



**The Auditor General's
Sixtieth Annual Report
2023
Summary
(Unofficial Translation)**



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



**The Auditor General's
Sixtieth Annual Report
2023
Summary
(Unofficial Translation)**



Office of the Auditor General
Kathmandu, Nepal

दूरदृष्टि (VISION)

जवाफदेहिता, पारदर्शिता र निष्ठा
प्रवर्द्धन गर्ने विश्वसनीय संस्था

*(Be Credible Institution in
Promoting Accountability,
Transparency and Integrity)*

राष्ट्रलाई स्वतन्त्र एवं गुणस्तरीय
लेखापरीक्षण सेवा प्रदान गर्ने

*(Provide independent
and Quality Audit Service
to Nation)*

गन्तव्य (MISSION)

मूल्य मान्यता (Core Values)

| | |
|--------------|--------------------------|
| निष्ठा | <i>(Integrity)</i> |
| स्वतन्त्रता | <i>(Independence)</i> |
| व्यावसायिकता | <i>(Professionalism)</i> |
| पारदर्शिता | <i>(Transparency)</i> |
| जवाफदेहिता | <i>(Accountability)</i> |

Foreword

The Constitution of Nepal and Audit Act 2075 (2018) mandate the Auditor General to carry out the statutory audit of all government offices of the federation, provinces & local levels and wholly government-owned corporate bodies with due consideration to the regularity, economy, efficiency, effectiveness and propriety thereof. This 60th Annual Report has been prepared by completing the audits of financial transactions of 6 thousand 543 entities in accordance with approved annual work schedule and covering the results, conclusions and recommendations thereon after auditing through the risk-based audit approach along with the adoption of Nepal Auditing Management System(NAMS) - the electronic auditing system. The audits of the high risk entities have been completed by being physical presence in the concerned audited entities and the audits of the low risk entities have been completed by adopting the remote audit techniques. The audit has been completed by complying with the international good practices and using Nepal Government Auditing Standards - which is prepared in accordance with the auditing standards adopted by the International Organization of Supreme Audit Institution (INTOSAI).



Total amount of NRs. 7 trillion 138.17 billion has been audited in this year including the transactions of the federal, provincial and local level government entities, corporate bodies, boards and other institutions. Total irregularity of NRs. 119.77 billion has been witnessed from the audits of the federal, provincial and local level government entities. Out of the total amount, the irregularity of 56.31 billion (2.39 percent) has been witnessed from the audit of NRs. 2 trillion 356.33 billion of 4 thousand 68 federal government entities/offices, the irregularity of NRs. 7.20 billion (2.30 percent) witnessed from the audit of NRs. 312.73 billion of 1 thousand 218 provincial entities/offices, the irregularity of NRs. 13.38 billion (0.4 percent) witnessed from the audit of NRs. 3 trillion 365.08 billion of 434 boards and other institutions, and the irregularity of NRs. 42.88 billion (3.88 percent) witnessed from the audit of NRs. 1 trillion 104.01 billion of 751 local levels (inclusive of 2 audit backlogs). Likewise, the audit of NRs. 3 trillion 182.87 billion of 75 public institutions has also been completed. In addition, the audit of NRs. 1 trillion 341.76 billion has been completed with regards to 32 corporate bodies - the consultations for auditing are provided. Inclusive of the consultation provided corporate bodies, the audit of total NRs. 8 trillion 479.93 billion has been completed in this year.

With regards to total outstanding irregularity NRs. 483.59 billion remained up to previous year, the outstanding irregularity to be settled up to this year has reached NRs.

587.33 billion after deducting the settled & adjusted amounts of NRs 16.03 billion this year and adding up to this year's irregularity NRs. 119.77 billion. Total NRs. 2.61 billion has been recovered in course of auditing and while doing follow-up audits. In comparison to previous year's total outstanding amount NRs. 829.15 billion to be settled by taking action, the amount has surged to NRs. 959.79 billion in this year. The figure of overdue advance has not been included in the irregularity figure in this year, which has caused decline in irregularity figure and percent.

In course of the audits, recommendations have been provided by conducting an independent study, assessment and analysis primarily on the subject matters, such as - governance management, compliance with laws, overall economy, mobilization of resources, planning, formulation and implementation of plans/budgets, procurement management, fiscal management, public administration and governance, fiscal discipline, internal controls, development management, public assets management, responsibility and accountability, operations of public enterprises, implementation of federalism, usage and achievement of resources, use of information technology etc. In this year, in addition of the financial audits, the performance, information technology, environmental, and special audits have also been conducted.

I would like to express my sincere gratitude to Rt. Honorable the President, Vice-President, Prime Minister, Chief Justice, Speaker of House of Representative, Chairperson of National Assembly for providing valuable guidance, and I would also like to express my gratitude towards to all concerned inclusive of the Federal Legislature, Government of Nepal, Constitutional Bodies, Provincial Assemblies, Provincial Governments, Local Levels, public institutions, Audit Advisory Committee, media persons, civil societies, development partners, general public etc. for providing valuable suggestions in carrying out the audits. Lastly, I would like to extend special thanks to all entities/organizations which provided supports in implementation of Nepal Audit Management System (NAMS) and to all office staffs which have contributed in preparing this report by carrying out the audit works timely manner.

(Tanka Mani Sharma, Dangal)
Auditor General

Table of Content

| Chapter | Heading | Page No. |
|--------------------|--|-----------------|
| | Foreword | |
| | Audit Objectives, Scope and Methodology | 2 |
| | Auditor General's View on Public Accountability | 6 |
| <i>Chapter 1 :</i> | Details of Audited Entities | 7 |
| <i>Chapter 2 :</i> | Status of Irregularity Witnessed by Audit | 12 |
| <i>Chapter 3 :</i> | Overall Status of Audit Observations | 17 |
| 1.1 | Federal Ministry and Entity | 17 |
| 1.2 | Provincial Ministry and Entity | 62 |
| 1.3 | Local Level | 65 |
| 1.4 | Performance and Special Audit | 69 |
| <i>Chapter 4 :</i> | Implementation Status of Audit Reports | 73 |
| <i>Chapter 5 :</i> | Reforms to be Undertaken in Future | 85 |

Audit Objectives, Scope and Methodology

- 1. Constitutional and Legal Provision** - Article 241(1) of the Constitution of Nepal mandates the Auditor General to carry out the audits of accounts of all Federal and Provincial Government Offices along with the Office of the President and Vice - President, Supreme Court, Federal Parliament, Provincial Assembly, Provincial Governments, Local Levels, Constitutional Bodies and offices thereof, Courts, Office of the Attorney General and Nepal Army, Nepal Police or Armed Police Force, Nepal in accordance with law, having regard to, *inter alia*, the regularity, economy, efficiency, effectiveness and the propriety thereof. In accordance with Article 241(2) of the Constitution, the Auditor General needs to be consulted in the matter of appointment of an auditor to carry out the audit of any corporate body of which the Government of Nepal or Provincial Government owns more than fifty percent of the shares or assets. Article 241(5) of the Constitution, stipulates that accounts of any other offices or bodies may be audited by the Auditor General by making provision in federal law. Section 3 of the Audit Act, 2075 stipulates that the Auditor General shall perform the audit of the Government Offices and the corporate bodies which are wholly owned by any Government of Nepal, Provincial Government or Local Level.

Section 8 of the Audit Act 2075 (2018) specifies the matters to be examined by the Auditor General in auditing, Section 9 specifies the matters that may be audited in view of propriety, and Section 4 provides the matters relating to the audit method, scope and period along with specifying the facts obtained therefrom, make critical analysis thereof and comments thereon and issuing reports along with audit opinion on the financial statements as per necessity.

- 2. Objectives** - The main objective of audit was to issue reports along with suggestions for improvement in public financial management so as to comply with fiscal accountability by responsible authorities by pointing out the observations witnessed in course of auditing of the financial transactions and service delivery of all government offices of the Federal, Provincial and Local Level as per the Constitution and other offices of bodies as specified by federal law with due consideration to the regularity, economy, efficiency, effectiveness and propriety thereof. To attain the main objectives, the audit examination was done focusing on the following subject matters, whether:

Financial Audit

- the financial statements and reports of the Consolidated Fund and other Government Funds of all three tiers of the governments have been prepared as per the prescribed formats and present the true state of the financial transactions,
- all revenues inclusive of incomes, revenues and deposit have been identified, recovered and deposited in conformity with laws, and the revenues so collected have been divided between all three tiers of governments in accordance with prevalent laws,
- the expenditure are incurred for the specified purposes remaining within the ceilings as fixed by the Appropriation Act,
- the accounts of government loans, investment, assets inclusive of the principal, interest, dividend receivable or payable and paid have been maintained.

Compliance Audit

- the means and resources have been acquired and mobilized complying with prevalent laws, and the records of same have been maintained,
- the prevalent laws have been complied with in making financial transactions and the evidences supporting transactions have been adequately maintained,
- adequate legal provisions have been made to check the misuse of expenditure, and the regulation and internal control arrangements with regards to this have been adequate, and the arrangements thus made have been followed,

Performance Audit

- the expenditures are incurred in economical manner, and the progresses have been achieved in accordance with the programs and goals set,
- the arrangements have been made to protect from the loss & damage and misuse of cash, inventory and other government assets and its usages, and such arrangements have been complied,
- the organization & management and work divisions have been adequate and pertinent, and such arrangements are free from becoming duplication,
- the progresses have been achieved formulating and implementing as per pre-determined objectives and, and the quality and quantity of works are as per prescribed standards,

- the expenditures have been incurred making proper analysis of the costs and benefits, and the benefits have been attained in accordance with the costs involved.

Audit of Various Subjects

- the budget expenditure, work performances and achievements have been evaluated with regards to the special audit of 'the Status of Five-Year Work Performances of the Provincial Governments, Metropolitans and Sub-Metropolitans', and
 - the information technology system has been appropriately developed and effectively used.
- 3. Audit Scope** - The audit scope includes the financial transactions & reports thereon, audit backlogs and related documents of fiscal year 2021/22 (2078/79) of the constitutional bodies, all offices of the Federal, Provincial Governments and Local Levels, Corporate Bodies, Committees, Boards, Trust/Funds, Authorities and Universities wholly owned by the three tiers of governments, and other entities prescribed as to be audited by Auditor General in Federal Law. The audit scope also includes examination and evaluation of the various aspects related to - the governance management, public financial management, public administration & service delivery, development administration, public accountability and good governance. In addition, the audit scope also encompasses assessment of the activities implemented for the attainment of sustainable development goals.
 - 4. Audit Methodology** - By preparing annual audit plan and preparing ministry-wise audit plans and entity-wise audit plans harmonizing with the annual plan, the audits of all entities have been completed electronically in this year by using the 'Nepal Audit Management System' (NAMS) implemented by the Office. Audits have been completed in compliance with the provisions of Audit Act, 2019, Nepal Government Auditing Standards, audit manuals and guidelines of Financial, Performance, Disaster Management, Environmental audit and other relevant audits and good practices. Audits have been completed on the basis of risks assessment classifying the audited entities into low and high risk entities, and the audits of high-risk entities have been conducted by performing test of details. Audits of low-risk entities have been completed through the remote auditing technique based on the information obtained from the assessment of internal control systems, internal audit reports and Treasury Single Account.

Pursuant to the examination of matters identified on the basis of overall and entity-wise risk assessment, the matters to be examined by the audits have been included in entity level audit plans in order to collect pertinent, sufficient, relevant evidences, and the audits have been completed on the basis of sample selection. With respects to performance audits, civil societies have also been involved in case of audits of some issues, and the techniques the like - interviews, questionnaires, focus group discussions with stakeholders etc. have been followed to obtain necessary audit evidences. In course of auditing, the problem-oriented and result-oriented techniques have been adopted primarily. The services of the experts of the concerned subject matter have been taken with regards to the technically complex subject matters. In addition, the suggestions of Audit Advisory Committee and other stakeholders have also been obtained with respect to overall audit aspects. To enhance the audit quality, necessary supervision, field inspection have been conducted by high level officials, and reviews prior to issuance of preliminary reports and the quality assurance reviews of the audited files have also been conducted through sampling basis in accordance with Quality Assurance Handbook.

5. **Annual Report** - Article 294(1) of the Constitution requires the Auditor General to prepare and submit the Annual Report of its functioning to the President. In addition, Article 294(2) of the Constitution stipulates that the matters to be disclosed in the Annual Report shall be as specified in federal law and Section 19 (1)(A) of the Audit Act, 2019, provides that the Auditor General needs to disclose the matters - (a) Details of the functions performed by the Auditor General throughout the year, (b) Summary of the main contents found from audit, (c) Status of implementation of the audit reports and reforms to be made in the future, (d) Other necessary matters in its report, and this Sixtieth Annual Report has been submitted to Rt. Honorable the President in accordance with the provisions. The Annual Report consists of 6 Chapter and 23 Annexes. Chapter-1 covers Details of Audited Entities, Chapter-2 Status of Irregularity Witnessed by Audit, Chapter-3 Overall Status of Audit Observations, Chapter-4 Implementation Status of Audit Reports, Chapter-5 Future Reforms to be undertaken and Chapter-6 Office Activities. Separate seven reports have been prepared with regards to functioning of each Province as per Article 294 (3) of the Constitution. The final audit reports have been issued to 751 Local Levels (including audit backlog) out of 753 Local Levels. Likewise, key audit observations of performance audit, IT audit and special and environmental audit have also been included in the Annual Report.

Public Accountability from the Outlook of the Auditor General

Governance Management

- Adequate coordination not established between three tiers of governments in implementation of federalism.

Economy

- Anticipated economic growth and national saving growth not achieved.

- - - -
- - - -

Chapter -1 Details of Audited Entities

• Overall Audit

| Audited Entity and Subject | Number | Amounts in NRs. Billions |
|--|--------------|-----------------------------|
| (A) Financial Audit | | |
| 1. Federal Ministry and Entity (Including 16 backlogs) | 4,068 | 2,356.34 |
| 2. Provincial Ministry and Entity (Including 6 backlogs) | 1,218 | 312.73 |
| 3. Local Level (Including 2 backlogs) | 751 | 1,104.01 |
| 4. Committee & Other Institution (Including 96 Provincial) | 434 | 182.22 |
| 5. Corporate Body | 75 | 3,182.87 |
| (B) Performance Audit | 6 | - |
| (C) Environmental Audit | 1 | - |
| (D) IT Audit | 1 | - |
| (E) Special Audit | 1 | - |
| Total | 6,546 | 7,138.17 |

This year, the audits of total amount of NRs. 7 trillion 138.17 billion- inclusive of NRs. 2 trillion 356.34 billion of 4 thousand 68 Federal Ministries/Entities, NRs. 312.73 billion of 1 thousand 218 Provincial Ministries/Entities, NRs. 1 trillion 104.01 billion of 751 Local levels (including 749 out of 753 Local Levels and 2 Local Levels of last year's backlog), NRs. 182.22 billion of 434 Universities, Committees, Institutions and Academies, and NRs. 3 trillion 182.87 billion of 75 Corporate Bodies, have been completed. In addition to the financial audit, the performance audit of 6 subjects, environmental audit of 1 subject, special audit of 1 subject, and IT audit of 1 subject have also been completed.

- Federal Ministry and Entity** - This year, the audits of the following appropriation/revenue/deposit and other transactions of 4 thousand 68 Federal Government Entities have been completed:

(NRs. Billions)

| S.N. | Transaction | Audited Amount |
|--------------|-------------------|-----------------|
| 1 | Appropriation | 1,204.88 |
| 2 | Revenue | 986.67 |
| 3 | Deposit | 70.08 |
| 4 | Other Transaction | 94.71 |
| Total | | 2,356.34 |

Details of audited entities have been provided in Annex-1 and audited amounts in Annex-2. With regards to audit backlog amounting to NRs. 6.01 billion of 2 thousand 999 units of the Federal Government Offices existed up to last year, the audits of NRs. 1.42 billion of 16 units have been completed in this year.

2. **Provincial Ministry and Entity** - The audits of NRs. 312.73 billion of 1 thousand 218 entities functioning under 7 Provinces have been completed in this year. With regards to audit backlog amounting NRs. 1.63 billion of 52 units of the Provincial Government Offices existed up to last year, the audits of NRs. 390 million of 6 entities have been completed in this year.
3. **Local Level** - The audits of NRs. 1 trillion 104.01 billion of 751 local levels, inclusive of 6 Metropolitans, 11 Sub-Metropolitans, 275 Municipalities and 459 Rural Municipalities (including 2 audit backlogs of previous year) have been completed in this year.
4. **Committee and Other Institution** - The audits of NRs. 182.22 billion of 434 Committees and other Institutions (including 96 provincial) have been completed in this year.
5. **Corporate Body** - The audits of NRs. 3 trillion 182.87 billion of 75 units of the corporate bodies have been completed in this year. In addition, the consultations for auditing have been provided to 32 institutions and audits of NRs. 1 trillion 341.76 billion have been completed with this respect.
6. **Performance and Special Audit** - The performance audits of 6 subjects, environmental audit of 1 subject, and IT audit of 1 subject have been completed in this year. Details of the audited subjects are provided below:-

| S.N | Audited Subject | Type of Audit | Concerned Ministry |
|-----|--|---------------|---|
| 1 | Public Debt Management | Performance | Finance, National Planning Commission |
| 2 | Public Expenditure Management | | Finance, National Planning Commission |
| 3 | Project Selection, Prioritization and Appropriation | | Culture, Tourism & Civil Aviation |
| 4 | Women Participation in Decision Making Level and Opportunities | | Women, Children and Elderly Citizen, National Planning Commission |
| 5 | Program of Government Service Delivery Through Online | | Ministry of Communication and Information Technology |

| | | | |
|---|---|---------------|--|
| 6 | Telecommunication Infrastructure Management | | Ministry of Communication and Information Technology |
| 7 | Implementation Status of Multi-party Environmental Accords in which Nepal is Signatory | Environmental | Forest and Environment |
| 8 | Personal Vital Registration and Social Security Management Information System | IT | Home Affairs |
| 9 | Five Year Work Performance of Provincial Governments, Metropolitan and Sub Metropolitan | Special | Provincial Government, Metropolitan and Sub-Metropolitan |

• Implementation Status of Government Budget and Revenue

7. **Government Budget and Expenditure** - As per the statement obtained from the Financial Comptroller General Office, the actual expenditure of 2019/20 and 2020/21 and Heading-wise/ Sector-wise budget estimate and actual expenditure of 2021/22 of the Federal Government are as follows:

(NRs. in Millions)

| Heading/Sector | Actual Expenditure of 2019/20 | Actual Expenditure of 2020/21 | 2021/22 | | |
|---|-------------------------------|-------------------------------|--------------------|--------------------|--------------|
| | | | Budget Estimate | Actual Expenditure | Percent |
| Recurrent Expenditure | 784,148.9 | 846,217.3 | 1,004,358.8 | 954,316.7 | 95.02 |
| Capital Expenditure | 189,084.7 | 228,836.1 | 435,240.3 | 216,213.1 | 49.68 |
| Financing Arrangements (Principal Interest Repayment) | 117,901.6 | 121,622.6 | 207,977.6 | 139,471.0 | 67.06 |
| Total | 1,091,135.2 | 1,196,676.0 | 1,647,576.7 | 1310,000.8 | 79.51 |
| General Public Service | 522,948.9 | 634,616.1 | 484,048.5 | 521,769.3 | 107.79 |
| Defense | 49,791.4 | 51,913.9 | 52,110.4 | 53,297.0 | 102.28 |
| Public Law Order and Security | 51,863.8 | 57,042.9 | 58,082.5 | 72,384.8 | 124.62 |
| Economic Affairs | 264,436.5 | 236,022.9 | 442,093.9 | 331,246.3 | 74.93 |
| Environmental Protection | 13,593.2 | 6,595.9 | 12,582.6 | 5,447.6 | 43.29 |
| Housing and Community Amenities | 35,189.4 | 44,995.2 | 80,469.7 | 35,057.2 | 43.57 |
| Health | 40,195.7 | 49,613.1 | 141,552.4 | 74,933.6 | 52.94 |
| Culture and Religion | 6,848.9 | 4,060.2 | 6,698.9 | 4,691.8 | 70.04 |
| Education | 39,400.9 | 37,145.8 | 180,041.1 | 42,616.6 | 23.67 |
| Social Security | 66,866.5 | 74,670.0 | 189,896.7 | 168,556.6 | 88.76 |
| Total | 1,091,135.2 | 1,196,676.0 | 1,647,576.7 | 1310,000.8 | 79.51 |

Note: The above health and education sector expenditures do not include the expenditures incurred by the provinces and local levels from the fiscal transfer.

8. **Status of Expenditure** - As per the statement obtained from the Financial Comptroller General Office, the ten ministries/other entities incurring excessive

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

(NRs. in Millions)

| Recurrent Expenditure | | | | Capital Expenditure | | | |
|-----------------------|--|------------------|---------------|---------------------|--|------------------|---------------|
| S.N. | Ministry/Entity | Amount | Percent | S.N. | Ministry/Entity | Amount | Percent |
| 1 | Ministry of Finance | 133,224.6 | 13.96 | 1 | Ministry of Physical Infrastructure & Transportation | 75803.5 | 35.06 |
| 2 | Ministry of Home Affairs | 80,058.4 | 8.39 | 2 | Ministry of Energy, Water Resources and Irrigation | 30,778.5 | 14.24 |
| 3 | Ministry of Defense | 61,389.7 | 6.43 | 3 | Ministry of Urban Development | 28,008.0 | 12.95 |
| 4 | Health & Population | 48,059.6 | 5.04 | 4 | Ministry of Defense | 14,799.4 | 6.84 |
| 5 | Ministry of Education, Science & Technology | 29,065.9 | 3.05 | 5 | Ministry of Water Supply | 13,414.6 | 6.2 |
| 6 | Agriculture & Livestock Development | 27,695.9 | 2.9 | 6 | Ministry of Home Affairs | 10,234.1 | 4.73 |
| 7 | Ministry of Physical Infrastructure & Transportation | 9,086.6 | 0.95 | 7 | Ministry of Education, Science & Technology | 7,794.5 | 3.61 |
| 8 | Ministry of Urban Development | 7,062.8 | 0.74 | 8 | Ministry of Federal Affairs & General Administration | 5,889.1 | 2.72 |
| 9 | Election Commission | 5,437.7 | 0.57 | 9 | Health & Population | 3,998.6 | 1.85 |
| 10 | Communication and Information Technology | 5,212.8 | 0.55 | 10 | Supreme Court | 3,058.4 | 1.42 |
| 11 | Other Ministries and Entities | 548,022.7 | 57.42 | 11 | Other Ministries and Entities | 22,434.4 | 10.38 |
| Total | | 954,316.7 | 100.00 | Total | | 216,213.1 | 100.00 |

Besides the recurrent and capital expenditure, the expenditure incurred in financing has been NRs. 139.47 billion. The recurrent expenditure of other entities also includes the grant amounts provided to the 7 Provinces and 753 Local Levels.

9. **Source-wise Expenditure** - As per the statement obtained from the Financial Comptroller General Office, the source-wise actual expenditure of 2019/20 and 2020/21 and the estimate and actual expenditure of 2021/22 of the Federal Government are as follows:

(NRs. in Millions)

| Source | Actual Expenditure of 2019/20 | Actual Expenditure of 2020/21 | 2021/22 | | Increase Percent as compared to Last Year |
|---------------------|-------------------------------|-------------------------------|--------------------|--------------------|---|
| | | | Budget Estimate | Actual Expenditure | |
| Government of Nepal | 951,430.7 | 984,597.3 | 1,274,907.3 | 1,151,819.0 | 16.98 |
| Foreign Grant | 23,215.7 | 36,481.3 | 63,376.2 | 27,481.7 | -24.67 |
| Foreign Loan | 116,488.8 | 175,597.4 | 309,293.2 | 130,700.1 | -25.57 |
| Total | 1,091,135.2 | 1,196,676.0 | 1,647,576.7 | 1,310,000.8 | 9.47 |

- 9.1 Out this year's expenditure of NRs. 1 trillion 151.82 billion incurred from the Government of Nepal source, NRs. 989.62 billion (85.92 percent) has been borne from revenues.
- 9.2 Against this year's budget estimate of receiving foreign grants NRs. 63.38 billion in 18 entities, only NRs. 27.48 billion (43.36 percent) has been received, and against this year's estimate of receiving foreign loan NRs. 309.29 billion in 14 entities, only NRs. 130.70 billion (42.26 percent) has been received.
- 10. Revenue Recovery** - As per the statement obtained from the Financial Comptroller General Office, the status of source-wise revenues actually recovered in 2019/20 and 2020/21 and revenue estimate and actually recovered in 2021/22 by the Federal Government are as follows:

(NRs. in Millions)

| Description | Actual Recovery of 2019/20 | Actual Recovery of 2020/21 | 2021/22 | | |
|---|----------------------------|----------------------------|--------------------|------------------|--------------|
| | | | Estimated | Recovered | Percent |
| Total Revenue | 755,575.2 | 868,602.9 | 1,024,907.3 | 989,621.7 | 96.56 |
| 1. Tax Revenue | 613,390.5 | 761,056.6 | 911,500.7 | 856,264.0 | 93.94 |
| 2. Other Revenue (Including previous year's Cash Balance and Irregularity recovery) | 139,675.7 | 104,322.8 | 113,406.6 | 130,519.3 | 115.09 |
| 3. Principal Repayment | 2,509.0 | 3,223.5 | - | 2,838.4 | - |

As compared to previous year, the revenue recovery has increased by 13.93 percent in this year. The recovery of fiscal year 2021/22 includes NRs. 48 billion 504.8 million of the previous year's cash balance and the amounts recovered with regards to previous irregularities. Total NRs. 2 billion 838.4 million has been received as principal repayment without provisioning in the budget estimate of 2021/22.

Chapter-2

Status of Irregularity Witnessed From Audit

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

The Act has classified irregularities into 3 main categories - recoverable, to be regularized, and advances. While making classification of irregularities, the Office has further classified the recoverable irregularities into 3 sub-categories - embezzled and falsified, loss & damage and other recoverable, and irregularities to be regularized have also been classified into 4 sub-categories namely - irregular, evidences/documents not submitted, balances not brought forward and reimbursement not received. The advances have been further classified into the staff advance, mobilization advance, and other advance.

Pursuant to the Federal Government Offices, Provincial Government Offices, Local Levels, and Other Committees and Institutions, the total irregularity of NRs. 119 billion 777 million has been identified by audits in this year. The classification of irregularity figures are provided below:

| Classification | (NRs. in Millions) | | | | | |
|---|---------------------------|------------------------------|-----------------|------------------------------|------------------|-------------------------------|
| | Federal Government Office | Provincial Government Office | Local Level | Committee/ Other Institution | Total | Percent of Total Irregularity |
| 1. Recoverable | 19,181.4 | 751.4 | 5,905.7 | 4,587.8 | 30,426.3 | 25.4 |
| 2. To be regularized | 33,789.5 | 5,244.4 | 32,461.2 | 7,956.8 | 79,451.9 | 66.33 |
| 2.1 Irregular (non-compliance) | 3,734.7 | 1,801.7 | 11,786.9 | 2,554.7 | 19,878.0 | 16.6 |
| 2.2 Evidences/documents not submitted (Unsubstantiated) | 29,791.7 | 3,442.7 | 20,655.9 | 5,221.7 | 59,112.0 | 49.34 |
| 2.3 Balance not brought forward | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.4 Reimbursements not received | 263.1 | 0 | 18.4 | 180.4 | 461.9 | 0.39 |
| 3. Advance | 3,340.0 | 1,209.2 | 4,514.0 | 835.6 | 9,898.8 | 8.27 |
| Total irregularity | 56,310.9 | 7,205.0 | 42,880.9 | 13,380.2 | 119,777.0 | 100.00 |

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

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

2. **Audit and Irregularity Figure** - This year, the audits of NRs. 7 trillion 138 billion 167.4 million of 6 thousand 546 government entities have been completed. The detail status of audited entities are as follows:

(NRs. in Millions)

| Audited Entity/ Subject | Number | Amount | Irregularity | Irregularity Percent |
|--|--------------|--------------------|------------------|----------------------|
| 1. Federal Ministry and Entity (Including 16 backlogs) | 4,068 | 2,356,337.9 | 56,310.9 | 2.39 |
| 2. Provincial Ministry and Entity (Including 6 backlogs) | 1,218 | 312,730.5 | 7,205.0 | 2.30 |
| 3. Local Level (Including 2 backlogs) | 751 | 1,104,010.0 | 42,880.9 | 3.88 |
| 4. Corporate Bodies, Committee & Other Institution | 509 | 3,365,089.0 | 13,380.2 | 0.40 |
| Total | 6,546 | 7,138,167.4 | 119,777.0 | 1.68 |

Note: The above figures do not include the irregularities of corporate bodies as the records of such irregularities have not been maintained.

3. **Cumulative Irregularity** - The cumulative irregularity to be settled by the Federal Government Offices, Provincial Government Offices, Local Levels and other institutions has reached to NRs. 587 billion 339.4 million till this year. The cumulative irregularity amount has increased by 21.45 percent as compared to the last year.

(NRs. in Millions)

| Particulars | Last Year's Irregularity | Adjustment Plus (Minus) | Cleared/ Settled | Last Year's Net Balance | Current Year's Irregularity | Cumulative Outstanding Irregularity |
|---|--------------------------|-------------------------|------------------|-------------------------|-----------------------------|-------------------------------------|
| Federal Government Office | 247,138.1 | -22.4 | 7,293.7 | 239,822.0 | 56,310.9 | 296,132.9 |
| Provincial Government Office | 18,271.1 | 1.2 | 1,099.3 | 17,173.0 | 7,205.0 | 24,378.0 |
| Local Level | 136,322.4 | 0 | 6,597.9 | 129,724.5 | 42,880.9 | 172,605.4 |
| Other Committee/ Institution (Including Provincial) | 81,864.8 | -995.6 | 26.3 | 80,842.9 | 13,380.2 | 94,223.1 |
| Total | 483,596.4 | -1,016.8 | 15,017.2 | 467,562.4 | 119,777.0 | 587,339.4 |

4. **The cumulative amount of action to be taken** – In addition to the irregularities of the Federal and Provincial Government Offices, Local Levels and Other Committees & Institutions, the cumulative amount of action to be taken in respect

to the audit backlogs, revenue arrears, and reimbursable foreign grants & loans has reached NRs. 372 billion 451.3 million in this year. The amount has surged by 7.78 percent as compared to last year.

(NRs. in Millions)

| S.No. | Particulars | Up to last Year | This Year's Plus/ Minus | Up to This Year |
|-------|--|------------------|-------------------------|------------------|
| 1 | Audit Backlogs (including Provincial) | 6,960.8 | 842.2 | 7,803.0 |
| 2 | Revenue Arrears | 312,610.6 | 13,122.2 | 325,732.8 |
| 3 | Foreign Grants to be reimbursed | 11,569.8 | 3,490.8 | 15,060.6 |
| 4 | Foreign Loans to be reimbursed | 12,369.1 | 9,435.8 | 21,804.9 |
| 5 | Overdue Principal and Interest of Guaranteed loans | 2,050.0 | 0 | 2,050.0 |
| | Total | 345,560.3 | 26,891.0 | 372,451.3 |

If added the cumulative outstanding irregularity NRs. 587 billion 339.4 million in the above amount, the cumulative amount to be settled taking actions becomes NRs. 959 billion 790.7 million. Main cause responsible for the rise in the cumulative amount to be settled taking action has been the growth in the amounts of revenue arrears and irregularity.

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

5.1. While conducted the audits of NRs. 7 trillion 138.17 billion of the Federal and Provincial Government Offices, Local Levels, Corporate Bodies, and Committees and other institutions in this year, total irregularity of NRs. 129.56 billion has been witnessed from the preliminary audit reports. Out of the amount, NRs 9.78 billion (7.55 percent of total irregularity) has been settled through follow up audits within the reporting period, and hence, NRs 119.78 billion has remained as outstanding irregularity to be settled. The cumulative outstanding irregularity to be settled as of this year has been NRs 587.34 billion.

5.2. Pursuant to Federal Government Offices, the Ministries having excessive irregularities on the basis of this year's irregularity amounts are as follows:

(NRs. in Millions)

| S.No. | Ministry/ Entity | Audited Figure | Irregularity Figure | | | | Percent of Total Irregularity | Irregularity Percent as Compared to Audited Figure |
|-------|------------------|----------------|---------------------|-------------------|---------------------|----------|-------------------------------|--|
| | | | To be recovered | To be Regularized | Outstanding Advance | Total | | |
| 1 | Finance | 1,636,163.8 | 8,705.9 | 23,754.7 | 8.1 | 32,468.8 | 57.66 | 1.98 |

| | | | | | | | | |
|--------------|--|--------------------|-----------------|-----------------|----------------|-----------------|---------------|-------------|
| 2 | Physical Infrastructure and Transportation | 120,966.4 | 2,935.6 | 4058.8 | 1,803.0 | 8,797.4 | 15.62 | 7.27 |
| 3 | Communication and Information Technology | 14,451.0 | 2,616.1 | 25.8 | 64.0 | 2,705.8 | 4.81 | 18.72 |
| 4 | Agriculture and Livestock Development | 33,003.3 | 2,414.4 | 71.1 | 51.6 | 2,537.1 | 4.51 | 7.69 |
| 5 | Home Affairs | 111,762.8 | 181.5 | 897.3 | 491.9 | 1,570.8 | 2.79 | 1.41 |
| 6 | Land Management, Cooperative & Poverty Alleviation | 54,887.3 | 827.0 | 505.8 | 9.6 | 1,342.4 | 2.38 | 2.45 |
| 7 | Energy, Water Resources and Irrigation | 43,961.6 | 187.4 | 1,019.7 | 90.1 | 1,297.2 | 2.30 | 2.95 |
| 8 | Urban Development | 41,692.7 | 204.4 | 761.1 | 130.9 | 1,096.4 | 1.95 | 2.63 |
| 9 | Water Supply | 15,840.2 | 302.4 | 484.5 | 91.7 | 878.5 | 1.56 | 5.55 |
| 10 | Health & Population | 53,144.8 | 311.7 | 351.5 | 204.2 | 867.4 | 1.54 | 1.63 |
| 11 | Others | 229,043.0 | 494.9 | 1,859.1 | 395.0 | 2,749.1 | 4.88 | 1.20 |
| Total | | 2,356,337.9 | 19,181.4 | 33,789.4 | 3,340.0 | 56,310.8 | 100.00 | 2.39 |

The irregularity of the Federal Government Offices functioning under the above ten ministries alone represents 95.12 percent of total irregularity. Similarly, the total irregularity figure of the Provincial Government Offices as compared to audited figure has appeared 2.30 percent, out of which the highest of 3.92 percent has existed in Karnali Province, and the lowest of 1.23 percent has existed in Gandaki Province. The total irregularity of Local Levels compared to audited figure has stood 3.88 percent, out of which the highest of 20.31 percent has appeared in Aathrai Rural Municipality of Terhathum District and the lowest of zero percent has appeared in Mallarani and Sarumarani Rural Municipality of Pyuthan District. As per this year's audits, the numbers of local levels having less than 5 percent irregularity are 540, 5 to 15 percent irregularity are 205 and more than 15 percent irregularity are 6 local levels.

- 5.3. While conducted the audits of 4 thousand 68 Federal Government Offices in this year, significant irregularity has not been witnessed with regards to 1 thousand 929 offices (47.42 percent). Similarly, when conducted the audits of 1 thousand 218 Provincial Government Offices, significant irregularity has not been witnessed with regards to 444 offices (36.54 percent).
- 5.4. Altogether 190 thousand 380 irregularity sections have been witnessed from the audits of the Federal and Provincial Government Offices and Local Levels (including audit

backlogs) in this year, out of which 62 thousand 409 are conceptual (Shidantik) irregularity sections and 120 thousand 694 are figurative (Lagati) irregularity sections.

- 5.5. Out of the total recoverable irregularities witnessed by audits of the Federal Government Offices, Provincial Government Offices, Local Levels and Other Committees & Institutions in this year, the Federal Government Offices functioning under 26 ministries/entities have recovered NRs. 119 million in course of the auditing, and the government offices functioning under 14 ministries/entities have recovered NRs. 236.7 million after issuance of preliminary audit reports. Similarly, after issuance of preliminary audit reports, other entities have recovered NRs. 376 million, entities functioning under the provincial governments have recovered NRs. 89.3 million, and the Local Levels have recovered NRs. 2 billion 136.9 million. Hence, altogether NRs. 2 billion 619.5 million has been recovered.

Out of the total outstanding recoverable irregularity NRs. 19 billion 181.4 million witnessed by the audit of the federal government offices in this year, the recoverable amount of 10 ministries/entities is NRs. 18 billion 737.4 million (97.69 percent), and the remaining NRs. 444 million (2.31 percent) is of other ministries/entities.

- 5.6. With regards to last years' cumulative outstanding overdue advances NRs. 63 billion 887.1 million of the federal government offices, the total outstanding advance has reached NRs. 67 billion 227.1 million up to this year inclusive of this year's added advance NRs. 3 billion 340 million.

Likewise, the outstanding advances to be settled by the federal and provincial Committees and other institutions in this year have appeared NRs. 835.6 million.

Significant irregularity has not been witnessed in the Constitutional Organs/Bodies - Office of the President, Office of the Vice-President, Commission for Investigation of Abuse of Authority, Office of the Auditor General, Judicial Council, and National Natural Resource & Fiscal Commission.

Chapter-3

Overall Status of Audit Observations

Federal Ministry and Entity

1. **Federal Consolidated Fund** - As per the financial statement of Federal Consolidated Fund, total NRs. 1 trillion 369 billion 433.3 million has been deposited in Fiscal year 2021/22 from the revenues, grants, loans (including internal and foreign), out of which NRs. 1 trillion 309 billion 874.3 million has been expended as the recurrent, capital expenditure and financing arrangements and NRs. 59 billion 559 has remained as surplus balance. If adjusted last year's negative balance NRs. 111 billion 963.4 million in this year's savings, the closing balance as of end of Ashadh 2079 (16th July 2022) will become negative by NRs. 53 billion 911.4 million. The balances of the Fund shall not have to appear negative as the Government of Nepal has maintained accounts on cash basis system, but such negative balances have been shown since past several years. Actual statement should be prepared by ascertaining the true figures.

2. **Overall Economic Situation** - The fifteenth Plan aims to achieve average economic growth of 10.3 percent in the country and 9.9 percent in 2021/22, but the growth rate has remained only 5.84 percent in this year. As against the Plan aim to limit the consumer inflation rate to 6 percent in the plan period as well as this year, the rate has appeared 6.32 percent in this year. However, the wholesale inflation rate has remained 9.51 percent as per statement of Nepal Rastra Bank. Similarly, as compared to the Plan's target to increase the capital expenditure/GDP ratios 18.6 percent in the plan period and 17.4 percent in this year, it has reached 4.5 percent in this year. Against the target of keeping the foreign grant utilization/GDP ratio to 1.4 percent, it has reached to 0.4 percent only. Against the target of increasing export/GDP ratio to 12.6 percent in this year, it has limited to 4.1 percent only. The status of key economic indicators of the country of past 3 years are provided below:

(In Percent)

| Description | Target (as per Fifteenth Plan) | | Achievement | | |
|--|--------------------------------|---------|-------------|---------|---------|
| | 2023/24 | 2021/22 | 2019/20 | 2020/21 | 2021/22 |
| Economic Growth Rate | 10.3 | 9.9 | -2.1 | 4.25 | 5.84 |
| Consumer Inflation Rate | 6.0 | 6.0 | 6.2 | 3.6 | 6.32 |
| Total Revenue/Gross Domestic Product (GDP) | 30.0 | 28.0 | 20.28 | 21.9 | 23.0 |

| | | | | | |
|---|------|------|-------|------|------|
| Total Government Expenditure/GDP | 43.3 | 42.9 | 27.87 | 28.0 | 26.7 |
| Recurrent Expenditure/GDP | 17.9 | 19.9 | 20.03 | 19.8 | 19.8 |
| Capital Expenditure / GDP | 18.6 | 17.4 | 4.83 | 5.4 | 4.5 |
| Foreign Grant / GDP | 3 | 1.4 | 0.5 | 0.63 | 0.4 |
| Foreign Loan / GDP | 5.7 | 6.0 | 4.2 | 3.06 | 2.5 |
| Domestic Loan/ GDP | 4.3 | 4.3 | 5.0 | 5.24 | 4.8 |
| Trade Deficit/ GDP | 35.3 | 38.3 | 28.1 | 32.7 | 35.5 |
| Export/ GDP | 15.7 | 12.6 | 2.5 | 3.3 | 4.1 |
| Import/ GDP | 51.0 | 50.9 | 30.6 | 36.0 | 39.6 |
| Budget Deficit/ GDP | 10.0 | 10.3 | 8.12 | 7.05 | 5.4 |
| <i>Source: Fifteenth Plan and Economic Survey 2022/23</i> | | | | | |

The Overall Economic Indicators have not appeared positive as only minimum progresses have been achieved even after elapse of third year of the plan period. The government, private and cooperative sectors should make coordinated efforts for the import controls, export promotion, management of government expenditure, effective mobilization and usage of foreign assistance and expansion of saving and investments.

3. **Revenue Estimate and Recovery** - As per the statement obtained from Ministry of Finance, the status of revenue recovery of the last 3 years are as follows:

(NRs. in Millions)

| Description | 2019/20 | | | 2020/21 | | | 2021/22 | | |
|---|--------------------|------------------|------------------|--------------------|------------------|------------------|--------------------|--------------------|------------------|
| | Targeted | Recovered | Recovery Percent | Targeted | Recovered | Recovery Percent | Targeted | Recovered | Recovery Percent |
| Income Tax | 280,351.0 | 219,689.5 | 78.36 | 238,038.7 | 230,077.3 | 96.66 | 289,499.6 | 260,085.4 | 89.8 |
| Value Added Tax | 3150,008.3 | 224,070.5 | 71.13 | 302,168.7 | 282,019.1 | 93.33 | 316,361.0 | 314,279.1 | 99.3 |
| Excise Duty | 169,982.1 | 100,622.6 | 59.2 | 155,504.1 | 133,780.5 | 86.03 | 182,167.8 | 166,777.7 | 91.6 |
| Customs Duty | 213,200.4 | 137,990.3 | 64.72 | 193,554.7 | 201,389.6 | 104.05 | 278,924.0 | 241,781.1 | 86.7 |
| Other Tax | 133,491.5 | 158,939.5 | 119.06 | 121,492.2 | 131,487.6 | 107.34 | 113,647.9 | 133,494.4 | 117.46 |
| Total | 1,112,033.3 | 841,312.4 | 75.66 | 1,011,758.4 | 978,754.1 | 96.74 | 1,180,600.3 | 1,116,417.7 | 94.6 |
| <i>(Source: Ministry of Finance, 2021/22)</i> | | | | | | | | | |

As per above statement, the revenue of NRs. 1 billion 116 billion 417.7 million (including other receipts) has been recovered in 2021/22, which has increased by 14.10 percent as compared to the last year. As compared to this year's target NRs. 1 trillion 180 billion 600.3 million, the revenue of 94.60 percent has been recovered. Out of the recovered amount, NRs. 984 billion 164.2 million has been recovered as tax revenue and NRs. 83 billion 794.4 million recovered as non-tax revenue.

4. **Revenue Structure** - In the Revenue Annual Statement 2021/22 of the Government of Nepal, the tax revenue (except divisible revenue) is shown NRs. 566 billion 976.6 million, other revenue NRs. 75 billion 731.1 million, miscellaneous revenue including irregularity grant refund NRs. 48 billion 504.9 million, divisible VAT NRs. 314 billion 227.7 million, divisible excise duty NRs. 100 billion 31.277 million, divisible royalty NRs. 5 billion 197.9 million, and foreign grant NRs. 15 billion 515.1 million.

In Part-4 of the Revenue Annual Report prepared by the Financial Comptroller General Office, it is mentioned that revenue of NRs. 1 trillion 129 billion 281 million has been collected in the Consolidated Fund Account, but the revenue amount inclusive of divisible amount is shown NRs. 1 trillion 116 billion 417.7 million in the revenue statement prepared by the Ministry of Finance, and hence, a difference of NRs. 12 billion 863.2 million has appeared.

5. **Budget Appropriation and Expenditure** - Section 10 (3) of the Financial Procedures and Fiscal Accountability Act, 2076 (2019) provisions that the budget shall have to be appropriated on the basis of spending capacity. In fiscal year 2021/22, total budget of NRs. 1 trillion 309 billion 874.3 million (79.5 percent) has been spent as compared to the budget appropriation NRs. 1 trillion 647 billion 576.7 million. Out of the total budget appropriation, the Government of Nepal had spent only 71.18 percent in 2019/20 and 81.15 percent in 2020/21. The proportion of expenditure in comparison to budget appropriation has been found decreasing. The reasons of not becoming expenditure in line with the budget appropriation are - adequate homework not done in budget formulation, asking budget without making technical studies and preparedness, increasing budget through virement without appropriating adequate budget for projects, and not arranging procurement contracts in the beginning of fiscal year.
6. **Achievement up to Third Year of Fifteenth Plan** - As compared to the base year of Fifteenth Plan, some positive improvements have been witnessed in a few indicators in the third year, however, the anticipated achievements have not been achieved in many indicators. The status of anticipated indicators and the progresses achieved are as follows:

| S.No. | Indicators | Base Year (2018/19) | Target of 2021/22 | Estimated Progress of 2021/22 |
|-------|--|---------------------|-------------------|-------------------------------|
| 1. | Annual Average Economic Growth Rate (As per Base Price, Percent) | 6.8 | 7 | 5.8 |
| 2. | Annual Average Growth Rate of Agriculture Sector (Percent) | 4.8 | 3.9 | 2.30 |
| 3. | Annual Average Growth Rate of Industry Sector (Percent) | 12.2 | 10.4 | 10.19 |
| 4. | Annual Average Growth Rate of Service Sector (Percent) | 7.9 | 7.7 | 5.93 |
| 5. | Annual Average Price Rise (Percent) | 4.6 | 6.5 | 6.09 |
| 6. | Per-capita National Income (In US Dollar) | 1047 | 1329 | 1381 |
| 7. | Population below Poverty Line (Percent) | 18.7 | 13 | - |
| 8. | Human Development Index | 0.579 | 0.611 | 0.602 |
| 9. | Life Expectancy (At the time of birth, Year) | 69.7 | 71.5 | 71.1 |
| 10. | Population with Access to Basic Drinking Water Service (Percent) | 89 | 95.0 | 95 |
| 11. | Literacy Rate of 15-24 Age Group (Percent) | 92 | 94.0 | 88.90 |
| 12. | Electricity Generation (Installed Capacity, Megawatt) | 1250 | 2974 | 2381 |
| 13. | Families with Access to Electricity (Percent) | 88 | 97 | 94 |
| 14. | Population with Access to Internet Service (Percent) | 65.9 | 85 | 85 |

Source: National Planning Commission, Annual Report, 2021/22.

As per the above statement, as compared to the anticipated targets of achieving annual economic growth rate of 7 percent, agriculture sector annual growth rate of 3.9 percent, industry sector annual growth rate of 10.4 percent and service sector annual growth rate of 7.7 percent, the growth rates have remained 5.8 percent, 2.30 percent, 10.19 percent and 5.93 percent respectively. Likewise, as against the target of increasing the electricity generation installed capacity to 2 thousand 974 megawatts, the installed capacity has reached to 2 thousand 381 megawatts and as against the target of increasing the families with access to electricity to 97 percent, the access has reached to 94 percent. With regards to the target of reducing the population below poverty line to 13 percent, the progress status has been ascertained by conducting mid-term review.

- National Pride Projects** - With the objectives of creating the foundation of road infrastructure development for prosperous Nepal, raising agriculture production and productivity through irrigation facilities, constructing hydropower, airports, arranging water supplies, conserving of cultural heritages etc., the Government of

Nepal had proclaimed the national pride projects in 2011/12 to the 17 projects that appeared significant to implement according high priority. The number of such projects has reached 24 as of this year. The status of expenditures incurred and progresses achieved in the national pride projects as of 2021/22 are as follows:

(NRs. Billions)

| S. No. | Name of Project | Commenced Year | Estimated Completion Year | Total Cost Estimate | This Year's Expenditure | Total Expenditure Till Date | Physical Progress Percent |
|--------|---|----------------|---------------------------|---------------------|-------------------------|-----------------------------|---------------------------|
| 1 | Pushpalal (Mid-Hill) Highway Project | 2007/08 | 2022/23 | 101.50 | 5.51 | 58.85 | 64.16 |
| 2 | Railway and Metro Development Project | 2009/10 | 2021/22 | 955.22 | 3.99 | 28.46 | 38.5 |
| 3 | North-South (Karnali Corridor) Highway | 2007/08 | 2022/23 | 11.00 | 1.71 | 2.84 | 26 |
| 4 | North-South (Koshi Corridor) Highway | 2008/09 | 2023/24 | 16.20 | 0.70 | 4.28 | 38 |
| 5 | North-South (Kaligandaki Corridor) Highway | 2009/10 | 2022/23 | 32.72 | 2.59 | 12.60 | 51 |
| 6 | Postal Highway Project | 2007/08 | 2022/23 | 65.20 | 7.24 | 52.77 | 80.9 |
| 7 | Rani Jamara Kulariya Irrigation Project | 2010/11 | 2023/24 | 27.70 | 1.82 | 16.20 | 58.7 |
| 8 | Sikta Irrigation Project | 2004/05 | 2032/33 | 25.02 | 0.89 | 19.00 | 67 |
| 9 | Babai Irrigation Project | 1988/89 | 2025/26 | 18.96 | 1.23 | 11.15 | 62.23 |
| 10 | Pashupati Area Development Trust | 2000/01 | 2021/22 | 2.27 | 0.25 | 1.41 | 85 |
| 11 | Lumbini Area Development Trust | 2009/10 | 2021/22 | 13.26 | 0.82 | 7.02 | 87 |
| 12 | Mahakali Irrigation Project | 2006/07 | 2030/31 | 35.00 | 0.89 | 5.37 | 15.73 |
| 13 | Bheri-Babai Diversion Multi-purpose Project | 2011/12 | 2022/23 | 36.80 | 1.47 | 15.43 | 57 |
| 14 | Budi Gandaki Hydropower Project | 2012/13 | 2026/27 | 260.00 | 6.05 | 41.48 | 22 |
| 15 | Sunkoshi Marine Diversion Project | 2019/20 | 2023/24 | 54.76 | 2.01 | 3.49 | 7.6 |
| 16 | Upper Tamakoshi Hydropower Project | 2010/11 | Completed | 49.29 | 0 | 52.98 | 100 |
| 17 | Pachhim Seti Hydropower Project | 2010/11 | not specified | 273.85 | 0 | 0 | 0 |
| 18 | Pokhara Regional International Airport | 2014/15 | 2022/23 | 22.00 | 0 | 19.04 | 98 |
| 19 | Nijgadh International Airport Project | 2014/15 | 2028/29 | 165.00 | 0 | 0.99 | not specified |
| 20 | Gautam Buddha International Airport | 2008/09 | 2021/22 | 30.91 | 0 | 26.41 | 100 |
| 21 | Melamchi Drinking Water Project | 1998/99 | 2020/21 | 35.54 | 0.30 | 30.65 | 99.47 |
| 22 | Kathmandu-Tarai Madhesh Fast Track | 2007/08 | 2023/24 | 213.95 | 5.22 | 34.29 | 21.18 |

| S. No. | Name of Project | Commenced Year | Estimated Completion Year | Total Cost Estimate | This Year's Expenditure | Total Expenditure Till Date | Physical Progress Percent |
|--------|--|----------------|---------------------------|---------------------|-------------------------|-----------------------------|---------------------------|
| 23 | President Chure-Terai Madhesh Conservation Development Board | 2009/10 | 2036/37 | 249.70 | 1.26 | 12.08 | 4.99 |
| 24 | Electricity Transmission Project | 2010/11 | - | 75.00 | 3.07 | 3.07 | 5.01 |

Though the works of National Pride Projects have been implemented according high priority by guaranteeing the sources with arrangement of conducting intensive monitoring of implementation, the progress status of the projects have not been seen satisfactory. The construction works of Upper Tamakoshi, Gautambuddha International Airport, Pokhara Regional Airport and Melamchi Water Supply have been completed, but the completed projects except Upper Tamakoshi have not come into full operation. Of the implemented projects, the physical progresses of 8 projects are less than 30 percent. The time and cost of such projects have been increasing every year resulting from the problems, such as - commencement of the construction works of projects without preparing Detailed Project Reports, unclear implementation modality of projects, disputes in land acquisition & compensation, lack of inter-entity coordination in transfer of utility services, disputes in alignment, & demarcation, non-approval of the environmental impact evaluation report, lack of implementing capacity, weak monitoring and evaluation etc.

8. **Year-end Expenditure** - Rule 30 of the Financial Procedure & Fiscal Accountability Rules, 2020 (2077) provides that the disbursement payment accounts shall have to be closed settling all payments and updating the disbursement and expenditure accounts at least 7 days prior to the ending of each fiscal year as per Appropriation Act. It is observed from the statement obtained from Ministry of Finance that the government has spent NRs. 1 trillion 309 billion 874.3 million out of the appropriated budget NRs. 1 trillion 647 billion 576.7 million in this year, out of which NRs. 275 billion 92.5 million (21 percent) has been spent in the month of Ashadh (Mid-June - Mid-July). Out of the expenditure, the expenditure incurred in last week of Ashadh Month has been NRs. 98 billion 997.1 million (7.56 percent). By complying with the provision of the Rules, the act of incurring expenditure after the third week of Ashadh should be abandoned.
9. **Virement** - Out of this year's total budget NRs. 1 trillion 632 billion 829.2 million, the virement of NRs. 196 billion 414.884 million (12.03 percent) has been done.

Out of the amount, the virement of NRs. 82 billion 806.785 million has been done in Ashadh Month and NRs. 26 billion 996.971 million in the last week of the Ashadh Month for transferring budgets in various budget Sub-headings. With regards to lump sum budget NRs. 88 billion 707.2 million appropriated in budget sub-heading Finance-Miscellaneous, the net budget amount of the sub-heading is reduced to NRs. 26 billion 966.9 million after adding NRs. 15 billion 728.1 million or 17.73 percent of initial budget appropriation from various budget sub-headings and deducting NRs. 79 billion 468.4 million or 89.59 percent of initial budget appropriation through virement. From the budget heading, NRs. 1 billion 920.4 million has been incurred as expenditure and NRs. 23 billion 46.6 million has been retained as budget balance. In a state of inability to make budget expenditures, it is appropriate to make virement from various budget sub-heading and hence, such works need to be controlled.

In various 10 programs, in which the initial budget not appropriated, the net budget of NRs. 2 billion 971.111 million is retained transferring through virement, out of which NRs. 2 billion 233.973 million is expended. Incurring expenditure by transferring budget through virement in the program in which the initial budget has not been appropriated is not conformity with the provision of above Rules and budget discipline.

10. **Foreign Assistance** - The analysis of the development assistance statistics show that the foreign assistance has occupied NRs. 158 billion 181.7 million or 12.07 percent segment of Government of Nepal's total expenditure NRs. 1 trillion 309 billion 874.3 million of the FY 2021/22. As per the Annual Financial Statement of Federal Consolidated Fund obtained from the Financial Comptroller General Office, the Government has received total foreign assistance NRs. 160 billion 91.1 million including grant NRs. 24 billion 149 million (excluding technical assistance and assistance in kind) and foreign loan NRs. 135 billion 942.1 million in 2021/22 as compared to the budget estimate of receiving total assistance NRs. 343 billion 860 million inclusive of foreign grant NRs. 59 billion 919.9 million and foreign loan NRs. 283 billion 88.7 million. In comparison to the estimate amounts specified in budget speech of this year, the government has received overall foreign assistance of only 46.67 percent on an average, out of which the foreign grant is 40.30 percent and foreign loan is 48.02 percent. Out of the foreign loan received in this year, only NRs. 130.70 billion has been utilized.

11. **Cash Management** - With regards to amounts provided by the Government of Nepal to the public institutions, entities and autonomous organizations as budget appropriation, capital and other grants, loans, investments etc., the concerned organizations have kept such received amounts in fixed account, low interest generating accounts and current accounts of banks since past some years without making expenditure in identified works as per objectives. Amongst such public organizations, 7 regulating organizations have retained NRs. 259 billion 775.8 million, 20 other public organizations have retained NRs. 117 billion 522 million, and 50 entities operating government and operational fund have retained NRs. 101 billion 560 thousand as balances.

Up to this year, total NRs. 178 billion 674.8 million, including NRs. 76 billion 349 million existed in provincial levels and NRs. 102 billion 325.8 million existed in local level, has remained in consolidated funds without making expenditures. The federal government has been taken loans showing shortage of sources, but the provincial and local governments have been retaining such balances without making expenditures. If calculated interest of the retained amounts at rate of average interest rate of 8.06 percent of domestic loans of 2021/22, the interest of the amounts retained in the provincial and local level consolidated funds becomes NRs. 14 billion 300.3 million.

Though legal provisions exist to make cash flow management by the governments, the governments have not been able to manage the funds and manage resources to development projects, which has increased economic burden of domestic loans and increased the project costs due to interest burden.

12. **Public Enterprise Management** - Amongst the 69 public enterprises (PEs) operated previously, 30 PEs have been privatized and 44 PEs are in existence at present along with the PEs established in later years, out of which 42 PEs are in operation. As per the statement obtained from the Financial Comptroller General Office, the total share investments made by the Government of Nepal in 114 PEs/ international institutions up to previous year was NRs. 342 billion 111.1 million. The total share investments has reached NRs. 357 billion 638.9 million up to this year along with this year's added investment of NRs. 15 billion 527.8 million. The Government has received cash dividends of NRs. 4 billion 243.7 million from 9 PEs in this year. The dividend received in this year has dropped by 66.72 percent as compared to the dividend received in last year. Besides these, the Government has

not received any returns in this year out of the share investments NRs. 258 billion 782.2 million invested in 105 PEs.

13. **Public Debt** - As per the statement obtained from the Financial Comptroller General Office, the total debt to be redeemed by the Government of Nepal at the end of FY 2078/79 (16/07/2022) has reached NRs. 2 trillion 13 billion 296.4 million. Of the total outstanding debt, the share of external debt is NRs. 1 trillion 25 billion 847.1 million and internal debt is NRs. 987 billion 449.3 million. This debt liability has increased by NRs. 275 billion 659.6 million in this year, which has increased by 15.86 percent as compared to last year. Out of the debts, the liability of external debt is 50.95 percent and internal debt is 49.05 percent. The ratio of public debt on Gross Domestic Products has reached 41 percent. The ratios had appeared 38.05 percent in 2019/20 and 40.73 percent in 2020/21. Appropriate policy should be formulated with regards to external debt burden. Even in a state of the internal debt are utilized in capital headings, the monies should be mobilized only after ensuring the value for money receivable from such capital expenditure.
14. **Loan Investment** - The Loan Investment Statement obtained from the Financial Comptroller General Office shows that inclusive of NRs. 132 billion 15.9 million invested in 62 institutions from the Government of Nepal source and NRs. 196 billion 900.5 million invested in 38 institutions from foreign source, total loan investments of the Government of Nepal appeared NRs. 328 billion 916.4 million up to last year. The loan investment becomes NRs. 374 billion 636.9 million at the end of this year after addition of this year's investment NRs. 47 billion 300.4 million and adjustment of principal refund NRs. 374 billion 636.9 million. However, the Office has shown total loan investment of NRs. 373 billion 922 million and has not mentioned the reasons for stating less loan investment of NRs. 714.9 million.
15. **Debt Repayment-** With regard to the internal and external loans, the Public Debt Management Office has deducted the principal repayment amount directly from the loans and only balance amounts have been shown in the Federal Consolidated Fund stating as 'Net Source Transfer'. Accordingly, NRs. 29 billion 415.8 million out of external loan NRs. 133 billion and NRs. 47 billion 337.8 million out of internal loan NRs. 231 billion 845.5 million have been deducted and only the net balance NRs. 288 billion 175.3 million has been shown in the consolidated fund as 'Net Source Transfer'. The loan amount has not been accounted in line with double accounting system. Likewise, the Office has paid total NRs. 121 billion 782.4 million along

with the loan interest NRs. 45 billion 28.8 million (including internal loan interest NRs. 37 billion 586.8 million and foreign loan interest NRs. 7 billion 442 million).

16. **Outstanding Interest** - As per the Annual Report of Share and Loan Investment prepared by the Financial Comptroller General Office, the total outstanding interest to be recovered by the government has appeared NRs. 56 billion 672.7 million - including the outstanding interest NRs. 45 billion 827.9 million up to 2020/21 and this year's added adjustment of NRs. 10 billion 844.8 million, out of which NRs. 6 billion 188.7 million has been recovered in this year and thus, NRs. 50 billion 484 million has remained as outstanding to be recovered up to this year. Since the receivable interest amounts have been increasing every year, the outstanding amounts should be recovered conducting monitoring timely basis.
17. **Outstanding Reimbursement** - As per the source-wise statement obtained from the Financial Comptroller General Office, the outstanding reimbursable loan and grant amount has reached NRs. 36 billion 865.5 million up to this year as compared to the outstanding reimbursable NRs. 23 billion 938.9 million up to previous year.
 - 17.1 The reimbursable loan amount appears NRs. 21 billion 804 million 888 thousand as per the financial statement submitted by the Financial Comptroller General Office. However, the reimbursable amount becomes NRs. 30 billion 528 million 574 thousand if adjusted the negative balance amounts, and hence, the difference amount NRs. 8 billion 723 million 686 thousand should be reconciled and adjusted.
 - 17.2 Pursuant to the reimbursable grants, the Office has stated total reimbursement receivable NRs. 15 billion 60 million 618 thousand by making adjustment of negative reimbursable amounts, but the reimbursable receivable amount becomes NRs. 16 billion 337 million 304 thousand if deducted the negative reimbursable amounts. Necessary reimbursement accounts/statement should be produced with regards to the difference NRs. 1 billion 276 million 686 thousand.
18. **Regulation of Banks and Financial Institutions** - Nepal Rastra Bank has been acting as a regulatory body of Bank and financial institutions in Nepal. As per reviews of Monetary Policy, 2022, the average interest rate of deposit and lending rate, which existed 6.01 percent and 10.11 percent respectively on 2077 Ashadh-end (15th July 2020), reached to 8.43 percent 11.62 percent on 2078 Ashadh-end (15th July 2021). The average interest rate of deposit and lending rate, have reached 7.34 percent and 11.54 percent respectively on 2079 Ashad (16th July 2022). As per

statement obtained, the status of interest income and interest expenditure of banks and financial institutions are as follows:

(NRs. in Million)

| Class of Bank and Financial Institution | 2020/21 | | 2021/22 | | Difference (Interest Income-Interest Expenditure) | |
|---|------------------|----------------------|------------------|----------------------|---|------------------|
| | Interest Income | Interest Expenditure | Interest Income | Interest Expenditure | 2020/21 | 2021/22 |
| A | 326,157.0 | 194,409.0 | 442,405.0 | 284,750.0 | 131,748.0 | 157,655.0 |
| B | 38,436.0 | 24,027.0 | 55,444.0 | 37,191.0 | 14,409.0 | 18,253.0 |
| C | 8,379.0 | 5,905.0 | 11,517.0 | 8,067.0 | 2,474.0 | 3,450.0 |
| D | 45,304.0 | 18,279.0 | 59,985.0 | 30,522.0 | 27,025.0 | 29,463.0 |
| Total | 418,276.0 | 242,620.0 | 569,351.0 | 360,530.0 | 175,656.0 | 208,821.0 |

The analysis of above 2 years data show that the interest incomes of banks and financial institutions have appeared more by NRs. 175 billion 656 million in 2020/21 and NRs. 208 billion 821 million in 2021/22 than the respective interest expenditure. It is quite natural to become the interest income amount little high owing to investing of the Capital and Funds amounts, but the above data show significant differences in between the interest income and interest expenditure. Hence, Nepal Rastra Bank should make efforts to keep the differences within certain limit by conducting effective monitoring of the interest income and interest expenditure difference (Spread rate). In addition, in view of growing share of informal economy, the financial transactions operated on personal basis should be scrutinized and brought into legal ambit.

19. **Standing Liquidity Facility (S.L.F.)** - For managing liquidity risks and its necessary arrangements of banks and financial institutions, Nepal Rastra Bank has issued Directives relating to Risk Management on 15/11/2021. The Nepal Rastra Bank has provided the S.L.F. facility to banks and financial institutions of NRs. 103 billion with 83 times in 2019/20, NRs. 361 billion with 167 times in 2020/21 and NRs. 9 trillion 170 billion with 908 times in 2021/22. It is informed that the facility has been provided to resolve the immediate liquidity problems, however it cannot be assured that the S.L.F. facility has been used only for the resolution of liquidity problems as the audit has observed the condition of growth in loan and investment and the investments in the high yield receivable sector during the period.
20. **Loan for Aircraft Procurement** - As per the loan agreement signed by the Employees Provident Fund with Nepal Airlines Corporation on 2017/06/11, the Fund had offered a loan of NRs. 12 billion upon the guarantee of the Government

of Nepal. However, the Corporation has not paid interest timely basis and the loan's principal amount has surged to NRs. 14.15 billion in accordance with the Fund's board of director's decision of making capitalization to the accrued interest. The Fund has not taken necessary steps to receive additional guarantee of the Government of Nepal in order the cover the increased liability amount. While making investments in any big and long-term projects, the loans are to be offered only after the assessment of detailed study, risk assessment and evaluation of business plans. Since such works have not been commissioned, risks have risen in recovering the loan of the Fund.

21. **Offering Project Loan** - As per the Clause No. 8.2.3 (b) Loan, Investment and Recovery Policy, 2020 of the Employees Provident Fund, the power of sanctioning institutional loans up to NRs. 1 billion rests on the Loan and Investment Committee constituted on governorship of the Fund's Administrator. With regards to project loans NRs. 6 billion 984.4 million offered to 9 companies since 2019/20, total outstanding bad loans including accrued interests have remained NRs. 1 billion 199 million 627 thousand, which includes NRs. 656 million 770 thousand due with a housing company, NRs. 86 million 194 thousand due with an industry, NRs. 27 million 16 thousand due with a company, NRs. 88 million 433 thousand due with a resort, and NRs. 341 million 214 thousand due with 2 mills. Since all above loans approved as per sole decision of the Committee constituted under governorship of the Administrator, the decisions and follow-up by the board of directors of the Fund have not been conducted. Hence, it has become essential to make reviews on such loan limits.
22. **Revenue Sharing**- Section 6 of the Inter-governmental Fiscal Arrangement Act, 2074 (2018) provides that out of the value added tax and excise duty collected from domestic products, 70 percent shall be distributed to the Federal Consolidated Fund, 15 percent to the province and 15 percent to the Local Level. As per the revenue annual statement submitted by the Financial Comptroller General Office, the Government of Nepal has collected tax revenue (except divisible revenues) NRs. 566 billion 976.6 million, other revenue NRs. 75 billion 731.1 million, miscellaneous receipts including irregularity grant refund NRs. 48 billion 504.9 million, divisible value added tax NRs. 314 billion 227.7 million, divisible excise duty NRs. 100 billion 31.277 million, divisible royalty NRs. 5 billion 197.9 million, and foreign grant NRs. 15 billion 515.1 million in FY 2021/22. While closing

accounts at the end of fiscal year, necessary arrangements should be made to adjust accounts by sharing such collected amounts on time.

23. **Royalty Sharing** - Section 7 of the Inter-governmental Fiscal Arrangement Act, 2074 (2018) provides that amongst the amounts collected as royalty, 50 percent shall be divided to the Federal Divisible Fund, 25 percent to the Provincial Divisible Fund and 25 percent to the Local Divisible Fund. Total NRs. 560.601 million collected in the Divisible Fund in this year has been shared only on 23/01/2023 as per approval of the Council of Ministers dated 10/01/2023. However, it is shown that the share of federal revenue has been deposited within end of Ashadh (16/07/2022). When divided such amounts only after the submission of financial statements by three tiers of governments without sharing on time, the amounts of consolidated funds of the provincial and local levels have been impacted by a shortfall of the divisible royalty amount NRs. 280.3 million.
24. **Fiscal Transfer** - Section 3(1)(d) of the Natural Resources and Fiscal Commission Act, 2074 (2018) provides that the Government of Nepal shall give recommendations with regards to grants to be availed by the Government of Nepal to the Provincial and Local Levels. The status of grant transfer as provisioned in federal budgets of fiscal year 2021/22 and 2022/23 are as follows:

(NRs. in Billions)

| Grant Heading | 2021/22 | | | 2022/23 | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | Province | Local | Total | Province | Local | Total |
| Fiscal Equalization | 57.9 | 94.6 | 152.5 | 61.4 | 100.2 | 161.6 |
| Conditional | 36.3 | 173.6 | 209.9 | 57.2 | 183.7 | 240.9 |
| Complementary | 5.7 | 6.7 | 12.4 | 6.3 | 7.3 | 13.6 |
| Special | 4.2 | 8.3 | 12.5 | 4.6 | 9.1 | 13.7 |
| Total Grant | 104.1 | 283.2 | 387.3 | 129.5 | 300.3 | 429.8 |
| Share Percent in Total Budget | 6.7 | 17.3 | 24.0 | 7.2 | 16.7 | 23.9 |
| Revenue Allocation | 64.9 | 64.9 | 129.8 | 81.5 | 81.5 | 163.0 |
| Total Transfer | 169.1 | 348 | 517.1 | 211 | 381.9 | 592.9 |
| Transfer Percent in Total Budget | 10.4 | 21.3 | 31.7 | 11.8 | 21.3 | 33.1 |
| Percent in Gross Domestic Production (GDP) | 4.4 | 7.9 | 12.3 | - | - | - |

As per above table, the grants provided to the provinces and local levels in 2021/22 and 2022/23 are 24 percent and 23.9 percent respectively on an average of the federal budget, and fiscal transfer amounts inclusive of revenue sharing and grants are 31.7 percent and 33.1 percent respectively of the federal budget, which is

12.3 percent in comparison to Gross Domestic Product. If any grant amount provided by the Government of Nepal is not spent, such unspent amounts are required to be refunded to the federal consolidated fund. However, the statement obtained from the Financial Comptroller General Office shows that total conditional, complimentary and special grants amounting to NRs. 178.67 billion have been retained in the concerned provincial and local government's funds up to 2021/22 without refunding to the federal consolidated fund.

25. **Tax Scope** - Income Tax Act, 2058 (2002), Value Added Tax Act, 2052 (1996) and Excise Duty Act, 2058 (2002) have made the provisions that a natural person engaged in any occupation, business or transaction shall have to make registration in prescribed format and obtain certificates. The number of taxpayers that have registered in tax office and obtained such certificates are as follows:

| Description | Up to 2018/19 | Up to 2019/20 | Up to 2020/21 | Addition in 2021/22 | Up to 2021/22 |
|--------------------------------------|------------------|-----------------|------------------|---------------------|------------------|
| Business Permanent Account Number | 1,235,412 | 1429,604 | 1577,383 | 185,030 | 1762,413 |
| Individual Permanent Account Number | 996,041 | 1978,680 | 2471,726 | 578,578 | 3050,304 |
| Advance tax Permanent Account Number | 737 | 5,106 | 9,998 | 8,096 | 18,094 |
| Total | 2,232,190 | 3413,390 | 4,059,107 | 771,704 | 4,830,811 |
| Registration in Value Added Tax | 240,460 | 268,436 | 285,098 | 6,263 | 291,361 |
| Excise Duty Certificate Issued | 68,213 | 94,292 | 103,423 | 27,704 | 131,127 |

Source: Annual Report of Inland Revenue Department

As per above statement, the number of taxpayers obtaining Permanent Account Number (PAN) has increased by 19.01 percent in income tax, 2.19 percent in VAT, and 26.78 percent in excise duty in this year as compared to corresponding figures of 2020/21. Altogether 4 million 830 thousand 811 taxpayers have come across the tax-net up to this year. Most of professionalizes, inclusive of the doctors, engineers, layers, advisers, auditors, artists, sport persons, teachers, professors etc., have not obtained PAN numbers and the taxpayers obtaining certificates have also not submitted income returns. The legal arrangements should be effectively implemented by establishing inter-relationship between the concerned entities.

26. **Status of Value Added Tax** - Section 18 of the Value Added Tax, 2052 (1996) stipulates that each taxpayer shall determine tax amount every month making self-tax assessment and submit the tax returns within 25 days of the elapse of each

month. The implementation status of VAT of last 5 years by Inland Revenue Department is as follows:

| Description | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|------------------------------------|---------|---------|---------|---------|---------|
| Debit Returns Percent | 14.06 | 25.6 | 22.17 | 11.07 | 22.87 |
| Credit Returns Percent | 51.97 | 45.9 | 48.38 | 55.15 | 45.71 |
| Zero Returns Percent | 33.97 | 28.5 | 29.45 | 33.78 | 31.42 |
| Debit in Ashadh (NRs. in Billion) | 69.85 | 12.69 | 11.23 | 10.48 | 15.65 |
| Credit in Ashadh (NRs. in Billion) | 38.19 | 39.74 | 42.4 | 47.44 | 71.27 |
| Credit/Debit Ratio (times) | 0.54 | 3.13 | 3.77 | 4.53 | 4.55 |

As per the Annual Report of the Inland Revenue Department, the VAT (internal) of NRs. 115.86 billion has been recovered out of this year's total revenue. The recovery amounts also include the credit adjustment amounts of taxpayers. The taxpayer's VAT credit amount has appeared NRs. 71.27 billion at this year-end. Out of the taxpayers submitting tax returns, 22.87 percent taxpayers have submitted debit returns, 45.71 percent have submitted credit returns, and 31.42 percent have submitted zero returns. In this year, the debit amounts have surged by 49.33 percent and credit amounts have surged by 50.23 percent. To enhance the effectiveness of the VAT, improvements should be done in the policy and managerial aspects along with the implementation and compliance to the tax laws by mobilizing monitoring mechanism.

27. **Assessment of Policy and Program** - The integrated monitoring system of Office of the Prime Minister and Council of Ministers provides details about the assessment of operational policies and key programs of 2021/22. In making the assessment, the activities and milestones of sectorial ministries have been taken as a basis. As per the assessment, the progress status of sectorial ministries as of end of Ashadh 2079 (16th July 2022) has appeared as follows:

| Sector | Concerned Ministries | Activities (Number) | | | | Milestones | | | |
|--------------------------|--|---------------------|-----------|----------|-------------|-----------------|-----------|----------|-------------|
| | | To be Completed | Completed | On going | Not Started | To be Completed | Completed | On going | Not Started |
| Economic Sector | Finance, Agriculture, Industry, Land Management | 474 | 196 | 237 | 41 | 928 | 450 | 340 | 138 |
| Infrastructure Sector | Physical Infrastructure, Energy, Urban Planning, Water Supply, Communication, Reconstruction | 306 | 60 | 204 | 42 | 793 | 234 | 371 | 188 |
| Social Sector | Education, Health, Women, Youth, Labor | 243 | 117 | 118 | 8 | 510 | 291 | 169 | 50 |
| Governance Reform Sector | Office of the Prime Minister, Home Affairs, Defense, Federal Affairs, Law, Foreign Affairs | 190 | 80 | 106 | 4 | 405 | 227 | 158 | 20 |

| | | | | | | | | |
|-------|-------|-----|-----|----|-------|-------|-------|-----|
| Total | 1,213 | 453 | 665 | 95 | 2,636 | 1,202 | 1,038 | 396 |
|-------|-------|-----|-----|----|-------|-------|-------|-----|

As stated above, the Ministries have completed only 453 activities (37.34 percent) out of 1 thousand 213 activities and 1 thousand 202 milestones (45.60 percent) out of 2 thousand 636 milestones. When analyzed sector-wise basis, only 19.6 percent activities have been completed in infrastructural sector. The Ministries that have completed lowest number of activities are 2.98 percent by Physical Infrastructures & Transportation, 8.82 percent by Water Supply and 14.75 percent by Urban Development. The progress status of activities and milestones of the sectorial ministries have not been witnessed satisfactory.

28. **Receiving and Mobilization of Remittance** - As against the estimate of receiving remittance inflows of NRs. 5 trillion 592 billion in fifteenth plan period, the data of Nepal Rastra Bank show that NRs. 2 trillion 843 billion have been received up to this year. The contribution of remittance income in capital formation has remained minimal as the Nepal Living Standard Survey 2009/10 states that 80 percent portion of remittance received from foreign employment are spent in consumption. An average fee (cost) of 4.5 percent is chargeable while sending 200 US Dollar and 3 percent is chargeable while sending 500 US Dollar from destination countries. Since the cost chargeable in sending remittance from the formal channel has existed high, the condition has arisen that the informal medium including draft (Hundi) has not been depressed in inflows of remittance.
29. **Prime Minister Employment Program** - The Prime Minister Employment Program has been implemented in the federal, provincial and local levels with an objective to make contribution in economic development through optimum use of available manpower creating adequate opportunities of employment within the country and make social security by guaranteeing the employment at least to all people. In the program operated since last 3 years with the objective to provide at least 100 days employment to listed unemployed, total NRs. 13 billion 24.2 million have been spent up to this year, and total 621 thousand 73 persons have participated in the program and got employment of 45 days on an average.

Since the major works, such as - cleaning sewerage of roads, construction of playing ground, beaten/horse track (goreto/ghodeto) of schools, construction of small infrastructures and sanitation etc. are implemented under this program, the works that contribute in the production growth and capital formation have not been undertaken. The foreign loans monies have been used in unproductive works instead

of using for the programs that contribute in production growth and capital formation. For sustainability and ownership of program, programs should be implemented conducting partnership with local levels and the Employment Management Information System should also be upgraded and updated.

30. **Foreign Employment** - Section 3 of Foreign Employment Act, 2007 stipulates that the Government of Nepal shall specify the countries that can operate foreign employment business by publishing notice in Nepal Gazette. Up to this year, total 111 countries on institutional basis and 178 countries on personal basis are opened for sending/going foreign employment, but the permission of Iraq, Libya and Ukraine has been suspended at present, and labor agreements have been signed with only 10 countries. Labor agreement has not been signed with Saudi Arabia in which 28.17 percent of foreign employment workers have gone for employment. Of total 2 million 288 thousand 26 workers that gone for foreign employment in last five year, 0.03 percent are high skilled, 0.13 percent are professional, 8.75 percent are semi-skilled, 36.51 percent are skilled and 54.58 percent are non- skilled.
31. **Utilization of Forest Products** - In forest areas, the numbers of broken, dried and damaged trees, trees fallen due to disaster and old and over age trees are growing. Such woods used to destroy by the forest fire in winter and dried seasons, but the wood products have not been utilized making effective management. The woods and wood-based products worth NRs. 2.33 billion have been imported in 2020/21 and NRs. 7.99 billion in 2021/22 due to non-availability of woods as per requirements. Since the governments have been losing receivable income and wood-based products of billions of Rupees have been imported due to non-utilization of such woods, arrangements should be made to make proper utilization of woods by making management of fallen/broken and dried trees.
32. **Environmental Impact Assessment** - Section 3 of the Environment Protection Act, 2018 provides that each proponent shall prepare a report conducting environmental study & assessment and submit such report to concerned entity for the approval. Rule 9 of Environment Protection Rules, 2019 specifies that the Ministry of Forest & Environment shall have to approve such environmental impact assessment report within 35 days. The Ministry has approved 51 reports in this year and has taken up to 682 days for approving the reports. It has taken up to 374 days for making correspondences and collecting evidences after registration of applications, 167 days for making recommendations after submission of replies, and 306 days for

approving after getting recommendations. Delays occurred in approving environmental impact assessment reports have also caused delays in implementation of projects, which tend to increase the cost and time of projects due to rise in consultancy expenditures and price adjustment of construction works. the Ministry should short out actions relating to environmental impact assessment on timely basis by establishing coordination with the concerned stakeholders.

33. **New Town Project** - The Fifteenth Periodic Plan has declared New Town Project as game changer project, and this project commenced in 2009/10 with an objective to build and develop the modernized, facility-based and infrastructural towns in 10 main places of Pushpalal Highway (Mid-Hill Highway) and surroundings within 2029/30 for settling at least 100 thousand populations in each town. Initially, the project has selected 10 places for establishing new towns, but presently, the works of preparation of detailed project reports and integrated development plans for the integrated land development and infrastructural development have been ongoing for the development of 54 new towns - including new towns in 27 places, 10 Himalayan towns and 17 smart cities. Till now, the land development programs have been undertaken only in 4 thousand 777 ropanies lands of 9 places. The practice of adding new towns in the Project prior to the completion of pre-determined works has created the situation where the project works will remain incomplete for years to years and the expected outcomes cannot be attained within specified time.
34. **Construction of Conference Hall** - As per statement obtained from Department of Urban and Building Construction, pursuant to the Department's plan to construct 43 conference halls in seven provinces, the construction works of 11 conference halls are already completed, the construction works of 18 halls are going on, and the preliminary works of land acquisition, preparation of detailed project report etc. of 14 conference halls are going on. Amongst the 43 conference halls, total cost estimate amount of 29 conference halls is NRs. 18 billion 161 million, and NRs. 9 billion 833.3 million has been spent for the halls up to 2021/22.
- 34.1 Total NRs. 964 million has been spent to construct a conference hall having capacity of 1 thousand 70 people in Butwal of Rupandehi. Though the conference hall inaugurated after the completion of construction works, necessary arrangements have not been done for operating the hall.
- 34.2 Total NRs. 802 million 716 thousand has been spent to construct a conference hall having capacity of 3 thousand people in Godavari of Lalitpur. Though a decision

was made to avail 143 ropanies, 1 aana 3 paisa land for constructing the conference hall, the conference hall is constructed in 43 ropanies land and private houses and shades are built in the remaining encroached land. The responsibility of operating and managing has been given to International Conference Center Development Committee and the Committee has earned NRs. 4 million 928 thousand in this year. Problems, the like - uneasy in entering hall to service recipients, water leakage from roofs, breaking of false ceiling etc. have been witnessed due to non-construction of canteen, security guard building, and non-construction of porch in main gate.

Arrangements should be made for full utilization of the conference halls by formulating working procedures and plan related to the construction, operations, transfer, and business sustainability.

35. **View Tower** - For constructing a view tower of 72 meters height having 18 floors of permanent structures and 28 meter height steel structure with underground parking facilities in 5 bighas land of Dapgachhi situated in Damak Municipality of Jhapa District, a contract of NRs. 1 billion 561 million 439 thousand was signed on 2019/07/12 with the clause of completing works by 2022/09/11, however, the contract period has been extended up to 2023/07/12 owing to non-completion of works within the specified time. The amended contract price of the construction works has been increased to NRs. 1 billion 664 million 220 thousand after the addition of NRs. 102 million 781 thousand till the second variation. Total payment of NRs. 1 billion 44 million 916 thousand has been granted up to this year with the attainment of 70 percent physical progress and 63 percent financial progress. Out of main works, the works of superstructures up to 16th floor have been completed, but the works of 17th and 18th floor are still outstanding. Working procedures have not been developed for operating the view tower and studies have not been conducted with respect to assuring returns receivable from the project. Such projects should be implemented only on the basis of demands and identification of needs and assurance of receiving returns from the investments.

36. **Reconstruction** - The status of target and progress of the reconstruction and rehabilitation works undertaken after the 2072 earthquake are as follows:

| S.No. | Sector | Numbers to be Reconstructed | Progress up to 2021/22 | |
|-------|--------------------------|-----------------------------|------------------------|---------|
| | | | Number | Percent |
| 1 | Health Institution | 1,164 | 802 | 68.9 |
| 2 | Government Building | 414 | 401 | 96.86 |
| 3 | Security Agency Building | 216 | 216 | 100 |

| | | | | |
|---|---|-----|-----|-------|
| 4 | Archaeological Heritage | 920 | 586 | 63.7 |
| 5 | Integrated Settlement Development and Improvement | 106 | 62 | 58.49 |

The works of archaeological heritage, integrated settlement development and improvement etc. have not been completed. More efforts should be made to finish the remaining works.

37. **Distribution of Grant** - In the Schedule-1 of Earthquake Affected Private House Reconstruction Grant Distribution Procedures, 2073 (2016), there exists provision related to selection of beneficiaries for providing earthquake-affected private house reconstruction and retrofitting grants. With regards to private house, the number of beneficiaries signing grant agreements has appeared 832 thousand 585 out of total 866 thousand 307 beneficiaries. Amongst them, the payments of first installment have been received by 832 thousand 470 beneficiaries, second installment received by 765 thousand 861 beneficiaries, and third installment received by 733 thousand 214 beneficiaries. Though 62 thousand 902 thousand beneficiaries receiving payment of the first installment have received the payment of NRs. 3 billion 145.1 million but they have not received the second and last installments, and 17 thousand 245 beneficiaries have received the first and second installments but they have not received final installments. With regards to the beneficiaries receiving the first and second installments but not completing works, assurances should be obtained pertaining to proper utilization of grant moneys. Similarly, with regards to the private house retrofitting, grant agreements have been entered with 33 thousand 905 beneficiaries and the payments of first installment have been provided to 31 thousand 679 beneficiaries. Since the obtained statement shows that the payment of second and final installments have been received by only 2 thousand 226 beneficiaries, steps need to be taken to complete the whole retrofitting works by conducting monitoring with respect to 29 thousand 453 beneficiaries which have received the first installment but not received the second installments. Since the constructed private houses have been used for other purposes instead of using for identified purposes, necessary assurances should be obtained with regards to proper usages.
38. **Joint and Multi-storey Housing** - As per the Act Made to Provide for the Ownership of Joint Housing, 2054 (1997) and Regulation, 2060 (2003) and Joint Housing Building Construction Approving and Monitoring Procedures, 2070 (2013), Department of Urban Development and Building Construction is

responsible for the development of joint housing companies which conduct business transactions of joint housing, and land development, and approving the construction works, conducting monitoring and issuing work completion certificates by examining the proposals submitted for the permissions of joint housing construction. It is mentioned in the statement obtained from the Department that the approval for the construction of 70 apartments having capacity of 7 thousand 22 residential units has been provided, out of which the construction works of 32 apartments having capacity of 3 thousand 941 residential units have been completed. However, amongst the permission received for the construction approvals from the year 2062 (14/04/2005) to 2069 (13/04/2013), it is observed that 38 apartments having capacity of 3 thousand 81 residential units have not obtained the work completion certificates till now.

39. **Air Flight** - The Aviation Policy, 2063 (2006) aims to guarantee the qualitative aviation services in nation and international level by expanding the safe, reliable, commercial and trustworthy aviation services. In air space of Nepal, altogether 899 passengers have died in 104 accidents till now, which include 416 passengers died in the accident of 50 multi-engine aircrafts, 25 in 8 single-engine aircrafts, 373 in 10 international aircrafts, and 85 in 36 helicopters. In the reports of the investigation committees formed after air accidents, it was mentioned that the main cause responsible for the accidents have been - the encounter of problems in engines, bad climatic condition, carelessness of pilots etc. Same problems have been repeated due to non-implementation of recommendations provided in the past investigation reports. By addressing to the subject matters related to air safety of Nepal raised by the International Civil Aviation Organization in 2019, the qualitative air services should be guaranteed by expanding the safe, reliable, commercial and trustworthy aviation services.
40. **Construction of Airport** - Point No. 5.7.1 of the Aviation Policy, 2063 (2006) provisions that the distance of any proposed airport from the existing near airport needs to be normally 20 nautical miles in case of Himalayan and hilly region, and at least 40 nautical miles in case of Tarai and Inner Madhesh Region, but it is mentioned that various airports have been constructed in 39 places including - Kamalbazar-Sanphebagar at distance of 13 nautical miles, Phaplu-Kangeldanda at 8 nautical miles, and Masinechaur-Juphal at 6 nautical miles keeping less distance than that specified. Out of 54 airports including 3 international airports constructed

till now, 20 airports are not operational. Necessary standards should be prepared to make classification of airports and develop some of airports as emergency landing centers, and the construction completed airports should also be operated.

41. **Casino Royalty** - The Casino Regulation, 2070 (2013) provides that each casino operator shall have to pay royalty every year. Section 16 of Finance Act, 2021 provisions that such royalty should be paid within 6 months and additional fees and annual additional fee should be paid if any party fails to pay such royalty on time. Total revenue NRs. 1 billion 154.6 million are required to be collected from the 24 casino operators in this year as application fee, license fee, royalty amount, renewal fee and annual additional fee, but only NRs. 931.1 million has been deposited. Four casino operators have not deposited the royalty amounting to NRs. 223.5 million lying outstanding since past some years. The outstanding amount should be recovered along with applicable additional fees.
42. **Recording and Management of Grants/Offerings** - Rule 77 of the Pashupati Area Development Fund Temple and Worships Management Regulation, 2068 (2011) provides that if any person wishes to offer any precious materials, the like - gold, silver etc. and goods made of such materials or any other inventory goods, including - the utensils or clothing etc. to the Shree Pashupatinath Temple and any other abbey/temples existed in the premises of the temple, such materials/ goods shall be offered only after entering records of the Fund.

In this year, total NRs. 45 million 284 thousand has been collected in the Pashupatinath temple as offerings from the worshipers and devotees. Though the Fund has a system of counting the offered amounts every day at 10 O'clock AM in the presence of bank representative, Nepal Police, Armed Police Force and designated employees of the Fund and depositing such collected amounts in a commercial bank same day, the audit has observed various feeble situations, such as - difficulties faced in determining the incomes of metal-based materials due to unavailability of metal detectors, the offerings offered to Pashupati Shivalinga are not controlled by machines, all earnings of all other temples including Santaneshwar Mahadeva, Lal Ganesh etc. are not deposited in the Fund, the donations/offered fees along with metal-based materials being received in Pashupatinath Temple from worshipers are not ascertained and classified, the back-up capacity of CCTV installed in the temple premises has remained seven days only, the precious metal, the like gold, silver have been accepted without registering in records of the Fund

etc. Donations and offerings of the temple should be managed properly doing improvements in the existing situation.

43. **Postal Saving Bank** - In the Postal Saving Bank operated by General Post Office and 68 District Post Offices, there exists cumulative balance of NRs. 1 billion 454 million 335 thousand up to this year, inclusive of NRs. 71 million 357 thousand embezzled by District Post Offices- Rautahat, Bajhang and Jajarkot in past years. There exists a situation where the Postal Saving Banks have not been operated effectively owing to the accounts of such banks have not been fully maintained in software, the accesses of the private sector institutions operating banking transactions have not reached all over the country, lack of skilled manpower etc. The policy of operating the Postal Saving Banks should be reconsidered.
44. **Enterprise Email Service** - In Rule 2(1) of Directives related to Development and Management of Websites of the Government Offices, 2078 (2021), it is mentioned that each government entity should operate a government email along with the office's own domain name and the such email should be mandatorily operated for the official works. As per the provision, the National Information Technology Center has procured 20 thousand licenses up to this year, out of which the number of entities developing email has appeared 18 thousand 400 up to this year and amongst them 5 thousand 454 email has appeared inactive. The Government of Nepal has been bearing a financial burden of NRs. 88 million 471 thousand with regards to the procurement and renewal of email licenses despite of unused of 7 thousand 54 emails procured by the Center.
45. **Payment Gateway** - In Integrated Electronic System Directives on Operations of Government Agencies, 2078 (2022), it is mentioned that the Department of Information Technology shall establish an integrated e-system related to government agencies for the purpose of carrying out the functions to be performed by government agencies through a single electronic system in an simplified and effective manner. As per the arrangement, the Department had signed a procurement contract of US Dollar 1 million 988 thousand on 2018/07/03 for National Payment Gateway with the terms completing works by 2018/07/13 with an objective to manage the payments to be done from inside and outside the country fully through electronic medium, and has provided total payment of US Dollar 1 million 867 thousand till now. In a situation of elapse of around 5 year's period and 93.86 percent of contract amount already provided, the Gateway has not come into operations.

46. **Unified License Fee** - The Telecommunication Service Radio Frequency (Allocation and Pricing) Policy, 2073 (2016) has made arrangements relating to the renewal fee of basic telephone services. It is stated that a service provider is required to pay specified amounts since the year of obtaining license for the ten years period obtaining such license from Nepal Telecommunication Authority. After the period, the license will be renewed after the deposit of NRs. 20 billion 132.8 million for such renewal. As per the provision, 2 service providers are required to deposit the license fees amounting to NRs. 7.4 billion till 2021/22, but they have not deposited the fee amount. The due amount should be recovered.
47. **Mobile Device Management System** - For the purpose of making mobile device safe, controlling illegal mobile imports, procuring primary site container and installing seven servers switch routers inside it, and procuring secondary data center equipment along with server switch rack and designing, supplying, installing, commissioning and operating the mobile device management system, a procurement contract of US Dollar 7 million 66 thousand 888 was signed with one international joint-venture consultant on 2019/07/04 with the terms completing works by 2019/12/03 and providing technical assistance up to 5 years, and total payment of US Dollar 1 million 411 thousand 178 has been provided till now. Since the consultancy has not completed works within the specified period, the contract time has been extended up to 2021/11/01 approving extension time to time, but the hardware procurements and installation works have not been completed even in the extended period. The contract works should be completed as per specified terms.
48. **Security Printing Press** - As per conceptual acceptance given by the Government of Nepal (Council of Ministers level) on 2019/11/07 for procuring the equipment, press machines, tools system and other essential materials related to security printing through G2G method, Security Printing Center has approved total cost estimate of NRs. 33 billion on 2021/07/14 for the procurement of equipment inclusive of press machines. Prior to performing this work, the it had invited proposals and obtained proposals from the French and German Government and the Council of Ministers of the Government of Nepal had made a decision on 2019/12/23 stating that the Ministry could make direct procurement by approving a proposal out of the proposals of two countries based on appropriateness. However, the Ministry of Information & Communication, without making decision itself, presented the issue to the Council of Ministers again, and the Council had made a

decision on 2020/04/14 stating that the Ministry should terminate to the previous decision of making direct procurements through G2G method and should start fresh proceedings to make procurement through the open competition method. By commencing the construction works of the printing press since 2017/18, total NRs. 2 billion 151 million 518 thousand has been spent up to this year. It seems unjustifiable to incur expenditures in other allied works every year without commencing the procurement procedures of the installation of security printing press.

49. **Optical Fiber** - With an objective to lay down optical fibers in Mid-Hill Highway and surrounding areas of district headquarters and municipalities, North-South Highway and East-West Highway and prepare a National Information Super Highway by mobilizing Rural Telecommunication Fund, the project work has been started dividing works into 3 sections. For constructing 3 sections dividing - the Koshi, Madhesh and Bagamati Province as one section, Gandaki and Lumbini Province as second section and Karnali and Sudurpachhim Province as third section, the contract agreements of total NRs. 8 billion 95 million 659 thousand have been signed with 2 service providers. As per the contracts, the works are required to be completed within 2 years, but the construction works have not been completed yet.
50. **National Identity Card** - Though the Constitution of Nepal stipulates that a policy will be adopted to develop an Integrated National Identity Management Information System, however, the National Identity Card being issued presently captures the information of a citizenship certificate only. In the National Identity Card, all types of information and description including citizenship certificate and various identity cards, such as - passport, vehicle driving license, voter's identity card, ATM card, birth death registration, land property description, taxpayer identity, citizen apps etc. are required to be incorporated. However, there exist situations where such information are to be furnished time to time as per each entity's requirement, separate systems are developed for all types of identity cards and are operated by separate entities. Since the National Identity Card is linked with the Passport, a passport cannot be prepared without getting a National Identity Card. However, a National Identity Card is not made compulsory as per the Passport Act and Regulation. It appears that the National Identity Card distributed presently by including the information specified in the Citizenship Certificate will not serve the objectives of a National Identity Card. An Integrated National Identity Management

Information System should be developed as provisioned in Article 51 of the Constitution.

In the statement obtained from Department of National Id and Vital Registration, it is mentioned that although total registrations of 8 million 75 thousand 46 applications are received from 2019/08/16 to 2022/07/16, only 5 million 117 thousand or 63.36 percent cards have been received, 367 thousand cards have been printed, and 117 thousand cards (4.54 percent of application) have been distributed. Out of total applications registered, 7 million 708 thousand 46 cards have not been printed yet. Though a target was set to complete the National Identity Cards distribution by 2021/22, it has been linked with the e-Passport since 2021/11/17 and an application for the passport cannot be submitted if any applicant fails to get the Identity Card Number. Since this situation has created inconvenience to mass citizens, this problem should be shorted out soon.

51. **E-Passport** - For supplying and printing E-passports, a procurement contract has been entered between the Department of Passports and a French Company in Paush 2077 (Jan 2020) at total contract price of US Dollar 21.1 million (excluding VAT) with the terms of printing 2 million E-Passports at per unit cost of US Dollar 10.45 for 32 pages and US Dollar 10.95 for 64 pages within contract period of 3 years. After signing of the contract, the printing work of E-passport has been commenced since 2021/11/17 by completing the essential works, such as - preparation of detailed design, designing of necessary booklet, software development, equipment installation and data transfer and testing etc. Though initial need identification was made for 5 million E-Passports, but the procurement contract was signed for 2 million passports or 3 years period whichever is earlier. Since the procurement contract was made for less quantity than the requirements, it appears that the service delivery will be affected if further procurement processes are to be initiated again in future. This situation needs to be resolved.
52. **Teacher-Student Ratio** - Education Rule, 2059 (2002) specifies that the Teacher-Student Ratios need to be 40 in Himalayan, 45 in Hilly and 50 in Tarai Region. Likewise, it is specified that the numbers of students in each class of community school need to be generally 50 in Valley and Tarai, 45 in Hilly and 40 students in Himalayan Region. It is also stated that the numbers of students in each class of institutional school need to be at least 22, maximum of 44 and on an average 33

students. As per the report published by the Education and Human Resource Center, the School-Student Ratios and Teacher-Student Ratios have remained as follows:

| Province | School-Student Ratio | | | | Teacher-Student Ratio | | | |
|-------------------------|----------------------|-------------|------------------|-------------------|-----------------------|-------------|------------------|-------------------|
| | Basic (1-5) | Basic (6-8) | Secondary (9-10) | Secondary (11-12) | Basic (1-5) | Basic (6-8) | Secondary (9-10) | Secondary (11-12) |
| Koshi Province | 82 | 84 | 88 | 158 | 19 | 27 | 21 | 67 |
| Madhesh Province | 195 | 175 | 169 | 172 | 49 | 67 | 44 | 85 |
| Bagmati Province | 92 | 88 | 76 | 166 | 18 | 24 | 14 | 50 |
| Gandaki Province | 63 | 76 | 73 | 117 | 13 | 21 | 15 | 39 |
| Lumbini Province | 118 | 114 | 111 | 176 | 24 | 33 | 24 | 73 |
| Karnali Province | 88 | 107 | 118 | 167 | 26 | 35 | 33 | 75 |
| Sudurpachhim Province | 96 | 103 | 111 | 162 | 24 | 31 | 27 | 56 |
| Total in Average | 104 | 103 | 99 | 160 | 21 | 31 | 22 | 57 |

As mentioned in the report, the school-student ratios have stood 104 students in Class 1-5 and 103 in Class 6-8 of basic level, and 99 students in Class 9-10 and 160 in Class 11-12 of secondary level. Similarly, the teacher-student ratios have stood 21 students in Class 1-5 and 31 in Class 6-8 of basic level, and 22 students in Class 9-10 and 57 in Class 11-12 of secondary level. Both ratios have appeared the lowest in Gandaki Province. In order to improve the education quality, management should be done to maintain the specified school-student ratio and teacher-student ratio in all provinces.

53. **Examination Result** - The comparative result status of Academic Year 2077 (2020) and 2078 (2021) of Secondary Education Examination (S.E.E.) of Class 10 are as follows:

| S.No. | G.P.A. | Result of 2077 (2020) | Result of 2078 (2021) | G.P.A. Percent of 2020 as compared to Total | G.P.A. Percent of 2021 as compared to Total |
|--|---------------------|-----------------------|-----------------------|---|---|
| 1 | From 0.8 up to 1.19 | 3 | 3,280 | 0.0006 | 0.69 |
| 2 | From 1.2 up to 1.59 | 13 | 44,586 | 0.0027 | 9.42 |
| 3 | From 1.6 up to 1.99 | 620 | 100,594 | 0.1305 | 21.26 |
| 4 | From 2.0 up to 2.39 | 19,383 | 112,733 | 4.0794 | 23.83 |
| 5 | From 2.4 up to 2.79 | 113,017 | 90,758 | 23.7857 | 19.18 |
| 6 | From 2.8 up to 3.19 | 159,648 | 69,900 | 33.5998 | 14.78 |
| 7 | From 3.2 up to 3.59 | 109,590 | 41,627 | 23.0645 | 8.8 |
| 8 | From 3.6 up to 4 | 72,872 | 9,633 | 15.3368 | 2.04 |
| Total Number of G.P.A. obtained | | 475,146 | 473,111 | 100 | 100 |

The number of students obtaining lowest G.P.A. has surged, whereas the number of students obtaining higher G.P.A. 3.6 to 4 in S.E.E result has dropped in 2021 as compared to corresponding results of 2020. In 2021, the number of students obtaining lowest G.P.A. 0.8 to 1.19 has appeared higher, whereas the number obtaining lowest G.P.A. 3.6 to 4 has dropped by 86.78 percent. Arrangements should be made for attaining excellence results by making the examination running procedures reliable.

54. **Student Admission** - In order to guarantee the access of all children in education and make secondary level education compulsory and free of cost, the Government of Nepal has implemented Compulsory and Free Education Act, 2075 (2018). To provide education at free of cost by getting admission in schools to the children of all age groups going schools, huge expenditures have been incurred in running programs, such as -free educational materials, scholarship, day tiffin etc., which is growing every year. As per the obtained statement, the status of past 5 years student admission in basic level schools are as follows:

(Number in Thousand)

| Year | Number of Student of Class 1-5 | | Number of Student of Class 6-8 | | Number of Student of Basic School | | | Community Percent | Institutional Percent |
|-------------|--------------------------------|---------------|--------------------------------|---------------|-----------------------------------|---------------|-------|-------------------|-----------------------|
| | Community | Institutional | Community | Institutional | Community | Institutional | Total | | |
| 2074 (2017) | 3,312 | 658 | 1,545 | 322 | 4,857 | 980 | 5,837 | 83.2 | 16.8 |
| 2075 (2018) | 2,793 | 937 | 1,394 | 431 | 4,187 | 1,368 | 5,555 | 75.4 | 24.6 |
| 2076 (2019) | 2,479 | 1,055 | 1,315 | 457 | 3,794 | 1,512 | 5,306 | 71.5 | 28.5 |
| 2077 (2020) | 2,688 | 834 | 1,381 | 435 | 4,069 | 1,269 | 5,338 | 76.2 | 23.8 |
| 2078 (2021) | 2,563 | 985 | 1,316 | 461 | 3,879 | 1,446 | 5,325 | 72.8 | 27.2 |

The analysis of the above data show that the total number of student getting admission in basic level (Class 1 to 8) has been declining every year and out of the students getting admission in 2021, 27.20 percent are admitted in institutional schools. The total number of students has dropped by 8.77 percent in 2021 as compared to 2017, out of which the number has dropped by 20.31 percent in community schools, whereas it has inclined by 47.55 percent in institutional schools. In a state the government expenditures incurred in educational sector for getting all children compulsory admission in schools has been raising, the students'

attraction in community schools has declined owing to non-improvement in educational quality standards in community schools in an expected manner.

55. **Land Encroachment** - Nepal Sanskrit University and 12 Affiliated Campuses have owned 1 thousand 718 bighas 18 kaththa lands in Tarai and 102 ropanies 9 aanas lands in hilly areas. It is mentioned that Out of the lands owned, tenants have existed in 408 bighas of lands and ownership disputes have arisen in 12 bighas of lands. Total 1 thousand 371 bighas of lands- inclusive of 1 thousand 336 bighas land existed in Dang, Deukhuri, and 35 bighas out of 326 bighas existed in Beljhundi area, have been encroached by various people/groups since 2058 (2001). Likewise, it is also mentioned that 300 bighas lands out of 380 bighas land owned by Tikapur Multiple Campus run under Sudharpachim University have been encroached. The encroached lands should be brought into usages by bringing ownership under own control.
56. **Project Bank** - Section 17 of the Financial Procedures and Fiscal Accountability Act, 2076 (2019) stipulates that the classification of projects to be implemented by the Government of Nepal shall be done by the Government of Nepal on the recommendation of the National Planning Commission and a national level project bank shall prevail in the Commission for this purpose. In accordance with the arrangement, the Commission, by preparing National Project Bank Management Information System, has enlisted total 7 thousand 206 projects of various 23 ministries, commissions and constitutional bodies inclusive of the National Pride Projects and Game Changer (Transformatory) Projects in the system up to Paush of 2078/79 (2022/01/14). Out of the enlisted projects, 5 thousand 812 projects are recurrent projects and 1 thousand 394 projects are going to be implemented in future. Out of the projects going to be implemented in future, 976 projects are in identification phase and 418 projects are in appraisal, selection and prioritization phase.
57. **Decorations** - The Decoration Act 2064 (2007) has made arrangement of distributing decorations, Alankar and medals to the person that has made special contribution in various fields of national life, and in accordance with the arrangement, the Council of Ministers, Government of Nepal has taken decisions to decorate 1 thousand 573 persons from 2019/20 to 2021/22 and total NRs. 345.8 million has been spent for this purpose, out of which 274 decorations have remained in stock without making distribution. Since the costs of preparing decorations have

been rising every year, steps should be taken to minimize the costs and control such expenditures by fixing the number of persons to be decorated every year.

58. **Prison (Jail) Management** - As per the statement obtained from Department of Prison Management, the country has total capacity of accommodating 16 thousand 511 prisoners inclusive of 14 thousand 820 male and 1 thousand 691 female, however, total of 26 thousand 240 prisoners/detainees inclusive of 24 thousand 807 males and 1 thousand 433 females, have been kept in the prisons (Jails) of all over the country at the end Ashadh 2079 (16/07/2022). Since the capacity of prisons or jails has not been expanded as per requirement, the arrangement of keeping prisoners/detainees as per predetermined standards has not been implemented.
59. **Sectorial Subsidy** - Out of NRs. 24 billion 675.7 million budget appropriated in subsidy heading for the Ministry of Agriculture and Livestock Development, the Ministry has distributed total subsidies of NRs. 21 billion 830 million (88.5 percent as compared to the appropriation) in this year, which include NRs. 16 billion 615.9 million provided for procuring chemical fertilizer, NRs. 1 billion 922.9 million spent for crop and livestock insurance premium, NRs. 1 billion 46.6 million provided to sugarcane farmers, NRs. 69 million provided for price range development, and NRs. 1 billion 583.6 million provided for other sector. However, the procurement of chemical fertilizers has not been done on time and the farmers have not been received the procured fertilizers during the period of cropping.

The audit has observed situations - the payment of insurance premiums and claims are not settled on time by updating the details of farmers that have done crops and livestock insurance, sugarcane farmers have not received the payment amounts from the purchasers on time with respect to sale of sugarcane, most of subsidies are provided at the end month of fiscal year, marginalized farmers have no access in distribution of subsidies and monitoring are also not done in this regards, and duplication has prevailed in the distribution of subsidies as the federal, provincial and local levels have been distributing subsidies on the basis of their separate procedures without having any coordination with each other. Except the subsidies provided for chemical fertilizers, the subsidies being provided for other purposes individually and institutionally should be immediately stopped, and the policy of providing loans at minimum interest rate on the basis of projects with joint guarantees only in a very essential situation should be adopted.

60. **Prime-Minister Agriculture Modernization Project** - For implementing this project, the programs are divided into 4 components, namely - Small Vocational Agriculture Production Center (Pocket) Development Program, Vocational Agriculture Production Center (Block) Development Program, Vocational Agriculture Production and Processing Center (Zone) Development Program, and Vocational Agriculture Production and Industrial Center (Super Zone) Development Program. With passage of 60 percent project period, only 20.16 percent expenditures have been incurred. Against the target of establishing 21 Super Zones, 300 Zones, 1 thousand 500 Blocks and 15 thousand Pocket Areas, only 16 Super Zones, 177 Zones, 1 thousand 587 Blocks and 7 thousand 657 Pocket Areas have been established up to 2021/22. Though the project has established more blocks than the target set, but the targets of other components have not been met yet. As compared to the project's target of incurring total expenditure NRs. 130 billion 742 million within the project period 2016/17 to 2025/26, total NRs. 26 billion 357.6 million has been spent up to this year. Out of the expenditure, the Federation has spent NRs. 14 billion 357.6 million, Provinces have spent NRs. 6 billion 155.8 million and Local Levels have spent NRs. 4 billion 844.2 million.
61. **Uncompleted Contract** - Section 59 and 63 of the Public Procurement Act, 2063 (2007) have made various remedy arrangements - including receiving advance guarantees, charging pre-determined liquidated damages, terminating contract, black-listing to contractors, in cases if any work is left without completing the contractual works or any progress has not been achieved as per contract. However, without taking those actions, the works of 198 procurement contracts amounting to NRs. 28 billion 826.5 million arranged by 24 Divisional and project offices operating under Department of Roads, have remained incomplete, making payment of NRs. 7 billion 381.1 million only despite of time extensions awarded up to 9 times. The number of uncompleted contracts has been increasing every year. By obtaining advance guarantees of NRs. 2 billion 751 million 292 thousand and charging pre-determined liquidated damages of NRs. 713 million 811 thousand from the contracts, the contract works should be completed taking actions as per conditions of procurement contracts.
62. **Drawings/Design** - When conducted field observations and analysis of the construction works by the audit teams along with technical staffs in course of this year audit, the following observations are witnessed:

- 62.1 Mistakes/errors have appeared in drawing design, hydrology and geology studies and analysis of Triyuga River Bridge of Udaypur, Kamala River Bridge lying in boarder of Dhanusha and Siraha District under Postal Highway, Thimura Bridge of Chitwan, Kolphu Khola Bridge of Nuwakot, and two bridges under construction in Ranitar and Sawoone of Dudh Koshi River. It is because of the reasons, the bridges of Triyuga, Kamala, Thimura and Kolphu Khola have been damaged during construction period and the construction works of two bridges of Dudh Koshi River have remained in uncompleted stages. This has created losses of national resources depriving people from receiving easy accessibility of road services.
- 62.2 It is observed that the bridges of Mauwase Khola Bridge in Madan Bhandari Highway of Udaypur, Saraswati Khola Bridge, Karamje Khola Bridge, Datu Khola Bridge, Thapar Khola Bridge, Thanai Khola Bridge, Sukhani Khola Bridge, Asari Bridge, and Ratu Khola Bridge have been constructed at tall height due to mistakes in drawings/design. Both bridge and road costs have increased owing to the construction of tall bridges.
- 62.3 While conducted field inspection and technical analysis of 135 km road of Basaha -Bhiman Section of Madan Bhandari Road, the constructed road has appeared unsafe due to prevalence of technical faults.
- 62.4 In Yamdi Bridge-Ghatte Khola Section, Gatte Khola- Kusma Section and Bhaise-Yamde Section existed in Kaski and Parbat District under Pushpalal (Mid-Hill) Highway, it is observed that the costs have been increased by constructing 6 lane road unnecessarily in two-lane highway, pot-holes and depressions have been noticed within one year of completion of road and structures constructed have been found inadequate and construction costs have been increased by changing road alignment in inappropriate places.

By improving the above lacunas and weaknesses noticed in drawings and design, preparation of cost estimates of roads and bridges and implementation of projects, such roads and bridges should be constructed as per quality-standards, time and costs as provided in approved norms and standards.

63. **Time Extension** - As per the procurement contracts, the time extension can be provided only on the basis of variation order or in unusual circumstances. For controlling timeframe, the arrangements such as - updating work schedules, furnishing pre-information, submission of applications etc., have not been taken as

a basis in procurement contracts. Though the construction works are not completed even after granting of first time extension, more time extensions have been provided time to time without recovering any pre-determined liquidated damages, and time extensions have been provided taking covid as basis even after covid period. The provision related to the time extensions to be provided as per procurement contract have been amended 7 times during the period 2076 (2019) to 2079 (2022) and time extensions have been awarded on the basis of such revisions. The projects/offices operating under Department of Roads have provided time extension to the construction entrepreneurs time to time against the contracts, but have not taken any actions to complete works as per contracts, and it is because of such weaknesses of the offices, the works of 509 contracts amounting to NRs. 59 billion 437 million 95 thousand arranged by 28 offices under the Department in this year have remained uncompleted despite of granting of time extensions up to 400 percent or 9 times. This has increased the number of uncompleted contracts and the service recipients have not been able to get services even after expenditures incurred by the offices. Time extension should be granted only in accordance with provision of the procurement law and contract agreements.

64. **Pre-preparation of Contract** - Rule 6(3) of the Public Procurement Rules provides that a tender bid shall not be invited without making arrangement of the construction site. However, 16 projects/road divisional offices under Department of Roads have arranged 34 procurement contracts amounting to NRs. 39 billion 744.2 million by including the pre-preparatory phase works, such as - conducting environmental impact assessment, tree-cutting, shifting electricity poles, and distributing land compensation and other compensations etc. The time and costs of projects have surged as the time of contract implementation has to be spent in the pre-preparatory works.
65. **Bridge Construction** - The construction works of bridges are to be undertaken formulating budget and program only on the basis of detailed feasibility study and preparation of DPR. While auditing the bridge construction works under the Department of Roads, it is observed that budgets for bridges are appropriated without preparing DPR, about 1 thousand 200 bridges- the DPR of which prepared earlier - have not been implemented, budgets are not appropriated/ minimum budgets appropriated in several bridges. Likewise, the weaknesses observed, also include - less bore-holes drilled than the number of piers, inadequate geo-technical

surveys conducted, fixing life of bridges on the basis of estimate instead of the quality of construction works, adequate analysis not conducted about alternatives in selecting types of bridges, reviews of design not conducted through independent (Third) party, record of consultant comments on design not maintained, pile test and load tests of bridges are conducted only in limited number, record of the construction works along with data logs are not maintained, designs of river trimming works in bridges are not prepared, repair & maintenance plan of bridges are not prepared, less priority given in maintenance of bridges, delays in revising designs, lack of structural engineers in several Bridge Sector Offices, bore-hole drills of some of bridges are appeared smaller than the requirements, actions not taken to the consultants preparing faulty design etc., which indicate the design and quality control works of bridges are not satisfactory.

66. **Direct Procurement** - Section 8 (2) of Public Procurement Act, 2063 (2007) provides that procurement shall not be made in slicing into many pieces so as to limit competition. Similarly, the Procurement Rules stipulates that any public entity may procure any goods, construction works or services, the cost estimate of which does not exceed two million rupees by inviting sealed quotations. As per the information gathered in course of auditing, 26 entities functioning under the Ministries - Energy, Water Resources and Irrigation, Urban Development, Water Supply, Home Affairs, and Health, have procured goods and structural works at NRs. 396 million 682 thousand by slicing the works into many pieces as against the provision of the procurement laws. Procurements should be done making competition complying with the procurement laws.
67. **Price Adjustment** - Section 55 (1) of Public Procurement Act, 2063 (2007) provides that unless otherwise provided in procurement contract, if any price needs to be adjusted in the course of implementation of a procurement contract having duration exceeding 12 months, the competent authority may give a price adjustment. Section 55 (2) of the same Act provides that price adjustment cannot be made where the work under the contract is not completed due to the delay by the person who has obtained procurement contract or if procurement contract is concluded on the basis of fixed budget. The audit has observed that 79 entities functioning under the Ministries - Energy, Water Resources and Irrigation, Urban Development, Water Supply, Information & Communication, Health & Population and Physical Infrastructure & Transportation, have provided NRs. 3 billion 982.7 million as price adjustments either

by varying with the indicators and multiplier or wrongly calculating price adjustment. The price adjustment amounts provided as against the procurement laws and contracts should be recovered.

68. **Pre-determined Liquidated Damage** - The Public Procurement Rules, 2064 (2007) and Procurement contracts provision that if any work specified in procurement contract is not completed within the stipulated time due to delay by any construction entrepreneur, a pre-determined liquidated damage at the rate 0.05 percent per day to the maximum of 10 percent of contract price shall have to be collected. Without complying with the provision, 24 entities functioning under the Ministries - Energy, Water Resources and Irrigation, Urban Development, Federal Affairs & General Administration, Health & Population, and Physical Infrastructure & Transportation, have not recovered pre-determined liquidated damage amounting to NRs. 1.75 billion. The pre-determined liquidated damage amounts should be recovered.
69. **Consultancy Expenditure** - Section 29 of Public Procurement Act, 2063 (2007) provides that a procurement of consultancy service may be procured in case where any work cannot be performed through departmental manpower. For conducting feasibility studies, designing, preparing master plan and conducting construction supervision of various projects under Ministry of Water Supply, 14 offices including the Department, Climate Resilient Large Water Supply Project, Federal Water Supply & Sewerage Management Project - Bhaktapur, Chitwan, Makwanpur, Ramechhap, Morang, Khotang, Ilam, Arghakanchi, Parsa, Kailali, Kanchanpur and Banke have procured consultancy services of NRs. 119 million 984 thousand by inviting proposals from standing lists. Arrangements have not been made to make procurement through inviting tender by preparing appropriate packages of same nature works, and the dependency on the consultants has been increased without making proper management of departmental manpower, which seem inappropriate. Dependency on the consultants should be minimized for regular works by procuring such consultancy services only for very necessary works.
70. **Regulation of Ride Sharing** - The Vehicle and Transport Management Act, 2049 (1992) provides that any transport service shall not operated without registering the name of transport services in Department and the vehicle registered for one purpose cannot not be operated for other purposes. Out of 25 ride-sharing companies operated currently in Nepal by using Global Positioning System and Digital Platform, one company has not been registered with the Department of Transport

Management. The state of non-compliance with laws has appeared at present situation as all service providers have not come under legal scope and the vehicles registered for private use are transporting to passengers/goods collecting rental charges against the legal arrangements and have also not made the arrangement of issuing bills after collecting such charges. In this context, the Patan High Court has issued an order on 2020/02/12 for carrying out the regulation works by formulating necessary laws, but the Court's order has not been implemented yet.

71. **Holding Center** - To construct 7 holding centers having capacity of 1 thousand beds in Jhapa, Morang, Parsa, Kapilvastu, Banke, Kailali and Kanchanpur District for the use during COVID-19 period, total NRs. 2 billion 1 million 635 thousand has been expended under units of Nepal Army by making procurement arrangements on 2021/06/17. The security responsibility of the constructed structures has been kept under security agencies. The supplied oxygen, installed equipment, patient beds and other health materials used on these have remained in useless condition due to non-operation of the holding centers. Arrangements should be made to use such materials/goods in disaster management.
72. **Kathmandu-Tarai/Madhesh Fast-track Project** - As compared to total cost estimate NRs. 213.95 billion provided in Detail Project Report of the Project for constructing 72.5 km road, 87 bridges and other structures, total NRs. 34 billion 298.2 million has been spent up to this year. As against the target of completing the project works by 2023/24, only 21.18 percent physical progress and 19.58 percent financial progress have been achieved up to this year. The project works should be completed on time by carrying out the construction works in a planned manner.
73. **Electricity Generation License** - Rule 3 to 18 of the Electricity Regulation, 2050 (1993) provide the arrangements related to issue of licenses of electricity generation. Up to this year, Department of Electricity Development has issued electricity generation and survey licenses of 32 thousand 169 megawatts for 813 projects. Licenses have been issued for total 34 thousand 253 megawatts including the license issued to 121 projects having installed capacity of 2 thousand 84 megawatts that are in operations.

Pursuant to the electricity transmission licenses issued to 78 in survey and 134 in construction, total 354 projects including 152 in survey and 202 in construction have obtained licenses for total 11 thousand 401 km including 3 thousand 753 km in electricity transmission survey, 3 thousand 17 km in distribution

line survey and 4 thousand 631 km in the construction in 2021/22. Pursuant to the distribution line, Nepal Electricity Authority has been conducting study works of 66 projects of 33 KVA and 11 KVA for constructing 3 thousand 17 km distribution lines.

Thus, with the issuance of electricity generation licenses of total 34 thousand 253 megawatts capacity, the ratio of license and generation has existed 100:8. To minimize electricity imports and lessen the gaps between issue of licenses and generation, the studies, investigations, inquires and inspection being carried out by the Department should be made effective.

74. **Electricity Royalty** - Section 11 of the Electricity Act, 2049 (1992) provides that a license holder person shall pay royalty to the government at the rate of annual 100 and for every installed kilowatt plus 2 percent of per unit (per watt hour) average selling price up to 15 years of the commencement of commercial production of hydro power. After the completion of the period, the license holder person shall pay as salutary money (salami) to the government at the rate of annual 1 thousand Rupees for every installed kilowatt plus 10 percent of per unit (per watt hour) average selling price. Total royalty of NRs. 3 billion 351 million 211 thousand are to be collected including the previous year's outstanding NRs. 248 million 705 thousand from various hydro power projects and this year's recoverable NRs. 3 billion 102 million 206 thousand from 121 hydro power agencies. Out of the amount, NRs. 3 billion 57 million 262 has been collected and NRs. 293 million 949 thousand is still outstanding to be recovered.
75. **Revenue Remission and Facility** - Section 12 of the Electricity Act, 2049 (1992) and Hydro Power Development Policy, 2058 (2001) provision that the rebate of value added tax and foreign exchange facilities shall be provided in the industrial machinery equipment and spare parts imported by the projects getting approval. In accordance with the arrangements, the Department of Electricity Development has provided total facilities of NRs. 23 billion 231 million 311 thousand to Hydro Power Producer Promoters including foreign exchange facilities of NRs. 5 billion 159 million 476 thousand and rebate on value added tax. It should be assured that the equipment and materials imported under such facilities have been utilized in the works of concerned project.
76. **Employee's Approved Position and Adjustment** - Considering list of powers of the Federation, Province an Local level envisaged by the Constitution of Nepal, the

Employee Adjustment Act, 2075 (2018) has approved total 137 thousand 614 positions - including 48 thousand 409 positions in the Federation, 22 thousand 297 positions in Provinces and 66 thousand 908 positions in local levels, but the total approved position has been increased to 53 thousand 531 up to 2021/22 by adding 5 thousand 122 positions for the Federation. Out the position, adjustments have been made 39 thousand 960 in the Federation, 13 thousand 821 in seven provinces and 43 thousand 807 in local levels and 2 thousand 443 positions have gone redundant (Phajil) and 40 thousand 26 positions have fallen vacant. In addition, total 9 thousand 51 temporary positions have been created for 16 entities in this year without conducting the Organization and Management Survey. In addition, the approved positions of special class of the Office of the Prime Minister & Council of Ministers has been increased to 9 from 5, and 2 secretaries have been functioning in some of ministries.

As per Annual Report, 2022 of the Public Service Commission, out of the total 136 thousand 122 approved positions (including 53 thousand 531 in federation, 17 thousand 322 in seven provinces and 65 thousand 269 in local levels), 85 thousand 656 positions have been fulfilled - (including 38 thousand 125 in federation, 11 thousand 247 in provinces and 36 thousand 284 in local levels), and 50 thousand 466 positions have fallen vacant.

77. **Constitution of Government Service** - Article 285(1) of the Constitution of Nepal provisions that the Government of Nepal may, in order to run the administration of the country, constitute the federal civil service and such other federal government services as may be required, and the constitution, operation and conditions of service of such services shall be as provided for in a Federal Act. However, the Federal Act related to the constitution, operation and condition of civil service and other government services has not been issued even after passage of 7 years of the promulgation of the Constitution of Nepal. Since the laws relating to the constitution of province and local service have not been formulated, the career development opportunities including transfer, promotion etc. of the adjusted employees and employees appointed in the provinces and local levels have not become clear.

The Employee Adjustment Act, 2075 (2018) stipulates that the province and local level shall formulate laws related to province civil service and local service taking basis to basic principles and practices adopted in laws related to the federal civil service. Though the Federal Civil Service Act has not been enacted, Koshi

Province, Madhesh Province Bagmati Province, Gandaki Province and Sudurpachhim Province have issued their respective Province Civil Service Acts. In the Civil Service Acts issued by the provinces, the provisions related to levels, recruitment, competition percent for making posts inclusive, tenure of secretary, compulsory retirement, Province Secretary and Chief Administrative Officers have been formulated making disagreements with existing Civil Service Act, 2049 (1992) and Employees Adjustment Act, 2075 (2018)

78. **E-Procurement System** - Rule 146 of the Public Procurement Rules, 2064 (2007) provides that the establishment, operations and management of E-procurement System shall be conducted through only one portal. For this purpose, E-Procurement System Operations Directives, 2074 (2017) has been implemented. It is stated that out of total 24 thousand 955 tender bids received in 2021/22, 926 tender bids or 3.71 percent has been cancelled. Up to now, out of total 84 thousand 698 tenders invited through the E-Procurement System, 3 thousand 437 tenders or 4.06 percent have been cancelled. It is because of obstructions in easy access in E-Procurement System due to technical faults, the offices had to grant time extensions and cancel tenders in some cases, which have caused delays in procurement activities.
79. **Tracking System** - Section 13C of the Revenue Leakage (Investigation and Controls) Act, 2052 (1995) provides that prior to transferring any goods from one place to another place, such goods shall have to transfer only after making entry of description of the goods to be transported in Web-based Central Information System. Revenue Investigation Department, by tracking vehicles 7 million 541 thousand 477 times in this year, total fine NRs. 6 million 96 thousand has been imposed to 84 firms and goods value NRs. 557 million 742 thousand have been forfeited from 44 firms in course of investigation.
80. **Search and Utilization of Assets** - As per Nepal Trust Act, 2064 (2007), Nepal Trust shall have to carry out search of assets and find out their actual status and keep records with actual description of the assets inside and outside Nepal, the ownership of which has to come under the Trust. After the establishment of Nepal Trust, the ownership of 21 thousand 633 ropanies 15 aanas lands existed in 12 districts has come in the name of the Trust till now. There exist Sterling Pound 51 thousand 815 and US Dollar 157 thousand 598 in various banks in the name of the Trust. Likewise, It has owned 1 million 102 thousand 672 units shares of various 3 banks and financial institutions.

81. **Consumption of Corona Vaccine** - By approving conception of procuring Vaccines on 2021/01/04 in the situation COVID-19 Pandemic, the Government of Nepal has approved road-map of vaccinating 21.8 million citizens against the COVID-19. The statement obtained from the Department of Health Services, shows that out of the total 58 million 891 thousand 970 dozes of vaccines received the Department, 37 percent are procured by the Government of Nepal, 33 percent are received from donors under COVAX facility, and 30 percent are received as grants from various donor countries. Of the vaccines received, 34 percent are Vero-Cell, 16 percent are Covi-shield and 50 percent are others. It is stated in the obtained statement that 21 million 937 thousand 200 dozes of vaccines have been procured -including 1 million dozes of Covi-shield procured from one company of India, 10 million dozes of Vero-Cell procured from one company of China, 5 million 936 thousand 400 dozes procured as per agreement with Gavi Alliance, and 4 million 800 dozes of Moderna vaccines received under cost-sharing, and 4 million dozes of Sinovax received under Chinese grant have not been utilized in the absence of technical tests. The expiry date of the vaccines has remained around 10 months (2023/12/19). Proper management should be done to the unused vaccines.
82. **Health Insurance** - Section 3 of Health Insurance Act, 2074 (2017) provisions that each Nepal Citizen shall have to participate in health insurance program. As per National Census, 2078 (2021), out of total population 29 million 164 thousand of Nepal, only 5 million 988 thousand citizens (20.53 percent) have participated in this program up to this year, and amongst the 4 million 572 thousand 989 citizens participated up to previous year, only 2 million 900 thousand 868 have renewed their insurance in this year. As compared to total insurance premium NRs. 6 billion 568 thousand received up to last year in Insurance Plan Program, total premium of NRs. 9 billion 21.7 million has been received up to this year along with this year's addition NRs. 2 billion 453.7 million. On the basis of health service related bills/receipts produced by the insured, the Insurance Board has provided the reimbursements of NRs. 9 billion 920.7 million in this year and total reimbursement of NRs. 24 billion 317.1 million up to this year. Since the claims amounting to NRs. 15 billion 295.4 million have been paid in excess of insurance premium amounts collected from the participants under insurance plan till now, it appears that difficulties will arise in operating this program in a sustainable manner.

83. **Service Delivery of Hospitals** - Hospitals are required to deliver easy accessible and fast services to patients. B.P. Koirala Health Science Academy has provided services to 8 thousand 817 patients in this year. Out of 30 beds allocated for ICU, only 7 beds are operational. Out of 16 surgical units- including emergency, gyne etc. existed in the hospital, 13 surgical units have 15 years old surgery equipment. Total number of patients visiting the hospital for treatment has reached to 594 thousand 143 (51.93 percent increase) in this year as compared to 391 thousand 57 of previous year. Though the Academy had signed procurement contracts five years ago for constructing 400 bedded Maternal building, 200 bedded Cardiac Center, and 200 bedded Oncology building, the construction works have not been completed. Similarly, Patan Health Science Academy, operating 650 bedded hospital, has provided services to total 382 thousand 660 patients in this year. The hospital has pressure of average 1 thousand 700 patients daily, and the patients are required to wait 2 months for getting the camera lens (laparoscopy) operation service, 4 weeks for doing urine-surgery, 12 weeks for nose/ear surgery, 4-5 months for getting new hemodialysis services, and 1 week for endoscopy. In Kanti Hospital, patients are required to wait in queue 6 months to 2 years for getting operation of hydrocele, 3 months to 1 year for doing normal operation, and 6 months to 2 years for doing major operation. The hospital has 2 surgical units only, and out of 16 ICU beds and 30 beds available in surgical wards in the Hospital, only 10 beds and 24 beds respectively are operational. It is because of this reason, the hospital has compulsion to refer the patients needing ICU beds in other hospitals due to lack of ICU beds.
84. **Identification of Poor Household Family** - Poor Household Support Coordination Board, which constituted in 2069 (2012) with an objective to make easy the livelihood of poor family by providing basic privileges and facilities was liquidated in 2075 (2018), and the Board had identified 392 thousand poor families in 26 districts during 6 years period. Then after, the program run under Ministry of Land Management, Cooperatives & Poverty Alleviation has identified 223 thousand poor households in 23 districts and the work of data collection is going on in 28 remaining districts so as to identify poor households. Under this program, total NRs. 1 billion 619.2 million has been spent, which include NRs. 168.3 million spent by the Board in 4 years period, NRs. 119.4 million spent by the Ministry, and NRs. 1 billion 619.2 million send as fiscal transfer in past three years period. The work of identifying poor household, which begun on the basis of Nepal Life-Standard Measurement

Survey 2066/67 (2009/10), has not been completed even after passage of one decade, which has caused the poor citizens deprived of getting facilities.

85. **Capital Gain Tax** - Section 95A (5) of Income Tax, 2058 (2001) and Directives related to Capital Gain Tax in Sale of Land & House, 2072 (2015) provision that the capital gain tax on the disposal of land and house, the ownership of which is obtained whatsoever method, shall be levied at the rate of 5 percent if the ownership of disposed assets is held less than 5 years and 2.5 percent if the ownership of assets is held for 5 years or more. Total 50 disposers operated transactions in Land Reform & Revenue Office, Kalaiya, Bhairahawa, Sankhu, Jaleswar and Bhaktapur, have deposited less taxes than the amounts to be paid as per the ownership period and purse amounts in 2077/78 (2020/21) while disposing of their lands, resulting a short collection of capital gain tax amounting to NRs. 58.62 million. The tax amount should be recovered.
86. **Cases and Settlement Status** - Total 405 thousand 69 cases have been registered in Supreme Court and Courts thereunder including last year's outstanding 144 thousand 537 cases, out of which 238 thousand 269 cases (58.82 percent) have been settled in this year and 166 thousand 800 cases have remained outstanding to be settled. As per the statement obtained from the Supreme Court, the Supreme Court alone has 17 thousand 209 pending cases, petitions, application/reports of the period 2065/66 (2008/09) to 2076/77 (2019/20), which have remained outstanding since more than 2 years. Though the Court, for minimizing backlog of cases, has set a target of settling cases within 2 years paying due preference to the settlement of old cases by preparing the work plan, it is observed that many cases have not been settled since a long time.
87. **Construction of Sports Stadium** - To construct Gautam Buddha Cricket Stadium in Rampur of Bharatpur Metropolitan, an agreement was signed between one Foundation and Bharatpur Metropolitan on Mangsir 2076 (2019). Against the total cost estimate of NRs. 3 billion 559 million 834 thousand prepared for constructing the Stadium, total payment of 578 million 742 thousand has been provided, and 39 percent physical progress in civil works has been achieved. It is informed that the payment of NRs. 184 million 149 thousand is still outstanding with regards to the construction works of the Stadium. The construction works of the Stadium commenced from 2020/11/16 has been stopped since Shrawan 2078 (2021). For the construction works, total NRs. 273 million has been received in 2021/22 from 8

entities inclusive of Bharatpur Metropolitan, Province Government etc. The Ministry has formed a seven Member Committee to get suggestions on policy measures to be adopted for completing the construction works of the Stadium. The uncompleted construction works of the Stadium should be completed by establishing coordination between concerned entities as per Public Procurement Act, 2063 (2007) and Regulation, 2064 (2007).

Similarly, with regards to a contract amounting to NRs. 285 million 885 thousand (excluding VAT) signed on 2020/12/29 for constructing parapet and parking in Mulpani Cricket Stadium (Fourth Phase) in Kathmandu within 2 years, total NRs. 19 million 393 thousand has been paid till now. In addition, with regards to a procurement contract amounting to NRs. 1 billion 282 million 218 thousand signed with a construction entrepreneur on 2018/12/28 for constructing Pokhara Stadium with an objective to conduct international sports competition, total NRs. 1 billion 191 million 324 thousand has been paid till now. Though the contract period has been extended up to 3rd week of Jestha 2079 (1st week of June 2022), the construction works have not been completed yet.

Provincial Ministry and Entity

88. **Province Consolidated Fund** - As per Province-wise Statement of Consolidated Funds, 2021/22 obtained from Provincial Treasury Comptroller Offices, Provinces have collected total receipt of NRs. 237 billion 661.3 million and incurred expenses of NRs. 187 billion 479.7 million (72.60 percent) and retained NRs. 50 billion 181.5 million as balances. Out of the expenditure, the expenditure incurred by Koshi Province is NRs. 29 billion 966.4 million, Madhesh Pradesh is NRs. 22 billion 260.5 million, Bagmati Province is NRs. 37 billion 995 million, Gandaki Province is NRs. 22 billion 43.9 million, Lumbini Province is NRs. 30 billion 54.7 million, Karnali Province is NRs. 24 billion 281.9 million, and Sudurpachhim Province is NRs. 20 billion 877.4 million.
89. **Divisible Fund** - Inter-Governmental Fiscal Management Act, 2074 (2018) provides that revenues raised as vehicle tax shall be deposited in Provincial Divisible Fund and out of the deposited amounts 60 percent shall be distributed to Province Consolidated Fund and 40 percent in Local Consolidated Fund. However, 2 Provincial Ministry of Fiscal Affairs and Planning have not distributed total NRs. 125.3 million, which includes NRs. 105.8 million not distributed by Koshi Province and NRs. 19.5 million not distributed by Karnali Province. The amount should be distributed as per the provision of the Act.
90. **Auditing** - This year, total audits of NRs. 312 billion 730.4 million including NRs. 312 billion 339.3 million of regular year of 1 thousand 212 provincial offices and NRs. 391.1 million audit backlogs of 6 provincial offices have been completed. Likewise, audits of 27 billion 861.9 million of 96 other institutions/committees functioning under Provinces including the audit backlogs have been completed. This year, NRs. 40.4 million of 14 District Coordination Committees and 1 office of Koshi Province, NRs. 18.1 million of 1 office of Gandaki Province, and NRs. 116.7 million of 3 offices of Sudurpachhim Province has remained as audit backlogs.
91. **Budget and Expenditure** - Financial Procedure Acts of the provinces provide that the finance minister of each Province shall have to submit Revenue-Expenditure Estimate of each fiscal year in concerned Provincial Assembly, and in accordance with the provisions, seven provincial assemblies have approved total budget NRs. 259 billion 169.8 million for fiscal year 2021/22 and incurred total NRs. 187 billion 479.7 million (72.34 percent) as expenditure. Out of the expenditure, the recurrent

expenditure is 39.77 percent, capital expenditure 59.49 percent and other expenditure is 0.74 percent. The Provinces have incurred 72.34 percent expenditure on an average, out of which the highest 86.21 percent expenditure is incurred by Koshi Province and the lowest 63.81 percent is incurred by Madhesh Province

92. **Virement** - In the Financial Procedure Acts of Provinces, it is mentioned that the authority to make virement of approved budget amount from one budget sub-heading, source or expenditure heading to other budget sub-heading, source or expenditure heading shall be vested to Ministry of Fiscal Affairs & Planning of provinces. Out of total initial budget NRs. 262 billion 374.5 million appropriated to 7 provinces in this year, NRs. 71 billion 736.4 million has been transferred as virement. Out of the virement, the virement done at the end of Ashadh 2077 (16/07/2022) by the Koshi Province is NRs. 869.9 million, Madhesh Province is NRs. 5 billion 69 million, Gandaki Province is NRs. 2 billion 315.4 million, Lumbini Province is NRs. 1 billion 752.8 million, and Karnali Province is NRs. 1 billion 810.5 million. The act of incurring expenditure by making virement at the year-end should be checked.
93. **Internal Source Mobilization of Provinces** - Out of the total expenditure NRs. 187 billion 479.7 million of provincial governments of 2021/22, NRs. 95 billion 950.7 million (51.18 percent) has been borne from internal source. Amongst the provinces mobilizing the internal sources, the lowest 34.45 percent is mobilized by Karnali Province and the highest 67.66 percent is mobilized by Bagmati Province. The internal source mobilizing capacity of provinces should be strengthened.
94. **Audit and Irregularity** - As compared to total audited amount NRs. 340 billion 592.3 million of the Provincial Government Offices, Other Institutions and Committees of 2021/22, total NRs. 8 billion 463.2 million has appeared as irregularities. The highest rate irregularity of 4.43 percent has appeared in Karnali Province, whilst the lowest irregularity of 1.24 percent has appeared in Gandaki Province. Likewise, the irregularity rates have appeared 3.30 percent in Koshi Province, 2.69 percent in Madhesh Province, 1.37 percent in Bagmati Province, 2.62 percent in Lumbini Province, and 2.58 percent in Sudurpachhim Province.

Amongst the total outstanding irregularity NRs. 19 billion 651.8 million of the Government Offices, Other Institutions and Committees of the provinces existed up to last year, NRs. 1 billion 105.5 million has been cleared through the follow up audits and adjustments, and NRs. 18 billion 546.3 million has remained as balance.

Along with the addition of this year's irregularity NRs. 8 billion 463.2 million, the cumulative outstanding irregularity till this year has reached NRs. 27 billion 9.5 million.

Local Level

95. **Overall Income and Expenditure** - As per the Consolidated Annual Financial Statement prepared by the Financial Comptroller General Office, the total budget of 753 local levels has figured NRs. 534 billion 559.7 million in this year. Amongst the budget amount, total NRs. 526 billion 504.8 million has been received as income, which includes the fiscal transfer grants NRs. 312 billion 666.3 million received from the Federation and Provinces, and internal income NRs. 213 billion 838.5 million including the revenue sharing from the Federation and Provinces. Out of the income, the local levels have incurred NRs. 424 billion 169.4 million as expenditure and retained NRs. 102 billion 335.4 million as unspent balance.
- 95.1 In the Income-Expenditure Statement submitted by the Financial Comptroller General Office, the authorization and disbursements given NRs. 104 billion 522.4 million to local levels by appropriating to 11 federal ministries/entities and the amounts of local level's funds and other accounts have not been included in overall income-expenditure. The consolidated Income-Expenditure should be prepared by including all types of transactions.
- 95.2 Out of the total income NRs 659 billion 28.2 million of 749 local levels audited in this year, NRs. 543 billion 225.1 million (82.43 percent) is incurred as expenditure. Of the total expenditure, the recurrent expenditure is NRs. 283 billion 243.2 million (52.1 percent), capital expenditure is NRs. 166 billion 738.2 million (30.69 percent) and financing arrangement/other is NRs. 93 billion 243.7 million (17.17 percent). Total internal source income of 749 local levels of 2021/22 audited in this year is 226 billion 235 million, which includes - total internal revenue NRs. 35 billion 750.6 million, revenue sharing NRs. 90 billion 296.6 million received from the Federation and Provinces and previous year's balance NRs. 100 billion 187.8 million.
96. **Less balance brought down-** In preparing integrated annual report of the receipt and payment, the local levels need to carry forward the opening balance as per the previous year's closing balance, and they need to give clarifications if any variance is made in the transferred balances. However, 160 local levels have not given any clarification pursuant to the transfer of less balances NRs. 3 billion 747 million 674 thousand. Necessary adjustments should be done by ascertaining the reasons for transferring the less balances.

97. **Bank Reconciliation** - Many local levels have not prepared bank reconciliation statements as per the prescribed format of A.G. Form no. 212 by reconciling their books of account with bank account monthly basis. In this year, bank balances of 96 local levels have appeared less by NRs. 1 billion 314 million 93 thousand than that shown by the books of account. By preparing bank reconciliation statements, the difference amounts should be ascertained conducting investigation.
98. **Unallocated Budget** - The Local Government Operations Act, 2074 (2017), provides that the income-expenditure estimate shall have to be prepared by determining priorities of the budget and programs on the basis of resource estimate and fixation of ceilings without keeping any amount as unallocated. In this year, 273 local levels have approved their budgets and programs keeping NRs. 6 billion 775 million 277 thousand as unallocated budget. Since the unallocated budgets are spent in petty projects and programs on the basis of ad hoc executive decisions and such acts also impact on maintenance of fiscal discipline, the practice of making expenditures by retaining unallocated budget should be controlled.
99. **Virement**- Section 69 of Local Government Operations Act, 2074 (2017), mentions that any virement may be done in capital heading not exceeding 25 percent. However, 156 local levels have done virement of NRs. 8 billion 436 million 857 thousand against the provision of the Act. Virement should be done only as specified in the law.
100. **Public Assets Management System** - In the circular of the Financial Comptroller General Office issued on 2020/11/22, it is mentioned that all government offices should maintain inventory accounts by implementing the Public Assets Management System mandatorily by 2020/12/22. This year, 264 local levels have not performed inventory inspection and 293 local levels have not done inventory management by using the system. Inventory management should be done by mandatorily implementing the system.
101. **Province Coordination Council** - Section 105 of Local Government Operations Act, 2074 (2017), stipulates that there shall remain a provincial coordination council to maintain coordination between the province and local level on issues of policy adjustment in areas of provincial and local governance, strategic partnership in plan management, exercise of concurrent powers, utilization and sharing of natural resources etc. The status witnessed by audits in this respect include - the provincial governments have implemented the small projects themselves which need to be

handed over to local levels, province level offices are established for the works that have been performed by local levels, local levels have not distributed all amounts of revenue sharing to provincial governments etc. The meetings of Province Coordination Councils should be conducted on regular basis in order to bring effectiveness in work performance as provided in list of concurrent powers and keep balances in development works, and the local levels should establish coordination with the provincial governments in order to bring comfort in their functioning.

102. **Grants** - As per the financial statement obtained from the Financial Comptroller General Office, the status of grants made available by the Federal and Provincial Government to Local Levels in last 4 years are as follows:

(NRs. in Million)

| Fiscal Year | Equalization Grant | Conditional Grant | Special Grant | Complementary Grant | Total |
|-------------------|--------------------|-------------------|---------------|---------------------|-----------|
| Federation | | | | | |
| 2018/19 | 85,287.9 | 125,342.7 | 2,277.0 | 3,857.3 | 216,764.9 |
| 2019/20 | 89,965.2 | 150,994.1 | 4,828.4 | 4,754.0 | 250,541.7 |
| 2020/21 | 89,973.2 | 183,302.5 | 5,834.1 | 5,088.6 | 284,198.4 |
| 2021/22 | 94,527.1 | 184,192.6 | 5,840.9 | 4,402.7 | 288,963.3 |
| Province | | | | | |
| 2018/19 | 4,420.1 | 7,994.3 | 944.7 | 1,862.3 | 15,221.4 |
| 2019/20 | 6,280.2 | 8,277.2 | 2,584.8 | 5,781.7 | 22,923.9 |
| 2020/21 | 5,357.6 | 8,940.9 | 7,447.9 | 2,772.6 | 24,519.0 |
| 2021/22 | 7,105.7 | 8,721.1 | 2,145.1 | 5,731.1 | 23,703.0 |

As per above figures, the grants received by the local levels have been increasing every year. Despite of the existence of good international practice of utilizing certain percent of the amounts collected as royalties from natural resources in the preservation of same types of natural resources and using such amounts in preservation of overall environment, the practice of incurring such expenditures by allocating certain percent of budgets has not been followed yet.

103. **Audit and Irregularity** - In this year, the audits of NRs. 1 trillion 102 billion 65.7 million of 749 local levels out of 753 local levels have been completed. Inclusive of audit backlogs NRs. 1 billion 944.4 million of 2 local levels of 2020/21, total audits of NRs. 1 trillion 104 billion 10.1 million have been completed in this year. Pursuant to total irregularity NRs. 46 billion 453.9 million witnessed in course of the audits, NRs. 3 billion 612.4 million has been settled after issuance of preliminary reports and NRs. 42 billion 841.5 million has remained as outstanding to be settled. Of the

outstanding irregularity, NRs. 5 billion 892.7 million has appeared as 'to be recovered', NRs. 32 billion 434.8 million has appeared as 'to be regularized' and NRs. 4 billion 514 million has appeared as 'overdue advance'. Likewise, the irregularity of NRs. 39.4 million has appeared from audits of the audit backlog. The audits of 4 local levels of Madhesh Province are yet to be completed.

Performance and Special Audit

Major audit observations witnessed from the performance audits of 6 subjects, environmental audit of 1 subject, IT audit of 1 subject and special audit related to 5 year performances of Provincial Governments, Metropolitans and Sub-Metropolitan are provided below:

- **Performance Audit**

104. **Public Debt Management** - Observations noticed include - the frequency of the principal and interest payment risen due to the growth of public debt liabilities; no study conducted with regards to the production growth from the implementation of projects under loans, monitoring of the work progresses of projects not conducted; the foreign currency reserves are impacted by increasing trade deficit; and cost benefit analysis not conducted with respects to loan investment made in public enterprises etc.
105. **Telecommunication Infrastructure Management** - Observations noticed include - the work scope of Telecommunication Development Fund not became clear; structures constructed providing grants in spite of existence of policy launching projects with joint investments; fiber line, back-bone projects not completed on time; physical infrastructure construction service providers not selected; and monitoring not conducted with regards to the implementation policies etc.
106. **Project Selection and Prioritization** - Observations noticed include - projects selected without completing feasibility studies, detailed project report, environmental studies, land acquisition, certainty of sources etc.; specified standards not complied in prioritizing projects; project bank concept adopted but not effectively implemented; projects not allocated by maintaining provincial/geographical balance etc.
107. **Women Participation at Decision Level** - The women direct representation existed only 6 posts in House of Representative of the Federal Parliament and 17 posts in Provincial Assemblies in the General Election, 2074 (2017), and only 9 posts in Federal House of Representatives and 14 posts in Provincial Assemblies in General Election 2079 (2022). The numbers of women elected as Municipal Chiefs are found 25, Municipal Deputy Chiefs/Vice-chairs 569 and Ward Chairs 68 in Local Election 2079 as compared to the representation of Municipal Chiefs 18, Municipal Deputy Chiefs/Vice Chairs 700 and Ward Chairs 68 in Local Election

2074. The women's representation in Federal/Provincial Council of Ministers is also observed low. The women participation in decision level of the civil service, court, Universities and private sector has also been observed low.

108. **Online Government Service Delivery Program** - Audit observations include - IT literacy rate remained low; internet access not expanded; electronic signature not used; IT policy not formulated; lack of manpower for managing IT system; audits of third party assurance or IT system not conducted; quota system implemented; alternative arrangements not made during interruption of services; lack of infrastructures; lack of inter-entity coordination; existence of the situation requiring to take the support of outside parties while receiving any service; special arrangements not made pursuant to the service recipients having differently abled; electronic documents not still given recognition in government entities etc.

109. **Public Expenditure Management** - Audit observations witnessed in course of audit of public expenditure management include - expenditures not incurred as per budget appropriation, increasing share of recurrent expenditure on total expenditure; desirable improvements not made in capital expenditure; rising share of grants in recurrent expenditures; increasing interest expenditures in public loans; increase in public expenditure due to the establishment of burdensome organizational structures without any control; grants provided and administrative expenses borne by the government to the privatized and liquidated enterprises; duplication in plan and programs etc.

- **Environmental Audit**

110. **Implementation of Multilateral Environmental Agreement** - Audit observations witnessed in the implementation of multilateral environmental agreement include - the recording, responsibility sharing and coordinating works not done effectively, low participation and lack of resources in implementation of agreements, weaknesses in implementation of international pacts related to the climate change, ramsar, bio-diversity and disappearing wild animals and species of vegetation, and some of pacts are yet to be ratified.

- **Information Technology (IT) Audit**

111. **Vital Registration and Social Security Management Information System** - Audit observations of IT Audit include - clear works division not made along with the arrangement of subject-wise experts for the operations of systems; third party

technical examination not conducted with regards to any security tests and quality assurances; additional allowances distributed by local levels as per own decision but details of such allowances not included in the system; policies related to regular and emergency change and up-gradation to be done time to time not adopted; audit trail issued but regular monitoring & evaluation not conducted etc.

- **Special Audit**

112. **Five Years Performance of Provincial Governments and Local Levels** - In this year, special audit has been conducted related to 5 years performances of the Provincial Governments and Local Governments. Major audit observations are as follows:

112.1 Seven Province Governments spent NRs. 647.65 billion (65 percent) in last 5 years as compared to total budget appropriation NRs. 995.39 billion. The Provincial Governments mobilized NRs. 322.08 billion from internal sources during same period. The provincial governments are required to formulate laws in 21 subjects as explained in Schedule-6 of the Constitution and perform the works on the subject matters specified in overall work schedule, and the governments are also required to carry out the development works, management of services by mobilizing grants received from the federal government, amounts received from divisible fund and internal sources. The provincial governments have completed the five years tenure of the first phase and have begun second tenure after the completion of election. While analyzed the first 5 years work performances of the provincial governments, observations witnessed, include - some of laws and policies yet to be formulated for accomplishing the responsibilities, more dependency on grants due to inability to make effective to the internal source collection, federal entities formulated programs and structures which are being performed by local levels, national pride projects that keep identity of provinces not operated and results not received, recurrent expenditures not kept within specified ceilings etc. Since the first tenure of the provincial governments has passed focusing on the preparation/formulation of policies, laws and structures, the existing provincial governments should take efforts for making effective to the development works and service delivery by easing in the performances as per spirit of the federalism and maintaining geographical and regional balances.

112.2 Out of the total financial transactions of local levels, the share of metropolitan and sub-metropolitan is about 10.37 percent only. This report has been prepared by

examining 5 years performances of the metropolitans and sub-metropolitans amongst the functions specified as sole power of local levels as provisioned in Schedule-8 and works specified in Schedule-9 of the Constitution. Major audit observations noticed include - income and revenue projections of municipals not became realistic, revenue remission scope expanded, amounts of revenue arrears including property tax, business tax etc. increased, administrative expenditure not became economical, the limits of distributive and unproductive expenditure expanded, expenditures incurred without prioritization of projects, complex nature of works executed through user committees, people's participation not mobilized, problems existed in solid waste management, assets' records, accounts and reports not prepared etc.

Chapter - 4

Implementation Status of Audit Report

1. **Audit Report** - In accordance with Article 241 of the Constitution of Nepal, the audit Reports of 6 thousand 546 entities have been issued by completing audits of all federal and provincial government offices, local levels and other institutions specified by laws as per prescribed methods with due consideration to the matters the regularity, economy, efficiency, effectiveness and propriety thereof. Pursuant to total irregularities NRs. 129 billion 557.6 million observed in course of this year's audits, the irregularities of NRs. 9 billion 780.6 million have been settled within 35 days after the issuance of preliminary audit reports of 2021/22 in accordance with Section 37 of the Financial Procedures & Fiscal Accountability Act, 2076 (2019), and thus, the irregularities amounting to NRs. 119 billion 777 million are outstanding to be settled as given below:

(NRs. in Million)

| Particulars/ Entities | Preliminary Report | | Settlement from Reply | | This year's to be settled | |
|---|--------------------|------------------|-----------------------|----------------|---------------------------|------------------|
| | No. of Section | Amount | No. of Section | Amount | No. of Section | Amount |
| Federal Government Office | 27,022 | 61,513.0 | 1,252 | 5,202.1 | 25,770 | 56,310.9 |
| Provincial Government Office | 9,970 | 7,453.8 | 570 | 248.8 | 9,400 | 7,205.0 |
| Local Level | 90,829 | 46,677.2 | 5,305 | 3,796.3 | 85,524 | 42,880.9 |
| Other Institution/ Committee (including Provincial) | 7,449 | 13,913.6 | 305 | 533.4 | 7,144 | 13,380.2 |
| Total | 135,270 | 129,557.6 | 7,432 | 9,780.6 | 127,838 | 119,777.0 |

Likewise, the performance audit of 6 subjects, environmental audit of 1 subject, special audit of 1 subject, and IT audit of 1 subject have been completed as per selection of topics, and the audit reports have also been issued along with recommendations. Pursuant to the Public Enterprises, Committees and Other Institutions, the audits of 605 income years have been completed, and the audit reports have been issued along with their operating results. With regards to the local levels, the audits of 749 out of 753 local levels of this year and 2 local levels of previous year's backlogs have been completed, and the final reports have also been issued considering the comments, replies and evidences obtained on the issued preliminary reports.

2. **Irregularity Record** - Section 38(1) of the Financial Procedures & Fiscal Accountability Act, 2076 (2019) provisions that the record of irregularity shall be maintained at each office level, and Section 38(2) mentions that the central record of irregularity shall be maintained by each central level entity. In addition, Sub-Section (4) provides that the records of irregularity along with updating of the settlements or clearance shall have to be produced before the audits for examination in subsequent year. Since the irregularity records are not updated by the entities and the concerned entities do not have actual details of irregularities, it has impacted on the irregularity settlement and follow up audit works. The works of updating irregularity records, making settlement and follow up audits should be managed as per the provisions of the Act.
3. **Irregularity Clearance and Follow up Audits** - The Financial Procedures & Fiscal Accountability Act, 2076 (2019) provides that the irregularity pointed out by audits shall have to be cleared by submitting evidences or by regularizing or recovering the irregular amounts and the Chief Accountability Officer shall have to settle irregularities by conducting the inquiries. The irregularities thus cleared shall have to be produced before the Office of the Auditor General for follow up audits. The status of irregularity clearance and follow up audits since 2003/04 are as follows:

Details of Irregularity Clearance and Follow up Audits

(NRs. in Million)

| Particulars | Irregularity Outstanding as of Last Year | Adjustment Plus (Minus) | Cleared & Settled in Follow up | Net Outstanding of Last Year | Current Year's Irregularity | Cumulative Outstanding Irregularity |
|--|--|-------------------------|--------------------------------|------------------------------|-----------------------------|-------------------------------------|
| Federal Government Office | 247,138.1 | -22.4 | 7,293.7 | 239,822.0 | 56,310.9 | 296,132.9 |
| Provincial Government Office | 18,271.1 | 1.2 | 1,099.3 | 17,173.0 | 7,205.0 | 24,378.0 |
| Local Level | 136,322.4 | 0 | 6,597.9 | 129,724.5 | 42,880.9 | 172,605.4 |
| Other Institution/ Committee (including Province) | 81,864.8 | -995.6 | 26.3 | 80,842.9 | 13,380.2 | 94,223.1 |
| Total | 483,596.4 | -1,016.8 | 15,017.2 | 467,562.4 | 119,777.0 | 587,339.4 |

- 3.1. Out of total outstanding irregularity amounting to NRs. 483 billion 596.4 million remaining up to Auditor General's 59th Annual Report, 2022, the statement of clearance of irregularities amounting to NRs. 15 billion 17.2 million (3.10 percent) has been obtained. Of the cleared irregularities, the recovered amount is NRs. 444.9

million (2.96 percent), regularized or evidence produced is NRs. 13 billion 871.3 million (92.37 percent) and advances cleared is NRs. 701 million (4.67 percent).

- 3.2. Pursuant to total cumulative outstanding irregularity NRs. 483 billion 596.4 million existing since past years, NRs. 15 billion 17.2 million has been settled through follow up audits and NRs. 1 billion 16.8 million has been deducted by making adjustment in this year, resulting the outstanding irregularity to stand NRs. 467 billion 562.4 million. The total cumulative outstanding irregularity up to this year has reached to NRs. 587 billion 339.4 million along with the addition of this year's irregularity NRs. 119 billion 777 million.
4. **Kumari Chowk & Kendriya Tahasil Karyalaya (Central Recovery Office) -** With regards to the irregularity records up to fiscal year 2002/2003 handed over to the Kumari Chowk & Kendriya Tahasil Karyalaya (Central Recovery Office) as per the decision of Council of Ministers' made on 2012/09/27 (2069/6/11), the irregularity amounting to NRs. 1 billion 669 million 210 thousand of the government offices has been cleared in this year out of the outstanding irregularity NRs. 5 billion 247 million 224 thousand existed up to previous year. Out of the cleared amounts, it is acknowledged that NRs. 1 billion 608.5 million has been cleared through the regularization and remission, and NRs. 69.5 million through recovery. The Office has done posting of the irregularity details in Irregularity Management System and has provided access to concerned entities in the system.
5. **Irregularity Clearance Arrangements of Local Level -** Section 20(3) of Audit Act, 2019 provides that the audit reports issued by the Auditor General by completing audits of the rural municipality or municipality shall be submitted by the concerned local level in its rural municipal council or municipal council for deliberation. There has been a situation of conflict of interest in the settlement of irregularities as the rural municipal/municipal council is the sole body that has the power to formulating policies and laws, implementing budgets as well as regularizing and settling irregularities. For promoting transparency and accountability, it has become essential to constitute an independent and effective agency to make deliberation on the audit reports of local levels and conducting monitoring thereon by making amendments in the prevalent Audit Act, 2075 (2019), and Local Government Operations Act, 2074 (2017) etc.
6. **Report Implementation Work Plan -** Section 21 of the Audit Act, 2019 provisions that it shall be duty of the concerned responsible official to implement the

recommendations of the audit reports issued by the Auditor General, and the Auditor General may, in order to ensure whether the matters set forth in the report issued have been improved and the suggestions have been implemented, do acts including to obtain report of activities carried out, specify the period for implementation, make re-examination and give necessary instructions on the matter to the concerned body. With regards to the implementation of matters included in the Auditor General's reports, various instructions have been issued by conducting deliberations and interactions with the Chief Secretary and Chief Accountability Officers time to time in the presence of the Rt. honorable Prime Minister, however, appropriate progresses have not been achieved. Though the irregularities have been pointed out in the reports issued by the Auditor General classifying into three categories, namely - 'to be recovered', 'to be regularized' and 'unsettled advances', some attentions are given in the settlement of the amount quantified irregularities, however, adequate attentions have not been given in the implementation of policy level matters. Since the implementation status of Auditor General's Annual Report and audit reports issued to entities are not satisfactory, same nature of irregularities have been repeated and the non-financial matters, such as - legal and policy improvements have remained in shadow due to the priority given only to amounts quantified observations. By preparing proper work plans, the responsible officials should pay due attention in implementation of recommendations pointed out in audit reports.

7. **Effort made on Clearance of Irregularities** - With regards to the Office's Annual Audit Plan and Program, this Office has conducted discussions and interactions with the Chief Accountability Officers of Ministries/Entities of the Government of Nepal and Chief Executives of Public Enterprises time to time. With regards to the previous years' reports, this Office, in the presence of Rt. Honorable Prime Minister, has conducted discussions and interactions with the Chief Secretary, Chief Accountability Officers of the Federal and Provincial Governments, Public Accounts Committee of Lumbini Province, and Chiefs of Local Levels and Corporate Bodies of Kathmandu Valley time to time. In the programs, discussions have taken place on the matters of the causes of irregularities, minimizing audit irregularities, settling audit observations within timeframe on the basis of the replies, evidences and justifications, and the policy and legal arrangements to be made for linking the irregularity settlement works with career development of employees. By establishing coordination with Election Commission, the provision of any person having any personal outstanding irregularity of amounts to be

recovered and unsettled advances cannot become a candidate in election implemented in case of local election, however this provision is not implemented in case the federal and provincial election, which has not aided in the settlement of irregularities at desirable level. Necessary legal arrangements should be made to implement the local election provisions in the federal and provincial election.

8. Implementation of Reports - Pursuant to the works performed and operated by the Government of Nepal as per the periodic plans, policies, annual budget, functional and structural arrangements, deliberations have taken place in Public Accounts Committee with regards to the observations related to 17 entities stipulated in the Auditor General's 58th, and 59th Annual Reports. The implementation status of decisions after deliberation in the Committee's various meetings on the observations mentioned in the Auditor General's Annual Report are provided below:

- 8.1. With regards to directives issued for preparing work plan and implementing it effectively, establishing inter-entities coordination for resolving disputes related to land acquisition and alignment so as to complete the works of National Pride Projects within specified cost and time, the Government of Nepal has implemented the Immediate Problem Solution Directives, 2022 in order to identify the causes of appearance of problems in course of implementing projects and not achieving the anticipated progresses of projects and solving and facilitating such problems, and establish coordination in resolving problems witnessed in the service delivery of the Government of Nepal and entities thereunder. In order to complete the Game Changer Projects, National Pride Projects and Nationally Prioritized Projects within time by resolving problems immediately witnessed in course of implementation of projects, Immediate Problem Solution Center has been established in the Office of the Prime Minister & Council of Ministers provisioning in the Directives.
- 8.2. In the decisions related to observations related to Ministry of Finance, the Committee has issued a directive to the provinces and local levels for adopting necessary policies and programs to make the fiscal federalism strong through increasing reliance on own sources and incomes instead of relying to the federal resources only. In this respect, the National Assembly has also adopted a commitment proposal (Sankalpa Prastab) from the meeting dated 2022/06/02 drawing attentions to the Government of Nepal and other stakeholder entities for implementing 15 Points directives to strengthen the federal governance system, and accordingly, the Government of Nepal has approved the Implementation Work Plan

Related to Implementation of Federalism, 2079 (2022) on 2022/10/14. The subject matters incorporated in the work plan include - making active to inter-level coordinating institutions, ending duplication in work scope, policy and law formulation existed between different tiers of governments, constructing institutional structures only on the basis of powers and work scope, stopping the works of allocating conditional grants in the name of small projects and projects, fulfilling the shortage of employees existed in provinces and local level, maintaining consistency in the service and facilities of officials of local levels, making the number of ministries and ministers smart, implementing the provision of making the volume of fiscal transfer to be received by the provinces and local levels as per the recommendations of National Natural Resource and Fiscal Commission etc.

- 8.3. Directives have been issued to make proper management of public transportation as the government entities are focused on road infrastructures and vehicles management, and to prepare and implement transport improvement plan maintaining mutual coordination between the entities that keep direct relation with the transportation management of Kathmandu Valley. For the effective management of Public Transportation Policy making public transportation services easy, accessible, passenger friendly, trustworthy, cost effective and secured, the Ministry of Physical Infrastructures and Transportation has implemented Urban Sector Integrated Public Transportation (Management) Authority Act, 2079 (2022) so as to establish Public Transportation Authority.
- 8.4. Pursuant to directives issued for integrating to the designated entities as per the agreement arrangements of National One-door System, various 40 entities have been integrated with Nepal National One-door System in order to strengthen the customs system in the perspective of implementation of the Sixth Phase Customs Reforms and Modernization Plan (2021/22-2025/26).
- 8.5. With regards to taking further measures to mitigate losses to the workers that have gone for the foreign employment along with the use of human capital, making legal and policy arrangements and minimum employment, the Reintegration Program (Operation and Management) Directives, 2079 (2022) and Safe Migrant Program Operations Guidelines, 2079 (2022) have been implemented for the returnees from foreign employment in order to make labor relation, employment management, and social security more achievement-oriented.

- 8.6. Pursuant to the directives issued for making the internal audit effective, the Financial Comptroller General Office has approved and implemented Internal Audit Procedures, 2079 (2022) on 2023/01/25 with an objective to make the internal audit works simple, systematic, result-oriented and effective.
- 8.7. Pursuant to the suggestions provided by the Office of the Auditor General in its past annual reports for managing the provision related to mobilization of informer or clue-giver (Sutra and Suraki) under Ministry of Home Affairs and the issuance of instructions by the Public Accounts Committee time to time since 2048 (1991) for managing such expenditures, the Government of Nepal has taken decision to discontinue the arrangement related to such expenditures.
- 8.8. With regards to the instructions issued for increasing the mobilization of capital expenditures in development works and service delivery in the light of increasing recurrent expenditure, the decisions have been taken to curtail 20 percent of recurrent nature of expenditure and not approving any new organizational structure and employee's positions so as to maintain fiscal balance of the government by maintaining economy in other appropriated government expenditures except the amounts chargeable to the Federal Consolidated Fund as per the arrangement of Section 21(1) of the Financial Procedures and Fiscal Accountability Act, 2076 (2019). Necessary assurance should be obtained with regards to proper implementation of legal and procedural arrangements that implemented as per the Committee's instruction.
- 9. Annual Report** - Article 294 (1) of the Constitution of Nepal provisions that the annual reports submitted to the President by the Auditor General shall have to be tabled in House of Representative through the Prime Minister. Likewise, Section 19(5) of the Audit Act, 2018 provisions that the separate audit reports related to functioning of the Provinces that submitted to the concerned Chief of Provinces as per Article 294(3) of the Constitution, shall have to be tabled in the concerned Province Assembly through the Chief of Provinces.
- 9.1. In accordance with the arrangements of the annual reports submitted by Auditor General are to be discussed in Public Accounts Committee of House of Representatives, the Fifty-ninth Annual Report of the Auditor General of previous year submitted to the President on 13th July 2022, but the report has not been yet tabled in the Session of House of Representative. There should be arrangements for making tabulation of the Auditor General's Annual Reports in Federal Parliament

immediately after submission of such Report and holding timely discussions and implementation of such Annual Reports.

- 9.2. Though the Annual Reports of the Auditor General of Provinces have been submitted to all Chief of Provinces on 13th July 2022, but the concerned Chief Ministers of the Provinces have tabled the Reports only on - 7th August 2022 in the Koshi Provincial Assembly, 22nd July 2022 in Bagmati Provincial Assembly, 4th September 2022 in Madhesh Provincial Assembly, 3rd February 2023 in Lumbini Provincial Assembly and 1st August 2022 in Karnali Provincial Assembly. However, the annual reports have not been yet tabled in the concerned of Provincial Assembly of the Gandaki Province and Sudurpachhim Province.

Since the arrangement of holding discussions in concerned Committee of Provincial Assembly after submission the Auditor General's Annual Reports aids in the promotion of fiscal discipline and fiscal accountability, necessary arrangement should be made for holding timely discussions of the Auditor General's Provincial Annual Reports by making timely tabulation in the immediate session of the concerned Provincial Assembly after the submission of such Reports.

- 10. Discussion on Annual Report** - Section 41 of the Financial Procedures & Fiscal Accountability Act, 2076 (2019), specifies that with regards to the irregularities provided in the annual reports of the Auditor General, it shall be duty of the Auditor General and concerned Chief Accountability Officer to implement and cause to be implemented to the suggestions as approved by the House of Representatives that submitted to the House after holding discussions in Public Accounts Committee of the House of Representatives. Major observations witnessed in this respect are as follows:

- 10.1. As per the 22nd Report of Public Accounts Committee of House of Representatives, it is known that discussions and decisions have taken place pursuant to the audit matters included in 11 entities including the Federal Parliament Secretariat, Ministry of Foreign Affairs and Ministry of Finance provided in the Auditor General's 53rd and 58th Annual Reports.
- 10.2. In accordance with the directives issued by the Public Accounts Committee for clearing the irregularity records after holding discussions on the Auditor General's Annual Report, the acknowledgement about clearance of the irregularity NRs. 5 billion 299.5 million concerning with short collected amounts, variance in tariff in

customs inspection of Ministry of Finance, NRs. 201.5 million of Ministry of Physical Infrastructure and Transportation, NRs. 2 billion 331.3 million along with 3 subjective observations of Ministry of Agriculture and Livestock Development, and NRs. 423 million of Ministry of Forest and Environment have been provided to the concerned Chief Accountability Officers.

- 10.3. In the instructions issued by the Public Accounts Committee for clearing the irregularity records after holding discussions on the contents of the Auditor General's Annual Report, the concerned entities are instructed to - taking actions for settling overdue advances; and taking any decision related to services and facilities only after provisioning in Act; assuring competition with regards to the procurement works which can be presumed preparing procurement plans; preparing clear standards to maintain uniformity in employee's residence facilities in view of existing inconsistency; revisiting the existing agriculture programs; making the classifications and valuation of customs examination realistic by providing electronic based actions access to all entities; and making non-tax revenues cost-effective. Similarly, instructions issued to the concerned entities also include - adopting policies and programs to strengthen the fiscal federalism so as to become the local levels self-reliant on own source; making registration and operations procedures of internet services systematized by conducting studies on the status of applications operated under such services and bringing such services within tax net; determining work procedures for depositing and spending amounts in/from contingency fund as huge expenditures are incurred from miscellaneous fund without any control during disaster period; performing works by preparing calendar to check the practices of making expenditures after 25th Ashadh; carrying out the audits of projects and programs implemented under foreign assistances mandatorily from the Auditor General; and completing the audits of audit outstanding public enterprises within 6 months and producing such reports to the Committee etc.

The concerned entities have not taken adequate initiatives to settle the irregularities provided in the Annual Reports of the Auditor General as per instructions of the Public Accounts Committee. Necessary initiatives should be taken in settlement of the irregularities and follow up audits paying attention in the implementation of 22nd Annual Report and other earlier reports of Public Accounts Committee.

- 11. Irregularity Settlement Monitoring and Evaluation Committee** - In order to implement the provisions of Section 38(1)(2), 40(3)(4), and 41(3) of the Financial Procedures & Fiscal Accountability Act, 2076 (2019), the Irregularity Settlement Monitoring and Evaluation Committee of the Government of Nepal has formulated and implemented the irregularity settlement Work Plan in 2021/22. In the Work Plan, the targets have been set for the settlement and minimization of irregularities along with its classification. The Committee has submitted statement showing the settlement of irregularities amounting to NRs. 482 billion 533.9 million (39.03 percent) out of irregularities amounting to NRs. 1 trillion 236 billion 347.6 million of the period 2011/12 to 2021/22. The Committee has informed that 14 entities have been rewarded for the settlement of irregularities as per target fixed in the settlement work plan, 6 entities have settled only minimum amounts of irregularities, and attention letters have been issued to 18 entities including the Ministries- Finance, Urban Development, Health & Population due to non-settlement of irregularities as per specified manner. The concerned entities should give attention in maintaining fiscal discipline and making the Committee's works more effective.
- 12. Discussion on Reports and Follow-up Audit** - Rule 170 of House of Representatives Regulation, 2075 (2018) specifies the work scopes of Public Accounts Committee shall be public accounts and annual reports of the Auditor General. Rule 175(4) of the Regulation provides that the Public Accounts Committee, by conducting examination related to the irregularities provided in the annual reports of the Auditor General submitted to the House of Representatives, may give necessary instructions conducting studies on the functions carried out by the Auditor General and the works to be done by the concerned entities in this regard have been performed legal and justifiable manner. Despite of submission of 59 annual reports by the Auditor General till now, discussions are yet to be held with regards some of annual reports, and the concerned Chief Accountability Officers are responsible for implementing the instructions issued with regards to irregularities and decisions related to public accounting, and hence, the Committee need to conduct follow up effectively with regards to the implementation status of its decisions.

Section 2 of the Audit Act, 2075 (2019) defines that "Audit" means examination of the accounts and accounts related to the business of the bodies referred to in Section 3 and the analysis and evaluation to be made on the basis

thereof, and this term also includes an act of follow-up audit. Section 21 of the same Act provides that the Auditor General may, pursuant the implementation of its reports, do acts including to obtaining report of activities, getting explanation from the audited body, specify the period for implementation, make re-examination and give necessary direction on the matter to the concerned body. Section 40(4) of the Financial Procedures & Fiscal Accountability Act, 2076 (2019) provides that the Auditor General shall have to give acknowledgements within 7 days in case of the irregularities regularized by the Chief Accountability Officer, and Section 41(3) of the same Act provides that the Auditor shall give acknowledgements to the Public Accounts Committee and the concerned Chief Accountability Officer by clearing the irregularity record within the 30 days in case of the irregularities regularized as per Public Accounts Committees' Reports as approved by the House of Representatives. Though the Office of the Auditor General has been carrying out the audit follow-up works in accordance with the laws since the establishment of this office, the work of clearing irregularity records of the federal government entities by conducting audit follow-up has been withheld after issuance of circular of Public Accounts Committee on 2022/07/01.

Since the some of the provisions of the Financial Procedures & Fiscal Accountability Act, 2076 (2019) are found contradictory with the provisions of the Audit Act, 2075 (2018), necessary revision should be done so as to maintain consistency between the two laws.

Chapter - 5

Reforms to be undertaken in Future

It is essential to have strong economy, effective governance management, efficient fiscal arrangements, result-oriented development management, time relevant laws and structure and skilled manpower for the sustainable development, quality service delivery and good governance. For making prudent use of limited resources along the promotion of public accountability, transparency and integrity, the matters to be improved in various aspects of the fiscal and governance techniques and accountability are provided below:

Governance Management

1. Policy, Law and Program

- 1.1. Essential laws are yet to be formulated even after elapse of long period of implementation of the Constitution. Laws related to citizenship, civil service, prevention of money laundering, and truth and reconciliation should be formulated, amended and implemented.
- 1.2. Priorities need be determined in the government policies and programs and works are performed accordingly. There should be coordination and collaboration in performing works as per the list of powers of three tiers of governments specified in the Constitution.
- 1.3. There exists duplication in between the federal and provincial organizational structures. This has brought problems in change of organizational structures as well as the accomplishment of responsibilities and accountabilities and hence improvements are to be done in this respect. Problems have arisen in the implementation of policies and programs due to differences in priorities after change of governments, and hence, policies should be made perpetual.
- 1.4. Since the number of cases to be short out by judicial organs has appeared huge, arrangements should be made to settle cases in accordance with the strategic plan.
- 1.5. The works of the constitution bodies having the representation of various groups, areas and communities should be made effective by providing adequate means and resources.
- 1.6. The directives and recommendations given by constitutional bodies should be implemented.

- 1.7. The regulatory entities, public and autonomous institutions should perform works by formulating policies, laws and programs and preparing work plan.
- 1.8. The collaboration and partnership between the government, private sector and civil society and stakeholders should be assured in governance. Conducive environment should be created to involve all parties in the development works, service delivery and operation of programs.
- 2. Implementation of Federalism** - In order to make effective the development works, resource mobilization and service delivery to be conducted by all three tiers of governments of the country, the following improvements are to be undertaken:
 - 2.1. The federation, provinces and local levels should draft laws, formulate budget, make decisions and prepare and implement policies and plans remaining within list of powers specified in the Constitution.
 - 2.2. The federation, provinces and local levels are required to make division and implementation of projects and programs in accordance with the Standards related to Development Program and Project Classification and Division, 2076 (2019). Amongst the matters specified as concurrent powers in the Constitution, the programs which need to be handed over to the provinces/local levels have been still retained by the federation/provinces, and hence, the duplication is appearing in the implementation of subject-wise sectorial programs of roads, irrigation, agriculture, livestock, forest, health etc. are to be eliminated. Necessary coordination should be established while implementing projects in inter-provinces.
 - 2.3. If any conflict appears between the federation, provinces and local levels, it should be shorted out from the National Coordination Council timely basis. In using the natural resources, the benefits need to be distributed in an equitable, balanced and transparent manner.
 - 2.4. In order to bridge the gaps between the internal income and expenditure needs of the provinces and local levels, the governments should give emphasis on the expansion of the revenue scope and establish proper coordination for collecting revenues under concurrent powers.
 - 2.5. Internal controls are to be effected continuously by developing a reporting and monitoring system for source-wise programs transferred to the provinces and local levels.

- 2.6. In order to make the administrative expenditure of the provinces and local levels economical, keep controls in the facilities, vehicles, meeting allowance, monitoring expenses of officials and employees, and maintain consistency in expenditure arrangements of the provinces and local levels, necessary standards relating to the expenditure need to be formulated and implemented.
- 3. Performance of Provincial Government** - In order to make effective to the financial management of the provinces, the following improvements are to be implemented:
- 3.1. Essential laws, smart organizational structure should be formulated and necessary means and resources should be provided to make systematic to the performances of the Provincial Governments.
- 3.2. Medium Term Expenditure Frameworks should be effectively implemented to establish linkage between periodic plan and provincial annual budget.
- 3.3. The service delivery of the provincial ministries/offices should be made effective making the organizational structures intact and smart. By discouraging the practice of implementing development works by the provincial ministries themselves, and the ministries should focus in the formulation and implementation of policies, planning, laws and standards and monitoring and evaluation.
- 3.4. Preferences should be given in use of information technology to make service delivery of the provinces fast, smart and economical. Structural and systematic improvements are to be undertaken to deliver services at minimal cost and time.
- 3.5. There should be arrangements to avoid duplication in works to be undertaken or being undertaken by the federal government and local levels. Necessary works are to be conducted by establishing offices in accordance with the concepts of unified office.
- 3.6. Necessary human resources are to be fulfilled in the Provinces and Local Levels by enhancing the effectiveness of the Province Public Service Commissions.
- 4. Performance of Local Level** - In order to make effective to the performances and financial management of the local levels, the following improvements are to be undertaken:

- 4.1. By formulating essential laws, framing policies, establishing organizational structures and managing resources for the operations of local levels, arrangements should be made to carry out functions from the subject-wise sections.
- 4.2. The approved positions of local levels should be determined on the basis of the arrangements of Local Levels Operations Act, 2017 (2074) and the geographical condition, expenditure needs, and services to be delivered, and the service delivery of local levels should be made effective by fulfilling the vacant positions on time. Standards related to terms of service and facilities of the officials and employees of local levels need to be formulated and implemented.
- 4.3. Section 21 (4) of Inter-Governmental Fiscal Management Act, 2074 (2017) provisions that any province or local level shall prepare the revenue and expenditure estimate in such a way that the revenue collected and the revenue sharing amount to be received as per this Act shall meet its administrative expenditure. However, several local levels have been appropriating more amounts in administrative expenditure. Such practices need to be controlled.
- 4.4. An emphasis should be given in the formulation and implementation of periodic plans maintaining linkages with the sustainable development goals, federal periodic plan, and provincial periodic plans.
- 4.5. By discouraging the practices of selecting the petty projects/programs which are of unproductive and distributive nature, considerations should be given in implementation of productive plans so that it becomes production-oriented and address the needs of the local people.
- 4.6. By modifying the SUTRA being used in financial accounting of local levels, the software should be implemented in all local levels, and the capacities of the manpower involved in accounting should also be enhanced. The application system should be modified in such a way that the financial reports generated from the system will capture all transactions of local levels.
- 4.7. The capacity of the leadership and manpower of local levels should be enhanced by making arrangements of training related to the overall legal provisions and service delivery.
- 4.8. As per prevalent law, the audit reports issued by the Office of the Auditor General to the local levels are tabled in rural-municipal assemblies or municipal assemblies and the irregularities are to be settled holding discussions by constituting Accounts

Committees. Necessary improvements should be made in policy and legal provision to ensure that any conflict of interest will not create in settling the irregularities noticed in course of the works performed by the officials of the municipal councils and employees of municipality/rural municipality.

- 4.9. Necessary arrangements should be made to make the internal audits of local levels independent, trustworthy and effective and complete such audits timely manner.

Economy

5. Developing Self-Reliant Economy - The following reforms are to be undertaken to attain economic objectives of state as per the directive principles of the Constitution of Nepal:

- 5.1. It is because of non-availability of improved seeds and inadequacy of irrigation facilities, non-availability of fertilizers on time and non-use of modern technology in agriculture, the production of agricultural goods has not been fulfilling the national demand and the import of agricultural products has been growing every year. Hence, necessary strategies and working policies should be prepared and implemented so as to contribute in national economy and make professionalization and modernization of agriculture sector.
- 5.2. By developing environment-friendly agriculture programs and giving emphasis on commercial production of arable lands, the rural tourism should be inter-linked with eco-tourism through the development of organic agriculture system.
- 5.3. Direct foreign investment and foreign capital and technology should be received only after ensuring national interest.
- 5.4. By identifying all types of formal and informal economic activities and bringing them within the ambit of country's economy, arrangements should be made to make the economy areas extensive. The national economy needs to be made self-reliant and productive by making maximum utilization of available means and resources through the participation of public, private and cooperative sector.
- 5.5. Since Nepal is going to upgrade from the category of least developed countries, the trade facilitation and quota facilities being received by Nepal as a least developed nation will also going to end. For minimization of its impact, there should be arrangements to make the trade diversification, increase internal production, and

enhance business and competitive capacity of private sector creating investment-friendly environment.

- 5.6. It is necessary to make policy and legal arrangements to end the money laundering from guilty acts and stop financial investment in terrorist activities.
- 5.7. To strengthen national economy, encouragements should be given in use of electric vehicles and electronic goods so as to replace the petroleum products and the policy the like making rate adjustment in electricity tariff for general people should also be adopted.
- 5.8. Manpower having knowledge, skill and experience in economy and financial management should be mobilized in Ministry Finance and revenue related regulatory entities.
- 6. Industry and Trade** - Necessary strategies and working policies should be implemented to encourage the savings through the improvement in national consumption structure and make investment of such savings in productive sector.
 - 6.1. Investment-friendly revenue policies should be adopted that would positively contribute in the national industries and socio-economic transformation.
 - 6.2. For the development of national economy, the national industries based on domestic investment, labor and raw materials need to be protected and promoted. For this, imports should be managed to make value add in the goods and services that contribute in export promotion.
 - 6.3. Since local economy occupies solid base of the economy, necessary policies and programs are to be adopted to make import substitution and export promotion, make high value add, and give emphasis in financial encouragement to the micro and cottage industries based on traditional knowledge & skill and local raw materials for the growth in production.
 - 6.4. Since the foreign currency earning sources has not expanded as per expectation and pressures have developed in balance of payment due to condition of rising imports, necessary financial and monetary polices should be implemented in order to keep the trade deficit within desirable limit.
 - 6.5. Proper legal frameworks are essential for creating investment environment. For this, initiatives are to be taken to make extensive economic reforms along with the reviews/improvement in existing laws including Industrial Policies, Act and Rules,

Foreign Investment and Technology Transfer Act, laws related proportionate division, company laws, consumer's right protection laws, laws related to foreign exchange regulation, laws related to financial and insurance, laws related to public private partnership, Customs Act, Excise Duty Act, Finance Act of each year, Income Tax Act, laws related to forest & environment, and other relevant laws.

7. Implementation of Fiscal and Monetary Policy - With respect to the implementation of fiscal and monetary policy, the following improvements are to be undertaken:

- 7.1. It is because of flow of loans in unproductive sector, offer of re-loans for repayment of loans, expansion of loans at a short interval, decrease in capital expenditures, and low mobilization of foreign assistance, the interest rates have increased by a higher rate as a result of shrinkage in liquidity. The cost of currency has become dearer due to rise in interest rates, which affects directly in production and service costs, and the consumers have to bear the economic burden of dearness. Effective monitoring is to be conducted relating to the loan-deposit ratios and interest rates of deposit and loans by determining specific standards related to the interest rates of deposit and loans and making studies on its impact on various sector of economy.
- 7.2. The liquidity problem has not been resolved as the standing liquidity facilities amounts offered by Nepal Rastra Bank at low interest rates than the prevailing market rates are used by the banks in other purposes instead of using in specified purpose, and the installment and interest amounts of re-loan offered to certain businesses at subsidized interest rate as relief to protect from COVID-19 impact have not been recovered. Effective monitoring should be conducted in this respect by conducting policy reforms.
- 7.3. Tax Information Networks should be established to share information through electronic medium between the tax administration and the entities - making the registration and regulation of industries, trade, businesses, institutions. By conducting studies on timely settlement and resolution of disputes on tax determination, necessary legal and structural arrangements need to be made for this on the basis of necessity and good practices.
- 7.4. For increasing revenues making the non-tax revenue cost effective, the tax rates should be made time relevant making reviews, and separate legal provision related

to non-tax administration should be formulated by integrating and revisiting the existing policy and structural arrangements.

8. Public Enterprises Management - The following improvements are to be done with regards to the financial management of public enterprises:

- 8.1. An umbrella policy should be formulated and implemented for operating the public enterprises (PEs) effective and commercial manner. In addition, integrated law and strategic plan and business work plan should also be formulated and implemented in line with the policy.
- 8.2. By analyzing relevancy of existing PEs, clear preferences need to be determined about the PEs which need - to be continued with the government's involvement, to be operated under public-private partnership, to be run under management contract, to be operated from private sector, and to be merged with one another or liquidated. Except the PEs providing basic services, certain percent of government shares existed in remaining PEs are to be privatized gradually, and the management efficiencies of PEs are to be enhanced encouraging the participation of strategic partners.
- 8.3. There should be arrangements for giving the responsibility of board of directors to the specialist having professional capabilities, appointing chief executives making competition on the basis of business work plan, and making work performance contract with chief executive and taking decision about the continuity of a chief executive on the basis of its annual work performance.
- 8.4. The accounts of share and loan investments of the governments in PEs and receipt of interests and dividends thereon should be updated by reconciling regularly. The principal and interest to be paid to the Government of Nepal by PEs should be timely settled preparing necessary financial plans. The outstanding rent and lease rents due from the privatized PEs since long period should be recovered along with applicable fees, interest and fines as per laws making timely follow-up.
- 8.5. Nepal Financial Reporting Standards need to be fully implemented to maintain fiscal discipline in PEs. By making the internal controls system effective, the final audits should be completed timely basis, and arrangements should be made for implementing the audit observations/ recommendations.

- 8.6. By making proper safeguards and utilization of the assets - lands, buildings etc. owned by the PEs, the records of assets should be properly maintained and reports of same should also be regularly prepared.
- 8.7. Appropriate control measures should be adopted to keep the operating expenditure of the PEs within reasonable limits. In view of change occurred in business work plan, work scope and technology, the employee's position of PEs should be reviewed conducting Organization and Management Survey. The performance evaluation of employees are to be conducted on the basis of job description and work performance indicators of the employees, the such performances are to be linked with their career development.
- 8.8. The unsettled disputes of the privatized PEs need to be shorted out. Regular Monitoring are to be conducted pursuant to the implementation of provisions specified in agreements of the privatized PEs. The assets of the liquidated or non-operational PEs, the like - machinery tools, lands, buildings, and equipment etc. should be utilized by obtaining the records of such assets.

Public Fiscal Management

9. **Budget Management** - In order to allocate the resources efficiently, the following improvements are to be done in the budget formulation, implementation and controls related activities:
 - 9.1. Budgets need to be appropriated by ascertaining programs prior to the budget formulation, but there has been practice of allocating huge budgets as finance-miscellaneous or unallocated for the purposes which can be predicted, and incurring expenditures making virement at the year-end. Such practices need to be controlled, and programs are to be implemented maintaining trimester balance.
 - 9.2. There has been practice of incurring budget expenditures by the federal entities establishing various types of funds beyond national budgetary frameworks without parliamentary scrutiny, and presently, the provincial governments and local levels have also started to establish and operate such various funds. Such practices of incurring expenditures by establishing funds beyond the budgetary frameworks need to be controlled.
 - 9.3. The practices of appropriating budgets to the projects without completing the pre-preparation phase works and keeping unspent budget amounts in un-freezable

accounts so as to inflate the volume of expenditure or transferring budget amounts in the accounts of other organization/institution need to be abandoned.

- 9.4. Budgets need to be formulated viewing the additional financial burden to be borne due to non-implementation of social security allowances, pension amounts and contribution-based pension plan (including of teachers), liabilities created under various agreements and decisions, and future long-term liabilities/expenditures to be borne by identifying and analyzing the risks that are likely appear in consideration to the international and national circumstances.
- 9.5. Necessary budgets are to be included for all program and projects to be operated through the provinces and local levels, and the practices of providing conditional grants to the provinces and local levels in the middle of fiscal year for implementation of new programs need to be stopped.
- 9.6. Methods and systems should be developed to address the problems, such as - expected people's participation not received in selection of plans, plans becoming more ambitious, adequate attention not given in implementation aspect, inter sectorial linkages not established etc.
- 9.7. It is essential to control in the practices of preparing popular and huge amount of budgets with excessive deficit amount by all three tiers of governments as compared to the availability of internal income. Only implementable budgets need to be formulated by determining preference areas maintaining balances between the receipts and utilization of means and resources.
- 9.8. The practice of keeping budgets to the plans and programs on the basis of personal approaches should be discouraged. The budget should be appropriated on the basis of equitable distribution of available financial resources based on human development index and development indicators, and the sectorial and provincial equality by analyzing the plan and programs which will give more returns or provide more benefits comparatively.
- 9.9. The pre-budget discussions being organized between the parliamentarians, parliamentary committees and stakeholders should be made transparent and result-oriented. The subject matters specified in the budget formulation, mid-term & annual reviews and feedback received in course of budget implementation should be utilized in the preparation of upcoming budgets.

- 10. Revenue Mobilization** - In order to make systematic to the collection and administration of revenues, including - the income tax, value added tax, customs duty, excise duty etc., the following improvements need to be undertaken:
- 10.1. The efficiency of revenue mobilization should be enhanced by bringing the informal economy within tax scope.
 - 10.2. To make improvements in revenue mobilization, it is necessary to prepare standards making realistic to the matters, such as - the recoverability (pratilabdhi) rate of raw materials, losses and wastages, claims etc.
 - 10.3. To promote the business making exports by development of IT software and bring such business within the tax scope, there should be arrangements for close surveillance along with the arrangement of facilities.
 - 10.4. An analysis with regards to the effect of revenue remission on various aspects including - the production of goods and services, growth in employment and investment and privileges to citizen etc. has not been conducted yet. With respects to the revenue remissions granted under the Finance Act, Special Act, and loan/grant assistance agreement, it is to be assured that the facilities have been utilized as per the specified terms and purposes. The practice of granting revenue remission on the basis of specifying in notes, schedules in Finance Act and piece-meal decision should be checked. There should be arrangements of preparing and submitting a consolidated amount-wise statement of the revenue losses occurred from overall revenue remission and anticipated progresses to be achieved therefrom in the parliament.
 - 10.5. In the situation of the effect of COVID-19 has already become normalized not only in Nepal but also in almost countries of the world, the remission facilities on taxes, customs, excise duty etc. given in past for minimizing the effect to COVID-19 have been continued till now. Such remission facilities should be checked making reviews of laws.
 - 10.6. Revenue arrears should be recovered by adopting the techniques, methods and processes specified in various laws relating to tax recovery. The practice of granting remission facilities in succeeding years to the taxpayers, which have not submitted tax returns on time and have kept revenue arrears by not depositing taxes on time, should be stopped.

- 10.7. In order to make tax-base sustainable and strong, attentions should be given in reducing the share of import-based revenues and identifying and extending the scope of internal revenues. In order to make customs declaration of goods, classification and valuation realistic and transaction price-based, it is necessary to disseminate the electronic information with inland customs administration and make the explanations of customs tariff further clearer. The customs examination system should be made realistic by timely updating to the explanation and classification of the World Trade Organization.
- 10.8. The electronic transactions such as - the social networking, virtual meeting platform, online business etc. operated without any restrictions in geographical boundary should be brought into tax scope. The artificial intelligence should be used in tax assessment extending research-based examination system. In addition, steps should be taken to make the tax assessment system face-less.
- 10.9. By making the integrated tax system strong and secured, the scope of tax assessment should be extended by strengthening the risk-based assessment. In order to make the tax assessment more fair, economical and simplified, the activities conducted in course of tax assessment, including - demanding information and description with the taxpayers, getting replies etc. and preparing reporting after the tax determination are to be integrated with IT system. In addition, arrangements should be made for conducting monitoring of tax returns submitted regular basis in a planned way and determining taxes through rapid assessment method conducting inquires if any produced statement is found unnatural.
- 10.10. There should be arrangements of automatically generating the financial statement of revenues and verifying the statements automatically along with the recovery of revenue arrears. Arrangements should also be made for verifying the information automatically between the IT based integrated Tax System and Revenue Management Information System (RIMS) with each other.
- 10.11. Specialized qualifications are to be determined for the service entry of the manpower to be engaged in revenue administration, and capacity development programs are also to be conducted for the existing employees. The system of determining real taxes should be implemented through conducting monitoring of tax assessments and internal and peer reviews.

- 10.12. By increasing the access of Departments and offices in invoicing system being used by the taxpayers, the Central Invoicing Monitoring System should be implemented so as to enhance the access of all taxpayers. In addition, the work of market monitoring and stock examination should also be made effective.
- 10.13. The minimum subject matters to be examined by the auditors certifying the income statement on the behalf of taxpayers should be determined, and necessary actions should be taken against the auditors that failed to comply with such requirements. In addition, additional qualifications should also be determined for the auditors engaging in audits of companies registered in Security Board and big companies.
- 10.14. In order to discourage the under-valuation in customs, under-valuations in purchase and sale of houses & lands, under-invoicing in sale of goods and services in markets, and low income declaration of house & land rents, the system should be developed for exchanging information between all concerned entities and monitoring of markets effectively.
- 10.15. Necessary strategies should also be adopted for minimizing trade costs by making study on the provisions mentioned in SAFTA agreement and bilateral trade agreements, and the Ministry of Commerce & Supplies should make effort for increasing foreign direct investment by signing bilateral investment agreements with the possible countries that can bring investments in Nepal. The bilateral agreements related to tax-base signed prior to the implementation of the Income Tax Act, 2002 should be reviewed in such a way that would promote inflow of investments.
- 11. Foreign Assistance** - Pursuant to mobilizing foreign assistances and bringing such assistances within national budget and reporting system and making such assistances result-based, the following improvements are to be undertaken:
- 11.1. In a situation where the available national resources are insufficient to meet national expenditures, foreign assistances should be mobilized through national budgetary system and the consolidated funds only on the basis of the national interest and preferences by making the foreign assistances acquiring processes more transparent.
- 11.2. Foreign assistances should be mobilized only in the sectors or projects that would contribute to enhance the production and productivity in line with national interest, create employment, make import substitution and export promotion and give high yields, and contribute in becoming a self-reliant economy.

- 11.3. In mobilizing the foreign assistances, the knowledge, skill and capability of the manpower engaged in foreign assistances should be enhanced, and the institutional structures should be strengthened and the coordination should also be established between the involved organizations.
 - 11.4. Where possible, the policy of not accepting any conditional foreign assistance should be adopted. The share of technical assistance in total foreign assistance should also be minimized gradually.
 - 11.5. Since huge gaps are witnessed between the commitments and actual receipts, and actual receipt and utilization of the development assistance, initiatives are to be taken to obtain the development assistances in accordance with the commitments and use the assistances in accordance with receipts. Improvements should be made in existing reimbursement-based foreign assistance system, and arrangements should be made for incurring expenditures only after receiving foreign assistances on time.
 - 11.6. The budget amounts of foreign source should be appropriated only after certainty of the receipt of foreign assistances.
 - 11.7. The system of mobilizing foreign assistances through national and international governmental Organizations (NGO/INGO) should be stopped, and such assistances should be mobilized through the government organizations only.
 - 11.8. Since the state have been loosing the receivable assistance and pressures have developed towards the government sources due to non-receipt of reimbursements on time in the projects implemented under foreign assistance, more efforts are to be taken to obtain the reimbursements on time. Appropriate measures are to be taken for timely reporting of the foreign assistances being utilized by the Provinces and Local Levels to the Federal Government and sending the reimbursements requests within specified time.
- 12. Public Debt Management** - Pursuant to mobilizing debt only in the sectors that are very essential and that will give high economic and social returns, the following improvements are to be done :
- 12.1. In a situation of the past year's renewable internal loans (Roll-over) are not paid, such amounts are to be included in current year's target, however, only the amounts received in cash have been calculated in loans. For knowing the actual status of

internal loans and liquidity, the rollover amount should also be counted in this year's internal loans.

- 12.2. There exist practices of incurring expenditures of the foreign loans of budgetary assistance and internal loan amounts in the distributive activities that will not contribute in capital formation and incurring the project-wise loans in other purposes. Policy reforms are to be done in this respect.
 - 12.3. Since all loans are not linked with the capital formation and productivity, the economic growth has not become in proportionate to the volume of loan use. Such loans should be managed effectively by discouraging use of loans in unproductive sector.
 - 12.4. Huge balances remained in public entities, such as - Funds, Boards, Councils, Committees and Institutions every year have been kept as deposits in financial institutions by such public entities at minimum interest rate, but the government has been raising internal loans from such banks and financial institutions at a higher interest rates than that provided in deposits, which has led additional financial costs to the government. Necessary policies and laws should be formulated for mobilizing the savings of public funds as sources of funding.
- 13. Controls of Expenditure** - In order to check the unproductive expenditures and manage expenditure for receiving maximum returns, the following measures are to be adopted:
- 13.1. To manage public expenditure efficiently, efforts should be taken to keep the recurrent expenditure within reasonable limits. Necessary management works are to be done to keep the public debt within certain limit and link the expenditure with the returns.
 - 13.2. The institutions, such as - Funds, Councils, Commissions, Boards etc. established for the works which can be done through the federal ministries and departments, are to be liquidated and merged, and the acts of establishing the federal government structures for the works which are specified in powers of the provinces and local levels are to be stopped. In addition, organizational reforms are to be undertaken to make effective to the governmental machineries of the ministry, department and offices of all three tiers of governments.
 - 13.3. With respect to the buildings, office rooms, furniture, equipment and vehicles to be used by the government offices/employees, necessary standards are to be developed

considering the needs of offices, number of employees and levels of employee, and such standards are also to be effectively implemented. The Policy Guidelines related to making the Public Expenditure economical and effective for Controlling Unproductive Expenditure should be strictly implemented.

- 13.4. The Contribution-Based Pension System should also be implemented for the school and university employees and teachers and local level employees.
- 13.5. The practices of not appropriating administrative budgets necessary for the office operations in recurrent budget and bearing the administrative expenditure from contingencies of the construction works need to be abandoned.
- 13.6. In order to distribute financial assistances on the basis of necessity, objective standards should be prepared and the assistances should be distributed only on the basis of such standards.
- 13.7. In the context of excessive expenditures being incurred in consultancy services, the works such as - preparing drawings & design, cost estimates, and survey reports of plan/projects, preparing financial statements etc. should be conducted from the available departmental human resources, and the practices of performing such works through the external consultants are to be abandoned. In addition, the consultancy fees should be determined on the basis of works performed by the consultants rather than the period of work done.
- 14. Grant** - In order to systematize the practices of providing grants for the promotion of agriculture, industrial and service sectors and giving assistance to weaker groups, the following improvements are to be done:
 - 14.1. Considering the non-attainment of reasonable returns from the grants distributed in agriculture sector by all three tiers of governments, existing grant distribution policies and programs need to be reviewed so as to make the grants distribution effective.
 - 14.2. While providing any grant and assistance, considerations should be given in the aspects that it will - generate revenues, contribute in growth of productivity, create employment, contribute in capital formation, contribute in socio-economic transformation, enhance the entrepreneurship etc., and necessary arrangements should be made for assuring such achievements.

- 14.3. The system of providing grants based on results (outputs) should be implemented by stopping the existing practice of providing grants based on inputs. In addition, the system of distributing grants in piece-meal way should be reviewed, and necessary procedures should be prepared to converse the grant system into seed-capital and taking refund such amounts after passage of certain period.
- 14.4. Considering the situation of growth in practices of distributing grants and assistances by all three tiers of governments, the practice of sending authorizations by specifying amounts for the distribution of grants and assistances should be controlled.
- 14.5. The objective-based standards and procedures related to grants should be prepared considering the matters, such as - no duplication occurs in distribution of grants and assistances by the federation, provinces and local levels, selection of beneficiaries becomes transparent, grants and assistances not given for consumption, provided grants benefit communities rather than certain individuals, grants are provided only on the basis of cost participation etc. The matters related to grant and assistances should be made transparent, economical and accountable by making public of details.
- 14.6. Continuous monitoring needs to be conducted pursuant to the usage of grants and assistances. It is necessary to evaluate on whether or not the grants provided have contributed in production and productivity and have brought positive changes in living standards of people. Necessary improvements are to be done in programs and procedures of grants on the basis of the findings of monitoring and evaluation.
- 14.7. In providing grants to the Provinces and Local Levels by the Government of Nepal and to the Local Levels by the Provincial Governments, the amounts should be provided on the basis of expenditure needs and revenue earning capacities of the concerned governments, and the share of fiscal equalization grant needs to be increased, whilst the share of conditional, complementary and special grant need to be reduced gradually. In addition, the practice of providing equal amount of grants to the local levels that can become self-reliant from internal income need to be revisited. There exists practice of giving grants/assistances by the local level having more incomes to another local level. In such situation, the grant amounts to be provided by the federation and provinces should be reduced.

- 14.8. While providing any grant to the institution established for economic benefit, the beneficiaries of the grant will also become the shareholders of same institution. Instead of providing grants to such institutions, arrangements should be made for disbursing amounts as loans by specifying specific period at zero rate of interest.
- 15. Safeguards and Usage of Public Assets** - Pursuant to the maintaining records, safeguards and usage of assets owned by the public entities, the following improvements are to be undertaken:
- 15.1. Heritages of historical, religious, cultural and archaeological significance need to be conserved and used, and the public lands owned by the government, public entities and universities need to be protected clearing the encroachments.
- 15.2. In order to systematize the use of natural means and resources inclusive of leasing and usufruct of the government lands and forest areas and extraction of mines, clear standards should be prepared, and such resources should be properly utilized and managed and monitored in a manner so that it will give returns.
- 15.3. The records, maps, pacts, agreements of national importance and historical documents need to be kept safely making digitization, and such documents should be managed in such a way so as to keep them paper-wise safe as manuscripts for long-term period.
- 15.4. Monitoring should be done with regards to whether or not the protection works and usage of lands that acquired for public use have been done in accordance with the objectives.
- 15.5. Based on needs and justification of public entities, emphasis should be given in new procurements in the condition where the existing goods cannot be utilized.
- 15.6. In order to systematize the auctioning processes of inventory goods, the Government of Nepal should make necessary policy decision for one time with regards to making disposal of the inventory goods the documents which do not exist and the condition of goods existed in field and paper description do not match.
- 15.7. In order to make the records of public assets lively, intact, systematic and effective, the Public Assets Management System should be implemented up to local levels. Arrangements should also be made for mandatorily recording to all assets received as grant assistance in kind in the system.

- 15.8. Records should be made systematic by collecting information about all public assets including public lands, community buildings, heritages etc. It is necessary to conduct studies on the existing situation of the existence of more assets, the like - vehicles, equipment, buildings etc. in some entities and inadequacy of such assets in some other entities, and arrangements should be made for making handover of such assets from one entity to other.
- 15.9. The assets which can be brought in uses after normal maintenance are becoming decayed and worthless due to non-maintenance of assets. Such assets should be brought into usage by performing repairs and maintenance.
- 15.10. Necessary search and inquiry should be conducted with regards to the vehicles remained in government offices - including customs premises and police posts since long time without any use and the vehicles remained in public places without any care, and proper management of such assets should be made by doing repair and maintenance for using or auctioning and selling or making handover. Preferences should be given in the works of doing management of old assets including government vehicles and following auctioning, selling or disposing procedures if such management cannot be done.

Public Administration and Service Delivery

16. **Public Service Delivery** - In order to make the service delivery economical, effective and efficient by optimum utilization of available resources, the public entities should undertake the following improvements:
 - 16.1. By reducing time, distance and costs in service delivery, public services delivery should be made safe, reliable and sustainable.
 - 16.2. In order to control undue activities, such as - irregularities, delays, partiality due to direct contact with the service recipients, preferences given on the basis of personal relation and abuse of authorities etc., the paperless and faceless services based on IT system should be delivered in accordance with the concept of E-governance.
 - 16.3. By ending the existing indirect accountability system of the officials and manpower involved in service delivery, the system of becoming accountable or responsible directly towards service recipients should be implemented. For this, the social networks and IT system should be used for the complaint management, and the monitoring and evaluation system should also be implemented practically.

- 16.4. By maintaining citizen charters with compensation, effective monitoring need to be done pursuant to whether or not the public entities have delivered services in accordance with the citizen charters, and whether or not the system of giving compensations have been followed in the event of failure to deliver any service within specified time.
- 16.5. The service delivery should be strengthened by getting feedbacks on the public services through the medium of the public audit, social audit, public hearings, service recipient's satisfaction survey, press meet etc.
- 16.6. Since the social security programs have been currently implemented from various entities in a fragmented way, an integrated policy related to social security should be formulated and put into implementation for resolving the problem.
- 16.7. In order to make the service delivery qualitative and effective, various methods inclusive of the time rotation system, token system, layout management & help desk, simplification of procedures, processes and forms etc. should be implemented.
- 16.8. By determining the service delivery standards, quality standards and fees of the private and public hospitals, clinics providing health services and educational institutions, the federal, provincial and local levels should conduct monitoring of services regularly as per their jurisdiction.
- 16.9. Necessary policies are to be formulated for providing the health treatment services and higher education opportunities within the country and engaging the skilled and technical manpower within the country.
- 16.10. Steps should be taken for enhancing service delivery with the use of creativeness and modern technology, exchanging international experiences and applying good practices. There should be arrangements to avoid duplication in services being delivered by the federation, provinces and local levels and other public entities.
- 16.11. Special arrangements should be done to simplify and make easy accessible to the services of the entities concerned with the local levels, land management, survey, transportation, citizenship and national identity card, agriculture, health etc., from which the mass citizens get daily essential services.
- 17. Use of Information Technology (IT)** - In order to make the service delivery fair, transparent and trustworthy with the use of IT, the following improvements are to be undertaken:

- 17.1. Necessary works are to be done to maintain the records of the information system used by various government entities, regulating such systems by integrating, and developing the system that can transfer and use the information between the interrelated entities.
- 17.2. The service delivery of entities have been impacted due to arise of problems time to time in management information system and applications run by the government entities due to non-development of service-recipient friendly system, non development of systems without analyzing essential capacity, and systems used without testing systems' security, and therefore, systems should be operated giving due consideration to these aspects. The concept of paperless government is to be made successful implementing the Integrated Office Management System.
- 17.3. In the absence of objective standards relating to cost estimates, the cost estimates prepared for the development of software have not been becoming reliable. To make the procurement works of software competitive and economical, objective standards for determining costs need to be developed and implemented.
- 17.4. To bring consistency in functioning, the federal, provincial and local level entities should take necessary steps for developing and implementing software as per nature of their works. The act of procuring and developing software by each and every entity needs to be discouraged.
- 17.5. In order to make the operations of electronic and digital transactions systematic and trustworthy, appropriate legal provisions need to be formulated and the system of digital signature needs to be adopted.
- 17.6. Since the work of operating a separate data center by each and every government entity has appeared challenging from the economic, technical and security view point, an Integrated Data Center should be developed as per international standards and all government entities should make necessary arrangements for getting the data management services through the Center.
- 17.7. Necessary arrangements should be made to bring uniformity in webpage design of all government entities and resolve the server down problems by establishing essential infrastructure.
- 17.8. An emphasis on the use of information & technology should be given to make the services of the federal, provincial and local level entities easy accessible, reliable, trustworthy and economical.

- 17.9. In the websites and mobile apps developed by several government entities, information has not been updated since a long time and has remained in a state of unused. Necessary works are to be done for updating information regularly in such websites and mobile apps, and the data of closed websites and mobile apps need to be properly managed.
- 17.10. A high-powered regulatory body with skilled manpower should be established for conducting regulating the overall aspects of IT.
- 18. Human Resource Management** - Pursuant to human resource management of the federation, provinces and local levels, the following improvements are to be done:
- 18.1. Necessary arrangements should be done to implement the principle of 'right man right time and place', boost the motivation and morale of the employees, make transfer and promotion predictable and give the responsibility of departmental chiefs, project chiefs etc. by conducting the assessment of leadership capacity and signing work performance contracts with such persons.
- 18.2. The Civil Service Act and laws related to manpower mobilization in the provinces and local levels should be formulated and implemented immediately.
- 18.3. To resolve the problems existed in human resource management, an emphasis should be given in the formulation and implementation of pertinent human resource policies, strategies and working policies.
- 18.4. The approved position of employees of provinces and local levels should be revisited by conducting the organization and management surveys, and necessary positions are to be fulfilled as per approved positions.
- 18.5. The knowledge, skill and capacity of the manpower need to be enhanced by providing necessary domestic and foreign trainings. The National Training Policy needs to be implemented making amendments as per relevancy of time. Trainings are to be made professionalized along with the revision of the national training policy related to the civil servants. The short-term training courses are to be conducted every year to update the knowledge and skills and enhance efficiency of the civil servants on the relevant subjects.
- 18.6. The Human Resource Development Plans of the civil service and other government services need to be formulated and implemented. In the syllabus of the Universities,

the knowledge and skills required for the civil or other government services are to be included.

- 18.7. Necessary policy and legal provisions need to be made for using the knowledge, skills and experiences acquired by the retired manpower of the civil and other government services. Policies are to be adopted for recruiting in government services to the intelligent manpower that have got excellence from the Universities and educational institutes.
- 18.8. Arrangements should be made for producing necessary manpower by making scientific projection of the essential manpower required in future.

Development Management

- 19. Sustainable Development Goals -** With regards to the attainment of specified goals of sustainable development for the period 2016-30, the following improvements are to be included in the syllabus of the universities:
 - 19.1. The three tiers of government should internalize the sustainable development goals and should run programs linking their periodic plans, Medium-Term Expenditure Frameworks and budgets with the goals. In order to attain the goals, necessary coordination, collaboration and inter-relation should be established between all three tiers of governments.
 - 19.2. Since the sustainable development goals are inter-linked with one other, the contributions to be made by each of three tiers of governments and subject-wise entities need to be identified and the integrated data-base along with indicators are to be developed to measure, evaluate and analyze the achievement of progresses. By making arrangements for collecting of integrated results of the implementation of the goals, monitoring and evaluation should be conducted in accordance with concept of 'whole of the government'.
 - 19.3. By conducting study on impact of COVID-19 in the implementation and result of programs, necessary budgets should be appropriated for attaining the goals within specified timeframe and programs should be implemented preparing a clear action plan for performing works.

19.4. In order to attain the sustainable development goals, necessary arrangements should be done to make effective the roles of all parties - inclusive of the governments, private sector, non-governmental organizations etc. and take ownership and affinity of all parties. Effective organizational structures need to be established in the provinces and local levels as they have not yet formed any structure for the implementation of the sustainable development goals.

20. Project Management - In order to short out problems witnessed in various phases of project management, the following improvements are to be implemented:

20.1. Project banks are to be prepared by making the prioritization of projects on the basis of cost-benefit analysis, internal rate of returns, payback periods etc. The system of not including budgets for any project beyond the project banks should be strictly followed.

20.2. If projects are not completed within the specified time, both cost and time will rise and different circumstances will arise as regards to the data of cost-benefit analysis and basis taken for the projects selection. Hence, after the completion of projects, the practices of conducting evaluation and monitoring of outputs of projects on the basis of actual costs should be introduced.

20.3. Programs should be implemented for the development of production-focused physical infrastructure and increasing investments in mass net-working of transportation and information & communication infrastructures.

20.4. To identify projects with priority and implement projects with full preparatory works for attaining the specified goals of periodic plans, all projects run currently categorizing in first and second priority and game changer (transformatory) projects are to be re-assessed, and only the projects existing in priority after re-assessment are to be implemented.

20.5. In order to make the monitoring and evaluation result-oriented, the project offices, ministries, National Planning Commission and Office of the Prime Minister and Council of Ministers should conduct the monitoring and evaluation adopting modern techniques. The project management information system should be developed and implemented for conducting monitoring of the projects implemented by the Federation and Provinces.

20.6. National Pride Projects and game changer projects should be declared only on the basis of certain indicators and standards, and such projects should be completed

within identified time and cost. Such project should be implemented by establishing appropriate monitoring machinery and formulating separate laws.

- 20.7. In the absence of objectivity standards in assessment of lands, disputes have arisen in payment of compensation and petitions are filed in courts, which have caused problems in implementation of projects. Appropriate legal provisions need to be framed to make the acts of land acquisition and compensation distribution simplified, scientific and systematic.
 - 20.8. Since the drawings/designs are prepared without conducting adequate studies and field observations, the situations of requiring changing the drawings/designs in implementation phase are arising. Hence, each technical person and consultant preparing designs without making adequate studies should be held liable.
 - 20.9. Since projects of same nature are implemented by various entities and governments and such projects are inter-linked with one another, projects need to be implemented establishing coordination between the entities concerned with - road, electricity, telephone, irrigation, water supply, forest etc. Arrangements should be made for delivering services and managing fees through utility corridor by enhancing the participation of private sector in urban infrastructural development. Considering the availability of manpower, heavy machines, equipment and construction materials essential for the construction works and professionalism and conducting analysis of national construction capacity, the construction capacities should be enhanced in line with national needs
- 21. Public Procurement Management** - In order to make the public procurement procedures competitive, fair, accountable, transparent, economy and qualitative, the following improvements are to be done:
- 21.1. The needs of goods, construction works and services should be identified and procurement master plans and annual procurement plans should be prepared in accordance with the provisions made in procurement law. It is necessary to take steps for controlling the acts, such as - preparing the basis of qualifications and specifications that will suit only to certain construction entrepreneurs, suppliers and consultants, carrying out direct purchases by slicing the cost estimates into pieces to same nature of works, and adding works through variations without preparing realistic cost estimates of the works which can be predicted.

- 21.2. The audits have observed malpractices, the like - the works more than the amount specified in the Public Procurement Rules have been awarded to the user committees by slicing works into pieces, works awarded to user committees have been undertaken from the construction entrepreneurs, and direct procurement of goods have been done from the user committees which are required to be purchased through tender bidding etc. Such malpractices need to be controlled by taking strict measures.
- 21.3. It is because of lack of capacity, manpower, equipment etc. of user committees, difficulties have been faced in maintaining quality standards of the construction works, and therefore, it seems improper to undertake any complex nature of construction works through the user committees. Improvements need to be done in the practice of undertaking the construction works from the construction entrepreneurs, the contract of which are signed with the user committees.
- 21.4. The procurement management works should be done only after accomplishment of the pre-preparation works, such as - preparation of detailed project report, acquisition of lands, tree cutting, shifting of electricity poles, environmental impact assessment and coordination with stakeholders etc.
- 21.5. Procurement Management Information System should be developed so as to acknowledge information about the works being performed by construction entrepreneurs, and necessary arrangements should be made for measuring the construction capacities in assessing the construction works.
- 21.6. The Public Procurement Monitoring Office should issue necessary directives in order to systematize the phases and working procedures of the public procurement system. Such directives should cover the modern procurement modalities, such as - Public-Private-Partnership, Built-Own-Operate-Transfer (BOOT), engineering procurement contract and operations, proposal invitation and assessment procedures of financial lease etc.
- 21.7. Arrangements should be made for making procurement by all offices of the country by entering contract of item rates in the specified rates quoted by the suppliers that have already been selected after the evaluation of tender bids or proposals.
- 21.8. The capacity of employees involved in public procurement process needs to be enhanced. In order to lessen delays in procurement processes, the preparatory activities to be done before procurement, such as - acquiring essential human

resources, preparing work place, preparing drawings, designs and cost estimates, bid documents, publishing notices, etc. need to be timely commissioned on the basis of the certainty of budgets.

- 21.9. It has been practiced that the contractors are selected on the basis of joint-venture of domestic and foreign firms created for carrying out the construction works, but actual construction works are undertaken by less experienced firms or with the involvement of the domestic firms only. To control such malpractices, a clear provision relating to joint venture should be formulated.
- 21.10. Though the public procurement aims to undertake the procurements in an economically through promoting the competition, fairness and accountability, but only single or low number of participation of construction entrepreneurs has been witnessed in big contracts after the amended provision of a construction entrepreneur can participate to the maximum of 5 tender bidding processes, and the procurement contracts have been arranged near amounts of cost estimates. Necessary amendments need to be done in procurement laws for covering the complexity, working capacity and construction costs of contract works to perform qualitative contract works, but not limiting any bidder in participating in competition of tender participation and not taking the number of contracts as a basis.

Public Accountability and Good Governance

22. Accounting and Reporting - With regards to the accounting and reporting of the financial transactions, the following improvements are to be done:

- 22.1. The federations, provinces and local levels should prepare the financial statements in the prescribed format of Nepal Public Sector Accounting Standards. In addition, arrangements should be made for maintaining accounts and preparing statements based on the functional classification, sustainable development goal codes, gender responsive budget codes, and climate change budget codes etc.
- 22.2. Since the cash basis accounting system cannot present and give picture on the overall financial conditions and financial performances incorporating all financial transactions, necessary works are to be done to converse this system into the accrual basis accounting system.
- 22.3. A Consolidated Financial Statement is to be prepared by incorporating the transactions of all three tiers of governments of the country and the budgetary and non-budgetary entities functioning under the governments. In making disbursement

of grants under fiscal transfer, the disbursed amounts are recognized as expenditure, but the unspent amounts are kept as balances in the consolidated funds of the concerned governments after the end of the fiscal year, and such amounts are refunded in next year in some cases, which have created the situation of revenue and expenditure amounts are not becoming realistic. Appropriate alternatives should be adopted to overcome such situation and resolve the condition of double treatment of disbursements in accounting.

- 22.4. Necessary accounting and reporting are to be done to consolidate the statements of assets/properties and liabilities of all government. Necessary arrangements need to be done to maintain accounts of the liabilities and commitments created under multi-year projects or other methods. In addition, arrangements should be done to maintain the accounts of loans provided under government's guarantee.
- 22.5. The amounts deposited in divisible funds -which are created so as to deposit the amounts receivable from the revenues and natural resources as per Inter-Governmental Fiscal Arrangement Act, 2074 (2017) - should be divided to all concerned levels within the stipulated time without keeping any balance amount at the end of the year. It is observed that the revenues collected under the concurrent powers of the federation, provinces and local levels have been deposited in own consolidated funds instead of depositing in the concerned divisible funds. Hence, such revenues need to be deposited timely in concerned divisible funds.
- 22.6. Arrangements should be made for preparing the consolidated statements of income and expenditure of all local levels within own province by every Province Treasury Comptroller Offices and sending such statements to the Federal Ministry of Finance, and preparing a consolidated financial statement of all governments by the Federal Ministry of Finance.
- 22.7. To maintain consistency in the formulation, implementation, accounting and reporting of budgets between three tiers of governments, an integrated financial management information system should be developed and implemented by adopting modern information technology system. There should be arrangements for preparing automatically the basic financial statements of accounts from such system.
- 22.8. Necessary arrangements should be made to make accreditation of the financial management experts in order to develop the skilled manpower concerned with

public finance in public sector of Nepal, and appropriate structures should be formed and the regulation should be done for the capacity development of manpower engaged in financial administration.

22.9. Since the Financial Procedures and Fiscal Accountability Rules 2077 (2020) provisions that the advances shall not be considered as irregularity, integrated statements are to be prepared by extracting the balances of each advance account provided by each government offices for getting updated records, and separate forms are to be developed for the purpose certifying the balances of each and every advances.

23. Internal Controls and Internal Audit - For the effective utilization of the public resources, the following improvements are to be done with respect to the internal controls system and internal audit:

23.1. As per Financial Procedures & Fiscal Accountability Act, 2076 (2019), the offices operating under all levels of governments should make active to the internal Controls & Audit Committees. All public entities should develop and implement the procedures related to the internal controls system.

23.2. Internal audits should be made mandatory in the local levels and public institutions, such as - Universities, Committees, Boards, and Corporate Bodies. To make the internal audits effective, legal and organizational reforms are to be undertaken so as to keep the auditors free from the managerial and operational responsibilities in line with good international practices.

23.3. Irregularities should be cleared/settled within the timeframe specified in the Financial Procedures and Fiscal Accountability Act, 2076 (2019).

23.4. The coordination between the final audit and internal audit needs to be improved to enhance the effectiveness of internal audits.

24. Final Audit - In order to enhance the quality and impact of audits, the following improvements are to be done in final audit:

24.1. To maintain the financial, administrative and functional independency of the Supreme Audit Institution of Nepal in accordance with the Lima and Mexico Declarations of the International Organization of Supreme Audit Institutions and the resolutions adopted by the United Nations' General Assembly time to time,

arrangements should be made to formulate necessary laws and provide necessary means & resources.

- 24.2. By giving continuity to the works of adhering to the code of ethics issued by the office, quality controls of audits, professional capacity development etc., necessary means and resources should be provided for enhancing norms and values in auditing.
- 24.3. There should be arrangements for tabling and holding timely discussions in the concerned legislative bodies of all levels with regards to the annual reports, report on functioning of the Provinces and audit reports of the Local Levels submitted/issued by the Auditor General. With regards to the significant audit issues/matters mentioned in such reports, arrangements should also be made for holding pre-discussion and making coordination and collaboration in the Public Accounts Committees.
- 24.4. Section 16 of the Audit Act, 2075 (2019) provisions that no employee of the Office of the Auditor General shall be personally liable for any damage or error that has occurred from the audit work, the audits of which have been completed in accordance with the standards, policies, directives, guidelines and audit plans issued by the Auditor General. Section 14 of the Audit Act, 2019 stipulates that any errors or weaknesses which an auditor may not have identified in the auditing, which has been carried out on the basis of the auditing standards and directives issued by the office, shall not be reviewed by any entity, except for the purpose of the peer reviews. Necessary coordination needs to be established in acknowledging this matter to the mass stakeholders.
- 24.5. Section 2(d) of the Audit Act, 2075 (2019) mentions that the auditing also covers the follow-up acts of audits. Subject matters need to be made clear with regards to the Chief Accountability Officer shall produce documents related to settlement and clearing of irregularities to final audits and examining such documents in auditing as provisioned in Section 38(4) of the Financial Procedures & Fiscal Accountability Act, 2076 (2019).
- 24.6. Since provisions made in Section 40 and Section 41 of the Financial Procedures and Fiscal Accountability Act, 2076 (2019) and Audit Act, 2075 (2019) are found contradictory, the provisions of the Acts need to be harmonized.

24.7. Legal provisions need to be formulated to operate services of the employees of Nepal Audit Service working in the Office of the Auditor General.

25. Regulation Arrangement - The following improvements should be undertaken in respect to the regulation of works performed as per the Constitution and laws:

25.1. In order to address the problems, the like - maintaining quality of the drugs and medical goods and food substances, maintaining quality of the construction materials and works, selling/distributing goods with excess profits than that specified as compared to the costs involved in the production, import, transportation, storage or sales distribution of goods, supplying goods and services of low quality, low weight and date expired, scarcity of essential goods etc., the system of conducting monitoring of markets and taking actions to defaulters should be effectively implemented in coordination with the concerned entities.

25.2. The professional and institutional capacities of the executive bodies - National Vigilance Center, Department of Money Laundering Investigation, Department of Revenue Investigation, Public Procurement Monitoring Office and Subject-wise regulatory bodies should be made effective by allowing proper functional autonomy. Information need to be shared between such regulatory bodies.

25.3. A regulatory entity need to be established to regulate the various Funds operating the financial transactions inclusive of the Citizen's Investment Fund, Social Security Fund, and Employee's Provident Fund. In addition, the regulating works of banks and financial institutions should be made effective.

25.4. Proper records of the directives issued by the parliamentary committees should be maintained, and monitoring should be conducted whether such directives have been complied or not.

25.5. Regular monitoring should be conducted by making arrangements of granting reasonable compensations in the event if any financial, physical, body or other types of loss or damages has occurred to the consumers from the faulty acts of the public and private service providers.

25.6. Effective regulation should be done to make the services service-oriented of the entities like banks, financial institutions, cooperatives, commercial companies, securities, electricity, airlines, telecommunication related entities etc.

26. Financial Discipline - The following improvements are to be undertaken to maintain financial and good governance :

- 26.1. There should be arrangements for taking actions to the persons as per the Audit Act that have failed to submit financial statements and accounts on time, not submitted accounts related documents, not furnished information related to accounts, not maintained accounts in specified formats and not completed audits. There should be arrangements for preparing reports by examining the progresses related to the works performed by responsible persons with regards to the implementation of audit findings and recommendations.
- 26.2. In accordance with the Financial Procedures and Fiscal Accountability Act, 2076 (2019) and Rules, 2077 (2020), expenditures should be incurred in order to attain high returns and quality on the basis of approved budget, programs and available resources, and the provisions related to assuming fiscal accountability and responsibilities should be effectively implemented.
- 26.3. There should be arrangements for making evaluation of the status of entity-wise fiscal discipline by determining certain indicators. For this, the policy, organizational, administrative, and financial indicators need to be formulated.
- 26.4. To bring convenience and quickness in the office workings, each public entity should prepare the work procedures and conduct works accordingly.
- 26.5. Released letter should be issued to a responsible official only after the completion of audits of financial transactions and clearance of irregularities of his/her tenure.
- 26.6. With regards to irregularities witnessed in carrying out the financial transactions, the government entities should held accountable to the concerned office chief and responsible officers operating such financial transactions.
- 26.7. The compliance with fiscal discipline and settlement of irregularities of an employee should be linked with his/her work performances and career development.
- 26.8. While appointing or nominating any person as chief executive or member of board of directors of a public enterprise, the status of the person's past history of compliance with the fiscal discipline should be assessed.

27. Corruption Control and Good Governance

- 27.1. By conducting regular studies and surveys in respect to key risk areas of corruptive activities and preparing a list for conducting surveillance, necessary arrangements should be made to make special surveillance in such areas.
- 27.2. Prior to holding the responsibility of a leadership post, it is to be assured that whether there exists any conflict of interest between the works to be performed by the concerned post and the occupation being adopted by the person and his/her background which is going to hold such post.
- 27.3. In order to address the situation of becoming encouraged or getting pressurized in doing corruptive acts as a result of huge expenditures in election, necessary arrangements should be made to keep the election expenditures within certain ceilings or make alternative arrangements for such purpose.
- 27.4. In order to adopt zero tolerance to the corruptive activities, not only legally but also socially and culturally, awareness programs should be conducted to promote the social and cultural norms and values at citizen level.
- 27.5. Public entities should strengthen the internal controls system and implement the system effectively in order to prevent corruptive activities.
- 27.6. By ensuring the secrecy of information and its usage only for the specified purposes, the information related to suspected and limit-wise transactions should be shared between the subject area-wise regulatory institutions, concerned government departments/offices and constitutional bodies.

- The End -