

(Unofficial Translation)



**Fifty-Third (53<sup>rd</sup>) Annual Report  
of the Auditor General  
2072 (2016)  
Summary**



**Office of the Auditor General**  
Babar Mahal, Kathmandu

## **Vision**

**We strive to be a Credible Institution in Promoting Accountability, Transparency and Integrity for the benefit of the people.**

## **Mission**

**Provide Independent and Quality Audit Service to assure our stakeholders that the public funds are efficiently used.**

## **Core Values**

- **Independence**
- **Integrity**
- **Professionalism**
- **Transparency**

**Auditor General  
of Nepal**



**Babar Mahal,  
Kathmandu  
Nepal**

## **Summary Report**

Pursuant to the Article 294 of the Constitution of Nepal, I have submitted the Fifty-third Annual Report, of the work performed according to Article 241, to the Rt. Honorable President today. The report has also been made public through the website of the office: [www.oagnep.gov.np](http://www.oagnep.gov.np).

This booklet has been published as a summarized version of the Fifty-third Annual Report for the purpose of enhancing public financial accountability and transparency by disseminating the results of audit of the public financial management of the country to the general people.

(Bhanu Prasad Acharya)  
Auditor General

11 April 2016  
(2072 Chaitra 29)

## **Preface**

As per the Constitution of Nepal, the economic objective of the State shall be to achieve rapid and sustainable economic growth, by way of optimum mobilization of the available means and resources and to build independent and prosperous economy through equitable distribution of the gains. In order to fulfill this objective, the state organs must focus to deliver service to the citizen and ensure economic prosperity by complying with the legislations. A report with recommendations has been presented to the Parliament and stakeholders, after impartial and objective analysis of managerial weaknesses and irregularities in the mobilization of financial resources of public entities and status of their accountability.

It is high time that the quality of auditing be enhanced by imbibing the developments and best practices in the international auditing arena. The Office of the Auditor General (OAG) is a member of International Organization of Supreme Audit Institutions (INTOSAI) and Asian Organization of Supreme Audit Institutions (ASOSAI), as well as the elected member of the governing board of ASOSAI. Due attention has been provided to adhere to the standards and best practices propounded by these Institutions so as to make the audit findings more result oriented and qualitative. In the context of auditing of the state and local level entities as per the Constitution, an effort has been made to restructure the OAG. Efforts have also been made to use, information technology for efficiently conducting the audit work. This summary report has been prepared, by incorporating major issues of the Annual Report, with an objective to inform the public about the results after independent and impartial assessment of the works performed by public entities. This report aims at not only in pointing out the discrepancies observed on evaluation of the financial management but also recommends the Government to adopt best practices.

The organs of the Government have not been found effective as expected in promoting good financial governance by maintaining fiscal accountability and transparency. This year, audit of Rs. 2 trillion 514 billion 950 million has been completed including Rs. 1 Trillion 43 billion 240 million of 3829 government entities, 1 trillion 241 billion 890 million of 48 corporate bodies, Rs. 134 billion 990 million of 576 committees and other institutions and Rs. 94 billion 830 million of 75 District Development Committees. In addition, performance audit of 30 topics, environment audit of 1 topic and information technology audit of 7 softwares have been accomplished. Audit irregularities towards government offices has amounted to Rs.328 billion 520 million (4.67 percentage of audited figures). The accumulated amounts requiring recovery, settlement and further action has reached to Rs. 328 billion 520 million.

Major audit issues include: non-presentation of true status of financial transactions of the consolidated fund, ineffectiveness in controlling revenue leakages, slow progress in

national pride projects, mobilization of foreign aid beyond the budgetary framework, non-economic and inefficient utilization of resources, inefficient procurement management, non-submission of books of accounts of technical and other assistance for audit, lack of budget discipline, non-operation of funds as per set objectives, weak management of public investment etc. As the audit issues pointed out in previous years audit reports have not been rectified, the same issues have been repeated in this year also.

Audit irregularities have increased because of inadequate attention from the Accounts Responsible Officers and responsible persons for timely settlement of audit issues and transacting in non-objectionable manner. Weak status of financial accountability can also be seen as the decisions of the Public Accounting Committee regarding irregularities have not been implemented. Attention should be paid to the gravity of this issue by the audited entities and by stakeholders. I expect support from all the concerned parties for promoting good governance by enhancing fiscal accountability and transparency for sustainable development and economic prosperity of the country.

Last but not the least, I would like to express my gratitude towards Parliament, Constitutional bodies, entities of Government of Nepal, Audit Advisory Committee, public entities, development partners, civil society, media person and general people for providing help and suggestion in completion of the audit, as per conferred constitutional responsibility, and in preparation of this report. I would also like to express special thankfulness to all staffs of the OAG who contributed by completing audit works in time and assisted in preparing this annual report.

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## **Acronyms**

OAG -	Office of the Auditor General
AG -	Auditor General
ASOSAI -	Asian Organization of Supreme Audit Institutions
BDS -	Bachelor of Dental Surgery
EWPP -	Electronic Working Paper
FCGO -	Financial Comptroller General Office
FY	Fiscal Year
GDP -	Gross Domestic Product
INTOSAI -	International Organization of Supreme Audit Institutions
ISSAI -	International Standards for Supreme Audit Institutions
MBBS -	Bachelor of Medicine and Bachelor of Surgery
MOF -	Ministry of Finance
NGO -	Non-government Organization
NPSAS -	Nepal Public Sector Accounting Standards
SAI -	Supreme Audit Institutions
UNICEF -	United Nation Children Fund
VAT -	Value Added Tax

# Summary of the Auditor General's Annual Report, 2072 (2016)

## 1. Background

1. **Legal Provision** - Pursuant to Article 241 of the Constitution of Nepal, 2072 (2016) the Auditor General (AG) is mandated to carry out the audit of all federal and state government offices including local level and institutions as specified by law having regard to, inter alia, the regularity, economy, efficiency, effectiveness and the propriety thereof; and Constitutional Body is required to submit annual report to the President in accordance with Article 294 of the Constitution of Nepal. The Audit Act, 1991 stipulates the methodology, scope and the matters to be audited by the AG; moreover, it also stipulates for carrying out the audit of fully and majority owned corporate bodies of Government of Nepal. The audit has been carried out in conformity with the legal mandate as stipulated by the Constitution and the Audit Act.
2. **Objective** - The objective of audit was to ensure that acquisition and utilization of public resources was done with due consideration to regularity, economy, efficiency, effectiveness and propriety as per the need and to provide assurance on the following matters:
  - Financial statement has been prepared in the prescribed formats and transactions are reported in true and fair manner,
  - Expenditure has been incurred only for specified task and purpose within the limit set by Appropriation Act,
  - All incomes including revenue are properly collected and deposited,
  - Adequate arrangements have been made for maintaining records of government property, its usage and safeguarding,
  - Arrangements for internal control are effective,
  - Financial transactions are carried out in compliance with laws and adequate supporting evidences have been maintained, and
  - Targets have been achieved within the stipulated time as set in program.

3. **Scope** - This year the audit of the financial transactions of fiscal year 2071/72 (2014/15) and audit backlogs of previous years, to the extent submitted, has been carried out by covering the Constitutional bodies, Ministries, Departments and Offices, Corporate Bodies, Committees, Boards, Funds, Authorities and Universities, other institutions as prescribed by law. The audit has been performed in line with the approved annual audit plan that includes financial audit as well as performance, information & technology and environmental audit. In addition, piloting of the audit of 74 entities has been conducted by using Electronic Working Paper (EWP) system.



4. **Methodology** - The audit has been accomplished in accordance with Audit Act, 1991, Government Auditing Standards, Founding Auditing Principles as pronounced by the International Organization of Supreme Audit Institutions (INTOSAI), audit guidelines and good audit practices and exercises. The audit has included the application of test of control and analytical procedures related to the matters identified through the risk assessment as well as applying sampling techniques and detailed examination procedures, as deemed necessary so as to collect sufficient and relevant evidences. The audit process has been depicted in the chart above.
5. **Audit Standards and Guidelines** - The following standards and guidelines have been utilized in course of the audit:

<ul style="list-style-type: none"> <li>• Government Audit Policy Standards,</li> <li>• Government Audit Operational Guidelines,</li> <li>• Performance Auditing Guidelines,</li> <li>• Directives for Auditors of Corporate Bodies,</li> <li>• Directives and Circulars related to audit issued by the Auditor General,</li> <li>• Directives related to the Composite Audit Teams</li> <li>• Quality Assurance Handbook</li> </ul>	<ul style="list-style-type: none"> <li>• Project Financial Statements Audit Guidelines,</li> <li>• Public Procurement Audit Guidelines,</li> <li>• Administrative Expenditure Audit Guidelines,</li> <li>• Revenue Audit Guidelines,</li> <li>• District Development Committee Audit Guidelines,</li> <li>• Risk- based Audit Guidelines,</li> <li>• Code of Conduct for Auditors.</li> </ul>
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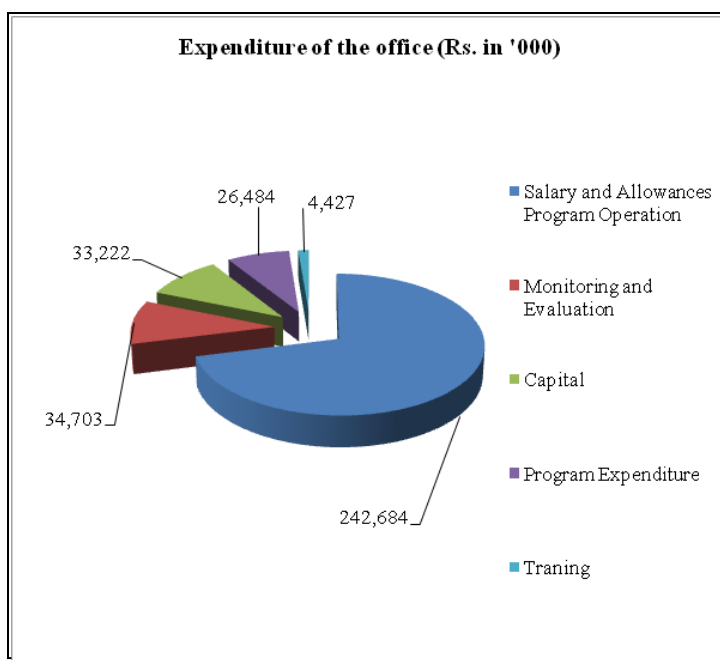
Piloting audit was performed on the basis of recently developed Financial Audit Guidelines instead of Government Audit Operational Guide.

6. **Quality Control and Review** - The Office of the Auditor General (OAG) has adopted the quality management framework that has been internationally developed for Supreme Audit Institutions. This framework includes the arrangements related to promoting independency of auditor, recruiting capable and competent staffs and enhancing their professional knowledge and skills consistently, preparing the auditing standards and guidelines in line with international auditing standards and performing audits and preparing reports by formulating Annual Audit Plan. The audits are supervised by the senior-level officials on every phase of audit and monitored with respect to adherence to Code of Conduct and activities related to internal control. In view of optimizing the use of resources of the Office and maintaining the functional relationship with the stakeholders, a system has been in place so as to communicate the audit results for the improvement of public financial management.

The post audit quality review of 50 audit files has been conducted every year after the completion of audit, in accordance with Quality Assurance Handbook by covering the files of all directorates, audit teams and the nature of audits. Apart from this, one audit file of each audit team is reviewed for the purpose of evaluation of the Performance Based Incentive Scheme (PBIS).

7. **Audit Advisory Committee** - In a bid to improve the quality of audit and considering the international good practices, a 15 member Audit Advisory Committee comprising of experts of various disciplines had been constituted and is active in providing advice on audit processes, relevant subject matters and reporting. The advice consistently given by the Committee to Auditor General has been found useful in refining the audit.

8. **Organizational Management and Budget** - There are 4 Divisions, 14 Departments and 27 Sector-wise Directorates as per organization structure of the Office. The Office has been conducting audit covering all the offices across the country by deputing staffs at field level.



There are 448 approved positions in the OAGN which has not been reviewed for the last 22 years. Of the total appropriated budget of Rs.521.2 million to the Office in fiscal year 2014/15 (2071/72), a total of Rs.341.5 million has been spent. The details of expenditure have been depicted in the graph. On that basis, the percentages of expenditure incurred on training and capital expenditure against the total appropriated budget to Office accounts 1.29% and 9.72% respectively. Comparing the total expenditure of the office for fiscal

year 2014/15 (2071/72) with the total audited amount of Rs.1 trillion 459 billion 991.6 million of the same year, the audit cost for each one-hundred thousand Rupees is Rs. 23.39.

9. **Participation of Civil Society**-The OAG has implemented the concept of involving civil society in the audit process as per the need. In this context, the civil society and beneficiary groups were involved in risk identification stage of planning phase and in implementation phase of performance audit without affecting independency of the audit. Moreover, the office plans to involve civil society organizations in disseminating results of the audit reports at local level.
10. **Formulation of Strategic Plan** – This year, the Office has prepared third Strategic Plan for the period of 2016 to 2020 AD. The Strategic Plan has set a vision to “Strive to be a credible institution in promoting accountability, transparency and integrity for the benefit of the people”, and “to provide independent and quality audit services to assure stakeholders that the public funds are effectively used” as its mission. The Plan has set a target to improve the quality and impact of audit, strengthen independency and mandate, develop organizational capacity, enhance professional relations with external stakeholders, and enhance internal governance. An Annual Operational Plan is being prepared for implementation of Strategic Plan. Technical assistance from the Office of Auditor General of Norway has been received for preparing Strategic and Annual Operational Plan.
11. **Impact of Audit** – Every year, after the revelations from audit observation of the lesser amount collection of revenues, over payment and non-compliance with prevailing laws, the Government recovers and deposits them in the Consolidated Fund. The details of amount recovered in the last three-years are shown in the table below. It is believed that the rectification of observations related to non-compliance with Acts and Rules would contribute in maintaining financial discipline.

(Rs. in millions)

Fiscal Year	Irregularities to be recovered	Amount recovered
51 <sup>st</sup> Report	3,749.40	2,504.10
52 <sup>nd</sup> Report	4,204.80	2,060.50
53 <sup>rd</sup> Report	4,870.40	2,572.80

12. **International Relation** - With an objective of making the level of public sector audit compatible with international standards by adopting good practices, and disseminating information of the work performed by the Office, the OAG has followed a policy to actively engage in the international arena and has performed this year the following activities accordingly:
  - 12.1. The delegation led by the Auditor General participated in the 50<sup>th</sup> meeting of Governing Board of Asian Organization of Supreme Audit Institutions (ASOSAI) held in Indonesia and discussed on various issues with the of participating Head of the Asian Supreme Audit Institutions; similarly, delegation participated in a program – themed, “Role of Supreme Auditing Institutions as an Accountable Institute” - which was organized in Bangladesh; and participated in the study program on audit process and methodology arranged by Supreme Audit Institute of Vietnam and Philippines.

- 12.2. OAGN nominated 10 staff to attend online and practical training on information technology, public debt and disaster management audit which was conducted by IDI. The staffs of the office were nominated to participate in an assessment program conducted by same institution on implementation of International standards for Supreme Audit Institutions (ISSAI). On the basis of result of the assessment, a work plan for reform has been prepared. This year staff participated in the training program on financial, performance and disaster management audit conducted by SAI Malaysia and Pakistan.

## 2. Audit, Irregularities and Clearances

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

1.1. **Government Offices** - This year, audits of 3 thousand 829 government offices with an transactions of Rs.1 trillion 43 billion 238.4 million has been accomplished towards appropriation/revenue/deposit accounts as follows:

(Rs. in Millions)

S. No.	Transaction	Audited figure of 2014/15 (2071/72)
1	Appropriation released/disbursed	521,008.2
2	Revenue collected	396,043.8
3	Deposit income	25,415.3
4	Others	100,771.1
<b>Total</b>		<b>1,043,238.4</b>

1.2. **Corporate Bodies, Boards and other Institutions** –This year, audit of Rs. 1 trillion 241billion 896 million of 48 corporate bodies, Rs. 134 billion 993 million of 576 boards and other institutions and Rs. 94 billion 826.4 million of 75 District Development Committees (DDCs) has been completed.

1.3. **Performance and other Audit** - This year, performance audit of thirty topics, environment audit of one topic and information technology-based audit of seven softwares have been accomplished.

1.4. **Audit backlog** – In case of government offices, the audit backlog has reached to Rs.5.741 billion of 2,929 offices this year as compared with Rs. 4 billion 643.3 million towards 2,903 offices up to last year. Likewise, in case of corporate bodies, this year, remaining audit backlog is of 482 financial years which was 382 financial years up to last year.

1.5. **Audit Report with Qualified Opinion** – OAG has issued audit report with qualified opinion on the accounts of Consolidated Fund (CF). Among the 39 compiled central level financial statements submitted by entities, audit reports with unqualified (clean) opinion has been issued to 1 entity whereas audit reports with qualified opinion have been issued to 38 entities. In case of corporate bodies, among the 42 financial statements submitted, audit reports with unqualified (clean) opinion has been issued to 5 entities and remaining 37 entities have been issued audit reports with qualified opinion.

2. **Irregularities** - Section 2 (da) of Financial Procedures Act (FPA), 1999 (2055) defines "irregularity" as "a financial transaction carried out without fulfilling such requirements as to be fulfilled in accordance with the prevailing law or accounts as to be maintained has not been maintained and a transaction which has been carried out in an irregular or unreasonable manner."

2.1. The cumulative recoverable amount to be settled by the audited entities was Rs. 273 billion 123 million last year whereas it has increased to Rs. 328 billion 523.8 million this year, registering a growth by 20.28 percent as compared to last year.

(Rs. in Millions)

S. No.	Particulars	Amount
1	Irregularities of Government offices	112,515.50
2	Irregularities related to District Development Committees, other Institutions and Committees	50,404.90
3	Audit backlog	5,741.20
4	Revenue arrears	128,233.70
5	Outstanding reimbursable foreign grant	21,269.10
6	Outstanding reimbursable foreign loan	8,305.10
7	Overdue principal and interest on loans obtained in GON guarantee	2,054.30
	<b>Total</b>	<b>328,523.80</b>

*Note: Since the OAG does not maintain records of irregularities of corporate bodies, the irregularities amounts of such corporate bodies have not been included in above figures.*

- 2.2. A comparative status of audited amount and volume of irregularities towards government offices for the last three years is as follows:

(Rs. in Millions)

Reports	Audited Amount	Irregularities Amount	Percent
51 <sup>st</sup>	804,857.30	28,759.40	3.57
52 <sup>nd</sup>	853,946.40	37,405.70	4.38
53 <sup>rd</sup>	1,043,238.40	48,778.80	4.67

In last year, the irregularities amount was 4.38 percent of audited figure, but it has increased to 4.67 percent during this year.

3. **Classification of Irregularities** - Irregularities are categorized as recoverable, non-compliance with relevant law, unsubstantiated expenses (non-submission of evidence), unclaimed reimbursements, and outstanding advance. Such outstanding advances have been further categorized as staff advances, mobilization advances, Letter of credit (LC) advances and institutional advances. The irregularities raised by the audits pertaining to government offices, committees and other institutions and corporate bodies are as follows:

(Rs. in Millions)

Category	Government offices	Boards & other Institutions and DDCs	Total	Percent of total irregularity
<b>Total irregularities</b>	48,778.8	7,874.2	56,653.0	100.00
1. Recoverable	4,336.2	534.2	4,870.4	8.60
2. To be regularized	19,338.2	6,304.2	25,642.4	45.26
• Non-compliance	4,296.3	2,096.4	6,392.7	11.28
• Unsubstantiated expenditure (non-submission of documentary evidence)	14,966.4	3,928.1	18,894.5	33.35

• Balance not carried forward	-	0.1	0.1	-
• Unclaimed reimbursement	75.5	279.6	355.1	0.63
3. Advances	25,104.4	1,035.8	26,140.2	46.14
• Staff Advances	1,470.7	102.0	1,572.7	2.78
• Mobilization Advances	10,613.7		10,613.7	18.73
• LC Advances	3,808.2		3,808.2	6.72
• Institutional Advances	9,211.8	933.8	10,145.6	17.91

- 3.1. Out of the irregularities noted by audit, amount recoverable is 8.60 percent. Significant observations in this regard are as follows:
- 3.1.1. Under the Ministry of Finance, revenues amounting to Rs. 1 billion 919 million have been observed as recoverable this year due to the various reasons such as short collection of customs duty because of wrong application of custom codes, granting ineligible rebate, non-declaration of actual transaction of purchases and sales, non-filing of tax returns despite having high transaction, non deduction of tax on payment, under-disclosure of production by industries, non-proportionate deduction of tax, non-collection of tax on VAT able transactions.
- 3.1.2. The Ministry of Information and Technology has not recovered Rs. 383 million from five various telecommunication service providers towards frequency and other charges.
- 3.1.3. In the offices under Ministry of Physical Infrastructure and Transport, irregularities amounting to Rs. 465 million have been observed that includes excess payment towards price adjustment, payment made contrary to the regulations, double payment, payment in excess of works measured, non-collection of pre-determined compensation, non-deduction of tax etc.
- 3.1.4. In the offices under Ministry of Urban Development, an amount of Rs. 443.7 million has been observed as recoverable that includes non-collection of interest on advance, pre-determined liquidated damage not charged to construction entrepreneurs and payment made in excess of works measured.
- 3.1.5. In the offices under the Ministry of Health and Population, a sum of Rs. 398.8 million has been observed as recoverable that includes excess payment made towards travelling and maternal security expenses, non-deduction of taxes at source, expenditures incurred exceeding the approved norms, expenditures incurred in exceeding the bills value etc.
- 3.1.6. In offices including District Development Committee under the Ministry of Federal Affairs and Local Development a sum of Rs 203.8 million has been observed as recoverable that includes overpayment made by exceeding value of bills, non-charging of liquidated damage to construction entrepreneurs, non deduction of tax, unspent amount (freeze) not returned to Consolidated Fund (CF) and payment made against price adjustment etc.
- 3.2. The audit revealed an amount of Rs.6 billion 392.7 million as irregular expenditure because of non-compliance with the procedures prescribed by the regulations, expenses incurred exceeding the designated authority, or limit stipulated by law, contingencies expenses spent than prescribed, expenses made without getting ratified or approval.

- 3.3. The audit could not find evidences of expenditure incurred amounting to Rs.18 billion 891 million due to various reasons such as non-presentation of bill/receipt, contract agreement and documents for audit, lack of documentary evidence corroborating the transaction, absence of documents for availing revenue exemption, non-submission of decision, non-presentation of accounts because the same was sent to investigating authorities.
- 3.4. The practice of providing advances to staffs, entity, construction entrepreneurs, suppliers and consultant is found to be increasing. As a result, advance irregularities which was Rs. 18 billion 109.4 million in last year, has reached to Rs. 26 billion 142 million during this year. This amount is 46.14 percent of the total irregularities. It has been increased by 44.34 percent as compared to last year. Staff advance which was Rs. 349 million last year, has increased by 350 per cent and reached to Rs. 1 billion 572.7 million 700 this year.
4. **Settlement of irregularities** – This year, the status of irregularity, clearance and settlement through follow-up audit is as follows :

(Rs. in Millions)

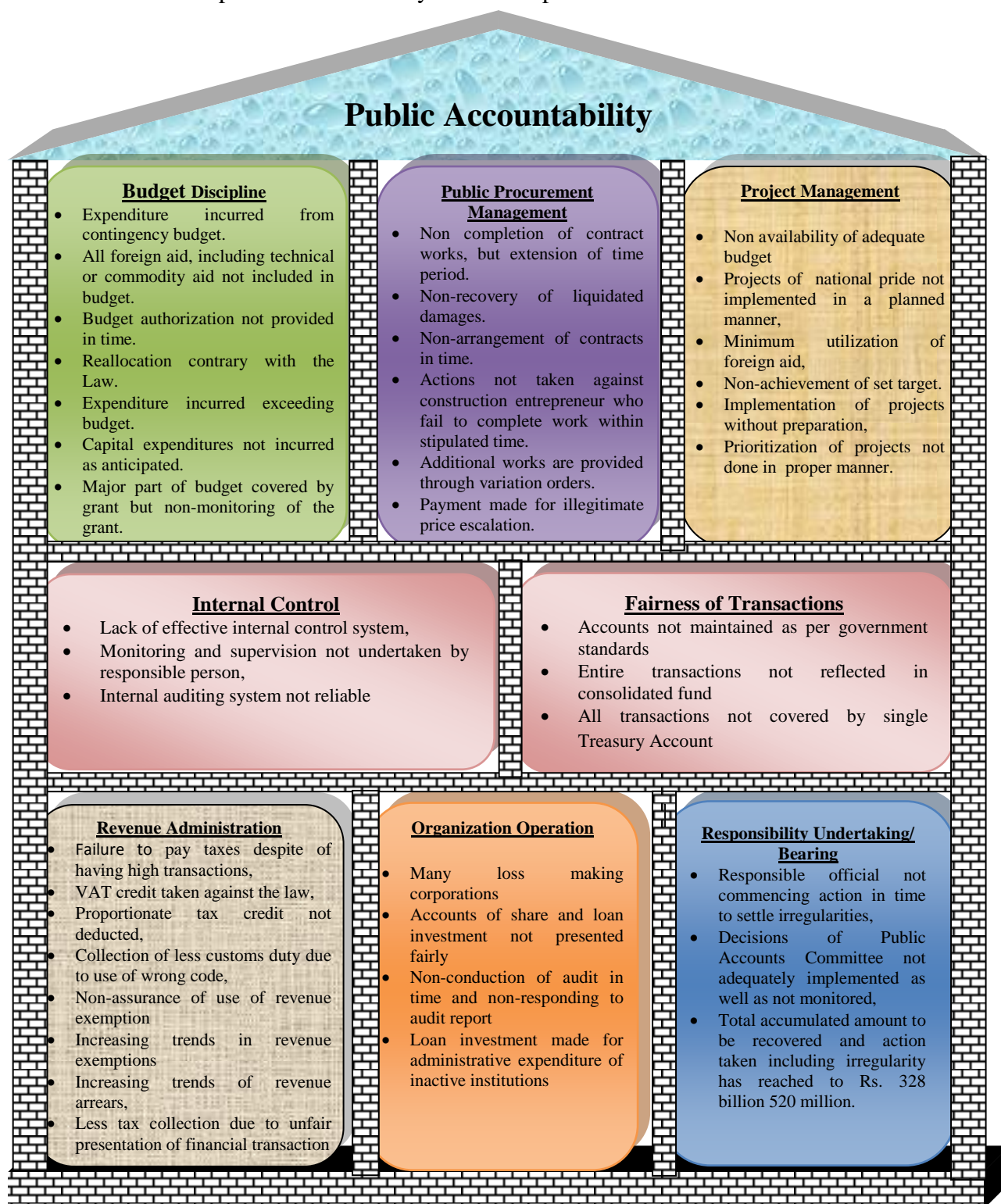
Particulars	Irregularities up to previous years	Adjustments made (+ -)	Settlement through follow-up audit	Irregularities of Current Year	Updated unresolved irregularities
Government offices	90,976.2	(1.7)	27,237.8	48,778.8	112,515.5
Corporate bodies, Boards and other Institutions	45,808.0	1.7	3279.0	30,516.8	50,404.9
<b>Total</b>	<b>136,784.2</b>	<b>-</b>	<b>30,516.8</b>	<b>79,295.6</b>	<b>162,920.4</b>

Out of the total irregularities amount of Rs. 27 billion 237.8 million settled during this year, Rs. 6 billion 600 million has been settled by Ministry of Urban Development, Ministry of Irrigation, and Ministry of Physical Infrastructure and Transport Management. Of the settled irregularities, 66.06 percent or Rs 4 billion 497.6 million constitutes mobilization advances. Such advances are itself settled while making payments of running bills of construction works and as the target of settlement of advances are met through normal transactions the entities are also rewarded. Apart from this, the concerned audited entities have not paid adequate attention to clear other types of irregularities.

As per the decision of Council of Minister dated 2069/6/11, an amount of Rs.114 million has been settled out of the irregularity till 2059/60 that was transferred to Kumari Chowk and Central Recovery Office .

### 3. Some glimpses observed during the course of Audit

1. **Status of Public Accountability:** Major audit findings observed with regard to adherence to public accountability have been presented in brief as follows:



- **Economic Indicators, Income and Expenditure**

2. **Overall Economic Position** – The implementation of policy adopted by the Ministry of Finance (MOF) in maintaining the overall economic stability on the basis of data published by Financial Comptroller General Office, Nepal Rastra Bank and Economic Survey of MOF, has been presented below. In order to measure the overall achievement, a comparison has been made with the key economic indicators of the Three Years Plan period (2015/16 - 2016/17):

(in percentage)

Indicators	Target of the Plan	Achievements	
		2070/71 (2013-14)	2071/72 (2014-15)
Economic Growth rate	6	5.5	3.4
Inflation rate	7	9.1	7.5
Total Revenue / Gross Domestic Production \	21.1	18.4	18.4
Total Government Expenditure/ Gross Domestic Production	25.06	22.4	23.3
Recurrent Expenditure/ Gross Domestic Production	18.63	15.6	15.1
Capital Expenditure / Gross Domestic Production	6.44	3.4	4.1
Foreign Aid / Gross Domestic Production	3.37	1.7	3.5
Foreign Loan / Gross Domestic Production	2.54	1.1	2.3
Domestic Loan / Gross Domestic Production	2.25	1.0	2.5
Trade Deficit/ Gross Domestic Production	-	32.1	33.4
Remittance income/ Gross Domestic Production		28.17	29
Total consumption/ Gross Domestic Production	-	89.1	88.6
Total National Saving/ Gross Domestic Production	-	45.1	44.6
Export/ Gross Domestic Production	-	4.62	4.01
Import/ Gross Domestic Production	-	36.88	37
Budget Deficit(+) Saving(-)/ Gross Domestic Production	0.59	2.2	4.8
<i>*Sources: Nepal Rastra Bank, Financial Comptroller General Office and Economic Survey of Ministry of Finance.</i>			

Although the three-year plan projected achieving 6 percent average annual economic growth rate for the year 2013/14 and 2014/15, the overall economic growth rate is 5.5 and 3.4 per cent respectively. The average inflation rate is 9.1 and 7.5 percent respectively as against the target of limiting it to 7 percent. The trade deficit has increased to 32.10 and 33.4 percent respectively of GDP due to rise in imports and decline in exports, and the contribution of remittance inflows compared to GDP has reached to 28.17 and 29 per cent.

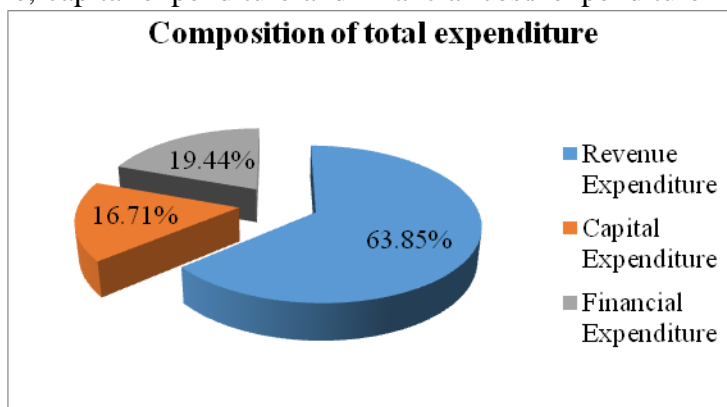
Likewise, the Plan had estimated to maintain revenues/ GDP ratio to 21.1 percent but it remained at 18.49 percent in both financial years, and the capital expenditure/ GDP ratio is also limited to 3.4 and 4.1 percent respectively in 2013/14 and 2014/15 as compared to the target of capital expenditure of 6.44 percent. The budget deficit/ GDP ratio has also been limited to 2.2 and 4.8 per cent in both years respectively compared to the expected target of 0.59%. Comparative analysis does not show positive status of overall economic conditions.

3. **Income and Expenditure Position** - According to the Financial Comptroller General Office, the position of income and expenditure of the government for the last three years is as follows:

(in Rs. Millions)

Particulars	2069/70 (2012/13)	2070/71 (2013/14)	2071/72(2014/15)	
			Estimated	Actual
<b>Revenue</b>				
Tax revenue	259,214.90	312,441.30	374,706.0	355,955.5
Indirect tax	187,807.40	227,706.60	259,592.8	243,499.9
Direct tax	71,407.50	84,734.70	115,113.2	112,455.6
Non-tax revenue	38,727.40	44,179.50	48,194.0	49,910.7
Principal repayment	755.30	569.80	1,000.0	2,081.6
Others	-	5,734.20	18,535.3	5,982.1
<b>Total revenue</b>	<b>298,697.60</b>	<b>362,924.80</b>	<b>442,435.3</b>	<b>413,929.9</b>
Foreign grant	35,229.80	34,000.60	73,385.9	38,267.3
Foreign loan	11,969.40	21,132.40	49,528.8	25,615.8
Internal loan	19,042.90	19,982.90	52,750.0	42,423.1
<b>Total income</b>	<b>364,939.70</b>	<b>438,040.70</b>	<b>618,100.0</b>	<b>520,236.1</b>
<b>Expenses</b>				
Recurrent expenditure	247,455.40	303,531.70	338,951.2	339,407.3
Capital expenditure	54,598.40	66,694.70	116,755.0	88,843.5
Financial expenditure	56,584.10	64,825.80	102,393.8	103,307.2
<b>Total expenses</b>	<b>3,586.38</b>	<b>435,052.20</b>	<b>618,100.0</b>	<b>531,558.3</b>
<b>Saving (deficit)</b>	<b>6,301.70</b>	<b>2,988.30</b>	<b>0</b>	<b>(11,322.2)</b>

The ratio of recurrent expenditure, capital expenditure and financial cost/ expenditure in comparison with total expenditure is 63.85, 16.71 and 19.44 percent respectively. This has been presented in the chart below. Since the recurrent expenses occupies a significant portion of total government expenditure, this has resulted in high rate of price inflation. The tax revenue has increased by 37.32 percent compared to F.Y. 2069/70. Of the tax revenues, the direct tax and indirect tax revenues have increased by 57.48 percent and 29.65 percent respectively



4. **Expenditure Management**- The government has adopted a policy to adhere with financial discipline, control the recurrent expenditure and raise capital expenditures by enhancing efficient management of public expenditures. In this context, the status of recurrent and capital expenditures of the government for last three years is as follows:

(Rs. in Millions)

Particulars	2069/70 (2012/13)		2070/71 (2013/14)		2071/72 (2014/15)	
	Expenditure	Percentage	Expenditure	Percentage	Expenditure	Percentage
Recurrent Expenditure	247,455	69	303,494	69.77	339,407	63.85
Capital Expenditure	54,598	15.22	66,692	15.33	88,844	16.71
Financial provision	56,587	15.78	64,826	14.9	103,307	19.44
<b>Total Expenditure</b>	<b>358,640</b>	<b>100</b>	<b>435,012</b>	<b>100</b>	<b>531,558</b>	<b>100</b>

As per above, upon analysis of the trend and structure of government expenditure, we can observe that the ratio of recurrent expenditure and financial expenditure to total expenditure is high as compared to capital expenditure on total expenditure.

5. **Expense Head wise Analysis** – On analyzing the details of major expenditure head, following status is observed:

(Rs. in Millions)

Head of Expenditure	Actual Expenditure of F.Y. 2069/ 70	Actual Expenditure of F.Y. 2070/ 71	2071/ 72 (2014/15)			
			Estimated Budget	Expenditure	Percentage of actual expenditure	Percentage of head-wise expenditure
<b>Recurrent Expenditure</b>						
Wages and Salaries	66,046.0	84,356.7	104,912.4	88,543.2	84.40	16.66
Retirement Benefits	23,999.9	26,944.4	41,004.7	34,401.1	83.90	6.47
Program Expenses	10,194.8	13,906.0	22,617.7	14,947.9	66.09	2.81
Interest on Foreign Loan	3,003.2	3,365.2	4,846.9	3,034.2	62.60	0.57
Interest on Internal Loan	10,735.5	8,672.7	18,507.6	6,229.0	33.66	1.17
Grant to Local bodies	23,299.6	31,587.8	34,003.5	32,998.0	97.04	6.21
Grant to Social Service	79,190.1	103,081.2	111,712.5	124,273.4	111.24	23.38
Social Security	11,630.1	12,084.1	14,694.0	14,157.0	96.35	2.66
<b>Capital Expenditure</b>						
Vehicles	1,173.1	4,573.6	1,736.5	2,713.3	156.25	0.51
Plant & Machinery	2,610.2	4,931.5	6,413.8	5,164.4	80.52	0.97
Civil Works	39,050.4	44,771.5	79,347.6	64,990.3	81.91	12.23
<b>Financial provisions</b>						
Net Internal Loan	12,552.1	13,497.7	35,678.6	28,339.0	79.43	5.33
Net Investment	8,901.8	9,751.0	13,893.6	10,510.4	75.65	1.98
External - Net Borrowing	14,190.1	16,724.6	20,276.7	17,027.9	83.98	3.2
Domestic Net Borrowing	20,940.1	25,152.5	32,544.9	47,430.0	145.74	8.93

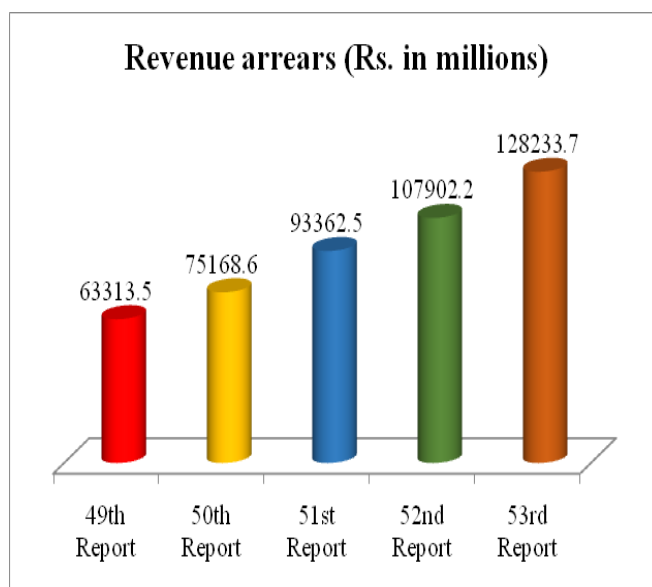
- 5.1. A significant portion of the government budget has been spent on salaries and pension of staff. The ratio of this portion to total expenditure is 23.13% this year. Such expenditure are also incurred from recurrent grant provided to local bodies and other institutions, committees and boards. As the ratio of recurrent grant provided to these entities to total expenditure is 21.23 per cent, the staff salary and pension service have more share in total

expenditure. Whereas the share of public works under capital expenditure found to be 12.23 percent only.

- 5.2. Out of the total expenditure of the country, 6.21 percent is spent on local body grant, 23.8 percentage on social service grant and 2.66 percentage on social security grant, thus total of 32.25 percent is spent on conditional and unconditional grant. Entire amount of such grant are accounted under recurrent expenditure but are also used for capital purpose due to which recurrent and capital expenditure are not realistic; moreover, the grant so provided is shown as expended even if the grant is not utilized by the respective body, committee and entity.
- 5.3. A budget of Rs.3 billion 835 million was allocated to other entity and persons under recurrent grant this year, however, the expenditure of Rs.23 billion 736 million was made which is 592.87 percent in excess compared to budget. The main reason for increase in expenditure is due to high expenditure on relief and rescue operations of earthquake of Baisakh 2072 (April 2015).
- 5.4. A budget of Rs.1 billion 736 million was appropriated for the purchase of vehicles under capital expenditure, however, expenditure of Rs. 2 billion 713 million was made which is 156.25 percent in excess than the allocated budget. The main reason behind such over expenditure is due to expenditure of Rs. 1 billion 124 million by Army Headquarter, Rs.162.7 million by Police Headquarter and Rs.133 million by the entities under Ministry of Finance through virement even though the budget was not appropriated to them. It is contrary to the budgetary policy for granting such virement even for predictable budgetary items. On analysis of the expenditure of vehicles of previous years, it was observed that the actual expenditure exceeded allocated budget by 188.03 percent in 2069/70 (2012/13) and 303.60 percentage in 2070/71 (2013/14).
- 5.5. This year an amount of Rs.32 billion 545 million was allocated towards repayment of principal for domestic loan, however, Rs. 47 billion 43 million was incurred for the same which is 145.74 percent more than the allocated amount. Due to non-observance of practice of appropriation towards principal and interest based on the repayment schedule of external and internal loan, such expenditure is incurred at the close of the year to maintain the balance of budget which results in over and under spending. This is contrary to the budgetary principle.
6. **Pension Liability** – The provision in Section 39(b) of Civil Service Act, 2049 empowers GON to create a separate Gratuity and Pension Fund with the motive of providing gratuity and pension to the civil servants. As this type of fund has not been setup, , the financial burden of government towards pension has been increasing every year. The pension expenditure was Rs. 18 billion 309 million in F.Y. 2069/70 (2012/2013), Rs.24 billion 380 million in F.Y. 2070/71 (2013/2014) and 26 billion 100 million in F.Y. 2072/73 (2014/2015). Pension expenditure has increased by 6.68 percent as compared to F.Y. 2070/71(2013/2014). Expenditure for pension was 6.41 percent of the total revenue and 7.66 percent of the total recurrent expenditure. In the context of increasing pension liability, the attention of the government was drawn for implementing contributory pension system, and the government made a policy commitment to implement this concept through budget, however, it was found unimplemented.

7. **Revenue arrears** - On the basis of statements collected during the audit, revenue arrears up to this year have reached to Rs.128 billion 234 million. The arrear amount has increased by 18.84 percent as compared to the same figure of last year. The status of total revenue arrears for the last five years has been presented in the chart below.

Out of the arrears, principal and interest receivable from public enterprises is Rs.70 billion 584 million. Of the principal and interest receivable, major receivables include Rs.12 billion 968 million receivable from Nepal Oil Corporation, Rs.32 billion 926million from Nepal Electricity Authority, Rs. 4 billion 859 million from Nepal Water Supply Corporation, Rs. 1 billion 228



million from Nepal Civil Aviation Authority, Rs.1 billion 535 million from Biratnagar Jute Mill, Rs.1 billion 213 million from Orient Megnasite, Rs.1 billion 579 million from Nepal Civil Aviation Authority, Rs.2 billion 718 million from Udaypur Cement Factory, and Rs.1 billion 10 million from Butwal Dhago Karkhana. The receivable amounts also include Rs. 3 billion 284 million from 22 enterprises that are not in existence currently. Out of the revenue arrears of Rs.42 billion 437 million of IRD, the pace of recovery of arrears is minimal due to the reasons: like, filing of lawsuit by the taxpayers, non-existence of tax payers due to non-carrying out of business and non-payment of tax by some taxpayers even though they are carrying on the business.

## 8. **Corporate Bodies**

This year, backlog audit of 44 corporate bodies for 80 financial years had to be completed, however, audit of 7 bodies was conducted by OAGN staff and auditors were appointed for 37 bodies. Out of the them, so far, final audit report of fourteen financial years and preliminary audit reports of nineteen financial years have been issued. This year, audit of 47 bodies could not be completed because of non-submission of financial statements after being audited by internal auditors. In case of 19 corporate bodies, preliminary audit reports have been issued, nevertheless, the final reports could not be issued due to non-approval of the financial statement by the Board of Directors and non-submission of the reply in the preliminary audit report.

## • **The Accuracy of Government Accounts**

9. **Consolidated Fund** - The following observations were noted regarding the financial statement of the consolidated fund submitted by the Financial Comptroller General Office (FCGO):

- 9.1. The financial statement of the consolidated fund has not been prepared in compliance with the Nepal Public Sector Accounting Standards, Financial Reporting under Cash Basis of Accounting, approved by the Government of Nepal on 2066/5/30 (September 15, 2009). This year financial statements of only 15 bodies were prepared as per the specified standards. Additionally, the format of the consolidated fund account prepared by Financial Comptroller General Office has not been approved by Office of the Auditor General.
- 9.2. Regarding financing, Rs. 64 billion 825.8 million was spent in the last year, which has increased by 59.36 percentage to Rs. 103 billion 307.2 million. The principal refund of investment which was Rs. 569.8 million has reached to Rs.2 billion 815 million. Domestic loan which was Rs. 21 billion 414.5 million in the last year has increased by 97.84 percent to Rs.42 billion 367.5 million in the current year. The foreign loan and grant has declined by 7.30 and 14.34 percent respectively, as compared to last year, which has necessitated for raising domestic loan.
- 9.3. As per prevailing laws, consolidated fund should be accounted in cash basis. However, balance of consolidated fund at year-end has been shown negative. The balance of the fund, which was negative by Rs.61 billion 575.9 million up to last year, has declined by current year's deficit of Rs.18 billion 262.9 million and has reached negative Rs.79 billion 838.8 million. The financial statement which was prepared as per cash basis system shows negative balance, which does not depict the true state of affairs.
- 9.4. As per the decision of the Government of Nepal, this year, Rs.10 billion has been transferred from National Reconstruction Fund to 'B' 12 account under the head of conditional grant to agencies. In fact, the same amount has not been spent but it is only in nature of transfer, which has unduly raised expenditure from the Consolidated Fund.
- 9.5. In the financial statement of Consolidated Fund, Rs.20 billion 432.3 million is shown as income, including reimbursement and direct payment of foreign loan. Since NRB has shown Rs. 13 billion 331.6 million as the foreign loan receipt, a difference of Rs. 9 billion 829.5 million is noted in between the account shown in Consolidated Fund and the foreign loan receipt shown by NRB, which should be reconciled and adjusted.
- 9.6. In the financial statement of Consolidated Fund, submitted by the FCGO, foreign grant including cash, reimbursement, direct payment and commodity grant of Rs.36 billion 374.2 million has been disclosed. As per NRB, foreign loan amounting to Rs. 28 billion 948.6 million has been shown as received. The difference of Rs. 2 billion 403.9 million in respect of direct payment and commodity grant as disclosed in Consolidated Fund and Rs. 9 billion 829.5 million in respect foreign grant receipt as disclosed by Nepal Rastra Bank should be reconciled and adjusted.
- 9.7. The total amount of Rs.17 billion 724.7 million, including Rs. 16 billion 275.8 million relating to commodity aid of vaccine and vaccine products from UNICEF under Ministry of Health, Rs. 568.8 million and Rs. 131 million relating to Ministry of Defense and Commission for Investigation of Abuse of Authority respectively, from Indian Government, Rs. 60.9 million directly received from World Food program and Plan International, Rs. 148.2 million received from United Nation Population Fund for purchase of Depo Provera injection has not been included in financial statement of

Consolidated Fund. Such statement does not present the true state of income and expenditure of the Consolidated Fund

10. **Accuracy of Accounts** - Of the total amount of Rs. 54 billion 986 million collected by Citizen Investment Trust under 8 different schemes, only Rs.34 billion 875.3 million collected in Employee Saving Increment Retirement Scheme has been presented in the financial statement. The amount of Rs.19 billion 223.3 million collected in 7 schemes have not been disclosed in financial statement, as a result of which it does not show true position of Consolidated Fund.
11. **Technical Assistance** - As per the Statement of Technical and Other Assistance tabled in Parliament during the budget speech, technical assistances worth Rs. 25 billion 678.7 million were estimated to be received for 24 ministries under 154 agreements. As Accounts Responsible Officers have not included the technical assistances in the Central Financial Statement as required by the Section 14 (2) of Financial Procedures Act, 2055 (1998), the central financial statement does not give true and fair state of the government income and expenditure. Even though the Public Accounts Committee has directed to conduct audit of technical assistances, the financial statement and accounts of such technical assistance have not been presented for audit
12. **Other Assistance** - The accounts of Rs. 9 billion 188.5 million has not been submitted for audit, including, Rs. 671 million 100 thousand of various entities that include different supporting organization appointed by an subordinate entity of Ministry of Urban Development, Rs. 4 billion 276.7 million provided by 3 friendly country for 3 projects under Ministry of Physical Infrastructure and Transport, Rs. 3 billion 491.6 million provided by different donors to 191 units under the Ministry of Federal Affairs and Local Development, and Rs. 749.1 million provided to an entity under the Ministry of Health.

#### • **Foreign Assistance and Public Debt-**

13. **Per-capita Debt** - According to the statement of the FCGO, total accumulated debt liability of the Government of Nepal up to 2071/72 (2014/15) is Rs. 544 billion 918.6 million. This figure is sum of domestic loan amounting to Rs. 201 billion 656.8 million and foreign loan amounting to Rs. 343 billion 261.8 million. The total debt liability is 25.64 percent of current year GDP (at current price) of Rs. 2 trillion 125 billion. If compared the figure with the total population of Nepal of the year 2070/71, which is 28.33 million as published by the Central Bureau of Statistics, the per capita debt liability as of 2071/72 is Rs.19,234. This year, per-capita debt liability has decreased by Rs.835 as compared to last year.
14. **Foreign Assistance without Approval** - The direct expenditure amounting to Rs.750.4 million provided by the donors for 30 projects under the Ministry of Women, Children and Social Welfare and Rs.670.3 million relating to Ministry of Science, Technology and Environment, have been spent without including them in the budget. Some foreign assistance agreements do not contain audit clause, while in some cases, the district level entities have made agreement with donor agencies without prior approval from Ministry of Finance, which is in contrary with the laws.

- 15. Reimbursement** - Rule 37(5) of the Financial Procedure Regulations, 2064 (2007) requires that the Accounts Responsible Officers shall conduct monitoring to ensure that the requests for reimbursement are made in a timely manner and shall submit the annual reimbursement statement. The last year's reimbursable grant which was Rs. 17 billion 232 million, has increased by 23.44 percent during this year and reached to Rs. 21 billion 269 million. Similarly, the outstanding amount of foreign loan reimbursable which was Rs. 4 billion 509 million in last year, has increased by 84.2 percent during this year and reached to Rs. 8 billion 305 million. The findings related to this are noted below:
- 15.1. The Ministries having most reimbursable grant outstanding are Ministry of Education for Rs.14 billion 34 million, Ministry of Federal Affairs and Local Development for Rs. 3 billion 78.8 million and Ministry of Finance for Rs. 308.4 million.
- 15.2. The reimbursement outstanding for 16 projects and programs, under different Ministries and National Planning Commission, up to 2071/72, is Rs. 318.9 million, however, these programs are not in existence.
- 15.3. The Ministries having the highest reimbursable loan are Ministry of Finance for Rs.4 billion 850.6 million, Ministry of Urban Development for Rs.1 billion 484.8 million and Ministry of Physical Development and Transportation for Rs.1 billion 161.6 million. The figure of Rs. 2 billion 104.4 million of Ministry of Education being negative, the accounts should be reconciled.

There is a lack of proper record of loan investment made by the government; non-recovery of principal and interest amount; loan outstanding per person is Rs. 19 thousand 234; audit not conducted in a few institutions; outstanding recoverable of loan and grant is increased.

## • Budgetary Discipline-

- 16. Excess Budget Expenditure** – Even after the introduction of Single Treasury Accounts System, this year a net budget of Rs. 104.81 billion was allocated in 71 budget sub-heads, however, Rs.1 trillion 17billion 609 million was spent revealing Rs.12 billion 799 million excess expenditure than the budgeted amount. It seems that the Single Treasury Accounts System also is unable to control the practice of over-spending compared to net budget appropriation.
- 17. Virement (Amount Transfer)** – The Section 8 of Financial Procedure Act, 2055 (1998), mentions that if the amount under any heading specified in the Appropriation Act is not sufficient and such a shortfall amount is surplus under any one or more than one heading specified in that Act, the Ministry of Finance may make transfer of budget from one heading to another heading, subject to the ceiling specified in the Appropriation Act. Following cases were observed in this respect:
- 17.1. There is a provision for transferring budget from one head to another, subject to such transfer not exceeding 10 percentage of the budget from which such transfer is made, but according to the statement of FCGO, in case of Finance (Miscellaneous), Legislature-Parliament, Office of Prime Minister and Ministers of Council, Ministry of Defense, Public Service Commission, Ministry of Youth and Sports, and Human Rights Commission, budget was reduced to 66.34 percent and increased to 817 percent of

original appropriation. Such virement (transfers) are not in conformity with Appropriation Act.

- 17.2. The Ministry of Finance has also transferred Rs. 35 billion 841.2 million from Miscellaneous head to other heads while making virements. Similarly, Rs.992.7 million for SAARC summit and Rs.551 million for Opinion Collection Program of Constitution was transferred from miscellaneous heads this year. Even though, transfer must be done from the budget head having surplus to the budget head having shortfall, the practice of allocating budget to miscellaneous head and then transferring it to budget head having shortfall is followed, which does not seem appropriate.

Budget discipline has not been maintained because of expenditure incurred in excess of budget, contingency expenditure made by keeping lump sum budget, non-reflection of technical and commodity aid in the budget and expenditure made by establishing fund.

- 17.3. The sum of Rs.17 billion 688 million appropriated for 37 recurrent and capital sub-heads was found unspent. Out of the unspent sum which was appropriated in 6 sub-heads, Rs.1 billion 817 million was reduced through virement. Therefore, the practice of increasing the size of budget by appropriating to the head from which expenditure cannot be made should be controlled.

18. **Change of Source** - Rule 40(1) of Financial Procedure Regulation, 2064 states that the Ministry of Finance shall have the power to make budget transfer from one head or sub-head of the approved budget amount to another head or sub-head or make source transfer from one source to another source of budget. While changing the sources on above lines, reimbursement of foreign cash grant was taken from foreign loan and sources of Government of Nepal, due to which the Government of Nepal could not receive grant of Rs. 7 billion 692.1 million which increased the expenditure burden.

19. **Operation of Other Fund** – In case of funds of government offices of 19 ministries, total receipt was Rs. 148 billion 748 million of which opening balance was Rs.51 billion 336 million, and Rs. 97 billion 412 million was received during the year, out of which Rs.82 billion 93 million have been spent and balance of Rs. 65 billion 818 million remains.

Amongst the Funds, the balance in Nepal Army Welfare Fund is Rs.33 billion 999 million, Police welfare Fund and Armed Police Welfare Fund is Rs.1 billion 409 million, Nepal Telecom Authority is Rs.29 billion 835 million (including Rs.10 billion 175 million 100 thousand of Rural Telecom Development Fund), National Level Welfare Fund is for Rs.7 billion 925 million and Foreign Employment Welfare Fund is Rs.3 billion 305 million. These Funds were established for attaining certain objectives, but as they are not being mobilized by preparing working procedures, they are lying idle. Even after the decision of Ministry of Finance on 2065/4/30 to close such operational Fund under any entity and make expenditure through Appropriation Act, such Funds are still in operation till date.

20. **Contingency Expenditure** - A lump sum budget was earmarked in the contingency budget head under Ministry of Finance and additional budget amounting to Rs.13 billion 464 million has been released to various entities on the basis of ad hoc decision towards medical treatment, travelling allowances, customs refund, special reliefs, distribution of

land compensation etc. Such budget release is 32.25 percent more as compared to Rs.10 billion 177 million released in last year.

On the view of above, it can be seen that the practice of not allocating or under-allocating budget in related program and budget head, but releasing them on ad-hoc basis, is on the rising trend. Increase in this trend has resulted in problems in implementation of program budgeting, difficulty in monitoring, absence of transparency and problems in documentation. So, such expenditures need to be controlled.

#### • Compliance with Laws-

21. **Use of loans for other purpose-** Section 8 of Banking Offence and Punishment Act, 2064 (2008) specify that no one shall misuse the credit facilities availed from a bank or financial institution or let the same be misused by diverting in the purpose other than for which the credit facilities were availed and in the event a person commits offences and if the suit amount is above Rupees ten million, he/ she shall be liable for an imprisonment from three years to five years. On observation of twelve taxpayers' files in Inland Revenue Office, it was revealed that they have taken loans ranging from Rs. 111.2 million to Rs. 532.9 million from various banks and financial institutions, and they have provided loan ranging from Rs. 17.2 million to Rs. 141 million to directors and others. Even though the tax payers have misused credit, yet no action has been taken in accordance with the Act.
22. **Tax liability on Facilities -** The Income Tax Act, 2058 (2001), stipulates that where the interest paid by the payee (employer) during the year under the loan is lower than the interest to be paid as per the standard interest rate, the amount to the extent it is lower shall be included in taxable income of the employee. Out of the total employee loan of Rs.4 billion 667 million outstanding in case of Nepal Rastra Bank, Rs. 1 billion 486 million has been disbursed at 1 percentage interest rate, Rs. 169 million has been disbursed at 3 percentage interest rate whereas on remaining Rs.3 billion 11 million no interest has been charged. Such amount is not characterized as per Income Tax Act, 2058. Likewise, on payment of Rs.692 million made towards additional allowance and accumulated leave, only 15 percent tax has been deducted instead of applying rates applicable to employee income. Tax should be deducted as per the Act on employee facilities.
23. **Remuneration Tax -** The Income Tax Act, 2058 (2001) stipulates that 75 percentage reduction of foreign allowance shall be provided to employee working in foreign diplomatic missions and in rest 25 percent income tax shall be levied. It was observed that, for the current year, tax worth Rs.18.7 million has been under-deducted from the salaries and foreign allowance of 35 ambassadors and 197 officials of different grades of foreign embassies and diplomatic missions. Such amount should be recovered.
24. **Borrowings from Board Member-** The circular issued by Inland Revenue Department on 2069/09/29 has stated that the money borrowed from the board member should be deposited through bank, and the source of such funds and tax implication on such borrowings must be analyzed. As per the financial statement submitted by the tax payers to tax office, 28 tax payers of Large Tax Payers Office and 7 Tax Service Offices have provided interest free loan of Rs.1 billion 421 million to the business. Such amount are not being transacted through bank account and the chances of investing them without

consideration is also rare. Thus, the tax implication of such transactions should be investigated.

25. **Commodity Market-** The two tax payers in Tax Service Office New Baneshwor and New Road, transacting in commodity market and future contract have claimed VAT credit on purchases relating previous years transaction, however, they have not collected VAT on income of future contract. The VAT credit of Rs. 18.7 million claimed by these tax payers in Income Year 2070/71 is not eligible for credit as per law. Since Annex 1 of VAT Act, 2052 has not exempted service fee or profit from commodity market transactions, the tax payer has to collect VAT on such service fee of such transactions, and as the transaction amount of those two tax payers for two years was Rs. 104 million, VAT amount of Rs.13.6 million and addition penalties thereon should be recovered.
26. **Transaction with Related Party -** As per section 28 of the Cooperative Registration, Operation, Audit, Monitoring and Regulation Manual 2068, cooperatives can provide loan not exceeding 10 percent of its total capital, can provide loan up to 80 percent of total cost of project, and can invest in real estate not exceeding 25 percent of the total loan investment. A cooperative, paying tax in Large Tax Payer Office, having total loan investment of Rs.3 billion 847.7 million has provided loan of Rs.3 billion 293.3 million or 85.6 percent of total loan to one of its related party for housing project. This has violated the limit of capital fund, investment in project and investment in real estate. Out of the total deposits of Rs. 3 billion 876.6 million, Rs. 3 billion 106.9 million (80.14 percent of deposit) has been disbursed to a single person. As these entities are related parties as per the Income Tax Act, 2058, and as large amount has been invested in violation of the Cooperative Manual, the tax liability must be assessed by conducting investigation in coordination of Department of Cooperative.
- In the case of same tax payer, the interest rate to the related party on loan of Rs.3 billion 106.9 million is 15.07 percent on average, whereas in other cases, the interest rate is 17.34 percent on average. Since arm length's transaction has not been carried out with the related party, as per section 33 of Income Tax Act, 2058, tax of Rs. 14.1 million on the difference amount of such interest of Rs. 70.5 million should be recovered after investigation.
27. **Stock Broker Commission-** According to the Sub-section 10(3) of VAT Act, 13 percent VAT is levied to the goods or services supplied in Nepal except those goods and services which are exempt under Annex 1. Since Annex- 1 has not provided VAT credit for broker commission received for acting as a mediator for such taxpayer, the VAT amount of Rs.72.3 million to be recovered on import of such service from 30 taxpayers has not been recovered.
28. **Posting and Recruitment-** Civil Service Act, 2049 stipulates that the work to be done by the employee should not be made through daily wages and contract workers. Offices under different 11 entity has recruited 2655 employee in service contract without competition and accounted Rs.283 million 800 thousand this year in this respect. The existing discord of not reviewing the posting as per necessary in government entity and manpower of one office deputed in other work leads to employee to be recruited in contract and accounted for such expenditure. Such activities should be controlled.

- 29. Disallow of Scholarship-** In accordance to Basic Policy related to Affiliation of Technical University under Ministry of Education 2063, an institution running technical college in private investment shall provide 10 percent scholarship seats if investee is domestic and shall provide 20 percent seats if investee is foreigner. But 89 colleges have not provided scholarships. Such colleges are 36 towards engineering, 32 towards nursing and other and 21 toward agricultural, veterinary and forest science.
- 30. Registration Charge -** The notice of declaration of 61 Municipalities and expansion of 23 areas this year is published in national gazette dated 2071/9/28. The land revenue department was liable to collect the registration charge from the date it was published in national gazette but registration charge was only collected from 2071/10/11 (2015/1/25), because of this, registration charge of Rs.121 million is found missing to recover when sampling audit of 223 records of 4 Land Revenue offices was made. All records of such Municipalities should be investigated and missed registration charge should be recovered.
- 31. Service Fee-** Section 7(14), of National Tea and Coffee Development Board Act, 2049 stipulate that after taking approval from Government of Nepal 50 paisa per kg in tea production and 10 paisa per kg in tea export, 10 paisa per kg in coffee production and 25 paisa per kg in export as a service fee should be collected. The service fee of Rs.64 million for tea production of 115920 metric ton and export of 607557 metric ton as per the report provided by the National Tea and Coffee Development Board for 2066/67 to 2071/72 and service fee of Rs.64 million not collected for coffee production of 2804 metric ton and export of 710 ton.

### • Protection and Utilization of Resources:

- 32. Utilization of Foreign Aid –** In this year's budget, it was stated that total of Rs. 122 billion 914.7 million would be spent including Rs. 73 billion 385.9 million from foreign grant and Rs. 49 billion 529 million from foreign loan, however, Rs. 63 billion 883 million was spent, including Rs. 38 billion 267 million from foreign grant and Rs. 25 billion 616 million from foreign loan. It can be seen that expenses towards foreign grant was 52.14% of the estimated foreign grant, expenses towards foreign loan was 51.71% of the estimated foreign loan and the total expenses was 51.97 percentage towards total foreign resource mobilization. Some of the instances of under-utilization of foreign grant and foreign loan programs operated under foreign assistance are as follows:

(Rs. in million)

Ministry	Project	Total cost	Start date	Date of completion	Expenditure till date	Percentage of assistance utilization	Loan or Grant
Land Reform	ICT	118.2	1 <sup>st</sup> April 2013	31 <sup>st</sup> March 2016	44.9	37.99	Grant
Commerce and Supplies	Nepal-India Regional Trade	8,604.3	10 <sup>th</sup> Sep 2013	31 <sup>st</sup> Dec 2019	135.7	1.58	Loan and grant
Forests and Soil Conservation	Regional promotion for protection of wildlife	300.0	2011	2016	143.9	47.97	Grant
Federal Affairs and Local Development	Community Irrigation	2,713.2	2067/10/24	2073/11/16	1,194.1	44.01	Grant
Federal Affairs and Local Development	Golden Thousand Days	4,049.6	2069/6/15	2073/12/18	682.5	16.85	Loan and grant
Federal Affairs and Local Development	Sustainable Development for Marginalized Community	27,33.3	2068/6/4	2072/7/14	133.9	48.96	Direct payment

Ministry	Project	Total cost	Start date	Date of completion	Expenditure till date	Percentage of assistance utilization	Loan or Grant
Federal Affairs and Local Development	Environment Friendly Local Governance Program	2,385.0	2070	2073	485.2	20.34	Grant
Finance	Capacity Development of Capital Market Infrastructure	505.7	27 June 2011	31 July 2017	93.7	18.53	Grant
Agriculture Development	Commercial Agriculture and Trade Project (World Bank)	6,223.0	21 <sup>st</sup> Aug 2009	30 <sup>th</sup> June 2018	1,542.2	24.78	Loan and grant
Agriculture Development	High Value Agriculture Product Project ( IFAD)	1,474.2	5 <sup>th</sup> July, 2010	30 <sup>th</sup> Sep 2017	593.6	40.27	Loan and grant
Agriculture Development	High Mountain Agribusiness and Livelihood Improvement Project (ADB)	2,539.3	1 <sup>st</sup> Oct 2011	31 <sup>st</sup> Oct 2017	999.6	39.37	Grant
Physical Infrastructure and Transport	Preparation of Transportation Program	1,214.9	March 2011	June 2018	203.4	16.74	Grant
Physical Infrastructure and Transport	Kathmandu Sustainable Urban Transportation	3,079.7	Oct 2011	June 2017	520.0	16.88	Loan and grant

- 32.1. In case of ICT and wildlife conservation regional promotion program, which must have been completed within 2016, only less than half amount has been fund utilized. In the case of Environment Friendly Local Governance Program, which was started two years ago and was scheduled to be completed in the next year, only 20.34% grant has been utilized. Similarly, in case of Sustainable Development for Marginalized Community Program which was commenced four years ago was scheduled to be completed within Kartik 2072, and in case of Community Irrigation Program which was commenced five years ago and was scheduled to be completed within Falgun 2073, have utilized less than 50 percentage of the assistance.
- 32.2. The status of utilization of the assistance in Nepal-India Regional Trade Project is also very weak.. In case of Golden Thousand Days program, which was commenced three years ago and was scheduled to be completed in the next year, only 16.85% of the assistance has been utilized. In case of Capital Market Infrastructure Capacity Development project which was expected to be completed within 6 years, even after elapse of 4 years, only 18.53% of the assistance has been utilized. In case of Sub-regional Transportation Enhancement Project, even though 60 percentage of the duration of the project has elapsed, only 1 percentage of the assistance amount has been utilized.
- 32.3. In case of Women and Children Service Centre Establishment Program, even after passing of 50 percentage duration of the project, only less than 19% assistance has been utilized. In case of High Value Agriculture Product Project and High Mountain Agribusiness and Livelihood Improvement Project, under the Ministry of Agriculture Development, which were launched 6 and 5 years ago respectively, and was scheduled to be completed in September and October 2017 respectively, only 40.27% and 39.37 % , respectively, of assistance has been utilized till date. In case of Preparation of Transportation Program and Kathmandu Sustainable Urban Transportation Program under the Ministry of Physical Infrastructure and Transportation, only 16.74% assistance has been utilized even after completion of 4 out of 7 years and 16.89% after completion of 5 out of 7 years ,respectively.

33. **Timber Auction-** This year, 1 million 973 thousand 385 cu. ft. timber were found unsold and lying on stock in 26 District Forest Offices, Timber Co-operation and 19 Forest Product Supply Committees. The timbers that were piled up were not sold in time and were kept in piles for a long duration, as a result of which 92,707 cu. ft. of timbers were found in damaged condition. On the basis of this year's average auction price of Rs. 859 per cu. ft., it is assumed that the loss of revenue to the Government is Rs. 79.6 millions.
34. **Maximum Stock of Timber:** Detail of opening stock, collection and sale of timber for last 3 years is as follows:

(in cu. ft.)

Financial Year	Collection	Total	Sales	Closing Stock
2012/13	5,93,457	23,69,979	7,87,088	15,82,890
2013/14	8,49,061	26,09,527	6,87,446	19,22,081
2014/15	3,37,700	22,82,127	3,08,741	19,73,385

While analyzing the above table, it can be seen that, in 2012/13, out of 593 thousand cu. ft. wood collected, 787 thousand cu. ft. wood including opening stock was sold, whereas in 2013/14, out of 849 thousand cu. ft wood collected, 687 thousand cu. ft wood (80.92%) was sold and in 2014/15 out of 338 thousand cu. ft wood collected, 309 thousand cu. ft wood (91.42%) were sold. From the record it is observed that only the wood collected during the year is being sold off and the quantity of stock which is being carried forward each year remains the same. The department has not conducted physical verification of the stock. Based on the current rate of timber at Rs. 859, the total value of 1 million 973 thousand stock cu. ft. is Rs. 1 billion 694 million. Hence, stock of timber need to be auctioned after conducting physical verification

35. **Use of Cancer Treatment Equipment-** In B.P. Koirala Memorial Cancer Hospital, due to non maintenance and repair, in time, of the cancer treatment equipment, installed in 2002, the service delivery has been directly hampered. Patients are deprived of services as Bronchi Therapy, Linear Accelerator and CT scan machines are out of operation. Due to non availability of PET-CT Scan machine, patients are forced to go abroad for treatment by spending millions of rupees. The risk of radiation is high due to non availability of CT-Stimulator.
36. **Forest Encroachment:** It is observed that in 740 places of 62 districts 121 thousand 234 households have encroached 94 thousand 871 hectare (ha) forest and built 30 thousand 194 houses and sheds till this year. Among the encroachment, forest encroachment in 20 districts is 87 thousand hectares (91.70 percent of total encroachment), including 21 thousand 484 hectare in Kailali, 10 thousand 638 hectare in Kapilbastu, 8 thousand 346 hectare in Rupandehi, 7 thousand 438 hectare in Udayapur, and 6 thousand 758 hectare in Nawalparasi. Therefore, a special program needs to be formulated to evacuate the encroachment in these districts.
37. **Conservation of Land :** Out of 1 thousand 336 biga land under the ownership of Nepal Sanskrit University, there are tenants in 500 biga of land and remaining land has been encroached by different people since 2002. Similarly, land of area 8 thousand 5 hundred ropani of Orchard Centre Jaubari, Illam has not been demarcated and protected. During physical observation, it was found that animal farming and land is being cultivated in 22 places. On the basis of decision of management committee, 12-12-1-0 ropani land under

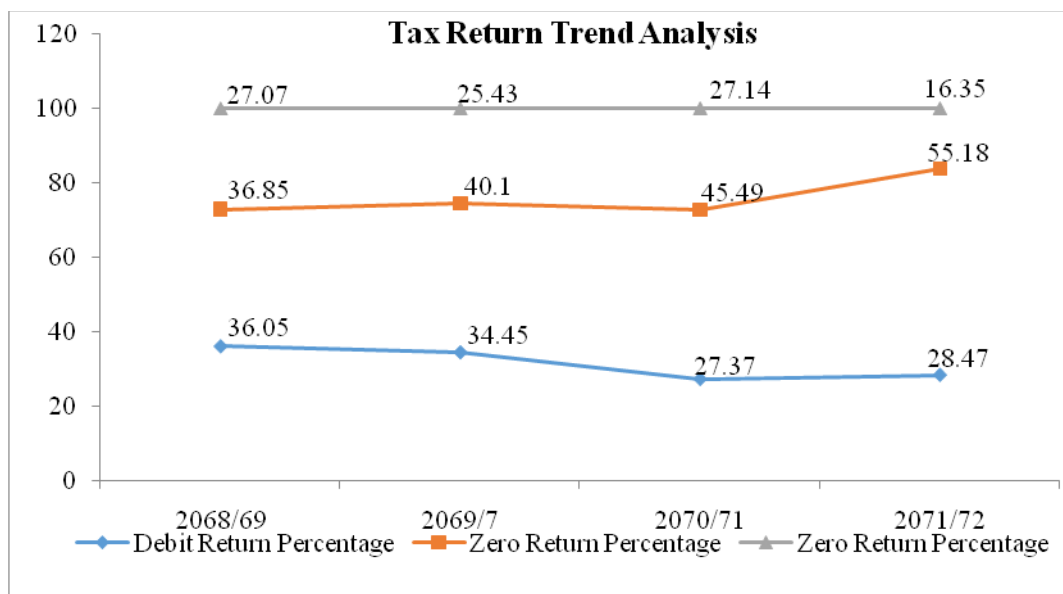
the ownership of a health post of Pokhara Sub-Metropolitan City, 16 Batulechaur Area was given to a community maternity hospital without approval of Government of Nepal and it was observed that Maternity Community Hospital is being constructed by demolishing the health post.

## • Revenue Exemption and Leakage Control

38. **Revenue Exemption:** On the basis of information received from different sources including custom data from ASICUDA of the Customs Department, it is revealed that Rs. 49 billion 10 million revenue exemption was provided on goods and services imported by different organizations during this year. A total amount of Rs. 5 billion 766 million collected in the government treasury towards VAT on Ghee, oil, and mobile export has been refunded. Although international good practices exist for tabling the details of revenue exemption along with budget speech in Parliament, revenue lost due to such exemption has not been tabled. Ministry of Finance has stated that software for recording such exemption has been prepared this year. Significant observations in this regard are as follows:
- 38.1. Due to allowance of exemption of customs duty and VAT on import of corn and soya-bean and oil-seed to feed industries, revenue exemption of Rs. 4 billion 650 million has been provided during this year. However, it cannot be ensured that the imported grains have been utilized for the purpose of producing animals and birds feed.
- 38.2. In accordance with the provision of granting exemptions on custom duty and VAT on construction materials, plant machinery & equipment, steel sheet and raw materials used in hydro-electricity generation, transmission, distribution, operation or maintenance, on the recommendation of Electricity Development Department, exemption equivalent to Rs. 2 billion 126 million has been granted during this year. Up to last year, such exemptions allowed was only for products that were not manufactured in Nepal, however, because such provision has been removed, exemption amount has been increased by 46.13% this year.
- The Government has given Rs. 49 billion 10.9 million rebate in 2014/15. The details of such rebate has not been prepared; the details of impact of rebate on revenue has not been presented to the Legislature-Parliament and the analysis of the effect on consumer and economy has also not been made.
- 38.3. As per the provision of levying custom-duty at the rate of 1 percent and providing 100 percent VAT exemption on solar photo-voltaic tubular batteries on the recommendation of Alternate Energy Promotion Center (AEPCC), revenue rebate equivalent to Rs. 551.3 million has been granted by customs offices in the import of tubular batteries and other related items during this year. An importer has imported tubular batteries by paying and also by not paying customs duty and VAT, and the same batteries can also be used in inverters. Due to lack of monitoring, utilization of exemption provided for the promotion of solar energy could not be ensured.
- 38.4. As per the policy of granting exemption in custom duty, tax and fees on the import of construction materials that will be used in projects implemented under foreign aid as per the agreement, revenue exemption of Rs. 1 billion 160 million has been granted. In absence of recording and monitoring it could not be ensured that the goods imported

under revenue exemption have been used for the purpose of specific projects. A master-list of the foreign aided project is kept and exemption of customs and excise vat is granted to all goods, while only custom exemption is granted on some goods, and in some cases, exemption is granted only for partial quantity of the goods. Therefore, a clear policy should be formulated for determining master list in foreign aided projects and granting exemptions.

- 38.5. An exemption of Rs. 254.8 million has been granted on import of ambulance and hearse by community hospitals and health institutions. According to legal provision, these vehicles should be fixed with equipments, seats should not be fixed and words like "*Acquired under revenue exemption of Government of Nepal*" should be mentioned, which can be visible from distance. Similarly, the fare rates for ferrying patients shall be as specified by Ministry of Health and Population. However, non-compliance of these conditions by ambulances and hearse have been noted.
- 38.6. Revenue exemption of Rs. 708 million has been granted on import of tents, food product and other relief materials that were used to provide relief to the earthquake victims. In addition to providing revenue exemption to import of tents by relief agencies, revenue exemption has also been granted on import of tents for commercial purposes. However, monitoring has not been done to ascertain whether such goods were used for relief of earthquake victims.
39. **Value Added Tax Return:** While analyzing tax returns filed according to Value Added Tax Act, 1995, this year the debit (to be collected by the Government) returns are 137 hundred thousand 584 (16.35%), the credit (to be paid by the Government) returns are 464 hundred thousand 240 (55.18%), zero return are 239 thousand 447 (28.47%) and non filers are 24.19%. The trend analysis of past 4 years has been depicted in the following picture:



While analyzing the data of past figures, it can be seen that debit returns have been decreased whereas credit returns have increased. The credit amount is 5.22 times higher compared with debit amount. The reasons for increase in credit amount include claims:

filing for the ineligible credits, claiming full credit instead of proportional credit, showing credit by purchase but discontinuing the business etc. Monitoring should be done with regard to disproportionate increase in credit.

40. **Proportional Tax Deduction:** According to the Section 17(3) of VAT Act, 2052 and Rule 40(4) of VAT Regulations, 2053, while carrying out both the taxable and non-taxable goods and services, there is provision for deducting proportional tax. However, even though two educational institutions under the jurisdiction of Inland Revenue Department, do not collect VAT on tuition fees, have claimed VAT of Rs. 51 million paid in relation to purchases. Similarly, 2 taxpayers engaged in business of publication have non-taxable transaction up to 93%, so they should have set off VAT debit in the same proportion but have not done accordingly. Their purchases are not tax exempt but their sales are exempt, however, they have claimed full credit on purchases as a result of which VAT credit of Rs. 78.9 million has been taken in excess. So, total excess VAT credit claim of Rs. 130 million is invalid.
41. **Ineligible Credit:** As per Section 17 of VAT Act, 2052, only the amount of tax paid on purchases related to business can be offset. However, 7 tax payers who filed income statement under the Inland Revenue Department have claimed tax credit on purchases even though sales do not attract VAT; have claimed VAT credit on purchases not related to business; have been claiming credit even after discontinuation of business for 10 years; have claimed VAT credit only by making purchases but have not made any sales transaction for years and have remained as non-filers; and taxpayers doing business of real estate in which sales are non taxable, have been claiming VAT on purchases. So, ineligible VAT claim of Rs. 80 million must be made invalid.
42. **VAT Refund:** According to Schedule 1 of VAT Act, 2052, oil and vegetable ghee produced by domestic industry producing mustard oil will be provided refund of 50% of VAT collected on sales if sales are made to VAT registered taxpayers. In accordance with the same provision, Rs. 1 billion 553.4 million VAT was refunded to 18 oil producing taxpayers under the Large Taxpayers Office. Taxpayers have not used seed as raw materials and out of 6 processes of oil processing, 5 processes were carried outside Nepal and imported in Nepal and such imported oil was refined by minor treatment and VAT refund have been made on such basis.

According to the provision of Finance Act, 2071, importer of cellular mobile phone set are entitled to refund of 60% VAT paid on purchase of raw material or readymade phone, on the basis of sales made to VAT registered taxpayers. In accordance with the same provision, Rs. 650.7 million VAT was refunded by Large Taxpayers Office, 3 Inland Revenue Office and 1 Taxpayer's Service Office. In the past, such provision was introduced to encourage legal import of mobiles, however, in the current scenario where authorized seller of all the manufacturers have been appointed, the same provision needs to be reviewed and the same recommendation was made in past years also. Even though the refund of tax has been decreased from 60 percentage to 50 percentage, it has not been completely removed. Such provision of refund need to be revised.

43. **Tax Rate:** According to Section 2(2) of Schedule 1 of Income Tax Act, 2058, the taxable income of a banks, or financial institutions, or an entity dealing with cigarette, bidi, cigar, chewing tobacco, khaini, alcohol and beer for an income-year is taxed at the rate of 30

percent. However, 30 taxpayers dealing with cigarette and alcohol, of Large Taxpayer Office and 16 other offices have paid tax at the rate of 25% which has resulted in under collection of tax of Rs. 21.9 million, which needs to be recovered along with penalty and fine.

44. **Tax on Payment:** Chapter 17 of Income Tax Act, 2058, has incorporated provision for withholding tax on payment. In this connection, following matters were observed:
  - 44.1. 351 offices under 26 bodies have not deducted tax at source of Rs. 95.5 million while making payments. Similarly, total under collected tax deduction at source of Rs. 126.6 million, including Rs. 31.1 million of 65 institutions, committees and other organizations, which have not deducted tax at source, needs to be recovered along with interest.
  - 44.2. A taxpayer, of Inland Revenue Department Kathmandu, Area no. 1, engaged in business of telecommunication, had taken loan from two foreign institutions, has capitalized interest of 2 years of Rs. 436.5 million and has shown Rs. 1 billion 735 million as loan liability. However, 15% tax on capitalized interest as per Section 88 of the Act, amounting to Rs. 65 million has not been recovered.
  - 44.3. As per section 13, of Bonus Act, 2030, seventy percent of the residual amount after distribution of bonus from the allocated amount for bonus shall be deposited to the Enterprise Level Welfare Fund and remaining thirty percent shall be deposited to the National Level Welfare Fund, established by Government of Nepal. While depositing amount in the Enterprise Level Welfare Fund, tax shall be deducted at source at the highest rate applied in income of natural person. 7 taxpayers under Large Taxpayer Office, which have distributed bonus for 12 fiscal years, have deposited the residuary amount of Rs. 3 billion 892 million in the Enterprise Level Welfare Fund, while Rs. 1 billion 362.6 million tax to be deducted at source has not been deposited. This needs to be investigated and recovered.
  - 44.4. According to the cash flow statement of a taxpayer, of Large Taxpayer Office, engaged in the business of telecommunication, while repaying short term loan of Rs. 3 billion 935 million obtained from foreign associated institution, interest of Rs. 350.6 million was paid for which Rs. 52.6 million tax should have been deducted and deposited as per Section 88 of Income Tax Act, 2058. As the same has been not deposited, it should be recovered along with interest, penalty and fine.
45. **Special Industry Exemption:** Pursuant to Section 2(3) of Schedule 1 of Income Tax Act, 2058, income derived by manufacturing industry shall be taxed at the rate of 20% and taxpayer conducting normal business shall be taxed at the rate of 25%. A multi-national industry under Large Taxpayer Office has received Rs. 975 million 6 hundred thousand as service charge for 2 years for providing assistance in management of another taxpayer. Such service fee falls under service industry instead of manufacturing industry, so special industry exemption is not allowable. Therefore, tax should be determined at the rate of 25% and under assessed tax Rs. 22 million including fee and interest should be assessed and recovered.
46. **VAT from Unregistered Person:** According to Section 8(2) of VAT Act, 2052, the recipient of services in Nepal, whether registered or not, from a person who is not registered and is outside Nepal shall have to assess and collect tax at the taxable value at

the time of payment. However, , taxpayers under 2 Inland Revenue Offices, have not deposited Rs. 33 million applicable VAT on payment made to the unregistered foreign service provider.

47. **Discontinuity of Transaction:** As per Section 96 of Income Tax Act, 2058, every person shall file not later than three months after the end of each income-year, a return of income for the year. Custom data shows that 7 taxpayers who had obtained PAN from Inland Revenue Office Bhairhawa, Taxpayer Service Office New Baneshwor and Putalisadak have imported vegetable and fruits worth Rs. 2 billion 481 million, however, they have neither filed tax return nor deposited tax since the date of registration. The tax payers having annual transaction ranging from Rs. 140 to 380 million, have not deposited tax returns and applicable tax and have discontinued their business, however, the tax office has not done any investigation into this matter. Tax liability of Rs. 46.6 million on such transaction should be assessed and recovered.
48. **Loan from Foreign Associate:** As per the circular issued by Nepal Rastra Bank, Foreign Exchange Management Department, in relation to Foreign Currency Loan, Nepalese companies shall obtain loan only from banks and financial institutions and while determining interest rate of foreign loan, interest rate should be annual market LIBOR rate plus premium rate up to 5.5% at maximum. 2 taxpayers under Large Taxpayers Office have paid interest after obtaining loan from their foreign associate company which is in contrary to the Directives. Moreover, interest rate was also not determined according to the circular. Rs. 131 million interest expense paid in excess of rate determined by the Directives of the Nepal Rastra Bank should be investigated as per Section 14 of Income Tax Act, 2058, and disallowed and tax Rs. 32.7 million should be recovered.
49. **VAT of Tent:** In order to provide relief to the earthquake victims, exemption of custom and other applicable taxes on import of tents and tarpaulin have been granted by the Government of Nepal for a month. However, VAT on local sale of such tents was not exempted. Such goods are not listed in the schedule-1 of the VAT Act, 2052 and are not exempted. They were exempted by special order only for import, however, 6 taxpayers registered in Inland Revenue Office sold tent worth Rs. 188.7 million without collecting VAT. Since VAT has not been collected on vatable goods, tax Rs. 29.8 million including additional duty, interest and fine in accordance with Section 29 of VAT Act, 2052 should be recovered.
50. **Recovery:** Manufacturing should be done as per Material Consumption Norms published by the Department of Industry, however, 12 taxpayers of Inland Revenue Office Birgunj and Simara manufacturing cement, steel, plastic, noodles and wire have shown lower recovery rate, hence applicable excise duty of Rs. 110.8 million and interest, fine and penalty should be calculated and recovered. Effect of such recovery rate on Income Tax and VAT should also be investigated.
51. **Mobile Re-export -** Pursuant to VAT Act, 2052, importer of cellular mobile phone set are entitled to 60% VAT refund on the sales made to VAT registered taxpayers against the import tax paid. When such goods are re-exported, as per the Act, the exporter is entitled to get refund of the VAT paid on purchases. An importer of mobile has established an associate party and made local sales and obtained 60% refund. Subsequently, the other party has made sale to an exporter and obtained 100% VAT

refund on purchase for re-export. Those taxpayers have entered in to a scheme for obtaining undue advantage by engaging in transaction of importing, selling and re-exporting mobile as per section 22a of VAT Act, 2052, and have obtained refund of Rs. 134 million which is even more than Rs. 84 million tax deposited in revenue. Thus, investigation should be done on the excess refund of Rs. 49 million and should be recovered.

52. **Foreign Permanent Establishment:** According to Section 68 of Income Tax Act, 2058, income statement should be submitted by disclosing all types of income generated by a foreign permanent establishment having source in Nepal. 4 taxpayers, under Inland Revenue Department, that are registered as a foreign permanent establishment in Nepal, should include all the payment received by them in their income or otherwise, should deduct tax at the rate of 5% on their payment as a non-resident. Out of Rs. 1 billion 698 million payment received by them from Nepal Electricity Authority, they have only included Rs. 190.9 million in income, but the remaining Rs. 1 billion 507 million was neither included in income nor was 5% tax applicable to payment to non-resident deducted during payment. So, investigation should be done and applicable tax Rs. 137 million should be recovered as per Income Tax Act, 2058 and VAT Act, 2052.
53. **Money Transfer:** The financial services are kept in Group 11 (aa) of Schedule 1 of VAT Act, 2052, so, are tax exempt service. On the same basis, money transfer business has been treated as financial service and VAT of Rs. 440.09 million on such taxpayer's transaction has not been collected. As such business is classified under financial services, they should have deposited income tax at the rate of 30% pursuant to Income Tax Act, 2058, instead of 25% which is applicable to normal business. Accordingly, 2 taxpayers under Large Taxpayers Office have deposited 5 percentage less tax, equivalent to Rs. 190 million which needs to be recovered.
54. **Transaction of Tax-Exempt Organization:** According to Section 2(Gha) of Income Tax Act, 2058, organization established without having a profit motive which carries out transactions according to its objectives shall be entitled to tax exemption, while tax exemption cannot be allowed if such organization carried any other transaction. A business association of Inland Revenue Office, Bhaktapur, whose objective is not to trade in apples, has earned income from such transaction, and 4 taxpayers under Inland Revenue Office, Dang are carrying out financial business by accepting deposit and investing credit. They have not paid taxes on the premise that they are tax exempted,

Because of increased revenue exemption, rise in the number of tax payers submitting credit VAT returns but decrease in debit returns, claims lodged for the ineligible credits, deduction of proportionate credit, non-filing of tax returns even after making transaction by tax payers, tax not deducted on payment, different tax rate applied, VAT not recovered even in taxable transaction, revenue leakage in absence of information linkage between entities, claims made for ineligible wastage (Jarti), industries not showing production as per norms, less recovery of revenues due to non-compliance with some of legal provisions etc are some reasons of revenue leakages.

however, the, income tax of Rs. 125 million applicable on other transactions carried out by these organizations including penalty and fine should be calculated and recovered.

55. **Capital Gain Tax:** Pursuant to Section 2 Da (4) of Income Tax Act 2058, capital gain tax on capital gain on sale or purchase land and house for Rs. 3 million or more by natural person shall be collected at the rate specified in Section 95(Ka) 3 of the Act, at the time of registration. This year, under 35 Land Revenue Offices, a single seller has not disclosed the aggregate annual sales done by him, as a result, capital gain of Rs. 82 was not collected, such amount should be recovered.
56. **Application of Different Rate:** Custom clearance should be done after accurately ascertaining the code of the imported goods as per the Schedule-1 of Finance Act, 2071 and Custom Rate (Darbandi) Book. While inspecting the custom declaration book, it was found that different code and rates were applied in good such as terminal set, prawn cracker, crenlary, tin box, recondition gear, powder milk, mobile cover, which has resulted in under collection of revenue by Rs. 75.7 million.
57. **Excise duty Rebate:** As per Finance Act, 2071 and Excise Duty Act, 2058, excise duty is levied at the rate of 5% in import of filler master batch. On import of filler master batch (calcium carbonate) by 26 importers from Biratnagar, Birgunj dry-port, and Bhairahawa custom offices, custom duty of 10% has been levied and rebate of excise duty has been given. In this case, rebate of excise has been granted even though it has not been stated in the Finance Act, so the excise duty rebated and VAT on the same of Rs. 31.1 million must be recovered.
58. **Television Import:** As per Finance Act, 2071, at the time of import of necessary parts, semi-processed LCD or LED, panel cathode ray picture tube and auxiliary equipments by television assembling industries, custom clearance should be done under the subheading 85287210-uninstalled goods and 10 % custom duty and 5% excise duty should be charged, however, 22 industries have imported such goods from Birgunj and Bhairahawa custom office and custom clearance was done under sub-heading 85287210 -television spare parts, by charging 15% excise duty. Such excise duty was refunded by the industry by including it on sale, and non-refundable custom duty at rate of 10% was not levied, due to which less revenue has been received by the Government. As the special rate applicable to assembly industries have not been used, but, the rate applicable for repair parts has been used at the time of import, due to which the uncollected revenue of Rs. 135.2 million should be recovered.

Upon examination of custom declaration form, it was observed that a television assembling industry has imported complete/ assembled television sets instead of importing spare parts from time to time from dry-port custom office. While examining the financial statement of such importer, uploaded in the Inland Revenue Department, no expenditure on television assembly and VAT was found, so, rebate on unassembled television cannot be given to the same importer. Hence, the rebate of 20% custom duty, excise duty and VAT that had been granted of Rs. 23 million should be recovered.

59. **Recorded Facility:** As per Finance Act, 2071, vehicle, construction tools and equipments that are imported in Nepal by the construction entrepreneur to carry out projects, must be returned within 3 months of completion of project, unless time period is extended by the Nepal Government, otherwise, customs must be paid on them or they might get

confiscated. A construction entrepreneur, appointed to work in the Postal Highway Project, imported motor cycle, jeep, tripper, excavator, bull-dozer, mixture and vehicles along with goods worth Rs. 386 million from Birgunj Customs Office. However, the goods were cleared at concession by recording them at Rs. 230.6 million, including custom duty, excise duty and VAT. The agreement with the construction entrepreneur has been terminated and he has stopped filing returns of income tax and VAT. This year, goods worth Rs. 111.5 million has been taken back by the construction entrepreneur, but, goods worth Rs. 274.9 million have not been taken back, so, either tax on such remaining goods of Rs. 170.7 million should be recovered or such goods should be confiscated.

60. **VAT of stones and gravels:** According to Section 15(3) of the Value Added Tax, 2052, local bodies are empowered to recover value added tax (VAT) on sale of taxable goods and services. This year, 36 District Development Committees have not recovered Rs. 63.6 million VAT on sale of stones and gravels of Rs. 489.2 million.
61. **Wastage:** An industry registered in Inland Revenue Office, Bharatpur, even in the event of breakdown of flow-meter, claimed more than 2 percentage wastages related to pasteurization and packing, and the same has been remitted. Therefore, excise duty for claiming wastage in excess of Rule 23 (Ka) of Excise Duty Regulation 2059, Rs. 64.2 million and interest and penalty thereon should be recovered. Additionally, income tax and VAT should also be recovered after conducting investigation regarding the same.

## • Public Procurement Management

62. **Procurement Act and Implementation:** Erroneous cost estimate, selection of very low priced bids but not doing the work, withdrawing of bids in collusion, taking of advance but not doing work, maximum extension of completion date in comparison to initial contract duration, inability to take action in case of negligence by construction entrepreneur are some problems observed in procurement management and implementation.

To address such problems, arrangements were made in the ordinance to amend Public Procurement Act, 2063 such as: making authority/consultant responsible for preparing erroneous cost estimate, drawing and design; increasing performance guarantee on the basis of selection of low value bids; allowing withdrawal of bids only within 24 hours before to stop collusion; depositing the mobilization advance in separate bank account and utilizing it only in related construction work; canceling the contract or forfeiting the guarantee amount at any time, if the work is not initiated according to the contract or contract is left in the middle or if the work is not completed or if conduct is not adhered with or if advance is misused; or blacklisting the contractor, if contract is not done after acceptance of bid. Since the ordinance was inactive, issues related to procurements remain as they were. Therefore, proper arrangements should be made to solve such problems, as soon as possible.

63. **Contract Management:** According to Financial Procedures Rules, 2064 (2007), contracts shall be approved within the first trimester. This year, under 8 Ministries, out of contract arranged worth Rs. 63 billion 114 million, contract of Rs. 57 billion 724 million was arranged in the second and third trimester. Among the contract arranged in the third trimester, contract of Rs. 28 billion 582 million was signed in the last month of third trimester.

64. **Limit Competition:** According to the Section 8(2) of the Public Procurement Act, 2063 (2007), procurement shall not be so made in piecemeal as to limit competition. In contravention of the Act, under 8 Ministries including Irrigation, Health, Federal Affairs and Local Development, was found to make procurement worth Rs. 661.2 million by preparing various piecemeal cost estimates. Procurement made in piecemeal so as to limit competition is not appropriate from economic and legal aspect.
65. **Price Adjustment:** According to the Section 55 (2) of the Public Procurement Act, 2063 (2007), price adjustment cannot be made if the work under the contract is not completed due to delay of the contractor and if the procurement contract is concluded on the basis of fixed budget. This year, 28 units under the Department of Road have made payment of Rs. 717.4 million against price adjustment. Among them, Rs. 26.8 million excess price adjustment was paid by 9 units without determining price factor, agreement period, price amount, advance adjustment and varying price list, Rs. 135.5 million excess price adjustment was paid under the Project Directorate-ADB, even though liquidated damages were recovered and Rs. 46.3 million was paid without settling advances, thus, total Rs. 208.6 million needs to be recovered. Price adjustment payment of Rs. 23.4 million was made by the Office of Department of Road on the basis of source which was not agreed upon and Rs. 11 million price adjustment was given by the Postal Highway Project even though the contract is based on fixed budget, which is in non-compliance with the Rules.
66. **Excess Payment:** 6 offices under the Department of Road have made payment in excess by Rs. 15 million due to double payment, excess payment than bill, payment made on basis of wrong totaling etc. This sum should be recovered and action should be taken against the person making such payment. The internal control system must also be strengthened.
67. **Liquidated Damages:** As per Rule 121 of the Public Procurement Rules, 2064 (2007), in the event of non-completion of a work within the period set forth in the contract owing to delay caused by the construction entrepreneur, such entrepreneur shall pay liquidated damages to the public entity. Even in the event of delay caused by construction entrepreneurs, total Rs. 131.5 million liquidated damage has not been recovered, including Rs. 79.2 million by 8 Division Road Offices/ Projects, and Rs. 52.3 million by the sub-ordinate offices of Ministry of Urban Development.
68. **Incomplete Contract:** Rule 120 of the Public Procurement Rules, 2064 (2007), provides extension of contract period, Rule 121 provides liquidated damages to the public entity from the construction entrepreneur in the event of non-completion of a work within the period set forth in the contract owing to delay caused by such entrepreneur and Rule 128 provides termination of procurement contract. 29 subordinate units of Department of Road have made 841 procurement contracts worth Rs. 11 billion 173.6 million in the past year, however, payment of only Rs. 4 billion 659.6 million has been made. This year,

Procurement management is ineffective due to reasons such as maximum extension of time period due to non-completion of contract work in time, non-recovery of liquidated damages, addition of work through variation, payment of ineligible VAT, direct procurement without competition.

works have not been done in those contracts and advance of Rs. 356.3 million is still outstanding. No action has been taken according to the Rules and contract agreement even upon expiry of time period of contract.

## • **Economy**

69. **Unrelated Expenditure** - Financial Procedure Regulations, 2064, stipulates that only the items related to the construction shall be included in cost estimate of the construction work and the Public Audit Committee has made a decision that in contract agreements entered after 2069/9/2, the unrelated expenditure shall not be included in contract. Following issues were noted in this regard:
  - 69.1. Laptop, computer and vehicle rent were included in the bill of quantities prepared by 14 division offices under Department of Road made payment of Rs.85 million, 2 projects under the Ministry of Irrigation made payment of Rs.56.6 million, District Development Committee 10 made payment of Rs. 11.8 million, and 9 units under the Ministry of Housing and Urban Development made payment of Rs. 27.7 million. The practice of including such expenses in cost of construction work should be controlled.
  - 69.2. The point 13 of Local Body Resource Mobilization and Management Procedure, 2069 states that recurrent expenses are not allowed to made from capital amount of District Development Fund. 9 District Development Committees have accounted Rs. 13.7 million as salary allowance, contingency related recurrent expenses against the capital based program. The accounting against the provision of Procedure should be stopped.
70. **Claim** – A construction entrepreneur has claimed variation of Rs. 37.7 million on various items of Bill of Quantity for upgrading approach road of Lamidanda-Pool Bazar road division of Melamchi Drinking Water Project. However, the consultant of the construction work has approved claim of Rs. 27.4 million only. Consequently, the construction entrepreneur moved to Dispute Settlement Committee and then to International Chamber of Commerce for claiming such amount, whereupon the Chamber decided that the project needs to pay Rs. 403 million for amount of bill, variation claim, VAT, compounded interest and mediator expenses. The project has filed a lawsuit against such decision in the Patan appellate court. Such situation has arisen because the project had not finalized the variation in time.
71. **Unproductive Expenditure** - The implementation unit of Kathmandu Sustainable Urban Transport Project has entered into a contract worth Rs. 115 million for extension of road on south of Teku bridge under Bishnumati Link Road with a contractor and has made payment of Rs. 51.8 million. Such amount has been provided for construction of road and support wall without agreement and coordination with High Powered Committee for Integrated Development of the Bagmati Civilization. The Committee has also mobilized a contractor for laying pipeline in the same site. While laying pipeline, the previously constructed structure will be damaged.
72. **Expenditure without Return** - Rule 22 of the Financial Procedure Rules, 2064 states that project has to be approved by taking into account of the returns from it. In the agreement paper for the environment impact assessment and detailed survey, provided by the Ministry of Forest and Land Conservation, it has been stated that the study of 3 feasible routes should be done to construct the railway in Simara-Tamsariya section and

priority should be given to the route that causes least damages during construction to the forest and wildlife diversity. On the same basis contract of Rs. 10.8 million has been signed with a foreign consultant for conducting feasibility study of Nijgadh-Hetauda-Narayangadh-Tamsariya section. However, prior to this, and without consent of the Ministry, instead of conducting feasibility study of Chandranigapur-Nijgadh-Hetauda-Narayangadh-Tamsariya and Simara-Pathaliya-Hetauda-Tamsariya route, which covers less area of forest, detailed project report was completed of Simara-Tamsariya route, which covers a larger forest area, and payment of Rs. 334.2 million has been made to a foreign consultant. Such report was not put to use and has resulted in unfruitful expenditure.

For the construction of diversion in Dhobikhola and Bagmati River in Arniko Highway from the Kathmandu Valley Road Development Project, contract of Rs. 16 million was entered into with two construction entrepreneurs and payment of Rs. 12 million was made. Even though the construction was completed, the hume pipe could not drain the flood water as a result of which it was damaged and the expenditure was unfruitful.

73. **Contingency-** This year, 68 units under the Road Department have recorded contingency expenditure of Rs. 998.7 million including Rs. 184.2 million against muster-roll wages, Rs. 567.1 million against fuel, information publication, daily travelling allowance, repair, office equipments etc. and Rs. 247.4 million towards procurement of vehicle through Department of Road. Department of rail has spent Rs. 9.7 million contingency expenditure. Expenditure of similar nature of Rs. 162.1 million has been done under revenue budget as well. Subordinate offices under the Ministry of Irrigation have made contingency expenditure of Rs. 518.9 million and the offices under the Ministry of Urban Development have made contingency expenditure of Rs. 500.5 million, however, the records of the same has not been kept. Observation made in this regards are: unavailability of clear policy to incur contingency expenditure, non-maintenance of record of contract wise expenditure and similar nature expenditure expensed under heading of capital contingency and revenue expenditure.

As per the Local Body Resource Mobilization and Management Methodology, 2069, District Development Committee can make contingency expenditure of 5, 4 and 3 percent in “ka”, “kha” and “ga” class district, respectively from capital investment amount. This year, District Development Committee 22 has recorded contingency expenditure of Rs. 11.2 million in excess of the amount specified in the Rule, under various budget heads. Even though the Public Accounts Committee as per its decision of 2069/1/10, has made the concerned persons aware not to engage in such activities, no improvement has been noticed in the practice of incurring these kinds of expenditure.

74. **Loan used for Administrative Purpose:** It was observed that Rs. 10 million loan has been provided to 7 different corporations for salary and administrative purposes, Rs. 451.8 million to 3 corporations for settlement of

Non-control over contingency expenses, incurring excess expenditure than norms, appointment of consultant for the tasks which can be performed by manpower of office, non-uniformity on preparation of cost estimates, expenses incurred without consideration and returns, expenses incurred which are unrelated to the project, no standard of expenses, payment of claim amount are some reasons because of which expenditure seem uneconomical-

retirement liabilities and Rs. 532.2 million to 2 entities to settle existing loans and to 1 entity to hold its General Meeting, which amounted to a total of Rs. 1 billion 83.8 million. It is not appropriate to provide loan to government entities for the purpose of operation, for administrative expenses, for settlement of loan and for holding general meetings.

Out of the loan of Rs. 199.6 million provided by Rural Development Bank, as per the rule of Government of Nepal, Rs. 100 million has been converted to grant by adjusting it with loan. Conversion of loan into grant doesn't seem to be appropriate.

75. **Different Norms:** Instead of using the norms set by Division of Road, for using cement mixture for construction of stone walls in proportion of 1:4 and 1:6, the Office of the District Commissioner of Kathmandu Valley Development Authority, Bhaktapur, has prepared cost estimate which uses more quantity of cement and labor than the norms used by Division of Road, as a result excess expenditure of Rs. 11.5 million was incurred, which is uneconomical.
76. **Cost estimate of Ration:** While evaluating the rates used in cost estimate of ration contracts of units of Nepalese Army, rate has been set at Rs. 95.49 per person per day in Mahottari and Rs. 120 in Sarlahi, even though they have similar geographical condition, road access and market, Rs. 109.25 in Sindhuli and Rs. 129.81 in Udayapur of Inner Terai region, Rs. 239.55 in Mustang and Rs. 347.42 in Manang of Mountain Region, Rs. 151.94 in Magdhi and Rs. 176.54 in Baglung, Rs. 194.76 in Rolpa and Rs. 266.46 in Rukum of Hilly Region, and in Lalitpur, Kathmandu and Bhaktapur Rs. 136.05, Rs. 130.64 and Rs. 123.09, respectively, because of which, it has not been economical. Cost estimate should be made realistic by considering consumer price list, pricelist of agro-products published by Government body and on the basis of geographical region.
77. **Purchase of Depo & Syringe -** Department of Health Service has purchased 1.5 million vile of depo & syringe at Rs. 80.10 per unit through United Nations Population Fund at cost of Rs. 120 million. On 2070/09/18, 602.3 thousand vile of depo & syringe had been procured through bidding from supplier at cost of Rs. 46.62 per vile. The price per vile is higher by Rs. 33.48 in case of procurement from donor in comparison with the procurement from bidding, which has resulted in extra burden of expenditure by Rs.50 million.
78. **Transportation Grant -** Agriculture Inputs Company had used exchange rate of USD 104 for estimating cost of air fare, packaging, insurance premium, bid bond, surveyor fee and transportation fare from Kolkata to godowns for transporting all chemical fertilizer including Urea, DAP and potash. Whereas, Salt Trading Corporation has prepared cost estimate by using USD 141, 144 and 141 respectively which has resulted excess cost estimation per Metric Ton USD 37.57, 40.13, and 37.57, respectively. The per metric ton cost to Agriculture Inputs Company Ltd. is Rs. 19,018, whereas due to over-estimation of rates, the cost to Salt Trading Corporation is Rs. 22,372, resulting in excess expenditure of Rs. 276.7 million for procurement of 82,500 metric tons fertilizer.
79. **Landless Squatters Problem Resolution Commission-** As per the decision of Council of Ministers dated 2071/03/02, 72 District Landless Squatters Problem Resolution Commission has been formed in districts including Central Commission. This year, Commission and its Subordinate committees have spent Rs.83 million in total which

consists of Rs.47.1 million in salary, Rs. 12.1 million in other allowances, Rs. 23.8 million in supervision, travelling and furniture. Presently the commission has deferred its functions. Since, the work has not been performed as per its objective, such expenses have become useless.

80. **Consultancy Service** - In most of the projects undertaken under foreign assistance aid, up to 39.2% of total cost of project has been incurred towards consultancy expenses. Consultant has been hired even for the task that can be performed through the department's human resources. The allocated amount on consultancy service expenditure is as follows:

(Rs. In million)

Project Name	Currency	Total Cost Estimation	Amount set aside for Consultancy Service	Percentage of consultancy on Total cost of project
Sub-regional Transport Enhancement Project	USD	24.5	6.0	24.49%
Melamchi Drinking Water Project, Sub-Project-1	Rs.	23458.6	33812	14.42%
Community Irrigation Project	Rs.	3725.6	508.2	13.64%
Kathmandu Sustainable City Transportation Project	USD	10.0	3.8	38.00%
Professional Education and Training Enhancement Project	Rs.	3625.6	1081.0	29.00%
Capital Market Capacity Infrastructure Development Project	USD	5.0	2.0	39.20%
City Governance Capacity Development Project	USD	27.5	4.4	16.00%
Integrated City Development Project	USD	23.9	8.8	36.91%
Sustainable Development Program for Marginalized Community	Rs.	270.0	87.7	32.48%

- 80.1. As per section 29 of the Public Procurement Act, 2063, public entity shall not procure consultancy service for the works that can be performed by the human resource of the entity, however, the Department of Road and its 14 subordinate entities have carried out feasibility study, design, cost estimation, preparation of bidding papers etc from consultant and expensed Rs. 336.8 million as consultancy expenses. Even though human resource like highway engineer, geotechnical engineer, hydrologist were already available, detailed survey, feasibility study, design preparation work of bridge and road were carried out by external consultant. Performing work through the consultant without using the department's human resources does not seem to be appropriate.
- 80.2. In case of 4 projects of Ministry of Agriculture, the total cost of projects was Rs. 14 billion 288.4 million, and till now Rs. 3 billion 946.6 million has been spent, out of which Rs. 1 billion 118.2 million has been spent on consultancy services. These projects have incurred consultancy service expenditure ranging from 18.02 percent to 39.54 percent of the total cost, so, consultancy expenditure needs to be controlled.

Since policies and standards for incurring consultancy services expenses have not been formulated, consultants are hired even for doing general nature of work. Because of this, government expenditure is not being done economically.

81. **Employee Facility-** Employees of Nepal Rastra Bank have been depositing amount in Employee Provident Fund, Medical Treatment Fund, Gratuity Fund and Employee Security Fund. Besides these, out of 14 types of allowances, 7 types are provided to all employees and 7 types are provided to employee of special group. These allowances and motivational expenses are 204 percent of salary. Such expenses were Rs. 913.4 million in 2070/71 and Rs. 1 billion 411.3 million in 2071/72.

## • Efficiency in Program Implementation

82. **Authorization and Expenditure at year-end-** In accordance to Rule 23(2) of the Financial Procedures Rules 2064 (2007), authorization of annual program and expenditure to the office by the concerned ministry shall be given within 15 days of the beginning of the fiscal year. This year, in 18 different entities, authority for additional spending of Rs. 15 billion 365.9 million are given to the offices and projects in the month of Asadh 2072 (June/July 2015).

Out of the capital expenditure of Rs. 88 billion 840 million this year, Rs. 28 billion 742.3 million (32.38 percent) has been expended in the month of Asadh (July). There has been the practice of releasing sizable amount of additional budget by Ministry of Finance at the end of each fiscal year and the spending offices, after receiving such amounts, tend to provide advances, transfer such money to non-freezing account or retain such money in deposit account. These practices have not improved yet.

83. **Work Completion Report -** There is a provision that the contract agreement for program implementation should be made within first trimester, final release shall be made after preparation of work completion report, that final installment shall not be provided to schools which fail to prepare work completion report and that the verified work completion report shall be submitted within 15 Ashad. In District Education Office 70, under the Physical Facilities Extension Program, grant of Rs. 1 billion 958.4 million was provided for school building construction, girls toilet construction, school repair and maintenance and external environment improvement in this year, however, works have not been completed.
84. **Under-budgeting –** The cost estimate of 37 projects implemented under Drinking Water and Sanitation Division, in Dang, this year, is Rs. 1 billion 914.8 million, however, only Rs. 126.1 million (6.58 Percent) has been spent during last 5 years. The cost estimate of 35 projects operated in Nawalparasi is Rs. 1 billion 637.9 million whereas only Rs. 221.2 million (13.5 percent) has been spent during the last 9 years and the cost estimate of 15 projects operated in Kaski is Rs. 481.4 million, whereas only Rs. 38.1 million (7.91 percent) has been allocated during last 16 years. Due to inadequate allocation of budget, it was found that the project could not be accomplished within the time. Budget should be appropriated by considering the completion period of program and projects.
85. **Less Progress -** This year there is no progress at all in 1604 programs, upto 25 percent progress in 699 programs, 26 to 50 percent progress in 703 programs and 51 to 75 percent progress in 3034 programs operated under 11 Ministries/Entities. As per Rule 26 of Financial Procedural Act, 2064, though there is a provision that action shall be taken by concerned Ministries/Departments after review of physical and financial aspect along

with identification of reasons for less progress, action has not been taken as per the stated provision.

86. **Consumer committees** - As per Rule 97 of Public procurement Regulations, 2064, the construction work upto 6 million shall be done through Consumer committees. While doing the construction works, 4 projects under the Ministry of Irrigation did works of Rs. 111.4 million, District Development Committee 12 did works of Rs. 410 million, 126 projects of 12 offices under Department of Drinking Water and Sewage Drainage did works of Rs. 3 billion 685.2 million through consumer committees even though it is more than Rs. 6 million, which is against the provision of the Regulation.
87. **Time Extension** - As per Section 56 of Public Procurement Act, 2063 if the period of procurement contract is to be inevitably extended due to force majeure, failure of the public entity to make available the materials or other reasonable causes, the competent authority may extend the period of contract. Out of the 3199 contracts awarded by 116 entities under four Ministries, time has been extended in 1837 contracts by 57 percent, in 637 contracts upto 50 percentage, in 430 contracts from 51 to 100 percent of initial contract duration and in 430 contracts by 100 percent of initial contract duration.
88. **Girls Education Fund** - Girls Education Fund established as per the decision of Council of Ministers, on 2062/3/29, with an objective to provide scholarships to girls studying in schools and campus, there was a balance of Rs. 397.4 million at the end of year, including Rs. 20 million deposited by Ministry in this year. Despite the establishment of Fund, the programs have not been implemented, so unutilized amount should be refunded to revenue.
89. **National Pride Project** – Projects of national pride have been implemented with highest priority for expanding physical infrastructure and offering service to the people. However, upon evaluation of the status of the project as follows, it is unlikely that the projects would be completed within the scheduled date of completion.

(Rs. in millions)

S. No.	Name of project	Commencement Year	Completion year	Total cost estimate	Total expenditure till date	Physical Completion percentage
1	Mid Hill Highway Project	2064/65	2074/75	33,370	10,640	35.00
2	Sikta Irrigation Project	2059/60	2070/71	25,000	10,890	56.89
3	RaniJamara Irrigation Project	2066/67	2074/75	12,630	4,930	40.00
4	Babai Irrigation Project	2045/46	2074/75	7,670	3,390	41.00
5	Melamchi Drinking Water Project	2055/56	2073/74	23,450	14,720	67.00
6	Bheri Babai Diversion	2068/69	2075/76	16,430	960	10.00
7	Budi Gandaki Hydropower Project	2069/70	2077/78	255,00	1,220	-
8	Kathmandu Terai Fast Track	2065/66	To be decided	250,000	4,250	2.70
9	North- South Kailali Highway	2064/65	2079/80	3,400	320	-
10	North- South Koshi Highway	2065/66	To be decided	2,060	810	22.00
11	North- South Kali Gandaki Highway	2066/67	2076/77	25,460	280	-
12	Railway and Metro Development Project	2066/67	2074/75	69,520	3,830	-
13	Second International Airport, Nijgadh	2071/72	-	500	4.1	-

- 89.1. The Mid-Hill Highway (Madhya Pahadi Lokmarga) Project was started in FY 2064/65 (2007/08) with a target of completing it within 2074/75 (2017/18). Out of total cost estimate of Rs. 33 billion 372 million, upto this year, Rs.10 billion 640 million (32 percent) has been spent. The physical target of the project is blacktopping 812 km roads

and construction of 90 bridges, however, till now earthen road of 606 km, gravel road of 199 km and black top road of 67 km has been completed and 29 bridges have been constructed, 35 are under construction and 26 are in process of design. Under the eastern sector of the highway, the road demarcation from Panchkhal of Kavrepalanchowk through Melamchi Sipaghat Bahunpaty to Paty Bhanjyang of Nuwakot is yet to commence. The total duration of the project is 11 years, however, after the completion of 8 years, only 25 percent physical progress has been accomplished.

- 89.2. Mechi-Mahakali Electric Railway and Metro Railway in Kathmandu Valley were announced as a project of national pride and the construction was commenced in 2066/67. The total cost estimate of the projects is Rs. 3 billion 830 million and the project was scheduled to be completed within 8 years from the year of commencement. However, even after five years from its commencement, only 5.5 percent of total cost estimate has been spent.
- 89.3. The works of Melamchi Water Supply Project was targeted to be completed within F.Y. 2073/74 (2016/17). Although the project was started on 2055/56, the physical progress is 67 percent. Considering the slow progress of the project, it is unlikely that the project will be completed on time.
- 89.4. The National Pride Projects should have been implemented by giving high priority than other projects, however, Gautam Buddha Airport which is a second priority project (P2) has also been announced as national pride project. In case of construction of second International Airport at Nijgadh, Bara, 28 percent of the project was targeted to be completed within Ashadh end 2072, however, the physical progress is found to be nil.
- 89.5. Sikta and Babai Irrigation Project were commenced in the years 2059/60 (2002/03) and 2045/46 (1988/89), respectively and were targeted to be completed by the year 2070/71 (2013/14) and 2074/75 (2077/78) respectively, however, the physical progress achieved up to this year is only 56.89 percent and 41 percent, respectively. As the revised cost estimate of Sikta project was prepared in the current year, physical progress of less than 70.50 percent can be noticed upto last year. On the basis of physical progress of the projects, the returns from these national pride project seem to be uncertain. The progress has been sluggish due to termination of erstwhile contract, earthquake and blockade.
- 89.6. Rani-Jamara Irrigation Project, having cost estimate of Rs. 12 billion 638 million, was commenced in FY2066/67 (2009/10) with a target of completing it within 8 years of commencement i.e within 2074/75 (2017/18). However, only 40 percent progress has been achieved even after the expiry of half of the project period.
- 89.7. Bheri-Babai Diversion, having cost estimate of Rs. 16 billion 433 million, was commenced in FY 2068/69 (2011/12) with a target of completing it within 7 years of its

Despite of announcement of National Pride Projects, the implementation status has not been found satisfactory due to lack of implementation capacity, disputes at local level, difficulty in acquisition of lands, weak management of construction entrepreneurs, poor coordination between entities, and absence of clear modality for implementation. Due to lack of monitoring, returns from the programs could not be ensured.

commencement i.e. within 2075/76 (2018/19). This year, agreement for Rs. 10 billion 560 million was signed and advance payment of Rs. 872 million was made, however, construction has not been started even the passage of one year. Within three year period of the project, only 10 percent progress has been achieved and Rs. 960 million has been spent. So, it is unlikely that the project will be completed in the scheduled time.

Some of the reason for non completion of the projects within time and non-attainment of targeted return are: announcement of national pride projects without specific basis and standards, some national pride projects being categorized as second priority (P2), non-preparation of work plans with timeframe and implementation modality, lack of implementation capacity and disputes in local level, lack of inter entity coordination, lack of finalization of material required for construction work and non settlement of tree cutting issues before awarding the contract. The detail project reports of Budhigandaki, Kathmandu Terai Fast Track, East-West Railway, North-South Koshi Highway have not been prepared. The additional efforts is required to complete the projects of high priority.

90. **Expenditure related to SAARC Summit-** In order to organize 18<sup>th</sup> SAARC summit in Kathmandu from 2071/8/10 to 2071/8/11, Rs. 2 billion 14.4 million was earmarked under 10 Ministries, however Rs. 2 billion 52.1 million was spent. As per the decision of Council of Ministers held on 2070/12/13 for hosting conference, Ministry of Foreign Affairs and Office of Army and Police have procured vehicles, communication and security equipments worth Rs. 605.6 million with limited competition showing reasons of time constraint for allocation of budget and for competitive procuring as per the Public Procurement Act, 2063 whereas, if budget was allocated as soon as the decision made by the council of Ministers, competitive bidding could have been done. Security related equipments costing Rs. 14.5 million was supplied for maintenance of department of Nepal Army on 2072/3/11, after the completion of the conference.
91. **Tax audit and Quality-** In 21 Offices under the Internal Revenue Department (IRD), among 7828 taxpayers' files had to selected for full audit, including 3519 files which were carried forward from last year and 4237 files selected this year, full audit was conducted of 4171 files (53.28 percent) was conducted. Due to non-performance of full audit as per target, the scope of OAG is audit has been limited as tax audits are conduted during the end of 4 year period.

Inland Revenue Office, Area No. 3 has achieved the target of revenue collection of last year by making assessment of Rs. 179.4 million of one tax payer and recorded such assessed tax as outstanding. The tax payer appealed to the Tax Settlement Commission regarding the disputed amount which was Rs. 529.9 million, including interest and penalty, and the Commission settled the tax at Rs. 43 million. As the assessed tax was disputed and was waived within one year, it can be seen that the quality of tax audit is weak.

## • Credited in Consolidated Fund

92. **Utilization of Amount -** The University Grant Commission Act, 2050 specifies to provide grant only to universities. Last year, Rs. 47.5 million was disbursed to an unrecognized Medical College Promotion Development Board located in Kailali, which

could not be utilized. This year also, Rs. 35.7 million has been provided to the same Board. Such amount should be refunded.

93. **Accumulated Saving** - Section 45(3) of Telecommunication act, 2050 states that if the amount received by Nepal Telecommunication Authority becomes insufficient to carry out its functions it may request to the Government for such deficit amount, and in case the amount so provided by the Government is in excess, the Authority shall refund such excess amount to the Government. The total fund of the Authority which was Rs. 24 billion 344.9 million in the previous year has reached to Rs. 29 billion 835.6 million in the current year. Of the total fund, Rs.10 billion 175.1 million is in Rural Telecommunication Development Fund and Rs. 19 billion 66.5 million is in other funds of the authority . As per Section 45(3) of Act, the balance in funds except accumulation of Rural Telecommunication Development Fund, Rs.19 billion 66.5 million should be deposited in Consolidated Fund.
94. **Transfer to Fund** - Rule 33(a) of Financial Procedure Rules, 2064 has laid down the provision that amount which remains after not being able to use shall be refunded to district treasury controller offices. Rs. 18.9 million of Local Development Training Academy and its subordinate centers and Rs. 140.3 million of 34 Offices of District Development Committees (including transfer to District Development Fund), totaling to Rs. 159.2 million has not been refunded to the Consolidated Fund.
95. **Balance Amount-** As per Rule 33 of Financial procedure Rules, 2064, the surplus amount shall be refunded to the concerned Funds and Accounts Comptroller Offices. Following are the observations in this regard:
  - 95.1. The conditional grant of Rs.123.33 million was provided to Cooperative Development Board by Ministry of Cooperatives and Poverty Alleviation in 2070/71 and Rs.60 million in 2071/72, of which unutilized amount of Rs.74.2 million should be refunded.
  - 95.2. Out of Rs.6 billion 2.9 million grant distributed by Ministry of Agricultural Development, to Agriculture Input Company Limited, Salt Trading Corporation Limited, National Seed Company Limited, Agriculture Employment Centre, Nepal Agricultural Co-operative Central Federation, Insurance Board and Dairy Development Corporation, only Rs.5 billion 95.4 million was spent. Among this Rs.8.4 million of 4 bodies has been unspent. Such amount should be refunded to the Consolidated Fund.
  - 95.3. Out of the grant provided by Ministry of Commerce and Supplies, the unspent grant of Rs.37.4 million provided to Salt Trading Corporation and unspent grant Rs. 18.1 million provided to Nepal Food Corporation for food transportation, totaling to Rs.55.5 million should be refunded to the Consolidated Fund.

## - **Monitoring**

96. **Monitoring of Grant Budget** - Rule 41(3) of Financial Procedure Rules 2064, mentions that when Ministry of Finance releases the budgeted amount to entities, progress report of the disbursed amount shall be obtained and monitoring and analysis shall be done to ascertain whether the amount has been expended in the work for which such amount was provided or not, whether it has been made in consonance with the goal or not, and whether audit has been made as per prevailing law or not. This year, the budget

appropriation to government entities, committee and boards, and local bodies towards conditional recurrent and capital grant is Rs.1 trillion 24 billion 273 million and towards social security grant is Rs.14 billion 157 million. The observations pertaining to this are given hereunder:

- 96.1. A grant of Rs.730.7 million was released by Ministry of Finance to four entities including Agricultural Development Bank, Small Farmers Development Bank, Deposit and Credit Guarantee Corporation and Nepal Rastra Bank, however, the progress report of expenditure incurred on specified purposes has not been obtained and the usage of budget could not be ensured as monitoring and evaluation has not been done.

Out of the above mentioned grant, this year, Rs.500 million was provided to Nepal Rastra Bank for interest concession in agricultural credit, however, only Rs. 0.9 million was spent and Rs. 499 million was found unspent at the year end. Such balance amount has also not been refunded. As per the policy, grant was to be provided to farmers, who fulfilled the set criteria, by providing credit at 6 percentage annual interest rate. Though the budget was allocated with an objective of commercialization of agriculture, and as it has not been implemented, the usefulness of the budget and program could not be made relevant.

- 96.2. The Ministry of Education provided Rs. 6 billion 688 million grant to University Grant Commission and Rs. 78.5 million grant to Martyr Foundation Nepal (Education Program for Family of Conflict Victim). However, due to lack of monitoring, its utilization could not be ensured.
- 96.3. Ministry of Education has released grant of Rs.14 million to 2 Private Boarding schools and Rs. 6.4 million to 1 Gurukul for the purpose of physical construction and improvement totaling to Rs. 20.4 million, 15 District Education Offices have released scholarships amounting to Rs.222 million to 11,175 students of 1,438 schools without obtaining details of students enrolled. Likewise, 40 District Education Offices have provided grant of Rs. 40.8 million for library support, Rs. 7 million for smart board, Rs. 23.2 million for computer purchase and Rs. 238 million for science lab. However, due to lack of monitoring, its utilization could not be ensured.
- 96.4. Ministry of Agriculture had made budgetary allocation for grant of Rs.11 billion 980 million for 39 programs to provide for chemical fertilizers including hybrid seeds price subsidy, expansion of agriculture and livestock service, commercialization of agriculture and trade project, agriculture and food security, promotion of agro business, livestock development, crops development, reimbursement of infected poultry, of which Rs.10 billion 715.8 million was released and Rs 1 billion 264.2 million found unspent. There is lack of transparency and management in selection process of service recipients due to non-preparation of integrated grant distribution directives. Neither has an independent study on grant expenditure been conducted, nor have the central entities like ministry and departments monitored the mobilization of grant, due to which, the assurance as to the receipt of the benefits by the targeted group could not be ensured.
- 96.5. The details of distribution of grant by Ministry of Agriculture and growth in productivity in last five years is as follows:

S.No.	Financial Year	Grant amount (in Rs. Ten Million)	Growth percentage of agriculture sector		Food production M.T.	
			Target	Achievement	Target	Achievement
1	2067/68	267	3.9	5.5	7762	8615
2	2068/69	323	3.9	4.6	9050	9561
3	2069/70	489	3.9	1.1	9561	8738
4	2070/71	899	4.0	4.7	9480	9563
5	2071/72	1071	4.5	1.9	10210	9563

As per the above table of 5 financial year of the Ministry, in F.Y. 2068/69 (2011/12) grant was increased by 20.97 percentage as compared to F.Y. 2067/68 (2010/11), while the productivity increased by 12.28 percentage only; in F.Y. 2069/70 (2012/13) grant was increased by 51.39 percentage as compared to F.Y. 2068/ 69 (2011/12), while the productivity decreased by 8.6 percentage; in F.Y. 2070/71 (2013/14) grant was increased by 83.84 percentage as compared to F.Y. 2069/70 (2012/13), while the productivity increased by 9.44 percentage only; and, in F.Y. 2071/72 (2014/15) grant was increased by 19.13 percentage as compared to F.Y. 2070/71 (2013/14), while the productivity was not increased. Thus, the rate of increase in production has been found less than the rate of increase in grant. As a result, positive correlation is not found between the grant and agricultural production. Hence, the grants should be mobilized by linking with production and productivity.

- 96.6. Project for Agriculture Commercialization and Trade (PACT) had entered into an agreement for Rs.139.8 million with 22 sub projects of five development regions for operation of agro business, however, the business was found not operated though time of the agreements have elapsed. Hence, the usage of grant has not been effective.
- 96.7. Ministry of Energy has provided total grant Rs. 336.6 million to Nepal Electricity Authority, including Rs. 98.7 million to Private Hydropower Promoters for current posted rate, Rs. 152.6 million to Sick Jute Mills for rebate of demand fee, and Rs. 77.4 million to Rural Electricity Cooperative Association for waiver of loan. The usage of grant could not be ensured as monitoring has not been made.
- 96.8. Ministry of Health has distributed grant of Rs.832.6 million to 56 organizations this year, of which, Rs. 93 million was distributed to 4 health institutions operated by profit motive cooperative organizations, and Rs. 40 million was distributed to two limited companies. The criteria for distribution of grant has not been prepared and the record of distributed grant and its monitoring has also not been maintained. As per the contract, such amount can only be utilized on capital expenditure and amount not spent upto Ashadh end should be freezed. 21 entities that have submitted financial statement, have incurred expenditure which is not in conformity to the terms of contract and have balance of unspent previous and current year grant, totaling to Rs.199 million, which should be recovered.
- 96.9. Social Security Grant of Rs. 12 billion 263.4 million was provided by Ministry of Federal Affairs and Local Development, however, local bodies have not updated the records of the people receiving allowance, the advance provided to local bodies and employees have not been settled in time by submitting details and more grant has been released than the actual requirement.

97. **Single Door System:** As per Technical College of Higher Education Policy, 2063, after the fulfillment of the basic criteria, process and conditions for opening technical college, the Ministry provides letter of intent upon recommendation of Higher Education Promotional and Monitoring Committee. Thereafter, the class shall be run after getting approval from the affiliated university and the concerned council. There are 100 institutions, including 14 relating to M.B.B.S, 36 relating to engineering, 32 relating to BDS and other program and 18 relating to agriculture veterinary and forestry, that have received letter of intent from Ministry but have not obtained affiliation from University. The situation is opaque as even though the letter of intent has been obtained from Ministry but affiliation has not been received from university. The prevailing system of obtaining letter of intent and approval of operation should be modified and a single door system should be implemented.
98. **Construction Contrary to Map:** The primary inspection made by Urban Development and Building Construction Department after the earthquake on month of Baisakh 2072, revealed that one housing in Dhapasi has constructed 17 storey building with 212 flats against the approval of map for construction of 11 storey building with 185 flats. Such building constructed additional 6 storey, contrary to approval of building map, so it is found unsafe. This situation arose due to non-compliance with the process of approval of map, non-adherence to building code and non-compliance with the process of approval of map of multi storied building and due to lack of supervision and monitoring during construction as per section 14(1) of Building Act, 2055.
99. **Construction Contrary to Standards:** As per the Construction Standards, 2064, which regulates construction in municipalities inside Kathmandu Valley and semi-urbanized VDC's, the house to be constructed in commercial sub-region can occupy upto 50 percent of land and the ratio of total area of all the storeys and land area should be 3:1.
- In case of a building constructed by a hospital in Babarmahal, ward no 11, Kathmandu Metropolitan City, as per the standard, the ground area should have been 206.68 sq. m. (50 percent) but it was found to be 284.65 sq. m., similarly, all storeys should have been 1240.05 sq. m., but, was found to be 1919.19 sq. m. For the same house, approval was granted for constructing 5 storey only, however, 7 storey was constructed. In case of another building, housing a trading show-room, located in ward no 12, adjacent to the Tripureshwor-Teku-Thankot road, the floor area ratio as per approved standard should have been 2,873.57 sq.m. however, the actual construction has 3,896.16 sq.m. which is 1,022.59 sq.m more than the approved standard. Construction works should be as per the approved standards only.
100. **Usage of Royalty-** As per Mountaineering Royalty Allocation and Distribution Guidelines 2014, 30 percent of the royalty should be allocated to the concerned District Development Committee as conditional grant. Based on the same provision, Ministry of Culture, Tourism and Civil Aviation has disbursed Rs. 321 million to 14 District Development Committees in last three years, however, Rs. 215.1 million has been spent in F.Y. 2069/70 and F.Y. 2070/71 and the expense detail for F.Y. 2071/72 has not been received in the Ministry. Moreover, the Ministry has not monitored whether the stated Royalty amount has been utilized for promotion of tourism.

## • Returns on Investment

101. **Returns on Investment in Shares** - Of the total investment Rs.142 billion 907.3 million made by the Government of Nepal in 104 corporate bodies, dividends of only Rs.13 billion 531.6 million have been received from eight corporate bodies. This amounts to 9.46 percent returns on investment. Most of the corporate bodies in which the Government has made investment are in loss. The return on investment was 10.25 percent in the previous year, which has decreased by 0.79 percent points in the current year. Considering the low return on investment, steps should be taken to enhance the efficiency of Government Corporations.
102. **Deposit-** Army Welfare Fund has a balance of Rs. 22 billion 836.4 million and foreign currency balance of Rs. 6 billion 514.6 million in 65 banks and finance companies as at Ashadh end, 2072. Deposits in 1 development bank and 3 financial companies, amount to principal amount of Rs. 273.6 million and interest of Rs.48.8 million, totaling to Rs.322.4 million, has not been received, so the fund is at risk.
103. **Project Loan** – Of the total loan of Rs. 25 billion 580 million provided by Employees Provident Fund to 19 borrowers, Rs. 504.2 million provided to 7 borrowers has been classified as bad loan, whereas, in case of loans provided under consortium financing, none of the loans have been recovered. Among the litigation of 8 consortium financing loans in Debt Recovery Tribunal, the Tribunal has given the verdict to recover Rs.359.2 million from 3 industries. However, recovery of such amount has not been made even after five years has elapsed from the date of such decision.
104. **Sale of Shares-** The net profit of Rs.4 billion 643.9 million shown by Rastriya Banijya Bank Ltd. this year is inclusive of profit of Rs.2 billion 753.6 million received from the sale of share of two bank in the current year. Such profit derived from sale of share is 59.29 percent of net profit.

## • Acquisition of Resources-

105. **Electricity Royalty** - As per Section 11(1) of Electricity Act 2049, the licensee shall have to pay royalty to Government of Nepal at a rate of Rs. 100 for each installed kilowatt of electricity per year plus 2 percent of the average tariff per unit (per kilowatt hour) for a term of up to fifteen years from the date of generation of electricity for commercial purpose and Rs.1000 for each installed kilowatt of electricity per year plus 10 percent of the average tariff per unit (per kilowatt hour) after fifteen years from the date of generation of electricity for commercial purpose. Of the total outstanding royalty, of last year, amounting to Rs. 1 billion 352.2 million, which is to be collected by Department of Electricity Development from 48 hydropower projects, calculated on the basis of production and installed capacity, Rs. 1 billion 137.9 million has been recovered as a result of which outstanding amount in the current year is Rs. 214.3 million. Though the Department maintains details of receivables based on installed capacity, and shows it as income in every year, yet, no steps have been initiated for ascertaining and recovering outstanding royalty of previous years.
106. **Recovery of Taxes and Charges** - District Development Office 43 has not recovered Rs. 376.5 million service fee, tax charges and sales tax from various contractors of which Rs. 331 million is receivable amount upto previous year. Even though the Public Accounts

Committee, by its decision on 2069/1/10, has directed to immediately recover such recoverables, steps taken for recovery of the same were not noticed.

107. **Frequency Charge** - Radio Frequency Policy Determination and Allocation Committee setup as per Section 49(1) of Telecommunication Act, 2053, has issued Frequency Policy, 2069 and determined minimum and maximum frequency limit that can be used. The policy states that the excess frequency occupied by telecommunication service provider shall be taken back, but, eventhough some telecommunication service providers have occupied excess frequency, the same has not been taken back, instead, charge is being collected. This year, three telecommunication service provider have occupied excess frequency and one telecommunication service provider has not deposited frequency charge of Rs.84.1 million.
- Amount has not been deposited into Government Fund because of non-deposit of unspent grant amount after expenditure, non-recovery of frequency fee and electricity royalty and non-deposition of revenue in government fund due to absence of provision to deposit the balance amount lying in the entities established with specific purposes.
108. **Competition in Frequency** - Public Accounts Committee has directed on 2068/9/26 to conduct auction while allocating 3G frequency. Radio Frequency Policy, 2069 has determined 3G band frequency to G.S.M. 900 and 1800, C.D.M.A. 800 and I.M.T. 2000 for telecom service operation based on C.D.M.A., WiMax and I.M.T. And it is stated that 1900 MHZ band which is being used under C.D.M.A. system will be gradually transferred for use of G.S.M. 3G. Though it was stated that auction procedure shall be implemented to determine market value of frequency based on international practices and experiences, such auction for distribution of frequency has not been done.
109. **Additional Frequency Charge** - Frequency Policy Determination and Allocation and Price Policy, 2069 stipulates that microwave, additional and minimum frequency charge must be paid within 6 month after the end of fiscal year and charge for maximum frequency and VSAT must be paid within 3 month after the end of fiscal year and if such charge is not paid within such period, 2 percent additional charge will be levied every month on the outstanding payment amount. If the amount is not paid even after 6 month from the levy of additional charge, the such license shall be revoked and such amount shall be recovered as Government dues. This year, Rs. 298.9 million, including charges not paid in time and additional charges due to delay in payment has not been recovered from 7 service providers and no action for revocation of license has been taken.

## • Internal Control

110. **Control Mechanism** – Majority of controlling Ministry and Department have not prepared and implemented internal control system as per Rule 95(1) of Financial Procedural Rules, 2064, and the controlling offices have not conducted supervision and monitoring as per the Act and Rules. Such condition prevails. The internal audit performed by Financial Comptroller General Office (FCGO) is also not found to be effective. In spite of preparation and implementation of Internal Audit Directives, 2068, it was found that audit was not conducted due to inadequate manpower for internal audit and inadequate training opportunity for manpower involved in audit. Audit has not been

conducted by following the methodology stated in the directives. Thus, overall scenario of internal control is found weak.

111. **Visa Sticker** – On the basis of consumption of visa sticker by Nepalese Embassy in France, revenue of Euro 365.36 thousands should have been collected, but only Euro 157 thousand has been collected. Euro 198 thousand from Honorary Consul of Barcelona and Euro 97 thousand 336 from 5 Honorary Consul of Ruwan, Madrid, Athens, Lisbon and Monaco, needs to be recovered for consumption of visa sticker. Such outstanding amount Euro 207 thousand which is equivalent to Rs.23.233 million (exchange rate Rs.112.14) should be recovered.
112. **Excess Disbursement** - This year, District Education Offices 46 have made excess release of Rs. 31.5 million for teachers' salary and allowance, District Education Office 29 have released Rs. 19 million for salary allowance of retired teachers and education office 16 have released Rs. 2 million excess for teachers annual grade increment, thus, in total Rs. 52.5 million has been released in excess. Likewise, District Education Offices 15 have disbursed Rs.18.2 million in excess for payment of amount Rs.304 million against the amount of Rs.285.8 million as a grant calculated based on approved price list of Janak Education Material Centre for free of cost education materials. Excess release amount should be collected and deposited in revenue account.
113. **Teachers Posting** – As per the grade wise posting details received from Department of Education, out of post of 145.518 thousand teachers, evidence of approval for 37.568 thousand posts towards relief was not seen. As per the school wise students and existing teacher posting analysis done by the Department, there are excess posting of 9679 teachers in primary level in 36 district including 1254 in Kathmandu, 895 in Jhapa, 554 in Morang, 554 in Chitwan, 516 in Lalitpur 503 in Syangja, 483 in Bhaktapur and 428 in Palpa. This year, Rs. 2 billion 230.9 million was found to be spent on salary and allowance of excess teachers, calculated on the basis of teachers that should have been as per student-teacher ratio.

## • Accountability and Transparency

114. **Tax Settlement Commission** - Income Tax Act, 2058, is based on the regime of self assessment, and if the tax payer is not satisfied with tax determined, then he can apply to the Department for administrative review and if he is not satisfied with the decision of the Department, then he can move to Revenue Tribunal and finally to the Supreme Court. Section 142 of the act states that notwithstanding the provisions made under the current law, no other acts except the Income Act, 2058, shall be made capable to make changes, amendment and other tax related provisions other than the provisions relating to imposition, assessment, reduction, increment, exemption, or remission of tax to be made by amending the Income Tax Act, 2058 itself by annual Finance Acts.

The Income Tax Act, 2058 has adequate legal provisions for settlement of disputes, and no other act except the Income Tax Act, 2058 can make provisions relating to income tax, however, the Tax Settlement Commission Act, 2033, which was made when the regime of self-assessment was not in place, is being used to settle tax disputes even in the regime of self-assessment. The reports of Tax Settlement Commission was sought to assess the effect on the revenue, however, the documents were not provided by the

Ministry of Finance, which has violated the constitutionally conferred powers of the Auditor General to have power to examine any books of accounts at all times.

115. **Account Publishment** – This year, 48 offices including Irrigation Division, Water Induced Disaster Prevention Division, Groundwater Resource Development Committee and Projects have carried out works relating to irrigation project, gabion, canal repair, worth Rs.2 billion 386.6 million through consumer committee, however, the expenses were not authorized and has not been made public. Account of income-expenditure should be made public.
116. **Medical Audit and Code of conduct** - Despite there are good practices of conducting periodic independent examination of quality of service rendered for diagnosis of disease and treatment procedure, hospital were not found conducting medical audit from the time of their establishment. Likewise, Nepal Medical Council requires the medical practitioners to declare the code of ethics that must be followed by them. Non-compliance with the said provisions shall be met with penal actions, however, medical practitioners have not declared and followed the code of conduct.

## • Disaster Management

117. **Income Expenditure** - The balance of Prime Minister's Disaster Relief Fund as on Ashadh end 2072 was Rs.17.5 billion and upto Falgun end 2072, income in the fund was Rs. 24.34 billion and expenditure made from the fund was Rs. 22.78 billion.  
  
Likewise, in Central Relief Fund, Rs. 12 billion 410 million grant was received from Prime Minister's Natural Disaster Relief Fund and Government of Nepal and Rs. 12 billion 260 million was expensed from the Fund, so the balance of Rs. 150 million remains as on Ashadh end 2072. Upto Magh end 2072, Rs. 22 billion 170 million has been received in the Fund and Rs. 21 billion 230 million has been expensed, so balance of Rs.940 million remains as on Magh end 2072.
118. **Disaster Preparedness**- The provisions of existing Natural Disaster (Relief) Act, 2039 are not adequate to address preparedness for disaster risk management. So, timely and relevant amendment must be made in the Acts and Rules. Local Disaster Management Committee has been established to address disaster related issues from Central to District level, however, in local level (village and municipal), local disaster management committee has not been established. Policy formation, coordination and management activities has not been prepared in effective way due to non-establishment of National Disaster Management Authority. 68 places have been designated as open place in Kathmandu Valley, however, the same has not been done in other districts. Also there are no proper and adequate storage facilities for food, medicine and other rescue materials, rescue tools and equipment needed at the time of disaster.
119. **Rescue and Relief** – Arrangements should be made to flow relief and rehabilitation activity in a coordinated way through single door system. As per the details of Ministry of Home Affairs, this year for earthquake rescue and relief, 111 national non-governmental organizations have provided Rs. 1 billion 247 million and 121 international non-governmental organizations has provided Rs. 4 billion 489.7 million totaling Rs. 5 billion 736.7 million in cash and commodity aid. In addition, 69 non-governmental organizations have been approved for conducting 85 reconstruction programs of Rs. 1

billion 163 million and 15 international non-governmental organizations have been approved for conducting 16 reconstruction programs of Rs. 12 billion 715.9 million, so, approval of Rs. 13 billion 878.9 million has taken aiding rehabilitation activities. NGOs and INGOs have also distributed cash and commodity aid in affected area other than the aforementioned aids. The work of distributing cash relief in Gorkha district from NGOs and the Government was allocated to VDC, however, in other districts, the distribution work was not done in a coordinated way through single door mechanism. The work performed by NGOs has not been monitored.

120. **Difference between statistical data of households** - The number completely destroyed houses in Gorkha, Dhading, Nuwakot, Kavreplanchowk, Kathmandu and Dolkha for the purpose of distributing Rs. 15,000 for building of temporary huts was shown to be 421,485 nos., however, for the purpose of distribution of warm clothes, the completely destroyed houses were shown to be 442,719 nos, which is in excess by 21,234 number of houses. There is no uniformity of data.

As per National Census, 2068, total number of household in Dhading, Rasuwa, Nuwakot, Sindhupalchowk, Kavreplanchowk, Dolkha and Ramechap was 379,850, however, as per the data collected by Ministry of Home Affairs after the earthquake, it was found to be 467,510, which is in excess by 87,660 houses. Likewise, as per the report submitted by the technical team in District Administration Office, Sindhupalchowk, 9,459 families resided in 10 VDCs, however, 1,254 more families was shown and excess expense of Rs. 18.7 million was booked on the basis of Rs. Rs. 150,00 per family. Relief should be distributed on basis of updated and organized data.

121. **Expenditure Monitoring** - District Education Office Kavreplanchowk, Sindhuli, Makwanpur, Ramechap, Gorkha, Dolkha and Rasuwa have released Rs. 527.2 million to concerned schools after earthquake for school reconstruction, temporary toilet construction, temporary classroom construction, class room management and hygiene, preparedness class, uniform and bag distribution, school building construction, etc. These offices have not monitored whether such amount has been used for the specified work or not.
122. **Advances** - As per the Rule 113(5) of Public Procurement Rules, 2064, advance shall be settled after submission of bill. 10 District Natural Disaster Relief Fund have provided advance of Rs. 3 billion 88.4 million to Office of Village Development Committee and its Secretaries for relief distribution related to earthquake victims and temporary hut construction, however, timely settlement of such advances has not been done after submission of bills.
123. **Records**- As per the decision of Central Relief Fund, the record of relief material received from foreign countries, government and other agencies should have been maintained. However, the records maintained by custom office was not complete and aid received from district and other organization was not recorded completely. In the absence of one door system, the relief materials were distributed directly to victims without recording them. So in the absence of central integrated records, the recording of relief and rescue material distributed to earthquake victims was not kept properly.

## 4. Suggestions for Future Reforms

The Constitution of Nepal states that the Auditor General shall conduct the audit of all government office and government owned entities of Federation and State as per procedure laid down by law, considering the aspects of regularity, economy, efficiency, effectiveness and propriety. In accordance with the responsibility conferred to the Auditor General, following recommendations are suggested:

1. **Independence** - Office of the Auditor General has not been provided with financial and operational independency as per the Lima Declaration, 1977 and the Mexico Declaration, 2007, promulgated by the International Organization of Supreme Audit Institutions (INTOSAI). Therefore, for the promotion of financial independency, and for ensuring professional and administrative independency of staffs involved in audit, Audit Act and Work Operation Bylaws should be formulated.
2. **Implementation of Strategic Plan** - The 5 year strategic plan (2016 - 2020) of the Office of the Auditor General has set goals for increasing quality and impact of audit, strengthening independence and mandate, developing organizational capacity, enhancing professional relation with external stakeholders and enhancing internal governance. As the Constitution of Nepal has mandated the Office of Auditor General to conduct audit of State and local level entities, the need to expand and strengthen the organizational structure was also addressed in the plan. The assistance from concerned entities are required for implementation of the strategic plan.
3. **Capacity Development** – Resources should be allocated for capacity development of employee and they should obtain opportunity to participate regularly in international training, workshops and seminars, which will lead to exchange of knowledge, skill and experiences among countries and will also lead to improve professional skill and capacity. This will generate qualitative contribution in public financial management through audit.
4. **Quality Audit**- The quality assurance tests of audit files of financial and performance audit are conducted to review whether audits were carried as per work policy, standards and methodologies and whether the audit quality control is being effectively implemented. For timely correction of the weaknesses depicted in quality review report, working plans should be formulated and implemented.
5. **Audit of foreign aid** - The foreign loan, grant and assistance received by nongovernmental organization and local bodies from donor countries and international organizations are not incorporated in the budget of Government of Nepal and is not audited. This practice should be changed and all foreign assistances should be included in the budget and should be audited as per the legal provisions.
6. **Settlement of Irregularities** - As per the Financial Procedure Act 2055 (1998), the irregularities as pointed out in preliminary audit report of OAGN shall be settled within thirty-five days or within the extended time limits, if such time extension has been given. The irregularities should be settled within the specified time and as per the specified procedure by actively engaging responsible officers and account responsible officers.
7. **Implementation of the Public Sector Accounting Standards (NPSAS)** - In 2066/5/30, the Government of Nepal has implemented Nepal Public Sector Accounting Standards,

Financial Reporting under Cash Basis of Accounting (NPSAS). Till now, on test basis, only 15 Ministries have prepared the financial statement as per these Standards. To make financial transaction transparent and reliable, timely improvement should be made in the format of accounts of Government of Nepal and these accounting standards should be implemented by all public entities.

8. **Internal Control System** - Most of the entities have not established and implemented internal control system and have not prepared a checklist for its monitoring as per Section 25 of Financial Procedure Regulations, 2064 (1998). Internal control system is found ineffective because of compromise in independency of internal audit, audit not being carried in planned manner by complying with the directive and lack of programs for professional skill development. Internal control system should be established and implemented as per the provision of the Regulations and internal audit should be made effective.
9. **Discussion of Annual Audit Report** - Ten sub-committees are formed under the Public Accounts Committee for discussion on the findings included in annual report of Auditor General and some sub-committees have already initiated discussion. However, as the meetings of the sub-committee are not being held in regular interval, all the observation of the report cannot be discussed in time. The effectiveness of audit should be increased by making timely discussion upon the report.
10. **Audit of corporate bodies** – Public organization should perform audit within specified time limit after the end of fiscal year as per law, but, audit is not completed within time and the reply to audit comments are also not given in time, which shows that financial responsibility is not being borne. For making financial administration fair and disciplined, the persons should be made accountable for their responsibility as stated by the law.
11. **Working Environment** – For making audit work effective, in addition to the improvement in audit procedures, process and concept, improvement in working environment and minimum infrastructure is also necessary. As the building being used by the Office in Babarmahal was damaged by earthquake and process for construction of new building is in progress, however, its progress is minimal. Quick action should be taken in this regard.
12. **Improvement in Performance Audit** – Due to ineffective internal audit, the audit conducted by the Office of Auditor General also has to conduct test of regularity. Internal audit should be made effective and the scope of audit of Office of Auditor General should be expanded by focusing on achievement of resources and means, utilization and achievement of targets. Arrangements should be made for implementation of the recommendations of audit.
13. **Minimization of Irregularities** – Even though the Auditor General has repeatedly pointed out the irregularities in the financial transaction of the Government, these are not corrected but are continued, as a result of which irregularities are gradually increasing, which has led to lack of reliability in the financial management system. The persons involved in irregular activities have got minimal punishment which has led to state of impunity. There is no effective mechanism of encouraging the compliance with financial responsibility. Evaluation of employee work performance should be done by linking with his compliance with financial responsibility and the weaknesses should be improved.