited into the Federal Consolidated Fund inclusive of NRs. 19.79 billion refunded by the provinces and NRs. 14 billion refunded by the local levels. Thus, with respect to the amounts deposited in the Federal Consolidated Fund, there exists a situation where the some of the amounts recognized as expenditure in past years have been shown as revenue in the subsequent year, which is not revenue in true sense. **Hence, it is necessary to frame a clear policy to avoid the double treatment in accounting of the grants or expenditures incurred through fiscal transfer.**

- 8.4. Inter-governmental Fiscal Management Act, 2017 (2074) provides that three different accounts namely- the Federal Divisible Fund, Province Divisible Fund and Local Divisible Fund shall be established for the management of the Value Added Tax to be collected at customs point and the excise duty to be collected in domestic production, and the such accounts shall be operated by the Financial Comptroller General Office. The Procedures Relating Divisible Fund Account, mentions that the VAT and excise duty collected in domestic products should be deposited in the concerned liability headings, and on next day, 70 percent amount should be transferred to the Federal Consolidated Fund and each of 15/15 percent should be transferred to Province Divisible Fund and Local Divisible Fund. The amounts deposited in Province and Local Divisible Fund should be allocated to the provinces and local levels at a monthly basis. In spite of the above arrangements in the Procedures, with respect to the VAT and excise duty amounting to NRs. 19 billion 706.9 million collected after 2019/07/05 (2076/03/20), the required amounts to be divisible to the Federal Consolidated Fund have been deposited, but the amounts to be divisible to the Province and Local Consolidated Funds have not been deposited to respective consolidated fund. The amount retained in the concerned divisible funds up to year-end (2019/07/16) without allocating to the provinces and local levels. The amounts are deposited only on 2019/11/15 (2076/07/29). As a result, the

revenues of provinces and local levels have been understated by NRs. 5 billion 912 million at the year-end.

Likewise, there exists a provision in the Procedure that the royalties receivable from the national forest, protective forest, mines & mineral, hydro-power and mountaineering, etc. should be initially in liability headings, and on next day, 50 percent of such amounts should be transferred to the Federal Consolidated Fund and each of 25/25 percent should be transferred to Province Divisible Fund and Local Divisible Fund. The amounts deposited in such way, should be allocated to various entities once in a year. However, total of NRs. 5 billion 743.4 million deposited in the account during the year, has been retained in concerned divisible funds up to year-end (2019/07/16) without allocating to the provinces and local levels. The amounts are deposited only on 2019/12/05 (2076/08/19). Since, the revenues recovered are not deposited on timely basis, the amounts have remained as liabilities instead of the revenues of the concerned provinces and local levels, and thus, the revenue accounts of the concerned provinces and local levels have not been correctly represented. **Hence, the attention should be given in allocating divisible funds' amounts on time.**

- 8.5. Inter-governmental Fiscal Arrangement, 2017 (2074) stipulates that all fees inclusive of vehicle tax, house & land registration etc., shall be the revenues of the local levels. Section 25 of Finance Act, 2019 mentions that the specified offices of the Government of Nepal shall collect the taxes and fees as determined by a province and shall deposit in the concerned divisible and consolidated fund as per the arrangement of the Act, if the required means & resource, technology, human resource and office set-up are not available in provinces and rural municipalities or municipalities for raising the vehicle tax and house & land fee. However, total of NRs. 1 billion 463.3 million inclusive of the tax on agriculture income, land tax & land registration tax, vehicle tax, driving certificate tax, blue book fee & other service fee and sales tax, has been kept in the Federal Consolidated Fund without transferring into the province and local level consolidated funds. Hence, the revenues of the provinces and local levels have been deposited in the Federal Consolidated Fund and incurred expenses from the amounts, which is not in compliance with the Constitution and prevalent law. **There should be necessary coordination and adjustment of accounts to implement the provisions of the Act.**
- 8.6. Rule 35 of the Financial Procedure Rules, 2007 (2064), provides that the competent official that have authority to make expenses or to release budget for expenditure, shall incur expenditure or release funds for expenditure only where the amount is within the approved budget and falls under the concerned expenditure heading and remains to be spent, and where the amount is in respect of any particular project that

project has already been approved. However, the Ministry of Finance, without getting the approval of programme, has released NRs. 6 billion 605 million to Nepal Electricity Authority from share investment heading in respects to the outstanding dues of street lights and the losses sustained to the purchasing of the electricity in accordance with Nepal-India Power Purchase Agreement. Though such expenditures are required to be borne from the recurrent expenditure, the expenditures are incurred from the share investment heading, which is against the budget principle. Moreover, pursuant to NRs. 3.34 billion that paid to Nepal Electricity Authority in respects to the outstanding dues of street lights, the same amount has been accounted by the Governemnt stating as revenue from interest received from the Authority. Consequently, the accounts of revenue as well as share investment have not been correctly represented. **There should be control in the practice of recognizing income and expenditure unnecessarily just to inflate the shape of expenditure.**

• Revenue Exemption and Arrears

9. **Revenue Exemption** - Section 18 of the Finance Act, 2018 (2075) provisions to give revenue exemption to various types of goods, industries, business-persons, institutions and projects. In addition, exemptions have been granted on the basis of the Notes, Annexure related to customs duty rates applicable to imports and adhoc decisions. Major observations related to this are as follows:
 - 9.1. For the construction works of the projects implemented under foreign-aid, there exists a provision to given an exemption in customs duty, taxes, fees etc. as per decision of the Government of Nepal on the construction materials to be imported as per the terms of agreements, and on this basis, the total revenue of NRs. 3 billion 468.3 million has been exempted during this year. However, the record of the exempted revenue amounts that applicable on materials imported under such facility has not been maintained. There has been no monitoring mechanism in respect to the materials imported under such revenue exemption are utilized only for the concerned projects. **Hence, there should be arrangements for conducting effective monitoring to ensure that the imported materials have been utilized in accordance with the terms of agreements.**
 - 9.2. Section 14(1), 14(2) and 14(3) of Schedule-1 of the Finance Act, 2018 (2075) specifies the list of goods that have been completely or partially exempted from customs duties, and Section 15 of the same Act provides the list of goods, the customs duty of which can be completely of partially exempted on the basis of recommendation of the Government of Nepal. Likewise, same Act mentions that the Value added Tax (VAT) will be exempted in the goods which are listed out in Annex-1 of Value Added Tax Act, 1996 (2052). In Revenue Exemption Statement,

the records pertaining to description of less recovered revenue amounts due to revenue exemption of customs duties, VAT and excise duty, have not been mentioned. As per the information obtained from Asycuda of Department of Customs and the statistics of Inland Revenue Department, it is witnessed that total of NRs. 44.21 billion revenue has been exempted during this year. **As per the international practice, there should be an arrangements to submit the amount-wise records of all types of revenue exemption granted along with the budgets.**

- 9.3. In light of one-third of GDP of Nepal has occupied by the agriculture sector, total subsidies of NRs. 12.29 billion have been distributed to the farmers in this year to support in the agriculture production, inclusive of NRs. 3.91 billion distributed through the Ministry of Agricultural Development and NRs. 8.38 billion provided for chemical fertilizers. In a situation of the distribution of subsidies to improve the self-sufficiency in agricultural production, the custom duty of NRs. 1.27 billion has also been exempted in imports of the agriculture and livestock products. It is necessary to make a study on the effect of revenue exemptions on domestic production, pursuant to existing arrangements of the distribution of subsidies to promote growth in domestic production and the award of revenue exemption on the import of agriculture and livestock products.
- 9.4. Chapter 21 (6) of the Finance Act, 2018 (2075) provides that the exemption of customs duty at a specified percent shall be allowed in the customs duty rates prevailed in January 1, 2006, if any products produced by SAARC countries are imported through opening of letter of credits (LC) along with the enclosure the certificates under the South Asian Free Trade Area (SAFTA) Arrangements. The implementation period of arrangements has already crossed 15 years. By utilizing SAFTA provision, the revenue exemption of NRs. 4 billion 151.3 million has been granted to various business-persons in 2018/19 with respect to the applicable customs duty, excise duty and VAT on the imported products, such as- primary polymer of plastics, petroleum products, primary rosin & other, polyester, glassware, pumps, prefab house, iron or not-mixed steel angles etc. However, no comparative benefit has been yet taken by importing the goods inclusive of raw materials and spare parts under the privilege of SAFTA arrangements, and producing ready-made products & goods within the country and exporting them. Since, the SAFTA arrangements have been impacting upon the revenue generation from imports as well as the sustainability of the domestic industries, it is necessary to frame an appropriate strategy to get the benefits of tax exemptions under SAFTA arrangements.
- 9.5. Notes No. 7 of the Finance Act 2018 (2075) mentions that the revenue exemption at a rate of 10 percent shall be granted on applicable excise duty, and the exemption

of 25 percent shall be granted on the excise-duty applicable on sales of assembled vehicles, if any vehicle producing industry imports vehicles at assembling stages. One importer has taken the exemption of excise-duty and VAT amounting to NRs. 551.9 million from the Bhairahawa Customs Office while importing various assembling goods worth NRs. 4 billion 291.11 million, which are used to produce a brand of motorbike. But, there has been no significant difference witnessed between the specification and the customer price of imported and Nepal assembled motorbikes. There has been very little value-add (as per financial statement around 5 percent value-add of selling price) of the industry while assembling in Nepal through bringing products at incomplete stage.

Since the audit has found no value-add in production equivalent to the revenue exempted amounts and no significant difference in consumer selling prices of the motorbike, there is a situation where the benefit of revenue exemption has been taken only by the importer. It has not contributed to the national economy and consumers. Hence, the arrangements should be reviewed to incorporate the provision that the revenues exemption shall not be provided if the value-add of any industry is not at least equivalent to or above the exempted revenue amounts of the government. prepared

10. **Exemption Facility** - As per the Integrated Customs Tariff Rate, the 20 percent customs duty, 10 percent excise-duty plus VAT is applicable under Customs sub-heading no. 852872 on the imported finished televisions, and the 10 percent excise duty plus VAT is applicable in the heading no. 852990 -television receiver under customs sub-heading No. 8529 (completely and primarily usable parts for the equipment specified under the headings from 8525 to 8528). In accordance with the General Rules of Harmonized Code System of World Customs Organization, the Department of Customs has made a decision on 2018/08/09 that the customs sub-heading no. 852872 is to applied on the import of the LED television panel, as the LED TV is clearly mentioned in cartoons of such parts, which is packed with TV card tuner along with the fittings of up & down switches of channel and volume, and the part has also possessed the basic characteristics of a finished television. Similarly, the Department of Customs has also taken additional decision on 2019/08/23 to classify the LED panel under customs sub-heading 852872, along with the reasoning that the LED panel of LED TV has possessed the necessary features or characteristic of a finished television even though the part is in semi-finished or incomplete condition.

While examining some of the documents of customs clearance of LED TV Panel, it is observed that the customs clearance of the goods which has cost price up to NRs. 116 thousand, has been granted under headings of parts. No significant

value-add is witnessed in this television production, as main components are brought importing from outside and some general parts are fitted within the country; and no significant difference is also observed between the selling prices of the imported finished television and such assembled televisions, which are prepared fitting some imported parts. In a state of the absence of a separate customs heading for the imported television parts that brought in unassembled condition, and such parts have possessed the basic characteristics of finished television, it is suggested that the customs clearance of the goods such as -LED television panel, LED panel for LED TV, are to be made under customs sub-headings no. 852872 applying 20 percent customs duty, 10 percent excise duty plus VAT. **Since the explanations have already been provided relating to this and the customs clearance of the goods are granted under the customs sub-heading 852990, the less recovered NRs. 489 million 694 thousand by the Birgunj Dry Port, Tribhuvan Airport Office and Biratnagar Customs Office should be recovered.**

11. **Internet Telephone** - As per Section 67 (6) (H) of Income Tax Act 2002 (2058), if any person, who carries a business of transmitting information or news through the communication means such as wire, radio, optical fiber or satellite, receives a payment by transmitting news or information through networks established in Nepal, it shall be deemed to have source in Nepal. Section 67(6) K (2) of the same Act mentions that any payment made in respect of activities carried out in Nepal shall be deemed to have source in Nepal. The applications such as- Viber, Facebook Messenger, Skype, WhatsApp, WeChat, Imo, Zoom, Webex, Cisco have been operated in Nepal without any interruption to provide internet telephone service via internet services, and the payments have also been sent from US Dollar accounts for getting some of such services. Since this type of services fall within the scope of tax administration as per Section 67 of Income Tax Act, 2002, the service providers are required to get registered prior to operation of services. However, none of such service providers has done the tax registration. **Hence, necessary revenues should be collected by making legal & policy reforms and the registration of such service providers.**
12. **Non-tax Revenue Rate**- There have been the arrangements to issue licenses, make registration, renewal and determine fees recognizing the business of internet service provider and telephone service provider of dissimilar nature. Accordingly, the internet service provider has to pay NRs. 300 thousand fee for getting registration and NRs. 270 thousand for renew in every 5 years. Likewise, as per Radio Frequency Policy of Telecommunication Service, 2015 (2073) (with amendment), the service provider has to pay of NRs. 50 million fee for getting integrated license of the telephone and mobile service, and NRs. 20 billion 132.75 million fee to renew

within 5 years. The telephone service provider has to pay NRs. 20 billion fee while making renew in each 5 years. With the change in technology, the transmission of voices which are being carried out by the telephone operators, have also been conducted by the internet service operators through the medium of internet. Since the technology to transmit video data in addition to voices has been developed in internet system, no specific difference has been witnessed between the two businesses. However, there has been unusual difference in the revenues being collected by the government in making registration and renewal. The registration and renew fees, which were determined in past keeping in view of non-transmission of voices and videos through the internet technology, have been found unusable in present context. **In the context of the nature of services, which the telephone service operators used to operate in past, are being operated by the internet service providers at present, the existing license fee and renew fee to be paid by the internet service providers should be reviewed, and the excessive gaps between the fees of the telephone and internet operators should be reduced to a minimum.**

13. **Recovery of Revenue Arrears** - In comparison to the previous year's revenue arrears figure NRs. 252.13 billion, the figure has decreased by 21.53 percent in this year to reach NRs. 197.84 billion. Out of the figure, the total amount of overdue principal & interest on loan investments of the Public Enterprises, Development Committees, Boards, and Local Levels comprises of NRs. 89 billion 689.8 million, of which the overdue principal is NRs. 46 billion 644.4 million and the overdue interest is NRs. 43 billion 45.4 million. Out of the 77 enterprises, which have not paid the overdue principal, the total amount of overdue principal arrears of 6 public enterprises is NRs. 36 billion 574.5 million. The 6 enterprises having higher amount of overdue principal arrears include NRs. 27 billion 278.9 million in Nepal Electricity Authority, NRs. 2 billion 523.3 in Nepal Water Supply Corporation, NRs. 2 billion 210 million in Udaypur Cement Factory, NRs. 1 billion 770.8 million in Kathmandu Valley Water Supply Board, NRs. 1 billion 454.5 million in Janakpur Cigarette Factory, and NRs. 1 billion 337 million in Small Farmer Development Bank respectively. Some of the enterprises, which are operational and also earning profits, have not settled down their overdue principals.

Out of the public enterprises and Committees that have the outstanding balances of overdue principal and interest, 27 companies are liquidated and non-operational, which have the outstanding balance of overdue principal NRs. 6 billion 125.1 million and overdue interest NRs. 5 billion 628.6 million. These amounts constitute 13.13 percent and 13.01 percent of the total overdue principal and overdue interest respectively. The amounts are in recoverable condition.

The total tax arrears to be recovered up to 2018/19 is NRs. 96.56 billion, which includes NRs. 72.12 billion of income tax and NRs. 24.43 billion of VAT. Out of the arrears, appeals are going on with respect to NRs. 52.63 billion (54.50 percent). Out of the tax assessment completed, necessary taxes have not been recovered pertaining to large portion and the legal proceedings are still going on. The revenue arrears have not been recovered timely basis due to various reasons, the like- abandoning of business by the taxpayers, on-going of legal cases etc. **The revenue arrears should be recovered launching a campaign in accordance with the prevailing policy and legal arrangements.**

• Foreign Assistance

14. **Mobilization of Foreign Aid** - Compared to this year's estimate of receiving of total foreign aid of NRs. 311.85 billion including the foreign grant of NRs. 58.82 billion and foreign loan of NRs. 253.03 billion, the total of NRs. 159.48 billion including NRs.29.58 billion grants and NRs. 129.90 billion loan have been received. In comparison to this year's budget, the foreign aid of 51.11 percent on an average including the 50.28 percent foreign grants and 51.33 foreign loan have been received. Compared to the receipt of foreign grants 54.48 percent in last year, the percent has declined during this year. Against the receipt of foreign loan of 41.86 percent in last year, the percent has increased during this year. Low receipt of foreign aid has caused direct impact on the development works and delivery of services. Hence, the foreign resources should be mobilized to the maximum corordinating timely with development partners. Major findings pertaining to the foreign aid are as follows:
- 14.1. On donor-wise basis, as compared to the projection of receiving the foreign grant NRs. 58.82 billion from 40 donors and foreign loans NRs. 253.03 billion from 15 donors in this year, the foreign grants of NRs. 29.58 billion from 31 donors and foreign loans of NRs. 129.90 billion from 15 donors have been received. It is imperative to give the attention to obtain grants as per agreement coordinating with donors.
- 14.2. While analyzing the receipt of foreign aid ministry and entity-wise basis, on the basis of the statement obtained from the Financial Comptroller General Office, the ministries/entities utilizing less than 50 percent grants and loans in 2018/19 are as follows:

(NRs. in millions)

Ministry/Entity	Grant			Loan			Total		
	Initial Budget	Receipt	Percent	Initial Budget	Receipt	Percent	Initial Budget	Receipt	Percent
Office of Prime Minister & Council of Ministers	1,382.9	1,764.0	12.76	88,692.4	3,033.9	34.21	102,522.0	32,103.8	31.31
Industry, Commerce & Supply	699.7	134.5	19.23	791.1	256.5	32.42	1,490.8	391.0	36.23

Energy Water Resources	3,281.2	1,156.0	35.23	7,213.2	3,153.2	43.71	10,494.4	4,309.2	41.06
Provinces	3,569.8	744.9	20.87	12,307.5	4,478.8	36.39	15,877.3	5,223.7	32.90
Forest	3,409.3	1,506.0	62.51	980.0	61.9	6.32	3,389.3	1,568.0	46.26

Declining absorptive capacity of foreign aid has directly impacted on the development works and delivery of services. Hence, the responsible officials of the concerned entity should mobilize the foreign aid by giving due attention to the available assistances and timely coordinating with donors.

15. **Technical Assistance** - In Statement of Technical & Other Assistance presented in Parliament, it is mentioned that the total technical assistances equivalent to NRs. 24 billion 633.2 million will be obtained to 18 ministries/ entities under the arrangements of 135 agreements. As per the Section 29 (1) of Financial Procedures and Accountability Act, 2019 (2076), the description of foreign assistances should be included in the consolidated financial statement. The true and fair view of overall income and expenditure of the government has not been presented as the figures of technical assistances are not included in such statement. Though the Public Account Committee has issued the directive for carrying out audits of such technical assistances, the audits have not been completed by submitting financial statements and books of accounts of such technical assistances. The provision of the Act should be implemented.
16. **Foreign Aid**- Rule 27.2 of the Financial Procedure Rules 2007 (2064) provides that all foreign assistance monies should be spent by incorporating in budget and programs. In the circumstances of the ratification of matter to promote the transparency and accountability through bringing all foreign assistances monies in national main-stream by Paris Meeting of donor community, some corrections have been witnessed in the process of inclusion of aid money in budgetary system compared to last year, which has reached to 78.4 percent during this year. However, Reports of the Ministry of Finance show that around 21.6 percent of development assistances of Nepal (except transactions of International Non-Governmental Organizations) are still off-budget. Descriptions pertaining to this have been shown in the following table:

(US Dollar in Thousand)

Donor	On budget	Off-budget	Total
Asian Development Bank	277,198	15,286	292,484
European Union (EU)	10,373	15,804	26,177
Finland	9,474	1,141	10,616
Germany	19,772	16,344	36,116
India	56,556	2,389	58,944
Japan	96,458	14,045	110,502
Norway	610	22,975	23,585
Switzerland	21,497	4,383	25,881
United Kingdom	57,131	60,107	117,238

USAID	14,081	63,465	77,545
World Bank	506,728	21,585	528,313
Others	168,021	103,062	271,084
Total	1,237,899	340,586	1,578,485

As per the Aid Management Platform, the foreign aid of US Dollar 1 billion 568 million has been received in 2018/19 as compared to US Dollar 1 billion 623 million received in 2017/18, which shows the fall of 2.7 percent over previous year. Out of the receipt amounts, the loans of US Dollar 944 million, grants of US Dollar 424 million and technical assistances of US Dollar 210 million have been received. Out of the foreign aid mobilized, off-budget mobilization includes US Dollar 341 million as shown by the government and additional US Dollar 215 million as spent by the non-governmental organizations, which have been mobilized beyond the budgetary system. Though the recommendations provided relating to improvements are to be made in the practices of making expenditure of off-budget and off-treasury, such recommendations have not been yet implemented effectively.

17. **Mobilization of Aid** - The Clause No 3.2.8 of International Development Cooperation Policy, 2019, stipulates that generally, all types of international development cooperation will be accepted so as to incorporate in the national budgetary system and all on-budget development cooperation will be audited by the Office of the Auditor General of Nepal. However, the Development Co-operation Report of the Ministry of Finance mentions that the 111 International Non-Governmental Organizations have released US Dollar 215.25 million to 402 projects of different sectors and incurred expenses through their own systems. The assistances have not come under the national budgetary system and the audits of such assistances have not been carried out from the Office of the Auditor General. Such funds have been spent by the International Non-Governmental Organizations by establishing their own structures. Since the assistances are not mobilized through the government mechanisms, the assistance monies need to be spent not only for the projects works, but also are to be spent to meet the liabilities of such organizations such as - salaries, allowances, facilities of the domestic/foreign employees, consultants of the development partners and administrative & other overheads of such organizations. **In the circumstances of the ratification of Paris Declaration for effective mobilization of foreign aid through bringing all assistances within national budgetary system, the arrangements should be made to channelize the monies received by the international Non-Governmental Organizations and development partners through the national budgetary system or government machineries/entities.**

• Budget Formulation and Execution

18. **Expenditure Management** - The Government has adopted the policy of maintaining fiscal discipline though enhancing efficiency in public expenditure

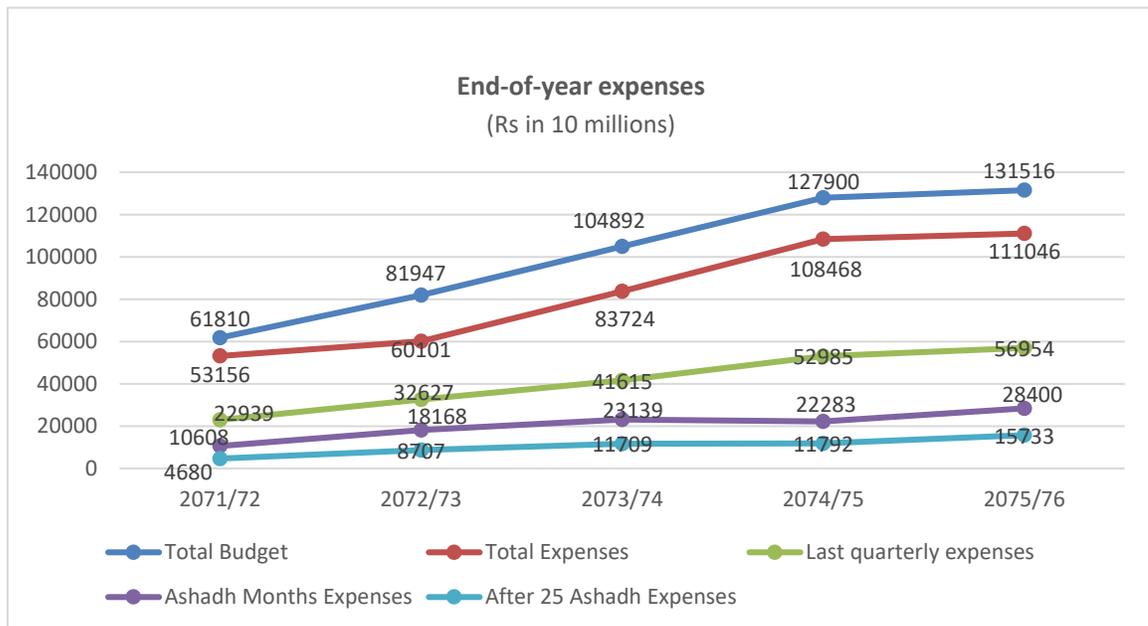
management, controlling the recurrent expenditure, and expanding the capital expenditure. In 2018/19, the recurrent expenditure, capital expenditure and financing expenditure have remained NRs. 716 billion 427.6 million (64.52 percent), NRs. 241 billion 560 million (21.75 percent), and NRs. 152 billion 480 million (13.73 percent) respectively. In comparison to the 2016/17, the recurrent expenditure, capital expenditure and financing expenditure have increased by 38.14 percent, 15.72 percent and 38.76 percent respectively. In comparison to 2017/18, the ratio of recurrent expenditure on total expenditure has remained almost the same in this year, but the ratio of capital expenditure on total expenditure has declined to 21.75 percent from 24.96 percent, whilst the ratio of financing expenditure on total expenditure has increased to 13.73 percent from 10.79 percent during this year. The capital expenditure has not increased as per expectation.

It is because of the use of Government Finance Statistics (GFS) issued by the International Monetary Fund, some of the expenditure of capital nature related to public works are also included in recurrent expenditure and financing expenditure; and with the grants provided to the province and local levels, the expenditure of recurrent nature have been borne from capital grants and the expenditure of capital nature have been borne from recurrent grants. As such, there has been no such situation where the true picture of above mentioned recurrent, capital and financing expenditures can be analysed. **Hence, the accounting and mobilization of capital expenditure should be strengthening by giving due attention to the reporting system and the development works and delivery of services.**

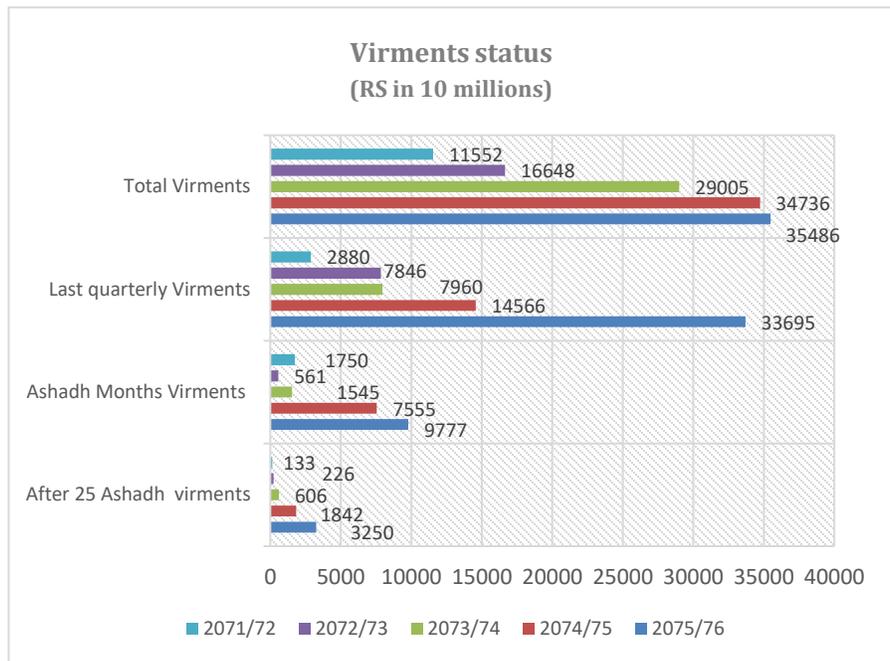
19. **Disbursement from Finance budget** - Rule 35(2) of the Financial Procedure Rules, 2007 provides that the competent official empowered to incur expenditure or release funds shall release funds for making expenditure only if the amount is within the approved budget and falls under the concerned expenditure heading and remains to be spent. The amounts allocated under Appropriation Act need to be spent specified purpose, but pursuant to lump-sum appropriation of NRs. 70 billion 703 million in budget sub-heading 602 (Finance-Miscellaneous), the net budget has been reduced to NRs. 19 billion 553.9 million through making virements of NRs. 50 billion 518 million. The significant amounts of virements and disbursements made on the basis of piecemeal decisions of the Ministry of Finance include- NRs. 25.07 billion provided to the Ministry to Physical Infrastructure & Works for the purpose of infrastructure and works, NRs. 18.81 billion provided to various entities/organizations for share and loan investments, NRs. 8.75 billion provided to province levels as grants, NRs. 7.20 billion provided to local levels as grants, and NRs. 1 billion 393.1 million provided to Nepal Army for making the outstanding payments of the planes. The practice of releasing funds on the basis of piecemeal decisions by appropriating lump-sum amount in heading Finance-Miscellaneous,

and providing additional amounts through disbursements and virements at the year-end from the heading Finance-Miscellaneous without appropriating or appropriating less amounts in the concerned programme and budget sub-head, is not in conformity with the budget principle. In such a situation, it will impact on the parliamentary knowledge and control over the budgets, create difficulty in conducting monitoring, impact on transparency, and create problems in records keeping. **Hence, the practice of incurring such expenditures should be improved.**

20. **Year-end Expenditure/Payment** - Rule 33 of the Financial Procedure Rules 2007 provides that the closure of accounts should be done on 25th Asadh prior to end of each fiscal year. This year, of the total expenditure NRs. 1 trillion 110.46 billion incurred from budget appropriated NRs. 1 trillion 315.16 billion, the NRs. 263.41 billion (23.72 percent) has been spent in the month of Asadh. Amongst the expenditure, the expenditure incurred from 25th to 31st Asadh is NRs. 157.33 billion, which is 14.17 percent of total expenditure. The status of 5 years' total budget & expenditure, final trimester expenditure, Asadh month expenditure and expenditure after 25th. Asadh has been depicted in the line diagram. The process of making expenditures at year-end has been continued in every year. **Hence, the act of incurring expenses/payments after 25th. Asadh should be checked complying with provisions of the Rules.**



21. **Virement-** Section 20 of the Financial Procedure and Accountability Act, 2018, stipulates that in the event of any amount in budget sub-heading of a grant code specified by the Appropriation Act is insufficient, the Ministry of Finance can make virements from one or more than one grant codes specified by the same Act remaining within the limits as fixed by the Appropriation Act. Amongst the this year' virements made NRs. 354.86 billion out of the total appropriated budget NRs. 1 trillion 315.16 billion, the virements of NRs. 97.70 billion are done during the Asadh month and NRs. 32.50 billion are done after 25th. Asadh for transferring amounts in various heading/sub-headings. Though Rule 35 of the Financial Procedures Rules, 2007 specifies that the expenses can be incurred only from the approved budget, but NRs. 416.9 million is spent through the virements without making any entail budget allocation as per the Rules. In accordance with the Appropriation Act 2019, the virement shall not be taken place exceeding more than 10 percent of any appropriated amount of any expenditure heading. But, the Ministry of Finance has committed the virements up to 1171 times for federal parliament, not complying with the provisions of the Appropriation Act. Such virements are mostly done at the year-end. The status of 5 years' virement, final trimester's virement, Asadh month virement and virement after 25th. Asadh has



been depicted in the given chart diagram. Hence, the act of making such virements without making initial appropriation of the necessary budgets should be controlled.

22. **Unallocated budget -** As per Rule 20 of the Financial Procedure Act, 2007, each entity has to prepare the budget and programs. This year, a lump sum budget of NRs. 6 billion 394.7 million is included in the name of the Ministry of Health & Population. However, while including amounts in the budget, the name of programs in some budget sub-headings, and name of health institutions in some budget headings (102 programs and institutions) have also been specified. Out of the net budget NRs. 6 billion 759.9 million that remained in the budget heading after the

virements, it is mentioned that the Ministry of Finance has committed a fiscal transfer of NRs. 3 billion 786 million to provincial governments and local governments for salary allowance and maternal security programme. After amending the initial programme for 26th times till 2019/07/16, the NRs. 2 billion 973.9 million is maintained as a net budget in the name of the Ministry of Health & population, but only NRs. 2 billion 569.4 million has been disbursed and spent. It is not appropriate to include budgets as an unallocated budget in the Ministry's headings without including the budget in the name of concerned entities of the province and local levels. **Hence, the practice of maintaining unallocated budget should be stopped.**

23. **Excess Expenditure over Budget** - Rule 35(2) of the Financial Procedure Rules, 2007 provides that the competent official empowered to make expenditure or release funds shall release funds for making expenditure only if the amount is within the approved budget and remains to be spent. On contrary to the provision of Rules, NRs. 1 billion 255.5 million in 6 sub-headings of recurrent expenditure, NRs. 8 million in 3 sub-headings of capital expenditure, and NRs. 247.1 million in 1 sub-heading of financing arrangements expenditure, have been disbursed and spent in excess of the approved budgets.

Rule 38 the same Rules provides that in case any disbursed amount becomes insufficient despite of sanctions of budget amounts, the Ministry of Finance may regularize the excess spent amounts on the recommendation of the Secretary (Chief Accountability Officer) of the concerned Ministry either by making transfer of budget or endorsing such expenditure or giving sanction of additional budget. However, the amounts spent in excess of approved budget have not been regularized. In a situation of the implementation of Treasury Single Account System, disbursements of excess amounts than the approved budget should not be happened. The release of excess amounts than approved budget has raised the questions on the trustworthiness of the Treasury Single Account System. **Since the practice of disbursing or incurring expenses more than the appropriated budget is against the Appropriation Act and it also hinders in the maintenance of fiscal discipline, it has become essential to control such practice.**

24. **Expenditure Contrary to the Programme** - In the approved programme of the Lumbini Area Development Trust, total budget of NRs. 15 million is appropriated to carry out the works of capital nature such as - the repair & maintenance and cleaning of central canal, construction of meditation shades and sanitation & security of archaeological sites inclusive of Lumbini, Kapilvastu, Devdaha and Ramgram, but the NRs. 14 million 812 thousand has been spent only for the works of recurrent nature inclusive of the wages paid for sanitation and salaries of security

guards etc. Pursuant to such amounts provided for the capital expenditure, it is not appropriate to make expenses in salaries, allowances and wages.

• Loan and Liability

25. **Total Loan** – As per the statement of national loans obtained from Financial Comptroller General Office, the total loan liability of the Government of Nepal up to 2018/19 has reached NRs. 1 trillion 48.15 billion. Out of the amount, the share of internal loan is NRs. 453.23 billion and foreign loan is NRs. 594.92 billion. The loan liability has increased by 14.51 percent or by NRs. 132.04 billion as compared to last year. Based on the total population 29.675 million of the country as of 2076 Asadh (2019/07/16), the per-head loan liability becomes NRs. 35 thousand 321. The loan becomes 30.25 percent of the GDP amount NRs. 3 trillion 464.31 billion (at current price). Out of the total loan, the internal loan is 43.24 percent and foreign loan is 56.76 percent.
26. **Outstanding Reimbursement** - In accordance with Rule 37(3) & (4) of the Financial Procedure Rules, 2007, each project, on the basis of agreement signed with donor community, has to carry out the monitoring by maintaining the records of reimbursement specifying the amount for which the reimbursement has been requested, the amount which has been disbursed & spent, the amount for which reimbursement has been received from donors, and the outstanding amount yet to be reimbursed. The total outstanding reimbursement amount has reached NRs. 41 billion 485.6 million at the end of 2018/19, of which the outstanding loan reimbursement is NRs. 26 billion 568.9 million and the outstanding grant reimbursement is NRs. 14 billion 916.7 million. The amount of total outstanding reimbursement has dropped by 14.64 percent as compared to the corresponding amount of the outstanding reimbursement of previous year. Major observations pertaining to this are as follow: –
- 26.1. In comparison to the foreign loan's outstanding reimbursable balance NRs. 27 billion 836 million up to the previous year, the total loan amount to be reimbursed becomes NRs. 86 billion 655.6 million along with this year's loan reimbursable expenditure NRs. 58 billion 819.6 million. The total loan reimbursement balance has become NRs. 26 billion 568.9 million up to this year after deducting loan reimbursement received NRs. 61 billion 965.2 million and adding adjustment made NRs. 1 billion 878.5 million during this year. Similarly, in comparison to the foreign grant's outstanding reimbursable balance NRs. 20 billion 762.6 million up to the previous year, the total grant amount to be reimbursed becomes NRs. 34 billion 262.4 million along with this year's grant reimbursable expenditure NRs. 13 billion 499.8 million. The grant reimbursement balance has become NRs. 14 billion 916.7 million at of this year after deducting grant reimbursement received NRs. 19 billion

393.4 million and adding adjustment made NRs. 47.7 million during this year. Compared to last year's figures, the outstanding amounts of loan and grant reimbursement have decreased by 4.55 percent and 28.16 percent respectively in this year.

- 26.2. The ministries having higher outstanding amounts of foreign loan reimbursement, include NRs. 12 billion 134.8 million of Ministry of Finance, NRs. 8 billion 744.9 million of Office of the Prime Minister & Council of Ministers, NRs. 2 billion 131.1 million of Ministry of Urban Development, NRs. 1 billion 604.1 million of Ministry of Federal Affairs & General Administration, NRs. 715 million of Ministry of Water Supply, and NRs. 693.5 million of Ministry of Agriculture & Livestock Development. The ministries having higher outstanding amount of foreign grant reimbursement include, NRs. 5 billion 827.4 million of Ministry of Education, Science & Technology, NRs. 5 billion 524.6 million of Office of the Prime Minister & Council of Ministers, NRs. 2 billion 226.8 million of Ministry of Physical Infrastructure & Transportation, NRs. 980.6 million of Ministry of Forest and Environment, NRs. 366.6 million of Ministry of Energy, Water Resources and Irrigation, and NRs. 155.6 million of Ministry of Urban Development.
- 26.3. Out of the assistances received by Government of Nepal in this year from Multi-Donor Trust Fund, USAID & the like, the total of NRs. 8 billion 669.1 million inclusive of the reimbursable grant NRs. 4 billion 481.1 million and S.S.D.P. loan NRs. 4 billion 188.2 million, have been provided to the local levels. After maintaining accounts and incurring expenses of the grants and loans, the progress reports and the requisition for reimbursements are to be sent to donors in accordance with the terms of agreement, but the accounts and expenses of the amounts have been directly charged to the government source without showing the amounts in the concerned donor's accounts. Hence, the burden of the such expenditure has to be borne from the Government of Nepal source as the requisition for the reimbursement have not been submitted to the concerned donors along with the necessary statements. **It is essential to develop a system in which the the expenditure from the donor's account will be recognized as per the requisition of reimbursement sent to donor on the basis of the work performance.**
- 26.4. In accordance with the statement submitted by the Financial Comptroller General Office, the outstanding reimbursement balances of closed projects up to previous year were NRs. 223.6 million of reimbursable grants and NRs. 350.2 million of reimbursable loans. The outstanding amounts of the reimbursable grant and loans amounts as of this year have remained same as the reimbursements of any of the amounts have been received in this year.

If the reimbursement of any of reimbursable amount has not been received within the due time, it will create burden in Government of Nepal source. Hence, the reimbursements of loans and grants should be obtained within the specified time coordinating with the Ministry incurring such expenditure.

• Public Enterprise Operations

27. **Return on Share Investment** - As per the statement obtained from the Financial Comptroller General Office, the total share investment of the Government of Nepal, which figured NRs. 226.80 billion in 113 public enterprises up to previous year, has increased to NRs. 296.92 billion in this year along with the bonus shares obtained and adjustments made during this year. Out of the such share investments made, the bonus shares of NRs. 10 billion 649.9 million have been obtained from Nepal Oil Corporation, and NRs. 49.4 million obtained from Citizen's Investment Trust in this year, and total cash dividends of NRs. 20 billion 429 million have been obtained from 10 public enterprises inclusive of Nepal Rastra Bank, Nepal Telecom, Nepal Civil Aviation Authority. Besides the enterprises, since any return or dividend has not been obtained during this year from the remaining 103 enterprises, which the government has total share investments of NRs. 216.82 billion, efforts should be made to enhance the efficiency in operations & management of the public enterprises.
28. **Recovery of Rents** - Pursuant to the Government's share investments of NRs. 27 million 752 thousand and loan investment of NRs. 4 million 296 thousand made in Nepal Rosin & Turpentine Company, the interest of NRs. 3 million 733 thousand is still to be recovered. As per the 10 year's land lease agreement signed between one Pasmira Industry and Government of Nepal on 2006/05/12, the industry is required to pay annual installment of NRs. 3 million 12 thousand every year in advance. However, the industry has stopped paying amounts after payment of the first installment on 2006/04/19, and total of NRs. 76 million 29 thousand including installments dues NRs. 39 million 132 thousand up to 13th installment and applicable interest NRs. 14 million 759 thousand and fines NRs. 22 million 138 thousand, has not been yet recovered up to the fiscal year 2018/19. Even though the period of 10 year's land lease agreement has been completed at present, neither the leased land has been taken back nor the agreement has been renewed. The concerned entity should give attention in the recovery of rents in accordance with the agreement.
29. **Share Ownership** - Major observations related to the share investments not maintained in accounts by making valuation of the buildings constructed under the government investments and lands owned by the government, are as follows:-

- 29.1. In the tripartite agreement of project implementation signed between the Government of Nepal - Ministry of Industry, Commerce & Supplies, Salt Trading Corporation Limited and Government of Japan, it is mentioned that a warehouse will be constructed in the lands owned by the Corporation for storing the supplied salts and the ownership of the constructed warehouse will be of the Government. It also mentions that the operations and maintenance of the warehouse will be done by the Corporation, the ownership of the warehouse will rest to the government and if the Corporation quits to run salt business or the government prohibits the Corporation to do so, the Corporation need to get clearance of accounts from the government by making valuation of cost of the warehouse constructed by the project. The Corporation has issued bonus share of NRs. 16 million 364 thousand in 2016/17 and, it has also distributed cash dividends in various subsequent years. The Corporation has generated earnings by using the warehouse as per the agreement, but it has not paid any returns to the government in respect to the usage of warehouse. With respect to getting the ownership of warehouse by the government as per the tripartite agreement, it is witnessed that the Ministry of Finance has sent a request letter to the Ministry of Industry, Commerce & Supplies for retaining additional share investment equivalent to cost price NRs. 858 million 619 thousand in the name of the Government of Nepal as determined by a committee constituted by the Ministry of Finance, but the share ownership of the same amount has not been yet shown in accounts. **The share ownership in the name of the Government of Nepal should be acquired as per the agreement and returns on the investment should also be obtained.**
- 29.2. As per the Annual Performance Review Report of Public Enterprises, 2019, it is stated that the Government of Nepal has direct investment of NRs. 4 million 963 thousand (46.51 percent) in Biratnagar Jute Mills out of the total share capital NRs. 10 million 670 thousand. In accordance with the Annual Report of Share & Loan Investments 2019 of the Financial Comptroller General Office, the office has shown the share investment of NRs. 724.8 million and loan investment of NRs. 1 billion 174.6 million in the name of industry. Pursuant to the subject matter of change in share structure done by board of directors of the Mills by adding the investment private sector and written down of the investment of the Government, the High-Level Investigation Commission has given a suggestion to change share structure in the Jute Mills through capitalizing the investment of the Government of Nepal. But, the share structure of the Mills has not been changed by capitalizing the government's investment in accordance with the suggestion of the Committee. **The required share ownership of the government should be retained in the Mills as per the suggestion. |**

30. **Less Share Retained** - Rule 35(2) of the Financial Procedure Rules, 2007 provides that the competent officer shall release funds if the amount is within the approved budget and falls under the concerned expenditure heading and remains to be spent. Major observations related to share investment without approved budget are as follows:
- 30.1. Pursuant to paid-up capital of NRs. 5 billion in Nepal Hydro-power Investment and Development Company, the share investment has been increased to NRs. 10.5 billion by making an additional share investment of NRs. 5.5 billion in 2017/18 and 2018/19 by the Ministry of Finance without having approved budget and capital growth plan, which is not in conformity with the prevailing laws. For the added share capital NRs. 5.5 billion, the company has not shown the amounts in its share capital, but it has shown as "Advance on Share" and earned interest by keeping amount in bank. As a result, the government is deprived of receiving the bonus shares of NRs. 5 million in respect to 10 percent bonus share declaration and NRs. 6.6 million in respect to 12 percent cash dividends of NRs. 5.5 billion as declared by the company in 2018/19. Pursuant to non-receipt of NRs. 1.16 billion in the government treasury due to non-recognition of the government's capital growth and share investment by the company, an investigation should be conducted and the bonus share as well as cash dividends on the investment should also be obtained.
- 30.2. The Government has provided NRs. 165 million 513 thousand to the Citizen's Investment Trust in this year as an additional share investment without having approved budget and preparing any capital growth plan. Since the Trust has invested the amount without showing the government's share investment, it has created a situation where the Trust can earn interest by making investments of the amount but the returns or dividends of the same will not be receivable to the government. If calculated the returns on the basis of 22 percent bonus shares distribution by the Trust in previous years, the annual returns of NRs. 36 million 412 thousand will not be receivable to the government. Hence, the required dividends should be obtained by ascertaining the share investments in the Trust.
31. **Audit of Wholly-Owned Enterprises** - Out of the 45 public enterprises for which the auditors are appointed in this year, the audits of 13 enterprises of 14 fiscal years have not been completed. The Guthi Sansthan, Gorkhapatra Sansthan, Taragaun Development Committee, Sanskritik Sansthan, Forest Products Development Committee, The Timber Corporation, Nepal Railways Company, Modi Hydropower Company, Rastriya Aawas Company Limited, National Cooperative Development Board and Hetauda Cement Factory have audit backlogs of this year, whilst the Nepal Water Supply Corporation has audit backlogs of last 2 years. In

accordance with the Audit Act, 2018, necessary actions should be taken to the responsible officials of such enterprises that have not completed timely audits.

32. **Price Fixation of Goods & Services** - The government has been collecting the VAT, income taxes and bonus from the corporate bodies. However, the measures to provide autonomy to fix the service fees in accordance with the market price and to strengthen their organization have not been taken, resulted incurring losses since last some years and the returns received by the government in comparison to the government investments, has been becoming very low. Hence, the government should take initiative in the management reforms or the adoption of other appropriate alternatives by evaluating the contribution of enterprises in services delivery to mass people and national economy along with the reviews of the government's investments in such enterprises.
33. **Investment Account and Safeguard** - The Citizen's Investment Trust has been making investments as per adhoc decisions of its board of directors without preparing any specific investment policy and basis. When compared the figures of central account of the Trust with the records of its Investment Department, a difference of NRs. 1 billion 657.3 million has been witnessed in investment figures. It has invested NRs. 1.13 billion in fixed deposit of 11 financial institutions declared as problematic, which are at risk. The number shares specified in De-materialization (DMAT) records has been witnessed a shortfall by 8 million 288 thousand 613 units (kitta) than that specified in the investment account. By preparing investment policy, the investment accounts should be updated and safeguarded.
34. **Recovery of Rents** - In respect to the risks involved in the outstanding rents and utilities of NRs. 499.4 million as of 16 July 2019 (2076 Asadh-end) of the buildings existed in many places, the Employee's Provident Fund has made a provision of NRs. 225.4 million. Likewise, the Nepal Civil Aviation Authority has the rental dues of NRs. 87.2 million with the firms in respect to renting of the airports' arrival and departure areas. The outstanding rents and utilities should be recovered in accordance with contract agreements.
35. **Write-off of loans** - The Nepal Bank Limited has total dues of NRs. 61.38 billion including principal NRs. 2.36 billion and interest, fines and fees NRs. 59.02 billion with 546 borrowers that are written-off. In the event of the misuses are done by any borrowers by utilizing the amounts deposited by depositors and shareholders, the bank management should make attempts to recover dues amounts, but the loan amounts have been written-off without making adequate efforts. This indicates that the loan recovery procedure of the bank is not satisfactory.

36. **Assets and Liabilities** - Since the Udaypur Cement Industry Limited has committed less valuation of limestone stock by NRs. 18.3 million and more valuation of clinker stock by NRs. 125.5 million in its books of account, the actual value of stocks needs to be ascertained. Likewise, the industry has made the provisions of NRs. 641.20 million for gratuity liability and NRs. 169.4 million for medical facilities in its account, but it has only deposited NRs. 82.3 million and NRs. 6.5 million respectively in the Citizen's Investment Trust. **The amounts provisioned for the staff's contingent liabilities should be fully deposited.**
37. **Tariff of Dedicated Line** - The Nepal Electricity Authority has constituted a Sub-committee to study of the subject matter of tariffs of the dedicated feeder and trunk lines that provided to industrial, commercial and some other business purposes, and the report of the Sub-committee mentions that total of NRs. 6 billion 341 million is to be received from the service recipients in respect to the tariffs of such dedicated feeder lines. **The Authority should recover the amounts.**
38. **Financial Position** - The Government of Nepal has invested total of NRs. 3 billion 103.7 million in Nepal Airlines Corporation, which includes share capital NRs. 162.2 million and investment NRs. 2 billion 941.5 million. The Corporation has accounted the accumulated loss of NRs. 5 billion 535.1 million up to 2018/19. It has provisioned NRs. 7 billion 475.2 million as revaluation reserves. The Corporation has possessed the long-term and medium-term loan NRs. 37 billion 68.9 million, and total assets of NRs. 50 billion 968.1 million, which includes current assets NRs. 7 billion 273.5 million and fixed assets NRs. 43 billion 694.6 million. The net current asset of the Corporation has shown negative by NRs. 1 billion 593.4 million. Though the Corporation has generated the profit of NRs. 180.3 million in last year, but it has to bear the losses of NRs. 1 billion 965.3 million in this year. The net worth of the Corporation has reached NRs. 5 billion 43.9 million in this year as compared to NRs. 7 billion 184 million in last year. **Since the financial position of the Corporation is becoming complex due to declining status of the net worth and profits, necessary measures are to be taken for the improvements.**

• Revenue Scope

39. **Tax Scope** - Rule 23 of Income Tax Rules, 2002 stipules that any person who has earnings of assessable income or any person whomsoever has the liability of the withholding tax under Chapter-17 of the Act, shall have to obtain a permanent account number prior to earning such income or making tax deduction. Section 10 of Value Added Tax, 1996 mentions that any person who wish to involve in any transaction shall have to get registration of his/her transactions in Value Added Tax prior to actual commencement of such transactions. Rule 10 of Excise Duty Act, 2002 provides that any person, firm, company or organization who intends to

manufacture, import, sell or store a product subject to excise duty or deliver service subject to excise duty, shall have to obtain a license pursuant to this Act. Major audit observations pertaining to this are as follows:-

- 39.1. For extending tax scope, the government has implemented programs such as-organizing the work of distribution the permanent account number as a campaign, granting permanent account number to any person who makes tax deduction at source, and issuing revised business identification number by covering all types of business. In comparison to previous year figure, the number taxpayer has increased by 23.67 percent in this year as compared to 11.20 percent increase in last year. Out of the total taxpayer, 996 thousand 41 taxpayers or 44.62 percent have obtained the personal permanent account number. The monitoring has not been carried out pursuant to such taxpayers as they are not subject to submit tax returns.
- 39.2. In order to make business transactions transparent and informative, the system of compulsorily obtaining personal account number has not been yet implemented while establishing business, purchasing shares, vehicles, house & land, opening bank accounts, and taking loans. Though the doctors, engineers, lawyers, advisors, artists, sport persons, and the persons teaching in educational institutions have obtained personal account numbers, all persons getting such type of incomes, have not been submitting the income returns. The tax clearance or tax returns submission certificates have not been sought by the regulating agencies while making renewals of the professional certificates, which are required to the professionals for giving the continuity of their professions. **The audit recommendation was provided in previous year for introducing a system in which the regulating should compulsorily obtain the permanent account number and tax clearance or tax returns submission certificates while making renewals of the memberships, and the permanent account number should be obtained compulsorily in making payments, but there has been no satisfactory improvement in the implementation of the suggestions.**
40. **Taxes in E-commerce** – At present, the businesses, which are run through E-commerce and digitization without being physical presence, have been growing in the world. Major observations are as follows:
 - 40.1. There have been the situation where huge amounts of the country have gone foreign from the advertisements made through the use of various social networks, such as- Facebook, Messenger, Viber, Imo, WhatSapp. In the state of non-registration of such social sites in Nepal and non-existence of payment gateway for sending the payment legitimately to such sites operators from Nepal, the persons or business-persons residing within the country and foreign have been sending the payments to the concerned network operators by using the international electronic payment mode such as- Paytm, PayPal, credit cards etc. and the advertisements are being

uploaded after the receipt of such payment. For the advertisement uploaded, the concerned social-site operators have been recovering the advertisement charges on the basis of frequency of visits to the advertisements. Since the advertisement services are delivered within Nepal, taxes are to be paid in Nepal on the basis of principle of income at source, whatsoever the payments are done anywhere. However, none of taxes have been collected in the state's treasury from such transactions, as such transactions are not yet recognized and social sites are not registered in Nepal. **There should be arrangements to bring the network operators within the tax net or scope.**

- 40.2. Pursuant to levying of taxes on digital business, there are plenty of studies conducted by Overseas Economic Cooperation & Development (OECD) and European Union (EU). The EU has started imposing VAT since 2015 to the telecommunication suppliers and the service providers of the information transmission and electronic services along with the non-resident persons. The China, Malaysia, Bangladesh and Thailand have formulated laws for levying taxes on income from digital business. In Nepal, in the absence of the framework policy, rules and legal arrangements pertaining to tax assessment of E-commerce, such transactions have not come under tax net despite of the transactions are operated in the country. No formal study has been yet carried out pursuant to how much taxes can be collected to the country and how many such transactions are operated in the country.
- 40.3. In order to bring E-commerce business under tax net, it is necessary to prepare the related act, rules, structure and infrastructure and enhance the knowledge, skill and capacity relating to E-commerce. Likewise, the legal provision should be framed which requires the business-persons operating E-Commerce business globally to register in Nepal or the definition of permanent establishment should be revised so as to cover any person conducting business from other countries without physical presence in Nepal shall also be deemed to be permanent establishment in Nepal. In addition, the legal provision should also be amended to cover the alternative of allocating the incomes and tax-base of such companies on the basis of the places where business transactions are operated or allocating the incomes on the basis of the place of receipt where incomes are generated. **Pursuant to this, an initiative should be taken globally to collect revenues by adopting the 'Action Plan related Tax-base Impairment and Profit Transfer' prepared by the OECD.**
41. **Health Insurance in Abroad Study** - Section 89(3) (b) of Income Tax Act, 2002, provides that a tax at the rate of 1.5 percent shall be deducted in the making payment of insurance premium to any non-resident insurance company. There is a provision which requires the permission from the Ministry of Education, Science &

Technology for studying of higher education in abroad, and in accordance with the provision, total of 57 thousand 520 Nepali students have acquired the permission to study in Australia during the period 2016/17 to 2018/19. Students going abroad have been making payments through foreign currency mainly for the purpose of application fees, tuition fees and insurance premium. When conducted sampling tests on health insurance policy, it is observed that a student on an average, needs to purchase the health insurance policy of 24 months during the stay in Nepal, and on an average, a student has to spend Australia Dollar 1 thousand 75 in respect to such insurance. Such amounts are granted specifying the payment of health insurance policy and the education service tax has not been collected on such amounts. In addition, total VAT of NRs. 1 billion 36 million 874 thousand has not been collected in such transactions during 3 year periods in accordance with Section 8(2) of Value Added Tax Act, 1996. On the basis of average health insurance coverage based on the description of students obtained from Ministry of Education, Science and Technology, the payment made in respect to health insurance coverage in 3 years period alone becomes NRs. 7 billion 975.9 million. **Since the tax amounting to NRs. 119 million 639 thousand has not been collected in such amounts in accordance with Section 89(3)(b) of Income Tax Act, 2002, the uncollected amount as well as the applicable fees and interest thereon should be recovered by conducting necessary investigation.**

42. **Education Service Tax in Abroad Study** – Sub-section 18 of Section 8 (1) of Finance Act 2018 provides that the education service tax at the rate of 2 percent shall be levied and collected in the acquired foreign exchange amounts while allowing exchange facility of foreign currencies in respect to tuition fees of the students going abroad for studies. The records of education service tax collected on such foreign exchange facilities are not maintained and such education service taxes are also not collected from the students that have gone India for studies. The Tribhuvan University's equivalency issue record shows that total of 10 thousand 500 students have taken the equivalency certificates in 2018/19 after completion of the graduate-level studies in India.

As per the previous year statistics, a student has to spend on an average, NRs. 0.8 million to complete the bachelor level course in business administration, NRs. 1 million in engineering and NRs. 1.2 million in pharmacy. Thus, the total expenditure borne by the students that obtained the equivalency certificates becomes NRs. 10.5 billion at the rate of average cost NRs. 1 million per student. The statement obtained from Curriculum Development Center shows that altogether 11 thousand 654 students have obtained the equivalency certificates of pass out of tenth grade and 12th grade in 2018/19 after completing school-level study. On the basis above 2018/19 data, the total expenditure spent by the students within a year

as the education fee becomes at least NRs. 13 billion 878 million 175 thousand, if calculated on the basis of the average education fee paid by the students that studied the schools/ universities in India. If calculated the tax at the rate of 2 percent only on the amount, total revenues of NRs. 277 million 563 thousand have not been recovered in the state treasury as per the Finance Act/Rules. Hence, the scope of revenue recovery should be extended by developing a machinery to keep of the record of students and education fees of the students that have gone in India for studies and conduct monitoring thereon.

43. **Mutual Fund** – Section 2(m)(3) of Income Tax Act, 2002, stipulates that any unit trust whether or not registered under the law in force shall also be treated as a 'company' for the tax purpose. Schedule-1(2) of Income Tax Act, 2002 provides that the tax at the rate of 30 percent shall be applicable in taxable income of financial institutions or such type of entities. Though the Section 88(4) (e) of same Act specifies that the tax at source is not to be deducted in income of mutual investment funds, but the organizations are not exempted from taxes. In accordance with Section 10 of same Act, the tax is not exempted in incomes of mutual investments (mutual funds). At present, there are 17 mutual investment funds in Nepal. By collecting the administrative fees, such organizations have been operating various schemes as the administrator. On the basis of sampling tests of such mutual investments, it is revealed that the profit earnings of 4 mutual funds alone are NRs. 430.1 million. Necessary taxes should be recovered by bringing all mutual funds under tax net.

• Tax Compliance

44. **Value Added Tax** - Section 18 of the Value Added Tax, 1996 (2052) stipulates that the tax payers shall determine tax amount every month by carrying out the self-tax assessment and submit the tax returns within 25 days of the elapse of each month. As per the Annual Report submitted by the Inland Revenue Department, the status witnessed on implementation of the VAT as of 2019 Mid-July is as follows:

Description	2015/16	2016/17	2017/18	2018/19
Credit Amounts (NRs. in billions)	26.4	29.16	38.19	39.74
Credit Returns (Statement of Payable by the Government) Percent	51.11	51.14	51.97	45.9
Debit Amounts (NRs. in billions)	44.8	49.32	69.85	12.69
Debit Returns (Statement of Payable to the Government) Percent	13.30	13.25	14.06	25.6
Zero Returns Percent	35.58	35.61	33.97	28.5
Debit /Credit Amount Comparison	0.59	0.59	0.54	3.13
Value Added Tax Refund (NRs. in billions)	4.23	4.76	4.59	4.11
Non-Filers (Tax return not submitted) Percent	30	30	24.00	25.10

- 44.1. Amongst the tax returns filers in this year, the taxpayers submitting returns payable by the Government (credit) are 45.9 percent, zero returns (transactions not operated) are 28.5 percent, and returns receivable by the Government (debit) are 25.6 percent. The numbers of non-filers (returns not submitted) are 25.10 percent. The existence of large number of taxpayers submitting the returns payable by the Government, and returns filers of zero transaction and returns non-filers, shows the gaps in effective implementation of VAT.
- 44.2. In a state of growing trend of consumption in the country, the VAT NRs. 88.19 billion collected from the domestic consumption which is only 2.54 percent in comparison to the country's GDP. Though the VAT existed as a main base of the domestic revenue, 63.54 percent of the VAT is yet recovered from imports. It is not appropriate to rely excessively on imports for collecting the VAT. **The scope of VAT should be expanded to collect more VAT from domestic consumption.**
- 44.3. Although the revenue administration has brought the easiness and swiftness in revenue collection through policy reforms, some abnormalities are witnessed in actual practice, such as - the conducting transactions without registration, non-issuance of invoices by the registered taxpayers, making under-invoicing, non-submission of returns in time, showing excessive stock, assets purchase & low value increment by the taxpayers that submitted credit returns, non-payment of applicable taxes by the taxpayers that submitted debit returns, and lack of effectiveness in the monitoring of markets and enforcement of billing system. **Hence, it is essential to give continuity and make effective to the enforcement of bills and monitoring of markets.**
45. **Tax Assessment Management** - Section 101 of Income Tax Act, 2002, mentions that the amended tax assessment may be done by the inland Revenue Department on reasonable grounds in accordance with the objectives of the Act. As per the annual report 2018/19 of the Department, the persons that have obtained business permanent account number is 1 million 235 thousand 412 and personal permanent account number is 996 thousand 41, and major observations witnessed pursuant to the tax assessment are as follows: :
- 45.1. Out of the 4 thousand 497 taxpayers, which remained backlogs in last year after selection by the department, the tax assessment of 1 thousand 734 taxpayers has been completed in this year and the remaining 2 thousand 763 taxpayers or 61.45 percent has been again carried forward for the coming year due to non-completion of tax assessment in this year. The Department has a practice of carrying forward of previous year's tax assessment backlogs for another subsequent years and completing the previous year's tax assessments only after crossing 4 years, and the existence of such situation indicates weak work performance of the Department. If

examined on office-wise, Inland Revenue Office, Thamel has completed the tax assessment of a single taxpayer of this year's selection, and has carried out the rest of tax assessments of the taxpayers of previous year's selection in this year. Out of this year's 215 tax assessments of Large Taxpayer's Office, the assessment of 177 taxpayers has been done for the the previous year's selection. Thus, there has been a small chance that the tax files selected for a particular year is completed in the same year. Out of the 4 thousand 360 taxpayers selected in this year, the tax assessment of only 1 thousand 450 taxpayers or 33 percent has been completed within this year. **The practice of not conducting the selected tax assessments but carrying forward of such assessments should be stopped, and the tax assessment of taxpayers should be completed timely basis as per the year of selection.**

45.2. The provision has been made of the amended tax assessment in Section 101 of Income Tax Act, 2002, the final tax assessment in Section 20 in Value Added Tax, 1996, and final tax assessment in Section 10(1) of Excise Duty Act, 2002. The average days taken for making tax assessment in the years from 2014/15 to 2018/19 has appeared 90 days, 91 days, 78 days 74 days and 74 days respectively. However, the Large Tax Payers Office has taken the highest time to make tax assessments, and the Office has completed the tax assessment works on an average period of 225 days in 2014/15, 255 days in 2015/16, 135 days in 2016/17 and 105 days in 2017/18. The highest time taken for finalizing the tax assessment of a taxpayer is found the maximum of 9 months, and the average time taken for making the tax assessment in later years is also found around 74 days. **In view of the existence of practice to carrying forward of tax assessment works in succeeding years by not fulfilling the targets or achieving less progresses, it is essential to enhance the administrative efficiency of the existing tax administration.**

46. **Quality of Tax Assessment** - Pursuant to full tax audits, the Department has set a target to determine income tax of NRs. 9.52 billion and VAT of NRs. 2.04 billion by examining 4 thousand 358 client's files, however the progress report shows that the income tax of NRs. 47.87 billion and VAT of NRs. 2.47 billion have been ascertained by completing the tax assessment of 3 thousand 184 files. The amendment in previous assessed amounts by the Supreme Court with revoking its previous verdicts, has contributed major role in the ascertainment of high income taxes. Though the Inland Revenue Offices have fulfilled the tax assessment targets in terms of amounts, it is found that the revenue arrears of NRs. 52 billion 624.7 million is still lying pending due to re-appealing done by 5 thousand 849 taxpayers since previous years. Likewise, the five offices along with Medium Level Taxpayers Office, Babarmahal, Inland Revenue Office, Baneshwor and Bhairahawa, have assessed the taxes of NRs. 1 billion 378 million 906 thousand of the 18 taxpayers, but the concerned taxpayers have not appeared in the tax offices. **In view of the**

existence of the circumstances of more re-appealing of taxes or disappearance of the taxpayers by not accepting the assessed taxes, it is imperative to undertake improvements in the present tax assessment system.

47. **Air Transport Service Tax** - As per Section 70 of Income Tax Act, 2002, a service tax at the rate of 5 percent shall be levied while carrying passengers embarked from Nepal and carrying of goods dispatched from Nepal, and a service tax at the rate of 2 percent shall be levied to the embarked passengers from Nepal without arrival in any other foreign country. On this basis, the airport service tax is to be collected in all flights departures from Nepal irrespective of the tickets of airlines operated from Nepal are issued from any other country. Based on the flight statistics of 2017/18 of 5 airlines companies under purview of Inland Revenue Office, Putalisadak, the tax assessments should be done to recover the applicable taxes by conducting an investigation on the short collected taxes NRs. 343 million 751 thousand, which are calculated on the basis of the number of departed passengers and average airfares. Similarly, pursuant to the payment made NRs. 3 billion 360 million 487 thousand with respect to cargo transport through various airlines companies in 2017/18 by 14 taxpayers under purview of 5 Inland Revenue Offices, the assessment of taxes should be done to recover the short collected taxes NRs. 168 million and applicable fees and interest by conducting an investigation on this matter. **If added the fares of second destination of the connecting flights operated from Nepal, the amounts become furthermore, and hence, the tax liabilities should be ascertained by conducting investigation on this subject. In addition, the investigations should also be conducted with respect to the revenue recoveries from other airlines companies.**
48. **Tax in Foreign Education Fees** - Pursuant to the rate of tax deduction at source to be done in the payments made to the foreign institutions with respect to fees charged by them on the study and teaching in Nepal, the Nepal Rastra Bank has sent a query letter to Inland Revenue Department. The Department, by issuing a letter on 2019/11/12, has clarified that the tax at the rate of 15 percent is to be deducted as per the Section 88(1) of Income Tax Act on the amounts collected from students by the university that has obtained such foreign affiliation. The Ministry of Education, Science and Technology has given the consent to send the foreign currencies equivalent to NRs. 79 million 368 thousand to abroad in 2018/19. **Since, the taxes of NRs. 11 million 904 thousand at the rate of 15 percent have not deducted on the amounts as the the arrangements of the Act, the tax amount as well as applicable fees and interest should be recovered by conducting the investigations.**

To collect the Steerling Pound 175 to 1 thousand 700 from each student studying in foreign college, one College under purview of Inland Revenue Office, Tripureshwor, has created a foreign institution and sent total of Steerling Pound 630

thousand 848 to United Kingdom in 2018/19. With the objective to evade taxes, the college has created a mediator foreign institution without consent of the Ministry of Education, Science and Technology and not collected the amounts by the college itself. It is observed that none of taxes have been deducted on the amounts. **The income tax amount NRs. 12 million 988 thousand at the rate of 15 percent on NRs. 86 million 584 thousand (calculated at the exchange rate of NRs. 137.25 equivalent to 1 Sterling Pound of date 2019/07/16) as well as applicable fees and interest should be recovered by conducting an investigation.**

49. **Share Cost Price** - Section 95A (2) of Income Tax Act, 2002 has added the provision that the calculation of profits of disposed off shares as per Sub-section 2 (a), shall have to be done on the basis of the weighted average cost of the interests existed of a person on the particular date in an entity, the interest of which entity is going to be disposed off. After pointing out of the audit observation in previous years in pursuant to the taxes have been less recovered due to claim of more cost prices or expenses, the provision has been made to calculate on the basis of the weighted average cost, but less efforts have been done for the implementation. The CDS & Clearing Limited, which is established with the legal registration for making clearance of the purchases and sales of stocks, has been using 'Mero Share Application' for computing such weighted average costs in accordance with the Sub-section 2(A). However, the application system has also provided the facility to the users to quote prices by the shareholders themselves on the basis of evidences if the average costs generated by the system are not acceptable. It is witnessed that excess cost expenses of NRs. 14 billion 157.6 million has been claimed in such share transactions as the users have claimed more costs than the share prices of bonus shares, IPO and right shares shown in concerned D-MAT accounts in the system. Consequently, taxes amounting to NRs.707.9 million have been less recovered. The arrangement of the system to declare costs without any basis is not appropriate. **Hence, there should be arrangements to compute the cost prices on the basis of actual average costs.**
50. **Tax on Devidends Other than Profit** - Section 56 (3) of Income Tax Act, 2002 provides that if any entity distribute dividends other than profits to its any of its beneficiaries, such dividend amounts distributable from the entity shall have to be included in computing the entity's income. Similarly, Section 7(2)(h) mentions that in computing profits and gains from business operations of any person in a fiscal year, the person shall compute income by including the amounts as per the Section 56 of the Act. Hence, such amounts should be included in computation of incomes if any dividend excluding profits is distributed in course of the operations of business. Likewise, Page No. 250 of Income Tax Directives, 2009 mentions that

any profit or gain or income of substantial illustration, which is not represented in profit & loss of any entity, shall be treated as a share premium. In accordance with the arrangement, out of the premium amounts received from issuing Further Public Offering (FPO) in various dates, the 6 taxpayers under jurisdiction of Large Taxpayers Office have distributed the dividends of NRs. 7 billion 132.3 million to the beneficiaries as bonus shares in 2017/18 and 2018/19. Hence, by including the amounts in the taxpayers' taxable incomes, the applicable tax at the rate of 30 percent on the amount of NRs. 2 billion 139.7 million and the fees and interest applicable thereon should be recovered by conducting the investigations.

51. **Tax on Retirement Payment** - Section 88(1) of Income Tax Act, 2002, provides that any resident person of Nepal shall have to deduct the income tax at the rate of 15 percent on payment amount of any commission, sales bonus and any other returns, the source of incomes of which is in Nepal. Amongst the lumpsum amounts deposited by various companies in Citizens' Investment Trust for provisioning the retirement benefits, with respect to deposit amounts exceeding NRs. 1 million, the Trust has paid total interests of NRs. 2 billion 312.3 million including NRs. 993.6 million paid in 2017/18 and NRs. 1 billion 318.7 million paid in 2018/19. Since the applicable taxes at the rate of 15 percent are not deducted in the payments in accordance with provision of the Act, the applicable tax NRs. 346.8 million should be recovered.
52. **Capital Gain Tax on Disposal of Interests** - In accordance with Section 95A(2)(b) of Income Tax Act, 2002, pursuant to gains received from disposal of interests by any entity that not enlisted in Security Board, Nepal, the tax at the rate of 15 percent on the gain amount shall be levied in case of a resident entity and the tax at the rate of 30 percent shall be levied in case of a non-resident entity. The Sub-section (3) of same Section mentions that the Company Registrar Office shall perform the share enlistments only after produce of the evidences of deposits such deducted taxes. Major observations on this are as follows:
 - 52.1. In annual report, 2008 of one permanent resident company under purview of Large Taxpayers Office, it is stated that the company has purchased 348 thousand kittas (units) share of one Power Limited at the rate of NRs. 471.91 per kitta. The share record shows that one non-resident company of Norway, which holds the shares of the Power Limited, has sold total of 2 million 2 thousand 152 kitta shares, which includes the selling of 1 million 653 thousand 984 kittas to 2 foreign companies and 348 thousand 168 kittas to one domestic company. But, the capital gain tax applicable on the transactions has not been deposited. On the basis of market price NRs. 471.91 per kitta, the net gain amount received by the Norwegian Non-resident Company in each share becomes NRs. 371.91 per kitta after deducting the face value

NRs.100 per share. Since the gain of NRs. 744.6 million is witnessed in the share transaction, the tax NRs. 186.2 million and applicable fees and interest as per the Income Tax Act, 2002, should be recovered by conducting an investigation.

- 52.2. In annual report, 2017 of one foreign company, which has invested in shares of one taxpayer under purview of Large Taxpayers Office, it is mentioned that the ownership of whole shares attained in the name of one foreign company has been transferred in the name of another company. The statement of the company shows that 50 percent ownership of the taxpayer has been transferred as a result of the occurrence of the transaction. After the occurrence of this transaction, the ownership of one foreign company has completely gone in investment of another foreign company. Till now, the 2 foreign companies, which possessed 57.10 percent ownership in the taxpayer's (engaged in hydropower transaction) investment, have transferred 28.55 percent share ownership to another company, but the capital gain tax applicable thereon as per Section 95A(2)(b) of Income Tax Act, 2002 has not been recovered. There exists a legal provision to recover the capital gain tax on the costs of purchases and sales whether conducted directly or indirectly. Out of the total number of 17 million 641 thousand 439 shares, the ownership of 28.55 percent or 5 million 36 thousand 631 shares have been shifted. If deducted the cost NRs.100 per share from the networth NRs. 401.20 per share of the year 2016, the gain attained by the shareholder becomes NRs. 301.20 per share. Since the capital gain of NRs. 1 billion 517 million 33 thousand is attained in the transfer of ownership of 5 million 36 thousand 631 shares, the tax NRs. 379 million 258 thousand applicable at the rate of 25 percent as per Section 95A(2)(b) of the Act should be recovered by conducting the investigation.
- 52.3. The Financial Statement and Notes to the Accounts of one Distilleries under purview of Large Taxpayers Office mentions that one hundred percent share ownership has been acquired by one Planner's Pvt. Limited with effective from 2017/07/31. Prior to this, the Distilleries has stated in the Notes to the Accounts of 2016/17 that the ownership of the Planner's is only 55.30 percent. Thus, in the situation of the Distilleries operated as a sister company of the Planner's Pvt. Limited, the business operations has been commenced in the name of one Distilleries Pvt Limited from 2017/18 onwards entering an acquisition agreement. In the financial statements of the Distilleries Pvt. Limited, it is mentioned that while undertaking the company purchase, the excess price paid NRs. 652.8 million than the obtained net assests of the company has been treated as goodwill in accounts, and the payment of the amount has been madethrough issuing shares to shareholders of the Planner's Pvt. Limited equivalent to the amount. In the purchase-sale agreement, it is also mentioned that the goodwill amount so recognized in accounts, will be done write-off within 10 years period beginning from 2018/19.

The share ownership of one Singapore based Company in the Distilleries Pvt. Limited, which appeared 44.70 percent prior to the acquisition, has reached 75 percent after the acquisition. The share ownership of shareholders, which stood 55.30 percent prior to acquisition of company, has decreased to 25 percent after the acquisition. The ownership to shareholders, which stood 55.30 percent previously, has dropped to 30.30 percent after the sale of the company to Singapore based company, and the gain NRs. 652.8 million attained in respect to such sale has been treated as goodwill in accounts, but the applicable tax to be deducted at source in the capital gain of the transaction has not been recovered. Hence, the applicable tax NRs. 163.2 million at the rate of 25 percent as per Schedule-1 of the Income Tax Act, interest as per Section 119 and fees as per Section 120, should be recovered by conducting the investigation.

- 52.4. In Point No. 57 of audit report submitted on 2012/12/11 by one taxpayer under purview of Inland Revenue Office, it is mentioned that the ownership of one entity that acquired the license of 216 Megawatt - Upper Trishuli First Hydropower Project has been changed by 75 percent since 2011/06/02. The consolidated financial statement of the company published on the same date shows that out of the 75 percent change in ownership, one company of South Korea has changed 50 percent ownership on 2012/12/31 and 43.6 percent ownership on 2013/12/31.
- 52.5. In accordance with the consolidated financial statement of the South Korean company published on 2013/12/31, the company has retained the 43.3 percent ownership in one taxpayer entity, and the record of Company Register Office shows that one promoter natural person has sold 80 thousand units shares to the South Korean Company. The annual report of the Korean Company stipulates that Korean Won 12 billion 543 million 938 thousand was spent on 2013/12/31 in respect to purchase of the ownership, which becomes NRs. 1 billion 181.64 million at exchange rate of South Korean-100 Won is equivalent to NRs. 9.42. Since the cost involved to the seller promoter natural person is only NRs. 8 million, the gain attained by the natural person in this share purchase becomes NRs. 1 billion 173.64 million. Hence, pursuant to above mentioned 75 percent ownership transfer, an investigation should be conducted to ascertain the gains attained to the interest disposer (share seller). The tax NRs. 117 million 364 thousand at the rate of 10 percent is required to be levied on the gain amount while making transfer of 43.6 percent share ownership, but the taxpayer entity has already deducted tax at source from share seller as per the Section 95A(2)(b) of the Act, therefore, the interest and fees applicable as per the Act should be determined by conducting the investigation.
- 52.6. The share record book of Company Registrar Office shows that one natural person has purchased 255 thousand kitta shares from 3 natural persons on 2015/01/17 of

One Private Limited Company, which is engaged in investment related transactions with registration in Inland Revenue Office, Putalisadak. In the sale of shares, the tax applicable on the gain amount of the seller has not been collected. On the basis of the company's net asset price, which is calculated after deducting the enlisted sellable share's market price and the company's accumulated losses from the company's closing balance of securities existed in the transaction date, the company's per unit share price has prevailed NRs. 502.95, and the gain acquired by the seller of the shares becomes NRs. 402.95 after deducting the cost price NRs. 100 each share. Thus, the gain amount becomes NRs. 128.2 million 252 thousand. **The tax NRs. 12 million 825 thousand at the rate of 10 percent on the gain is required to be recovered, but the taxpayer entity has not deducted any tax at source either as per the Section 95A(2)(b) of the Act, and therefore, the tax should be reassessed to recover the uncollected tax along with the applicable interest and fees by conducting the investigation.**

53. **Nomination and Transfer of Right Shares** - Rule 12 of Rules Related to Stock Exchange Listings and Issues, 2015 provides that the existing shareholder may nominate any other person to purchase his/her right share. Section 95A of the Income Tax Act, 2002, stipulates that the tax deduction at source at the rate of 5 percent shall have to be done in the gains receivable to any resident natural person from the disposal of the entity's interests that are enlisted in Nepal Stock Exchange Board. The Schedule -1(4) of the Act provides that the tax at the rate of 5 percent shall be levied on such gains. In Schedule -1(2) provides that the amounts paid after transfer of assets from one person to another (in the event of any assets created by a person is transferred to another person after the creation of such assets) in accordance with Section 27(1)(a) of Income Tax Act, 2002, the amounts equivalent to market price of the transferred assets should be done quantification in the entity's taxable income. But, the gains attainable in making transfer of interest of shares through nomination by various beneficiaries (shareholders) has not been taken into account, and tax on such gain amount has also not been collected. Major findings observed pertaining to this are as follows:

53.1. By granting nomination in the name of another natural person, one Trading taxpayer under purview of Inland Revenue Office, Newroad has transferred 500 thousand kittas (including de-materialized 354 thousand 522 kittas and non de-materialized 145 thousand 478 kittas) of right shares of a commercial bank in 2016/17. According to the online system of Nepal Stock Exchange Limited, the average market prices of ordinary shares of later 180 days of 2016/17 has stood at NRs. 934 per kitta. If deducted the cost NRs. 100 per kitta spent by the person that acquired the interest transfer of right shares, the gain attained by the person becomes NRs. 834 per kitta. **If conducted the characterization of the attained gains on the basis of**

- market price in accordance with Income Tax Act, 2002, the tax at the rate of 25 percent on average gain amount NRs. 417 million coming to NRs. 104.25 million, and applicable fees and interest should be recovered by conducting the investigation.
- 53.2. By granting nomination in the name of one natural person, one taxpayer under purview of Inland Revenue Office, Lalitpur-1 has transferred 455 thousand 96 kittas of right shares of one Insurance Company in 2018/19. According to the online system of Nepal Stock Exchange Limited, the average market prices of insurance's ordinary shares of later 180 days of 2018/19 has stood at NRs. 1077.21 per kitta. If deducted the cost NRs. 100 per kitta spent by the person to acquire the interest transfer of right shares, the gain per unit of share becomes NRs. 977.21 per kitta. After characterization of the attained gains on the basis of market price in accordance with Income Tax Act, 2002, the tax at the rate of 25 percent on average gain amount NRs. 444 million 724 thousand coming to NRs. 111 million 181 thousand, and applicable fees and interest should be recovered by conducting the investigation.
- 53.3. The record of Nepal Securities Board shows that one taxpayer under purview of Inland Revenue Office, Putalisadak has transferred 316 thousand 200 kittas (including de-materialized 139 thousand 568 kittas and non de-materialized 176 thousand 632 kittas) of right shares of an insurance company by granting nomination in the name of a natural person. However, the gains attained in the transfer or disposal of interests of shares has not been disclosed, and the taxes applicable on gains has also not been recovered. According to the online system of Nepal Stock Exchange Limited, the average market price of the insurance's ordinary shares of later 180 days of 2016/17 has stood at NRs. 1 thousand 77 per kitta. If deducted the cost NRs. 100 per kitta spent by the taxpayer to acquire the interest transfer of right shares, the average gain attained after characterization of the gains on the basis of market price becomes NRs. 308 million 994 thousand, and the tax at the rate of 25 percent on the gain amount coming to NRs. 77 million 248 thousand and applicable fees and interest should be recovered by conducting the investigation.
- 53.4. When analysed the beneficiaries natural persons (shareholders) committing the transfer of more than 10 thousand kitta shares in 2016/17, 2017/18 and 2018/19, the record of Nepal Securities Board shows that 364 natural persons have transferred the interest of 30 million 819 thousand 108 kitta shares of various companies to others. Accordingly, on the basis of the average market price of the ordinary shares of later 180 days of the concerned year, the interests of right shares equivalent amount NRs. 17 billion 861.8 million has been transferred through nomination

process in the three years period. If deducted the purchase cost at the rate of NRs. 100 per kitta or NRs. 3 billion 81.9 million that spent to acquire the interest transfer of 30 million 819 thousand 108 right shares, the attained gain becomes NRs. 14 billion 779.9 million. After characterization of the gains amount on the basis of market price, the tax at the rate of 5 percent as per Income Tax Act, 2002 coming to NRs. 739 million as well as applicable fees and interest should be recovered by conducting the investigation.

54. **Change in Controls** - Section 57(1) of Income Tax Act, 2002, provides that if the ownership of any entity changes by fifty percent or more as compared to its ownership of the previous three years, the entity shall be deemed to have disposed the property under its ownership or the liability borne by it, and as per Section 41, the entity shall be deemed to have disposed such property along with retention. The ownership of one Private Limited Company engaged in share transactions under purview of Inland Revenue Office, Putalisadak, has changed its ownership by more than 50 percent on 2009/07/06 for the first time. Thenafter, it has changed by more than 50 percent on 2014/12/17 again. While undertaking change in the ownership, in accordance with Section 57(3) of the Act, the taxpayer is required to submit 2 separate income statements of before and after the ownership change considering the separate income years, but such income statements have not been submitted. While making the later 51 percent change in share ownership, it has closing stock of 1 million 247 thousand 934 shares of one listed company of NRs. 118.85 million, which includes 343 thousand 696 units ordinary shares and 904 thousand 228 units of promoter shares. The share value becomes NRs. 450 million 944 thousand if calculated on the basis of average market price of the relevant date, and the gain amount becomes NRs. 332 million 94 thousand after deducting the closing stock from the amount. **In the gains amount, the tax NRs. 83 million 24 thousand at the rate of 25 percent as per Schedule-1 of the Act, and applicable fees and interest should be recovered by conducting the investigation. In addition, the investigation should also be conducted to make tax assessment of earlier ownership change.**
55. **Accounting of Income** - Section 7 of Income Tax Act, 2002 stipulates that any profit and benefit earned by a person in any income year from the operation of any business shall deemed to have income of the year from his/her business. Similarly, Section 2(6) of Schedule-1 provides that the tax at the rate of 5 percent shall be levied if any foreign permanent establishment in Nepal of any non-resident person remits any income in a foreign country in any income year. Pursuant to the construction of one Hydropower Company Limited, three taxpayers of Medium Level Taxpayers Office and one taxpayer of Inland Revenue Office, Baneshwar have entered contract agreements to receive payments in the both Nepalese Rupees

and foreign currencies. However, the taxpayers have shown Nepalese portion only while submitting their income returns. Though the taxpayers have entered contract agreements to receive the payments in Nepalese Rupees as well as in foreign currencies obtaining the Permanent Accounts Numbers and have also received such payments, but they have included the payment of Nepalese portion only in their income returns. The required taxes at source have not been deducted while granting payments in foreign currencies. **As the taxpayers have received the payment of NRs. 15 billion 909 million 956 thousand up to 2019/07/16, the taxes of NRs. 238 million 649 thousand are required to be recovered, even if calculated at the rate of 1.5 percent on the basis of the taxpayers are having minimum transactions, but only NRs. 50 million 699 thousand have been recovered. Hence, efforts should be made to recover the remaining NRs. 187 million 950 thousand along with investigation of the transactions.**

56. **Grants from Foreign Agency** - Section 7(2)(f) of Income Tax Act, 2002 mentions that any gift received from any person in respect to operation of business shall have to be included in business income. One school operator taxpayer under purview of Inland Revenue Office, Lalitpur-2 has received NRs. 388 million 281 thousand as capital grant in 2016/17. Such amounts are required to be included in taxable income from business. **Since, the grant amounts are not exempted from tax and the amount has not been included in taxable income, the amount should be included under taxable income, and in the outstanding income NRs. 377 million 577 thousand (after adjustment of the loss NRs. 10 million 704 thousand shown by the taxpayer), the tax at the rate of 25 percent as per the Act or NRs. 94 million 394 thousand and applicable fees and interest should be recovered by conducting the investigation.**
57. **Expenditure Claims in Remuneration Income** - Section 8(2) of Income Tax Act, 2002, provides that any amount earned by a natural person from the employer as the wage, salary, overtime work payment, fee, commission and other facilities in an income year shall be included in computation of remuneration income. Big private hospitals, while providing remuneration to doctors and other officials, have been providing such remuneration as consulting service expenses and deducting only 15 percent tax at source. In spite of the required resources and facilities amounts of support staffs engaged in delivery of services in hospitals are being borne by the concerned hospitals, the consulting doctors that have submitted income statement showing only income from hospitals, have also claimed separate expenses citing that they have kept their own separate support staffs. Pursuant to this, the 28 doctors that submitted income statements in Large Taxpayers Office, and Inland Revenue Office, Baneshwor, Tripureswar, Chabahil, Battisputali, Tangal, Lalitpur-1, Pokhara, have shown the receipt only such hospital incomes in 2017/18. **The doctors**

have shown such remuneration income of NRs. 312 million 604 thousand under consulting service income and have taken deduction in respect to such expenses amounting to NRs. 132 million 355 thousand. Hence, dis-allowing the deducted expenses, the tax at the rate of 35 percent on the amount as per Schedule-1 of the Act or NRs. 46 million 324 thousand should be recovered by conducting the investigations.

58. **Tax on House & Land Business** - In Section 2(r) of Income Tax Act, 2002, the definition of the word 'non-occupational taxable asset' is provided. It denotes those assets which are not related to occupational transactions but taxable as the the Act. One taxpayer under purview of Inland Revenue Office, Bhairahawa has paid only 5 percent tax declaring the gain amount NRs. 106.68 million in 2016/17, which is acquired through conducting occupational transactions of the sale of various 21 kittas (pieces) of lands. **Since such sales transaction are concerned with the occupational transactions, an investigation should be conducted to recover the 30 percent inadequate tax amount NRs. 32 million 34 thousand and applicable interest.**

Based on the statements provided by the Land Revenue Office, Sunsari, Kaitali and Lalitpur, it is witnessed that 4 taxpayers operating business transactions along with registration in Inland Revenue Office, Lalitpur-1, have not included the income earnings received from sale of land and assets in their respective income returns of 2017/18, the transactions of which are registered in the Land Revenue Offices. **Hence, by including the earning amounts in their taxable incomes, the applicable tax NRs. 78 million 687 thousand should be recovered along with the investigation of transactions.**

59. **Non-Filers Taxpayers** - Section 96 of Income Tax Act, 2002, provides that each natural person should submit the income statement within 3 months of end of every fiscal year remaining within Section 97, 98 and 100 of the Act. It is observed that 5 taxpayers under purview of Large Taxpayers Office have stayed as the non-filers since 2017/18. Though the taxpayers have submitted statements pursuant to the Value Added Tax along with tens of million of transactions for the year, they have not submitted the returns of income tax. As per the returns details of 2017/18 of the taxpayers, the taxes applicable on the transaction figure NRs. 4 billion 649 million 204 thousand have not been recovered. If calculated the income tax amounts on the basis of total gain percent shown in their previous fiscal year, the office is required to recover the tax of NRs. 467 million 56 thousand in accordance with Schedule-1 of Income Tax Act.
60. **Tax Rate** - Section 11(3) (a) of Income Tax Act, 2002, provides that pursuant to the income earned by any person from a special industry in an income year, the tax at the rate of 90 percent shall be levied if the person give direct employment to more

than one hundred Nepalese citizens through out the year, tax at the rate of 80 percent shall be levied if the person give direct employment to 3 hundred or more Nepalese citizens, and tax at the rate of 70 percent shall be levied if the person give employment to 5 hundred or more Nepalese citizens. Major observations witnessed pertaining to this are as follows:

- 60.1. One taxpayer, which is registered with Large Taxpayers Office and has an objective of providing cable net services, has not been found fallen under the definition of special industry and information technology industry as defined in Section 11(3) of the Act. However, the taxpayer has been granted an exemption on the applicable tax rates calculated on the basis of the financial statements and income returns submitted by the taxpayer in 2016/17, 2017/18 and 2018/19. However, all other taxpayers of same Large Taxpayers Office, which are providing information technology services, have deposited the full amounts of taxes without claiming such exemptions. Since the transaction of the taxpayer is related to information technology service only, it is appropriate to give the facility of an industry to the taxpayer. Hence, disallowing the amounts of exemption taken by the taxpayer during 3 years period, the short collected tax amount NRs. 119 million 796 thousand should be recovered along with investigation of transactions.
- 60.2. Two casinos and miscellaneous entertaining service provider taxpayers, under purview of Large Taxpayers Office and Inland Revenue Office, Koteshwor, are not the special or information technology industry as specified in Section 11(3) of the Act. However, the taxpayers, pursuant to the taxable income of NRs. 768 million 198 thousand as shown in the financial statements and income returns of 2015/16, 2016/17 and 2017/18, have taken the exemption of 7.5 percent as per the Section 11(3) of the Act on the 25 percent tax amounts by claiming the employment of more than 300 persons. Since the taxpayers operating casino business are not entitled to get such exemption, the tax NRs. 57 million 615 thousand at the rate of 7.5 percent on NRs. 768 million 198 thousand and applicable fees and interest should be recovered.
61. **Deduction of Interest Expenditure** - Section 14 of Income Tax Act, 2002, provides that any person may, for the purpose of computing the income from any business or investment in any income year, deduct all interests chargeable in that year under the loan liabilities. The taxpayers have not recovered the amounts that are recoverable on the one hand, but they have claimed the interest expenditure by obtaining loans on the other. Hence, pursuant to the 33 taxpayers of 10 tax offices inclusive of the Large Taxpayers Office, Inland Revenue Office - Banewhor, Kalimati, Hetauda, Newroad, Thamel, Dharan, which have shown the loans without business purposes, the tax NRs. 75 million 989 thousand (on the outstanding

incomes after adjustment of loss NRs. 27 million 22 thousand) and applicable fees and interest should be recovered by disallowing the interest expenditure and conducting investigations.

62. **Capitalization of Interest** - In accordance with Section 14 of Income Tax Act, 2002, the taxpayers may claim the interest expenditure chargeable on loans taken for the use of business. The interest of capital assets which is not used for the purpose of business shall have to be capitalized. However, the 23 taxpayers of 9 tax offices inclusive of the Large Taxpayers Office, Inland Revenue Office - Banewhor, Chitwan, Biratnagar, Maharajgunj, have taken deduction in respect to interest expenditure NRs. 225 million 23 thousand paid on loans of the capital assets, which are yet to be use for business purpose. Hence, disallowing the interest expenditure, the recoveries are to be made conducting investigation in respect to the loss adjustment NRs. 13 million 987 thousand and the tax NRs. 108 million 781 thousand and the applicable fees and interest.
63. **Transaction Based Tax (D-2)** - As per Section 10(2) of Value Added Tax Act, 1996, any person conducting any business transactions of the bricks production, alcohol distribution, wine shop, software, treeking, rafting, tourism, vehicle, crusher, sand mining, slate and stone transaction, shall have to be compulsorily get registered in the Value Added Tax. The 52 taxpayers of four tax offices inclusive of Indand Revenue Office, Dharan and Dhangadhi, have submitted transaction based tax returns (D-2) in 2018/19, but it is witnessed from scrutiny of income statements of the taxpayers that the total transaction NRs. 228 million 368 thousand shown by the taxpayers in accordance with Section 10 of Value Added Tax Act, 1996, are required to be compulsorily get registered in Value Added Tax. Though the taxpayers are required to submit tax returns and deposit taxes by getting registration in the the Value Added Tax compulsorily, they are not registered in taxes till now and the concerned tax offices have not performed the registration either through monitoring the taxpayers. Hence, the Value Added Taxes should be collected by conducting monitoring and getting registration of such taxpayers.
64. **Transaction without Registration** - Section 20(1)(g) of Value Added Tax Act, 1996, provides that the tax office may determine taxes if any person that has obligation to get registered, conducts any transaction without getting registration. In Clause No. 7.2.7 of Value Added Tax Directives, it is mentioned that in the event of any person, that has the liability to get registration, conducts any transaction without registration, the tax officer should take the total sales as the person's sales inclusive of VAT for the purpose of determining taxes; the VAT should be calculated at the rate of 13 percent on the sales amount excluding tax which comes after dividing by 113 to the sales amounts and multiplying by 100 to the fraction

coming thereafter; and in addition, the tax officer should issue an order to such persons to get registration for the VAT purpose. One Trekking Agents' Association under purview of Inland Revenue Office, Putalisadak, has been doing the purchases and sales of tims-cards from the Nepal Tourism Board entering an agreement with the Board. Since VAT is applicable in the transaction of such cards, the Nepal Tourism Board has been collecting the VAT amounts and depositing such tax in the government treasury. **Since the taxpayer has not collected VAT without getting registration in VAT, the VAT NRs. 53 million 877 thousand are to be paid to the Government of Nepal, that is applicable on the total sales amount NRs. 468 million 314 thousand of three years period (2015/16 - 2017/18) alone, and the tax assessment should be made to recover the tax and interest and additional fines.**

65. **Value Added Tax of Tractors** - Finance Act, 2017 mentions that the amendment in the Value Added Tax shall be effective from May 29, 2017. The VAT shall be levied and recovered in accordance with Section 6 of Value Added Tax Act, 1996. Though the Group-4 of Schedule-1 of the Act provided the tractors as VAT free items in previous years, it has been included in non VAT free item since 2017/18 onwards. It is also mentioned that the arrangement shall be effective from 16 July 2017 and the tax is to be recovered from VAT applicable goods. The 5 taxpayers conducting the transaction of tractors under purview of 2 Inland Revenue Offices, have been selling tractors on the basis of installments. In past years, the taxpayers used to show the installment amounts received from customers as advances and accounted sales only after the receipt of whole payments. After the enactment of Finance Act, 2017, which made the arrangement to collect the VAT with effective from July 16, the taxpayers have accounted sales in spite of whole payments are not received with an intention to avoid collecting the VAT, which has caused abnormal growth in sales of the month Asadh (Mid June to Mid July).

Since the Section 6 of Value Added Tax is not implemented immediately, the taxpayers have changed their past accounting practices getting prior knowledge about the fact that VAT will be levied on tractors after 2017/07/16. Pursuant to the taxpayers' accounting of tractor sales with the intention to avoid collecting the VAT, the VAT NRs. 209.9 million should be determined and recovered in accordance with Section 22 (a)(1)b of Value Added Tax Act, 1996, which relates to conduct of any act with the wrong intention to lessen tax liability. Section 22 (5) of Income Tax Act, 2002 stipulates that the consent of Inland Revenue Department is to be obtained if any change is to be made in the accounting methods. **Since the accounting methods are changed without getting consent of the Department, its impact on tax liability should be ascertained, and the tax and applicable fees and interest should be determined in accordance with the Act.**

66. **Tax on Cease of Registration** - Section 17 (4) of Value Added Tax, 1996 provides that if any goods or services for which deductions facilities have been allowed, cease to be used for taxable transaction, such goods or services shall be treated as sold at the immediate market value and tax shall be recovered as prescribed. Major observations witnessed pertaining to this are as follows:
- 66.1. One Medical Institute under purview of Inland Revenue Office, Maharajgunj, has included the incomes of hospital services under tax free showing the ordinary surgical goods are subject to sales tax. The main transactions conducted by the taxpayer falls under VAT free and the taxpayer has not deposited any taxes by making debit adjustment to the amounts collected through VAT deduction. Since the structures, which constructed during the time of the health services are subject to VAT, has been used now for the VAT free purposes, the price of assets after deducting depreciation on 2018/07/16 should be taken as the market price, which becomes NRs. 78 million 231 thousand. **In the amount, the applicable VAT NRs. 10 million 170 thousand and additional fees, fines and interest should be assessed and recovered.**
- 66.2. One health service provider taxpayer registered with Inland Revenue Office, Tripureshwor, had taken tax deduction while adding builings and equipments during the time of establishment, but the Finance Act 2018 has made the health services as VAT free transaction. Hence, the taxpayer has not submitted any VAT statement after 2018/07/17. However, the taxpayer has shown the VAT credit balance (to be paid by the government) of NRs. 43 million 475 thousand till 2018/07/16. By conducting investigation on the transaction, necessaary taxes should be determined to disallow the taxpayer's VAT credits.
67. **Value Added Tax Arrears of Joint Vendure** - Section 17 of Value Added Tax, 1996, provides that the tax amounts collected on sales of goods should be deposited after deducting the tax amount paid on taxable goods. Section 10(b)(4) of Value Added Tax, 1996, stipulates that any person engaged in a joint venture shall be responsible jointly and separately for the purpose of the settlement of tax liabilities of the joint venture in which he/she is involved. However, the joint ventures registered for the specific works, have kept tax dues for several years without depositing the tax amounts even after the completion of the works. Though the major and subsidiary partners that operated the joint ventures have been wit nessed running their business regularly, but the revenue administration has not recovered the not deposited tax amounts from the partners of the joint ventures in accordance with the provision of the Act. **Since total of 95 joint ventures under purview of 4 Inland Revenue Offices have not deposited the VAT NRs. 82 million 429 thousand in state's treasury by only submitting Debit Statement of VAT since last 2 years, the**

tax assessment should be done to recover the tax amounts and applicable interest, extra fees and penalties from the main and subsidiary partners of the joint ventures in accordance with the provision of the Act.

68. **Tax Exemption On Social Mobilization** - Schedule-1 of Value Added Tax, 1996, has not included the social mobilization work under the list of tax exempted goods and services. Pursuant to VAT applicable goods and services, the circular of 2016/09/04 of Inland Revenue Department clarifies that even though any taxpayer specifies that the amounts excluding VAT shall be paid in letter of agreements entered with any institution, the taxpayer requires to submit VAT statements by doing self-agreements of taxes in accordance with the Value Added Tax, 1996, treating the amounts paid on the service and social mobilization programs as the amounts paid inclusive of VAT. Therefore, the VAT is applicable on the total amounts received under any service which is acquired as a package of work. The tax is to levied in any VAT applicable transaction irrespective of whether any organization is registered as an income tax free or not. **Since 9 taxpayers under purview of Inland Revenue Office - Mahendranagar, Dhangadhi, Surkhet, Bhadrapur, and Dharan, have not deposited the VAT NRs. 38.8 million of the transaction NRs. 297.9 million, the tax amounts should be recovered along with applicable interest, and penalties conducting necessary investigations.**
69. **Tax Refund of Mustard Oil** - Pursuant to provisions of Schedule-1 of Value Added Tax Act, 1996, Finance Act, 2018 had liquidated the provision of granting 50 percent refund of VAT in the manufacturing and selling of mustard oil. However, two oil industries registered with Large Taxpayers Office and one industry registered with Medium Level Taxpayers Office, have been still claiming the tax refunds now making adjustments of such VAT credit. The taxpayers have obtained refunds of VAT credits by making debit adjustment in the amounts received in preceding years. Though such refund receivable amounts are to be recognized as incomes as per the accrual based accounting system, but the taxpayers have not included the amounts in incomes of 2017/18. **Hence, the tax should be assessed to recover the tax NRs. 39 million 999 thousand and fees and interest as receivable as per Schedule-1 of the Act along with the inclusion of profit and gain as specified by Section 7(2) of Income Tax Act, 2002. In addition, the investigations are to be conducted whether or not other oil manufacturing industries have recognized such refundable amounts in their incomes as per the accrual based accounting system.**
70. **Value Added Tax Refund in Mobiles** - Pursuant to provision of granting VAT refund on the basis of continuous credits of 6 months provided in Section 24(3) of Value Added Tax Act, 1996, and Rule 39(4) of Value Added Tax Rules, 1996, the Finance Act 2017 specified that any domestic industry producing cellulose mobile

phone-sets or importer shall be entitled to receive 40 percent refund of the VAT paid on raw materials or finished goods of mobile phone sets as per the process specified by the Department in accordance with the arrangement of Point-19 of Group-11 provided in Schedule-1 of Value Added Tax, 1996 by producing the evidences that such goods have been sold to the taxpayers that are registered in Value Added Tax. Finance Act, 2018 has, however, scrapped the tax refund arrangement that are being provided in the manufacture and sale of mobile phone sets. However, 3 mobile phone sellers registered with Large Taxpayers Office have been claiming the adjustments related to VAT credits till now, and they have claimed the adjustments of NRs. 118 million 690 thousand in 2017/18. The taxpayers have obtained refunds of VAT credits by making debit adjustment in the amounts received in preceeding years. Though such refund receivable amounts are to be recognized as incomes as per the accrual based accounting system, but the taxpayers have not included the amounts in incomes of 2017/18. Hence, the tax should be assessed to recover the 25 percent tax or NRs. 29 million 693 thousand as per Schedule-1 of the Act and interest as per Section 119 and fees as per Section 120 of the Act by including the profit and gain and ascertaining the taxable income as specified in Section 7(2) of Income Tax Act, 2002.

71. **Value Added Tax Adjustment of Cotton Industry** - In accordance with provision of Schedule-1 of Value Added Tax Act, 1996, any domestic cotton industry that collected VAT on sales produced goods are entitled to get the refund of 70 percent taxes, and the taxpayers have obtained the refund of VAT in accordance to the provision. However, Finance Act, 2018 has scrapped the legal provision of granting refunds. The taxpayers have included in incomes to the refunded amounts of taxes that are collected from sales, but they have not included in incomes as per Section 7(2) of Income Tax Act, 2002 while claiming credit adjustments to the amounts that are not refunded. Though such refund receivable amounts are to be recognized as incomes as per the accrual based accounting system, but the taxpayers have not included the amounts in incomes of 2017/18. Hence, by including of the credit adjusted VAT NRs. 493 million 464 thousand in the incomes of taxpayers, the taxes of 23 cotton industries including 22 industries of Inland Revenue Office, Birgunj and 1 industry of Medium Level Taxpayers Office should be assessed to recover the income tax NRs. 98 million 592 thousand and applicable fees and interest as per the Act.
72. **Ineligible Credit** - Section 17 of Value Added Tax, 1996, provides that any tax amount collected on sales of goods shall have to be deposited after deducting the tax amount paid on taxable goods. Section 17(3) provides that if the taxes are paid on the taxable or non-taxable goods or services, the portion of taxes that was solely

used for taxable transaction of the goods or services shall only be deducted. One taxpayer registered with Inland Revenue Office, Maharajgunj has the credit balance of VAT NRs. 111 million 664 thousand in 2017/18, which is collected from the transactions of construction and operations of business complex, construction and sales of residential houses and establishment of international level hotel and restaurants. Out of the transactions conducted by the taxpayer, the transactions of construction and operations of business complex, and construction and sales of residential houses are not taxable. Since the taxpayer's hotel and restaurants transactions are only taxable, the taxes paid on procurements of construction related goods are not eligible for credit adjustments. The taxes that are non-eligible have not been proportionately adjusted. **Thus, except the taxes related to hotel and restaurants transactions, the claims of VAT credits related to the construction and procurements should be disallowed and investigated.**

73. **Disallow of Refunded Credits** - Schedule-1 of Value Added Tax Act, 1996, provides that if any domestic cotton industry sells products to a VAT registered taxpayer, the taxpayer is entitled to get the refund of 70 percent of collected VAT amounts in accordance with the procedures specified by the Inland Revenue Department. Pursuant to one taxpayer under purview of Inland Revenue Office, Birgunj and running business of dyeing and printing of cloths, the audit has pointed out the irregularity that the credit adjustment made in 2015/16 and 2016/17 in respect to VAT refund should be disallowed as the taxpayer is not a manufacturing industry. The tax office has carried out full audit of the year 2016/17, and conducted tax assessment of the years 2015/16 and 2016/17 to recover the fees, interest and penalties as pointed out by the audits by disallowing the credit adjusted amounts of the VAT refunds. Pursuant to the credits adjusted amounts by the taxpayer in respect to VAT refunds in earlier years, the Office has however, not conducted any tax assessment. **Since the taxpayer has taken the credit adjustments of NRs. 24 million 238 thousand in respect to VAT refund of up to 2014/15, necessary tax should be assessed to disallow the credit refunds and recover applicable fees, interests and penalties in accordance with the Act.**
74. **Wastage of Flow-meter** – Rule 23(A) of Excise Duty Rules, 2002 provides that any industry producing beer, finds any shortfall in the quantity stock as per filled up bottles in comparison to the quantity shown by the flow meter while filling in bottles, the remission at the rate of 1.5 percent to the maximum shall be granted, and with respect to the breakdown of bottles in course of the pasteurization, packaging and warehousing and physical verification, a remission at the rate of 2 percent shall be granted to the maximum. However, one beer industry under purview of Inland Revenue Office, Bharatapur, in the situation of break-down of

the flow meters, has claimed an excess wastage of more than the maximum allowable wastage 2 percent in pasteurization and packaging. The wastage percentages claimed have been 3.0789 percent in beer and 5.0377 percent in cider. Hence, necessary excise duty and applicable fees and interests should be recovered by disallowing the excess claimed wastages of NRs. 132 million 808 thousand, which includes NRs. 131 million 86 thousand related to beer and NRs. 1 million 722 thousand related to cider.

75. **Credits on Packaging Materials** - Section 3a (5) of Excise Duty Act, 2002, provides that, while claiming any deduction in respect to the excise duty, the excise duty paid on the purchase of supplementary raw materials, packaging materials and customs duty exempted raw materials and imports of equipment parts shall not be allowed for deduction. Since one Foods Private Limited producing noodles and bhujia (fried snacks) registered with Inland Revenue Office Bharatpur has, however, claimed deduction of excise duty NRs. 16 million 651 thousand that paid on the purchase of materials in 2016/17, 2017/18 and 2018/19 to produce of packaging materials using plastic related materials. Hence, the deducted excise duty amounts along with applicable fines should be recovered by conducting investigation on ineligible excise duty claimed by the taxpayer.
76. **Health Service Tax** - Section 7 of Finance Act, 2017 provides that, except the hospitals of the Government of Nepal and Community hospitals, the health service tax at the rate of 5 percent shall be levied in health services delivered by any institution. Pursuant to the total income NRs. 1 billion 522 million 81 thousand shown in 2017/18 by 13 taxpayers registered as the health service provider institutions, the 6 tax offices along with Inland Revenue Office - Bhadrapur, Chabahil, Koteswor, Tripureswor, should have recovered health service tax NRs. 76 million 141 thousand from the taxpayers, but the offices recovered NRs. 15 million 119 thousand only. The short collected health service tax NRs. 61 million 22 thousand should be recovered and deposited.

• Revenue Recovery

77. **Tax Deduction At Source on Capital Gains** - In accordance with the circular of Inland Revenue Department, there is provision that any tax applicable in capital gains should be deducted at source. Major observations witnessed not in compliance with the circular are as follows:
- 77.1. In accordance with the circular of Dispatch No. 104 dated 2019/05/15 of Inland Revenue Department, any entity including sole proprietor firm, company, non governmental organization and the entrepreneurs of conducting the transactions of selling of houses or apartments after the construction, if makes disposal of any land

or building of whatsoever amounts, a tax at the rate of 10 percent of gain amounts should be deducted at source at the time of the registration. In accordance with the circular of the Inland Revenue Department, the Land Revenue Office Chabahil and Sankhu should recover the tax of 10 percent on the disposed off amount NRs. 204 million 493 thousand after deducting the cost expenses from 7 disposers which transacted after 2019/05/15.

- 77.2. Pursuant to non-business taxable assets of institutional disposers except a real-estate, the tax at the rate of 10 percent should be recovered by deducting taxes at source in accordance with the Inland Revenue Department's circular dated 2016/07/24. Since the 5 offices inclusive of Land Revenue Office, Lalitpur, Kalanki, Manamaiju, Damak and Jaspura Rautahat did not deduct the tax at source of NRs. 19 million 564 thousand from 18 entities on the capital gains amount, which comes after deduction expenses from the disposed off amounts NRs. 235 million 409 thousand, the uncollected taxes should be recovered. Without getting the evidence of taxes paid by submitting income returns in the concerned Inland Revenue offices, the total taxes of NRs. 109 million 950 thousand has not been recovered by various Land Reform & Revenue Offices, which includes NRs. 94.7 million from 30 disposers by Lalitpur Office, NRs. 7 million 248 thousand from 7 disposers by Kalanki Office, NRs. 8 million from a disposer by Butwal. Taxes should be recovered deducting tax at source in accordance with the circular of Inland Revenue Department.
- 77.3. Chapter-3 of Directive Related to Capital Gains in Disposal of House & Land, 2014 mentions that the capital gain shall not be recovered in a situation if any house & land (house and land occupied by house) of a natural person can't be identified as non-business taxable assets, and the ownership of such private buildings of natural person is disposed by retaining the ownership more than 10 years. However, exemptions of capital gain taxes on disposed assets have been granted to 39 disposers including 32 disposers of Land Revenue Office, Dillibazar, 3 disposer of Kalanki, 4 disposers of Lalitpur, in more price values of lands than the actual areas occupied by buildings and building occupied land areas. This has caused a short collection of the capital gain taxes NRs. 14 million 498 thousand at the rate of 2.5 percent on capital gains NRs. 579 million 919 thousand on disposed lands, the amount should be recovered.
78. **Recommendation of House/land Approach Road** - Local Government Operations Act, 2017 has provided ward committees the authority to recommend for the value of lands. There are arrangements that the local entities, while providing the recommendation of house/land approach road, should provide recommendation disclosing actual status of the field and the purchase value of house/land should be

determined in accordance with such recommendations based on the minimum valuation book. The instances of less tax recovery due to improper recommendations are mentioned below:

- 78.1. While conducted the verification of survey maps with the registration papers of some of land plots, it is revealed that the total of NRs. 24 million 346 thousand including the registration tax NRs. 10 million 616 thousand and capital gain tax NRs. 13 million 730 thousand, have been less recovered due to issuance of improper recommendations than that shown in survey maps, which resulted less valuation of purse amounts by NRs. 242 million 926 thousand of 28 land disposers by 5 Land Revenue Offices, which mainly includes NRs.68 million 419 thousand of 5 disposers done by Land Revenue Office, Kalanki, NRs. 51 million 912 thousand of 6 disposers done by Bhaktapur, and NRs. 52 million 557 thousand of 3 disposers done by Tokha. **The short collected revenues should be recovered making responsible to the persons that provided such improper recommendations.**
- 78.2. One Private Limited, while getting the recommendation from local level of access road to the lands carrying total area 17 ropanies, 4 aanas and 1 paisa situated at Ward No.9 of then Machhegaun Village Development Committee, has taken the recommendation of non-existence of access road, and completed the registration procedures through Land Revenue Office, Kalanki with the payment of taxes on purse value NRs. 20 million 719 thousand. When conducted field visits of site in course of the audits, it is found that the permanent access road is already available in Kitta (plot) No. 65 and Kitta Nos. 64, 22 and 108 are adjoined with the Kitta. Likewise, the survey map obtained from Survey Office also shows that a rough road is available in Kitta No. 26 and Kitta Nos. 52 and 53 are also joined with the Kitta. In accordance with the evidences of the availability of permanent and rough roads in the lands, the transaction should have done by fixing purse value NRs. 62 million 450 thousand to the minimum, but the transactions conducted by fixing the lesser purse value by NRs. 41 million 731 thousand. **Hence, the short collected revenues NRs. 6 million 51 thousand inclusive of registration tax, Bagmati Civilization fee and capital gain tax, should be recovered making responsible to the persons that provided such wrong recommendation of access road to the lands.**
79. **Purse Value Less Fixed** - In any registration document of Land Reform & Revenue Office, the registration of land/houses through resignation can't be undertaken by specifying the purse value less than the rates provided in minimum valuation book as fixed in accordance with status of availability of access road. However, pursuant to 50 land disposers, 16 Land Reform & Revenue Offices have fixed the purse values lesser by NRs. 185 million 977 thousand than the value specified in minimum valuation book, which mainly includes lesser purse value of NRs. 42 million 475

thousand of 11 disposers fixed by Dillibazar Office, NRs. 30 million 588 thousand of 3 disposers fixed by Chabahil, NRs. 30 million 986 thousand of 2 disposers fixed by Parasi, and NRs. 16 million 584 thousand of 6 disposers fixed by Kalanki. **As a result, total taxes of NRs. 16 million 166 thousand inclusive of registration tax NRs. 7 million 453 thousand and capital gain tax NRs. 8 million 713 thousand have been less recovered and the less collected taxes should be recovered.**

80. **Fragmentation of Customs Facility** - The customs clearance should be done under customs sub-heading 8702 for the import of buses, and under the customs sub-heading 8703 for the import of chasis only, and the customs duty of 30 percent, excise duty of 5 percent and VAT are to be charged on such imports. In the import of bus bodies, the customs cleared are to be done under customs sub-heading 870710 by charging 15 percent customs plus VAT. This year, 3 importers imported chasis of vehicles only in accordance with laws and exported them to India for building bodies in chasises, and they imported the completed vehicles again by making payment of 15 percent customs duty plus VAT in respect to body construction of vehicles. Thus, in course of importing vehicles, the process has been fragmented into two processes i.e import of chasis and construction of bodies. Since the importers have fragmented the processes by importing chasis at the beginning and importing the built bodies of vehicles thereafter, the revenues of NRs. 43 million 404 thousand has been less recovered from the importers as compared to taxes recoverable in import of finished vehicles. **Since there appears no justifiable reasons for making the fragmentation of such processes, the concerned entities should give attention to this matter.**
81. **Under Valuation** - Section 36(9) the Customs Rules, 2007 stipulates that if any gold, silver or ornaments and other goods made from these, comes at disposal of the Government of Nepal due to confiscation or not clearance by any importer, it shall be deposited in Nepal Rastra Bank and sold at current market price, if the Nepal Rastra Bank is willing to purchase such materials. The gold and silver confiscated by Tribhuvan International Customs Office have been sent to Nepal Rastra Bank, and the bank, on the basis of weight and quality prevailed after melting of gold, silver and conducting quality tests by the bank, provides the equivalent amounts to the Office as per the international market price plus 5 percent extra, that prevailed on the day in which the materials have been melted in accordance with Rule 134 of Nepal Rastra Bank Bylaw, 2013. Since the payment of such materials are not provided on the basis of prevailing market price (prevailing tejabhi gold prices) as provided in the Customs Rules, the revenue of NRs. 27 million 763 thousand has been less deposited in the Office **The less collected revenues should be recovered by making clear decision in respect to this subject.**

82. **Use of Un-related Customs Tariff Rate** - Major observations relating to less revenue collection due to use of unrelated customs tariff rates are as follows:
- 82.1. While making the customs clearance of the goods imported by various importers through different dates and declaration forms, the customs offices have to determine appropriate codes of the imported goods as per the code numbers mentioned in Schedule-1 of Finance Act, 2018 and Custom Tariff (Darbandi) Book. However, in examining some of the customs declaration forms, it is witnessed that the revenues of NRs. 223 million 694 thousand have been less recovered due to appliance of unrelated customs codes and tariffs. **The less collected amounts should be recovered.**
- 82.2. As per the classification done by the Customs Department on 2019/06/13, the emulsion has been classified under Customs Sub-heading no. 320910 (based on acrylic or vinyl polymer) with the requirement of applying 30 percent customs duty, 7 percent excise duty plus VAT. In spite of the import of similar nature goods throughout fiscal year, the Customs Offices- Birgunj, Biratnagar, Bhairahawa and Krishnanagar have given customs clearance under Customs Sub-heading 390690 (Primary acrylic polymer, other). **Hence, the short collected NRs. 135 million 305 thousand inclusive of customs duty, excise duty and VAT should be recovered.**
- 82.3. The Customs Department has classified and clarified on 2019/06/13 to the matter that the customs clearance of wankira saw timber is to be made under Customs Sub-heading no. 440929 (except deodar type) with the requirement of recovery of 15 percent customs duty plus VAT. In spite of the import of similar nature goods throughout fiscal year, the Dry Port-Birgunj and Customs Office Biratnagar, have given customs clearance under Customs Sub-heading 440799 (others) in respect to wankira saw timbers imported by various importers. **Hence, the short collected customs duty and VAT amounting to NRs. 67 million 348 thousand should be recovered.**
- 82.4. The customs clearance of sodium fatty salt is to be made under Customs Sub-heading no. 340120 (other types soap) with the requirement of recovery of 20 percent customs duty, 5 percent excise duty plus VAT. However, Dry Port-Birgunj and Customs Office Biratnagar and Bhairahawa have given customs clearance of such goods under different sub-heading by applying Customs Sub-heading 382319 (others) with the recovery of 5 percent customs duty plus VAT only. **Hence, the short collected taxes amounting to NRs. 47 million 383 thousand due to use of unrelated tariff rate should be recovered.**
- 82.5. Pursuant to aspectic packaging materials, laminate for cartoons and App-200 Dugar FSC goods, the customs clearance is to be given under Customs Sub-heading no.

481159 (plastic coated paper except adhesive) by charging 20 percent customs duty, 5 percent excise duty plus applicable VAT, but the customs clearance of such goods has been provided under Customs Sub-heading 760720 by recovering 15 percent customs duty plus VAT only. But, the importer has mentioned Customs Sub-heading 481159 in the attached invoice submitted by him. Moreover, the customs clearance of the same goods was also granted in 2019 Mid May - July (2076 Jestha and Asadh) under Customs Sub-heading 481159 by recovering 20 percent customs duty. Hence, the customs duty and VAT amounting to NRs. 30 million 194 thousand has been less collected in the year round imports of same type of goods by various importers through Birgunj Dry Port and Customs Office Biratnagar. The short collected amounts should be recovered.

82.6. The Customs Sub-heading nos. 870332/87033 are to be applied while making customs clearance of imports of diesel vehicles, but the Dry Port customs Office Birgunj has done the customs clearance under Customs Sub-heading 870323 by applying the tariff rate of petrol vehicles. It is because of use of unrelated tariff rates, the taxes along with excise duty and VAT amounting NRs. 22 million 394 thousand have been less collected. The less collected amounts should be recovered and deposited in the government revenues.

83. **Mobile Service Renewal** - Section 25 of Telecommunication Act 1996 and Rule 10 of Telecommunication Rules, 1997 stipulates that any person who has obtained license shall have to submit an application along with the quoted renewal fees amounts prior to 3 months of end of the period. The Telecommunication Authority shall award the license to the bidder quoting highest amount, if the bidder is found eligible for providing the telecommunication services. The license for the operations of the mobile services has been acquired by a private mobile service provider on the basis of competition as per the quoted amount of making payments of NRs. 20 billion as the renewal fee. Likewise, Nepal Telecom has also acquired the license of mobile operations service upon the condition of making payment par to the same renewal fee and royalty amount. Since the license awarded to the highest quoting bidder on the basis of overall amount quoted for the license fee, first time renewal fee and royalty amount as per arrangements of the Rules, the renewal fees to be paid for the renew every year should be same amount that is equivalent to first time renew amount as the amount was fixed on the basis of competitive procedure. The renewal fee amount, which is required to be paid at a time, has been recovered in installments without charging any extra fines. The renewal fee amounts should be recovered at a time in accordance with provisions of the Rules.

84. **Unified License Duty** - Policy Relating to Radio Frequency (Allocation and Pricing) Of Telecommunication Service 2012 (2069) (With Amendment) provides

the arrangements relating to the renew of basic telephone services. It mentions that with respects to licence granted for ten years, any service provider is required to settle the payment of specified amounts starting from the year of obtaining of license. The license shall be renewed only after the receipt of renewal fee of NRs.20 billion 132 million 750 thousand. As per the arrangements of the Policy, 2 service providers have not paid the specified amounts of NRs. 1.60 billion, which is required to be deposited up to 2018/19. **The renewal fees should be recovered in accordance with the arrangements of the Policy.**

85. **Frequency Duty** -Clause No.16 of Policy Relating to Radio Frequency (Allocation and Pricing) of Telecommunication Service, 2012 (2069) and Rule 31 of Telecommunication Rules, 1997, stipulate that - the radio frequency duty shall have to be deposited each fiscal year at regular basis; each service provider shall pay the duty of microwave frequency and minimum frequency within 6 months of expiry of each fiscal year; the duty of additional frequency, maximum frequency add V-Sat except the minimum frequency shall have to be paid in advance within 3 months of beginning of each fiscal year; and additional duty at the rate of 2 percent on the outstanding duty in each month shall have to be paid if the duty is not paid within the specified time. However, 3 service providers have not paid the frequency and V-Sat duty which are to be deposited in this year. **Including the frequency duty and additonal duty, NRs. 917 million 655 thousand should be recovered.**
86. **Royalty and Frequency** - Pursuant to one telecommunication service provider's the outstanding royalty NRs. 1 billion 633.5 million to be settled as per the condition of license, the Government of Nepal has rescheduled the timeframe on 2012/09/30 by allowing to pay in 8 installments. However, the payment of 2 installments amounting to NRs. 407 million 376 thousand, that are required to be paid by Mid October (Aswin) 2017 and 2018, have not been deposited till the end of this fiscal year. **The outstanding royalty and frequency duty should be recovered along with applicable interest.**
87. **Casino Royalty** - Casino Rules, 2013 provides that the casino operator is required to pay the royalty amounts. Four operators, which started their businesses by registering in Company Registrar Office prior to implementation of the Casino Rules, 2013, are required to pay NRs. 252 million 356 thousand as royalties, but only NRs. 63 has been recovered. **The outstanding royalty amount NRs. 189 million 356 thousand should ne recovered.**
88. **Telecommunication Royalty** - Rule 26 of Telecommunication Rules, 1997 provides that any person that have acquired the license shall be liable to pay the royalty amount equivalent to 4 percent of its total annual income each year to the Government of Nepal. Total of NRs. 120 million 909 thousand, inclusive of NRs.

40 million 436 thousand of 6 service providers, and NRs. 80 million 473 thousand of royalty payable incomes collected by 17 service providers from the customers, have not been yet deposited. **The outstanding royalty amounts should be recovered from the service providers in accordance with the provision of the Rules.**

89. **Bagmati Civilization Tax** - There has been an arrangement that a tax at rate of 0.5 percent in the purse amount of the house & land registration tax, shall be collected for the Bagmati Civilization and Protection Fund while passing any registration deed within Matropolitan, Municipality and adjoining areas of Rural Municipality of Kathmandu valley. Since Province-3 has not mentioned this matter in its Finance Act, 2018, the Provincial Government has taken a separate decision on 2018/07/30 in respect to recovery of the Bagmati Civilization Tax. However, 7 Offices inclusive of Land Revenue Offices - Chabahil, Dillibazar, Kalanki, Lalitpur, Bhaktapur, Sankhu, Manmaiju, have not recovered the Bagmati Civilization Tax in the total purse amount NRs. 9 billion 886 million 89 thousand of the registration passed through various deeds such as - Rajinaama, Sagolnaama, Dartafaari, Chhod Patra, Halaiko Bakas Patra within the period 2018/07/31 to 2018/08/20. **The uncollected tax amounting to NRs. 49 million 430 thousand should ne recovered.**
90. **Tax on Payment** - Section 88 and 89 of Income Tax Act, 2002 provides that the tax at source shall have to be deducted at the time of payment. The taxes amounts not deducted at source in this year have been NRs. 84.8 million by 211 offices under 18 federal ministries and NRs. 57.1 million by 186 offices inclusive of the Corporate Bodies, Committees and Other Institutions and Province Offices. **The un-deducted taxes should be recovered along with applicable interests.**
91. **Tax on Transport Facilities** - Section 8(2)(c) of Income Tax Act, 2002 provides that the remuneration tax shall be computed as per the Section 87 of the Act by including in incomes from remmuneration to any amount that received in respect to clearance or reimbursement of expenditure. However, Ministry of Foreign Affairs has not included the reimbursement paid amounts as transporting expenditure granted to officials and employees that have returned back in Nepal by completing their tenure in foreign missions. The payments are to be madeby deducting necessary taxes after the addition of such reimbursement amounts in the incomes received throughout the year, but the payments of such amounts have been madewithout deducting the taxes. **The transporting expenditure NRs. 16.1 million paid to 42 employees and officials in this year should be included in their incomes from remmuneration, and the applicable taxes thereon should be recovered.**
92. **Deposit of Taxes** - As per Section 87, 88 and 89 of Income Tax Act, 2002, the tax should be deducted at source, but the 21 entities have not deducted taxes amounting to NRs. 2 million 588 thousand. The amount should be deposited in consolidated

fund by recovering from the concerned persons. The tax amounts deducted at source are required to be deposited within 25 days, however, the Shankar Dev Campus and Teaching Hospitals have shown the deducted tax amounts NRs. 1 million 699 thousand and NRs. 64 million 101 thousand in liability account without depositing in revenues. **The amounts should be deposited in the revenue account.**

• Acquisition, Safeguard and Utilization of Means & Resources

93. **Encroachment** - The situation of encroachment of national forests, national parks inclusive of protective areas and lands owned by various entities are as follows:
- 93.1. Section 49 of Forest Act, 2019 stipulates that any act of encroaching national forest areas shall be regarded as a punishable crime. As per the statistics of Ministry of Forest and Soil-Conservation, it is stated that the 5 thousand 211 hectares forest areas (4.53 percent) have been made encroachment free within the period 2014/15 and 2017/18, out of the encroached 94 thousand 233 hectares forest areas and 3 thousand 876 hectares land. However, there has been no progress achieved in this year in clearing the encroachments. **Effective programs should be implemented to clear up the encroachments.**
- 93.2. Section 5 of National Parks and Wildlife Conservation Act, 1973, provides that no person shall be allowed carry on the acts in forest areas, such as - to occupy or cultivate any part, to grow or harvest any crop, to graze any domestic animals or birds in forest or harm/damage forest products, or to extract mineral substances. As per the statistics obtained, it is observed that only 50.589 hectares land areas (1.14 percent) have been protected up to 2018/19, out of the encroached 4 thousand 439 hectares land areas. **The Department should implement effective programs to protect the encroached lands.**
- 93.3. Mahendra Sanskrit University and Campuses there under, have the ownership of 1 thousand 718 bighas 5 dhur and 102 ropanies 9 aanas 12 paisa 1 dam of land areas. Out of 1 thousand 662 bighas of lands that existed in Dang Deukhuri, the University has not been able to bring in use of due to 122 bighas occupied by the low income people, 500 bighas cultivated by tenants, and some lands encroached by different persons. **The occupied lands should be used in income generating activities by bringing under own usufruct.**
- 93.4. Section 10 of Town Development Committee Act, 1998 provides that if any person makes the encroachment of any land owned by the Committee, the Committee may issue an order to demolish or remove the constructed structures immediately, and if the person do not carry on the demolishing works, the Committee may itself demolish or remove the structures and the expenses incurred in carrying out such works shall be recovered from the person that have built the structures. However,

the 4 bighas lands owned by Kohalpur Town Development Committee, Third Phase Land Pooling Project 3B, have been captured by several families of 618 households by building house/cottages, and 6 katha lands lying in northern side of Kohalpur Bus Terminal, have been occupied by the traders and business-persons constructing 70 shutters of shops, which have also not paid the rents to the Committee. Likewise, the 1 bigha 4 katha land of Town Development Committee, Lamahi and 7 bigha land of Town Development Committee, Mahendranagar have been encroached by various persons. **The encroached places should be vacated in accordance with prevalent laws, and all properties inclusive of house & land should be safeguarded.**

94. **Disclosure of Fixed Assets** - As per Nepal Public Sector Accounting Standards, all ministries or entities of the Government of Nepal shall have to disclose the amounts and descriptions of all types of buildings, machineries and other fixed assets. Pursuant to this, our audits have sought information from 44 entities, but only 10 entities inclusive of Office of Prime Minister & Council of Ministers and Ministry of Finance have submitted the statements with the disclosure of NRs. 240 billion 185.1 million as fixed assets, which appear not realistic. Though all ministries and central entities have been preparing the financial statements as per requirements of Nepal Public Sector Accounting Standards, the ministries and entities have not disclosed the value of total assets by including all assets possessed by them. The description of fixed assets has been provided, but the values of such assets are not witnessed realistic. Since the records and historical prices of assets are not available and the basis for making valuation of assets has not been determined, there exists no such situation that the real values of the government fixed assets are represented. **There should be arrangements to submit financial statements by the government entities by disclosing the values and description of fixed assets owned by them and the offices under them.**
95. **Safeguards and Usage of Properties** - Section 5 of Nepal Trust Act 2007, provides that the properties owned by Trust shall be used in national interest, educational, academic and health related works for the sake of the benefits of mass and utmost public. Since the establishment period of Nepal Trust up to now, the land ownership of 21 thousand 562 ropanies 4 aanas 2 paisa 1 dam in 12 districts has come in name of the Trust. The current assets possessed by the Trust up to 2018/19 has reached NRs. 708 million 855 thousand, US Dollar 145 thousand 438, and Sterling Pound 50 thousand 124. Likewise, it has possessed 472 thousand 855 units (kitta) of shares of 3 banks and financial institutions. **The Trust should have utilized the movable and unmovable properties in income generating activities along with the safeguards of such properties, but they have been kept idle without making any investment. The**

properties of the Trust should be invested/ utilized in the income generating activities by identifying areas of investment in accordance with the Act.

96. **Safeguards of Sport Infrastructure** - All properties including sport infrastructures, structures, games, players, lands etc. that constructed, developed and repaired by using public resources need to be updated and safeguarded. The statement obtained from the Council shows that there are about 5 thousand 355 ropanies of lands that are registered and used in the name of National Sports Council and Regional/District Sports Development Committees. Some of lands which are in the name of the Council and District Sports Development Committees have been used and encroached by other entities/offices. The ownership of government lands existed in Kageshwori Manohara Municipality having total area 294 ropanies 11 aanas and 2 paisas are already transferred in the name of National Sports Council, but the lands have been still occupied by some families building houses. Janakpur Zone Sports Development Committee has entered an agreement with a person to purchase 6-17 bigha lands that constructed with multipurpose covered halls and football play ground, but the ownership of lands has not still come under the Council.

The Council has not maintained the systematic records of the lands, sport structures constructed in such lands, other properties and the sport games & players owned by the Council in 77 districts. Some of such infrastructures and properties have been encroached and unutilized due to lack of updating of necessary records. Hence, the properties of the Council should be safeguarded by updating of the records.

97. **Usage and Safeguards of Land** - The report submitted by the Committee formed to search, collect, protect and systematic recording of the physical assets of Tribhuvan University and entities thereunder mentions that the University and entities thereunder have total areas of 14 million 789 thousand sq. meter (1 thousand 479 hectares) lands, which includes fully owned land 13 million 137 thousand sq. meter, usufruct land 999 thousand sq. meter and other lands 653 thousand. The major findings highlighted in the report include - some lands have been occupied by encroaching the boundaries, land rents (kut) and rents are not recovered regular basis, full ownerships are not acquired with respect to usufruct land, the rights of some of physical structures constructed by various entities in the University lands have not been yet transferred, the ownership of some of constructed structures have become unclear, records of lands are not maintained systematically, and lack of coordination between entities, as given below:
- 97.1. Patan Multiple Campus has been using total of 47 ropanies 6 aanas 2 paisas and 2 dams of lands, but the ownership of 33 ropanies, 8 aanas 1 dam has not yet

transferred in its name. Similarly, 10 ropanies 9 aanas 2 paisas lands belonging to the Campus have been given on lease to one company upon the condition of paying NRs. 160 million 814 thousand in 9 installments, but the rents of the constructed business complex have not been received due to ongoing cases in Supreme Court.

- 97.2. About 15 ropanies of lands existed in Chhauni of Kathmandu are used by Natural Science Museum, but the ownership has not been transferred yet. By obtaining the evidence of land ownership, the ownership of lands should be safeguard.
- 97.3. The 113 ropanies of land existed in premises of Tribhuvan University, Central Office was provided to one school for 15 years. The University has not recovered any rent from the school in respect to such usage. Though the University has issued reminders time to time to vacate the land after the expiry of agreement, but the school has not left the land.
- 97.4. Of the lands owned by the University, one Satsang has used 13 ropanies land existed at bank of Bagmati River, Blood Transmission Center (Lions Club International) has used 3 ropanies of land existed in the premises of University, and Nepal Netrajoti Sangh has used 10 ropanies of land, but the University has not recovered any income in respect to use of the lands.
- 97.5. Tribhuvan University has rented lands to one Sangh, but the rents NRs. 4 million 855 thousand receivable in respects to usage of the lands have not been recovered. The rents should be recovered in accordance with the agreement.

All assets owned by the University should be safeguarded by maintaining proper records. The rents recoverable as per agreements should also be recovered. |

98. **Management of Equipment** - Point 13 related to Schedule 1 Section 2(1) of Finance Act, 2018, provides that any vehicle, machinery equipment and other goods imported on the basis of the bank guarantee shall have to be taken back after completion of works within 3 months of the expiry of defect liability period, and if it fails to do so, the goods shall have to be forfeited, except in the circumstances that such goods are gifted or sold to anybody or taken for own use by making the payment of duties applicable on such goods. Based on the mater-list approved by Ministry of Finance, one construction entrepreneur that acquired the construction contract of Malamchi Water supply Project implemented under assistances of Asian Development Bank has imported various vehicles, machinery equipment on the basis of bank guarantee and the condition of returning back such goods. However, the Government has terminated the contract agreement with the construction entrepreneur. The bank guarantee amount NRs. 457 million 419 thousand produced by the construction entrepreneur in Birgunj Customs Office with respect to import of various vehicles, machinery equipment as per approved master-list, has already

been deposited in consolidated fund. Since the contract agreement is already terminated, the imported machinery equipment including Excavators, Tata Sumos, Dump Trucks, Tata Mobiles worth NRs. 1 billion 201 million 631 thousand 394 should be owned and properly managed by the concerned entities.

99. **Acquisition of Lands** - Pursuant to the decision taken to acquire 1 thousand 775 bighas 6 kathas 15.25 dhur lands for Sunsari Morang Irrigation Project, the compensation of NRs. 68 million 67 thousand has been provided by completing the acquisition of 1 thousand 37 bighas 9 kathas 3.25 dhur lands. Out of the compensation provided, the land ownership certificates of only 737 bighas 7 kathas 12 dhur have been obtained. **The ownership of all acquired lands should be taken in the name of the Project.**
100. **Management of Gift/Offerings** - Against the provision of Point No. 11 Directives Related to Offerings Management (First Amendment) of Religious Places 2016, the cash or kinds offered by devotees to Dachhinkali Temple, Kathmandu or given in the hands of the priests, have been taken by the priests themselves without depositing in the treasury of management committee. **Hence, the gifts/offerings should be properly managed by depositing all cash or kinds offered to religious temples/monasteries or given in the hands of the priests, in the treasury of the concerned management committees as specified in the directives.**

• **Loss Damage and Embezzlement**

101. **Embezzlement and Frauds** - Section 54 of Financial Procedure & Accountability Act 2019, mentions that the concerned office chief shall take have to take action in accordance with the prevalent laws, if any government cash is embezzled by anybody. One Assistant Lab Trainer of Technical Education & Vocational Training Council has embezzled NRs. 6 million 257 thousand by doing forge signatures keeping 10 cheque sheets while working in B.P. Poly-technical Institute, Sapahi Dhanusha, and even after getting transfer, he has also embezzled NRs. 11 million 545 thousand doing forge signatures up to 2019/08/17 while working in Technical Education & Vocational Training Council, Province No. 2. It is acknowledged that legal actions have been taken to the person that embezzled government amounts by doing forgery, but the embezzled amounts have not been yet recovered. **The embezzled amounts should be recovered by taking actions to the concerned person involved in frauds in accordance with prevalent laws.**
102. **Fake Voucher and Cheque Bounced** - In pursuant to the collection of export tax, District Coordination Committee Office, Sunsari has appointed a temporary agent to one Construction with the terms of making payment at the rate of NRs. 61 thousand per day from 2018/07/17 onwards. The appointment has been cancelled

with effective from 2018/12/26 as the construction has deposited only NRs. 3 million 350 thousand up to 2018/12/25, as against the deposit requirements of NRs. 9 million 882 thousand. However, the same construction has been reappointed on 2019/01/20 with the terms of depositing the cheques of NRs. 1 million immediately and NRs. 1 million from the cheque to be realized after 2 months. When the Office inquired with Rastriya Banijya Bank, Inaruwa Branch about the deposit of NRs. 1 million from the bank voucher submitted by the construction, the bank as acknowledged that only NRs. 100 thousand has been deposited in the bank. Similarly, the cheque of NRs. 1 million drawn for realizing after 2 months has also been returned due to inadequacy of amounts. No action has been taken to the construction with respect to produce of the fake bank voucher and bouncing of the issued cheque. **Since the act of issuing any cheque with having knowledge of non-availability of balances in the accounts is regarded as banking offence in accordance with the Section 3(c) of Banking Offence & Punishment Act, 2008, the penalty and punishment as required by Section 4 of same Act should also be undertaken.**

The Office has cancelled the appointment again as the construction has failed to deposit the required amounts of the period from 2019/01/20 to 2019/04/13. On the basis of days counting, for which the construction is appointed for collecting the taxes, total of NRs. 14 million 945 thousand are required to be deposited, but only NRs. 6 million 893 thousand has been deposited. **The outstanding balance NRs. 8 million 52 thousand along with applicable interests should be recovered and all procedures related to the tax collection and bouncing cheques should also be investigated.**

103. **Loss of Interest** - Pursuant to NRs. 30 million invested in fixed deposit of Everest Bank- Golfutar Branch on 2012/05/09, Insurance Board has not maintained any record of the investment and it has also not shown the investment amount in its financial statements of 2017/18. By stating the investment is revealed only on 2019/10/17, the Board has recognized income to the principal amount NRs. 30 million and interest amount NRs. 1 million 824 thousand in its books of account out of amounts existed in bank account. Pursuant to the amounts invested in fixed, deposit, the Board should have asked for refunding amount after maturity of time and the Bank should have refunded after the maturity of time, but the Bank had provided a minimum interest by transferring the amounts in call accounts. If calculated the interest at the rate of minimum of 9 percent per annum, the interest loss of 76 months caused by this act becomes NRs. 22 million 325 thousand. **It is necessary to make responsible to the Board's employee that has not included in financial statement by maintaining proper records and the Bank's employee that has not informed and refunded the fixed deposit amounts even after the maturity of time.**

104. **Damages in Pipes** - Clause No. 7 of Memorandum of Understanding and agreement signed between Kathmandu Valley Water Supply Project Implementation Directorate and Department of Roads, stipulates that if any damage is caused in the pipes laid down by the Project Implementation Directorate in course of construction of sewerages by the Department of Roads, the Department shall indemnify the amounts to Project Implementation Directorate that required for the reconstruction of such damages occurred. It is because of lack of adequate precautionary measures, the pipes lay down under 8 contracts, including 4 contracts under Bulk Distribution System and 4 contracts under Distribution Networks Improvement, have been damaged in course of roads repairs & maintenance works carried by various entities. The Directorate has assessed the damages of NRs. 160 million 450 thousand including pipes' price, and their laying, filling and fitting costs. **Pursuant to this, the concerned officials should be held responsible.**
105. **Damages of Construction Works** - Rule 45 of Financial Procedure Rules, 2007 stipulates that any official empowered with the authorities shall properly utilize and preserve & safeguard the available means & resources protecting from any loss & damage. However, Banepa, Dhulikhel, Panauti Municipality and Divisional Road Office, in carrying out road extension and other development/construction works, have caused the damages to 5 thousand 261 meter water supply pipelines costing NRs. 12.5 million that constructed by Kavre Valley Integrated Water Supply Project, which has caused additional burden to Government of Nepal. **The damaged pipelines should be reconstructed by making responsible to the officials of the concerned entity that have done damages to the constructed structures without coordinating in the development/construction works.**
106. **Shortage of Bank Balance** - The Cash Book of Tribhuvan University, Teaching Hospital has shown the bank balance (excluding cash In-transit and cash NRs. 300 thousand) of NRs. 982 million 775 thousand as of 2019/07/16, but the bank statement of the same date shows the balance of NRs. 818 million 367 thousand only. Thus, there is shortfall of NRs. 164 million 408 thousand in bank balance, and the amounts should be recovered and deposited in bank by conducting an investigation. A negative balance of NRs. 26 million 438 is shown in the bank accounts operated at Global IME Limited, but the true status can not be ascertained as the concerned bank statement has not been provided to the audits. Likewise, the hospital has shown the total bank balance of NRs. 16 million 220 thousand in its cash book related to various bank accounts including 5 accounts maintained at Nepal Bank Limited, 1 account maintained at Nabil Bank Limited and 1 account (Relief Account) maintained at Himalayan Bank Limited, but the related bank statements show the balances of NRs. 1 million 170 thousand only. **There should be**

investigations with respects to shortfall in the bank balances, and the short amounts should be recovered and deposited.

107. **Electricity Loss** - Major observations witnessed relating to electricity losses owing to non-construction of transmission lines on time are as follows:

107.1. Section 20 (f) of Nepal Electricity Authority Act, 1984 empowers the Authority to enter a power purchase agreement for purchasing and selling of the electricity generated from private sector. However, all electricity power generated from the private sectors has not been sold owing to various shortcomings related to electricity transmission lines. While conducted an analysis about the electricity generation and transmission status of 18 hydro power projects of private sector by selecting the projects on sampling basis, it is revealed that the projects have not been running in full production capacity, as more electricity are to be transmitted through the transmission lines that have less capacity, and the repairs & maintenance and quality of transmission lines have also not been maintained at regular basis. As a result, the total of 95.61 Gigawatts per hour (GWh) electricity has not been sold out of the electricity generated by the projects in a year. There exists a situation that the projects have not been attaining the anticipated benefits as all electricity generated are not sold, and on the other side, the Nepal Electricity Authority has been providing compensation to the projects as per the agreement and purchasing electricity from India to meet the domestic electricity demands.

Since the 18 projects run by private sector have not been able to sell the produced total electricity power of 95.61 Gigawatts per hour, the loss occurred for this would become NRs. 382 million 459 thousand if calculated at the average rate of NRs. 4 per Kilowatt hour (KWh) mentioned Power Purchase Agreement (PPA). On the other side, while purchasing 95.61 Gigawatts per hour from India to avoid the electricity shortage, the amounts being paid would become NRs. 764 million 919 thousand if calculated at the average rate of NRs. 8 per Kilowatt hour. Since the electricity power generated by private sector has not been purchased due to lack of transmission lines and the electricity power are purchased from India at the rate of high rates to meet the domestic demands, the state has to borne the losses of NRs. 1 billion 147.4 million. **The Nepal Electricity Authority should give attention in increasing the domestic electricity consumption capacity by carrying out the regular repairs & maintenance of transmission lines and enhancing load-carrying capacities.**

107.2. In the Power Purchase Agreement entered with an Independent Energy Producer, it is mentioned that the Authority shall have to pay the compensation (penalty) at the rate of 5 percent to 45 percent if the electricity power generated by the Projects completed in scheduled time can not be linked with central grid in the absence of transmission lines. The target has been set to complete the 153.5 megawatts - Sanjen

Hydropower Project by 2020/07/15, 57 megawatts - Mistri Khola Hydropower Project by 2020/04/12, and 25 megawatts - Upper Dordi - A Hydropower Project by 2020/04/12. Since the progress achieved in Chilime-Trishuli, Kaligandaki and Marsyangdi transmission lines, which link the power with the Central Grid, have stood only 45 percent, 86 percent and 21 percent respectively, there has been a situation that the total power of 235.5 megawatts generated by the projects will go in wastage. In addition, it appears the Nepal Electricity Authority will have to bear the compensation from 5 to 45 percent of the earning amounts of the Projects. **Ministry of Energy and Nepal Electricity Authority should give attention in completing the corridor construction works by resolving the problems witnessed in the construction of transmission lines.**

107.3. The Nepal Electricity Authority needs to enhance the energy efficiency by carrying out timely regular repairs & maintenance and upgrading of transmission lines. However, the 5 power stations, which have the highest energy losses amongst the power stations of Nepal Electricity Authority, are as follows:

S.No.	Power Station	Available Energy (Megawatt Hour)	Consumed Energy (Mega Watt Hour)	Station Loss (Mega Watt Hour)	Loss Percent
1	Seti	10031.00	9341.37	689.63	6.87
2	Marsyangdi	684843.00	668005.80	16837.2	2.46
3	Chatara	3407.56	2112.62	1294.94	1.68
4	Mid-Marsyangdi	833445.85	821855.81	11590.04	1.39
5	Kulekhani Second	45137.09	44686.79	450.30	1.00
Total		1576864.50	1546002.39	30862.11	1.96

107.4. As shown in above table, the power losses of the 5 power stations, which have the highest power losses, have been 30862.11 Megawatts per hour in total. Though the losses in power distribution system can be taken as usual, the existence of higher rate of losses in the power received in the power stations is not appropriate. Technically speaking, the power leakages will become more, if the excessive loads come under the transmission lines than its capacity, qualitative equipment have not been used in such lines, and the length of transmission lines between sections becomes too much. From this, the total losses to be borne by Nepal Electricity Authority will become NRs. 123 million 448 thousand if calculated at the rate of NRs. 4 per unit. **Nepal Electricity Authority should give attention in reducing the station losses by making regular repairs & maintenance of the transmission lines and power stations, upgrading of transmission lines, constructing sub-stations in technically required places and using quality equipment.**

• Excess Payment and Burden

108. **Excess Payment Against the Agreement** - Rule 123 of Public Procurement Rules, 2007 provides that the payment of running bills shall have to done in accordance with terms of contract agreements. Major observations relating to the payments made not in conformity with contract agreements are as follows:
- 108.1. In the contract signed between Malamchi Water Supply Development Board and one construction entrepreneur, only 15 percent overheads are allowed to be included in bills. However, pursuant to the rate analysis the works madethrough variation up to 46th. interim bill by fixing new rates for new items, the overheads of 20 percent have been included and amounts of same have been paid. **The amounts NRs. 80 million 147 thousand paid in excess of the rates specified in the contract should be recovered.**
- 108.2. With respect to the establishment of cold storage house in Nuwakot, the Prime Minister Agriculture Modernization Project has prepared a cost estimate of NRs. 187.8 million and the Project has entered a grant agreement with one Private Limited for providing NRs. 105 million as grants. Advances of NRs. 25.6 million granted as per the contract are to be deducted while making the payment of interim bills, but the payments of NRs. 110 million 559 thousand have been madewithout deducting the advance amount. Though the contract agreement is signed on 2018/07/08 for providing the grants of NRs. 105 million, but NRs. 110 million 559 thousand (including advances) have been provided. **The NRs. 5 million 559 thousand paid in excess of the contract agreement should be recovered.**
- 108.3. In the agreement signed with one supplier for purchasing 674 kilograms nutritious flour at the cost of NRs. 64 million 309 thousand, it is mentioned that the supplier is required to deliver 80 thousand KG in Central Medical Store, Pathalaiya, and 594 thousand KG in Regional Medical Stores, Nepalgunj. However, the total contract amounts have been paid to the supplier by receiving all supplies in Central Medical Store, Pathalaiya only without receiving any supply in Regional Medical Store, Nepalgunj. Since the supplier has not delivered the flour in Regional Medical Store, Nepalgunj, Department of Health has to borne extra NRs. 5 million 935 thousand for transporting the goods at the rate of NRs. 10 per KG through another transport. **Since the supplier delivered the flour in another place rather than the specified place in the contract, the extra expenditure amount NRs. 5 million 935 thousand should be recovered.**
109. **High Cost Estimate** - Pursuant to the cost estimate US Dollar 11 million 874 thousand prepared for implementing National One-Window System, the agreement is entered with one firm at the contract price NRs. 7 million 608 thousand (35.92 percent below). In preparing cost estimate, any public entity is also required to

consider the basis of actual cost involved in purchasing same nature/ type of goods in the current or previous year. Department of Customs has paid maximum of US Dollar 14 thousand 528 to the consultant that has prepared the cost estimate of this work, but the remuneration up to US Dollar 30 thousand per month has been stated in making cost estimates of various experts. If taken the basis of cost estimates prepared exceeding US Dollar 15 thousand per month, the prepared cost estimates would have appeared higher by US Dollar 655 thousand or equivalent NRs. 74 million 873 thousand at the exchange rate of that time.

110. **Cost Estimate of Consultant** - Rule 12 of Public Procurement Rules, 2007, provides that in preparing cost estimate of consultancy service, additional office management fees shall not be included on the top of the consultant's remuneration, reimbursable expenses and petty expenses. However, Urban Development & Building Construction Department, New Town Project Coordination Office and Federal Project Implementation Unit, Banke have signed the contract agreements of NRs. 16.7 million by including management fees at the rate of 15 percent in cost estimate of consultants for the preparation of drawings, designs and detailed project report, which has caused additional burden in consultancy services. **The cost estimates should be prepared, examined and approved only on the basis of prevalent laws.**
111. **District Rate** - Rule 148 of Public Procurement Rules, 2007 provisions about the determination of district prices of construction materials. With regards to stone rates that required to control the Khando River, which flows from Udaypur District to Saptari District, the district rates have been fixed at NRs. 1 thousand 400 for Udaypur District and NRs. 5 thousand 427.57 for Saptari District. For the same river, the payments have been made to user's groups at the rate (inclusive of transporting) of NRs. 2 thousand 380 per cu. meter in Udaypur section and NRs. 5 thousand 948 per cu. meter in Saptari section, which has caused an additional financial burden of NRs. 10 million 173 thousand in Saptari District. **Hence, the rates of Saptari District should be revisited.**
112. **Grants to Campuses** - In Rule 11.10 of University Grants Commission Work Arrangements Rules, 2003, it is mentioned that the consent of the Government of Nepal shall have to be obtained, if any decision is to be taken that cause an additional financial burden to the Government. The Commission has formulated a separate Directive to provide grants to community campuses. The Directives provision of providing lump sum regular grants of NRs. 350 thousand and extra grants upon the fulfillment of the specified conditions. However, the Commission has provided grants to campuses at the rate of the minimum of NRs. 450 thousand and spent NRs. 377 million 84 thousand for providing grants to 457 campuses. **Since the University**

has increased the grant amount by NRs. 100 thousand without obtaining necessary consent of the Government of Nepal, the financial burden of the Government has increased by NRs. 72 million 630 thousand.

113. **Achived Employment** - In the agreement entered with the World Bank, it is mentioned that, out of the total persons that have received trainings within 5 years period, the number of persons receiving 6 months achieved employment will reach 65 percent in first and second year, and 70 percent in third, fourth and sixth year. As per the agreement, Enhanced Vocational Education and Training Project is required to make payment pursuant to 8 thousand 829 persons only by certifying achieved employment of the persons that are successful in skill tests, but it has paid NRs. 208 million 401 thousand with respects to 11 thousand 106 persons inclusive of unsuccessful persons in skill tests. Since the project has included the unsuccessful trainees of skill tests, it has increased a financial burden of NRs. 42 million 728 thousand. **It is not appropriate to include the unsuccessful trainees of skill tests in employment certification process without complying the agreement.**
114. **Employment Certification** - In the agreement signed between the Enhanced Vocational Education & Training Project and one training provider institute, it is mentioned that upon the completion of short-term training and skill tests, the third installment will be released after verifying 3 months earnings and the fourth installment will be released after verifying 6 months earnings. As per the income verification or employment certification statement, of the participants that received short-term achievement trainings, the number of persons that received 3 months employment as anticipated is stated as 8 thousand 610, but the payment of NRs. 208.4 has been made by showing the number as 11 thousand 102 in the 6 months certification statement, which has caused an additional financial burden of NRs. 16.2 million due to overstatement of the number persons receiving 6 months employment.

• Economy

115. **Unproductive Expenditure** - As per the Expenditure Classifications and Explanations, the expenses such as entertainment, refreshment, dinner party, office security, hospitality of guests etc. are to be borne under headings miscellaneous expenses. The financial statements submitted by Financial Comptroller General Office show that total expenditure of NRs. 1 billion 579.7 million has been incurred in miscellaneous expenses with an increment by 18.91 percent in the budget allocation of NRs. 1 billion 328.5 million.

Likewise, total expenditure of NRs. 170 million has been incurred in travel expenses of special dignitaries and delegation teams with an increment by 148.20

percent in the budget allocation of NRs. 68.5 million. In the light of endorsement of Policy Directives 2018 by the Government to bring economy and effectiveness in public expenditure, the Government needs to check in such unproductive expenditures. It is not appropriate to incur more such expenditures by transferring amounts through virements. **There should be control in such types of expenditure.**

116. **Assessment of Compensation Rates** - Section 16 of Land Acquisition Act, 1977 stipulates that the compensation amounts shall have to be determined with due consideration to the losses to be borne by the landlord while making the acquisition of lands and the prevailing market prices existed till the time of the notice publication about land acquisition. Major Observations are as follows:

116.1. For registration purpose, Land Revenue Office, Kalanki has determined the value NRs. 0.80 million per aana to lands touched by highway and NRs. 0.20 million per aana to the lands touched by feeder roads, however, Nagdhunga Tunnel Road Construction Project has distributed NRs. 4 billion 583.8 million in this year by determining the land compensation rates of NRs. 4.2 million (more by 5 times) and NRs. 1.7 million (more by 8 times) respectively. The basis of the rate fixation has not been made clear.

116.2. On the basis of usufruct and settlement of ailani (barron) lands for more than 20 years, the Rail Project has taken a decision to pay compensation amounts of 6 bigahs 12 kathas 13 dhur lands that lie in track construction of East-West Railways by assessing 75 percent rate of the value of numbari lands that lie in the place. Since the Government of Nepal has not protected the ailani lands on time, it is become essential to distribute the compensation in respect to such lands. **It is because of lack of reviews in policy relating land valuation, the Government has to bear an additional financial burden in land acquisitions.**

117. **Financial Assistance** - Clause 12 of Civil Relief, Compensation and Financial Assistance Procedures, 2011, stipulates that the medical treatment and financial assistances shall be provided to significant persons of national life. In this year, Ministry of Home Affairs has distributed the total financial assistances of NRs. 130 million 495 thousand, inclusive of NRs. 98 million 88 thousand distributed to 174 citizens the country ranging amount NRs. 50 thousand to NRs. 3 million per person, NRs. 3 million 307 thousand provided in respect to medical treatment of the persons sustained injuries in various incidents, and NRs. 29 million 100 thousand as institutional grants. Necessary documents such as, applications, prescriptions and recommendations of Medical Treatment Assistance Committees etc. have not been included while getting requests for the assistances. Though Clause 12.1(c) has made a provision to grant the financial assistance up to NRs. 700 thousand to the maximum to any person that has contributed significantly in social and national life,

but the financial assistances up to of NRs. 3 million per person have been provided in excess the ceiling. **Financial assistances should only be distributed in compliance with the Procedures remaining within the specified ceiling amounts, and the act of distributing assistances in excess of ceiling should also be stopped.**

118. **Pension Service Charge** - Pursuant to the pension handling charges, which are provided in respect to the distribution of pension amounts to Civil Servants, Police, and Nepal Army personnel, the Pension Management Office has increased the charge amount from 60 paisa to NRs. 1 per one hundred as per the decision made on 1995/06/11. The handling charge at the rate of NRs. 1 per one hundred pension amount has been provided to various banks till now. The amounts of handling charge have been increasing every year, which stood NRs. 367.2 million 2016/17, NRs. 397.8 million in 2017/18 and NRs. 420 million in 2018/19. The handling charges was fixed in past at the time of non-usage of information and technology, but the operating costs of such handling has been becoming low in these days due to easiness in transferring amounts, preparing statements, transfer of information with the use of information technology. Moreover, the growing competition between banks has created a possible situation of receiving such services at minimal cost or free of cost. However, the previous decision has not been revisited yet. **The audit recommendation covered in previous years pursuant to the need for giving attention to bring economy in the government expenditure by making revisit in the pension handling rate, but the situation has remained status quo in this year.**

• **Efficiency and Effectiveness**

119. **Effectiveness of Internal Audit** - Section 33 of Financial Procedures and Fiscal Accountability Act, 2019, provisions that the internal audits of all government offices shall be carried out by the Financial Comptroller General Office or the District Treasury Controller Office specified by the Office. The professional capabilities of the personnel engaged in internal audit have been witnessed weak due to lack of management of efficient employees for internal audits, audits are not conducted in trimester basis, employees are deputed without giving adequate training, and the study of the accounting system subject is not made mandatory for doing accounting and auditing works. The audit has not been becoming independent as the employees of accounting and internal audits are deputed from same service group. Rule 96(2) of Financial Procedures Rules, 2007 provides that the internal audit shall be carried carried out by adopting the procedures prescribed in the Internal Audit Guidelines with due consideration to the matters whether the income and expenditure of Office and the accounting thereof are maintained in consonance with the prescribed procedure or not, whether the financial resources are used in an economical and efficient manner or not, whether the goal as per the approved annual

program has been achieved or not and whether the internal control system is effective or not. However, such matters have not been included in the most of internal audit reports issued by the District Treasury Controller Offices. The Internal Control Guidelines issued by the Office has not been fully followed.

120. **Water Discharge** - In the main canal of Sunsari-Morang Irrigation Project, the water discharge has remained 38.37 to 57.62 cumec in summer season, whilst the water discharge declines in winter and dry seasons to reach 21.58 to 26.51 cumec in the month of Mangsir, Paush, Magh, Falgun, Chaitra, Baisakh, and Jestha. Though the intake of Project has discharge capacity of 60 cumec, but the water discharge has remained an average 41.32 percent of total capacity in the month - Mangsir, Paush, Magh, Falgun, Chaitra, Baisakh, and Jestha. **The Project should be run with full capacity.**
121. **Deep Tube-well Closed** - Of the 169 deep tube well irrigation systems that operated under Bhairahawa Lumbini Ground Water Irrigation Management Office, Rupandedi, 32 irrigation systems (tubewell) have remained closed. As per the one tubewell capacity to irrigate 120 hectares of land, the Office has developed the system to irrigate total 3 thousand 840 hectares of land, but the tubewell system has not been operated. Attention should be given to operate the established irrigation system.
122. **Printers Not In Use** - Pursuant to the audit observation mentioned last year in respect to 2 sets of digital color printers purchased by the Election Commission in 2074 Mangsir (2017 November/December) at the cost of NRs. 218.34 million have not been brought in use, the Commission had given a reply that the printers would be used for the printing of ballot papers and other printing materials of the by-election going to held on 2019/02/29. But, the printers have not been used even in 2076 by-election. By stating unavailability of skill manpower and lack of papers for operating in the machines, the Commission has carried out the election related printing works through Janak Education Material Center and paid NRs. 26 million 709 thousand in respect to such printing. **It is not appropriate to keep the machines not in use that purchased at a high price.**
123. **Impact Assessment** - Pursuant to the agreement signed with one consultant on 2018/09/03 for 3 years to make overall impact assessment of Kabeli 'A' Hydro-Electricity Project implemented under assistances of the World Bank with a contract amount of US Dollar 1 million 178 thousand 140 and NRs. 33 million 988 thousand, the payment of US Dollar 117 thousand 814 and NRs. 3 million 399 thousand have been made in respects to the preparation of inception report. The agreement date signed with the World Bank has expired on 2019/12/30, but the date has not been extended yet. Since the agreement date of grant assistance has expired prior to the

completion of impact assessment work, the expenditures incurred up to now have gone in waste.

124. **Complaint and Investigation** - Commission of Truth and Reconciliation, is established in accordance with the Enforced Disappearances Enquiry, Truth and Reconciliation Commission Act 2014 (2071) with an objective to provide the recommendations for legal sanctions against the perpetrators by investigating the serious violation of human rights in course of armed conflict. Total of 62 thousand 950 complaints have been registered in the Commission up to this year, which includes 10 thousand 881 related to murder, 4 thousand 140 related to kidnaping and absconding, 4 thousand 918 related to damages of organs or disabling, 20 thousand 051 related to physical and mental torture, 331 related to rape and sexual violence, 16 thousand 166 related to property, 5 thousand 881 related to displacement and 591 subjects not specified. But the preliminary investigations of only 3 thousand 615 complaints have been completed.

Likewise, the Commission of Investigations on Enforced Disappeared Persons established as per the same Act, has received 3 thousand 197 complaints from the period of its establishment to till this year, and out of them, 414 complaints have been sent to Truth and Reconciliation Commission. Pursuant to this, the Commission has taken the decisions to make detailed investigation with regards to 2 thousand 506 complaints after returning 137 complaints stating that not in compliance with its jurisdiction, writing off the records of 125 complaints stating duplication in the received complaints, and putting in-force to 289 complaints. Out of the complaints that require detail investigations, only the preliminary procedural tasks that needed for detail investigation, such as, preparing documents of victims and witnesses, ante mortem and filling up supplementary forms have been completed.

The tenure of the Commissions, which constituted with a target of completing works within 2 years of establishment, has been extended time to time, but the specified works have not been yet accomplished. This indicates that the Commissions have not performed their works in an efficient manner.

125. **Cases and Clearance** - In the Supreme Court's Third Strategic Plan, it is stated that the cases existed in District Court and High Court shall be cleared within 18 months and the cases of Supreme Court shall be cleared within 2 years. Out of the previous years' outstanding balances of 371 thousand 30 unsettled cases, the Supreme Court and the Courts thereunder have settled 265 thousand 192 cases in this year and 105 thousand 838 cases have still remained to be settled. Though the timeframes of clearing the cases have been determined in the Strategic Plan, the number cases that crossed two years have still remained 12 thousand 802 in the three tiers of courts.

Out of total 421 approved positions of judges in the three tiers of courts, only 20 positions have fallen vacant. Thus, cases should be cleared within the timeframe specified in the Strategic Plan by fulfilling the all approved positions.

126. **Scholarship to Children** - Directives Relating to Awards of Scholarship to Children of Civil Servants, 2015 provides that the amounts of scholarships to the children of civil servants for studying in educational institutes of Nepal will be provided by allocating necessary budgets. Ministry of General Administration & Federal Affairs has prepared a Scholarship Directives, 2018 and sent the Directives to Ministry of Finance and Ministry of Law & Parliamentary Affairs for getting acceptance. Though the budgets of NRs. 146.6 million in 2017/18 and NRs. 156.2 million in 2018/19 are allocated for this purpose, but the allocated amounts have not been distributed as the acceptance of the ministries has not been obtained. Since the diligent children of civil servants are deprived from the scholarships due to non-approval of the Directives, the concerned authorities should give attention in timely approval the Directives.
127. **Postal Saving Bank** - Altogether 68 offices including General Post Office and District Post Offices are accepting postal savings by operating the postal saving bank transactions. They have received total balances of NRs. 1 billion 397.3 million up to this year. The postal saving banks have not been becoming effective, as the accounts of postal saving banks are not fully maintained in software programs, the volume of transactions are growing every year, deposit amounts are embezzled by the some of staffs working in districts, and some of districts including Jajarkot have incurred losses due to more interests expenses than the interest earnings as the Ministry of Information & Communication has prevented them to make investment. In spite of the audit recommendations provided in last year highlighting the matter that the concept of saving bank should be revisited in perspective of the development and expansion of technology and banking system, and the necessity to mobilize the saving amounts in safe matter, but the situation has remained status quo. Similarly, the budget speech has provided matters that the postal saving banks will be liquidated and the amounts deposited in such banks will be handed over to commercial banks, but the matter has not been implemented yet.
128. **Investment Without Returns** - Rule 22 of Financial Procedures Rules, 2007, provides that projects shall have to be approved on the basis of returns receivable. Some observations relating to investments are not becoming beneficial in spite of the construction of bridges due to the non-operation of transportation caused by non-completion of approach roads are as follows:
 - 128.1. Pursuant to the construction of Bagauda Khola Bridge lying in Postal Road Project, Banke, an agreement is signed with one construction entrepreneur on the contract

price NRs. 41 million 290 thousand, but the construction works have remained incomplete stage till 2019/06/13, only completing the works of NRs. 30 million 298 thousand. The sides of the river have expanded to more than 1 kilometer, but the length of bridge under-construction is only of 50 meters, which shows that edges of the bridge will not touch both sides of the river. Though the construction of super-structure works have been completed till now, it appears that the movement will not resume as a long gap is witnessed between the left and right sides of the road and the edges of the bridge, which shows that the bridge can not be operated.

- 128.2. Pursuant to the construction of Mahuli Bridge, Postal Road, Sunsari had signed an agreement with one construction entrepreneur on the contract price NRs. 15 million 598 thousand, and the contract period was extended up to 2015/01/12 extending time to time, however, the period has not been extended after that. In the state of operations of transports through the bridge after completion of construction works amounting to NRs. 15 million 598 thousand by the construction entrepreneur, the approach roads have been swept away by flood in the river, and the bridge has not been in use as the construction entrepreneur has not done any additional works.
- 128.3. The resources are to be guaranteed prior to making any multi-year contract agreement, but the Road Division, Kathmandu has, on the basis of comfort as per department level decisions, terminated 183 contracts that arranged in between the period 2009/10 to 2016/17, giving the reasons that the required budgets are not assured. Out of the total contract price NRs. 828 million of the 183 contracts, the payments of NRs. 350.3 million have been made up to 2017/18. Since the contracts are terminated, no returns have been attained from the investments, and on the other side, the basis for completing remaining works has also not been assured. Out of the contracts, the advances of NRs. 15 million 242 thousand of 4 construction entrepreneurs are still remaining to be recovered. **The officials should be held responsible that have terminated contracts making the investments fruitless without ensuring the basis of completing remaining works.**
- 128.4. Pursuant to the construction of 2 bridges existed at Teku and Dallu, which the Kathmandu Sustainable Urban Transportation Project has handed over to Road Division, Kathmandu, the agreements are made completing works at total cost of NRs. 226 million 175 thousand, and the payments of NRs. 139 million 240 thousand (61.57 percent) have been made for the constructed works. Amongst the works, the procurement contract of the construction of Teku Bridge consisting of three spans has been terminated showing the reasons that in constructing the middle 30 meters pre-stressed Goddard beams of Teku Bridge, the Goddard beams are concrete casted with mixed design without following the specified design, and the size of cable wires used are lesser in size than the size prescribed in drawings, no attention is

given in correcting the mistakes despite of the instructions are issued to the construction entrepreneur to correct the shortcomings in the cable wires fitted without conducting any test.

The performance guarantee has been forfeited after termination of the contract, but the amounts, which require for completing the remaining works are to be recovered from the construction entrepreneur as government dues, can not be ascertained as the cost estimate to complete the remaining works has not been prepared yet. **There should be arrangements to ensure that the quality works have been performed.**

129. **Problematic Canal Construction** - Rule 125 of Public Procurement Rules, 2007, provides that the work completion report shall have to be prepared by examining whether the approved drawings, design, and specifications have been followed or not after the completion of the construction works and defect liability period. To construct 17.7 to 35-kilometer main canal and the related structures of the western side, Sikta Irrigation Project had entered an agreement with one construction entrepreneur at contract price NRs. 2 billion 117.6 million and the contract amount was increased to NRs. 2 billion 430.9 million after issuance of the variation orders. Total of NRs. 3 billion 24.8 million was paid to the construction entrepreneur till 2015/04/22 inclusive of price adjustments and claims of losses.

The canal has been witnessed problematic since the canal collapsed on 2016/06/27 in one place while testing water in the main canal during the defect liability period, and the canal near the Changai part has again collapsed on 2018/07/23 while passing water through the canal again. As per the approval obtained from the Council of Ministers on 2019/04/21 for carrying out necessary maintenance works in order to prevent further damages, the works of making compaction in the damaged places with river belt materials and lime mixture, have been accomplished at a cost of NRs. 1 million 822 thousand. It seems the project itself is not clear about the appropriate technology and cost requirements for carrying out the maintenance works of the problematic canal. **The constructed canal should be preserved by exploring the appropriate technology for carrying out the repairs and maintenance works.**

130. **Management of Zoo** - In accordance with the decision of the Council of Ministers, an agreement has been inked between the National Nature Conservation Trust and Ministry of Forests and Soil-Conservation on 1995/12/31 with the condition that the responsibility of management and operations of the Central Zoo for the 30 years will be of the Trust and the period may also be renewed for another 30 years. It has been mentioned that the Zoo has altogether 1 thousand 69 different types of living birds & animals. It has already elapsed 24 years after the agreement entered with

the Trust, but the Trust has yet prepared any procedures, rules and master plan with respects to the operations of Zoo in accordance with condition of the agreement. **The management of the Zoo should be conducted in accordance conditions of the agreement.**

131. **Waste in Reconstruction** - Pursuant to preserving the place by removing ruins of Biswapupa Temple and constructing walk trail from Mrigasthali to Biswapupa Temple lying within Pashupati premises, the contract agreements of two packages amounting to NRs 38 million 850 thousand are signed with one construction entrepreneur. However, with the commencement of works and payments of NRs. 16 million 251 thousand to the construction entrepreneur, the contracts have been terminated after the receipt of the opinion from Department of Archaeology that cement and concrete can not be used in such works and the heritage conservers have also done the obstruction in the works. Since the acceptance of the Department of Archaeology is not taken and adequate studies and deliberations have not taken place prior to preparation of cost estimates, the reconstruction works are not undertaken and the expenses incurred up to now have become worthless.
132. **Cancellation of Study** - In Rule 11 of Electricity Rules, 1993, it is mentioned that with respects to the survey license granted to any person or institution for specified period, no license shall be issued to any other person or corporate body to carry out the survey of same work in same area. After signing of contract agreement of NRs. 177 million 224 thousand with a consultant to carry out feasibility study and environmental impact assessment of Karnali Stage-1 (184 megawatts), the survey license to Phukot Karnali Hydro Electricity has been granted by duplicating or overlapping 40 meters of same project area. It has caused the cancellation of the agreement made with the consultant of Karnali Stage-1 Project. Since the agreement is cancelled after the payment of NRs. 26 million 472 thousand to the consultant, which is provided for the preparation of Inception Report as per the agreement, the incurred expenses have become worthless.
133. Likewise, the contract agreement of NRs. 16 million 426 thousand is signed with a consultant to carry out feasibility study and environmental impact assessment of Upper Khudi 'A' Hydropower Project, but the contract agreement has been cancelled by showing the causes of geographical difficulty and the area lying in Annapurna Conservation Area. The payment of NRs. 2 million 684 thousand madeto the consultant for preparing the inception report has become worthless. The subject of geographical difficulty and existence of the area in Annapurna Conservation Area can be acknowledged prior to the selection of the project, but the loss has occurred as no consideration is given to the matters. **In above both cases, the concerned**

officials should be held responsible for the losses sustained to the Government of Nepal.

134. **Structure of Social Security Programme** - The Fourteenth Plan mentions that the social security programme will be implemented on the basis of the integrated framework. However, it is observed that the social security programs are based on budgets and assistances rather than fund concept, and the programs are run and managed through the dozens of scattered entities in the absence of integrated legal and administrative structure, and the problems have arisen in maintaining coordination and consistency in the absence of information management system. This has led duplication in works and created the problems in monitoring and evaluation. It has not become possible to make the social security programme life-cycle based, risk-based and life supportive. It has brought ambiguity in implementation programme primarily caused by lack of national policy and integrated legal arrangements, and lack of integrated information management system and functional clarity between federation, provinces and local levels. Hence, in order to make social security programs effective, the operational management of the programme should be done through integrated management information system by formulating the integrated national policy & laws and bring them within a single administrative structure. **By redefining the social security programs, there should be arrangements for identifying the beneficiaries only on the basis of necessity, making the programs to afford the life sustaining expenses, ensuring the participation and ownership of three tiers of governments, making the programs life-cycle based and fund concept & contribution based, and making the monitoring and evaluation effective.**
135. **Air Pollution in Valley** - Department of Environment has prepared Air Quality Management Work Plan of Kathmandu Valley, 2017. Likewise, the Department of Environment has also established air quality monitoring stations in Ratnapark, Pulchowk, Bhaisepati, Bhaktapur and Shankhapark. The comparative figures of air pollution measured by the 5 monitoring stations on an average of 24 hours in 2019 A.D. as compared to the standards set by World Health Organization and the Ministry in 2012 are as follows:

Particles	Unit	World Health Organization Standard	Nepal Standard 2069 (2012)	Ratnapark	Pulchowk	Bhaktapur	Shankhapark	Bhaisepati
PM 10	µg/m ³	50	120	197.97	92.86	194.38	93.9	285.37
PM 2.5	µg/m ³	25	40	140.19	68	70.86	88.18	62.34
T.S.P.	µg/m ³	-	230	437.06	247.89	883.50	441.76	2269.56

The standard prepared by Department of Environment is very high in comparison to the standards set by the World Health Organization. The amounts of PM 10, PM

2.5 and TSP of the most polluted day of the Kathmandu Valley out of year around are much higher in comparison to standards set by the World Health Organization and Department of Environment. While monitored the air pollution of Ratnapark of 321 days in 2019, the amounts of PM 2.5 are found high in 143 days, PM 10 are high in 45 days and TSP are high in 38 days than the national standards. Though the standards are prepared to measure other air pollution such as - carbon monoxide, sulphur dioxide, nitrogen dioxide, ozone, benzene, leads etc., such pollutions have not been monitored regular basis. It is learnt that the laboratory existed in the Department has not capability to monitor such pollutions.

In the above work plan, the activities, such as preparing database of the diseases that originated from air pollution coordinating with hospitals of Kathmandu, preparing air quality standards in line with guidelines of World Health Organization in every 5 years, establishing air quality management decision support system etc. are included, but they have not been implemented. The air pollution may create the cough, asthma, pneumonia related problems, skin disease, eye disease, ear-nose-throat (ENT) problems, respiratory related problems, headache, dizziness, faint, instability, cancer etc. In a study conducted by Nepal Health Research Council in 2017, it is stated that the number of deaths caused by the diseases originated from the air pollution in Nepal has been increasing in comparison to 1990. Hence, the air quality management work plan of Kathmandu Valley prepared by the Department of Environment should be implemented, and the standards in compliance with the World Health Organization should be prepared, implemented and monitored.

136. **Effectiveness of Reconstruction Programme** - In Procedures Related to Earthquake Affected Private House Reconstruction Grant Distribution, 2016, it is mentioned that the homeless families displaced by earthquake will be considered as beneficiaries and the grant amounts are to be spent for the purpose of reconstruction of private houses only. While conducted field inspections by the audits, it is observed that 1 thousand 87 beneficiaries of Gorkha and Dolakha are double enlisted; extra burden of NRs. 459.8 million are borne in distributing grants by the Reconstruction Authority to the beneficiaries that have already obtained benefits from non-governmental organizations; it is learnt from the focus group discussions by audits in Dolakha, Sidhupalchowk, Gorkha, and Dhading that 302 beneficiaries have also got houses in other places; the payments of grant amounting to NRs. 39.9 million have been granted to 139 beneficiaries in Sindhupalchowk, Dolakha, and Dhading without completing procedures; and it is observed from field audits that 268 houses are built different from the approved samples, 5 thousand 130 houses are built without technical supervision and 12 thousand 171 houses are built without the minimum standards. Pursuant to the identification of beneficiaries, monitoring

of construction works, grant payment system and management of records, the concerned entities should take necessary steps to improve their existing working system.

137. **Use of House Construction Grants** - People's House Programme Implementation Procedures, 2016 mentions that the objectives of the programme is to improve in the status of housing of poor and deprived citizens. It is observed in course of audits that although 65 beneficiaries that have got the permanent houses with concrete roofs in Parsa, Rupandehi, Kapilbastu, Bardiya and Mahottari, the grant amounts have also been provided to them. Since the construction works of 1 thousand 122 houses of 9 districts inclusive of Morang and Sunsari are left incomplete, the grant amounts of NRs. 294.3 million provided to the houses have not been in proper utilization. The analysis of the programme progress shows that it has completed only 21 percent construction works on an average in succeeding 4 years as compared to annual targets. The progress of the programme has not been satisfactory as anticipated due to ineffectiveness in identification of beneficiaries, selection of lands, and monitoring, recording & reporting system of the construction works. **There should be improvements in programme implementation and monitoring system of provincial level offices.**
138. **Secondary Education Examination** - The status of students' result of government schools and institutional schools in Grade 10- Secondary Education Examination (SEE) are witnessed as follows:

G.P.A. (Grade)	Result of Academic Year 2074 (2017)				Result of Academic Year 2075 (2018)							
	Number of Student			G.P.A. Ratio	Result Percent		Number of Student			G.P.A. Ratio	Result Percent	
	Government	Institutional	Total		Government	Institutional	Community	Institutional	Total		Government	Institutional
3.6 - 4.0	2815	15869	18684	4	15	85	2792	14788	17580	4	16	84
3.2 - 3.6	10986	38529	49515	11	22	78	11223	39914	51137	11	22	78
2.8 - 3.2	26030	34350	60380	13	43	57	26366	37375	63741	14	41	59
2.4 - 2.8	57135	19973	77108	17	74	26	53730	22834	76564	17	70	30
2.0 - 2.4	98869	7946	106815	23	93	7	87442	10765	98207	22	89	11
1.6 - 2.0	99827	2706	102533	22	97	3	90445	4862	95307	21	95	5
0.8 - 1.60	48042	623	48665	10	99	1	46659	1611	48270	11	97	3
Grand Total	343704	119996	463700	100	74	26	318657	132149	450806	100	71	29

The ratios of examinees that attended in exams in academic year 2017 have stood 74 percent of the community schools and 26 percent of the institutional schools, whilst the ratios have been 71 percent and 29 percent respectively in academic year 2018. In comparison to last year, the examinees in 2018 of government school have declined, whilst the examinees of institutional schools have increased. Out of the total examinees of academic year 2018, the share of students getting 'A' and 'A plus' is 15 percent, 'B' and 'B plus' is 31 percent, 'C' and 'C plus' is 41 percent and students getting less than the G.P.A. is 11 percent. The above description shows that the result of government schools has been witnessed very

poor as compared to community schools. In view of the proportion of the government's investments in educational sector, the educational quality of institutional schools has been witnessed low as compared to community school, and hence, efforts should be made to improve the situation analyzing the matter.

139. **Construction and Use of Structures** - In first phase of Rani-Jamara-Kularia Irrigation Project, 7.8 km canal has been constructed. Out of 100 cumec water discharge from main canal through side intake of the Irrigation Project, 20 cumec water is planned to be used in cleaning sands deposited in the de-silting basin and out of the remaining 80 cumec, 55 cumec water is to be supplied in Rani, Jamara and Kularia branch canals. With respects to the remaining 25 cumec water, there exists a plan to supply in Lamki Extension Feeder Canal. However, the project has constructed Feeder Canal having 40 cumec capacities for irrigating 24 thousand hectares lands by extending the Lamki Extension Feeder Canal from Patharaiya to Kandra. After discharge of 40 cumec water in Lamki Canal, the remaining 40 cumec water will not be sufficient to irrigate 14 thousand command areas. It is because of insufficiency of 40 cumec water channeled in Lamki Extension Feeder Canal to irrigate 24 thousand hectares of lands, a situation has emerged in which the irrigation facility is to be run on rotation system.

Likewise, although 80 cumec. water is needed to generate 4.71 Megawatts electricity by operating the hydropower plants in full capacity, however, the 40 cumec water available in feeder canal can generate only one third electricity, which shows that two third capacities will be not exploited. In addition, since the canal having 95 cumec capacity has been built to channel 80 cumec water, it has created a situation in which the full capacity of canal will not be exploited. **The concerned project chief that has taken such decision should be held responsible.**

• **Accountability and Transparency**

140. **Audit** - Section 35 of Financial Procedures Accountability Act, 2019 provides that every office has to get audits completed through Auditor General by submitting income-expenditure and related books of account of transactions and financial statement. Some major observations related to the non-compliance of fiscal accountability by public entities by completing the audits of expenses relating to transactions are as follows: completed in accordance
- 140.1. Nepal Tourism Board has not completed audits of 2017/18 despite of several reminders. The audit of 2018/19 has not been carried out due to non submission of financial statement and books of accounts of the transactions. **The audits should be completed by taking actions in accordance with Section 57 of the same Act and**

Section 25 of Audit Act 2018 to the responsible officials that have not completed audits.

140.2. As per the statement obtained from Ministry of Federal Affairs and General Administration, it is stated that the technical assistances of NRs. 1 billion 389.6 million (US Dollar 12 million 638 thousand at the exchange rate of NRs. 109.96) will be obtained in 6 activities during this year, but the audits have not been carried out by submitting the financial statement, physical progress and accounts of expenditure of the assistances obtained.

Out of the budget NRs. 783.5 million appropriated in direct payment source under Department of Local Infrastructures during this year, the audits of NRs. 573.2 million has not been completed. Though the direct payment of US Dollar 8 million 900 thousand 265 has been made as per the agreement entered between then Local Infrastructures & Agriculture Road Department and International Labor Organization, the audits of the transactions have not been completed due to non submission of the details of the works performed and expenditure statements in this Office. **Audits should be completed in accordance with the provision of the Act.**

140.3. As per the statement obtained from National Reconstruction Authority, it is stated that the technical assistances of NRs. 826.3 million (US Dollar 7 million 515 thousand at the exchange rate of NRs. 109.96) will be obtained in 7 activities during this year, but the audits have not been carried out by submitting the financial statement, physical progress and accounts of expenditure of the assistances obtained.

140.4. With respect to the budget appropriation of NRs. 1 billion in direct payment grants receivable to Ministry of Health & Population from K.F.W. source under assistances of German Government in this year, the Ministry has spent only NRs. 99 million 262 thousand. The Ministry has stated that the amounts are paid to 3 construction entrepreneurs in respect to the buildings construction of health institutions, however, related accounts have not been produced in course of the audits. **The expenditures should be got audited.**

140.5. For the launching programs under National Tuberculosis Center, DOHS Epidemiology & Diseases Control Division and National Center of AID & STD Control, NRs. 933.7 million inclusive of commodity assistance has been spent during this year through the Save The Children beyond the government machineries. The accounts of the expenditure have not been produced for the audits. Likewise, the commodity assistances of NRs. 1 billion 93.5 million obtained by Department of Health Services have not been audited. **In accordance with the provisions of the Act, all types of income & expenditure should be got audited.**

- 140.6. In Clause 56 of Postal Saving Bank Operations Directives, 2016, it has been provided that the internal audits shall be carried out from the concerned District Treasury Accounts Controller Office and external audit by Office of the Auditor General. The 4 offices, operating the postal saving bank services inclusive of General Post Office, District Postal Office, Udaypur and Rautahat, and Area Postal Office, Shivanagar (Rautahat) have not been audited. **The transactions of saving banks should be maintained updated by completing the audits as per the Directives.**
- 140.7. While receiving grants from Swiss assistance for Safer Migration Project, Ministry of Labor, Employment and Social Security has provisioned in the Clause 11 of the agreement that the audits will be completed through "A Class" auditor. This year, the direct payment of NRs. 102 million 793 thousand has been incurred. as expenditure. **The audits of the direct payment amounts incurred through foreign aid should be completed in accordance with the prevalent laws.**
- 140.8. With the objective to extend the participation of private sector in technical education and vocational training, Technical Education and Vocational Training Council, Swiss Government and Helvetas have entered an agreement to obtain Swiss Franc 9.8 million grants within the period 1st. January 2016 to 31st. December 2019. In the Clause 12.3 of the agreement, it is stated that the assistance amounts shall be audited through Office of the Auditor General. However, the audits of the last year's expenditure NRs. 89 million 940 thousand and this year's expenditure NRs. 100 million 678 thousand have not been carried out from this office. **Assistances should be audited in accordance with the provision of the agreement.**
141. **Accounting and Auditing of University** - In studying the legal arrangements relating to accounting of 11 Universities operating in Nepal, it has been witnessed that the related law of Kathmandu University does not exist any accounting provision, the related law of Nepal Sanskrit University provides that accounts will be maintained 'as specified', the related laws of 4 universities including Purbanchal, Pokhara, Lumbini Baudha and Tribhuvan Universities provide that accounts will be maintained 'in accordance with prevalent laws', and the related laws of 5 universities including Rajaharshi Janak, Far Western, Mid Western, Nepal Open and Agriculture and Forestry Universities provide that accounts will be maintained 'in accordance with accounting system of Government of Nepal'. While studied the legal arrangements related to auditing, the related laws of Purbanchal and Kathmandu provide that accounts will be audited by 'auditors appointed by the Council', and the related laws of the remaining 9 universities provide that the accounts will be audited by 'Auditor General of Nepal'. **Since the universities controlled by the Government have diverse provisions relating to accounting and auditing, there should be consistency in making such provisions.**

142. **Audit of Tribhuvan University** - Section 3 of Audit Act, 2018 provides that the responsible officials shall have to get audit completed by submitting accounts of income-expenditure and financial statements in accordance with the prevalent laws. Pursuant to Tribhuvan University and entities under, the audits of 113 entities out of 134 entities related to the recurrent expenditure, and 25 fiscal years of 14 entities out of 204 fiscal years of 58 entities related to audit backlogs have not been completed with the submission of financial statements. Since the financial statements have not been produced by completing internal audits of 21 entities related to recurrent expenditure and 179 fiscal years of 44 entities related to audit backlogs, the final audits have not been carried out. It has been acknowledged that the University Council has cleared up the audit backlogs of 117 entities (fiscal years) through regularization process by stating that matter that the entities are not in existence and accounts are lost at present, along with the justification that any loss & damages and financial embezzlement have not been occurred to the University from the transactions. **The audits of remaining entities should be completed timely basis in accordance with the prevalent laws.**

• **Scope of Work**

143. **Scope of Work and Budget** - As per the Development Programs and Projects' Classification and Allocation Standards Under Functional Responsibility Of The Federation, Provinces and Local Levels, 2019, it has been mentioned that the total works (including structures) carried out by the then Local Infrastructures and Agriculture Road Department will be conducted through the provincial levels. Major observations witnessed on this subject are as follows:

143.1. As per the Standards, the National Rural Transportation Strengthening Programme is to be conducted through the Provincial Government, but the programme has been implemented through the Federal Government. For implementing the programme, the budget of NRs. 352 million 634 thousand has been appropriated and NRs. 54 million 7 thousand has been spent in this year.

143.2. As per the Standards, the Rural Access Programme, Western Nepal Rural Water Supply Project, Rural Water Resources Management Project, Eastern Chitwan River Management & Livelihood Programme, Small Irrigation Programme, Local Level Road & Bridge Programme (18 Bridges), and Suspension Bridge Sectoral Programme are to be conducted through the Provincial Governments, but the Department on the behalf of Government of Nepal has been implementing the programs. For operating and implementing the programs, total budget of NRs. 1 billion 556 million has been appropriated and NRs. 1 billion 244.3 million has been spent in this year. The Department has not provided any reaction about the work scope in the replies to audit queries provided by the Department.

143.3. As per the Standards, the suspension bridges related works are to be conducted through the provincial levels, but the construction works have been carried out through Suspension Bridge Division of Government of Nepal without making the handover of authorities to Provincial Government. For office operations, bridge construction and preparation of D.P.R., total budget of NRs. 981 million 4 thousand has been appropriated and NRs. 978 million 995 thousand has been spent in this year.

There should be arrangements to operate programs on the basis of the defined work responsibility.

144. **Scope of Contract** - Section 59 of Public Procurement Act, 2007 provides the provision related to termination of procurement contract by the public entities. To construct 6 kilometer canal and associated structures in Singhaniya Branch Canal under Sikta Irrigation Project, a contract agreement was made with one construction entrepreneur on 2014/06/19; however, the contract period has been extended up to 2019/02/06. The contract amount has been increased to NRs. 103 million 163 thousand with an increment through 10.69 percent variation giving reasons of the heights of embankment need to be increased, concrete structures of the canal need to be increased in various places as per demand of local people, and the contract has been terminated after the construction of the canal up to 5.2 kilometer with the payment of NRs. 99 million 797 thousand giving the reason that all quantities included in Bill of Quantity have already completed. In a state of 800 meter works remaining to be completed out of the works mentioned in initial contract, the contract has been terminated showing the reason that the construction entrepreneur has rejected to carry on further works. It is not appropriate to settle the contract without completing all works specified in the contract. To complete the remaining works, the project has approved an estimate of NRs. 43 million 5 thousand and entered a contract agreement of NRs. 32 million 254 thousand with another construction entrepreneur on 2019/05/19. The officials, which have raised extra burden to the Government of Nepal through the settlement of the existing contract and arrangement of another contract agreement after the elapse of almost 5 years contract giving the reason that the scope works included in the contract can not be performed, should be held responsible.

• Service Delivery

145. **Printing of Driving License** - Department of Transport Management has been distributing driving licenses by printing smart cards to the persons that have passed in driving license tests. The Department had purchased 5 sets of smart card printers at a cost of NRs. 47 million 278 thousand in 2013 and 2017, but the machines could not be used presently due to unavailability of parts. Though the Department has

purchased mass printers in this year, but the machines have not been accepted by examining quality tests. As per information furnished, it is known that 699 thousand persons have not obtained smart cards that have passed in tests conducted from 2075 Paush to 2076 Magh. Due to delay in printing of the smart cards, the persons that have passed in test examination are operating vehicles on the basis of revenue receipts only. **There should be arrangements to print driving licenses timely basis.**

146. **Jail Management** - The present infrastructure of jails has total capacity to afford 16 thousand 566 prisoners including 14 thousand 875 males and 1 thousand 691 females, but total of 23 thousand 875 prisoners (44 percent in excess of the capacity) including 22 thousand 371 males and 1 thousand 504 females have been kept in the jails. Dillibazar Jail has 450 prisoners capacity, but 599 prisoners have been kept by exceeding 33 percent than the capacity. Nakhhu Jail has 800 prisoners capacity, but 1 thousand 390 prisoners have been kept by exceeding 74 percent than the capacity. Out of the prisoners kept in Nakhhu Jail, 24 percent prisoners require consuming medicines daily basis, and 158 prisoners are mentally sick and 3 prisoners are HIV Aids disease sick. Kavre Jail has 20 prisoners and Lamjung Jail has 2 prisoners which are mentally sick. There have been no separate arrangements made to keep the mentally sick prisoners. **Additional efforts should be made to improve the jail management.**
147. **Crime Investigation** - Though the Central Crime Investigation Department, Central Investigation Bureau and other entities of Police Organization are in existence for crime investigation, control and peace maintaining works, the works of crime investigation and control have not been becoming effective. As per the statement obtained, the number of crime incidents, such as - murder, suicide, theft, organized and financial crime, social crime, women and children related crime and vehicle related crime has been rising every year, the figures of which shows the settlement of 9 thousand 269 cases out of 28 thousand 563 cases registered in 2015/16, settlement of 8 thousand 982 cases out of 31 thousand 462 cases registered in 2016/17, settlement of 13 thousand 596 cases out of 39 thousand 315 cases registered in 2017/18, and settlement of 12 thousand 434 cases out of 43 thousand 47 cases registered in 2018/19. **The registered crime cases should be settled on timely basis by making necessary investigation.**
148. **Operation Licenses** - Directives Related to Health Institution Establishment, Operations and Upgrading Standards, 2013, provides that any health institution is not to be operated without getting licenses. Ministry of Health & Population has received applications from 14 institutions (medical colleges, hospitals) for running the health institutions (more than 200 beds in each) having 7 thousand 461 beds, but

the Ministry has not taken any action with respects to the applications received for licenses.

The health institutions have been in operations despite of the permissions are not been obtained, and as a result, the recoverable operation license fees and renewal fees have not been collected. Necessary decisions have not been taken about of the applications received for permissions even after elapse of 10 years, which is not appropriate. **The Ministry should make necessary decisions with respects to the application received.**

149. **Delivery of Health Service** - To make the hospital services effective, the management of physical infrastructure, human resources and equipment are to be done properly. Some observations related to the status of delivery of health services are mentioned below:
- 149.1. Though the cost estimate of NRs. 569.8 million along with the master plan has been prepared to construct new hospital building for Sahid Sukraraj Tropical and Infectious Diseases Hospital, but the mater plan has not been approved yet. The budgets allocated in every year since 2016/17 has not been spent due to non approval of the mater plan. It has been acknowledged in course of the audits that the Council of Ministers of Government of Nepal has given theoretical approval to construct 300 beds infectious diseases hospital outside the urban area, but the decision has not been availed to the audits. In view of the rise of patients affected by infectious diseases every year and minimal capacity of the hospital to keep safe from various types of virus infections such as SARS, Corona etc. that created pandemic in the worldwide presently, there should not be any further delay in approval of the mater plan and the construction of the hospital buildings.
 - 149.2. Though the Kanti Children Hospital has the capacity of 52 ICU beds, it has been operating only 31 beds. This year, the Hospital has referred 1 thousand 213 children to other government and private hospitals citing the lack of beds. This has created difficulty in attaining the hospital services.
 - 149.3. In B.P. Koirala Health Science Academy, Dharan, the machinery equipment costing NRs. 90 million 71 thousand are not in operations due to lack maintenance and quality standards, 5 ventilator sets costing NRs. 2 million 384 thousand are not in operations due to low quality, ENT Operating Microscope purchased at a cost of NRs. 6 million 256 thousand has not been operated till now, and 8 dialysis machines costing NRs. 9 million 627 thousand are not in operations due to lack of space for installation.
 - 149.4. In Narayani Hospital, Birgunj, the CT Scan Machine and Automatic Analyzer Machine costing NRs. 54.4 million are not in operations due to lack repairs and

maintenance. The Hospital has possessed 11 dialysis machines, but it has operated only 6 machines due to lack of space. Patients are deprived from getting the services since the hospital has not carried out the repair and maintenance of the machines.

- 149.5. Bheri Hospital, Nepalgunj has possessed 4 dialysis machines, but it has operated 2 machines only. It is stated that the Hospital should have at least 5 machines as per the flow of patients, but adequate services have not been delivered due to lack of machines. The Hospital has CCU unit with medical equipment, but the unit has not been operated due to lack of human resources. The Hospital has 65 approved positions of doctors, but only 33 positions have been fulfilled. The Hospital has to refer 661 patients to other places in this year due to 32 positions are falling vacant including nephrologist. **Attentions should be given in providing the delivery of quality services by making proper management of human resources, equipment and medicines.**
150. **Cancer Treatment Equipment** - National Academy of Medical Sciences (Bir Hospital) has purchased C.T.Simulator and Tomo Therapy Machine at a cost of NRs. 479 million 60 thousand 2 years ago for the treatment of cancer disease, but the machine has not been yet installed as 60 Radio Active Source are not safely managed on time and the available bunker is not vacant for keeping the purchased equipment. The treatment of cancer patients has been affected since the machine is not installed.
151. **Postal Service Operation** - The scope of the public postal service has been decreasing with the development of technology and the operation of postal service, parcels and courier services by the private sector. In comparison to the number of inland transfer of 34 million 551 thousand of general, registry, insurance, parcels, book-posts etc. in 2016, the numbers of transfer have declined to 33 million 451 thousand in 2017 and 25 million 334 thousand in 2018, which has fallen by NRs. 8 million 117 thousand as compared to previous year. The workload of postal services has been decreasing every year in comparison to the respective previous year. Though the audit recommendations are incorporated in previous years in respect to the need of restructuring and diversifying existing postal services considering the changes taking place in transfer of postal services, the situation has remained unchanged.

• National Pride Projects

152. **Up-To-Date Progress** - To implement projects according with high priority, the Government of Nepal has declared national pride projects to the 17 projects that are significant from the several perspectives and the number such projects has reached

to 23 up to this year. The expenditure incurred and progress achieved in the national pride projects up to 2018/19 are as follows:

(NRs. Billions)

S. No.	Name of Project	Commenced Year	Estimated Completion Year	Total Cost Estimated	Total Expenditure Till Date	Physical/ Financial Progress Percent
1	Melamchi Drinking Water Project	1998/99	2020/21	35.54	27.00	95.12
2	Upper Tamakoshi Project	2010/11	2019/20	49.29	46.23	99.4
3	Pushpalal Mid-Hill Highway Project	2007/08	2022/23	84.33	39.41	48
4	Budi Gandaki Hydropower Project	2012/13	2027/28	260.00	36.20	14*
5	Gautam Buddha International Airport	2013/14	2019/20	30.41	23.01	74
^	Rani Jamara Kulariya Irrigation Project	2010/11	2023/24	27.70	11.54	43
7	Sikta Irrigation Project	2004/05	2020/21	25.02	15.50	58.84
8	Babai Irrigation Project	2088/89	2022/23	18.96	7.65	46.4
9	Bheri-Babai Diversion Multi-purpose Project	2011/12	2022/23	33.61	10.34	38.4
10	Western Seti Hydropower Project	-	-	147.80	-	-
11	Pashupati Area Development Trust	2000/01	-	2.01	0.71	40
12	Lumbini Area Development Trust	2009/10	2022/23	6.10	4.62	82
13	Pokhara Regional International Airport	2014/15	2022/23	22.60	6.42	42
14	Nijgadh International Airport Project	2014/15	-	700.00	0.59	10
15	Kathmandu-Tarai Madhesh Fast Track	2007/08	2023/24	213.95	18.38	8.5
16	Railway and Metro Development Project	2009/10	-	955.22	14.06	11.4
17	North-South (Karnali Corridor) Highway	2008/09	2022/23	11.00	1.99	20
18	North-South (Koshi Corridor) Highway	2008/09	2023/24	16.20	2.41	15
19	North-South (Kaligandaki Corridor) Highway	2009/10	2023/24	28.80	5.33	13
20	Postal Highway Project	2008/09	2022/23	65.20	27.53	44
21	President Chure-Terai Conservation Development Board	2009/10	-	8.55	7.94	92.96
22	Electricity Transmission Project	-	-	-	-	-

Source: National Pride Project's Progress Book 2018/19 published by National Planning Commission and information obtained in course of audit.

***Financial progress has been shown as physical progress not available.**

- 152.1. Melamchi water Supply Project was started on 1998/99 with a target of completing by 2007/08 to supply 170 million liters of water from Malamchi River of Sindhupalchowk to Kathmandu Valley through constructing 27.5 km long tunnel in first phase, but the targeted completion year has been extended up to 2020/21 revising the period for the fifth time. In comparison to initial cost of NRs. 24 billion, the project has grown up to 35 billion 540 million due to delay in work completion. Up to this year, the final finishing works after the construction of tunnel and the works of laying pipes in the Kathmandu valley are going on. Similarly, the project has shown total expenditure of NRs. 27 billion and physical progress of 95.12 percent along with the completion of first phase construction works of Water Treatment Plant of Sundarijal and the completion of 90.5 percent works of second phase. However, it is witnessed that the construction entrepreneur that has assumed the responsibility to construct headwork and tunnels has already left the works, the

project has been confronting with the problems of obstruction in works time to time as a result of various reasons, and the various works such as headwork construction, hydro mechanical gate installation, ventilation Shaft installation are still outstanding.

- 152.2. Upper Tamakoshi Hydropower Project was commenced since 2010/11 with the target of generating 456 megawatt electricity. Though the project's initial cost was NRs. 35.29 billion and the targeted completion period was 2015/16, the project's both cost and time has been increasing due to non-accomplishment of works in specified time owing to various reasons inclusive of occurrence of earthquake. Accordingly, the revised cost estimate has increased to NRs. 49.29 billion and revised completion time is extended to 2019/20. Though the project has shown the physical progress of 99.4 percent up to this year, the works inclusive of installation pen stuck pipes are still outstanding. The project works has not completed due to several problems inclusive of the works are not performed satisfactorily by the construction entrepreneur that has taken the installation of pen stuck pipes, and difficulties arose in transportation of large/heavy loaded equipment.
- 152.3. Mid-Hill Highway Project, which plans to connect Chiyo Bhanjyang of Panchthar from the east to Jhulaghat of Baitadi to the west by constructing/upgrading a total length of 1 thousand 879 km road and constructing 129 bridges lying in the road, commenced in 2007/08 with an estimate of completing by 2017/18, but the target of completing works has been extended up to 2022/23. Though the project's initial cost was NRs. 33.36 billion, the cost has increased to NRs. 84.33 billion owing to changes in alignment and length of the roads. The project has been confronting with various problems such as lack of demarcation, disputes and changes in alignment of the roads. Out of the total roads of the project, the construction of blacktopping of 809 km road (including 340 km constructed by the project and 462 km constructed by other entities) and the construction of 67 bridges have been completed. Up to this year, the project has achieved 48 percent physical progress by incurring total expenditure of NRs. 39.41 billion.
- 152.4. Budhigandaki Hydropower Project, which is situated in between the border of Dhading and Gorkha District and has a potential to generate that installed capacity of 1200 MW, has been commenced since 2012/13 with the target of completing by 2020/21. But, the targeted completion time has been revised up to 2027/28. The estimated total cost of the project is NRs. 260 billion. The project has distributed NRs. 26.50 billion compensations up to this year in respect to the acquisition of 44 thousand 120 ropanies lands. There has been no improvement in the last year's situation of non determination of land compensation of Aarughat and Aarukhet

Bazar of Gorkha and Aarughat Bazar of Dhading. The project has achieved 14 percent financial progress, but it has not achieved any physical progress.

- 152.5. With an objective to develop the tourism sector sustainable manner by upgrading the existing Gautam Buddha Airport into an international airport, this project has been started from 2013/14 with a target of completing by 2018/19, but the time of completing works has been extended up to 2019/20. As compared to initial estimated cost of NRs. 29.81 billion, the cost has grown up to NRs. 30.41 billion. Up to this year, the project has completed 74 civil works and 6.25 percent electro-mechanical works and other construction works are still ongoing. The project's cost is likely to increase with the extension of time caused by a dispute between main construction company and subsidiary company, problems in cash flows in construction company and non availability of construction materials. The project has incurred total expenditure of NRs. 23.01 billion and achieved 74 percent physical progress up to this year.
- 152.6. Rani Jamara Kulariya Irrigation Project has been commenced since 2010/11 with an objective to provide the irrigation facilities in 38 thousand 300 hectares of agriculture suitable lands of Kailali District. Though the project had an initial estimated cost of NRs. 12.37 billion and targeted time of completing by 2017/18, but both cost and time has been rising due to non-accomplishment of specified works on time. As a result, it has revised the cost estimate increasing to NRs. 27.70 billion and completion time up to 2023/24. The project is suffering from problems in the land encroachments in intake area, obstruction in survey and construction works of main canal under Lamki Extension Area, and long- outstanding contracts. It has incurred the expenditure of NRs. 11.54 billion and achieved 43 percent physical progress up to this year.
- 152.7. Sikta Irrigation Project has been commenced since 2002/03 with an objective to provide the irrigation facilities in 42 thousand 766 hectares agriculture suitable lands by a constructing a dam in Rapti River situated Agaiya of Banke District. Though the project had prepared the initial cost of NRs. 12.80 billion and targeted time of completing by 2012/13, the project's both cost and time has been rising due to non-accomplishment of specified works on time. As a result, it has revised the cost estimate increasing to NRs. 25.02 billion and extended time completing by 2020/21. The project is suffering from several problems, such as delay in amendment of mater plan, shortage of construction materials, obstructions by local people, and delay in execution of works from the side of construction entrepreneur. The project has incurred the expenditure of NRs. 15.50 billion and achieved an overall 58.84 percent physical progress up to this year.

- 152.8. Babai Irrigation Project has been commenced since 1987/88 to provide the irrigation facility in 36 thousand hectares of agriculture suitable land of Bardiya District. Though the project has prepared an initial cost of NRs. 2.87 billion and targeted time completing by 2012/13, the project's both cost and time have been increasing due to non-accomplishment of specified works on time. As a result, the project has revised the cost estimate increasing to NRs. 18.96 billion and extended time completing by 2022/23. The project is suffering from problems of the obstructions by local people and delay in works execution from the side of construction entrepreneur. The project has incurred the expenditure of NRs. 7.65 billion and achieved an overall 46.4 percent physical progress up to this year.
- 152.9. Bheri-Babai Diversion Project has been commenced since 2011/12 with an objective to generate electricity by diverting 40 Cusec. water of Bheri River into Babai River and provide irrigation facility in 51 thousand hectares of land. Though the initial cost of the project was NRs. 16.61 billion, the revised cost has been increased to NRs. 33.19 billion along with the construction of dam and power house. As against the estimated completion time of 2019/20, the revised completing time has been extended up to 2022/23. Of the three major works - the construction of headwork in Bheri River and 12 km long tunnel, and the construction of power house in Babai River, the construction works of tunnel has already been completed. The project has incurred total expenditure of NRs. 10.34 billion and achieved an overall 38.3 percent physical progress up to this year along with the successful tests of tunnel boring machine.
- 152.10. Pachhim-Seti Hydropower Project, which has existed in boundaries between Doti, Dadeldhura and Bajang districts, has a plan to generate a total of 750 megawatt electricity. The estimated cost of project is NRs. 14.87 billion. Though the project has entered an agreement with one foreign company for the development of the Project, the company has expressed inability to carry on the project. A three members committee has been constituted to give suggestions on the project development model. The construction works has not yet begun as the modality of construction of the project has not been finalized.
- 152.11. This project has been commenced since 2000/01 with an objective to develop the Pashupati area as a model place of religious, cultural and eco-tourism on the basis of Pashupati Area Master Plan, and the project has been included in 2013/14 as a national project project, but the targeted completing time has been yet determined. As compared to total cost NRs. 2.01 billion, the project has incurred expenditure of NRs. 710 million and achieved 40 percent physical progress up to this year. The project should give an attention in approval of second master plan and speeding up the reconstruction works. The project which commenced in order to achieve specific

objectives should be completed on time by mobilizing the construction materials, skilled manpower, and timely management of contracts.

- 152.12. Lumbini Master Plan has been included as a national pride project since 2013/14 with the target of completing by 2022/23. Against the project's entail cost NRs. 5.55 billion, the cost has been revised to NRs. 6.10 billion. The works of land purchase of the archaeological site of Devdaha-Ramgram, construction of staff colony as per master plan, black-topping of service roads, and construction of electricity transmission lines are yet to be completed, and the construction works of international level meditation center and meeting hall having the capacity to accommodate 5 thousand persons have completed 60 percent. The project has incurred the total expenditure NRs. 4.62 billion and achieved an overall 82 percent physical progress up to this year.
- 152.13. This project has been commenced since 2014/15 with an objective to promote the tourism by constructing Pokhara Regional International Airport, and the project has revised target of completing works by 2022/23. As per the project implementation agreement reached between the Government of Nepal and the Government of China, the construction works have been started from 2017 and the estimated total cost of the project is NRs. 21.60 billion. The construction works of runway, taxiway and apron have completed and works of terminal building and other buildings are still ongoing. The project has incurred total expenditure NRs. 6.42 billion and achieved an overall 42 percent physical progress up to this year. The physical progress of the project has not been witnessed as anticipated due to various reasons inclusive of the detection of hard soil in course of digging lands and the obstruction in acquisition of additional land.
- 152.14. This project has been commenced since 2014/15 with the objective to construct an International Airport, Nijgadh, Bara and the total cost of the project is about NRs. 7 billion. Up to this year, the project has incurred total expenditure NRs. 590 million for conducting works of construction of dam in Pasaha River, temporary fencing in various places and distribution of compensation and achieved 10 percent physical progress. The project has main challenges in management of Tagiya dwellings and taking decision on model of project construction. The completion time of the project has not been determined yet.
- 152.15. Kathmandu-Terai-Madhesh Fast Track, which connects the Capital with Tarai Madhesh, has the total length of is 76 km. The construction works of this Fast-Track Project which commenced since 2007/08 has been handed over to Nepal Army for carrying out the construction works with a revised target of completing by 2023/24. Out of the total length 76.2 km roads, the actual length of road to be constructed is 55.50 km after deduction of the length of bridges and tunnels. The progress report

shows that, out of the road length, the construction up to sub-grade formation level works of 25.44 km road has completed one hundred percent, the construction of 10.92 km roads has completed over 80 percent, and the construction of 16.09 km roads has completed 50 to 80 percent. The project has been encountering the problems such as - changes in the road alignment in Khokana area, problems in land acquisition and granting compensation to houses/cottages, and overlap of alignment with Kanti Highway in Thingan-Lendanda area. Up to this year, total of 8.5 percent physical progress has been achieved by incurring expenditure of NRs. 18 billion 379.9 million through Department of Roads and Nepal Army.

- 152.16. The Rail, Metro and Monorail Development Project, has been commenced since fiscal year 2009/10, with the objectives of constructing East-West Railway and associated trials, Kathmandu-Birgunj Railway & other railways and study and construction of metro-rail and mono-rail in other cities, but the estimated completion time of the project has not been yet ascertained. The total cost of the project is NRs. 955.22 billion and the cost of Bardibas-Nijgadh Section railway, the construction works of which is now ongoing, is NRs. 70.61 billion. Up to this year, the construction work of track construction of 30 km Bardibas-Lalbandi Section is ongoing, construction of 225 meters long Kaliner Bridge has completed, D.P.R. Out of 421 km railway line is prepared and the project has been confronting with the problems the like, land acquisition and compensation distribution etc. Up to this year, total of 11.4 percent physical progress has been achieved by incurring expenditure of NRs. 13.85 billion.
- 152.17. North South (Karnali) Corridor Project has been commenced since 2008/09 with an objective to construct 196 km Khulalu-Simikot Road and 88 km Hilsa-Simikot Road. The project had prepared an initial cost estimate of NRs. 4.10 billion with the target of completing by 2013/14, but both cost and time of the project have been increasing due to non accomplishment of specified works on time. Accordingly, the estimated cost has increased to NRs. 11 billion and extended the completion time up to 2022/23. The project has been confronting with difficulties, the like-transporting of construction materials and fuels etc. It has completed an additional 10 km track opening works in this year on the top of 11 km track opening completed in previous year. Up to this year, the project has achieved 20 percent physical progress by incurring total expenditure NRs. 1.99 billion.
- 152.18. North-South (Koshi) Corridor Project has been commenced since 2008/09 with an objective to construct and upgrade 162 km road beginning from Basantapur of Tehrathum District to northern border Kimathanka. Against the project's initial cost estimate of NRs. 5.79 billion, the cost estimate has been revised increasing to NRs. 16.20 billion along with the revised target of completing by 2023/24. The project

has encountered the problems, such as - dispute on alignment in some of sections, lack of blasting materials etc. It has completed 148 km track opening up to this year and completed the black-topping of 12 km roads in this year. The project has achieved 15 percent physical progress by incurring total expenditure of NRs. 2.41 billion up to this year.

- 152.19. With the objective to construct and upgrade roads starting from Gaidakot of Nawalparasi passing through Ridi of Gulmi, Maldhunga of Baglung, Beni and Jomsom up to Corala Passage of northern border, North-South (Kali Gandaki) Corridor Project has been commenced since 2009/10 at a cost of NRs. 28.80 billion with the target of completing works by 2023/24. The project has been facing the problems, such as - delay in tree cutting, easy use of blasting materials, extreme height in Upper Mustang area etc. It has completed the track opening of 244 km in Gaidakot-Ramdi-Maldhunga Section and 186 km of Beni-Josom-Korala Section. The project has achieved 13 percent physical progress by incurring total expenditure of NRs. 5.33 billion up to this year.
- 152.20. With the objective to construct and upgrade total 1 thousand 792.42 km roads inclusive of 975 km east-west roads and 817.42 km subsidiary roads linking north-south, and construct 219 bridges, Hulaki (Postal) Highway Project Project has been commenced since 2008/09 at a cost of NRs. 65.20 billion with the target of completing works by 2022/23. The project has been confronting with the problems such as - distribution of compensation, lack of construction materials, dispute in alignment, dispute in road boundaries etc. By completing black-topping of 270 km and gravelling of 326 km roads and construction of 81 bridges, the project has achieved an overall 44 percent physical progress by incurring total expenditure NRs. 27.53 billion up to this year.
- 152.21. With the objective to conserve the natural resources of Chure area, sustainable management, and contribute in poverty alleviation and national goal of prosperous Nepal through conservation of ecological services, President (Rastapati) Chure-Tarai Madhesh Conservation Development Board has been included as a national pride project since 2013/14. The project has been implemented as a recurrent programme with an initial cost estimate of NRs. 1.25 billion, but the cost has been increased to NRs. 8.55 billion. The project has been conducting various activities inclusive of management river/steam banks, protection of gorges and landslides, recharging ground water and construction/conservation of ponds, protection and management lakes/ponds, rehabilitation of damaged lands, construction of dams, production of saplings and afforestation, control of forest fires, controls of forest encroachments and export smugglings etc. It has achieved an overall 92.96 percent physical progress by incurring total expenditure NRs. 7.94 billion up to this year.

152.22. The Government of Nepal has listed the Galchhi-Ratemate Transmission Line connecting Lapsephedi of Kathmandu to Dhading and Damauli-Bharatpur-Butwal Transmission Line as the national pride projects in 2018 which are to be implemented under the assistance of Millennium Challenge Corporation of United States of America. The total cost of the project is US Dollar 630 million (approximately NRs. 70 billion) inclusive of the US Dollar 500 million grants receivable from Millennium Challenge Corporation, the government agency USA and US Dollar 130 million to be financed by Government of Nepal as co-financing. For the implementation of the agreement, the Government of Nepal has constituted Millennium Challenge Account Nepal Development Board.

On an overall, it appears that the projects will not complete in specified time and the projects' both the time and costs will rise due to various reasons inclusive of - lack of implementation capacity, weak contract management, problems/delay in land acquisition and tree cutting, disputes in alignment, demarcation and border lines, lack of construction materials, lack of inter agency co-ordination, non-finalization of implementation modality of some projects, and delay in preparation of detailed feasibility study and detailed project report etc.

• Public Procurement Management

153. **Direct Purchase** - Section 8(2) of Public Procurement Act 2007 provides that procurement shall not be conducted slicing one work into pieces as to limit competition. However, 35 ministries and subordinate offices operating under Ministries – Federal Parliament Secretariat, Urban Development, Energy, Water Resources & Irrigation, Water Supply, Physical Infrastructures & Transportation, Agriculture & Livestock have undertaken direct purchases of NRs. 72 billion 137.1 million without making any competition by fragmenting the works/acts of infrastructure construction/repairs, goods purchases, feasibility studies into many pieces. As against the provisions of the Act, such procurements should not be carried out by limiting the competition.
154. **Direct Purchase Without Programme** - Rule 23 of Financial Procedures Rules, 2007 provides that any programs shall have to be approved, Rule 35 provides that the order for incurring expenses shall have to be issued only if the programme falls within the approved budget and concerned expenditure heading, and Rule 31 of Public Procurement Rules, 2007 provides that any goods having cost estimate above NRs. 2 million shall have to be purchased through the medium of tender bidding.

By stating the need to purchase "hydraulic bore Pile machines" for easing the construction of railway bridges and speeding up in the construction works of East-West Railways, the Rail, Metro, Monorail Development Project, with approval of

the cost estimate of NRs. 98 million 871 thousand and making the Director General level decision, has issued an order to one bridge related construction entrepreneur for making direct purchase of the machine from the provisional sum amount NRs. 99 million as provisioned in item no. 1.1 of the contract agreement which arranged in 2017/18. For purchasing the machine, the programme has not approved from Ministry of Physical Infrastructure and Transportation, and the direct purchase has been carried out through one Italian company from bridge construction budget without making necessary virements. Though the responsibility to complete the construction works is of the construction entrepreneur as per the contract, but any pre-approval of the Ministry has not been taken by disclosing the matter of the need to purchase the machine for easing in such construction works. Thus, the procurement appears not in conformity with the Rules.

155. **National Construction Capacity** - Nepal has made commitment to become a middle income country by upgrading from least developed country by 2022 and achieving sustainable development goals by 2030. After the implementation of federalism, the goal of 'Prosperous Nepal and Happy Nepali' as pronounced by the Government of Nepal are to be achieved. For the attainment of the goal, the investments of the Government and private sector have been increasing in hydro-powers, roads, irrigation, urban development, airports, parks, power houses, factories and other construction related projects. For the attainment of the Government's prosperity goal, it is necessary to make an analysis on the national construction capacity by assessing the manpower and number of construction entrepreneurs which required for operating projects related to private and public development works, availability of machineries & equipment and availability of construction materials which required for the construction works. **Though this matter incorporated in previous year report along with the suggestion that Ministry of Physical Infrastructure & Transportation should perform the assessment work by coordinating with other agency, but the situation has remained status quo.**
156. **Cost Estimate** - As per legal provision, any work the cost estimate of which is up to NRs. 10 million excluding VAT, overheads, and contingencies shall have to be carried through user committees. However, the Federal Project Implementation Unit, Kailali, Surkhet and Intensive Urban & Building Construction Project Parsa and Jhapa have carried out the 20 road construction works through the user groups by making agreements of NRs. 184.8 million and paid NRs. 106 million. **Since the cost estimates of each of the works prepared in accordance with laws are witnessed more than NRs. 10 million, the concerned officials that have given decisions for conducting works against the laws should be held responsible.**

157. **Security Printing Press** - For the establishment of Printing Press in premises of Information Technology Park Panauti Kavre, the works of preparing drawing design of the factory building construction and the electro-mechanical works inclusive of installation of printing machines after completion of construction works are to be done simultaneously, but prior to the completion of building construction works, an agreement amounting to NRs. 489.8 million has been signed for the electro-mechanical infrastructure related works through the invitation of tender on the basis of cost estimate of NRs. 499.8 million. In a situation of any decision not taken pursuant to procurement of security printing machines and non-start of any procedure to fulfill the manpower required for operations, the machinery equipment including plotter, heavy-duty multi-functional printer at a cost of NRs. 11 million 475 thousand, and kept them in stock.

158. **Procurement of Electro-Mechanical Infrastructure** - Rule 31 of Public Procurement Rules provides that any goods costing more than NRs. 2 million shall have to be purchased through open tender bidding. While inviting the national competitive bidding by Office for the purchase of electro-mechanical infrastructure, it had obtained 2 biddings. In making evaluation of the registered biddings, the technical proposal of one bidder became disqualified and since the technical proposal of another bidder became qualified, the financial proposal of the bidder quoting bid amount NRs. 489 million 835 thousand has been approved.

In procurement contract of electro-mechanical works, it is mentioned that the defect liability period will remain up to 5 years with effective from the completion of works, and the license period of SCADA Software will be of 20 years. Though the electro-mechanical infrastructure work is completed in first trimester of 2019/20, the defect liability period of electro-mechanical infrastructure and license period of software have elapsed without any usage due to non completion of construction of the security printing factory building and non finalization of purchase of the printing machines. **Since the procurement work is not deemed to have conducted in compliance with the laws economically, the concerned officials involved in the procurement should be held responsible.**

159. **Uncompleted Works** - Rule 115 of Public Procurement Rules, 2007 provides that each public entity shall have to ensure that the goods supplied are in accordance with the technical specification and quality specified in the contract. Out office of Master General Ordnance had entered a procurement contract amounting to NRs. 14.56 million on 2018/07/05 in respect to the casing construction, equipment installation and electrification works that required for the operations of MRI machines that receivable under foreign assistance with the terms of the works to be completed within 2018/07/08. Though the construction entrepreneur has completed

the construction of casing works, the installation has not been carried out as the machines are not obtained. Since the entrepreneur has been granted full payment on the basis of work progress, the expenditure to be incurred for installation is at risks.

160. **Procurement Through Non-Governmental Organizations** - Section 46 of Public Procurement Act, 2007 provides that the people's awareness building related training, orientations, empowering, mainstreaming etc. works may be conducted through the non-governmental organizations. Rural Water Supply & Sanitation Fund Development Board has purchased the construction materials such as cement, GI pipes, LDP pipes, fittings, valves, tools etc. from non-governmental organizations and has paid NRs. 153 million 574 thousand. Likewise, Urban Development & Building Construction Department, Intensive Urban & Building Construction Project - Parsa, Dhobikhola Corridor Project, Kathmandu Valley Development Authority, and District Commissioner Offices - Kathmandu, Bhaktapur and Lalitpur have spent NRs. 160.3 million in this year by conducting the public construction works such as drainage construction, roads upgrading, retaining walls and parks construction through 37 non governmental organizations on the basis of direct methods. **Necessary actions are to be taken as per prevalent laws by making responsible to the concerned officials that have incurred expenses by conducting construction works as against the prevalent laws.**
161. **Procurement Of Consultancy Service** -As per decision of the Government of Nepal, a contract agreement amounting to NRs. 872 million 611 thousand has been signed with a consultant for the personalization and distribution works of National Identity Card. The works should be completed within specified period by making the arrangements for regular monitoring and reporting of the works mentioned in the contract.

• Contract Management

162. **Contract Management** - As per Financial Procedure Rules, 2007, the work of approving contract agreement should be done within first trimester period. However, the 112 entities under Ministries - Development, Water Supply, Irrigation, Physical Infrastructure, have arranged total of 1 thousand 253 contract agreements amounting to NRs. 45 billion 653 million, and of the contracts arranged, the 1 thousand 134 contracts amounting to NRs. 44 billion 75.9 million have been arranged in second and third trimester period in this year. Out of the contracts arranged in third trimester, 237 contracts amounting to NRs. 21 billion 157.7 million have been arranged in the last month of fiscal year (Asadh Month).
163. **Time Extension** - Section 56 of Public Procurement Act 2007 provides that in the cases where the period of procurement contract is to be inevitably extended due to

force majeure, failure of the Public Entity to make available the materials to be made available by it or other reasonable causes, the competent authority may extend the period of the contract on the prescribed grounds. This year, the 103 entities including the Ministries - Physical Infrastructure & Transportation, Urban Development, Energy, Water Resources & Irrigation and Water Supply and subordinate offices have granted time extension in 20 thousand 125 contracts. In analyzing the time extensions, it is witnessed that the time extensions up to 50 percent of the initial contract period have been given in 9 thousand 359 contracts, extensions of 51 to 100 percent of initial contract period given in 4 thousand 540 contracts, and extension more than cent percent of the initial contract period given in 6 thousand 226 contracts. In granting such time extensions, the concerned authorities have not made adequate analysis in respect to the additional financial burden to be borne and non availability of services/facilities to service recipients on time.

164. **Finalization of Contract** - Rule 124 of Financial Procedure Rules, 2007 provides that the final payment shall be made after the acceptance by the entity that works have been completed in accordance with the terms of contract. However, with respect to 17 contracts of NRs. 154 million 81 thousand arranged by Department of Archaeology for reconstruction of heritages, the Department has finalized the contracts after the payment of NRs. 116 million 710 thousand granting payment 46 percent to the minimum to 85 percent to the maximum and 76 percent on an overall. The final bills have been settled in spite of non-accomplishment the required quantity of specified in Bill of Quantity. Pursuant to the finalization contracts despite of non-accomplishment of works as per the procurement contract, necessary investigations are to be conducted.
165. **Fines** - In Renewal Energy Grants Procedures, 2016, it mentioned that the monitoring will be conducted through independent consultant after one year of the payment of domestic solar energy technology grants, and a fine at the rate of 200 percent of the grant amount shall be levied if found the solar has not been installed as per the agreement or double grant amounts claimed, and a fine at the rate of 50 percent of grant amount shall be levied if found the solar technology has been installed in two members of the same family. While conducted the monitoring by the Alternative Energy Promotion Center in accordance with the arrangements, the Center has levied fines NRs. 13 million 736 thousand to 44 companies which have not performed works in accordance with the contract, but the amounts have not been recovered by the Center.
166. **Termination of Procurement Contract** - Section 59 of Public Procurement Act, 2007 provides that the procurement contract may be terminated if the construction

entrepreneur fails to perform works. Since the construction entrepreneur of the construction of Singhaniya Branch Canal System under Sikta Irrigation Project has not performed works as per the procurement contract, the entrepreneur has been n backlisted terminating the the contract. After the termination of contract, the outstanding advances existed in its name and the guarantee amounts have been forfeited, but the additional amounts NRs. 1 billion 131.1 million to be recovered from the entrepreneur in respect to the amounts required for completing remaining works, interest amounts chargeable on the forfeited advances, amounts required to correct under defect liability period of the works that charged in first running bill, returns wasted by the project, costs required to demolish the constructed structures, site clearance costs and fees payable to the mediators and lawyers, have not been recovered in spite of the decision is taken to this effect.

Since the payment of consultancy fees of NRs. 12 million 633 thousand has also been madeto the consultant appointed for making supervision of the same works and the expenditure has become useless as the construction works have not been carried out, the amount should also be recovered from the construction entrepreneur as government dues. |

167. **Price Adjustment** - Section 55(1) of Public Procurement Act, 2007 provides that the price adjustment shall be granted in executing the procurement contracts, the period of which is more than 12 months. This year, 26 offices inclusive of Mahakali Bridge Project, Narayanghat Mugling Road Project, Postal Highway Project-Janakpur, have granted the payment of NRs. 678 million 628 thousand to 45 construction entrepreneurs as price adjustments that are not eligible as per the Procurement Rules. Major observations relating to this are as follows:-
- 167.1. Since Mahakali Bridge Project, Mahendranagar has used the motor vehicle and related product index instead of the concerned machinery and equipment index in making payment of price adjustments price. **This has caused an excess payment of NRs. 22 million 543 thousand in respect to the price adjustments, which are to be recovered.**
- 167.2. Road Division Dhanusha, while calculating the price adjustments as per the procurement contract signed with construction entrepreneurs of 3 contracts, has granted the payment of price adjustments without deducting mobilization advance amounts, and has calculated the price adjustment amounts using the national consumer price index that not specified in contracts. **This has caused excess payment of NRs. 5 million 495 thousand and the amount should be recovered.**
- 167.3. Postal Highway Project Office, Janakpur has fixed new rates in adding works to one construction entrepreneur through variations in Item No. 3.03. **Since the price**

adjustments can not granted in the new rates of works added through variation, the excess paid NRs. 7.12 million should be recovered.

- 167.4. The circular of Department of Roads issued on 2019/03/26 mentions that in granting the time extension of initial contract period, the time extension should be granted only after freezing of the price adjustment indicators and entitlement to get the price adjustment on that basis, however, Narayanghat-Mugling Road Project, Chitwan has granted price adjustment to one construction entrepreneur not following the provision. **The price adjustment NRs. 45 million 39 thousand paid in excess should be recovered.**
- 167.5. The procurement contract signed by Galchhi-Trishuli-Mailung-Syafrubeshi-Rasuwagadhi Road Project with one construction entrepreneur stipulates that the works should be completed within 2018/08/06, and the price adjustments are to be paid using price index of the same date, and the price adjustment of NRs. 48 million 175 thousand is to be paid on that basis, but NRs. 54 million 332 thousand has been paid. The excess paid NRs. 5 million 726 thousand should be recovered.
- 167.6. In the procurement contract signed in between Third Small Town Water Supply & Sanitation Program Project Management Office and the construction entrepreneurs of 5 water supply projects inclusive of Tamsariya, Birendranagar, Dumre, Nirmalpokhari and Bidur, there is a provision of giving advance equivalent to 60 percent of the construction materials purchased. The price index of the advance granted period after supplying goods should have used in computing the price adjustment of construction works, but the price adjustments have been provided using the price index of running bill submitted period, which has resulted an excess payment of NRs. 28 million 76 thousand. **The excess paid amounts should be recovered.**
- 167.7. In the agreement amounting to NRs. 283 million 504 thousand signed with one construction entrepreneur to construct Suda Kanchanpur Small Town Water Supply Project, it is mentioned in the contract that price adjustment shall have to be computed on the basis of price index of 28 days prior to the date of tender bid opening, but more payments have madewithout doing so. **The excess paid price adjustment amount NRs. 6 million 931 thousand should be recovered.**
168. **Termination of Procurement Contract** - Section 59 of Public Procurement Act, 2007 and Rule 127 of Public Procurement Rules have provided the provision related to the termination of procurement contract. Major observations witnessed on this matter are as follows:
- 168.1. The headwork and tunnels construction of Melamchi Water Supply Development Committee has interrupted as the construction entrepreneur of the project has left

the construction site since 2018/12/15 without acknowledging to the concerned consultant and project office, and the procurement contract has been terminated as per the decision made on 2019/02/07 on the basis of information provided by the consultant that the remaining works can not be completed through the contractor. As per the contract, an assessment has not been done with respects to the equipment, construction materials left by the construction entrepreneur on site and work completed. Out of total contract amount NRs. 7 billion 723.4 million, the works of 5 billion 910.9 million has been completed and the works of NRs. 1 billion 812.5 million are remaining to be completed. Another procurement contract with contract amount NRs. 2 billion 278.2 million has been arranged for conducting the outstanding works. However, necessary actions that required for black-listing to the construction entrepreneur has not been done along with the recovery of the additional cost NRs. 465.7 million to be incurred for completing the remaining works, outstanding amount NRs. 490.5 not deducted up to 46th. running bill, outstanding advances NRs. 196.2 million provided for construction materials, and the outstanding amounts to be paid to other suppliers and service providers.

In the contract signed on 2013/07/15 for the same work, an arrangement has been made to make payment in local currency with respects to all amounts included in provisional sum. However, in making payment of NRs. 2 billion 958 million 935 thousand to the construction entrepreneur through the provisional sum, 71.9 percent amounts has been paid in foreign currency, and hence, the additional loss sustained NRs. 211 million 307 thousand as a result of foreign exchange loss need to be recovered.

- 168.2. Postal Highway Project Directorate has terminated the procurement contract and black-listed one construction entrepreneur as the entrepreneur has not commenced the construction works as per the contract agreement. Since the contract is terminated, the work performance guarantee amount NRs. 18 million 22 thousand, prepaid advance guarantee NRs. 15.9 million, interest chargeable on advance NRs. 1.59 million and additional costs to be incurred for constructing the works should be recovered from the construction entrepreneur as the government dues.
169. **Variation** - Section 54 of Public Procurement Act, 2007 provides that the competent official may issue a variation order exceeding 25 percent as per the decision of Council of Ministers of the Government of Nepal. For the road construction in 38 km section of Kathmandu Tarai/Madhesh Fast-Track Project Road, the Project has prepared cost estimate of NRs. 941 million 892 thousand and arranged a procurement contract with one construction entrepreneur at a contact price NRs. 938 million 204 thousand upon the condition that the works are to be completed within 2018/12/11. It is because of reduction in the volume of hard rock soil cutting works

and increment in the soft rock and ordinary soil cutting works than the volume as anticipated earlier, a variation order has been approved by reducing the contract amount by 31.98 percent to reach NRs. 638 million 197 thousand upon the condition that the works are to be completed within 2019/05/29. The approved variation has not been found in conformity with the laws as the variation is approved by the project chief as against the provision the Act. **The official responsible for this act should be held responsible.**

170. **Works not completed** - In order to provide service from one system by unifying the works performed by different agencies associated in customs administration, an agreement has been signed with one consultant on 2015/06/18 at contract price US Dollar 1 million 199 thousand (direct payment) and NRs. 44 million 693 thousand with the terms of completing works within 36 months for the works of preparing work plan to implement the National One Window System in Nepal, capacity building, preparing tender documents for the purchase of software, developing Nepal National One Window System, and conducting monitoring on whether the service of purchased software is acceptable or not after the procurement of software. Though the terms of work references of the consultants cover the various works to be done after procurements inclusive of evaluating whether one window system proposed by the proposer of National One Window System is acceptable for service delivery or not, assessing whether the system is acceptable or not, monitoring the software development process etc., but the payments close to contract amount or UD Dollar 1 million 58 thousand and NRs. 45 million 720 thousand have been provided. It appears that an additional liability is to be borne due to the necessity to make an additional agreement for consulting service to carry out the works to be done by the consultant after the procurement of the National One Window System.
171. **User Committee** - Section 44 of Public Procurement Act, 2007 and Rule 97 Public Procurement Rules, 2007 provide that if economy, quality or sustainability is increased in carrying out the construction work or the main objective of the project is to create employment, such works may be conducted through the user committee. The instances of works conducted through user committees against the provision of laws are as follows:
- 171.1. People's Embankment Program (Janatako Tatabandh Karyakram) Jhapa has carried out the embankment construction works that need using heavy equipment machines such as excavators, rollers, dozers from various user committees which have no such equipment, and granted total payment of NRs. 711.3 million from 2016/17 to 2018/19.
- 171.2. From the budget received for the protection of Chandragadhi, the headquarter of Jhapa District under Save the Risk Prone Headquarters Programme, Same office has

incurred expenditure NRs. 53 million 748 thousand in the construction of soil embankment and gabion walls of Deuniya Khola situated 12 km far from the headquarter and construction of works in four places of upper and lower portion of Mechi River exiting about 4 km far from Bhadrapur. The incurred expenditure has not been in line with the set objective as the constructed works will not contribute in protection of the district headquarter.

- 171.3. Koshi and Bakrah River Management Project, Biratnagar has paid NRs. 79 million 507 thousand to 20 user committees for conducting protection works in Bakrah River. Likewise, Rupatal Conservation Office, Kaski has granted total payment of NRs. 172 million 503 thousand by carrying out works through 40 user committees. Mahakali Irrigation Management Office has carried out 15 canal infrastructure Construction and Maintenance and deep-tube well installation works having cost estimate of NRs. 78 million 318 thousand through 2 user committees by making agreements 15 times and has granted payment NRs. 62 million 320 thousand to the user committees.
- 171.4. People's Embankment Field, Office Rupandehi has carried out the construction works through various user committees by fragmenting the cost estimates below NRs. 10 million and has spent NRs. 68 million 191 thousand in this year. While inviting tender of 6 packages for the construction of embankments, the Office could arrange the procurement contracts at NRs. 29.8 million, with lesser amount below 40 to 45 percent (44 percent on an average) of the cost estimates. But, the payment equivalent to cost estimate amounts have been made while carrying out the construction works through user committees, and as a result, the Government of Nepal has borne an additional expenditure burden of NRs. 34 million 505 thousand to as compared to the works conducted through tender.
- 171.5. Karnali River Management Project has spent NRs. 40 million 799 thousand in this year by carrying out the embankment construction works through various user committees fragmenting the cost estimates below NRs. 10 million. When conducted the works of embankment construction by filling stones in gabion wire mesh through the tender method, the nature of which is similar to the works conducted through user committees, the Project has arranged the procurement contract at the price of below 38 percent on an average compared to the cost estimates. Thus, an additional financial burden of NRs. 8 million 164 thousand is involved while making payments to user committees.

Pursuant to non adherence of the provision related to mobilization of user committees, the concerned official should be held responsible.

• Project Management

172. **Uncompleted Project** - The construction entrepreneurs are required to complete construction works within specified timeframe in accordance with work schedule. But, the projects have remained sick and incomplete without completing in scheduled time. In a study conducted by Commission for Investigation of Abuse of Authority, it is stated that 1202 projects of various 8 departments/entities having contract amounts NRs. 86.44 billion have remained incomplete up to 2020/01/14. Amongst them, Department of Roads has the highest number of 701 uncompleted contracts. If prepared a complete statement by including the number of all federal ministries and provincial and local levels, the number will become furthermore. Out of the 3 thousand 835 recurrent projects operated under Department of Water Supply and Sewerage up to 2017/18, 3 thousand 422 projects (89.22 percent) have remained incomplete. Out of the 3 thousand 830 recurrent procurement contracts having contract price NRs. 1 trillion 101 billion 358.5 million arranged under Department of Roads up to 2018/19, 807 projects having contract price NRs. 35 billion 502.1 have remained incomplete. The projects have remained incomplete and sick owing to lack of adequate monitoring of the construction works and not taking action as per the terms of the procurement contract to the construction entrepreneur that has failed to fulfill the obligations. The investment may go in waste if the construction works are kept incomplete for long run. **The uncompleted construction works are to be completed by making responsible to the concerned construction entrepreneurs that have not completed the specified construction works.**
173. **Operation of Project** - Urban Infrastructure Investment Project has spent NRs. 50.5 million for preparing the detailed project report (DPR) of the physical infrastructures to be constructed in 7 municipalities of Tarai area. As the credit agreement related to construction of the project has not been yet signed between Asian Infrastructure Investment Bank and Government of Nepal, there is no certainty in the operations of the project.
174. **Change In Design** - In Section 5(a) of Public Procurement Act 2007, it is specified that if any procurement work is affected owing to faulty design, the officials that have prepared, checked and approved designs shall be held responsible for the actions. In Chainage 1+350 km of western main canal of Bagmati Irrigation Project, the initial design has been changed by changing drain syphon, widening settling basin, and reducing length of flushing channel. Since the pillars' height of 634 meter long Bagmati River bridge to be constructed in Kalaiya-Malangawa Section under Postal Highway, Parsa are found insufficient, the construction works has been obstructed 2013 (2070) due to the requirements of change in design. The Divisional

Roads Office, Tumlintar has entered a procurement contract with one construction entrepreneur for constructing a bridge in Lamsuwaghat of Arun River, but the construction works has been obstructed due to approval of the design of 165 meters long bridge in a state of the requirement of constructing 247 meters long bridge as per the construction site.

Similarly, the bridge constructed by Divisional Roads Office, Kathmandu-1 in Bagmati River at Baudha-Tamragadhi Road has been found disproportionately high compared to the road level; Divisional Roads Office, Janakpur has approved design of foundation and sub-structures only without approving the design of super structures while arranging the procurement contract of NRs. 241.7 million for the construction of bridges at Bigi and Juga Khola (Stream); the design of Chapakot-Nirdimghat Bridge constructed in Kaligandaki River by the Divisional Roads Office, Palpa has been changed into pile foundation from the well foundation after the commencement of the construction works; and the construction works of Singiyahi Khola Bridge undertaken from Sunsari-Morang Bridge Construction Project has been stopped since 2007/08, as the construction of sub-structures of the bridge is found inappropriate.

Since the concerned entities and consultants have prepared drawings and designs of the bridges without making adequate study and observation of the construction sites, the approved designs are to be changed after commencement of the works, which has, in turn, affected in increment in the time and costs. **Hence, it is necessary to prepare any design only after making adequate study of construction sites.**

175. **Sewerage Construction** - Amongst the construction works executed by Kathmandu Valley Water Supply Company Limited, Project Implementation Directorate, the progress achieved in construction works of 16.62 km long sewerage system in right left banks of Hanumate River, Bhaktapur is 42.3 percent, construction works of 5.5 km of interceptor in Monohara River, Lalitpur is 48 percent, and construction works of 7.6 km interceptor in Khasyang Khusung, Bhaktapur is 93 percent. Since the sewerage construction works are not completed within the targeted period December 2019, it has created obstacles in sanitation works of Bagmati, Manohara and Hanumante Rivers. The Project Office has stated that in constructing sewerage system in right left sides within 20/20 meters from the existing banks of rivers, the land disputes have arisen in the places where the rivers have changed their course, and consequently the sewerage construction have not been completed in only 4.1 km area in between the Pepsi cola to Jadibuti, 8.4 km area from Radhe Radhe Bridge to Manohara Hanumante Junction in Hanumante River, and approximate 12.5 km area of right left side in Manohara River. The cleanness of Bagmati and tributary

rivers has been affected due to direct release of factories' waste in rivers caused by the delay in construction of sewerages. **By coordinating with the concerned entities to resolve the land disputes, Ministry of Housing & Urban Development and Bagmati Integrated Civilization Development Board should prepare an environment for completing the sewerage construction works.**

176. **Delay in Transmission Line Construction** - Rule 19(4) of Nepal Electricity Authority, Financial Administration By law, 2011 provides that each programme shall have to be completed within specified period and the quality of works are also to be maintained satisfactorily. However, the progress of the most of under construction transmission lines projects has not been satisfactory and not completed within the targeted period. Amongst the 17 under-construction power transmission lines and sub-stations projects, the time elapsed projects are 11 projects, of which 3 projects have achieved less than 25 percent progress, 4 projects have achieved 25 to 50 percent progress, 1 project has achieved 50 to 75 percent progress, and 3 projects have achieved more than 75 percent progress. There has been a situation in which the projects requiring to be completed within 15 months have not been completed despite of elapse of 112 months. Similarly, out of time remaining 6 projects, in which the time has elapsed more than 75 percent, the 2 projects have achieved below 25 percent progress, 2 projects have achieved 25 to 50 percent progress, and 1 project has achieved 50 to 75 percent progress.

Since the construction works have been begun by arranging contracts without not completing the required preparatory works, such as- the availability of construction sites, tree cutting of forest area lying in right of way, distribution of land compensation etc. which are to be done before the tender management, the obstruction from local people has been faced, and the concerned project chiefs and regulating entities have also not shown their efficiency to ensure that the works are completed within the pre-determined period, by conducting regular supervision and monitoring by themselves or through others. Since the transmission lines have not been completed on time, the situations have emerged where the construction costs will rise, the produced electricity power will go in waste due to not linking with national grid, and the arranged contracts will have to be broken-down. **By coordinating with the concerned entities, Nepal Electricity Authority should make the contract arrangements by completing the preparatory works, such as- selection of alignments, getting acceptance for tree-cutting and distribution of land compensation etc. In addition, necessary monitoring is to be conducted by adopting modern techniques.**

• Grant Distribution

177. **Interest Grant in Agricultural Loan** - In Agriculture and Livestock Loan Grants Procedures, 2016, it is stated that the Government of Nepal will provide 5 percent interest grant in agricultural loans that provided to attract the entrepreneurs in specified areas. With respect to agriculture Loan Interest grants, Ministry of Finance had deposited NRs. 500 million in "Agriculture Loan Interest Grant Reimbursement" account of Nepal Rastra Bank in 2018/19, but the Ministry, without monitoring it, has provided an additional interest grants of NRs. 1 billion 38.2 million during this year. As per the statistics obtained from Nepal Rastra Bank, the total number of beneficiaries receiving the interest grants has been 2 thousand 542 in 2015/16, 5 thousand 927 in 2016/17, 8 thousand 930 in 2017/18 and 17 thousand 730 beneficiaries in 2018/19, which has been increasing every year. The amount of interest grant, which the Government of Nepal provided through Nepal Rastra Bank, has inclined to NRs. 1 billion 250.5 million in 2018/19 from NRs. 41 million of 2015/16. Nepal Rastra Bank has not conducted any inspection and monitoring in respect to whether the interest grants have been used in accordance with the objective or not. Though more than two-third of population of the country is dependent in agriculture, the loans have been utilized by limited numbers only. In addition, in the perspective of flows of different type of grants in agriculture sector through federal, provincial and local governments, no study has been yet undertaken relating to duplication of facilities provided by the governments and its effectiveness. **An assessment should be done about the usefulness and effectiveness of overall grants inclusive of the grants provided to agriculture sector.**
178. **Agriculture Grant** - Rule 114 of Financial Procedure Rules, 2007 provisions that each Ministry may prepare the Internal Directives Related to Financial Procedures and implement it by taking the acceptance of Ministry of Finance. Major observations related to this are as follows:
- 178.1. Ministry of Agriculture and Livestock Development has prepared and implemented 98 types of directives to provide grants to farmers. On the basis of the directives, various 11 entities under the Ministry have spent NRs. 10 billion 559.7 million providing grants from 50 to 100 percent. In the distributed grants, the observations, such as- lack of inclusion of all sectors/groups, non-identification of capable farmers, and lack of accessibility to weak and poor farmers in grants etc. have been witnessed. **The grant policy should be made clear and consistent by preparing the legitimate procedures.**
- 178.2. Prime Minister Agriculture Modernization Project has prepared 'Cold Storage House Establishment and Programme Implementation Procedures, 2017' on the basis of secretary level decision without taking the acceptance of Ministry of

Finance, and has amended the procedures as per the Ministry level decision made on 2018/09/27. The Project has provided NRs. 162.1 grants to 8 beneficiaries under its operated programs. The Procedures, which have been implemented by making amendment as per ministerial level decision without taking the acceptance of Ministry of Finance, have been found against the laws.

179. **Conditional Grant** - Rule 41(3) of Financial Procedure Rules, 2007 provisions that the concerned ministry shall be have to conduct monitoring of the grants amounts provided to various agencies, institutions and corporations by obtaining the progress statement of income-expenditure, progress reports, and audit reports. Ministry of Industry, Commerce & Supply has provided total conditional grants 56 million to various entities, which includes NRs. 16 million provided to Nepal Drug Limited for re-operating hemo-dialysis unit, NRs. 10 million provided to Hetauda Cement Industry for installing various machinery equipment, and NRs. 30 million provided to Dachhikali Municipality for constructing foodware zone, but the Ministry has not obtained any income-expenditure statement, progress report and audit report of the grant amounts. **By conducting monitoring on the utilization of such grants, the matter is to assured that the grants amounts have been used in specified purpose.**
180. **Disbursement of Grant** - Ministry of Education, Science & Technology has provided the conditional grants of NRs. 115 billion 550.8 million to 9 entities inclusive of University Grant Commission, Technical Education & Vocational Training Council, Medical College Infrastructure Development Committee, but the Ministry has not yet prepared grant related policy.
- 180.1. Rule 41 of Financial Procedure Rules, 2007 provisions that each ministry is liable for making the assessment of the provided grants. However, the Ministry has not conducted the monitoring about the use of grants. **The Ministry should conduct monitoring of grants.**
- 180.2. Rule 33 of Financial Procedure Rules, 2007 provides that except for the amounts that Financial Comptroller General Office has specified as non freezable, all other unspent amounts are to be freezing. Out of the conditional grants released, 8 entities inclusive of University Grant Commission, Technical Education & Vocational Training Council, National Examination Board have retained the unspent balance of NRs. 5 billion 291 million 297 thousand themselves. **The balance amount should be deposited in the Consolidated Fund.**

• Treasury Mobilization and Consolidated Fund Deposit

181. **Mobilization Of Fund Amount** - Various Funds and amounts received under revenue allocations mobilized in accordance with then Local Self Governance Act and Rules have remained as balance in the fund accounts of District Coordination

Committees. The total balances of NRs. 112.89 billion have existed in various funds. Though the Ministry is required to prepare the standards related to procedures, distribution and usage of the mobilization of fund balances received from internal fund and revenue allocation, it has not prepared yet. The Fund balances should be mobilized by preparing the procedures.

182. **Deposit in Consolidated Fund** - The following amounts inclusive of the amounts existed as unspent balances in a fiscal year, unutilized amounts in various funds, and unspent conditional grants are to be deposited in consolidated fund in accordance with the provision of Rule 33 of Financial Procedure Rules, 2007:-

182.1. Section 45(3) of Telecommunication Act, 1996 provides that Nepal Telecommunication Authority may request an additional amount if the amount received from the Government of Nepal becomes inadequate for running its operations and the Authority has to refund the amount if the amount provided by the Government remains as a balance. The accumulated reserve of the Authority has reached to NRs. 33 billion 226.4 million in this year as compared to the corresponding amount of NRs. 32 billion 713.1 million in last year. **Amongst the reserve, except the NRs. 21 billion 989 million of the Rural Telecommunication Development Fund, the remaining NRs. 11 billion 237.4 million should be deposited in the Consolidated Fund.**

182.2. In accordance with District Coordination Committee Reserve Fund Operations Directives, 2018 and Ministry of Federal Affairs & General Administration's circular dated 2019/01/24, the amount remained as a balance in all accounts excluding Employee welfare Fund shall have to be transferred to Kha-6 Miscellaneous Account of District Treasury Controller Office and income expenditure should be incurred from the same account. Out of the NRs. 12 billion 282.2 million existed as a balance in various funds of District Coordination Committees, NRs. 8 billion 390.8 million has existed in Kha-6 account and NRs. 3 billion 891.3 million has existed in other fund accounts. **The amount should be deposited in Federal Consolidated Fund.**

182.3. Council of Ministers has made a decision that out of the income receivable from carbon trade, more than 80 percent is to be provided as grants for promoting the concerned alternative energy technology and 20 percent amount is to be spent to assist the concerned community inclusive of capacity enhancement related carbon activities of Alternative Energy Promotion Center. Out of NRs. 1 billion 308 million earned as income from carbon trade up to this year, NRs. 4 billion 697.3 million inclusive of the above amount has been invested in fixed deposit accounts with 8.5 percent interest rate in various 12 banks. **The amounts should be deposited in Consolidated Fund.**

- 182.4. In analyzing Income Expenditure Statement of Insurance Board of past 3 years, the surpluses of NRs. 657.7 million (58.16 percent of income) in 2016/17, NRs. 663.7 million (67.22 percent of income) in 2017/18, NRs. 1 billion 38.2 million (68.69 percent of income) in 2018/19 have been witnessed after deducting the expenditure from the respective incomes. The accumulated reserve of the Board has reached to NRs. 4 billion 573.8 million till this year by increasing every year. **Since the reserve amounts have grown every year, the amounts should be deposited in Consolidated Fund by making provision in laws.**
- 182.5. If deducted net expenditure from the disbursed amount NRs. 348.7 million obtained from the Government of Nepal in this year, Pashupati Area Development Trust should have deposited the balance amount NRs. 159 million 560 thousand in the Consolidated Fund, but it has deposited NRs. 150 million 655 thousand only. **Hence, the inadequate amount NRs. 8 million 905 thousand should also be deposited.**
- 182.6. Since the contingency amount NRs. 43.3 million set aside by Department of Urban Development & Building Construction and Federal Project Implementation Unit, Dhanusha for the supervision of the building construction works of various offices has not been spent, the offices have kept the amount as balance in operational fund. **As the allocated budget amount has not been spent, the amount should be deposited in consolidated fund.**
- 182.7. Of the amount received as conditional grants to Alternative Energy Promotion Center, the unspent NRs. 289 million 545 thousand is required to be deposited in Consolidated Fund, but the Center has transferred the amount in Central Renewable Energy Fund Account. **The amount should be deposited in Consolidated Fund.**
- 182.8. Rastapati Chure Madhesh Conservation Committee has spent NRs. 1 billion 395.7 million out of NRs. 1 billion 420.2 million appropriated for 93 local levels, but the remaining balance NRs. 24.6 million has been deposited in Federal Consolidated Fund. **The amount should be refunded and deposited in the Fund.**
- 182.9. This year, the 6 entities inclusive of National Academy For Medical Sciences (Bir Hospital, Rapti Health Science Academy, Paropakar Maternity & Women's Hospital, and Sahid Dharmabhakta National Transplant Center, have not refunded the unspent balances NRs. 103 million 35 thousand that remained at the end of this fiscal year. **The amounts should be deposited in the Fund.**
- 182.10. Section 21 of Vaccination Act, 2015 provisions the arrangement of a fund to develop vaccination programme. Pursuant to the balance NRs. 132 million 803 thousand existed in the Vaccination Fund, necessary procedures have not been yet prepared. No expenditure has been incurred from the amounts deposited in the Fund. The amount has remained idle as the Fund is created without formulating

procedures, and as such, the amount need to be deposited in Consolidated Fund, if the fund amount is not to be mobilized.

- 182.11. B.P. Koirala Health Science Academy, Dharan has total unutilized balance of NRs. 385 million 3 thousand conditional grants, inclusive the unspent conditional grant NRs. 140 million out of the amount disbursed by the Government of Nepal for constructing cardiology and cancer building in 2017/18, and NRs. 165 million 3 thousand that existed as balance in accounts of Academy due to cancellation of the procurement works out of the amount disbursed for the purchasing MRI machine in 2016/17. **The balance amount should be deposited in Consolidated Fund.**
183. **Mobilization of Bank Balance** - Pashupati Area Development Trust has invested NRs. 1 billion 152.1 million in 28 fixed deposit accounts of 11 banks and maintained bank balance of NRs. 2 billion 156 million in 96 accounts of 25 banks. **The Trust should give attention in depositing the bank balances in the banks that offer high interest rates by taking proposals from different banks.**
184. **Cash Incentive Grant** - To promote the industries exporting the produced goods and services in third countries, Section 4 (2) of Cash Incentive Procedures, 2013 has provisioned that the Ministry of Finance shall deposit necessary amounts in accounts of Nepal Rastra Bank time to time in advance. Along with the previous year's account balance NRs. 123 million 533 thousand and this year's conditional grants provided NRs. 596 million 727 thousand total of NRs. 720 million 260 thousand deposited in the account, and out of which NRs. 368 million 397 thousand has been distributed as incentive amount to exporting firms till 2019/07/01 and NRs. 368 million 397 thousand has remained as closing balance. The amount should be refunded and deposited in Consolidated Fund.

Amongst the export incentive grant distributed goods the export of woolen carpet has increased by 4 percent, readymade garments by 6.2, herbs by 27 percent, felt by 25.5 percent, red lentils by 27 percent, and handicraft goods by 16.4 percent, in comparison to last year, whilst the export of wool and pasmina shawl decreased by 16.1 percent, footwear by 26.9 percent, and hides/ skin by 37.9 percent. Though some increment has been witnessed in the export of goods in which such grants are provided, but the contribution of the goods has not been witnessed significant in export growth of the country as such goods have occupied less share in total exports. **Hence, an appropriate policy should be framed to identify the goods which can be exported in huge quantity.**

185. **Girl Education Fund** - As per Girl Education Fund Implementation Procedures, 2005, there is a provision to grant scholarship to intelligent and poor girls studying in grade 11 and 12 of community schools and university level. In Girl Education

Fund, NRs. 468 million 669 thousand has remained as balance up to this year without making any expenses. **The Fund amounts should be mobilized in accordance with objectives.**

• **Monitoring and Regulating**

186. **Monitoring of Private Hospitals** - Directives Related to Health Institution Establishment, Operations and Upgrade Standards, 2013 provides that the Department may issue an order to close down the services fully or partially with immediate effect to the health institutions having capacity up to 200 beds. As per the monitoring reports obtained from Department of Health Services, the matters observed from the monitoring of 86 hospitals include - most of hospitals have poor physical infrastructures, hospitals are operated in places built for residential and commercial purposes, tools and equipment are not properly managed as per standards, most of hospitals lack full-time manpower, laboratories are not up to the standards and lack equipment, the treatment services to poor and helpless people with allocation of free beds are done partially only, senior citizen's medical units have not been arranged, waste materials are not properly managed, less number of ventilators are installed and nursing staffs are deputed in intensive care units (ICU) than the specified proportion. **Necessary actions are to be taken to the hospitals that are not operated services as per specified standards.**
187. **Operation of Health Institutions without renew** - Directives Related to Health Institution Establishment, Operations and Upgrade Standards, 2013 provides that pursuant to registration, renewal and upgrading of private health institutions, the Ministry has to conduct monitoring to ensure whether the status of service operations, quality and physical infrastructures of the concerned health institutions are in accordance with the set standards. Pursuant to 22 applications of private health institutions registered in Ministry of Health & Population for renewal and upgrading in past 3 years, the licenses of 8 health institutions have been renewed upon the conditional commitments of making improvements in lacuna such as- hospitals area not in accordance with standards, lack of specialist doctors, less gap between beds, laboratories operated without approval, lack of free treatment to helpless people, and lack of physical infrastructures. The remaining 14 hospitals that fail to fulfill standards are in operations without renewal of licenses. Similarly, out of 136 hospitals, the jurisdiction of regulating of which falls under Department of Health Services, the operating licenses of 14 hospitals have ended on 2018/07/16, but the hospitals are in operations despite of the renewal of licenses has not been done due to un-fulfillment of specified standards. The quality of health services has been affected as no action has been taken to the health institutions that are in operations without renewal of licenses. **For maintaining quality in health services,**

the Ministry and Department should conduct monitoring and take action strictly to defaulting hospitals.

188. **Service Fee Determination** - Section 30 of Directives Related to Health Institution Establishment, Operations and Upgrade Standards, 2013 provides that for the purpose of providing quality health services to general people at reasonable price, the Service Fee Determination Committee shall have to determine fees on the basis of quality of health services. Ministry of Health & Population and Department of Health Services have not conducted monitoring in respect to the fees charged in services delivered by the hospitals under their jurisdiction, and the Fee Determination Committee of the Ministry has also not formulated any standards. When analyzed the fees charged by 10 different hospitals on the basis of the statement obtained from the Department, there have been significant differences found in the fee charges of ICU bed, general beds, X-ray, Video X-ray etc. Out of hospitals. The government hospitals have been charging NRs. 1 to 3 thousand for ICU beds, whilst the private hospitals have been charging NRs. 2,500 to 10 thousand for such beds. When analyzed the fees of the major services delivered by the hospitals, differences ranging from 100 percent to 500 percent have been witnessed in ICU beds having similar infrastructure and laboratory examinations in which similar kits are used. Since the Committee has not yet maintained consistency in fixation of such fees in accordance with the Directives, the private health institutions and hospitals have been recovering such fees by fixing as per their own choice. This has created a situation in which the easy access to health services will become difficult for people at large. For implementing the concept of 'Health for All', the Fee Determination Committee should maintain consistency by determining the fees of health services as per classification and standards of hospitals and should conduct monitoring in respect to the fees charged by all hospitals.
189. **Recommendation For Revenue Exemption** - The Ministry has been issuing recommendations for the revenue exemption of health equipment, ambulances, hearses etc. imported by health institutions. This year, the Ministry has issued recommendations for the revenue exemption with respect to 348 ambulances and goods related health services worth NRs. 11 billion 702.3 million. However, the monitoring has not been conducted in respect to whether such goods have been used for the interests of targeted classes/groups or not. Since the Ministry has not conducted any monitoring related to service fees of health institutions that have taken revenue exemption and not taken revenue exemption, it can not be assured that the health institutions taking revenue exemptions have determined fee charges at subsidized prices. There should be arrangements for conducting monitoring of the health institutions that have taken revenue exemptions and granting privileges

in charges to be paid by service recipients in the health institutions that have taken revenue exemptions.

190. **Regulation** - Though the Directives Related to Health Institution Establishment, Operations and Upgrade Standards, 2013 has conferred the regulating role to the Ministry and offices thereunder, various weaknesses have been witnessed in the establishment, operations, fees determination, and service delivery of hospitals in the absence of effective regulating. Likewise, the regulating works has not been done pursuant to the delivery of health services provided by medical collages operated by obtaining licenses from Ministry of Education, Science & Technology and the academies constituted under specific laws, and the operations of some of medical collages and hospitals without obtaining the required licenses from Ministry of Health & Population. After the restructuring of the country into federal structure, the regulating works of the operations of the hospitals have fallen under the jurisdiction of federation, provinces and local level governments.

Since the regulating works of health institutions such a sensitive matter has not become effective, the quality of services, costs and accessibility have not been becoming efficient as anticipated. Similarly, the regulating of foodstuff associated to public health has also not been becoming effective. The above both matters are inter-linked with one another, but the regulating works have been conducted from two different entities i.e. Department of Drugs Management and Department of Food Technology & Quality Controls, which is not effective. **Since these matters are linked with people's health, an independent and powerful single regulating entity is to be constituted to make the regulating works effective.**

191. **Monitoring of Medical Stores** - Drug Act, 1978 and Drug Rules, 1981 provide that the Department of Drug Management shall carry out the regulating works through the acts such as - issue of licenses, renewals and regular monitoring of medical stores, warn to improve the weaknesses witnessed in course of monitoring, make suspension, file lawsuit etc. Out of the 3 thousand 351 wholesalers, 20 thousand 232 retailers, 197 domestic industries and 424 drug importers registered up to this year, the Department has conducted monitoring and inspection of 3 thousand 404 drug sellers and 87 domestic industries. In addition, it has also conducted the sample tests of 1 thousand 18 drugs, laboratory tests of 30 industries, and monitoring of 23 foreign drugs importing firms. The statement obtained from the Department stipulates that 99 drug stores are suspended, 78 stores are shut down and lawsuits are filed with respect to 25 stores based on monitoring. **The monitoring work should be made more effective.**

192. **Monitoring of Financial Institutions** - Nepal Rastra Bank has conducted the overall inspection of 15 out of 28 commercial banks and 24 out of 29 development

banks. Likewise, the bank has conducted inspection of 12 financial institutions in respect to money laundering matters. While providing loans by some of financial institutions, the management of some of financial institutions have provided loans by making wrong assessments, created artificial borrowers and used the managers have taken loans themselves in some cases without ensuring the matter that the proposed business will be operated by utilizing the taken loans and not making appropriate arrangements for property guarantees. Similarly, while accepting deposits, the financial institutions have offered high interest rates than the existing market rates, not recovered amounts of overdue principals and interests from bad debtors, and recovered loan amounts by selling property guarantees without giving enough opportunity to good debtors. **The monitoring should be made more effective to establish the system of taking action to bad debtors, protecting the interests of good debtors, and granting loans only after fulfilling certain procedures and standards.**

• Reconstruction and Rehabilitation

193. **Reconstruction Expenditure and Progress** - National Reconstruction Authority has been established in 2015 December with the objective to formulate necessary policies, and approve and implement budget & programs for the reconstruction of damages caused by the earthquake. The scope of works of the Authority falls within total 31 districts including 14 highly affected districts and 17 less affected districts. As per mid-term review conducted in 2018, the amended total estimated costs for the reconstruction works has been NRs. 630 billion. Altogether NRs. 276 billion 502 million 234 thousand inclusive of NRs. 186 billion 925 million 923 thousand up to previous year and NRs. 89 billion 576 million 311 thousand of this year, has been spent for the reconstruction works.

The Authority, which established with a target of completing reconstruction works of infrastructures damaged by the earthquake within 5 years, has completed 4 years or 80 percent of targeted time, and the progress status of the reconstruction works witnessed up to 2019/07/16 is as follows:

S.No.	Description	Unit	Number to be Reconstructed	Number of Construction Completed Till This Year	Completion Percent
1	Private House	Number	826558	456272	55.20
2	Retrofitting of Private House	"	71433	45	0.0006
3	Health Institution	"	1197	665	55.55
4	Community School	"	7553	5384	71.28
5	Archeological and Cultural Heritage	"	753	380	50.46
6	Government Building	"	483	303	73.01
7	Security Agency Building	"	383	183	47.78

8	Drinking Water Project	"	3212	791	24.63
9	Strategic Road	K.M.	140	83	59.28
10	District-Level Road	"	1020	380	37.25
11	University and College Building	Number	69	10	14.49

To complete the reconstruction works of massive damages caused by the earthquake, the Authority should act to make the concerned entities more responsible and accountable, and should increase the participation with stakeholders to make its procedures simple, enhance the implementing capacity, and strengthen the coordination with other entities.

193.1. **Private House Reconstruction** - Earthquake Affected Private House Reconstruction Grant Distribution Procedures, 2015, provides that the affected person is entitled to get first installment NRs. 50 thousand after enlisting in the name-list of beneficiary of private house reconstruction grant, second installment of NRs. 150 thousand after attestation by the technical person of the construction works of the plinth level, and third installment of NRs. 100 thousand after attestation by the technical person upon the completion of all construction works required prior to the roofing. Out of 826 thousand 558 beneficiaries that identified as earthquake affected by the Authority till this year, 768 thousand 467 persons have signed grant agreements. Amongst the agreements signed, the first installment has been provided to 763 thousand 755 persons, second installment provided to 591 thousand 438 persons, and final or third installment provided to 456 thousand 272 persons. Total grant of NRs. 187.77 billion has been distributed up to this year.

Pursuant to the first installment NRs. 8 billion 615.85 million taken by 172 thousand 317 beneficiaries, which have taken first installment but have not claimed second installment, and the second installment NRs. 27 billion 33.2 million taken by 135 thousand 166 beneficiaries, which have taken second installment but have not claimed third installment, the assurances of proper utilization of grant monies are to be obtained by making investigations on whether the grant amounts have been spent for the specified works or not. The 58 thousand 89 persons, which are identified as affected but have not signed grant agreements, and the 4 thousand 714 persons, which have signed agreements but have not taken the first installment, should be removed from the beneficiary list.

Similarly, amongst the houses constructed by utilizing the grants, some of beneficiaries have not used the constructed houses as their private houses but used for other purposes (e.g. keeping cattle, grasses & fire woods, food grains). This shows the houses built through utilization of grant monies have not been prudently used.

194. **Private House Retrofitting** - Earthquake Affected Private House Reconstruction Grant Distribution Procedures, 2015, provides that the affected person is entitled to obtain the private house retrofitting grant of total NRs. 100 thousand in first installment and final installment of NRs. 50 thousand each after signing of agreement and enlisting in the name-list of beneficiaries. As compared to 52 thousand 54 beneficiaries identified up to last year, the number of beneficiaries has reached 71 thousand 433 up to this year with the addition of 19 thousand 379 beneficiaries in this year. Amongst the identified persons, the agreements have signed with 22 thousand 250 beneficiaries, and total grants of NRs. 1 billion 92.25 million have been paid up to this year, including NRs. 1 billion 90 million paid to 21 thousand 800 beneficiaries as the first installment and NRs. 2.25 million paid to 45 beneficiaries as second installment. Pursuant to the second installment taken by very less number of beneficiaries as compared to the first installment, the monitoring has not been conducted on whether the first installment amounts are used in the specified works or not. Action should be taken to take back of the provided grants.
195. **School Reconstruction** - For the reconstruction works of 7 thousand 553 public schools damaged by earthquake, total of NRs. 36 billion 750 million 14 thousand has been spent up to this year with the completion of the reconstruction works of 5 thousand 384 schools and ongoing construction works of 1 thousand 577 schools. Likewise, more 210 schools have been selected for the reconstruction and the construction processes of 382 schools are yet to begin. Though it is mentioned that the reconstruction works of 70 schools of earthquake affected districts will be carried out through the assistances of Government of India, but the works have not been commenced due to non-appointment of project management consultant by the Government of India. Out of the 7 schools, the construction works of which is said to be conducted through the Chinese Government assistance, the reconstruction work of Durbar High School has completed, but the works of remaining 6 schools have not yet begun due to non-preparation of detailed design in spite of completion of feasibility studies two years ago. There should be arrangements to complete the reconstruction works in accordance with the agreements.
196. **Heritage Reconstruction** - Out of total 891 archeological heritages damaged by the earthquake occurred in 2015 June, the reconstruction works of 300 heritages have completed. With respect to 353 heritages, the reconstruction works of which yet to be undertaken with total costs NRs. 2 billion 348.4 million, the procurement processes have not been initiated yet.

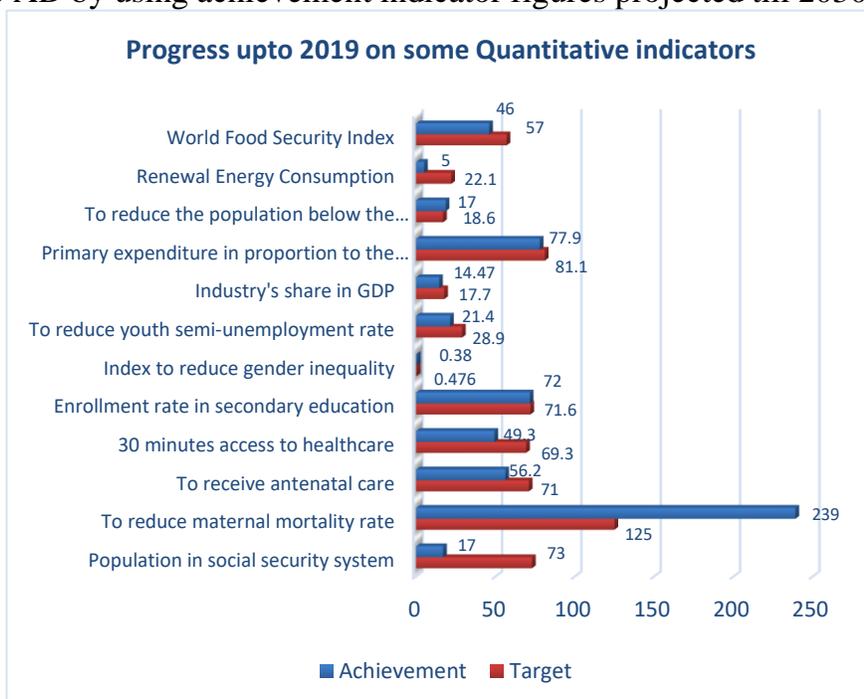
• Sustainable Development

The sustainable development agenda 2030 of achieving 17 main goals of sustainable development goals by 2030 AD have been ratified in accordance with the resolutions of the General Assembly of United Nations held on 2015 September represented by the Head of States & Governments of 193 countries. Nepal is one of the supporters of the agenda. The sustainable development goals, which consist of economic, social and environmental dimensions, include global 169 targets and 234 indicators. Pursuant to the goals, Nepal has prepared 459 indicators by adding 245 additional indicators for 159 targets related to 16 main goals in addition to 14 global goals as per the country's environment. Out of 15 years period the sustainable development goals, 10 years is still remaining. In the state of elapse of one-third period, major observations witnessed in implementation of the goals are as follows:-

197. **Institutional Structure and System** - To implement the sustainable development goals in federal government, provincial governments and local levels, it is essential to arrange the appropriate structures to transform the set targets into budget & programs, arrange and mobilize the required resources, evaluate the achievements, and develop the periodic review system. National Steering Committee, Implementation & Coordination Committee, and 9 Subject-wise Committees have been constituted at federal level to steer in respect to the implementation of the sustainable development goals, however, no high level committees have been constituted at provincial governments and local levels to guide and coordinate about the sustainable development goals. In subject-wise ministries of federal and provincial governments as well as local levels, there have been no effective arrangements made to establish necessary system to transform the sustainable goal & targets into budget & programs, mapping, coding budgets, mobilizing and managing resources, and measuring and evaluating the achievements. In the absence of institutional structures, problems may arise in maintaining policy consistency, formulating plans & budgets focusing on goals, and implementing and monitoring of plans & budgets. **For implementing, coordinating and monitoring & evaluation, there should be arrangements for establishing appropriate structures and systems, and conducting monitoring & evaluation in subject-wise ministries of federal and provincial governments and 753 local levels.**
198. **Integration of Provincial and Local Level** - For the implementation sustainable development goals, the role of provincial and local becomes vital as they are directly linked with common citizens. The participation of local community will rise if the goals are implemented through such levels. Since the Constitution of Nepal has conferred responsibility to the state for implementing activities in the sectors- agriculture, education, health, clean water & sanitation, gender equality, local

economic development, forest, land reforms, cooperatives etc., the role of provinces and local levels becomes indispensable for executing the sustainable development goals related to no poverty, zero hunger, good health & welfare, quality education, gender equality, clean water & sanitation, mitigation of inequality etc. For the internalization of sustainable development goals, some of provinces inclusive of Gandaki and Province-5 have determined quantitative targets by preparing baseline indicators. However, such practices have not been initiated at local levels. It is hard expect the attainment of goals unless the goals of sustainable development are reflected into policies, programs and budgets of provinces and local levels. It is essential to adopt a system of formulating and implementing programs by integrating the monies transferred as conditional grants from the federation with the sustainable development goals. **The governments of all three levels should make efforts in the implementation and monitoring & evaluation of the sustainable development goals through the capacity enhancement of provincial and local levels in formulation of periodic and annual development plans, estimation of expenditure & means resources, enhancement of implementation capacities, and internalization of the sustainable development goals along with the participation of all stakeholders inclusive of mass citizens, non-governmental organizations, cooperatives pursuant to the implementation of sustainable development goals.**

199. **Progress of Sustainable Development Goals** - Amongst the economic, social and environmental dimensions of the sustainable development goals Nepal has prepared 479 indicators for 159 targets related to 16 goals. The basis of attaining the sustainable development goals by 2030 will be ready if the quantitative targets are prepared up to 2030 AD by using achievement indicator figures projected till 2030, and making interpolated projections of 2019, 2022 and 2025. When requested to make available the progress of quantitative targets achieved up to 2019, National Planning Commission has acknowledged that only draft



report has been prepared. In the absence of the report, an analysis has not been done with respect to the status of attainment of overall quantitative targets. However, the status of low progress achieved as of 2019 in some of quantitative targets of sustainable development goals have been depicted in chart in accordance with the reports of national account, economic survey, various governmental survey reports, United Nations' agencies, the World Bank and development partners.

The absolute poverty rate and multi-dimensional poverty rate have fallen in subsequent years. But, the population earning below US Dollar 1.25 per day has stood 18.7 percent in 2019 as against the target fixed to maintain within 17 percent. In accordance with review report of sustainable development goals, against to the target fixed to maintain the population earning below US Dollar 1.90 reducing to 28.5 percent, it has stood 15 percent. Similarly, only 46 out of 57 points has been achieved in the world food security indicators of 2019. The challenges have appeared primarily in respect to providing the food security to poor and marginalized groups. The progress achieved in access to health services has not been witnessed satisfactory as anticipated, as the accessibility of health services within 30 meters distance has reached 49.3 percent only as against the target of increasing to 69.3 percent. Against the target of reducing the maternal mortality rate to 125 per one hundred thousand, satisfactory progress has not been achieved as the ratio has stood 239 per one hundred thousand. The progress achieved in secondary education enrolment rate has appeared 71.4 percent as against the target of increasing to 72 percent, but the achievements of teaching mathematics, nepali and English subjects in Grade 5 have appeared only 35, 34 and 41 percent respectively as against the target of attaining 55, 66 and 57 percent respectively. Similarly, in the indicator of reducing gender inequality to 0.36 by 2019, the ratio has stood 0.47. Pursuant to renewable energy, the hydropower installed capacity has reached 1250 megawatts in comparison to target fixed for increasing to 2301 megawatts. The share of renewable energy on total energy consumption has reached 5 percent only as against the target of increasing to 22.1 percent. Its share on productivity of industries and gross domestic production has not increased as anticipated. There exist challenges in creating sustainable employment rates. The Gini coefficient has stood 0.32 as against the target of maintaining 0.4 within 2019, the statistics of which show the inequality in incomes has been declining gradually. However, the Palma ratio has stood 1.34 against the target 1.22, which indicates a state in which the inequality in incomes of low income group has not been reduced to satisfactory level. Therefore, more efforts are to be made to attain the milestones of 2022 AD.

As envisaged by the Constitution of Nepal and Fifteenth Plan, the concerned entities should take initiatives in the framing appropriate laws, policies, plan, arrangement of resources & accountability in implementation of programs, making

institutional arrangements, increasing the participation and partnership of all actors, interaction and coordination between federal, provincial and local governments as well as the attainment of the targeted economic, social and infrastructure related sustainable development goals by paying due attention to environmental aspects.

200. **Financial Resources** - As per the Sustainable Development Goals Need Identification, Cost and Fiscal Supply Strategy Report, it is estimated that an annual investment of NRs. 2 trillion 25 billion is to be made to implement the sustainable development goals. Out of the essential investments, it is estimated that the total annual investment of NRs. 585 billion including the NRs 218 billion from public sector and NRs. 367 billion from private sector will become insufficient. This estimation has been prepared by the government on the basis of obtaining 27 percent revenues of the Gross Domestic Production. But, the statistics of last 2 years show that the revenue collection has been less than the estimated figures. In such a situation, the gaps of financial resources will widen furthermore. The report also mentions that out of the inadequate investment, the resource gaps in water supply & sanitation, energy, transportation, industrial & urban infrastructure sectors will be 59 percent, and social sectors the like- poverty, health, education and gender equality will be 31 percent, and on the whole, the resource gaps will be annual 12.8 percent of Gross Domestic Production. In the National Planning Commission Report and Economic Survey, it is stated that huge investments are required for the implementation sustainable development goals due to slow progress in national pride projects, low capital formation, existence of multi-dimensional poverty, difficult geographical areas, and high cost involved in infrastructures. In the public sector, the resource gaps will exist high primarily in poverty alleviation and infrastructure development.

Pursuant to the mobilization of mass cost participation, more efforts are to be made for extending the revenue net and collection of revenues, maintaining equity for the growth of financial resources in accordance with the suggestions provided in the report. To achieve the sustainable development goals, all types of infrastructures are to be constructed and the mobilization of foreign aid is indispensable. *Since the significant portions of internal incomes are incurred for recurrent, loans and interest repayments, the concerned entities should make efforts to obtain loans at subsidized rates, utilize foreign loan assistance in the sectors in which the returns receivable are high, and utilizing more grants assistances rather than loan assistances.* †

201. **Availability of Reliable Information and Statistics** - Effective monitoring and evaluation is necessary to accelerate and direct in implementation of sustainable development goals. For this, reliable segregated statistics are not to be available on

timely basis. In the Sustainable Development Goals - Situation and Future Road-Map, the information sources of 479 indicators, segregation levels of information, reporting time and responsible entities have been identified. In this perspective, it is mentioned in the Sustainable Development Goals Need Identification, Cost and Fiscal Supply Strategy Report that the essential statistics for less than 250 out of 479 indicators identified for 159 targets, are only available at national level presently. For the some of mid-term targets and indicators, the targets and its base figures have also not been identified. This situation has prevailed specially in the activities to be accomplished by the provincial and local levels and private and cooperative sectors.

There exists no coordinating entity to consolidate records, their processing and examination of accuracy by obtaining information related to sustainable development goals through management information system of various ministries of the federation and provinces. There exists no such situation in which information and statistics as per quantitative indicators can be generated and made available from the local levels. In addition, the methodology and procedures for calculating the contribution have not been prepared to arrive in inter-correlated targets from the plan and programs operated through three tiers of the governments. Hence, it appears the statistics collected and transmitted will not become reliable. **To monitor and evaluate the progress achieved in sustainable development goals, and to make the appropriate structural arrangement and development of system for timely available of segregated qualitative information & statistics of the indicators of all quantitative targets, the necessary policy is to be adopted to develop the Department of Central Statistics as a coordinating agency to integrate the available information and statistics. In addition, the appropriate methodology and procedures for assessing the inter-correlated targets are also to be determined.**

• **Province Government Office**

Pursuant to 998 entities of 7 provinces, the total audit of NRs. 189.25 billion has been completed, and the irregularity of NRs. 8.20 billion or 4.33 percent of audited figure has been witnessed. The audited figures have appeared the highest of NRs. 39.47 billion in Bagmati Province, and the lowest of NRs. 19 billion in the Karnali Province. The irregularity percent as compared to the audited figure has appeared the lowest of 2.5 percent in Bagmati Province, and the highest of 7.09 percent in Province No.2 Significant observations relating to this are as follows:-

202. **Policy Formulation and Implementation** - As per Provincial Government Work Division Rules, the concerned ministries should formulate policies related to economic, social, agriculture, tourism & culture, forest, water & environment, mines exploration etc., and prepare necessary laws, procedures, standards etc. for

the implementation. In addition, various programs are to be conducted for the implementation of the policies.

203. **Budget and Policy Programme** - While submitting budgets or Income-Expenditure Estimate in parliament, all provincial governments have determined programs to be launched strategically in their annual policy and programs. But, there have been situations in which the budgets are not utilized as per formulated policies, plans are amended, progresses are not achieved as anticipated, linkages are not established between cost and benefits, programs are not included despite of matters pronounced in budgets, and budgets are not refunded as works not conducted. **The implementation aspect of annual policy and programs should be made effective.**
204. **Budget & Expenditure Status** - In accordance with the Financial Procedures Acts of the concerned provinces, the finance minister of every provinces is required to submit revenue and expenditure estimate every fiscal year in provincial assembly, and the status of budget and expenditure of 2018/19 approved by the concerned province assembly are as follows:-

(NRs. in Millions)

Province No.	Annual Budget	Recurrent Expenditure	Capital Expenditure	Total Expenditure	Percent of Expenditure
1	38,492.5	9,764.3	11,438.7	21,203.0	55.08
2	29,786.9	6,627.5	8,464.9	15,092.4	50.66
Bagmati	34,632.9	11,098.3	9,554.4	20,652.7	59.63
Gandaki	24,023.3	5,211.0	8,717.0	13,928.0	57.97
5	25,371.2	6,861.3	10,172.8	17,034.1	67.13
Karnali	28,282.8	4,601.1	5,415.2	10,016.3	35.41
Far-Western	25,065.6	6,930.8	7,232.6	14,163.4	56.51
Total	205,655.2	51,094.3	60,995.6	112,089.9	54.50

As per above table, the highest expenditure of 67.13 percent is incurred by Province No. 5, and the lowest expenditure of 35.41 percent is incurred by Karnali Province, and the overall budget expenditure has remained 54.50 percent on an average. On overall, the status of budget implementation in provincial governments has been witnessed weak.

205. **Year-end Expenditure** - For identified programs and projects, the Economic Affairs and Planning Ministries of provinces shave approved programs & budgets trimester basis, but most of budgets have been spent in Asadh Month (year-end). When conducted analysis based the expenditure statements obtained from the ministries, it is observed that the 7 provinces have spent NRs. 61.02 billion (54.44 percent) at year-end out of total expenditure NRs. 112.08 billion. **Should the projects executed by making huge expenditure at the last month of fiscal year, it will create difficulties in maintaining quality in operational projects, and hence the programs are to be undertaken trimester basis in accordance with the approved programs.**

206. **Direct Purchase** - As per Public Procurement Act, 2007, any public procurement is to be conducted on the basis of making competition, but the provinces have purchased the furniture, computers, laptops, photo copy machines, printers etc. worth total NRs. 681 million 686 thousand through the direct purchase methods without making any competition, which include NRs. 81 million 686 thousand purchased by Province No.1, NRs. 257 million 906 thousand purchased by Province No.2, NRs. 174 million 710 thousand purchased by Bagmati Province, NRs. 15 million 303 thousand purchased by Gandaki Province, NRs. 20 million 382 thousand purchased by Province No. 5, NRs. 86 million 900 thousand purchased by Karnali Province, and NRs. 44 million 799 thousand purchased by Far-Western Province. The provinces have also not followed the procurement procedures under special circumstance as prescribed in Section 66 of Public Procurement Act, 2007 and Rule 145 of Public Procurement Rules, 2007. **The procurement works are to be made systematic by making responsible to the officials that have not followed the provisions of Public Procurement Act and Rules.**
207. **Consultancy Service** - As per Public Procurement Rules, the consultancy service may be taken in the works in which the existing office manpower is unable to perform any work and which require more skills. All seven provinces inclusive of Province-1 have spent NRs. 1 billion 209.9 million by carrying out the works through consultants, such as - preparing surveys, drawings, designs and cost estimates of the construction of roads, bridges, view towers, irrigation canals; preparing motion picture, master plans, conducting feasibility studies, preparing software and mobile apps for updating tourism related statistics, conducting feasibility studies of cable car etc. After selection of projects on the basis of people's demand and ascertaining of cost and benefits, the procurement of consultancy services are to be made on the basis of competition, only in the circumstance where the available manpower in public entities are not capable to perform any specific work, but the expenses have been incurred ambitiously in the works such as-preparing mater-plans and drawings & designs etc.
208. **Vehicle Purchase** - Provincial Governments are required to purchase vehicles by determining standards and procedures related to maintaining economy in expenditure, but all provinces inclusive of Province No.1 have spent NRs. 1 billion 686.6 million in purchase of vehicles. While making such expenses, the Province No. 1 has purchased high price vehicles to various officials than that specified by the standards, and Province No.5 has purchased vehicles for the federal offices. **Such expenditures are to be controlled by preparing standards relating to maintaining economy in expenditure.**

209. **Goods Purchased From User Committees** - Rule 97(1) of Public Procurement Rules, 2007, provides that any construction work or the services related to such work having cost estimate up to NRs. 10 million may be carried out or obtained through user committees or beneficiary communities. Water Supply & Sanitation Division, Sindhupalchowk has paid total NRs. 36 million 815 thousand to the concerned suppliers on the basis of recommendations made by the concerned user committees with respect to the procurements of HDP pipes PPR pipes worth NRs. 15 million 769 thousand (purchased in 43 times), fittings worth NRs. 14 million 223 thousand (purchased in 27 times), and transformer costing NRs. 6 million 823 thousand done by the concerned user committees for their respective water supply projects.
210. **Complex Nature of Works** - Rule 97 of Public Procurement Rules, 2007, mentions that any work which is complex in nature shall not be carried out through the user committee. However, complex nature of works of NRs. 331 million 819 thousand and NRs. 152 million 138 thousand have been carried out through user committees by three entities under Ministry of Physical Infrastructure Development of Province No. 1 and 4 offices under Ministry of Physical Infrastructure Development of Gandaki Province respectively. The construction works related to physical infrastructure need to be carried out through professional and experienced construction entrepreneurs by making competition inviting tenders, hence the act of involving user committees in the works is not in conformity with the Rules.
211. **Cost Sharing** - In the Point No. 9 of Chapter-4 of Small Agriculture Road Construction, Maintenance and Operations Procedures, 2018 approved by Provincial Government, Chief Minister & Council of Ministers Office - Bagmati Province, it is mentioned that the partnership institution has to invest 10 percent in construction and maintenance of small agriculture roads. However, the Ministry of Economic Affairs & Planning of Bagmati Province has made the payments of NRs. 282 million 585 thousand through user committees by making a decision not to entertain the cost sharing to beneficiary committees in implementing plans and programme of provincial governments. This has increased a financial burden of NRs. 28.3 million in respect to cost sharing portion. As a result, in the projects implemented by the Provincial Government, it is witnessed that the cost participation of user committees is utilized in some of projects, whilst the cost participation is not mobilized in some other projects.
212. **Complementary Grant** - Pursuant to NRs. 293 million 333 thousand provided by the Federal Government to the Government of Province No. 2 as complementary grants, the Provincial Government has spent NRs. 129 million 630 thousand from the amount. Since the Provincial Government has borne all expenditure amounts

from the grant without sharing own fund, the 50 percent of the expenditure or NRs. 64 million 815 should be refunded from Consolidated Fund of the Province to Federal Consolidated fund. Out of NRs. 385 million 214 thousand provided as complementary grants to Government of Province-5, the Province has spent only NRs. 51 million 766 thousand. Similarly, with an objective to execute road projects in 13 districts under Bagmati Province, total cost estimate of NRs. 1.5 billion has been prepared along with the modality of bearing 60 percent cost from grants of the Provincial Government and 40 percent from Federal Government, but the grant amount NRs. 600 million released by the Federal Government has been refunded due to the program has not been executed. Out of the NRs. 425 million 324 thousand released to Karnali Province as complementary grants, the Province has transferred to 78 local levels and the unspent NRs. 19.6 million has not been refunded. Out of the complementary grants NRs. 15 billion 191 million 618 thousand appropriated by Far-Western Province, only NRs. 9 billion 711 million 739 thousand has been spent. The capability of provincial ministries in utilizing the complementary grants through implementation of the targeted programs has been witnessed weak.

213. **Monitoring of Grants** - This year, the Ministry of Land Management, Agriculture and Forestry and entities under it have provided programme based agriculture grants of NRs. 3 billion 899.1 million on the basis of cost sharing for strengthening of agriculture and livestock farms, purchasing machinery equipment, organizing market fair (hat bazar), construction of shades and buildings, marketization, purchase of tractors, milk cans, chilling vat containers etc. The grants provided by provinces include - NRs. 354.4 million provided by Province No. 1, NRs. NRs. 1 billion 41.2 million provided by Province No 2, NRs. 777.3 million provided by Bagmati Province, NRs. 363.4 million provided by Gandaki Province, NRs. 279 million provided by Province No. 5, NRs. 750 million provided by Karnali Province, and NRs. 333.8 million provided by Far-Western Province. Likewise, Gandaki Province has provided NRs. 278.9 million to various 274 home-stays for development of infrastructures; Ministry of Land Management, Agriculture & Cooperative and subordinating entities under Bagmati Province have provided NRs. 777.4 million to private entrepreneurs and others for procurement of agricultural equipment and machinery equipment and construction of infrastructures; and Gandaki Province has provided NRs. 85.8 million to various institutions and groups for the establishment of environment friendly sample agriculture village. It is necessary to conduct monitoring & evaluation to assure that whether the grants provided as such have been utilized/spent in the specified works or not.

- 213.1. To Girija Prasad Koirala Foundation under Province No. 1, total grant of NRs. 6 million has been provided, which includes NRs. 2 million provided by Health Office, Biratnagar and NRs. 40 million provided by Ministry of Economic Affairs

& Planning. To Madan Bhandari Academy, Uurlabari, total grant of NRs. 8 million has been provided, which includes NRs. 10 million provided by Ministry of Industry, Forest & Environment, NRs. 20 million provided by Ministry of Economic Affairs & Planning, and NRs. provided by Ministry of Culture, Tourism & Civil Aviation through federal budget. Total of grants of NRs. 17 million has been released to Sukhani Sahadat Place Conservation and Sahid Memorial Garden Master Plan including the NRs. 13 million provided by Ministry of Industry, Tourism, Forest & Environment and NRs. 4 million provided by Ministry of Economic Affairs & Planning. By including budget & programs for the construction of infrastructures, the conditional grants have been provided to a single entity from different entities, but the acts of obtaining invoices and evidences of the spent amounts and conducting monitoring have not been done. **Necessary monitoring need to be conducted pursuant to the usage of grant amounts.**

- 213.2. In Gandaki Province Pocket Area Promotion Support Programme Operations Procedures, 2018, it is mentioned that the fertility capacity of soils of proposed pocket area needs to be tested while selecting pocket areas. Despite of testing works are not conducted in accordance with the procedures, Agriculture Knowledge Center, Parbat has provided the grant NRs. 26 million 236 thousand under various programs to operate 68 pocket areas and Agriculture Knowledge Center, Syangja has provided grant NRs. 10 million 210 thousand to operate 17 new pocket areas. **Though the testing works are not completed in accordance with the procedures, the grant amounts have been provided, which is not in conformity with the Rules.**
214. **School Building Construction Campaign** - In Bagmati Province Social Development Ministry Operation Directives, the concerned school management committee shall have to provide grants for the construction works of community school building only after invitation of proposals of operating projects and entering agreements with such schools. As against the provision of the directives, total grants of NRs. 77 million 587 thousand have been provided to 38 community schools at the rate of 2 million each in this year by mentioning the name of community schools only. **Necessary reports are to be prepared by conducting monitoring on whether the constructed buildings and infrastructure have been qualitative or not in accordance with the building code standards.**
215. **School Laboratory Grant** - As per Local Government Operations Act, 2017, the authority related to basic secondary education has been conferred to local levels. Ministry of Industry, Tourism, Forest & Environment of Province No. 1 has disbursed grants NRs. 27 million 467 thousand to various 29 schools of 9 districts existed in the Province. Ministry of Social Development of same province has also shown the expenditure of NRs. 89.05 million in this year for the construction of

laboratory buildings of various schools in the Province. Pursuant to the schools that have fallen within jurisdiction of local levels, the grants have been provided from the federal and different ministries of the province and local level on same subject without maintaining any coordination, which may create the possibility of incurring double expenses. **In providing such grants to schools, it is appropriate to give grants through a single entity by establishing necessary coordination between entities.**

• Local Level

Pursuant to 753 local levels, the total audits of NRs. 740.65 billion of 747 fiscal years including 753 local levels of this year and 4 local levels of audit backlogs have been carried out, and the irregularity of NRs. 38.13 billion or 5.15 percent has been witnessed from the audits. When compared irregularities on percent-wise basis, the lowest of the average irregularity of 3.52 percent has been witnessed in local levels of Gandaki Province and the highest of 9.29 percent has been witnessed in local levels of Province No. 2. The irregularity of local levels has appeared up to 15.90 percent in comparison to the audited figure. Pursuant the audit backlogs, the audits of NRs. 2.42 billion of 4 local levels has been carried out in this year, and irregularity of NRs. 533.7 million or 22.01 average on an average has been witnessed. Major observations pertaining to this are as below:

216. **Local Levels not completed the audits** - As per Section 20 of Audit Act, 2018 (2075) and Section 77 of Local Government Operations Act 2017, each local level shall get done the final audit of income-expenditure from the Office of the Auditor General. Pursuant to 753 local bodies of the fiscal year 2018/19 to be audited in this year, the audits of 10 local levels including Bhagwanpur and Naraha Rural Municipality of Siraha, Janakpur Sub-Metropolitan of Dhanusa, Balara and Kabilasi Municipality and Basabariya Rural Municipality of Sarlahi, and Fatuwa Vijaypur Municipality of Rautahat, Thori and Jeerabhawani Rural Municipality of Parsa, and Likhu Tamakoshi Rural Municipality of Ramechhap have not completed. Out of the audit backlogs 6 local bodies of Sarlahi, Mahottari, Dhanusha, and Bajhang districts of fiscal year 2017/18, the Balara Municipality of Sarlahi and Samsi Rural Municipality of Mahottari have not completed audits even in this year by submitting respective books of accounts.

The situation of not complying with the provisions of laws and not completing the audits will impact on the maintenance of the financial discipline. Hence, in respect to such local levels that not completed the audits, necessary actions are to be taken to the maximum of withholding of the grants.

217. **Overall Income-Expenditure** - As per the Central Accounts submitted by the Financial Comptroller General Office, it is observed that the local bodies have obtained total income NRs. 342 billion 695.6 million in this year inclusive of the

grants NRs. 225 billion 936.7 million transferred through federation and provinces, NRs. 44 billion 182.3 million provided through federal revenue division, NRs. 4 billion 596.1 million provided through province revenue division, NRs. 26 billion 733.2 million provided from internal revenue income and NRs. 41 billion 247.3 million brought forward as opening balances. The local levels have incurred total expenditure NRs. 195 billion 377.6 million from transferred grants (recurrent and capital), NRs. 73 billion 665.4 million from their internal incomes inclusive of NRs. 37 billion 479.2 million spent in recurrent, NRs. 35 billion 975.4 million spent in capital and NRs. 210.8 million spent in financing expenses. In totality, the local levels have incurred total expenditure NRs. 269 billion 43 million, inclusive of NRs. 223 billion 376.9 million spent in recurrent, NRs. 45 billion 455.3 million spent in capital and NRs. 210.8 million spent in financing expenses, and they have retained NRs. 73 billion 652.6 million as closing balances.

However, as per the consolidated statistics prepared based on the financial statements submitted by the local levels in the audits, the closing balance has appeared NRs. 67 billion 228.5 million, and as such, a difference of NRs. 6 billion 424.1 million has been witnessed. **The up-to-date consolidated account should be prepared.**

218. **Budget Formulation and Approval** - As per Local Government Operations Act 2017, each local level shall have to submit an estimated income-expenditure statement in concerned Assembly within 10th. Out of Asadh every year. However, the 105 local levels have not submitted the budgets within the specified time during this year.
219. **Unallocated Budget** - Local Government Operations Act, 2017 provides that each local level has to submit the income-expenditure estimate by preparing budget and prioritizing programs on the basis of local financial position, and without retaining any unallocated amounts based on source estimation and ceiling determination. However, 107 local levels under various provinces including Karnali Province have approved budget and programme by retaining NRs. 4 billion 497.5 million as unallocated amount. **The practice of appropriating budget as unallocated amounts and incurring expenses on the basis of executive decision needs to be controlled.**
220. **Accounting System** - Section 69 of Local Government Operations Act, 2017 provides that the SUTRA the accounting software system developed by Financial Comptroller General Office in line with Economic Code Classification and Explanations, 2017 are to be used for the purpose of reporting in order to maintain consistency and fairness in operations, management and reporting of local funds,. When examined the matter in course of audits, it is witnessed that the software system has been used by 298 local levels only. However, the formats of Public

Sector Accounting System approved by the Auditor General in accordance with the prevalent laws have not been used by the local levels.

221. **Formulation of Laws** - As per Section 102 of Local Government Operations Act, 2017, the local levels may prepare and implement rules, directives, procedures and standards having the legal authorities remaining within prevalent Act. In a state of the requirements of preparing more than 40 laws to local levels, most of local levels have formulated only 19 Acts, laws, Procedures and Rules on an average. **The delivery of services of local levels should be made more effective by formulating the essential laws.**
222. **Employee Management** - Section 83 of Local Government Operations Act, 2017 provides that the organizational structure of any local level shall have to be determined only after the adjustment of employees on the basis of organization & management survey in consideration to the work-loads, revenue capacity, volume of expenditure, and local requirements. Compared to 66 thousand 908 positions approved for the local levels, only 43 thousand 806 positions have been adjusted up to 2019/07/16. It appears that the delivery of services will be affected due to un-fulfillment of all approved positions.
223. **Consolidated Fund** - As per Section 69 of Local Government Operations Act, 2017, the local levels are required to perform works such as - the operations, management and reporting of local funds, maintaining accounts up-to-date of funds and preparing annual statements, operating consolidated fund, preparing consolidated accounts, preparing financial statements, preparing financial statements materially free from frauds, mistakes and misstatements, developing internal control system and establishing the system continuously and effectively. In the state of local level governments are performing independently, there is no such situation the overall income and expenditures of the country can be ascertained. As per the statement submitted by Financial Comptroller General Office, it has been stated that in the local level consolidated fund, the NRs. 41 billion 247.2 million is brought as opening balance, NRs. 327 billion 125.3 million is received in the fund in this year, NRs. 269 billion 43 million is incurred as expenditure from the fund in this year and the closing balance of NRs. 58 billion 82.2 million has been shown at the year-end.
- 223.1. This year, the Federal Government has transferred NRs. 210 billion 715 million 409 thousand as grants to local levels, which includes the fiscal equalization grants NRs. 85 billion 281 million 948 thousand, conditional grants NRs. 120 billion 717 million 534 thousand, complementary grants NRs. 2 billion 907 million 181 thousand, and special grants NRs. 1 billion 808 million 745 thousand. Likewise, the Provincial Government has transferred total grants NRs. 15 billion 221 million 288 thousand

to local levels, including fiscal equalization grants NRs. 4 billion 420.1 million, conditional grants NRs. 7 billion 994 million 256 thousand, complementary grants NRs. 1 billion 862 million 343 thousand, and special grants NRs. 944 million 690 thousand. Inclusive of the grants provided by federal and provincial governments, total NRs. 225 billion 936.7 million has been transferred to local levels in this year.

224. **Foreign Aid and Reimbursement** - This year, total NRs. 8 billion 669.1 million inclusive of NRs. reimbursable grants NRs. 4 billion 481.1 million amongst the assistances received from Donor's Trust Fund, USAID etc., and S.S.D.P. loans NRs. 4 billion 188.2 million have been provided by the Government of Nepal to local levels. After accounting and incurring expenses of the grants and loans, necessary progress statement and requisition for reimbursements need to be sent in accordance with the conditions of donor, but the amounts have been accounted and spent from government source directly without showing in donor-wise statements. Since the requisition for reimbursements have not been sent by providing the statements to donors, the the financial burden of the amounts has to be borne from the Government of Nepal source. **Necessary accounting system should be introduced immediately for expending the donor amounts by sending the reimbursement requisitions based on work progress.**
225. **Grants to be Refunded** - If any grant amounts provided by the federal and provincial governments remain as unspent balance without utilizing in the specified works, such amounts are to be refunded to the concerned governments. As per the statement obtained from Financial Comptroller General Office, it is observed that total of NRs. 136 billion 234.3 million have been provided to local levels as conditional, complementary and special grants, and total of 16 billion 324.2 million has remained as balance inclusive of NRs. 12 billion 298.4 million provided by federal government and NRs. 4 billion 25.8 million provided by provincial government. The balance amounts should be deposited in concerned consolidated fund.
226. **Trimester Capital Expenditure** - Rule 23 of Financial Procedures Rules, provides that the works are to be performed in specified period in accordance with trimester work targets and budgets. 69 local levels have incurred NRs. 78 billion 676 million 552 thousand as expenses in third trimester. Likewise, 433 local levels have incurred NRs. 44 billion 913 million 81 thousand as expenses in Asadh month alone. **Since the works carried out at the end of fiscal year may create impacts on the quality standards and sustainability of works, the practice of incurring expenses in Asadh month should be controlled by complying with the provisions of the Rules.**

227. **Judicial Committee** - In Section 46 to Section 53 of Local Government Operations Act, 2017, the authority scope and justice making procedures are provisioned. It is provisioned that any complain lodged in the Committee are to be cleared within 3 months period on the basis of nature of complaints. Out of the 16 thousand 997 complaints (including last year's outstanding) to be cleared by 290 local levels in this year, only 10 thousand 382 complaints have been settled and 6 thousand 618 complaints are still outstanding to be cleared. **The justice making procedures are to be made effective to settle or finalize the actions within the timeline specified by the Act.**
228. **Miscellaneous Fund Operations and Mobilization** - Section 5.9 of Directives Related to Local Level Budget Formulation, Implementation, Financial Management and Property Transfer mentions that a municipality may operate C-5 group type Special Fund Account. Section 102 of Local Government Operations Act, 2017 provisions that necessary procedures, directives and standards are to be prepared for managing the fund mobilization. In the consolidated statement obtained from Financial Comptroller General Office, it is stated that the total NRs. 1 billion 709.5 million balances existed up to last year in different 37 funds operated by the local levels, and NRs. 3 billion 367.7 million have been deposited in the funds and NRs. 2 billion 275.1 million have been spent from the funds in this year. The total balance of the funds has reached NRs. 2 billion 802.1 million at the end of this year. **The act of transferring amounts in funds without making standards should be controlled.**
229. **Divisible Fund of Local Levels** - Section 15 of Act Related to Tax and Non-Tax Revenues, which is formulated for the management of internal incomes of provinces, provisions that amongst the fees collected from stones, pebbles, sand, and riverbed or excavated materials, the local levels have to retain 60 percent amounts in local consolidated funds and the remaining 40 percent amounts are to be deposited in province consolidated funds monthly basis. However, the local levels have not maintained the records of the amounts that remained in divisible funds for making division. As per the consolidated statement obtained from Financial Comptroller General Office, it is observed that of the fees NRs. 3 billion 292.6 million collected by local levels from stones, pebbles, sand, riverbed or excavated materials, NRs. 593.5 million has been allocated and NRs. 2 billion 799.1 has been kept in local consolidated funds. It is necessary to deposit the required amounts in the concerned province consolidated fund by calculating the 40 percent amounts of the incomes earned. In addition, the actual status of divisible fund can not be ascertained as the records of actual recovery of the advertisement and entertainment

tax have not been maintained. **The amounts collected in divisible funds should be divided by maintaining the record system systematically.**

230. **Recovery of Backlog Amount** - Under Chapter 9 - scope of fiscal powers of Local Government Operations Act, 2017, the provisions related to imposing various taxes and fees and the recovery of revenue arrears in respect to revenue contracts are provided. However, the local levels have not maintained the records of revenues to be raised. As per the statements collected from the audits, the 133 local levels have outstanding revenues of NRs. 930 million 705 thousand to be recovered. Special attention should be given in ascertaining the amounts of revenues outstanding and actual receipt by maintaining the overall records of revenues receivable, and accordingly, maintaining accounts of the revenues and preparing the financial statements of revenues to be receivable.
231. **Integrated Property Tax or House Land Tax** - Section 55 of Local Government Operations Act, 2017 provides that any local level may impose integrated property tax or house land tax under its authority areas. This year, Kathmandu Metropolitan has not recovered the property tax NRs. 552 million 731 thousand of various fiscal years to be recovered from 67 taxpayers on their houses and lands; Lalitpur Metropolitan has not recovered property tax of NRs. 117 million 476 thousand from 25 taxpayers; and Pokhara Metropolitan has not recovered property tax NRs. 99 million 817 thousand from 7 taxpayers.
232. **House & Land Rent and Business Tax** - Section 57 and 58 of Local Government Operations Act, 2017 provides that if any person or institution rents to any building, house, shop, garage, godown, shades, huts, factory, land wholly or partially, the rent tax shall have to levied on such rent recovery amounts, and in operations of trade, business or services, the business tax shall have to be levied on the basis of capital investment and financial transactions. Kathmandu Metropolitan has recovered the annual rent tax NRs. 1 billion 377.7 million or 66 percent of forecasted income and business tax NRs. 345 million 176 thousand or 68 percent of forecasted income. As per the audit examinations conducted on the basis of sampling, it has outstanding arrears of house & land tax NRs. 47 million 532 thousand with 50 taxpayers related to various fiscal years and the outstanding arrears of business tax NRs. 10 million 926 thousand with 10 taxpayers related to various fiscal years.

To construct Kathmandu View Tower in land of Old Bus park existed in Kathmandu Metropolitan-11, the Metropolitan had given the approval to one Builder on 2015/03/04. The lease agreement period of the tower is of 30 years, and the ground area of the tower is 11 thousand 890 square meters. The construction entrepreneur has submitted work performance guarantee of NRs. 18.5 million in 2013 June covering 3 years, but the period of the bank guarantee has not been

renewed despite of maturity of the period. As per Clause 3.13(2) of agreement, the lease rent at the rate of NRs. 7 million per year, total lease rents NRs. 35 million is to be recovered with respect to the period 2071 to 2075 Asadh-end, but only NRs. 9.8 million has been recovered. **Hence the outstanding NRs. 25.2 million should be recovered along with applicable 10 percent annual interest.**

233. **Entertainment Tax** - Section 4 of Province-3 Finance Act, 2018 provisions that the entertainment tax at the rate of 5 percent per ticket shall be recovered from the movie viewers in cinema halls, and of the taxes so recovered 3 percent amounts are to be deposited in local consolidated fund and 2 percent amounts are to be deposited in province consolidated fund. Since the cinema halls operated within Kathmandu Metropolitan area have not deposited the entertainment taxes in 2018/19, the follow-up letters have been written to 16 cinema halls on 2019/05/25, but the tax amounts have not been deposited. As per the cinema halls selected by audits based on sampling, the Kathmandu Metropolitan is to recover the applicable taxes of NRs. 65 million 77 thousand from the selected cinema halls, and Lalitpur Metropolitan is to recover the taxes of NRs. 20 million 929 thousand from 3 cinema halls along with the chargeable interests. **Such entertainment taxes to be recovered within the metropolitan areas should be identified and recovered by ascertaining the amounts.**
234. **Tax on Payment** - Section 88 & 89 of Income Tax Act, 2002 provides the provision relating to tax deduction at source while granting payments. However, 420 local levels have not deducted the applicable income tax and house rent tax amounting to NRs. 114 million 547 thousand in this year, which are to be deducted at source. The applicable tax amounts should be recovered.
235. **Amounts To Be Deposited** - Any amount incurred as expenditure for depositing is to be deposited at the meantime in which the transaction has occurred. But, total taxes and deducted amounts amounting to NRs. 16 million 86 thousand have not been deposited in the concerned accounts, which include the income tax and rents tax NRs. 3 million 145 thousand not deposited by Sukhipur Municipality Siraha and NRs. 4 million 514 thousand not deposited by Bariyarpatti Rural Municipality Siraha; taxes at source, deposits, provident fund, citizen investment trust, insurance, borrowings deducted amounting to NRs. 6 million 613 thousand not deposited by Mithila Bihari Municipality Dhanusa, and NRs. 2 million 808 thousand not deposited by Tilathi Koiladi Rural Municipality and Dakneshwari Municipality. **The amounts should be deposited in the concerned accounts.**
236. **Value Added Tax** - Major observations related to Value Added Tax are as follows:-
- 236.1. The Value Added Tax is to be recovered in revenue contracts, but local levels have not recovered the taxes. The taxes not recovered include NRs. 8 million 151

thousand not recovered by Jeetpur Simara Sub-Metropolitan from one entrepreneur, NRs. 3 million 236 thousand not recovered by Hetauda Sub-Metropolitan from one entrepreneur, NRs. 11 million 79 thousand not recovered by Damak Municipality from 3 entrepreneurs, NRs. 10 million 101 thousand not recovered by Nijgadh Municipality, NRs. 7 million 507 thousand not recovered by Sankharapur Municipality, NRs. 15 million 511 thousand not recovered by Belkotgadhi Municipality Nuwakot from one entrepreneur, NRs. 5 million 266 thousand not recovered by Bidur Municipality Nuwakot from one entrepreneur, NRs. 3 million 786 thousand not recovered by Namobudha Municipality Kavre, NRs. 11 million 511 thousand not recovered by Thakre Rural Municipality Dhading, NRs. 12 million 6 thousand not recovered by Bhumlu Rural Municipality Kavre, NRs. 8 million 303 thousand not recovered by Indrawati Rural Municipality, and NRs. 3 million 913 thousand not recovered by Benighat Rural Municipality. Similarly, Dolakha Tamakoshi Rural Municipality has not recovered NRs. 3.9 million in 1 contract and Galchhi Rural Municipality has not recovered NRs. 9 million 20 thousand in 1 contract. Melamchi Municipality has to recover the short collected Value Added Tax NRs. 7 million 794 thousand from one entrepreneur of revenue contract, as it has only recovered Value Added Tax NRs. 19 million 663 thousand as against the requirements of recovering NRs. 27 million 457 thousand. Pursuant to the requirements of recovering 13 percent Value Added Tax in revenue contracts of Morang, 3 local levels including Belbari, Uurlabari and Sundarharaicha Municipalities have not deposited NRs. 19 million 550 thousand by recovering the taxes from various entrepreneurs.

Pursuant to Value Added Tax applicable on the natural resources sold through making contract, total NRs. 15 million 927 thousand is to be recovered, which includes NRs. 10 million 101 thousand to be recovered by Nijgadh Municipality, NRs. 3 million 480 thousand to be recovered by Charnath Ganeshman Municipality Dhanusa, and NRs. 2 million 336 thousand to be recovered by Mangaha and Gaushala Municipality Mahottari. **The Value Added Tax amounts should be recovered and deposited.**

- 236.2. Godawari Municipality, Kailali has arranged two contracts of NRs. 119 million for collecting the river based materials, and one contract of NRs. 11 million 278 thousand for the export of wildlife based materials. Similarly, while making the contracts amounting to NRs. 1 million 779 thousand, Dhangadhi Sub-Metropolitan should have arranged the condition of making payment of installment amounts along with the addition of the applicable Value Added Tax to the Municipality, but the contracts have been arranged with the terms of depositing the Value Added Tax by

the concerned entrepreneur itself. Since the applicable Value Added Taxes are not deposited in Inland Revenue Offices during the time of making payment of installments payable as per contract agreement, both of the Municipality should ensure that the applicable Value Added Tax NRs. 39 million 46 thousand have been recovered and deposited.

236.3. As per the provision of Finance Act, 2019, , in making payments as per contracts or agreements from 2019/07/01 onwards, each g government office is required to deposit 50 percent amounts of Value Added Tax in the concerned revenue heading and remaining 50 percent amounts are to be paid to the concerned firms. However, 28 local levels inclusive of Biratnagar, Butwal, Nepalgunj, have provided total Value Added Tax amounts to the concerned suppliers without depositing 50 percent Value Added Tax amounts in revenue headings even after 2019/07/16. **Hence, the NRs. 369 million 172 thousand in respects to 50 percent Value Added Taxes should be recovered from the concerned parties.**

236.4. Section 14 of Value Added Tax Act, 1996 provides that any entity shall have to make purchases by obtaining tax invoices registered in Value Added Tax. But, 221 local levels have spent NRs. 178 million 603 thousand for purchasing goods without getting the tax invoices as prescribed by laws. Similarly, 130 local levels have spent NRs. 120 million 472 thousand to the non-filers in Value Added Tax. **There should be control in the practice of making purchases without complying with the prevalent laws.**

237. **Works Performed User Committees** - In cases where the heavy equipment machines are to be used in the works undertaken by any user committee, the pre-approval shall have to be obtained. But, with respects to construction works undertaken by user committees, 144 local levels have spent NRs. 1 billion 461 million 892 thousand without getting pre-approval for using heavy equipment. To perform works only in accordance with the provisions of laws, the concerned employees and user committees should be made responsible.

In addition, while conducting works through the user committees, the contract agreement is to be made with user committee by disclosing the portion of people's participation out of the total cost estimate. However, 38 local levels have spent NRs. 236 million 51 thousand with respect to the works conducted through user committees without mobilizing the people's participation. Likewise, 202 local levels have madethe payment of NRs. 140 million to the concerned user committees without deducting NRs. 438 thousand related to the contribution of user committees. The amounts should be recovered.

238. **Official Facility** - Section 3 of Act Relating To Local Level Officials and Members Facilities, 2018, mentions that the elected officials and council members of local levels are entitled to get the amounts specified in Schedule-1 with respect to monthly facilities from the date of commencement of the works of own posts after getting elected and taking oath-of-office of the elected post in accordance with Schedule-2. As per the arrangements of Schedule-1, the payments of facilities including the monthly remuneration are not allowable. Major observations witnessed on this matter are as follows:
- 238.1. Altogether 576 local levels have borne NRs. 4 billion 296 million 770 thousand in this year with respect to the remuneration, meeting allowances, entertainment expenses, communication charges, transportation & communication charges etc. Out of the Chiefs, Deputy Chiefs, Ward Chiefs, Executive Members, and Ward Members of local levels. The act of providing such additional facilities against the provisions of laws promulgated by the provinces is not in conformity with the laws.
 - 238.2. In the Act Relating To Local Level Officials and Members Facilities, there is no provision to provide the remuneration by appointing any private secretary and adviser to the elected officials. However, 140 local levels have paid NRs. 56 million 148 thousand in this year with respect to such remuneration. The act of granting such remuneration that not provisioned in the Act is not in conformity with the laws.
 - 238.3. As per Section 8 of Act Relating To Local Level Officials and Members Facilities, 2018, if any person getting pension from government fund is elected or nominated in an official, the person is entitled to claim only one facility either the pension or the monthly facility as per this Act. However, 29 local levels have paid the remuneration of NRs. 10 million 575 thousand with respect to the persons getting pensions from government fund. The amounts paid as dual facility should be recovered. In addition, other local levels should grant the payment of such facilities only after getting the self-declarations from the officials on whether such facilities have been taken or not.
 - 238.4. As per the Act Relating To Local Level Officials and Members Facilities, any other payment except that specified in this Act shall not be granted. However, 64 local levels have spent NRs. 34 million 38 thousand in respect to clothing expenses that not mentioned in the Act. In addition, 285 local levels have spent NRs. 231 million 633 thousand in respect to other facilities, such as- communication, newspaper etc. The act of incurring expenditure in clothing and other facilities that not specified in the Act is not in conformity with laws and justifiable.
 - 238.5. Joshipur Rural Municipality, Kailali has provided NRs. 100 thousand to Vice-Chair of Rural Municipality in respect to budget preparation and speech 2018/19 as per

the Village Assembly decision made on 2018/07/16. Likewise, pursuant to presentation of Annual Policy and Programme 2018/19, NRs. 50 thousand has been paid to Vice-Chair of Patarasi Rural Municipality, Jumla, NRs. 200 thousand has been paid to Chair of Sinja Rural Municipality, NRs. 95 thousand has been paid to Vice-Chair of Tatopani Rural Municipality, NRs. 100 thousand has been paid to Vice-Chair of Chandannath Municipality, NRs. 50 thousand has been paid to Vice-Chair of Loharpatti Municipality, Mahottari, and NRs. 100 thousand, NRs. 50 thousand and 25 thousand have been paid to Vice-chairs of Rural Municipalities- Bhairabi, Guras and Dungeswar respectively in Dailekh. **Since the Act approved by the provinces has not made any provision relating to getting remuneration with respect to the presentation of annual policy and programme, the remuneration amounts provided should be recovered.**

239. **Incentive Facility** - Section 88 of Local Government Operations Act, 2017 stipulates that the starting pay-scale of local service employees shall be as specified by the provincial governments, and in the event where the provincial governments have not specified such scales, it shall be equivalent to the pay-scale as determined by the Government of Nepal. In addition to the facilities receivable to employees as per the concerned laws, the local levels have provided extra facilities, such as- additional communication facilities, tiffin expenses, monthly allowances, assembly allowances, extra time allowances, incentive allowances etc. to their employees as per decisions made by Council, Assembly, board meeting etc. Out of local levels without preparing any standards and indicators for providing such facilities. In addition to the remuneration specified by federal laws, 252 local levels have paid NRs. 378 million 610 thousand in this year as the additional incentives. **There should be control in the practice of providing additional facilities on the basis of adhoc decisions without formulating any standards.**
240. **Vehicle Purchase** - The Directives issued by Ministry of Finance in 2018 stipulates that no vehicle can be purchased for any office regular use from the budget provided by the Government of Nepal. It is witnessed that 292 local levels have spent NRs. 1 billion 870 million 882 thousand in this year for purchasing various vehicles. The local levels which have not purchased vehicles have also been using vehicles by hiring on rents. Though some of local levels have purchased vehicles form their internal incomes, most of the local levels have purchased vehicles by utilizing the equalization grant amounts. There should be control in the practice of incurring expenses in facilities and consumption related works from the appropriated budget of development related works.
241. **Financial Assistance** - As per Local Government Operations Act, 2017, the local levels are prohibited to distribute any financial assistance, donation, prize and

institutional grants from the amounts provided to local levels. However, 312 local levels have distributed the financial assistances of NRs. 311 million 907 thousand. in this year. **There should be control in the practice of distributing financial assistances.**

242. **Excess Disbursement** - The disbursements or expenditures are to be made only after examining whether necessary procedures have been fulfilled or not. However, the 222 local levels have provided excess disbursement of NRs. 100 million 772 thousand by providing double disbursements without examining the earlier disbursements and granting more disbursements than the approved positions. Likewise, 69 local levels have incurred more expenditure of NRs. 112 million 183 thousand inclusive of the disbursements NRs. 11 million 411 thousand provided in respect to salaries of the retired teachers. **The amounts should be recovered by making responsible to the persons that have provided excess disbursements.**
243. **Direct Purchase** - Section 8(2) of Public Procurement Act 2007 stipulates that any public entity shall not conduct the direct purchases so as to limit the competition in purchase processes. Similarly, as per the Public Procurement Rules, any public entity shall make the purchases of goods up to NRs. 500 thousand through direct purchases, more than NRs. 500 thousand to NRs. 2 million through the sealed quotation and exceeding the NRs. 2 million through the invitation of open bids. It is also provided that in making direct purchases, the purchase of goods more than the specified amount and the purchase from one supplier of more than once in a fiscal year shall be made. This year, while making the purchases of capital and recurrent types of goods and services, the 452 local levels have done direct purchases of NRs. 2 billion 612.7 million without making any competition. **There should be control in such practice of making purchases as against the provisions of the Act and Rules.**
244. **Land Record and Protection** - It is the work of local levels to use the Parti (uncultivated), Ailani (unregistered) and public lands by updating the records and making safeguards of such lands existed within own local areas. Major observations witnessed in respect to this are as follows:
- 244.1. Kathmandu Metropolitan has not performed the work of updating records of such lands till now. With respect to the updating of public open fields, Parti (uncultivated) lands, ridge, sand banks, a report has been submitted by one commission by making investigations, but the suggestions incorporated in the report has not been yet implemented. Besides the lands set aside for the purpose of roads, the protection works of 2 thousand 548 ropanies 7 aanas and 1 paisa lands comprising of 882 kittas (units) have not been done.

- 244.2. Pursuant to 23 ropanies of land existed at Kalopul of Kathmandu Metropolitan Ward No. 5, the place is stated as 'Dhobikhola' in the field-book the measurement of which conducted in 2021 (1964/65), and one person of Okhaldhunga, citing as a tenant of the land, has initiated the process with an application for getting registration in his name through the amendment of the field book. Pursuant to the lands specified as Dhobikhola in the then field-book, the Metropolitan has initiated the process of constructing works by allocating NRs. 9 million with the preparation of the Detailed Project Report from Kathmandu Valley Urban Development Authority, however, the construction works has been suspended on the basis of Supreme Court's decision made on 2016/02/21 with the issuance of an order in the name of the tenant to stay in an inquiry proceedings (sarjamin) with respect to obtaining of the land ownership certificate. **As per the minimum valuation determined by the Metropolitan for raising property tax, the lands cost NRs. 809.6 million and hence, necessary measures are to be taken for the protection of the government land.**
- 244.3. The government land situated at Kathmandu Metropolitan Ward No. 6 having 2 ropanies 8 annas areas registered in sheet no. 102/1027/14 adjoined with kitta no. 4, has been encroached by one Sekuwa Corner by constructing infrastructures. As per the minimum valuation determined by the Metropolitan for raising property tax, the lands cost around NRs. 90 million and hence, the lands should be protected by clearing the encroachment.
- 244.4. Out of the lands owned by the Manohara Land Integration Project acquired for land pooling purpose, the 45 ropanies of land existed in Madhyapur Thimi Municipality Ward No. 2 was occupied by the Manohara River in 2021 (19964/65), but, at present, the lands have been registered in the name of different persons due to change of course by the Manohara River. The ownership of lands in which the river is flowing at present are registered in the name of different persons and the lands in which the river had flown in past has been registered in name of different persons at present. Pursuant to the land pooling, a situation has emerged presently in which the amounts are to be refunded to the then land owners by deducting the land pooling expenses at the rate of specific percent. The value of 45 ropanies of lands, in which the river had flow in past but the ownership obtained by different persons, becomes equivalent to NRs. 2.88 billion on the basis of minimum valuation of the project, and the value of another land having area of 9 ropanies becomes NRs. 576 million on the basis of the project's minimum valuation price. Hence, pursuant to above lands, necessary investigation are to be conducted.
- 244.5. Bharatpur Metropolitan, by constituting an implementation committee, has prepared a report with respect to the protection of 66 bighas 2 kathas 1 dhur land in various wards till 2076 Baisakh (2019 May). When conducted field observations in course

of the audits, it is witnessed that the lands including public lands, cultivated lands, fish ponds etc. have been protected by constructing the wire fencing. The Metropolitan has not generated any revenue from the lands. Similarly, in the 7 kathas 20 dhurs public lands existed in front main-gate of Chitwan Stadium, a road has been built by a land plotter of private sector. Likewise, though the Metropolitan has mentioned that it has 157 bigahs of public lands in Ward No. 20, it appears the Metropolitan has not taken any concrete measure to generate revenues by preventing from encroachments of the lands. The Metropolitan should make efforts to protect the public land and generate revenue earnings from the lands.

244.6. After transformation of the Lalitpur Bishalbazar Company Limited into a private limited on 2012/04/30, the liability of then company has shifted to the newly created private limited. In the contract agreement signed between Patan Multiple Campus and the company, it is mentioned that the amounts paid as house land rents are deductible from the lease rents and other taxes will be paid by the company itself, and in a state of the taxes are not paid as per the agreement and the agreement period is still remaining, the second contract agreement has been signed on 2016/03/23. The Clause 2 of second agreement mentions that no significant changes can be made in the agreement signed on 2001/03/16. However, by disobeying the arrangement and changing the arrangement of taxes and fees in clause no. 12, an additional provision has been made in the agreement stating that if any house & land tax is to be paid, the amount will be paid by deducting from the rent amounts payable to the campus. The arrangement made in second contract has created additional liability of NRs. 80 million 768 thousand to the campus inclusive of house & land tax already determined by Lalitpur Metropolitan up to 2018/19 and the accrual tax liability, and hence, the liability created amount should be recovered by making responsible to the person that have made the second agreement. Since the calculated liability is up to 2018/19 only and the property taxes so determined have not been deposited, the liability to the campus will likely to increase furthermore due to the recoverable fines and interests, and on the other side, it has created property tax liability up to upcoming 25 years. **Hence, an investigation should be conducted on this subject.**

244.7. Siddhartha Nagar Municipality, Bhairahawa has public lands in 54 places, and amongst the existed land, it has 54 bigahs in one place. Though it has purchased 6 bigahs lands for the purpose of dumping sites, it is not in use. In Chhapiya, the fish ponds and other entertaining places have been constructed. While conducted discussion on this subject, it is acknowledged that the Jail Office existed in Ward No. 12 will be taken under the ownership of the municipality, existing Jail Office will be shifted in the place, the lands occupied by existing Jail Office will be used for parking purpose, and the necessary steps have already been initiated in accordance with the plan. **The public lands should properly utilized and managed**

245. **Recovery and Deposit** - Section 84 of Local Government Operations Act, 2017 provides the provisions related to clearance or settlement of irregularities. Section 84(2)(d) of the same Act provisions that the duty of making the settlement of irregularities or cause to be settled is of the Chief Administrative Officer. This year, total of NRs. 1 billion 746.1 million have been recovered, which includes NRs. 1 billion 239 million recovered by the 389 local levels after the pointing out of the observations of excess payment granted, tax deduction at source not conducted and amounts not deposited in federal consolidated fund, and NRs. 507.1 million recovered by 185 local levels after issuance of preliminary reports. In addition, total of NRs. 330 million 603 thousand have been recovered including the recovery in course of follow up of audits. In view of the existing practice of carrying out the final audits based on the sample selection methodology, **the effectiveness of internal audits should be enhanced to mitigate the risks of incurring such excess payments.**
246. **Monitoring of Grants** - This year, the Federal Government has transferred NRs. 210 billion 715.3 million as grants to local levels, which includes the fiscal equalization grants NRs. 85 billion 281.9 million, conditional grants NRs. 120 billion 717.5 million, complementary grants NRs. 2 billion 907.2 million, and special grants NRs. 1 billion 808.7 million. Likewise, the Provincial Government has transferred total grants NRs. 15 billion 221.4 million to local levels, including fiscal equalization grants NRs. 4 billion 420.1 million, conditional grants NRs. 7 billion 994.3 million, complementary grants NRs. 1 billion 862.3 million, and special grants NRs. 944.7 million. Inclusive of the grants provided by federal and provincial governments, total NRs. 225 billion 936.7 million has been transferred to local levels in this year. **Necessary monitoring should be carried out relating to use of such grants.**
247. **Work Conducted Through Cooperative Institutions** -Section 8 of Public Procurement Act, 2007, provides that with respect to procurement of any goods, construction works or other services, the procurement may be done through the participation of users' committees or beneficiary groups. While carrying out various construction works by Chaurjahari Municipality of NRs. 53 million 187 thousand, it has awarded the works to various labor cooperative institutions recognizing them as user committees or beneficiaries communities by slitting the works into 96 packages without making any competition. Likewise, Bafikot Rural Municipality and Sani Veri Rural Municipality have awarded various construction works of NRs. 3 million 287 thousand and NRs. 13 million 561 thousand respectively to various labor co-operative institutions recognizing them as user committees or beneficiaries communities without making any competition. The Public Procurement Act, 2007 provides no such provision to award works to any labor co-operative institutions recognizing them the equivalent to the user committees or beneficiary communities without making any competition,

and hence there should be improvements in the practice of conducting works through labor co-operatives by limiting the competition.

248. **Consulting Services** - As per the Public Procurement Rules, the consultancy services may be taken by preparing cost estimates and making competition to the works which the existing office manpower can not perform and more skills are required for performing the works. However, various 39 local levels inclusive of the local levels of Dang, Rupandehi, Nawalparasi, Manang, Morang etc. have incurred total expenditure of NRs. 153.2 million to carry out the works such as - inventory management, software development (including revenue collection), preparing master-plan and drawings & design for the construction of parks, roads, office building play ground, multi-purpose buildings etc. After selection of projects on the basis of people's demand and ascertaining of cost and benefits, the procurement of consultancy services are to be made on the basis of competition, only in the circumstance where the available manpower in entities are not capable to perform any specific work, but the expenses have been incurred ambitiously in the works of preparing mater-plans and drawings & designs etc. This has resulted mis-spending of public resources as the works have not been implemented.
249. **Software Expenses** - For the record keeping of transactions, it is necessary to procure the relevant and useful software which are sustainable, dependable and can be used for long time. But, without identification of needs, the Hansapur and Sabaila Municipality of Dhanusha have spent NRs. 15 million 881 thousand, Mirchaiya, Lahan, Golbazar and Dhangadhimai Municipalities of Siraha have spent NRs. 3 million 979 thousand and Rajbiraj, Kanchanroop, Shambhunath, Hanumannagar and Surunga Municipalities of Saptari have spent NRs. 4 million 406 thousand in the purchases and installation of various softwares. **It is necessary to make an analysis on the usefulness and sustainability of the procured software, and bring improvement through the introduction of practice of making purchases only on the basis of identification of needs.**
250. **Unproductive and Distributive Expenditure** - The local levels are required to allocate necessary budgets in capital headings for the selection and implementation of such projects that can give maximum outputs, contribute in capital formation and create usefulness. They need to keep control in the expenses which will not contribute in capital formation and growth in production, but 74 local levels have paid NRs. 175 million 688 thousand to various organization, groups, clubs etc. There should be control in the practice of making such distributive and unproductive expenditures without any programme and proposal.
251. **Uncompleted Projects** - By reviewing the physical and financial aspects of the implemented projects, the causes responsible for attainment of low progress are to

be identified and improvements are to be made accordingly. The 76 local levels have transferred 1 thousand 184 plans/projects for next year without implementing in this year. In such projects, the payment of NRs. 642 million 744 thousand is still outstanding. The assurance of necessary budgets is to be made for completing projects on time.

252. **Price Adjustment** - The price adjustment cannot be provided in excess of the condition of procurement agreement, but Biratnagar Metropolitan has paid excess price adjustment of NRs. 11 million 592 thousand to one consultant by computing the price adjustment on the basis of price index of 49 days prior to the completion of works. **The excess paid price adjustment amount should be recovered.**

Similarly, Butwal Sub-Metropolitan has paid excess price adjustment of NRs. 6 million 967 thousand to one joint-venture company of constructing Main Administrative Office Building by using different price adjustment formula than that specified in the contract agreement. **The excess paid price adjustment amount should be recovered.**

Chapter 4

Reforms To Be Undertaken In Future

1. **Budget Formulation and Implementation** - In formulation of budget, the zero and result or work performance-based budget system should be adopted focusing on the attainment of the sustainable development goals by establishing linkages with the medium-term expenditure frameworks and periodic plan & programs. All types of assistances are to be incorporated in budget after getting the assurance of receipt of the assistances. In addition, the practice of operating funds outside the budgetary system should be discouraged. Economy and efficiency in incurring expenditure are to be maintained along with the improvement in practice of making excessive virements and expenditures at the year-end.
2. **Foreign Aid** - Foreign assistances should be taken on the basis of national priority giving special focus on national interests and concerns. All types of assistances obtained in this way are to be spent by reflecting in national budgetary system along with the arrangements for conducting the audits of such expenditures. The monitoring should be made more effective to make transparent and accountable of the foreign assistance being mobilized through national and international non-governmental organizations. By making proper management of reporting system of the foreign assistances mobilized by the provincial and local levels, all committed assistances should be obtained, efficiency in mobilization of assistances is to be enhanced and the reimbursements of the incurred expenses are to be timely received.

3. **Improvement in Revenue Administration** - By reviewing the bases of gross domestic production and making the revenue projections more realistic, the revenue administration should give main focus in the mobilization of internal revenues paying attention to the matter that the total revenue earnings will not decrease as a result of decline in recovery of import duty and fees resulting from the import substitution policy adopted by the country. There should be arrangements to extend and enhance quality of tax examination, promoting risk-based tax examination, transfer of revenue related information by establishing linkages between information technology system used by different entities, adopting strict policy for the settlement of tax disputes and recovery of revenue arrears, mitigating the risks of tax leakages existed in the transactions of permanent establishment, value transfer, contract, double tax avoidance contract, tax avoidance plan, and making legal arrangements for raising taxes from electronic transactions.

To control the practice of not issuing invoices, the monitoring of markets should be done intensively with the enforcement of imposing special fines at the work place to any person or firm that has not issued such invoices. Attentions should be given in making the customs declaration, classification and valuation of goods more realistic and making transactions value-based and the usage of information technology and inter-organization co-ordination and monitoring should be made more effective to control under invoicing or low valuation. Attentions should be given in maintaining transparency of revenue exemption and certainty in uses of facilities, and the non-tax rates are to be reviewed giving due attention in service delivery, cost, facilities, use of technology and time. To maintain faithfulness, transparency, fairness and integrity among taxpayers and tax administration, the necessary actions should be taken more strictly to the person or firm that involved in revenue leakages and has not complied with the tax laws. The revenue administration should be made more effective by formulating integrated tax codes and the constitution of Revenue Board.

4. **Project Management** - By preparing project bank, the projects are to be implemented only after the completion of pre-preparation works inclusive of environmental impact studies and prioritization of feasible projects based on the detailed feasibility studies. By assessing the national construction capacity and preparing standards for determining the national pride projects and game changer projects that require huge investments, the capabilities in procurement and contract management are to be enhanced, separate laws are to be formulated as per necessity, and sufficient budgets are to be allocated to ease in implementation. Necessary laws are to be formulated to make responsible to the employees and consultants that have prepared and approved the drawings, designs and cost estimates without making adequate studies and detailed studies, and the practice of allocating budgets

fragmenting amounts in several unsustainable projects without making feasibility studies and cost-benefit analysis should be improved. After completion of projects, an arrangement should be made to conduct the monitoring & evaluation of internal rate of returns. Necessary budgets are to be appropriated by classifying projects to be implemented under federal, provincial and local levels and ending the practice of duplication, piling-up and fragmentation of work scope in project implementation. Contingency expenditures are to be properly managed; dependency on the consultancy service is to be reduced; the employees' capacity in implementation of projects are to be enhanced; linkage between work performance contract and career development is to be established; and the process of monitoring & evaluation should be made more effective making technology based.

5. **Procurement Management** - Efforts should be made to establish planned and strategy based procurement methodology, and discourage the slicing and packaging procurements to limit the competition and prepare specifications to make compactible with specific brands only, and mitigate the risk of mutual collusion in bids. Sample documents related to design & built, engineering-procurement-construction (EPC), framework agreement, catalogue shopping etc. should be prepared and implemented. There should be arrangements for making the contract agreement by assessing the capacity of construction entrepreneurs, adopting the policy to make responsible to every firms in joint-venture, and managing the work of performing construction works through user committees, further clarifying the matters of structural contract agreement, making procurement under special circumstances etc., and the confusion and complexities existed in procurement laws should be improved as per necessity. Likewise, the regulating entities involved in monitoring of procurement works should extend their scope for full compliance of procurement related legal procedures, and the capacity of the manpower involved in procurement process should also be enhanced.
6. **Expenses Curtailment and Management** - Steps should be taken for maintaining the recurrent expenditure within certain proportion of gross domestic production, projecting recurrent expenditures on the basis of certain procedure and standards, establishing the practice of appropriation of budgets to meet recurrent expenditure from revenues along with the adoption of control measures for the recurrent expenditure, controlling in the practice of establishing offices by federal, provincial government and local levels for single purpose, and discouraging in the practice of opening offices just for showing presence along with the reviews of existing the number of ministries, entities, offices, boards, committees etc. The matter of common power division should be made clear to avoid duplication in programme, appropriation and expenditure. Clear standards should be prepared to avoid obtaining dual facilities from state coffer by high-ranking dignitaries. The

employees' positions are to be approved only on the basis of work-loads, and standards are to be prepared and implemented effectively pursuant to the status of building, office rooms, furniture, equipment and vehicles to be used by government offices and employees, and handover of such assets are to be done if found more than the requirements. There should be restriction in vehicle purchases for certain period. The Contribution-based Pension System should also be applied to the teachers of school & universities and employees of local levels.

7. **Social Security and Grants** - The state should give security to different class, age, group, caste, discriminated, and suppressed people as per the concept of welfare state and capability of the state, and an integrated policy and programme related to social security grant should be implemented to encourage certain occupational business and industries. Since the social security programs have been operated now by more than 20 entities in fragmented manner, a high level co-ordination unit should be established to overcome the problem of duplication and co-ordination and all programs related to social security are to be operated under the unit. Efforts are to be made to implement identification system of beneficiary groups, integrate and update statistics, prepare objective bases for the distribution of financial assistances. In view of increasing trend in providing grants by different levels of governments, the monitoring & evaluation should be made more effective to ensure that whether the distributed grants have contributed in production and productivity or not. The result-based grant system should also be implemented.
8. **Usage and Safeguard of Public Property** – To consolidate and update the fixed assets, such as - lands, buildings, vehicles etc. owned by the governments, the property management information system should be implemented, and the properties of liquidated offices should be utilized by making necessary handovers. The unplanned exploitation of natural resources should be controlled by regulating the extraction, collection and exports of river-based and mineral-based materials. For the proper management of the use of natural resources including leasing, using, usufruct of government lands, forest areas and mineral extraction, the clear standards are to be prepared, and such resources should be used, managed and monitored in a manner they will give proper returns. The unused lands owned by various government & public entities and universities are to be safeguarded by updating the records and used for income generating works. The encroached government, & public and Guthi lands should be protected by clearing the encroachments. The monitoring work of power generation licenses, renewals and production should be made more effective. The maintenance and protection works of archaeologically importance heritages and museums are to be carried out along with the proper record keeping of precious goods existed in such sites. The management, recording and safeguarding works of gifts/offerings offered by

devotees in public abbey, temples, monasteries, holy-places etc. should be made more effective. Proper management should be done to safeguard the cash, lands, and movable and fixed assets existed in the name of Nepal Trust Office, and such assets are to be used for productive works.

9. **Service Delivery** - All public entities should manage the essential manpower and resources by analyzing the services to be delivered and the available capabilities avoiding the duplication in works. In the offices, such as - land revenue, land survey, foreign employment, transport management, in which the excessive pressure of the service recipients exists, the system such as - cyclic time system, token system, one-window system and help-desk system should be introduced/ implemented minimizing the roles of mediators, and the services should be delivered through electronic medium to reduce the time and cost of service recipients in getting such services. Improvements in laws, procedures, processes and forms related to delivery of services are to be made by reviewing them timely basis. There should be arrangements for establishing one-window system, citizen charter along with compensation, conducting public hearings and surveying the service recipient satisfaction and distribution of national identity cards. Except the basic or essential services, the responsibility of delivering other services should be provided to private sector, limiting the role in monitoring of such services. For the delivery of quality basic health services, necessary manpower, equipment and physical infrastructures as well as the regular supply and distribution of drugs should be arranged. By implementing the free education programme strictly, steps should be taken for the extension of technical education and improvement in quality of higher education.
10. **Use of Information Technology** – In perspective of use of information technology system by most of entities of federal, provincial and local levels, the subjects related to services delivered through such electronic technology, information collection and transfer, transparency and monitoring should be made time and cost effective. While establishing information technology system to be used by government entities for the operations of services through electronic medium, such information technology system should be operated only after getting the approval from Department of Information Technology along with the preparation and submission of related documents of the system to determine whether the proposed system is as per the set standards or not. An Integrated Data Center should be developed in line with international standards and the information technology system of all government entities should be operated by keeping the information and statistics in the Data Center. The arrangements for making electronic signature should be implemented immediately. The audits of information technology should be conducted to assure the economy, efficiency, security and trustworthiness of data & system being operated by various government entities.

11. **Public Enterprise Management** - By conducting studies on whether the public enterprises are operated in accordance with set objectives or not, the existing enterprises are to be liquidated, merged as per necessity and their contribution, and the structures are to be changed and revisited along with other alternatives. Efforts should be made to make digitalization of accounts and management information system, and financial reports are to be prepared on the basis of Nepal Financial Reporting Standards (NFRS). For regulating the work performance of corporate bodies, effective machinery should be created and one umbrella public enterprise management and operations act should be formulated, and the records of investments made by the government in PEs should also be updated. The entrepreneurship in PEs should be developed through the appointment of experts or professionals in board of directors and chief executives. Attention should also be given in review of existing employees approved positions, capacity development and management of staff future liabilities.
12. **Accounting and Reporting System** – To enhance the accurateness, transparency and trustworthiness of public funds through making the accounting and financial reporting system of public entities relevant with time, all level of governments should prepare their financial statements as per the approved formats of cash basis Nepal Public Sector Accounting Standards; necessary system should be established to prepare the consolidated income-expenditure of all three levels of governments; and the approval of Auditor General should be obtained prior to the implementation of information technology system to be used by various entities under the governments for bringing comfort in their financial performance and reporting.

For accounting in government offices, a paperless accounting system along with the system of uploading accounts & account related documents in system should be implemented, and one integrated reporting software should be used to cover all financial transactions of federal, provincial and local levels. In accounts group of civil service, the study of accounting subject is to be fixed as the minimum qualification, capacity development programs for accounts staff are to be implemented, the assets management information system should be used to prepare consolidated records of properties of the governments. There should be arrangements to avoid the double treatment of expenditures incurred from fiscal transfer, and good international practices should be followed in certification of the central financial statement of the governments.
13. **Internal Control and Internal Audit** – The entities of federal, provincial and local levels should prepare and implement own internal control system as per the nature of works, and regular monitoring such system should also be conducted. Pursuant to the works of maintaining accounts as well as conducting internal audits of

Government of Nepal are being carried out by Financial Comptroller General Office, separate independent departments are to be created to perform the works of maintaining accounts and conducting internal audits independently. Separate groups should be formed for the employees of internal audits, separate organizational structure should be arranged to maintain operational independency of internal audits, and the effectiveness of internal audit should be enhanced through enhancement of professional capabilities, preparation of necessary guidelines, standards and directives, and implementing capacity development programs and supervision.

14. **Regulating Arrangement** - In view of growth in the size of country's economy, development of technology and foreign investment friendly environment, the laws related to regulating must be improved, and organizational capacity development programs should be implemented. To make the regulating works of health institutions and drugs and food items more effective, an independent and high powered regulating entity should be constituted. Similarly, to make the regulation works more effective, it is essential to assure whether the directives provided by regulating entities have been complied with or not. There should be arrangements for regulating the institutions, such as - Employees Provident Fund and non-banking institutions that are operating the financial transactions. Appropriate machineries are to be established for providing operational independency of regulating entities, compliance of codes and flows of information.
15. **Final Audit** - To enhance the effectiveness of audits and promote transparency, accountability and integrity in financial management, it is imperative to make improvements in final audits at regular basis. Necessary minimum physical infrastructures should be established to enhance the effectiveness of audits and improve the existing work environment. With the optimum use of information technology, the policy of making audit processes simple, economical, and swift should be adopted along with the implementation of concept of remote auditing to improve in existing auditing situation, which require visiting work places for every audit processes. The impact of auditing should be enhanced with the extension of scope of performance and special audits, use of information technology, and promotion of the participation of civil society and stakeholders in audits. The auditing procedures should be improved by updating existing auditing policies, standards and methodologies in accordance with good international practices, audit observations are to be made consistent, high integrity and politeness in auditing are to be retained, and the audit excellence center should be established for the capacity development of office employees. The work of audit quality control and quality assurance reviews should be extended furthermore. The office's existing organizational structure should be extended for the physical presence of the office

up to provincial levels in accordance with the existing federal structure of the country. The audit Rules should be prepared, and the legal arrangements made by Audit Act relating to taking action to the persons that not submitted financial statements and not completed audits on time should be adhered to. The provisions of maintaining records of irregularities and clearing irregularities specified in Financial Procedure Accountability Act, 2019 should be amended as the subjects are found contradictory with one another. As per audit practices, clear provision should be made to assign the authority and responsibility of conducting follow-up audits to the Auditor General and confer the responsibility to deduct the figures in irregularity records as per irregularity settlement to the concerned entity.

16. **Independency of Audits and Relation with Stakeholders** - In compliance with Lima and Mexico Declarations of International Organization of Supreme Audit Institution (INTOSAI) and the resolutions endorsed by General Assembly of United Nations Organization, Office of the Auditor General as a Supreme Audit Institution of Nepal should be provided with financial, administrative and operational autonomy. Questionnaires should be prepared to facilitate the deliberation on audit reports in Public Accounts Committee. The records of decisions and directives issued by Public Accounts Committee should be prepared and monitoring is to be conducted periodically to access whether the decisions have been implemented or not. To enhance the impact of audits, there should be arrangements for communicating the audit findings to mass community through simplifying audit observations and publishing brochures & other publications.

It is internationally accepted that the audits will not provide absolute assurance, as the audits are carried out by using sampling techniques on the basis of the auditing standards, guidelines and specific principles. Since the audits provide reasonable assurance only, it will not be certain that the auditor will find out all types of frauds or errors even after the completion of audits. All stakeholder entities should also admit to the fact that the auditor will not be responsible to any matter which the auditor fails to identify, if the audits have been carried out in planned manner in accordance with the auditing standards and directives by maintaining the professional integrity. To build understanding on this matter, it has become essential to make coordination and interaction among all stakeholders. Pursuant to the scope of work and work procedures of constitutional bodies, it has become imperative to support mutually in respective functions through establishing the coordination and transfer of information one to another. The government entities should support in maintaining financial discipline by timely providing the information demanded by audits, minimizing the irregularities by being present and participating in discussions/interaction programs, and making timely settlement of irregularities pointed out by the audits.

17. **Implementation of Federalism** - The federation, provinces and local levels stipulated in Schedule of the Constitution of Nepal should formulate necessary laws as per sole and concurrent (common) powers provided in the Constitution, and operate plans & programs from respective levels without making any interference in other affairs. Attentions should be given in adoption of specific principles and standards in division of revenues and distribution of grants, and mobilization of internal sources. Necessary monitoring is to be conducted with respects to the quality of services, service fees, service delivery procedures, and revenue rates of local levels. The revenues collected under concurrent powers should be deposited in divisible fund, and the practice of not making division of the amounts deposited in consolidated fund should be abandoned. The province and local levels should establish the system for making self-assessment of accountability of public financial management regularly on the basis of PEFA accountability indicators.

Since Nepal's existing Fiscal Management Reform Strategy prepared prior to the implementation of federalism, it is primarily focused in functions of the federal government. To make the strategy relevant of time, the strategy should be revisited to make it applicable in the context of federal government, province governments and local levels. By preparing necessary laws, organizational structures and management of human resources as per the spirit of federalism, the federal, provincial and local levels governments should support in implementation of federalism through the enhancement of development works, mobilization of resources and delivery of services.

18. **Financial Management of Provinces** - - In formulating the budget of provinces, the zero and result or work performance-based budget system should be adopted establishing linkages with the medium-term expenditure frameworks and periodic plan & programs. By controlling distributive and unproductive expenditures and running works from limited number of offices as per the integrated office concept, the policy of maintaining economy in expenditure, efficiency in performance and planned development should be adopted, and the projects are to be implemented on the basis of prioritization by preparing project banks. Financial discipline should be enhanced through effective monitoring, establishment of internal controls system and effective internal audits, and the revenue collection should also be made effective. Provinces should formulate necessary laws harmonizing with federal laws, and necessary standards are to be prepared to make the services and facilities of all officials consistent. The account of consolidated funds of provinces should be prepared on the basis of approved formats, and the provincial account controller office should prepare consolidated statements by collecting trimester income-expenditure statements from the concerned local levels, and the accounts so prepared should also be provided to federal Ministry of Finance. For the

improvements of financial management, the suggestions provided by internal and final audits should also be implemented.

19. **Financial Management of Local Levels** - In formulating budgets of local levels, the periodic plans should be prepared and the practice of allocating small budgets in too many projects should be controlled, and budgets should be appropriated in prioritized projects on the basis of periodic plans. The practice of making expenditure by retaining the unallocated budget should be controlled. Efforts should be made for the improvement in expenditure management, and necessary standards should be prepared and implemented for controlling unproductive and distributive expenditure. The amounts obtained under fiscal transfer should be used in accordance with objectives, establishing limits for making the administrative expenditure. The monitoring should be conducted effectively with respect to the user committees' works performance, quality of works and cost sharing. Internal controls systems should be established and independent entities are to be created for conducting internal audits. By making accounting and reporting system systematic, arrangements should be made to reflect the income-expenditure of all local levels in national income-expenditure. By preparing national standards for collecting revenues, the works of collecting internal incomes should be made systematic, effective and trustworthy so as to harmonize in all local levels. The accounts of consolidated funds should be prepared in accordance with the prescribed formats approved by the Auditor General, and the process of irregularity settlement of local levels should be made independent and free from conflict of interest.

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