



The Auditor General's Fifty-Ninth Annual Report 2022 Summary



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



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**Summary
(Unofficial Translation)**



Office of the Auditor General
Kathmandu, Nepal

Vision

*Be credible institution in promoting accountability,
transparency and integrity*

Mission

*Provide independent and quality audit service to
nation*

Core Values

Independence

Integrity

Transparency

Accountability

Professionalism

Preface

The Constitution of Nepal and Audit Act 2075 (2018) mandate the Auditor General to conduct the statutory audit of all government offices of the federation, provinces & local levels and wholly government-owned corporate bodies in consideration with the regularity, economy, efficiency, effectiveness and propriety thereof. This 59th. Annual Report has been prepared covering the audit findings, conclusions and recommendations after the audits of financial transactions of 5 thousand 758 entities. The audit has been completed by adopting the risk-based audit approach along with the use of Nepal Audit Management System (NAMS) - the electronic based audit system. Pursuant to the high risk entities, the audit has been completed by using the NAMS as well as being physical presence in the audited entities, and pursuant to the medium and low risk entities, the audit has been completed by using the system and adopting the remote audit techniques. The audit has been completed by complying with the international good practices and using Nepal Government Audit Standards, which is prepared by abiding the auditing standards adopted by the International Organization of Supreme Audit Institution (INTOSAI).



Total amount of NRs. 7 trillion 533.09 billion has been audited in this year including the figures of the federal, provincial and local level government entities, corporate bodies, boards and other institutions. Total irregularity of NRs. 115.05 billion has appeared from the audits of the government entities of the federation, provinces and local levels. Out of the total amount, the irregularity of 49.47 billion (1.75 percent) has been witnessed from the audit of NRs. 2 trillion 820.37 billion of 3 thousand 387 federal government entities/offices, the irregularity of NRs. 7.48 billion (2.50 percent) has been witnessed from the audit of NRs. 299.57 billion of 1 thousand 131 provincial entities/offices, the irregularity of NRs. 14.19 billion (6.89 percent) has been witnessed from the audit of NRs. 206.12 billion of 1 thousand of 448 boards and other institutions, and the irregularity of NRs. 43.90 billion (4.18 percent) has been witnessed from the audit of NRs. 1 trillion 51.09 billion of 799 local levels (inclusive of 55 audit backlogs). In addition, the audit of NRs. 3 trillion 155.93 billion of 93 public institutions has been completed. Pursuant to 31 corporate bodies - the consultations for auditing are provided, the audit of NRs. 1 trillion 152.76 billion has been completed. Thus, inclusive of the consultation provided corporate bodies, the audit of total NRs. 8 trillion 685.85 billion has been completed in this year.

With respect to total outstanding irregularity NRs. 418.85 billion remained up to previous year, the irregularity of NRs. 483.59 billion has remained as outstanding to be settled after deducting the settled & adjusted amounts of NRs 50.29 billion this year and adding to this year's irregularity NRs. 115.05 billion. Total NRs. 4.20 billion has been recovered in course of auditing and doing follow-up audits. In comparison to previous year's total amount NRs. 676.41 billion to be settled by taking action, the amount has surged to NRs. 829.15 billion in this year. In this year, the figure of overdue advance has not been included in the irregularity figure, which has caused decrease in irregularity figure and percent.

In course of the audits, recommendations have been provided by making an independent study, assessment and analysis of the subject matters, such as - compliance with laws, mobilization of resources, planning, formulation and implementation of budgets, construction of infrastructure, project management, procurement management, public administration and governance, fiscal discipline, internal controls, public property management, operations of public enterprises, implementation of federalism, usage and achievement of resources, use of information technology etc. In this year, in addition of financial audits, the performance, information technology, environmental, compliance and special audits have also been performed. In order to administer the public financial management in an efficient and result-oriented manner, the officials and employees involved in such management have to accomplish their specified responsibilities.

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

(Tanka Mani Sharma, Dangal)
Auditor General

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Audit Objectives, Scope and Methodology

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

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

- 2. Objectives** - The main objective of audit is to issue reports along with suggestions for improvement of public financial management by pointing out the observations witnessed on examination of the financial transactions and service delivery of all government offices of the Federal, Provincial and Local Level as per the Constitution, and other offices of bodies as specified by federal law in consideration with the regularity, economy, efficiency, effectiveness and propriety thereof. To attain the main objectives, the audit examination has been performed by covering the following subject matters, whether:

Financial audit

- the financial statements and reports of Consolidated Fund and other Government Funds of all three tiers have been prepared as per the prescribed formats and present the true state of the financial transactions,
- the expenditure are incurred for the specified purposes remaining within the ceilings as fixed by the Appropriation Act,
- the accounts of government loans, investment, assets inclusive of the principal, interest, dividend receivable or payable and paid have been maintained.

Compliance Audit

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

Performance Audit

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

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

Audit of Various Subjects

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

3. Audit Scope - The audit scope includes the financial transactions & audit backlogs and related documents of fiscal year 2020/21 (2077/78) of the constitutional bodies, all offices of the Federal, Provincial Governments and Local Levels, Corporate Bodies, Committees, Boards, Trust/Funds, Authorities and Universities wholly owned by the three tiers of governments, and other entities prescribed as to be audited by Auditor General in Federal Law. The audit scope also includes the examination and evaluation of the subject matters, such as - the true & fairness of financial statements, internal controls system, budget and expenditure management, revenue estimation, collection and deposit, inventories and assets management, project management, public procurement, public construction, public service delivery, safeguards and use of public resources, work performance of regulating entities, public enterprise management, human resource management, responsibility and accountability etc. In addition, the audit scope also includes the assessment of the expenditure incurred in 2020/21 with respect to the prevention and treatment of the Covid-19 pandemic and the activities implemented for the attainment of sustainable development goals.

4. Audit Methodology - By preparing annual audit plan and also preparing ministry-wise audit plans and entity-wise audit plans harmonizing with the annual plan, the audits of all entities have been completed electronically in this year by using the 'Nepal Audit Management System' (NAMS) developed by the Office. Audits have been completed in compliance with the provisions of Audit Act, 2019, Nepal

Government Auditing Standards, Financial, Performance, Disaster Management, Environmental and other relevant audit manuals, guidelines and good practices.

Audits have been completed on the basis of risks assessment classifying the audited entities into low, medium and high risk entities, and the audits of high-risk entities have been conducted by performing test of details. Only selected matters and transactions have been examined in case of medium-risk entities, and audits of low-risk entities have been completed through the remote auditing technique based on the information obtained from the assessment of internal control systems, internal audit reports and Treasury Single Account.

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

Public Accountability from the Outlook of Auditor General

Resource Mobilization

- No expansion of taxbase,
- Import based revenue structure,
- Low revenue mobilization,
- High credit and low debit in Value Added Tax,
- Ineffective revenue leakage controls,
- Unrealistic evaluation of goods at customs points,
- Ineffective monitoring of revenue rebate,
- Foreign aid not received as per commitment,
- No increment in foreign direct investment.

Formulation and Implementation of Plan

- Project prioritization not made fact base,
- Low progress in National Pride Projects,
- Implementation of Project Banks not effective,
- Budget included without prior preparation,
- Huge amounts expended in consultancy and increase in outside reliance,
- Increase in time and cost due to not completion of projects in time,
- Project monitoring and evaluation not became result-oriented.

Preparation and Implementation of Budget

- No linkage between plan, program and annual budget,
- Weak budget discipline due to virement at year-end,
- Budget implemented outside national budgetary system,
- Weak in foreign assistance utilization,
- All foreign assistances not included in budget and not submitted to audit,
- Expenditure incurred keeping unallocated budget,
- Non utilization of amounts remained in various committee and Funds.

Development Works

- National construction capacity not measured ,
- Low budget appropriation in capital expenditure as compared to recurrent expenditure, ,
- Low capital budget expenditure,
- Inadequacy of technology and equipment ,
- Development works not becoming cost-effective due to lack of inter-organization co-ordination,
- No compliance with public procurement laws,
- Complex and technical works undertaken from user groups,
- Low quality of infrastructure construction..

Public Asset Management

- Consolidated records of public assets not kept systematically,
- No control in encroachment of public assets,
- Valuable equipment not in operations due to lack of maintenance,
- Maximum use of public assets not made,
- Details of all assets not recorded in public asset management system,
- Competition and transparency not made in giving leases and contracts to public assets.

Operations of Public Enterprises

- Accounts of assets, share and loan investment not updated and not made realistic,
- No full autonomy in decisions of public enterprises,
- Organizational structure of public enterprises not become smart,
- Diversities in staff facilities of public enterprises,
- No professionalization in operations of public enterprises,
- Privatized public enterprises not operated as per objectives.

Economy

- Price inflation not remained in desired limit,
- Low economic growth,
- Depletion in foreign currency reserves,
- Exports not increased compared to imports,
- No growth in gross investment and national savings,
- Rise in internal and foreign loan burden,
- Excessive share of remittance in Gross Domestic Production,
- No control in informal economy.

Public Administration and Good Governance

- Recommendations relating to administration reforms not effectively implemented,
- Public administration not become result-oriented,
- Service delivery not become reliable and trustworthy by reducing time, distance and cost,
- Duplication in structure and work scope of public entities,
- Electronic device not used effectively in complain hearings,
- Reward and punishment system not made effective,
- Civil Service Act not issued as per federal structure.

Implementation of Federalism

- No clear laws formulated relating to the matters of concurrent powers provided in Constitution,
- More dependency of province and local level on federal grants,
- Duplication in work scope and lack of coordination in entities of three tiers of governments,
- Employees' adjustment not fully completed,
- No controls in unproductive expenditure,
- No clear directives, guidelines prepared in accordance with province and local level laws,
- Internal income mobilization of province and local level not effective.

Fiscal Discipline and Regulation

- Internal controls system not become effective,
- Financial statements not reflect true picture,
- No initiative taken to implement accrual based accounting system,
- Nepal Financial Reporting Standards and Nepal Public Sector Accounting Standards not fully implemented,
- Officials not completing audit on time not made accountable,
- Increase in irregularities and initiative not taken adequately for the settlement,
- No enhancement in working capacity of regulating entities,
- Regulation of entities including financial institutions not becoming effective.

Chapter -1

Details of Audited Entities

• Overall Audit

Audited Entity and Subject		Number	Amounts in NRs. Billions
(A) Financial Audit			
1. Federal Ministry and Entity (Including 48 backlogs)		3,287	2,820.38
2. Provincial Ministry and Entity (Including 12 backlogs)		1,131	299.57
3. Local Level (Including 55 backlogs)		799	1,051.10
4. Committee & Other Institution (Including 78 Provincial)		448	206.11
5. Corporate Body		93	3,155.93
(B) Performance Audit	6	-	-
(C) Compliance Audit	1	-	-
(D) Environmental Audit	1	-	-
(E) Special Audit	1	-	-
(F) IT Audit	3	-	-
Total		5,758	7,533.09

This year, the audits of total amount of NRs. 7 trillion 533.09 billion, inclusive of NRs. 2 trillion 820.38 billion of 3 thousand 287 Federal Ministries/Entities, NRs. 299.57 billion of 1 thousand 131 Provincial Ministries/Entities, NRs. 1 trillion 51.10 billion of 799 Local levels (including 744 out of 753 Local Levels and 55 Local Levels of last year's backlog), NRs. 206.11 billion of 448 Universities, Committees, Institutions and Academies, and NRs. 3 trillion 155.93 billion of 93 Corporate Bodies, have been completed. In addition to the financial audit, the performance audit of 6 subjects, compliance audit of 1 subject, environmental audit of 1 subject, special audit of 1 subject, and IT audit of 3 subjects have also been completed.

- 1. Federal Ministry and Entity** - This year, the audits of the following appropriation/revenue/deposit and other transactions of 3 thousand 287 Federal Government Entities have been completed :-

(NRs. Billions)

S.N.	Transaction	Audited Amount
1	Appropriation	1,124.16
2	Revenue	1,102.96
3	Deposit	66.27
4	Other Transaction	526.99
Total		2,820.38

Pursuant to audit backlog amounting to NRs. 15.74 billion of 3 thousand 79 units of the Federal Government Offices existed up to last year, the audits of NRs. 11.21 billion of 143 units have been completed in this year.

2. **Provincial Ministry and Entity** - This year, the audits of NRs. 299.57 billion of 1 thousand 131 entities functioning under 7 Provinces have been completed. Pursuant to audit backlog amounting NRs. 2.45 billion of 41 units of the Provincial Government Offices existed up to last year, the audits of NRs. 2.42 billion of 12 entities of have been completed in this year.
3. **Local Level** - This year, the audits of NRs. 1 trillion 51.10 billion of 799 local levels, inclusive of 6 Metropolitans, 11 Sub-Metropolitans, 287 Municipalities and 495 Rural Municipalities (including 55 audit backlogs of previous year) have been completed.
4. **Committee and Other Institution** - This year, the audits of NRs. 206.11 billion of 448 Committees and other Institutions (including 78 provincial) have been completed.
5. **Corporate Body** - This year, the audits of NRs. 3 trillion 155.93 billion of 93 units of the corporate bodies have been completed. In addition, the consultations for auditing of NRs. 1 trillion 152.76 billion have been provided to 31 institutions and audits have been completed in accordance to the consultation provided.
6. **Performance and Special Audit** - This year, the performance audits of 6 subjects, environmental audit of 1 subject, compliance audit of 1 subject, and IT audit of 3 subjects have been completed. Detailed descriptions of the audited subjects are given below:-

S.N.	Audited Subject	Type of Audit	Concerned Ministry
1.	Protection and Social Security of Elderly Citizen	Performance	Women, Children and Elderly Citizen
2.	Regulation of Insurance Board		Finance
3.	Regulation of Nepal Civil Aviation		Culture, Tourism and Civil Aviation
4.	Implementation Youth Self-Employment Program		Youth and Sports
5.	Formulation and Implementation of Physical Development Plan of Valley Development Authority		Urban Development
6.	Operation and Management of		Industry, Commerce and

	Special Economic Zone		Supply
7.	Climate Change	Environmental	Forest and Environment
8.	Prevention, Control and Management of Covid-19	Special	Health
9.	Compliance with Public Procurement Laws	Compliance	Office of the Prime Minister and Council of Ministers
10.	Treasury Single Account System	IT	Finance
11.	Automatized Customs Inspection System		Finance
12.	E-Government Procurement System		Office of the Prime Minister and Council of Ministers

Pursuant to the performance audits, the studies, assessment and analysis have been done focusing in economy, efficiency and effectiveness in acquisition and usages of public means and resources. The performance audit has been done to examine whether or not the specified quality standard of goods or services have been received with minimum cost and time? whether or not the maximum returns have been obtained from the use of specific means and resources? and whether or not specific objectives along with targeted outcome have been achieved? and whether or not it has created positive impacts? In IT audit, the aspects of the use of information technology in public service delivery, risk assessment and compliance, disaster management, safety & access controls of data and information, physical security etc. have been assessed. In environmental audit, a study on climate change has been performed in this year. In compliance audit, the compliance with the public procurement laws has been analyzed. Similarly, under special audit, the prevention and controls of Covid-19 and its overall impacts has been evaluated.

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

7. **Government Budget and Expenditure** - As per the statement obtained from the Financial Comptroller General Office, the actual expenditure of 2018/19 and 2019/20 and Heading-wise/ Sector-wise budget estimate and actual expenditure of 2020/21 of the Federal Government, are as follows:

(NRs. in Millions)

Heading/Sector	Actual Expenditure of 2018/19	Actual Expenditure of 2019/20	2020/21		
			Budget Estimate	Actual Expenditure	Percent
Recurrent Expenditure	716,417.6	784,148.9	948,940.6	846,217.3	89.17
Capital Expenditure	241,562.5	189,084.7	352,917.5	228,836.1	64.84
Financing Arrangements	152,477.0	117,901.6	172,787.3	121,622.6	70.39

(Principal Interest Repayment)					
Total	1,110,457.1	1,091,135.2	1,474,645.4	1,196,676.0	81.15
General Public Service	494,035.7	522,948.9	494,339.2	634,616.1	128.38
Defense	50,014.6	49,791.4	49,220.5	51,913.9	105.47
Public Law Order and Security	47,984.9	51,863.8	56,285.3	57,042.9	101.35
Economic Affairs	344,671.8	264,436.5	389,000.7	236,022.9	60.67
Environmental Protection	14,738.6	13,593.2	11,664.6	6,595.9	56.55
Housing and Community Amenities	38,438.0	35,189.4	81,860.7	44,995.2	54.97
Health	35,999.3	40,195.7	115,062.0	49,613.1	43.12
Culture and Religion	6,042.2	6,848.9	7,234.5	4,260.2	56.12
Education	36,217.8	39,400.9	172,192.2	37,145.8	21.57
Social Security	42,314.2	66,866.5	97,785.7	74,670.0	76.36
Total	1,110,457.1	1,091,135.2	1,474,645.4	1,196,676.0	81.15

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

8. **Status of Expenditure** - As per the statement obtained from the Financial Comptroller General Office, the five ministries/other entities incurring excessive expenditure on the basis of this year's total recurrent and capital expenditure amounts are as follows:

(NRs. in Millions)

Recurrent Expenditure				Capital Expenditure			
S.N.	Ministry/Entity	Amount	Percent	S.N.	Ministry/Entity	Amount	Percent
1	Ministry of Home Affairs	127,060.6	15.02	1	Ministry of Physical Infrastructure & Transportation	93,526.5	40.87
2	Ministry of Finance	98,925.3	11.69	2	National Reconstruction Authority	28,763.3	12.57
3	Ministry of Defense	44,745.8	5.28	3	Ministry of Urban Development	21,770.7	9.51
4	Ministry of Education, Science & Technology	36,543.7	4.32	4	Ministry of Energy, Water Resources and Irrigation	21,281.1	9.30
5	Health & Population	34,023.5	4.02	5	Ministry of Water Supply	11,603.8	5.07
6	Other Ministries and Entities	504,918.4	59.67	6	Other Ministries and Entities	1,890.7	22.68
	Total	846,217.3	100		Total	228,836.1	100

Besides the recurrent and capital expenditure, the expenditure incurred in financing has been NRs. 121.62 billion. The recurrent expenditure of other entities also includes the grant amounts provided to the 7 Provinces and 753 Local Levels.

9. **Source-wise Expenditure** - As per the statement obtained from the Financial Comptroller General Office, the source-wise actual expenditure of 2018/19 and

2019/20 and the estimate and actual expenditure of 2020/21 of the Federal Government, are as follows:

(NRs. in Millions)

Source	Actual Expenditure of 2018/19	Actual Expenditure of 2019/20	2020/21		Increase Percent as compared to Last Year
			Budget Estimate	Actual Expenditure	
Government of Nepal	963,186.0	951,430.7	1,114,618.4	984,597.3	3.49
Foreign Grant	22,898.6	23,215.7	60,527.7	36,481.3	57.14
Foreign Loan	124,372.5	116,488.8	299,499.3	175,597.4	50.74
Total	1,110,457.1	1,091,135.2	1,474,645.4	1196,676.0	9.67

- 9.1** Amongst the this year's expenditure of NRs. 984.59 billion incurred from the Government of Nepal source, NRs. 868.60 billion (88.22 percent) has been borne from revenues.
- 9.2** Against the this year's budget estimate getting NRs. 60.53 billion as foreign grants in 19 entities, NRs. 36.48 billion (60.27 percent) has been received, and against the this year's estimate of getting NRs. 299.50 billion as foreign loan in 18 entities, NRs. 175.60 billion (58.63 percent) has been received.
- 10. Revenue Recovery** - As per the statement obtained from the Financial Comptroller General Office, the status of source-wise revenues actually recovered in 2018/19 and 2019/20 and estimate and actually recovered revenue in 2020/21 by the Federal Government are as follows:

(NRs. in Millions)

Description	Actual Recovery of 2018/19	Actual Recovery of 2019/20	2020/21		
			Estimated	Recovered	Percent
Total Revenue	842,741.0	755,575.2	889,618.4	868,602.9	97.64
1. Tax Revenue	737,272.6	613,390.5	790,809.0	761,056.6	96.24
2. Other Revenue (Including previous year's Cash Balance and Irregularity recovery)	102,402.3	139,675.7	98,809.4	104,322.8	105.58
3. Principal Repayment	3,066.1	2,509.0	-	3,223.5	-

As compared to previous year, the revenue recovery has decreased by 14.96 percent in this year. The recovery of fiscal year 2020/21 includes NRs. 4.433 billion of the previous year's cash balance and the amounts recovered in respect to previous irregularities. The principal repayment of NRs. 3.22 billion has been received without making any provision in the budget estimate of 2020/21.

Chapter -2

Status of Irregularity Witnessed From Audit

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

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

Pursuant to the Federal Government Offices, Provincial Government Offices, Local Levels, Other Committees and Institutions, the total irregularity of NRs. 115 billion 55 million has been ascertained by audits in this year. The classification of irregularity figures are as follows:

(NRs. in Millions)						
Classification	Federal Government Office	Provincial Government Office	Local Level	Committee/ Other Institution	Total	Percent of Total Irregularity
1. Recoverable	26,374.9	702.2	5,980.9	689.9	33,747.9	29.33
2. To be regularized	18,803.5	5,505.0	32,826.1	12,479.7	69,614.3	60.51
2.1 Irregular (non-compliance)	5,217.7	1,645.2	11,706.2	2,145.3	20,714.4	18.00
2.2 Evidences/documents not submitted (Unsubstantiated)	13,422.0	3,859.6	21,097.6	10,280.1	48,659.3	42.29
2.3 Balance not brought forward	0	0	0	0	0	0
2.4 Reimbursements not received	163.8	0.2	22.3	54.3	240.6	0.22
3. Advance	4,292.3	1,273.9	5,102.5	1,024.1	11,692.8	10.16
Total irregularity	49,470.7	7,481.1	43,909.5	14,193.7	115,055.0	100

Note: 1. The above irregularity figures do no include the advances not yet due.

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

2. **Audit and Irregularity Figure** - This year, the audits of NRs. 4 trillion 377 billion 171.6 million of 5 thousand 665 entities have been completed. The details of audited entities and subjects are as follows:

(NRs. in Millions)

Audited Entity/ Subject	Number	Amount	Irregularity	Irregularity Percent
1. Federal Ministry and Entity (Including 48 backlogs)	3,287	2,820,379.8	49,470.7	1.75
2. Provincial Ministry and Entity (Including 12 backlogs)	1,131	299,570.7	7,481.1	2.50
3. Local Level (Including 55 backlogs)	799	1,051,099.0	43,909.5	4.18
4. Committee & Other Institution	448	206,122.1	14,193.7	6.89
Total	5,665	4,377,171.6	115,055.0	2.63

3. **Cumulative Irregularity** - The cumulative irregularity to be settled by the Federal Government Offices, Provincial Government Offices, Local Levels and other institutions has reached to NRs. 483 billion 596.4 million till this year. The cumulating irregularity amount has increased by 15.46 percent as compared to the corresponding figure of the last year.

(NRs. in Millions)

Particulars	Last Year's Irregularity	Adjustment Plus (Minus)	Cleared/ Settled	Last Year's Net Balance	Current Year's Irregularity	Cumulative Outstanding Irregularity
Federal Government Office	232,537.1	3.3	34,873.0	197,667.4	49,470.7	247,138.1
Provincial Government Office	12,479.0		1,689.0	10,790.0	7,481.1	18,271.1
Local Level	103,037.7	(36.1)	10,588.7	92,412.9	43,909.5	136,322.4
Other Committee/ Institution (Including Provincial)	70,796.7		3,125.6	67,671.1	14,193.8	81,864.9
Total	418,850.5	(32.8)	50,276.3	368,541.4	115,055.1	483,596.5

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

in respect to the audit backlogs, revenue arrears, and reimbursable foreign grants & loans has stood NRs. 345 billion 560.3 million. The amount has increased by 34.17 percent as compared to last year.

(NRs. in Millions)

S.No.	Particulars	Up to last Year	This Year's Plus/ Minus	Up to This Year
1	Audit Backlogs (including Provincial)	18,193.5	(11,232.7)	6,960.8
2	Revenue Arrears	215,568.7	97,041.9	312,610.6
3	Foreign Grants to be reimbursed	9,013.6	2,556.2	11,569.8
4	Foreign Loans to be reimbursed	12,734.3	(365.2)	12,369.1
5	Overdue Principal and Interest of Guaranteed loans	2,050.0	0.0	2,050.0
	Total	257,560.1	88,000.2	345,560.3

If added the cumulative outstanding irregularity NRs. 483 billion 596.5 million in the above amount, the cumulative amount to be settled taking actions becomes NRs. 829 billion 156.8 million. Main cause responsible for the rise in the amount to be settled taking action has been the growth in the revenue arrears amount.

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

- 5.1. This year, while conducted the audits of NRs. 7 trillion 517 billion 950 million of the Federal and Provincial Government Offices, Local Levels, Corporate Bodies, and Committees and other institutions, total irregularity of NRs. 127 billion 194 million has been witnessed from the preliminary audit reports. Out of the amount, NRs 12 billion 139 million (9.54 percent of total irregularity) has been settled through follow up audits within the reporting period, and hence, NRs 115 billion 551 million has remained as outstanding irregularity to be settled. The cumulative outstanding irregularity to be settled as of this year has been NRs 483 billion 596.5 million.
- 5.2. Section 39 of the Financial Procedures and Fiscal Accountability Act, 2076 (2019) provides that the foremost responsibility and liability to settle the irregularities shall be of the responsible person and officers that have involved in financial transactions, and if any irregularity remains unsettled, the concerned Chief

Accountability Officer shall be held liable for the settlement of such irregularities. Section 37 of the same Act mentions that irregularities pointed out by audits are to be settled within 35 days or the extended period if any extension has been granted, and if the irregularities are not settled within such period, information thereof are to be furnished to the Chief Accountability Officer as per Section 37(4) and to the Departmental Minister or Minister of State as per Section 37(6) of the same Act. Accordingly, the information relating to unsettled irregularities have already been provided to the concerned officials in accordance to the provisions of the Act. Section 50 of the same Act provides that the concerned Chief Accountability Officer shall be liable to assume the fiscal accountability and settle the irregularities.

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

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

(NRs. in Millions)

S.No.	Ministry/ Entity	Audited Figure	Irregularity Figure				Percent of Total Irregularity	Irregularity Percent as Compared to Audited Figure
			To be recovered	To be Regularized	Outstanding Advance	Total		
1	Finance	2,177,297.3	12,485.2	7,440.5	1.3	19,927.0	40.28	0.92
2	Physical Infrastructure and Transportation	120,745.3	2,417.6	2,953.8	199.5	5,570.9	11.26	4.61
3	Land Management, Cooperative & Poverty Alleviation	120,035.0	3,746.2	983.2	21.0	4,750.4	9.6	3.96
4	Communication and Information Technology	15,388.5	3,653.1	192.0	29.5	3,874.6	7.83	25.18
5	Agriculture and Livestock Development	22,087.8	2,900.5	480.6	48.1	3,429.2	6.93	15.53
6	Health & Population	36,456.9	169.7	448.9	604.2	1,222.8	2.47	3.35
7	Defense	74,376.8	201.8	166.0	724.8	1,092.6	2.21	1.47
8	Education, Science & Technology	25,293.9	2.8	1,067.1	6.0	1,075.9	2.17	4.25
9	National Reconstruction Authority	54,381.5	42.7	937.9	86.7	1,067.3	2.16	1.96
9	Industry,	7,813.8	33.9	956.1	2.9	992.9	2.01	12.71

	Commerce & Supply							
10	Home Affairs	83,428.6	9.5	244.4	668.3	922.2	1.86	1.11
11	Others	83,074.5	711.9	2,933.0	1900.0	5,544.9	11.22	6.67
Total		2,820,379.9	26,374.9	18,803.5	4292.3	49,470.7	100	1.75

The irregularity of the Federal Government Offices functioning under the above ten ministries alone represents 88.78 percent of total irregularity. Similarly, the total irregularity figure of the Provincial Government Offices as compared to audited figure has appeared 2.52 percent, of which the highest of 5.06 percent has existed in Karnali Province, and the lowest of 1.09 percent has existed in Lumbini Province. The total irregularity of Local Levels compared to audited figure has stood 4.18 percent, of which the highest of 23.87 percent has appeared in Pipara Rural Municipality of Mahottari District and the lowest of zero percent has appeared in Shirijunga Rural Municipality of Taplejung District and Mallarani and Sarumarani Rural Municipality of Pyuthan District. As per this year's audit, the numbers of local levels that have less than 5 percent irregularities are 533 Local Levels, 5 to 15 percent are 193 Local Levels and more than 15 percent are 18 Local Levels.

- 5.4. While conducted the audits of 3 thousand 287 Federal Government Offices in this year, no significant irregularity has not been witnessed in respect to 1 thousand 341 offices (40.79 percent). Similarly, when conducted the audits of 1 thousand 131 Provincial Government Offices, no significant irregularity has not been witnessed in respect to 347 offices (30.68 percent).
- 5.5. This year, altogether 155 thousand 869 irregularity sections have been witnessed from the audits of 5 thousand 217 Federal and Provincial Government Offices and Local Levels (including audit backlogs), out of which 64 thousand 27 are conceptual irregularity sections and 91 thousand 842 are figurative irregularity sections.
- 5.6. Amongst the total recoverable irregularities witnessed from audits of the Federal Government Offices, Provincial Government Offices, Local Levels, and Other Committees & Institutions in this year, the Federal Government Offices functioning under 24 ministries/entities have recovered NRs. 158.3 million in course of the auditing, the government offices functioning under 16 ministries/entities have recovered NRs. 122.3 after issuance of preliminary audit reports. Similarly, altogether NRs. 4 billion 205.6 million has been recovered in course of making follow up audits of previous years' irregularities, which include NRs. 2 billion 287.5 million recovered by federal government offices functioning

under 19 ministries/ entities, NRs. 179.4 million recovered by other entities, NRs. 114.7 million recovered by the entities functioning under Provincial Governments and NRs. 1 billion 343.4 million recovered by Local Levels.

Of the total outstanding NRs. 26 billion 374.9 million to be recovered by the federal government offices in this year, the recoverable irregularity amount of 10 ministries/entities has been NRs. 26 billion 98.1 million (98.95 percent), and the remaining NRs. 276.8 million (1.05 percent) is concerned with the rest of ministries/entities.

5.7. Of the federal government offices' outstanding overdue advances NRs. 74 billion 889.2 million existed up to last year, NRs. 15 billion 294.4 million (20.42 percent) has been settled in this year and NRs. 59 billion 594.8 million has remained as balance to be settled, and after the addition of this year's advance of NRs. 4 billion 292.3 million, the total outstanding advance up to this year has reached NRs. 63 billion 887.1 million.

No significant irregularities have been witnessed in the Constitutional Organs/Bodies - Office of the President, Office of the Vice-President, Commission for Investigation of Abuse of Authority, Office of the Auditor General, Judicial Council, National Human Rights Commission, National Dalit Commission, National Natural Resource & Fiscal Commission, National Inclusion Commission, Tharu Commission, and Muslim Commission.

Chapter -3

Overall Status of Audit Observations

Federal Ministry and Entity

1. **Federal Consolidated Fund** - In this Fund, total NRs. 1 trillion 301 billion 408.2 million has been deposited in Fiscal year 2020/21 from the revenues, grants, loans (including internal and foreign and direct payment grants and loans) and out of amount, NRs. 1 trillion 196 billion 676 million has been expended with respects to recurrent, capital expenditure and financing arrangements (including direct payment grants and loans) and NRs. 104 billion 732.2 has remained as closing balance. In the last year's negative closing balance NRs. 216 billion 695.6 million, if adjusted this year's savings, the closing balance as of end of Asasdh 2078 (16th July 2021) will be negative by NRs. 111 billion 963.4 million. The balances of the Fund shall not have to appear negative while maintained accounts on cash basis system, but such balances have been shown as negative since last several years.
2. **Overall Economic Situation** - The fifteenth Plan aims to achieve 10.3 percent average economic growth of the country and 9.6 percent in 2020/21, but the average growth rate has remained 1.08 percent only up to end of this year (2nd year) and 4.25 percent in this year, whilst the wholesale price inflation rate has appeared 6.9 percent. The consumer inflation rate has appeared 3.6 percent in this year against the Plan aim to limit to 6 percent in this year. Similarly, as compared to the Plan's target to keep the capital expenditure/GDP ratios 18.6 percent in the plan period and 16.8 percent in 2020/21, the percent have appeared 5.12 percent up to this year and 5.4 percent in this year. Against the target of increasing export/GDP ratio to 11.3 percent, it has limited to 3.3 percent only. The status of main economic indicators of the country of past 3 years are given below:

(In Percent)

Description	Target (as per Fifteenth Plan)		Achievement		
	2023/24	2020/21	2018/19	2019/20	2020/21
Economic Growth Rate	10.3	9.6	6.4	-2.10	4.25
Consumer Inflation Rate	6.00	6.0	4.6	6.20	3.6
Total Revenue/Gross Domestic Product (GDP)	30.0	27.0	21.5	20.28	21.9
Total Government	43.3	42.6	28.78	27.87	28.0

Expenditure/GDP					
Recurrent Expenditure/GDP	17.9	20.5	18.57	20.03	19.8
Capital Expenditure / GDP	18.6	16.8	6.26	4.83	5.4
Foreign Grant / GDP	3.0	-	0.8	0.50	0.63
Foreign Loan / GDP	5.7	-	2.4	4.20	3.06
Domestic Loan/ GDP	4.3	-	2.5	5.00	5.24
Trade Deficit/ GDP	35.3	39.6	34.2	28.10	32.7
Export/ GDP	15.7	11.3	2.5	2.50	3.30
Import/ GDP	51.0	50.9	36.8	30.60	36.0
Budget Deficit/ GDP	10.0	10.5	8.8	8.12	7.05
Source: Fifteenth Plan and Economic Survey 2021/22					

As compared to the targets set, only minimum progresses have been achieved up to end of second year of the plan period, and hence, the government, private and cooperative sector need make efforts coordinated manner in order to have positive improvements in the overall economic indicators.

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

(NRs. in Millions)

Description	2018/19			2019/20			2020/21		
	Targeted	Recovered	Recovery Percent	Targeted	Recovered	Recovery Percent	Targeted	Recovered	Recovery Percent
Income Tax	209,685.3	194,420.4	92.72	209,685.3	219,689.5	78.36	238,038.7	230,077.3	96.66
Value Added Tax	250,882.6	241,668.0	96.33	315,008.3	224,070.5	71.13	302,168.7	282,019.1	93.33
Excise Duty	124,888.8	121,854.1	97.57	169,982.1	100,622.6	59.2	155,504.1	133,780.5	86.03
Customs Duty	151,594.1	143,319.8	94.54	213,200.4	137,990.3	64.72	193,554.7	201,389.6	104.05
Other Tax	122,951.5	138,411.5	112.57	133,491.5	158,939.5	119.06	122,492.2	131,487.6	107.34
Total	860,002.3	839,673.8	97.63	1,112,033.3	841,312.4	75.66	1,011,758.4	978,754.1	96.74

This year, the revenue of NRs. 978 billion 758.4 million (including other receipts) (96.74 percent of estimate) has been recovered as against the target of collecting NRs. 1 trillion 11 billion 758.4 million. Compared to this year's targets, there has been a shortfall of tax revenue recovery by 4.69 percent and non-tax revenue recovery by 30.96 percent. In the Consolidated Fund Account of the Government of Nepal, the revenue recovery amount is shown as NRs. 976 billion 320.9 million. There has been a difference of NRs. 2 billion 437.5 million in revenue recovery, as the divisible amounts are also included in the revenue consolidated financial statement submitted by the Financial Comptroller General Office and the revenue statement prepared by the Ministry.

4. **Budget Appropriation and Expenditure** - Section 10 (3) of the Financial Procedures and Fiscal Accountability Act, 2076 (2019) provisions that the budgets are to appropriated on the basis of expenditure making capacity. In fiscal year 2020/21, the budget expenditure has appeared NRs. 1 trillion 196 billion 676 million (81.15 percent) against the budget appropriation of NRs. 1 trillion 474 billion 645.4 million. Compared to the the Government of Nepal's total appropriated budget, the expenditures had remained 85.01 percent in 2017/18, 84.43 percent in 2018/19 and 71.18 percent in 2019/20. Likewise, as compared to total expenditure, the capital expenditures had stood 21.75 percent in 2018/19, 17.33 percent in 2019/20 and 19.12 percent or NRs. 228 billion 836.2 million in 2020/21, which shows low expenditure has been incurred every year. By identifying the causes of low expenditure, the quality and volume of expenditure need to be improved. The capital expenditure mobilizing capacity need to be enhanced giving attention in the development works and service delivery.
5. **Achievement of the Fifteenth Plan up to Second Year** - Though some desirable improvements are witnessed in the second year in comparison to the first year of the implementation of the Fifteenth Plan, however, the projected progresses have not been achieved in most of indicators. The indicators and the status of progress achieved are as follows:

S.No.	Indicators	Base Year (2018/19)	Target of 2020/21	Progress of 2020/21
1.	Annual Average Economic Growth Rate (As per Base Price, Percent)	6.8	9.6	4.25
2.	Annual Average Growth Rate of Agriculture Sector (Percent)	4.8	5.1	2.85
3.	Annual Average Growth Rate of Industry Sector (Percent)	12.2	15.6	4.51
4.	Annual Average Growth Rate of Service Sector (Percent)	7.9	10	4.19
5.	Annual Average Price Rise (Percent)	4.6	6	3.6
6.	Per-capita National Income (In US Dollar)	1047	1222	1246
7.	Population below Poverty Line (Percent)	18.7	14.8	-
8.	Human Development Index	0.579	0.602	0.602
9.	Life Expectancy (At the time of birth, Year)	69.7	71.2	71.17
10.	Population with Access to Drinking Water Service (Percent)	89	94	93.23
11.	Literacy Rate of 15-24 Age Group	92	94	92

12.	Electricity Generation (Installed Capacity, Megawatt)	1250	3179	1388
13.	Families with Access to Electricity (Percent)	88	96	91
14.	Irrigation Facility (Hectare in One Hundred Thousand)	14.7	15.35	-
15.	Population with Access to Internet Service (Percent)	65.9	71	82.79

Source: Fifteenth Plan and Economic Survey 2021/22 and National Planning Commission, Annual Report 2020/21.

As per the above statement, the progresses achieved with respect to the indicators - the annual economic growth rate, annual growth rate of agriculture sector, annual growth rate of industry sector and annual growth rate of service sector have remained 4.25 percent, 2.85 percent, 4.51 percent and 4.19 percent respectively, as compared to their respective projected targets of 9.6 percent, 5.1 percent, 15.6 percent and 10 percent. Likewise, the progress of the Population with Drinking Water Service has appeared 93.23 percent as against the target of providing to 94 percent; the progress of the electricity generation capacity has reached to 1 thousand 388 megawatts as against the target of increasing the capacity to 3 thousand 179 megawatts; and the progress of the families with access to electricity has reached to 91 percent as against the target of increasing to 96 percent. No progress status has been ascertained in respect to the target of decreasing the population below poverty line to 14.8 percent. Appropriate strategies should be formulated and implemented to attain progresses in accordance with the targets set.

6. **National Pride Projects** - With the objectives of constructing road infrastructure development for building the foundation for prosperous Nepal, raising agriculture production and productivity through irrigation facilities, constructing hydropower and airports, providing drinking water supply, conserving of cultural heritages etc., the Government of Nepal had proclaimed the national pride projects in 2011/12 to the 17 projects that were significant to implement according high priority. The number of projects has reached to 24 up to this year. The expenditures incurred and progresses achieved in the national pride projects as of 2020/21 are as follows:

(NRs. Billions)

S. No.	Name of Project	Commenced Year	Estimated Completion Year	Total Cost Estimate	This Year's Expenditure	Total Expenditure Till Date	Physical/ Financial Progress Percent
1	Pushpalal (Mid-Hill) Highway	2007/08	2022/23	84.33	7.20	53.34	57.84

S. No.	Name of Project	Commenced Year	Estimated Completion Year	Total Cost Estimate	This Year's Expenditure	Total Expenditure Till Date	Physical/ Financial Progress Percent
	Project						
2	Railway and Metro Development Project	2009/10	2021/22	955.22	2.58	24.47	0
3	North-South (Karnali Corridor) Highway	2012/13	2022/23	41.00	0.23	11.30	28
4	North-South (Koshi Corridor) Highway	2008/09	2023/24	162.00	0.55	30.58	24
5	North-South (Kaligandaki Corridor) Highway	2009/10	2023/24	270.00	3.02	10.01	49
6	Postal Highway Project	2008/09	2022/23	65.20	10.13	45.53	68
7	Rani Jamara Kulariya Irrigation Project	2010/11	2023/24	27.70	1.25	14.38	51.91
8	Sikta Irrigation Project	2004/05	2028/29	25.02	1.08	17.73	70.86
9	Babai Irrigation Project	1988/89	2025/26	18.96	1.43	9.92	52.32
10	Pashupati Area Development Trust	2000/01	2021/22	1.27	0.45	1.16	80
11	Lumbini Area Development Trust	2009/10	2021/22	6.10	0.6556	6.20	86
12	Mahakali Irrigation Project	2006/07	2024/25	35.00	0.90	4.48	12.8
13	Bheri-Babai Diversion Multi-purpose Project	2011/12	2022/23	36.80	1.23	13.96	37.93
14	Budi Gandaki Hydropower Project	2012/13	2026/27	260.00	1.66	35.43	21.54
15	Sunkoshi Marine Diversion Project	2019/20	2023/24	46.19	1.23	1.48	3.2
16	Upper Tamakoshi Hydropower Project	2010/11	2019/20	49.29	6.75	52.98	100
17	Pachhim Seti Hydropower Project	2010/11	not specified	273.85	0	0	0
18	Pokhara Regional International Airport	2014/15	2022/23	22.60	3.21	19.04	92.3
19	Nijgadhi International Airport Project	2014/15	2028/29	165.00	0.16	8.7	not specified
20	Gautam Buddha International Airport	2008/09	2021/22	30.91	1.48	26.41	96
21	Melamchi Drinking Water Project	1998/99	2020/21	28.78	1.62	31.10	99.47
22	Kathmandu-Terai Madhesh Fast Track	2007/08	2023/24	213.95	8.73	29.07	16.1
23	President Chure-Terai Madhesh Conservation Development Board	2009/10	2036/37	249.70	1.61	10.82	4.44
24	Electricity Transmission Project	2010/11	0	75.00	0	0	0

The works of National Pride Projects have been taking place since last 10 years according high priority, but almost all of projects, except the Upper Tamakoshi Project, have not been commissioned yet. Such projects' construction

time and cost have been increasing every year due to the problems, such as - commencement of construction works of projects without preparing Detailed Project Report, procurement of construction works without completing preparatory works the like - land acquisition & compensation, approval of the environmental impact evaluation report, alignment, & demarcation, lack of coordination between entities, lack of implementing capacity, weak monitoring and evaluation etc.

7. **Year-end Expenditure** - Rule 30 (2) of the Financial Procedure & Fiscal Accountability Rules, 2020 (2077) provides that besides the condition of receipt of additional budget and need to change in expenditure source or expenditures to be incurred for very essential works, the disbursement accounts are to be closed settling all payments at least 7 days prior to the ending of each fiscal year. Out of total appropriated budget NRs. 1 trillion 474 billion 645.4 million, total NRs. 1 trillion 196 billion 676 million is expended, of which NRs. 279 billion 710.9 million (23.37 percent) has been expended in the month of Asadh. Out of the expenditure, the expenditure incurred in last week of Asadh Month has been NRs. 71.6 billion (5.98 percent). By implementing programs within specified time as per the approved program and expenditure work schedule, the practice of incurring heavy expenditure at year-end expenditure need to be checked..
8. **Virement** - Out of this year's total budget NRs. 1 trillion 474 billion 645.4 million, virement of NRs. 597 billion 249.8 million (40.50 percent) have been done. Of the amount, the virement of NRs. 42 billion 552.5 million has been done in Asadh Month and NRs. 6 billion 112 million in the last week of the Asadh Month so as to transfer budgets in various budget Headings/Sub-headings. Pursuant to lump sum appropriation of NRs. 56 billion 195.3 million in budget sub-heading 602 (Finance-miscellaneous), the budget of the sub-heading has been increased to NRs. 118 billion 920.2 million by making virement of NRs. 62 billion 724.9 million (111.62 percent of initial budget appropriation) from various budget sub-headings, but the budget of the sub-heading has been reduced to keep net budget NRs. 2 billion 767.2 million by making virement of NRs. 116 billion 152.9 million (206.70 percent of initial budget appropriation) to various constitutional bodies, offices under commissions or ministries, provincial and local levels. Of the net budget, NRs. 150.1 million is expended and NRs. 2 billion 617.1 million is retained as balance. Thus, in a condition of disability to incur budget expenditures,

additional amounts have been transferred in the budget sub-heading from various budget sub-headings offices by making virement.

Though no initial budget is appropriated in 11 various programs, the net budget of NRs. 1 billion 319.7 million has been retained in the programs by making virement, and NRs. 1 billion 147.24 million has been expended. Incurring expenditures by transferring additional budget through virement in any program which has no initial budget appropriation is not conformity with the provision of Financial Procedure and Fiscal Accountability Rule and budget discipline.

9. **Foreign Assistance** - The analysis of the foreign aid statistics shows that out of the total expenditure NRs. 1 trillion 196.67 billion of the Government of Nepal of the FY 2020/21, the foreign assistance has occupied NRs. 209.42 billion (17.50 percent). This year, as compared to the budget estimate, the government has received only 58.17 percent of foreign assistance on an average, of which the foreign grant is 60.28 percent and foreign loan is 57.75 percent. Amongst the all types of assistance commitments, the government has received 23.21 percent only. Out of the receipt amount, 265.45 million US Dollar and 154.61 million US Dollar expended by INGOs have remained out of budgetary system. Amongst overall receipt of development assistances, only 77.95 percent has been mobilized through the Consolidated Fund and the remaining 22.05 percent assistances has been mobilized as off-budget system.

In the Statement of Technical & Other Assistance submitted along with Budget Speech in Legislative Parliament, it is stated that the total technical assistances equivalent to NRs. 179 billion 193.1 million will be received in this year, which includes NRs. 85 billion 579.2 million to be received to 124 projects/programs operated under 18 ministries/entities of the Federal Government and NRs. 93 billion 613.9 million is to be received to 120 projects/programs operated through INGOs. The expenditure amounts incurred from the technical assistances have not been included in financial statements.

10. **Import Export** - As per the data obtained by Department of Customs, the import export situation of Nepal of the last 5 years are as follows:

(NRs. in Billion)				
Fiscal Year	Export Amount	Import Amount	Trade Deficit Amount	Ratio
2020/21	141.00	1539.00	1398.00	01:10.9
2019/20	97.71	1196.80	1099.09	01:12.2

2018/19	97.11	1418.56	1321.45	01:14.6
2017/18	81.35	1245.10	1163.75	01:15.3
2016/17	73.03	984.30	911.27	01:13.5

The export amount has reached to NRs. 141 billion in this year with an increase by 44.3 percent over previous year's amount. Major goods exported are soybean oil, cotton thread, woolen carpet, jute goods, readymade garments, big cardamom etc. The share of soybean oil in total export is 38.98 percent. The import amount has reached to NRs. 1 trillion 539 billion in this year with an increase by 28.52 percent over previous year's amount. The import export ratio of 2020/21 has stood 1:10.9 as compared to 1:12.2 of 2019/20.

When compared this year's figures with previous year, the import of soybean crude oil has increased by 181.1 percent, gold by 101.50 percent, crude sunflower oil by 65.4 percent, cole mustard seed by 63.8 percent, iron and steel raw materials by 44.20 percent, rubber and its production by 43.70 percent, cotton cloth by 52.40 percent, telecommunication equipment and parts by 67.30 percent, transportation means and parts 49.70 percent, food grains by 39.9 percent. The trade deficit has been growing due to sharp rise in imports as compared to the export, which has also adversely impacted in the foreign currency reserve.

11. **Trade Deficit** - The government has adopted the policy of making export promotion by mitigating present hindrances witnessed in foreign trade and resuming export, import and supply arrangements and increasing the possible comparative benefits and production of competitive goods in world markets. The analysis of the foreign trade statistics shows that the trade deficit has been rising due to sharp incline in imports every year. The import has reached to NRs. 1 trillion 539.80 billion in this year with a rise by 28.66 percent as compared to last year. In the same period, the export has limited to NRs. 141.10 billion with a normal rise. The trade deficit amount has reached NRs. 1 trillion 398.70 billion at the end of this year. On the total import of 2020/21, the share of mineral fuel and fat substance has been 14 percent, transportation and machinery equipment 22 percent, foodstuff and animal processed item 14 percent, chemical and drugs 12 percent and other consumable goods 38 percent. The trade deficit needs to be minimized by changing existing income-oriented economy into the production and export-oriented. The strategy of reducing the consumption of petroleum products

and promoting to use the electricity consumption generated in the country needs to be adopted.

12. **Foreign Currency Reserve** - It is necessary to have adequate foreign currency reserves in order to improve in the balance of payment condition by keeping the price inflation level within reasonable limit and controlling the current account deficit. However, the foreign currency reserve has reached to NRs. 1 trillion 399.03 billion declining gradually and the current account has appeared deficit by NRs. 331.70 at the end of Asadh 2078 (mid July 2021). Similarly, the balance of payment of 2020/21 has appeared surplus by NRs. 1.20 billion only. By improving the status of trade balance, foreign currency reserves and balance of payment, appropriate strategies need to be adopted to make the economy sustainable and effective.
13. **Public Enterprise Management** - Amongst the 69 public enterprises (PEs) operated previously, 30 PEs have been privatized and 44 PEs are in existence at present along with some of PEs established in subsequent years, out of which 42 PEs are in operation.
 - 13.1 Out of the privatized 30 PEs, 12 PEs have been liquidated, but the legal process of only one PE (Agricultural Lime Industry Ltd) has been completed from Company Registrar Office. The liquidation process of other PEs has not been completed legally. Of the 18 PEs that have been privatized with an objective of supporting the employment and production, only 12 PEs are in operation and 6 PEs are in closed condition. Of the PEs which are in operation after privatization, only 7 PEs are having profits.
 - 13.2 As of 2079 Jestha (Mid June 2022), only 16 PEs have completed audits of 2020/21 within specified time. But, 26 PEs have not completed the audits of 2020/21 yet. Out of them, the Food Management & Trading Company has not completed the audits of last 3 years, Bishal Bazar Company Ltd. and Rastriya Beema Company Ltd have not completed the audits of last 5 years and the Rastriya Beema Sansthan has not completed the audits of last 9 years.
 - 13.3 The Annual Status Review of PEs, 2079 (2022), mentions that 15 PEs of 4 sectors are incurring continuous losses while analyzing last 3 years operational status of 42 operational PEs. The total cumulative loss of such PEs, which appeared NRs 26 billion 90.8 million in 2018/19, has reached NRs. 31 billion 927.5 million in

2019/20 and NRs. 35 billion 491.1 million in 2020/21 increasing continuously. In 2020/21, the PEs has unprovisioned liabilities of NRs. 59.39 billion to be settled.

- 13.4 As per the statement obtained from the Financial Comptroller General Office, the total share investments made by the Government of Nepal in 114 PEs/ international institutions up to previous year was NRs. 342 billion 111 million, from which the Government has received NRs. 12 billion 751.3 million from 8 PEs as cash dividends in this year. The dividend received in this year has decreased by 45.65 percent as compared to the dividend received in last year. Besides these, no other type of returns has been received in this year out of the total investment NRs. 300 billion 453.8 million made in 106 PEs.

14. Audit of Corporate Bodies - This year, the final reports have been issued completing the audits of 49 fiscal years of 44 corporate bodies as against the audit requirements of 67 fiscal years of 52 PEs (including backlogs). The audits of 18 fiscal years of 14 bodies are still to be completed. No actions have been taken making responsible to the organization and officials not completing such audits. Section 11 (2) of the Audit Act, 2075 (2018), provides that the corporate bodies substantially owned by governments are required to get consultation of the Auditor General while appointing auditors for the audits. The number of corporate bodies that need to get such consultation in appointing auditors has not been yet ascertained. This year, only 38 corporate bodies have sought the consultations for appointing the auditors of 46 fiscal years. The concerned officials of the organization not completing audits should be held responsible.

- 15. Operating Performance of Corporate Bodies/Committees** - Of the audited Corporate Bodies, Committees and Other Institutions, the financial positions of 78 Corporate bodies, Committees and other institutions that have prepared accounts based on business accounting (Balance Sheet) are included in this Report. In this year, altogether 53 Corporate Bodies, Committees and other institutions have earned total operating profits of NRs. 64.62 billion, whilst 25 Corporate Bodies, Committees and Other Institutions have incurred total operating losses of NRs. 5.23 billion.

Likewise, pursuant to the Corporate Bodies, Committees and Other Institutions that have prepared only income & expenditure account without keeping business type of accounts, altogether 70 institutions have earned total

operating profit of NRs. 10 billion 937.9 million, whilst 25 institutions have incurred total operating loss of NRs. 843.7 million, and the operating surplus of other 5 institutions has remained nil.

16. **Public Debt** - As per the statement obtained from the Financial Comptroller General Office, the total debt to be redeemed by the Government of Nepal at the end of 2077/78 (15/07/2021) has been NRs. 1 trillion 737 billion 636.8 million. Of the total outstanding debt, the share of foreign debt is NRs. 934 billion 695.2 million (53.80 percent) and internal debt is NRs. 802 billion 941.6 million (46.20 percent). This year, the debt liability of the Government has increased by NRs. 304 billion 234.4 million, which has increased by 21.22 percent as compared to last year. The principal and interest to be paid in this year has reached NRs. 94 billion 803.8 million, which has increased by 13.40 percent compared to last year (2019/20). In this year, the government has received internal debt of NRs. 222.78 billion as against the target of receiving NRs. 225 billion. Out of the internal debt received, NRs. 33.64 billion is utilized for recurrent expenditure under headings of conditional grant, special grant and equalization grants. Similarly, NRs. 112.15 billion is utilized for vehicle purchase heading under capital expenditure. Total of NRs. 23.04 billion is utilized under fiscal arrangements, out of which NRs. 9.58 billion is used for making loan investment and NRs. 13.26 billion is used for making share investment in PEs. There exists a difference of NRs. 43.95 billion between the amounts of internal debt received and utilized, and the government needs to pay interests despite of non-utilization of the debt raised monies. In a state of the need to use the internal debt for meeting capital expenditures, the debt monies should be mobilized only after ensuring the usefulness of returns receivable from such capital expenditure.
17. **Loan Investment** - As per the statement obtained from the Financial Comptroller General Office, on the top of loan investment NRs. 118 billion 154.4 million made from the Government of Nepal source up to last year, the government has made an additional investment of NRs. 14 billion 38.4 million in various 10 institutions in this year. Out of the invested amounts, total of NRs. 176.9 million is subtracted in this year (including NRs. 18.8 million adjustment made and NRs. 158.1 million principal refunded by 3 institutions), and thus, the total loan investment from the government source has reached NRs. 132 billion 15.9 million up to this year.

Pursuant to total loan investment NRs. 179 billion 4.6 million made in 38 institutions from foreign source up to last year, an additional NRs. 21 billion 282.9 million is invested in various 5 institutions in this year. Out of the investments, total of NRs. 3 billion 387.1 million is subtracted in this year (inclusive of NRs. 321.7 million adjusted of 1 institution and NRs. 3 billion 65.4 million principal refunded by 4 institutions), and thus, total investment the government from foreign source has reached NRs. 196 billion 900.5 million up to this year. Altogether, the total loan investment made in institutions has reached to NRs. 328 billion 916.4 million up to 2020/21.

18. **Outstanding Interest** - As per the Annual Report of Share and Loan Investment prepared by the Financial Comptroller General Office, the total interest to be received by the government up to this year has appeared NRs. 54 billion 512.3 million along with the outstanding interest NRs. 43 billion 819.4 million to be received up to 2019/20 and the interest NRs. 10 billion 692.9 million to be received in this year,. Out of the receivable interest amount, NRs. 8 billion 410.2 million is recovered in this year and thus, NRs. 46 billion 102.1 million has remained as outstanding to be recovered up to this year. Attention needs to be given in recovering the receivable interests within due time as the interest amounts to be received has been increasing every year.
19. **Outstanding Reimbursement** - Section 42 of the Financial Procedure and Fiscal Accountability Rule, 2077 (2020) provides that reimbursements are to be received for the expenditure incurred from the Government of Nepal's source as reimbursable. In the source-wise statement of loans, the Financial Comptroller General Office has, along with last year's balance and this year reimbursed amount, shown the outstanding reimbursement receivable loans NRs. 12 billion 369.1 million at the end of Asadh 2078 (15/07/2021) after making adjustment of NRs. 55 billion 617.5 million shown as negative balance of 42 projects citing that excess amounts have been received than the expenditure incurred by the projects. If calculated the outstanding reimbursable amount without making adjustment of the negative amounts shown as received in the projects, the loan reimbursable amount at year-end will become NRs. 67 billion 986.6 million. Similarly, in the source-wise statement of grants, the Office has, along with last year's balance and this year's reimbursable amount, shown the outstanding reimbursement receivable grants NRs. 11 billion 569.8 million at the end of Asadh 2078 after making

adjustment of NRs. 26 billion 341.2 million that shown as negative balance of 38 projects citing that excess amounts have been received than the expenditure incurred by the projects. If calculated the outstanding reimbursable amount without making adjustment of the negative amounts shown as received in the projects, the grants receivable at year-end will become NRs. 37 billion 911 million. Necessary accounts and records are to be maintained segregating the accounts of the reimbursable loans and grants to be received and the project-wise, donor-wise and province and local level-wise reimbursable.

20. **Revenue Sharing** - Section 6 of the Inter-governmental Fiscal Arrangement Act, 2074 (2018) provides that out of the value added tax and excise duty collected from domestic products, seventy percent shall be distributed to the Federal Consolidated Fund, fifteen percent to the province and fifteen percent to the Local Level. In the report obtained from the Financial Comptroller General Office, the amount to be shared has been shown nil in the financial statement of Divisible Fund by making adjustment of the accounts at the end of Asadh 2078 (15/07/2021), however, the value added tax and excise duty amounting to NRs. 22 billion 583.8 million which collected after 20th Asadh 2078 (4/07/2021) has not been found allocated to the Federation, Provinces and Local Levels during the year-end, but the amount is found distributed only after 2078/09/08. However, the Office has shown the amount has been deposited in the Federal Consolidated Fund within the end of Asadh 2078. The incomes of the consolidated funds of the province and local levels are less accounted by NRs. 6 billion 775.1 million, as the revenue sharing amounts have not been deposited in their consolidated funds within the fiscal year. It is necessary to make the arrangements that the closure of accounts at each year-end is to be done by making adjustment and sharing such divisible amounts on time.
21. **Royalty Sharing** -- Section 7 of the Inter-governmental Fiscal Arrangement Act, 2074 (2018) provides that out of the amounts collected as royalty, fifty percent shall be divided to the Federal Divisible Fund, twenty-five percent to the Provincial Divisible Fund and twenty-five percent to the Local Divisible Fund. Total NRs. 5 billion 75 million collected in the Divisible Fund in this year has been shared only on 14th Paush 2078 (29/12/2021). Since the deposit of share of federal revenue in Ka-1 Account of Federal Consolidated Fund has been shown within the end of Asadh, the amounts shown in the account has been found

unrealistic. The Provinces and Local Levels have also not received the receivable revenues within the specified time.

22. **Sharing of Natural Resource Royalty** - Schedule - 4 of the Inter-governmental Fiscal Arrangement Act, 2074 (2018) stipulates that out of the amounts collected in the Federal Divisible Fund under heading of mountaineering, electricity, forest and mines & mineral royalty, shall be divided to the Government of Nepal, Provincial and Local Level at the ratios of 50 percent, 25 percent and 25 percent respectively in accordance with the recommendation of National Natural Resource and Fiscal Commission. The status of royalty collected in Federal Consolidated Fund in 2019/20 and its division is shown below:

(NRs. in Million)

S.No.	Royalty Heading	Deposited in Divisible Fund	Divided Royalty Amount					
			Government of Nepal	Percent	Province Government	Percent	Local Level	Percent
1	Mountaineering	448.2	363.8	81.18	42.2	9.41	42.2	9.41
2	Electricity	2,879.5	1,457.3	50.62	711.1	24.69	711.1	24.69
3	Forest	1,195.6	597.8	50	298.9	25	298.9	25
4	Mines and Mineral	850.1	521.3	61.32	164.4	19.34	164.4	19.34
5	Water and Others	57.5	57.5	100	.0	0	0	0
	Total	5,430.9	2,997.7	55.2	1,216.6	22.4	1,216.6	22.4

Amongst the NRs. 5 billion 430.9 million collected in 5 royalty headings of the Federal Divisible Fund in 2019/20, NRs. 2 billion 997.7 million (55.20 percent) is provided to the Government of Nepal and total of NRs. 2 billion 432.2 million (44.80 percent) with equal amount of NRs. 1 billion 216.6 million each is provided to both the provincial governments and local levels. The amounts collected from the headings of mountaineering, electricity and mines and mineral have been divided at a different ratio than the recommended by the Commission. One hundred percent amount collected from water and other royalty heading has been deposited in the Federal Consolidated Fund. By making improvement in the record keeping and reporting system of royalties, the Government of Nepal should follow the recommendations of the Commission while dividing and distributing royalties received from natural resource.

23. **Internal Revenue Structure** - The Inland Revenue Department has recovered revenue of NRs. 429.29 billion (95.32 percent) in 2020/21 as against the target of collecting NRs. 450 billion. In this year's total collected internal revenue, the share of income tax is 46.77 percent; value added tax 27.12 percent, excise duty 18.99

percent and other tax 7.12 percent. In last year's total internal revenue collection, the share of income tax was 50.20 percent; value added tax 25.50 percent, excise duty 18.99 percent and other tax 7.46 percent. The revenue recovery of the Department of this year has increased by 11.64 percent as compared to the last year. By analyzing the tax raising and paying capacity and expanding tax net, the revenue recovery amount should be increased with the effective management of taxpayer's participation and compliance with tax laws.

24. **Revenue Arrears and Clearing of Figures** - Section from 103 to 112 of Income Tax Act, 2058 (2002), Section 21 of Value Added Tax Act, 2052 (1996) and Section 10 of Excise Duty Act, 2058 (2002) provide the arrangements relating to the recovery of tax arrears. The total revenue arrears as per Annual Report of Inland Revenue Department is NRs. 171 billion 394.6 million, but it has stated the arrear amount as NRs. 150 billion 493.5 million in the consolidated financial statement. Hence, a difference of NRs. 20 billion 901.1 million has been witnessed in the revenue arrear amount between the annual report and consolidated financial statement. The Department has not provided any disclosure about the difference amount.
25. **Tax Net** - Income Tax Act, 2058 (2002), Value Added Tax Act, 2052 (1996) and Excise Duty Act, 2058 (2002) have made the provisions that any person engaged in any occupation, business or transaction shall have to make registration in prescribed format and obtain certificates. The number of taxpayers that have registered in tax office and obtained certificate are as follows:

Description	Up to 2017/18	Up to 2018/19	Up to 2019/20	Addition in 2020/21	Up to 2020/21
Business Permanent Account Number	1,038,266	1,235,412	1,429,604	147,779	1,577,383
Individual Permanent Account Number	766,646	996,041	1,978,680	493,046	2,471,726
Advance -tax Permanent Account Number	-	737	5,106	4,892	9,998
Total	1,804,912	2,232,190	3,413,390	645,717	4,059,107
Registration in Value Added Tax	194,547	240,460	255,963	12,473	268,436
Excise Duty Certificate Issued	65,511	68,213	94,292	9,131	103,423

Source: Annual Report of Inland Revenue Department

As per above statement, the number of taxpayers that obtained Permanent Account Number (PAN) in this year has increased by 18.9 percent in income tax, 4.87 percent in VAT, and 9.68 percent in excise duty as compared to corresponding figures of 2019/20. Up to this year, 4 million 59 thousand and 107

taxpayers have come across the tax-net. Most of professionalizes, inclusive of the doctors, engineers, layers, advisers, auditors, artists, sport persons, teachers, professors etc., have not obtained PAN numbers and the taxpayers that have obtained certificates have also not submitted income returns. The legal arrangements should be effectively implemented by establishing relationship with the concerned entities.

26. **Structure of Value Added Tax** - Section 18 of the Value Added Tax, 2052 (1996) stipulates that each taxpayer shall determine tax amount every month by carrying out the self-tax assessment and submit the tax returns within 25 days of the elapse of each month. The implementation status of VAT under Inland Revenue Department of last 5 years is as follows:

Description	2016/17	2017/18	2018/19	2019/20	2020/21
Debit Returns Percent	13.25	14.06	25.6	22.17	11.07
Credit Returns Percent	51.14	51.97	45.9	48.38	55.15
Zero Returns Percent	35.61	33.97	28.5	29.45	33.78
Debit in Asadh (NRs. in Billion)	49.32	69.85	12.69	11.23	10.48
Credit in Asadh (NRs. in Billion)	29.16	38.19	39.74	42.4	47.44
Credit/Debit Ratio (times)	0.59	0.54	3.13	3.77	4.53

As per the Annual Report of the Department, of this year's total revenue, the VAT (internal) recovery amount has been NRs. 116.43 billion. The recovery amount also includes credit adjustments of taxpayers. The taxpayer's VAT credit amount has appeared NRs. 47.44 billion at the year-end. Out of the taxpayers that submitted tax returns, 11.07 percent taxpayers have submitted debit returns, 55.15 percent have submitted credit returns, and 33.78 percent have submitted zero returns. This year, the debit amounts have decreased by 6.68 percent, whilst credit amount has increased by 11.88 percent. To enhance the effectiveness of the VAT, improvements are needed in the policy and managerial aspects, implementation and compliance to the tax laws and mobilization of monitoring mechanism.

27. **Assessment of Sectorial Ministries-** The assessment of the operational policies and main programs of 2020/21 has been done on the basis of the integrated monitoring system prepared by Office of the Prime Minister and Council of Ministers. In making the assessment, the activities and milestones of sectorial ministries have been taken as a basis. As per the assessment, the progress status of sectorial ministries as of end of Asadh 2078 has appeared as follows:

Sector	Concerned Ministries	Activities (Number)				Milestones			
		To be Completed	Completed	On going	Not Started	To be Completed	Completed	On going	Not Started
Economic Sector	Finance, Agriculture, Industry, Land Management	461	308	147	6	769	564	180	25
Infrastructural Sector	Physical Infrastructure, Energy, Urban Planning, Water Supply, Communication, Reconstruction	282	55	226	1	660	233	400	27
Social Sector	Education, Health, Women, Youth, Labor	170	91	78	1	316	198	106	12
Governance Reform Sector	Office of the Prime Minister, Home Affairs, Defense, Federal Affairs, Law, Foreign Affairs	200	125	71	4	355	250	95	10
Total		1,113	579	522	12	2,100	1,245	781	74

As stated above, the Ministries have completed only 579 activities (52 percent) out of 1 thousand 113 activities and 1 thousand 245 milestones (59.29 percent) out of 2 thousand 100 milestones. When analyzed sector-wise basis, only 19.5 percent of infrastructural sector activities have been found completed. The Ministries that have completed lowest number of activities are Urban Development 13.3 percent of and Water Supply 13.6 percent. The progress status of activities and milestones of the sectorial ministries are found poor.

28. **Reconstruction** - In the International Conference relating to Reconstruction after Nepal's Earthquake, 2072 (2015) organized by the Government of Nepal, altogether 36 countries and 24 developing partners had participated and the commitments of NRs. 410 billion assistance was received. Out of the amount, the grant agreement for NRs. 388 billion was signed, but assistances of only NRs. 154.73 billion has been received up to 2020/21. The work tenure of the National Reconstruction Authority was fixed to 5 years in the Act related to Reconstruction of Earthquake Affected Structures, 2072. As per the National Reconstruction Authority's Annual Report 2020/21, the progress status of reconstruction works has appeared as follows:

S.No.	Description	Unit	Numbers to be reconstructed	Number of reconstruction Completed	Completed Percent
1	Private House	Number	866,207	615,493	71.06
2	Private House Retrofitting	Number	47,827	2,035	4.25
3	Integrated Settlement Development	Number	106	62	58.49
3	Health Institution	Number	1,164	751	64.52
4	Community School	Number	7,583	6,647	87.66
5	Archaeological and Cultural Heritage	Number	920	586	63.7
6	Government Building	Number	414	388	93.72

7	Security Agency Building	Number	216	216	100.00
8	Road Bridge	Number	15	9	60.00
9	Road	Km	764	657	85.99
10	University and College Building	Number	70	10	14.29

Though the target was set to complete all programs within 5 years, only less than 60 percent has been achieved in the construction works, including the private house retro-fitting, university and college building, integrated settlement development during the elapse of the period, and consequently the affected persons and institutions have not got the residential facilities due to non-completion of works of the majority of infrastructures. Hence, the remaining works are to be commissioned soon by the offices getting the responsibility of works.

29. **Arable Land and Irrigation Availability** - As per statements received from the Ministries - Energy, Water Resources and Irrigation, there are 1 million 766 thousand hectares of irrigable land out of 2 million 641 thousand hectares of arable land, and out of them, the irrigation facilities have been availed to 1 million 509 thousand 427 hectares areas up to 2020/21. As per Economic Survey 2021, the contribution of agricultural sector in Gross Domestic Production (GDP), which existed 28.1 percent in 2017/18, has appeared 27 percent in 2018/19, 26.2 percent in 2019/20 and 25.8 percent in 2020/21, which exhibits that the contribution of agriculture sector in GDP has been declining gradually. Hence, by establishing integration and coordination in operations of the programs, the irrigation and agriculture sector programs should be implemented in such areas that would yield in national economy.
30. **Agricultural Subsidy** - The Ministry of Agriculture and Livestock Development has appropriated budget of NRs. 23 billion 44.1 million to implement activities, such as - purchasing chemical fertilizer, production and purchase of improved seeds, fishery development, crop preservation and development, agricultural mechanization and food security, crop and livestock insurance, vegetable farming, pond construction etc. and has spend NRs. 19 billion 680.2 million in distribution of subsidy. Out of the subsidy expenditure, total subsidy NRs. 12 billion 61.7 million (61.29 percent) is provided for the purchase of chemical fertilizer, which includes NRs. 8 billion 761.7 million provided to the Agricultural Input Company Ltd. and NRs. 3.30 billion provided to Salt Trading Corporation Limited. The Ministry has stated that as compared to last year, the agricultural sector subsidy has increased by 16.93 percent and the food production has increased by 1.82

percent, vegetable production by 2.61 percent and fruit production by 24.09 percent in this year. The growth rate of import of agricultural goods has existed 11.58 percent in 2019/20 as compared to 2018/19, and 27.9 percent in 2020/21 as compared to 2019/20, which indicates that the import of agricultural goods has been growing every year. The import of goods has grown every year due to inability of become self-reliant in agriculture. The subsidy Policy needs to be reviewed in such a way it will support in growth in agricultural production and import substitution.

31. **Prison Management** - As per the statement obtained from Department of Prison Management, the total available capacity of prisons in Nepal is 16 thousand 511 inclusive of 14 thousand 820 male and 1 thousand 691 female, but total of 24 thousand 559 prisoners/detainees inclusive of 23 thousand 222 males and 1 thousand 337 females, are kept in the prisons at the end Asadh 2078 (15/072021). The building construction works of prisons of 4 places including Central Prison Building, Nuwakot are going on with the agreements of NRs. 1 billion 525 million. However, there has been a situation where the prison buildings of 20 districts are to be new constructed and 30 old prison buildings of various districts are to be repaired. In Banke, the building constructed for the implementation open prison concept is at final stage, and hence policy and legal arrangements are to be framed for its implementation. Minimum standards relating to prison's physical structures and facilities are to be formulated, and necessary infrastructures are to be constructed to provide such minimum facilities to the prisoners and detainees.
32. **National Identity Card (Id)** - In budget speech of 2019/20 of the Government of Nepal, it was mentioned that the NID card would be provided to all Nepalese citizens within 2 years period. From this year, the registering work has been provided from 77 District Administration Offices. Total of NRs. 2 billion 409.8 million has been expended for the implementation of Id card programs since 2018/19 to till this year. As per the statement obtained from Department of National Id and Vital Registration, although total registered applications is received 4 million 915 thousand 572 applicants from 2076/4/31 to 2078/9/19, only 114 thousand 804 cards have been printed and 85 thousand 228 cards (1.73 percent of application) have been distributed. Presently, the Id card has been integrated with E-passport, and one cannot apply for a passport unless he/she gets Id card number. Hence, the pressure of service recipients has increased

excessively for the Id card. The service providers, in order to fulfill the responsibilities, should perform works in accordance with annual targets and should take steps for the improvement the service delivery.

33. **E-passport Printing** - Since the description of E-passport are obtainable and readable to machines and E-passport is considered more secured, trustworthy and reliable, the matter of converting presently used passport into E-passport has been mentioned in the Government of Nepal's policies and programs and budget speech since 2017/18. For supplying and printing 2 million E-passports, a procurement contract has been entered with a French Service Provider Company in Paush 2077 (Jan 2020) at total contract price of US Dollar 21.1 million (excluding VAT) and per unit cost of US Dollar 10.45 for 32 pages and US Dollar 10.95 for 64 pages with contract period of 3 years. After signing of the contract, the printing work of E-passport has been commenced from 2078/08/01 (2021/11/17) by completing the necessary works, such as - preparation of detailed design, design of booklet, software development, equipment installation and data transfer and testing etc.
34. **Social Security Allowance** - Social Security Act, 2018, stipulates that an allowance will be distributed to the economically poor, disable, and helpless person, and single women who has remained in helplessness condition, handicapped, children, the citizen who cannot take care oneself and disappearing caste. Social Security Allowance Payment Strategy, 2017 states that the allowance amount will be distributed from electronic system through bank accounts. As per statement obtained from Department of National Id and Vital Registration, the beneficiaries receiving social security allowance are 3 million 455 thousand 446, out of which 2 million 233 thousand 13 beneficiaries have received through bank accounts and 1 million 222 thousand 433 beneficiaries have received cash payment. Total NRs. 68 billion 506.6 million has been disbursed in this year for the distribution of social security and protection allowance. The allowance amounts have been rising every year. By updating the description of beneficiaries and making payment through banking system, the monitoring of the allowance distribution are to be done more effectively.
35. **Youth Self-Employment** - By expending NRs. 3.2 million in 2020/21, the Youth Self-Employment Fund has conducted field-based monitoring of total 491 Cooperative Institutions of 20 districts of 7 provinces, which includes 88 institutions that have made investment in first installment, 112 institutions that

have made investment in second installment, and 292 institutions in which proposals are received for the loans. Out of the monitoring completed, the monitoring of only 200 schemes (10.16 percent) is done after completion of the investment process. Major findings of the monitoring includes - several borrowers have not invested amounts in specified business and dual loans are provided to single person due to lack of adequate monitoring; 126 borrowers have not given continuity to their businesses while conducted studies on the status of 529 borrowers of 16 cooperatives of Kaski, Lamjung, Tanahun and Baglung districts; loans are provided to 2 gold shops without fulfilling the specified processes mentioned in the procedures; loans are provided to 24 of big businesses that do not fall within the targeted group; investments are made in 5 cooperatives that do not fall within the specified standards; and the prescribed actions are not taken to 1 thousand 177 cooperatives that have not refunded loans within the specified dates.

36. **Government and Public Land** - The Government of Nepal (Work Division) Rule, 2074 (2017), provides that the Ministry of Land Management, Co-operative and Poverty Alleviation shall have to protect the government and public lands by keeping national records, and the Point No. 414 of Land Administration Directives, 2058 (2001) provides that the records of the government and public land shall have to be updated by making registration as specified in Annex 19 and 20 of the Directives. The annual progress report prepared by the Ministry mentions that there exists 2 million 907 thousand 542 hectares of government land and 4 million 53 thousand 714 hectares of public land. However, the Department has not yet included the government and public lands under Land Revenue Offices of Jalewar of Mohottari, Dolpa, Dadeldhura, Rajbiraj and Kanchanpur of Saptari, Arghakhanchi, Mahendranagar and Jhalari of Kanchanpur District. An integrated record of the government and public land should be prepared by obtaining the records of the government and public lands from all Land Revenue Offices.
37. **Air Quality** - As per the standards fixed by the Government of Nepal, the daily average standard of tiny dust particles i.e. Particulate Matter (PM) 2.5 need to be 40 microgram per cu. meter, but, as per the statistics of Air Quality Measurement Centers operated by Department of Environment, the dust particles of 78 out of 230 days in Ratnapark of Kathmandu, 3 out of 51 days in Pulchowk Center of Lalitpur, 29 out of 241 days in Dhulikhel Center of Kavre, 37 out of 214 days of Bhaktapur, 80 out of 193 days in Sauraha of Chitwan, 140 out of 359 days in

Bhaisepati of Lalitpur, 12 out of 28 days in Lumbini, 51 out of 312 days of Nepalgunj, 109 out of 158 days in Damak of Jhapa, 90 out of 185 days in Simara of Bara and 33 out of 252 days in Sankhapark of Kathmandu, have been witnessed above the national standards. Additional policy and procedural arrangements are to be formulated in order to prevent the acts that produce air pollution.

38. **New Town Project** - The Department of Urban Development and Building Construction has commenced this project in 2009/10 with an objective to establish new town in 10 main places of the Mid Hill Highway (Puspahal Highway) and its surroundings and the number of places has reached 12 now after addition of 2 places. The project's coverage has been extended to 50 cities with the addition of 40 towns and settlements inclusive of developing smart cities to 15 places of Postal Highway and its surroundings and other various 13 towns and developing trans-himalayan cities to 10 settlements of high himalayan part including Lukla. Under this Project, the works of track opening of 115.07 km road, black topping of 22.89 km road, constructing 29.02 km rigid pavement, and constructing 57.36 km drainage/sewerage etc. have been completed in 2020/21. Till now, the Project has approved the final report of morphological retained and enhancement plan by conducting feasibility studies of 5 himalayan settlements and the master plan of 13 smart cities. The practice of adding new towns in the Project before completing current project works has created the situation that the expected outcomes may not be attained as per objectives set completing the Project works by 2029/30.
39. **Teacher Student Ratio** - Education Rule, 2059 (2002) specifies that the Teacher-Student Ratio need to be 40 in Himalaya, 45 in Hill and 50 in Tarai Region. As per Education and Human Resource Center, the School-Student Ratio and Teacher-Student Ratio have existed as follows:

Province	School-Student Ratio				Teacher-Student Ratio			
	Basic (1-5)	Basic (6-8)	Secondary (9-10)	Secondary (11-12)	Basic (1-5)	Basic (6-8)	Secondary (9-10)	Secondary (11-12)
Province No. 1	80	89	89	155	15	29	24	39
Madhesh Province	186	173	167	155	37	68	50	59
Bagmati Province	92	91	75	189	14	25	15	39
Gandaki Province	62	81	75	116	10	22	17	21
Lumbini Province	115	121	110	163	18	36	28	36
Karnali Province	89	112	116	151	24	41	41	38
Sudurpachhim Province	97	108	146	110	19	35	32	32
Total	101	106	98	158	18	33	24	35

As per the Report, the School-Student Ratios have prevailed 101 in Class 1-5 and 106 in Class-6-8 of the Basic level, and 98 in Class 9-10 and 158 in Class 11-12 of the Secondary level. Similarly, the Teacher-Student Ratios have prevailed 18 in Class 1-5 and 33 in Class-6-8 of the Basic level, and 24 in Class 9-10 and 35 in Class 11-12 of Secondary level. Such ratios have appeared the lowest in Gandaki Province. To enhance the quality of education, necessary management works of schools are to be done in order to maintain the School-Student Ratio and Teacher-Student Ratio as specified in standards in all Provinces.

40. **Social Security Fund** - Labor Act, 2074 (2017) provisions that each employer is required to get enlisted in Social Security Fund within the 6 months of the commencement of the Act. Till the end of Chaitra 2078 (13/04/2022), total 327 thousand 784 laborers of 17 thousand 37 organizations have been enlisted in the Fund, but the number of laborers that have contributed in the Fund are 214 thousand 550 only. Total amount deposited by the contributors till 2020/21 has reached NRs. 15.19 billion. The management of such Fund has been done by the Federal Government only.

In this year, the Fund has provided the reimbursement of total NRs. 149 million 802 thousand to the persons making claims, which include NRs. 48 million 924 thousand paid under medical treatment, health and maternal security plan, NRs. 3 million 853 thousand paid under accident and disability security plan, NRs. 4 million 328 thousand paid under dependent family security plan, and NRs. 92 million 696 thousand paid under old-age security plan.

In order to implement Health Security Plan, the Fund has entered contract agreements with 19 hospitals in Province No. 1, 16 hospitals in Madhesh Province, 21 hospitals in Bagmati Province, 8 hospitals in Gandaki Province, 14 hospitals in Lumbini Province, 10 hospitals in Karnali Province and 17 hospitals in Sudurpachhim Province, but the hospitals so contracted are concentrated only in Tarai and urban areas.

41. **Death Compensation** - With respect to the laborers that have lost lives in course of employment while going for foreign employment taking labor approval, the Foreign Employment Board has distributed total financial assistance of NRs. 702 million 585 thousand to heirs of the 1 thousand 99 laborers (27 females and 1 thousand 72 males) in 2020/21 as the compensations as compared to total financial

assistance NRs. 811 million 17 thousand distributed to 579 laborers (17 females and 562 males) in 2019/20. The financial assistance amount has been provided at the rate of NRs. 700 thousand for each death person and with the specified rate in insurance policy in case of the permanent disability or sustained injury. Viewing the increasing number of the laborers that became disables or sustained injuries in foreign countries, the Board should conduct the promotional programs that would mitigate such risks.

42. **Federal Civil Service Act** - There exists a situation where the administrative structures of the Federation, Province and Local Levels under federal system have been approved after restructuring of the state and the adjustment of employees has been done accordingly. The Federal Civil Service Act needs to be formulated for the management of employees in all three levels. Though the Federal Civil Service Ordinance tabled in the House of Representatives of the Federal Parliament on 2019/02/10, but the Government of Nepal has withdrawn the Ordinance on 2021/10/05. Despite of non-issuance of the Federal Civil Service Act, Madhesh Pradesh has issued Province Civil Service Act, 2020 and Bagmati Province has issued Province Civil Service Ordinance, 2021. In a state of the Federal Civil Service Act is not yet adopted, the Provinces have already formulated its Civil Service Act of its own kind and the Local Levels have also granted promotion or level up-gradation to their employees without framing essential laws, which have created inconsistencies in career development, service & facilities, transfer, promotion system within administrative structure. Discrepancies have been witnessed in the laws formulated by various Provinces due to non-adoption of the Federal Civil Service law on time. In Civil Service Ordinances of the Madhesh Province and Bagmati Province, differences exist in the provisions, such as - the recruitment percent, level up-gradation, duration for filing complaints on promotion etc.
43. **Employee Adjustment** - Section 5 (1) of Employee Adjustment Act, 2075 (2018) provides that for the purpose of making adjustment to the employees of the government service in the posts of the Federation, Provinces and Local Levels, notices shall have to be published to invite applications from the employees disclosing the description of the posts and level of services and service-group for which the adjustments are to be made. The Federal Ministry of Federal Affairs and General Administration, by publishing a notice on 2018/12/26, has approved

total 52 thousand 928 positions for the Federation as per Section 8 of the Act, and out of the approved positions, the adjustment has been done to 37 thousand 944 employees and remaining 14 thousand 984 approved positions have still fallen vacant. Similarly, out of the 22 thousand 297 approved positions of the 7 Provinces, 14 thousand 863 employees have been adjusted and remaining 7 thousand 434 positions have fallen vacant. Out of the 67 thousand 719 approved positions of the 753 Local Levels, 44 thousand 321 employees have been adjusted and remaining 23 thousand 398 positions have fallen vacant. Total of 2 thousand 443 employees have become redundant (Phajil) without any adjustment in the Federation, Provinces and Local Levels. Amongst the total approved positions, 28.31 percent of the Federation, 33.34 percent of the Provinces and 34.55 percent of the Local Levels have fallen vacant. Though the Ministry has acknowledged that all works relating to adjustment of employees have completed, but the management of the redundant employees has not been done. The local level and Provincial offices are directly linked with the people's concerns, but the services of the offices have been affected due of lack of employees.

44. **Restructuring of Postal Service** - Point No. 267 of Budget Speech 2020/21 pronounces that the restructuring of postal system will be made and the scope of services will be expanded on the basis of possibilities making modernization of the postal service. The offices operating under Department of Postal Services are General Postal Office, Postal Training Center, Central Money Order Office, Central Postal Stamps Store, Nepal Philatelic Bureau, Regional Postal Directorate 4, District Postal Office 70, Area Postal Office 842 and Additional Postal Office 3 thousand 74. In addition to domestic postal services, the ordinary letters and parcels have been directly operated worldwide and E.M.S. services operated in 39 countries. There are total 6 thousand 294 approved positions of different levels in the Department and offices thereunder, and NRs. 3.10 billion on an average has been incurred annually as recurrent expenditure. However, the number of parcels and postal letters services provided have been dropping continuously since last some years. The number of domestic services provided that appeared 33 million 451 in 2017 fell down to 335 thousand in 2020, and the number of foreign services provided that figured 6 million 218 thousand in 2017 fell down to 194 thousand in 2020. By making restructuring the postal services and making the postal service

modernized and technology-based, it has become essential to expand the scope of postal services on the basis of possibilities.

- 45. Electricity License** - Amongst the projects that have obtained permissions from Department of Electricity Development for electricity generation, the total electricity generating installed capacity of 103 projects has existed 1 thousand 365 megawatts up to this year. Amongst the projects, the construction works of which are on-going by getting permission, the installed capacity of 216 projects has been 8 thousand 476 megawatts up to 2020/21. Amongst the projects that have obtained survey permission, the electricity generation and survey licenses have been issued to 253 projects of 16 thousand 784 megawatts up to 2020/21, and amongst the projects that have obtained generation permission, the licenses have been issued to 486 projects for 25 thousand 223 megawatts. Inclusive of 1 thousand 380 megawatts installed capacity of the 122 operational projects, the licenses have been issued for total 26 thousand 603 megawatts capacity. Pursuant to transmission lines survey permission, total 262 projects have obtained the electricity transmission survey and construction licenses for constructing 33, 66, 132, 220, and 400 K.V. lines up to 2020/21. Likewise, the total installed capacity of electricity generation has reached 1 thousand 365 megawatts up to 2020/21 inclusive of 1 thousand 290 megawatts of above 1 megawatt capacity, 53.41 megawatts of thermal electricity, 18.5 megawatts of solar electricity and 3 megawatts of co-generation.
- 46. Renew of Broadcasting License** - Rule 16 (4) of National Broadcasting Regulation, 2052 (1995) provides that if any license or permission is to be renewed after expiry of dates, the Ministry may renew such license or permission by collecting fines of 10 to 100 percent and the issued license shall be deemed to have become void automatically in the event of failure to renew within the prescribed time, and Rule 18 of the same Rule stipulates that the Ministry may cancel the issued license if any broadcasting is not conducted in accordance with the terms of license of permission letter and may take custody of the machine or equipment used in broadcasting of programs if any program has been broadcasted unauthorizedly. As per statement obtained from Department of Information and Broadcasting, it is stated that 202 televisions and 65 F.M. Radio institutions have obtained the broadcasting licenses. Amongst the institutions, 154 institutions including 145 televisions and 9 F.M. Radios have not renewed their licenses till

the end of 2078 Asadh (15/07/2021). Even in this situation, the acts of recovering fines as per the Regulation, keeping records of the cancellation of licenses of the institutions that failed to renew of licenses within 6 months and carrying out inspection have not been performed. Pursuant to the institutions that have not completed renew of licenses, the Ministry should conduct necessary monitoring and investigation and take action as per the Regulation.

47. **Decorations** - Decoration Act 2064 (2007) has provisioned 4 types of 12 levels of decorations, 19 types of Alankar and 13 types of medals, and the Act states that such decorations shall be recommended to the person that has made special contribution in various fields of national life in accordance with standards approved by the Decorations Committee and the Government of Nepal shall take decisions on such recommendations. The Council of Minister of the Government of Nepal has taken decisions to decorate 518 persons in 2018/19, 633 persons in 2019/20 and 593 persons in this year. Likewise, it has taken a decision to decorate 887 persons in 2021/22. In order to make the announced decorations/medals, Ministry of Home Affairs has incurred expenditures of NRs. 56 million 977 thousand in 2018/19, NRs. 85 million in 2019/20, and NRs. 102 million 216 thousand in 2020/21. Of the decorations announced in past, 284 decorations /medals including 176 decorations, 36 alankars and 62 medals have remained in stock without distribution. Since the costs of preparing decorations have been rising every year, steps are to be taken in minimizing the costs and controlling the expenditures by ascertaining the number of persons to be decorated in each year.
48. **Direct Purchase** - Section 8 (2) of Public Procurement Act, 2063 (2007) provides that procurement shall not be made in slicing into many pieces so as to limit competition. Similarly, Rule 84 of Public Procurement Rules stipulates that any public entity, in accordance with approved program and procurement plan, may procure any goods, construction work or services the cost estimate of which does not exceed two million rupees by inviting sealed quotations. As per the information gathered in course of auditing, 34 entities functioning under the Ministries - Energy, Water Resources and Irrigation, Urban Development, Water Supply, Home Affairs, and Health, have procured goods and structure construction works worth NRs. 495 million 313 thousand by slicing the cost estimates into different pieces as against the provision of the procurement laws.

49. **Price Adjustment** - Section 55 (1) of Public Procurement Act, 2063 (2007) provides that unless otherwise provided in procurement contract, if any price needs to be adjusted in the course of implementation of a procurement contract having duration exceeding 12 months, the competent authority may adjust price. Section 55 (2) of the same Act provides that price adjustment cannot be made where the work under the contract is not completed due to the delay by the person who has obtained procurement contract or if procurement contract is concluded on the basis of fixed budget. As per the information collected in course of auditing, 38 entities functioning under the Ministries - Energy, Water Resources and Irrigation, Urban Development, Water Supply and Physical Infrastructure & Transportation, have paid NRs. 1 billion 89.2 million as price adjustments either by varying the indicators and multiplication or calculating price adjustment wrongly as against the provision of the procurement laws and contracts.
50. **Pre-determined Liquidated Damage** - It is provided in Public Procurement Rules, 2064 (2007) and Procurement contracts that if any work specified in procurement contract is not completed within the specified time due to delay by any construction entrepreneur, a pre-determined liquidated damage at the rate 0.05 percent per day to the maximum of 10 percent of contract price shall have to be collected. Without complying with the provision, 24 entities functioning under the Ministries - Energy, Water Resources and Irrigation, Urban Development, Health, and Physical Infrastructure & Transportation, have not recovered pre-determined liquidated damage amounting to NRs. 109.5 million. The pre-determined liquidated damage needs to be recovered if any delay is caused by a construction entrepreneur or supplier.
51. **Fiscal Federalism** - The fiscal federalism is a foundation of the federal governance system. The status observed include - income in provincial and local consolidated fund has become low due to non-division of revenues and royalties within the end of fiscal year; Government of Nepal has less transferred NRs. 2 billion 375 million to provinces and NRs. 3 billion 766.7 million to local levels than the amounts recommended by National Natural Resource & Fiscal Commission; provinces and local levels are relying on the Federal grants for budget; unproductive and distributive programs are operated from the grants received; accounts of the consolidated funds have not been prepared as per prescribed formats; expenses are incurred by retaining unallocated budgets; local levels have not submitted trimester income-expenditure

report to provinces; incur of high administrative expenditures; duplication in operating programs; facilities of the officials and employees have increased due to lack of standards relating to facilities; no internalization of sustainable development goals; programs are not formulated in accordance with periodic plan and medium term expenditure frameworks; emphasis given in providing grants without making monitoring effective; no preference given in mobilizing revenues collection from concurrent powers; and the plan formulation processes of local levels have not become systematized.

Provincial Ministry and Entity

52. **Province Consolidated Fund** - As per Province-wise statement Consolidated Funds obtained from Province Accounts Comptroller Offices, the Provinces have earned total receipt of NRs. 251 billion 392.8 million, incurred expenses of NRs. 189 billion 538.5 million (75.40 percent) and retained NRs. 61 billion 854.3 million as balances. Out of total expenditure, the total expenditure of Province No. 1 is NRs. 27 billion 951.2 million, Madhesh Pradesh is NRs. 22 billion 545.8 million, Bagmati Province is NRs. 35 billion 594.8 million, Gandaki Province is NRs. 25 billion 623.4 million, Lumbini Province is NRs. 32 billion 103 million, Karnali Province is NRs. 22 billion 752 million, and Sudurpachhim Province is NRs. 22 billion 968.3 million.
53. **Divisible Fund** - Inter-Governmental Fiscal Management Act, 2074 (2018) provides that revenues raised as vehicle tax shall be deposited in Provincial Divisible Fund and out of the deposited amounts 40 percent shall be distributed to Province Consolidated Fund and 60 percent in Local Consolidated Fund. Out of the NRs. 16 billion 726.5 million deposited in Province Divisible Fund, NRs. 16 billion 613.2 million has been distributed, however, the Ministry of Fiscal Affairs and Planning of Province No. 1 has kept NRs. 113.3 million as balance without distributing. The amount should be distributed as per the provision of the Act.
54. **Auditing** - This year, audits of NRs. 297 billion 131 million of 1 thousand 115 offices functioning under provinces and NRs. 2 billion 376.1 million of audit backlogs of 11 provincial offices have been completed. Likewise, audits of 15 billion 239.2 million of 80 other institutions/committees functioning under Provinces and the audit backlogs of 3 committees have been completed. This year, NRs. 1 billion 282.9 million of 24 entities has remained as audit backlog.
55. **Budget and Expenditure** - In accordance to the arrangement of Province Financial Procedure Act, 2074 (2017), the finance minister of each Province has to submit Revenue-Expenditure Estimate of each fiscal year in Provincial Assembly, and seven provincial assemblies have approved total budget NRs. 268 billion 287.5 million for 2020/21 and incurred total expenditure NRs. 189 billion 538.6 million (70.65 percent). Out of the expenditure, the recurrent expenditure is 39.77 percent, capital expenditure is 59.49 percent and other expenditure is 0.74 percent. The Provinces have incurred 70.65 percent expenditure on an average and out of

which the highest 81.99 percent expenditure is incurred by Lumbini Province and the lowest 66.30 percent is incurred by Sudurpachhim Province.

56. **Virement** - As per Province Financial Procedure Act, 2074, the authority to make virement of approved budget amount from one budget sub-heading, source or expenditure heading to other budget sub-heading, source or expenditure heading shall rest on Ministry of Fiscal Affairs & Planning. Out of this year's total initial budget appropriation of NRs. 277 billion 960.2 million of 7 provinces, NRs. 44 billion 487.4 million has been transferred as virement. Out of the total virement, the virement NRs. 47.6 million of Province No. 1, NRs. 1 billion 64.9 million of Bagmati Province, NRs. 3 billion 797.8 million of Gandaki Province, NRs. 2 billion 504.4 million of Lumbini Province, and NRs. 1 billion 22.8 million of Karnali Province are done at the end of Asadh 2078 (15/07/2021). The act of incurring expenditure by making virement at the year-end needs to be checked.
57. **Province Internal Source Mobilization** - Of the total expenditure NRs. 189 billion 538.5 million of provincial governments of 2020/21, NRs. 114 billion 8.8 million (60.15 percent) has been borne from internal source. Out of the expenditure borne from internal source, the lowest 52.16 percent is of Province No. 1 and the highest 82.27 is of Karnali Province.
58. **Audit and Irregularity** - As against the audited amount NRs. 314 billion 745.3 million of the provincial government offices, other institutions and committees of 2020/21, audit irregularity of NRs. 8 billion 385.4 million has appeared. The highest irregularity of 5.42 percent has appeared in Madhesh Province, whilst the lowest irregularity of 1.18 percent has appeared in Lumbini Province. Likewise, the irregularity amount has appeared 3.56 percent in Province No. 1, 1.60 percent in Bagmati Province, 1.27 percent in Gandaki Province, 5.15 percent in Karnali Province and 2.18 percent in Sudurpachhim Province.

Amongst the total outstanding irregularity NRs. 12 billion 991.3 million of the government offices, other institutions and committees of the provinces up to last year, NRs. 1 billion 724.6 million has been cleared through follow up audits and NRs. 11 billion 266.7 million has remained as balance, and along with the addition of this year's irregularity NRs. 8 billion 385.5 million, the cumulative outstanding irregularity has reached NRs. 19 billion 652.2 million. Of the amount, the advance is NRs. 4 billion 100.7 million.

Local Level

59. **Overall Income and Expenditure** - As per the Consolidated Annual Financial Statement prepared by Financial Comptroller General Office, the 753 local levels have, in addition to the total budget NRs. 532 billion 983.7 million of 2020/21, received NRs. 308 billion 603.3 million from the Federation and Provinces as fiscal transfer grants, NRs. 73 billion 400 million as revenue sharing from the Federation and Provinces. Inclusive of last year's internal income balance, the local levels have generated total income of NRs. 493 billion 3.9 million in this year. Out of the total income, the local levels have incurred NRs. 391 billion as expenditure and have retained NRs. 101 billion 567.6 million as balance.

The total budget of 744 local levels of 2020/21, which audited in this year, is 597 billion 485.1 million. Of the total budget, NRs. 487 billion 881.7 million (81.65 percent) is incurred as expenditure. Of the total expenditure, the recurrent expenditure is NRs. 250 billion 641.7 million (51.37 percent), capital expenditure is NRs. 160 billion 325.8 million (32.86 percent) and financing arrangement/other is NRs. 76 billion 914.2 million (15.77 percent). The total internal source income of 744 local levels of 2020/21 audited in this year is 196 billion 76.3 million, which includes - total internal revenue NRs. 35 billion 285.6 million, revenue sharing NRs. 69 billion 16.9 million received from the Federation and Provinces and previous year's balance NRs. 91 billion 773.8 million.

60. **Revenue Mobilization** - As per the Consolidated Annual Financial Statement prepared by Financial Comptroller General Office, the local levels have received NRs. 184 billion 652.7 million (90.88 percent) as internal income in this year against the estimate of collecting NRs. 203 billion 179.4 million. Of the amount, NRs. 75.63 billion is previous year balance, NRs. 73.40 billion is received from revenue division and NRs. 35 billion 627.3 million is collected from internal source. Inclusive of the grants received from the Government of Nepal, the local levels have generated total receipt NRs. 493.39 billion, out of which the income collected by the local levels from internal source in this year becomes 6.22 percent only.
61. **Less balance brought down-** In preparing integrated financial report of receipt and payment, each local level needs to carry forward the opening balance as per the previous year's closing balance. If any variance is made in transferring the

balance amounts, necessary clarifications are to be provided. However, 167 local levels have not provided any clarification pursuant to the transfer of less balances amounting to NRs. 2 billion 273 million 919 thousand.

62. **Bank Reconciliation** - Each local level is required to prepare a bank reconciliation statement as per A.G. Form no. 212 monthly basis reconciling between books of account and bank account, however, majority of local levels have not prepared such statements. In this year, bank balances of 82 local levels have appeared less by NRs. 684 million 314 thousand than that shown by the books of account.
63. **Unallocated Budget** - Local Government Operations Act, 2074 (2017), provisions that the income-expenditure estimate is to be prepared on the basis of resource estimate and fixation of ceiling with the prioritization of budget and program without keeping any amount unallocated. In this year, 233 local levels have approved budget and program keeping NRs. 4 billion 733 million 367 thousand as unallocated budget. Since the unallocated budgets are spent in petty projects and programs on the basis of ad hoc executive decision and such acts also impact in maintenance of fiscal discipline, the practice of incurring expenditure by keeping unallocated budget needs to be controlled.
64. **Coordination** - Section 105 of Local Government Operations Act, 2074 (2017), stipulates that there shall remain a provincial coordination council to maintain coordination between the province and local level on issues of policy adjustment in areas of provincial and local governance, strategic partnership in plan management, exercise of concurrent powers, utilization and sharing of natural resources etc. The status witnessed by audits in this respect include - the provincial governments have implemented the small projects themselves which need to be handed over to local levels, province level offices are established for the works that have been performed by local levels, local levels have not distributed all amounts of revenue sharing to provincial governments etc. The meetings of Province Coordination Councils are to be conducted on regular basis in order to bring effectiveness in work performance as provided in list of concurrent powers and keep balance in development works, and the local levels also need to make coordination with the provincial governments so as to bring comfort in functioning.

65. **Grants** - As per the financial statement obtained from the Financial Comptroller General Office, the status of grants made available by the Federal and Provincial Government to Local Levels in last 3 years are as follows:

(NRs. in Million)

Fiscal Year	Equalization Grant	Conditional Grant	Special Grant	Complementary Grant	Total
Federation					
2018/19	85,287.9	125,342.7	2,277.0	3,857.3	216,764.9
2019/20	89,965.2	150,994.1	4,828.4	4,754.0	250,541.7
2020/21	89,973.2	183,302.5	5,834.1	5,088.6	284,198.4
Province					
2018/19	4,420.1	7,994.3	944.7	1,862.3	15,221.4
2019/20	6,280.2	8,277.2	2,584.8	5,781.7	22,923.9
2020/21	5,357.6	8,940.9	7,447.9	2,772.6	24,519.0

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

66. **Recovery of Arrears** - The Chapter-9 of Local Government Operations Act, 2074, provides the provisions relating to raising various types of taxes and fees and recovering arrear amounts from revenue contract arrangements. The outstanding revenue balances to be recovered by 32 local levels in this year has appeared NRs. 262 million 561 thousand, but the detailed records of the same amounts have not been maintained. Hence, works plans of recovering the revenue arrears need to be prepared and implemented maintaining proper records.
67. **Audit and Irregularity** - In this year, the audits of NRs. 993 billion 593.1 million of 744 out of 753 local levels have been completed. Inclusive of audit backlogs NRs. 57 billion 575 million of 55 local levels of 2019/20, total audits of NRs. 1 trillion 51 billion 99 million have been completed in this year. Pursuant to total irregularity NRs. 44 billion 241.3 million observed in course of the audits, NRs. 3 billion 433 million has been settled after issuance of preliminary reports and NRs. 41 billion 198.8 million has remained as outstanding to be settled. Of the outstanding irregularity, NRs. 5 billion 605.9 million has appeared as 'to be recovered', NRs. 30 billion 796.5 million has appeared as 'to be regularized' and

NRs. 4 billion 795.6 million has appeared as 'overdue advance'. Likewise, the irregularity of NRs. 2 billion 711.5 million has been witnessed from audits of the audit backlog amounting to NRs. 57 billion 505.9 million. The audit of 9 local levels, including 8 of Madhesh Province and 1 of Karnali Province, is yet to be completed.

Covid-19 Pandemic Management

68. **Overall Expenditure Management** - Pursuant to the Covid-19 management, total NRs. 19 billion 77.9 million is incurred as expenditure in this year, out of which NRs. 12 billion 202.2 million is spent by the Federal Government from the budget appropriated in Covid-19 Prevention and Controls and Central Corona Fund, NRs. 2 billion 116.7 million is spent by Province Governments and NRs. 4 billion 758.9 million is spent by Local Levels. Inclusive of last year's (2019/20) expenditure NRs. 13 billion 543.9 million, the total expenditure has figured NRs. 32 billion 621.8 million. The above expenditure amount does not include the assistances and commodity assistances received from various development partners.
69. **Status of Infection** - The Ministry of Health and Population has pronounced as the first wave period of Covid-19 from the beginning of Corona infection to 2077 Falgun (13/03/2021) and as the second wave period from 2077 Chaitra (14/03/2021) to 2078 Chaitra (13/04/2022). The comparative status of infection of SAARC countries based on the statistics obtained from Worldometer and Ministry of Health and Population is provided below:

Description	End of Asadh 2077 (15/07/2020)		End of Asadh 2078 (15/07/2021)		30th Baishakh 2079 (13/05/2022)	
	Total Infection	Number of Death	Total Infection	Number of Death	Total Infection	Number of Death
SAARC Countries	1439,474	33,228	34,289,177	471,774	48679,437	620,160
India	936,181	24,309	31,026,829	412,531	43,116,600	524,190
Pakistan	255,769	5,386	983,719	22,720	1,529,080	30,376
Bangladesh	190,057	2,424	1,072,774	17,278	1,952,939	29,127
Afghanistan	34,740	1,045	137,853	5,983	179,169	7,686
Nepal	17,177	39	709,457	9,463	978,982	11,952
Maldives	2,801	14	75,622	215	199,483	298
Sri Lanka	2,665	11	280,543	3,573	663,632	16,510
Bhutan	84	0	2,380	11	59,552	21

In SAARC countries, the number of total infection has appeared 1 million 439 thousand 474 and number of death 33 thousand 238 at the end of Asadh 2077 (15/07/2020). During the same period, the number of total infection of Nepal has appeared 17 thousand 177 and total number of death 39. With the spreading of the infection, the total number of infection of the SAARC countries has reached 34 million 289 thousand 177 and number of death has reached 471 thousand 774 till

end of Asadh 2078 (15/07/2021). In the same period, the total number of infection of Nepal has reached 709 thousand 457 and number of death has reached 9 thousand 463. Likewise, till 30th Baishakh 2079 (13/05/2022), the total number of infection of Nepal has reached 978 thousand 982 and total number of death has reached 11 thousand 952 in comparison to the total number of infection 48 million 679 thousand 437 and number of death 620 thousand 160 of the SAARC countries.

70. **Impact of Covid-19** - In a situation of the prevalence of total 30 thousand 101 approved positions of health personnel, 3 thousand 99 positions have fallen vacant, and the health personnel engaged in regular health service have been mobilized in the prevention, control and treatment of Covid-19 disease, and consequently, the delivery of regular health service has been affected.
- 70.1 Nepal had started to impose the lockdown since 2076 Chaitra (14/03/2020) according high priority to life saving of human beings than the economic losses that might occur from Covid-19 Pandemic. The economic growth rate of Nepal has been affected due to long period lockdown imposed during corona infection period. The economic growth rates of 2019/20 and 2020/21 of Nepal have remained negative by 2.1 percent (minus) and 4.01 percent respectively as against the target of achieving growth rates of 8.5 percent and 7.0 percent respectively.
- 70.2 The growth rate of revenue recovery of the earlier years prior to the covid infection appeared 23.36 percent in 2016/17 and 27.12 percent in 2017/18, but the growth rates fell down during corona infection period which stood 7.32 percent in 2018/19 and 0.20 percent in 2019/20. Only lesser revenues were recovered during the period as compared to the target fixed.
- 70.3 As per the Ministry of Labor and Employment, the number of workers going abroad by getting labor approval were 1 million 608 thousand in 2017/18, 1 million 119 thousand in 2018/19, 1 million 126 thousand in 2019/20, but the number appeared only 1 million 90 thousand in 2020/21. Thus, the data showing a decrease in number of the country's labor force going foreign employment can be taken as a positive aspect, but the existence of 752 thousand listed unemployed persons in 2020/21 due to the rise in number of citizens coming to labor market, show that the number of unemployed and semi-unemployed person is surging in the country.

- 70.4 The number of tourist visiting Nepal existed 1 million 173 thousand and 1 million 197 thousand prior to Covid infection in 2018 and 2019 respectively, but during the covid infection period, the number of tourist arrival in 2020 and 2021 confined to 230 thousand and 150 thousand respectively. The revenue collected from tourism sector, which figured NRs. 739.8 million in 2018/19, has appeared NRs. 3 million 257 thousand only in 2020/21.
- 70.5 With respects to the laborers working in the enterprises registered in Social Security Fund, a decision has been taken that the government will bear the final four month's contribution to be deposited on the behalf of the laborer and employer. The government has deposited NRs. 1 billion 62 million in the Social Security Fund in this year as compared to NRs. 1 billion 32.4 million deposited in last year.
- 70.6 In income year 2020/21, a rebate of 90 percent is provided to the taxpayer that has annual transaction of 2 million Rupees or 200 thousand income, 75 percent rebate is provided that has annual transaction of 2 million to 5 million Rupees, and 50 percent rebate is provided that has business transaction up to 10 million Rupees. In accordance with the provision, tax relaxation facilities of NRs. 2 billion 892.9 million have been provided to 512 thousand taxpayers. With respect to the taxpayers of hotel, travels, trekking, transportation or air service business that have transactions of above 10 million Rupees, taxes at the rate only 1 percent on taxable income have been recovered in 2020/21. while importing listed drugs, health materials and health equipment as per approved standards fixed for the prevention, control and treatment of Covid-19, one hundred percent rebate facility has been granted on duty applicable on such imports. In accordance with the arrangements, revenue rebate has been provided to 359 health institutions in this year on the import of health equipment worth NRs. 40 billion 818.2 million upon the recommendations of the Ministry of Health and Population in 2020/21, but no studies have been done pursuant to the matter that service recipients have received privileges from the use of such equipment and health materials.
- 70.7 Pursuant to contract arranged by local levels for extracting and selling boulders, aggregates, and sand, the 37 local levels have granted revenue rebate of NRs. 376 million 978 thousand in this year on the basis of executive and assembly decisions citing the Covid-19 pandemic. The revenue rebate has been granted showing Covid-19 pandemic despite of non-disclosure of daily collection quantity in contract

agreement and non-maintenance of records of the materials collected and sold as per contract.

71. **Corona Insurance** - During the high time of rapid spreading of corona virus infection, the insurance Board has implemented pandemic insurance program since 2077 Jestha (14/05/2020). The Insurance Board has issued Corona Insurance Standards, 2077 (2020) for this purpose. Under this scheme, 114 thousand 633 persons have made insurance claims of estimated amount NRs. 10 billion 977.3 million in 2020/21, but the claims of only NRs. 4 billion 811.1 million of 77 thousand of 632 persons have been paid. Out of them, the claims of 37 thousand 1 persons amounting NRs. 6 billion 166.2 million have not been settled. The liability has been created to the Government of Nepal in accordance with arrangements of the Corona Insurance Standards.

Chapter 4

Implementation Status of Audit Report

- Audit Report** - In accordance with Article 241 of the Constitution of Nepal, the audit Reports of 5 thousand 758 entities have been issued by completing audits of all government offices, local levels and other institutions specified by laws as per prescribed methods with due consideration of the matter the regularity, economy, efficiency, effectiveness and propriety thereof. Pursuant to this year's irregularities amounting NRs. 127 billion 194 million pointed out by the audits, the irregularities of NRs. 12 billion 139 million have been settled within 35 days after the issuance of preliminary audit reports of 2020/21 in accordance with Section 37 of the Financial Procedures & Fiscal Accountability Act, 2076 (2019), and thus, the irregularities amounting to NRs. 115 billion 55 million as mentioned below are outstanding to be settled:

(NRs. in Million)

Particulars/ Entities	Preliminary Report		Settlement from Reply		This year's to be settled	
	No. of Section	Amount	No. of Section	Amount	No. of Section	Amount
Federal Government Office	24,114	54,288.4	301	4,817.7	23,813	49,470.7
Provincial Government Office	6,995	9,421.4	217	1,940.4	6,778	7,481.1
Local Level	59,747	45,495.2	1953	1,585.7	57,794	43,909.5
Other Institution/ Committee (including Provincial)	3,536	17,989.0	79	3,795.2	3,457	14,193.7
Total	94,392	127,194.0	2,550	12,139.0	91,842	115,055.0

Likewise, the performance audits of 7 subjects, environmental audit of 1 subject, special audit of the prevention, controls and management of Covid-19, and IT audits of 3 subjects have been completed as per selection of topic subject, and the audit reports have also been issued along with recommendations. Pursuant to the public enterprises, committees and other institutions, the audits of 459 income years have been completed, and the audit reports have been issued along with operating results. With regards to the local levels, the audits of 744 out of 753 local levels of this year and 55 local levels of previous year's backlogs have been completed, and the final reports have also been issued considering the comments, replies and evidences obtained on the issued preliminary reports.

- 2. Irregularity Record** - Sub-Section (1) of Section 38 of Financial Procedures & Fiscal Accountability Act, 2076 (2019) provisions that the record of irregularity shall be maintained at each office level, and Sub-Section (2) mentions that the central record of irregularity shall be maintained by each central level entity. Likewise, Sub-Section (4) provides that the records of irregularity along with updating of the settlements or clearance shall have to be presented before the audits for examination in subsequent year. Since the irregularity figures/records are not updated by the central level and operational level entities in accordance with the provision of the Act, the concerned entities do not have actual status of irregularity. The acts of clearing irregularities and making follow up audits have also not becoming effective. By maintaining the irregularity records up-to-date as per the provisions of the Act, the concerned entities should take steps to make the irregularity clearance and follow up audits effective.
- 3. Irregularity Clearance and Follow up Audits** - The Financial Procedures & Fiscal Accountability Act, 2076 (2019) provides that the irregularity pointed out by audits shall have to be cleared by submitting evidences or by regularizing or recovering the irregular amounts and the Chief Accountability Officer shall have to settle irregularities by conducting the examination. The irregularities thus cleared shall have to be presented before Office of the Auditor General for follow up audits. The status of irregularity clearance and follow up audits since 2003/04 are as follows:

(NRs. in Million)

Particulars	Last Year's Irregularity	Adjustment Plus (Minus)	Cleared & Settled in Follow up	Last Year's Net Balance	Current Year's Irregularity	Cumulative Outstanding Irregularity
Federal Government Office	232,537.1	3.3	34,873.0	197,667.4	49,470.7	247,138.1
Provincial Government Office	12,479.0	-	1,689.0	10,790.0	7,481.1	18,271.1
Local Level	103,037.7	(36.1)	10,588.7	92,412.9	43,909.5	136,322.4
Other Institution/ Committee (including Province)	70,79 6.7	-	3,125.6	67,671.1	14,193.7	81,864.8
Total	418,850.5	(32.8)	50,276.3	368,541.4	115,055.0	483,596.4

- 3.1.** Out of total outstanding irregularity amounting to NRs. 418 billion 85.5 million that remained up to Auditor General's 58th Annual Report, 2021, the statement of clearance of irregularities amounting to NRs. 50 billion 276.3 million (12 percent) has been obtained. Of the cleared irregularities, the recovered amount is NRs. 2

billion 791.8 million (5.56 percent), regularized or evidence produced is NRs. 31 billion 369.6 million (62.39 percent) and advances cleared is NRs. 16 billion 114.9 million (32.05 percent).

- 3.2.** Pursuant to total cumulative outstanding irregularity NRs. 418 billion 85.5 million that existed since past years, NRs. 50 billion 276.3 million has been settled through follow up audits and NRs. 32.8 million has been deducted with adjustment in this year, resulting the outstanding irregularity to stand NRs. 368 billion 541.4 million. The total cumulative outstanding irregularity has reached to NRs. 483 billion 596.4 million up to this year along with the addition of this year's irregularity NRs. 115 billion 55 million.
- 3.3.** With respects to the irregularity records up to 2002/2003, that are maintained by Kumari Chowk & Kendriya Tahasil Karyalaya (Central Recovery Office) as per the decision made by the Council of Ministers on 2012/09/27 (2069/6/11), it is acknowledged that total irregularity amounting to NRs. 168.5 million has been cleared in this year, which includes NRs. 145 million cleared pursuant to the government offices, (of the amount, NRs. 144.5 million cleared through regularization and remission, and NRs. 0.5 million cleared through recovery) and NRs. 23.5 million cleared pursuant to the Committees and other Institutions.
- 4. Irregularity Clearance arrangements of Local Level** - Section 20(3) of Audit Act, 2019 provides that the audit reports issued by the Auditor General by completing audits of the rural municipality or municipality shall be presented by the concerned local level in its rural municipal council or municipal council for deliberation. There has been a situation of conflict of interest in the settlement of irregularities as the rural municipal/municipal council is the sole body that has the authority of formulating policies and laws and implementing budgets as well as regularizing and settling irregularities. For promoting transparency and accountability, it has become essential to constitute an independent and effective agency to make deliberation on the audit reports of local levels and carry out monitoring thereon by making amendments in the Audit Act, 2075 (2019), and Local Government Operations Act, 2074 (2017).
- 5. Work Plan** - Section 21 of the Audit Act, 2019 provisions that it shall be the duty of the concerned responsible official to implement the recommendations of the audit reports issued by the Auditor General, and the Auditor General may, in order

to ensure whether the matters set forth in the report issued have been improved and the suggestions have been implemented, do acts including to obtain report of activities carried out, specify the period for implementation, make re-examination and give necessary instructions on the matter to the concerned body. In accordance with the provision, the Office of the Auditor General has urged on 2021/09/28 to all Chief Accountability Officers of ministries/entities to submit the implementation status and the work plan pursuant to the matters incorporated in the previous year's annual reports of the Auditor General, but no such status/plans have been obtained from majority of them. The concerned entities of the Federation, Provinces and Local Levels should be serious in implementation of audit recommendations upon the issuance of audit reports.

. In the absence of proper implementation of recommendations incorporated in annual report, no desirable improvements have been achieved in complying with the financial administration and financial discipline. Same nature of audit observations has been repeated year to year since past some years, as the observations provided in the Auditor General's annual reports and audit reports issued at entity levels have not been implemented satisfactorily. Though some priorities are given in settlement of the audit observations specified with figures, but adequate attention has not been given to non-financial nature of observations (e.g. - legal and policy reforms). The prevalence of such problems in substantial number has created huge financial impact on system. The financial and non-financial nature problems are to be resolved implementing the audit recommendations provided on systemic and policy matters.

6. **Effort made on Clearance of Irregularities** - As per Annual Audit Plan, this Office has, in the presence of Rt. Honorable Prime Minister, conducted an interaction program with Chief Accountability Officers on the topic 'the audit management, irregularity settlement and minimization'. Likewise, several discussions and interactions have been conducted with the Chief Accountability Officers of Ministries/entities of the Government of Nepal and Executive Chiefs of Public Enterprises time to time in respects to the Office's annual audit plan & program, and previous year's reports. In the same way, discussions and interaction programs have been conducted relating to the province level audit matters in Madhesh Province, Bagmati Province, Gandaki Province, Karnali Province and Sudurpachhim Province. In the programs, discussions have taken place to adopt

appropriate policy and legal measures in order to minimize audit irregularities, reduce the volume of overall irregularity by clearing the irregularities arisen, and link the irregularity and fiscal discipline with career development of employees. The Office has established coordination with the Election Commission for implementing the provision that any person having individual irregularity of recoverable amounts or unsettled advance shall not be eligible for a candidate in local election, and accordingly, the Commission has incorporated the provision in code of conduct of candidates of local election, which has supported in the settlement of irregularities. The provision need to be continued in the House of Representatives and Provincial Assembly elections. It is expected that the provision will further contribute in the establishment of fiscal discipline.

- 7. Implementation of Reports** - Pursuant to the works performed and operated by the Government of Nepal as per the periodic plans, policies, annual budgets, functional and structural arrangements, the implementation status of suggestions provided in the Auditor General's 55th, 56th, 57th and 58th annual reports has been provided below:
- 7.1.** To bring economy in budgets and expenditure, the Government of Nepal has formulated and implemented the 'Standards Related to Keeping Economy in Public Expenditure, 2077 (2020)', 'Financial Procedures & Fiscal Accountability Act, 2076 (2019)' and Regulation 2077 (2020) and 'Arrangements Related Work Performance Contract'.
- 7.2.** To complete the construction works that remained incomplete due to non-completion of works within specified time as per procurement contract, necessary amendments have been made time to time in the provision of time extension provided in Rule 120 of Public Procurement Rules, 2064 (2007) in order to make improvement in the public procurement management.
- 7.3.** The 'Third Reform Work Plan of Revenue Management (2018/19-2010/21)' has been implemented to undertake reforms in revenue administration; 'Second Strategic Plan of Tax Leakages Control (2018/19-2022/23)' has been implemented to control the revenue leakages; 'Directives related to the Registration of Business, Income Statement, Tax Returns, and Filling Other Fee Statement, 2078 (2021)' has been implemented; and the frequency of revenue remission has been minimized. The Value Added Tax applied in ghee, cooking oil and mobile has been scrapped.

Improvements have been made in the expansion of tax net and collection of income tax at customs point, collection of pre-tax to be received from non-residents, system of raising capital gain tax on sale of business or offshore transactions, and the monitoring system has been made strict. An attempt has been made to bring the electronic business in tax scope. The third improvement action plan of internal revenue management, has adopted the policy of institutionalizing the work of development of the professional and cadre based manpower.

- 7.4.** Pursuant to the organizational structure and service delivery, the Department of Land Management has prepared the drafts of E-governance Master Plan, and Transport Management Office has started to maintain accounts in digital formats. Various entities have started to provide the online service systems and implemented the citizen charters along with compensation.
- 7.5.** Rule 6 (3) of Public Procurement Rules, 2064 (2007) provisions that no project shall be operated and tenders invited without approval of the environmental study report. Likewise, Rule 26 of Financial Procedures and Fiscal Accountability Rules 2077 (2020) stipulates that no budget shall be appropriated for the projects that are not enlisted in national project bank. The policy and programs of governments include provisions related to establishing the project banks and integrated project banks at every federal and provincial level and the requirements of operating and selecting projects only on basis of such banks.
- 7.6.** The Financial Procedures & Accountability Act, 2076 (2019), stipulates that every Federal, Provincial and Local Level office are required to prepare and implement the internal controls system of its own and subordinate offices, and establish the Internal Controls & Audit Committee as provisioned in the Act. In addition, the Financial Comptroller General Office has also formed a separate sub-group to carry out internal audits from 2021/22 onwards.
- 7.7.** Pursuant to the accounting and reporting system, the Nepal Government Accounting Standards has been adopted and implemented; Nepal Public Sector Accounting Standards has been implemented; Electronic cash transfer has been done under the Treasury Single Account System; and the software, such as - Computerized Government Accounting System (CGAS), Revenue Management Information System (RMIS), have been used.

- 7.8.** Section 52 of the Financial Procedures & Fiscal Accountability Act, 2076 (2019) specifies that the responsibility relating to the operations of financial administration; Section 53 of the same Act states that the Departmental Minister has to be responsible in order to make responsible to the person holding the public accountable posts; and Section 57 provisions the punitive actions against the person that has not assumed the responsibility and accountability. Financial Procedures & Fiscal Accountability Rules, 2077 (2020) provisions that the district-wise financial statements are to be prepared and the central accounts & financial statements are to be prepared and submitted to Office of the Auditor General.
- 8. Annual Report** - Article 294 (1) of the Constitution of Nepal provisions that the annual reports submitted to the President by the Auditor General shall have to be tabled in House of Representative through the Prime Minister. Likewise, Section 19(5) of the Audit Act, 2018 provisions that the separate audit reports related to functioning of the Provinces that submitted to the concerned Chief of Provinces as per Article 294(3) of the Constitution, shall have to be tabled in the concerned Province Councils through the Chief of Provinces.
- 8.1.** In accordance with the arrangements of the annual reports submitted by Auditor General are to be discussed in Public Accounts Committee of House of Representatives, the Fifty-eighth Annual Report of the Auditor General of previous year submitted to the President on 20th August 2021 has been tabled on 30th September 2021 in the Eighth Session of House of Representative. It has become essential to make the arrangement of making tabulation of Annual Reports of the Auditor General in Federal Parliament immediately after submission of the Report and holding timely discussions and implementation of such Annual Reports.
- 8.2.** Though the Annual Reports of the Auditor General of Provinces have been submitted to all Chief of Provinces on 20th August 2021, but the concerned Chief Ministers of the Provinces have tabled the Reports only on - 27th February 2022 in the Province No-1 Council, 13th March 2022 in Bagmati Province Council, 8th April 2022 in Gandaki Province Council, and 27th September 2021 in Sudurpachhim Province Council. However, the annual reports have not been tabled yet in the concerned province councils of Madhesh Province, Lumbini Province and Karnali Province.

There should be arrangements of holding timely discussions of the Provincial Auditor General's Annual Reports by making timely tabulation of the Annual Reports in the immediate session of the concerned Province Council after the submission of such Reports. The financial discipline and fiscal accountability can be enhanced only with the arrangement of timely tabulation of the annual reports in Province Councils and making discussion in the concerned Committees.

- 9. Discussion on Annual Report** - Section 41 of the Financial Procedures & Fiscal Accountability Act, 2076 (2019), specifies that pursuant to the irregularities mentioned in the annual reports of the Auditor General, it shall be duty of the Auditor General and concerned Chief Accountability Officer to implement and cause to be implemented to the suggestions as approved by the House of Representatives that submitted to the House after holding discussions in Public Accounts Committee of the House of Representatives. Major observations witnessed in this respect are as follows:
- 9.1.** In the 21st Report of Public Accounts Committee of House of Representatives, discussions and decisions have taken place pursuant to the audit matters related to 16 entities including the Supreme Court, Federal Parliament Secretariat, Election Commission and Ministry of Finance that are included in the Auditor General's 56th and 57th Annual Report.
- 9.2.** In accordance with the directives issued by the Public Accounts Committee for clearing the irregularity records after holding discussions on the Auditor General's Annual Report, the clearance of the irregularity NRs. 11.8 million of Ministry of Energy, Water Resources and Irrigation and NRs. 111.2 million of Ministry of Physical Infrastructure and Transportation have been acknowledged to the concerned Chief Accountability Officers.
- 9.3.** In course of discussions on the contents of the Auditor General's Annual Report, the Public Accounts Committee has issued various directives to the concerned entities, ministries and department related to clearing up the irregularity records, which include - it is necessary to make examination on whether any improvement has been done and ascertain whether or not any government loss or damage has occurred pursuant to the regularization of irregularities; take actions if the audit observations so regularized have been repeated time to time; acknowledge the Committee after making recoveries or cause to make recoveries, deposit amounts

within 3 months pursuant to various irregularities; acknowledge to the Committee completing audits etc. Since adequate initiative has not been taken to settle the irregularities from Office of the Auditor General as per Public Accounts Committee directives, it has become imperative to implement the 21st Annual Report of Public Accounts Committee. The concerned Chief Accountability Officers have not submitted evidences to clear up the records of all irregularities by making follow up audits.

- 10. Irregularity Settlement Monitoring and Evaluation Committee** - In order to implement the provisions of Section 38(1)(2), 40(3)(4), and 41(3) of the Financial Procedures & Fiscal Accountability Act, 2076 (2019), the Irregularity Settlement Monitoring and Evaluation Committee of the Government of Nepal has formulated and implemented the irregularity settlement Action Plan in 2020/21. In the Action Plan, the targets have been set for the settlement and minimization of irregularities along with its classification. The systems have been adopted and implemented for rewarding to the ministries, departments, boards and committees, and organizations or institutions that have attained targets or made zero regularity or kept regularity minimum, and taking actions to the employees making responsible for poor work performances. The concerned entities should give attention in achieving progresses more efficiently in accordance with the procedures of the Committee. This will help in the establishment of fiscal discipline.
- 11. Clearance of Irregularity Record** - Section 38(1) and (2) of the Financial Procedures & Fiscal Accountability Act, 2019, provides that the record of irregularities is to be maintained at each office level and central records at each central level entity. Similarly, Section 40(3) of the same Act stipulates that the Chief Accountability Officer may regularize such irregularities as seemed to have been irregular merely because of failure to meet the requirements of the prevailing law but no loss and damage of governmental cash or kind has been occurred thereof and pursuant to such regularization the Officer may, in accordance with Section 40(4) of the Act, write to Office of the Auditor General for clearing the irregularity record within seven days, and the Office of the Auditor General shall have to give acknowledgements of the clearance of irregularity record within the seven days of receipt of such letter. In addition, Section 41(3) of the same Act mentions that pursuant to the irregularities the records of which are to be cleared

in accordance with the reports of the Public Accounts Committee that approved by the House of Representatives, the Auditor General shall have to give the acknowledgements by clearing such records within 30 days.

As per Audit Act, 2075 (2018), the follow up audit is one of the processes of audits, and Section 4 of the same Act specifies that the Auditor General will determine audit methods, scope and tenure. The above provision of the Financial Procedures and Fiscal Accountability Act contradicts with the provision the Audit Act. The Mexico Declaration issued in 2010 A.D. as adopted by international conference of Supreme Audit Institutions mentions that the Supreme Audit Institutions should have an effective monitoring (follow up) system, and Lima Declaration 1977 has accepted that the Auditor General should be independent in determining the audit and follow-up methods and procedures, but the functional independency of the Auditor General has been affected due to above legal provisions as against the international acceptance. Hence, there should be review in the legal provisions that affect in functional independency of the Supreme audit Institution.

Chapter - 5

Reforms to be undertaken in Future

It is essential to promote the public accountability, transparency and integrity in order to maintain overall fiscal good governance. For this, continuous reforms are imperative in components of the financial management, such as - the planning & budgeting, expenditure management, reporting, auditing, monitoring & evaluation etc. The matters of reforms to be undertaken in the public financial management, service delivery and work performance of the Federation, Provinces and Local Level have been stipulated below:

- **Economy, Planning and Budget Management**

- 1. Developing Self-Reliant Economy** - The following reforms are to be undertaken to achieve economic objectives of state as per the directives of the Constitution of Nepal:
 - 1.1.** In perspective of the agriculture sector is occupying about 24 percent of overall composition of the economy, agriculture sector is not yet professionalized and shortages of fertilizer and seeds, it has become necessary to implement the fiscal strategies and clear working policies through professionalization and modernization of agriculture sector.
 - 1.2.** The protection and promotion of the national industries based on domestic investment, labor and raw materials are to be done for the development of national economy. For this, emphasizes are to be given in import substitution and export promotion.
 - 1.3.** The foreign capital and technology are to be received only on the basis of the assurance of national interest.
 - 1.4.** Necessary strategies and working policies are to be implemented to promote savings with the improvement in composition of national consumption. Necessary arrangements are to be made to invest such receivable savings in productive sector.
 - 1.5.** Investment-friendly revenue policies are to be adopted that will contribute positively to the national industries and socio- economic transformation.

- 1.6. There should be arrangement to mobilize loan only in the sectors where it very necessary and high economic and social returns are receivable.
- 1.7. As satisfactory improvements have not been achieved in the earnings of foreign currencies and pressures have developed in balance of payment due to rise in imports, appropriate fiscal and monetary strategies are to be implemented in order to maintain the trade deficit within desirable limits of the Gross Domestic Production.
- 1.8. Necessary arrangements are to be made to identity all types of financial activities and collect data thereof, and widen the bases of economy by bringing all types of formal and informal economic activities within the ambit of country's economy through proper regulation. The national economy is to be made self-reliant and effective by making maximum utilization of available means and resources with the participation of public, private and cooperative sector.
2. **Sustainable Development Goals** - Pursuant to the attainment sustainable development goals with the involvement of three tiers of government including the Federation, Provinces and Local Levels and private, cooperative and civil societies, the following improvements are to be undertaken:
 - 2.1. The tree tiers of government need to internalize the sustainable development goals and integrate it with periodic plans, medium-term expenditure frameworks and budgets. In order to attain the goals, necessary coordination, collaboration and inter-relation should be established between three tiers of governments.
 - 2.2. The sustainable development goal is itself inter-linked with one another. For attaining the goals, the contribution to be made by the three tiers of governments and subject-wise entities are to be identified and data-base along with indicators are to be prepared to measure, evaluate and analyze progresses. As the goals are implemented from the three tiers of governments, the monitoring and evaluation need be done in accordance with concept of 'whole of the government' by making arrangements of keeping data and flowing of information and making consolidation.
 - 2.3. By conducting study, evaluation of impact of Covid-19 in the implementation program and attainment of the goals, there should be coordination and collaboration between all related parties for the management necessary resources so as to address on its effects. Likewise, programs are to be implemented

preparing a clear action plan in order to attain the goals within specified timeframe.

- 2.4. To achieve the sustainable development goals, special arrangements are to be made to make the roles of all parties effective inclusive of the governments, private sector, non-governmental organizations etc. There should be necessary arrangements to have the ownership and affinity of all parties.
- 2.5. Necessary policy, legal and organizational structures are to be formed at province and local levels to implement the sustainable development goals effectively.
3. **Budget Management** - The following improvements are to be undertaken in activities related to the formulation, implementation and controls of budget in view of scarcity of means and resources:
 - 3.1. Budgets need to be appropriated by ascertaining programs prior to the budget formulation, but it has been practiced to keep huge budgets as finance-miscellaneous or unallocated for the purposes that can be predicted, and to make virement at the year-end. Consequently, the financial controls and fiscal discipline have become weak and questions are raised in quality of construction works that are commissioned at year-end. Hence, such practices need to be controlled.
 - 3.2. Though audits objection has been provided since some past years pursuant to the expenditures are incurred by establishing various funds beyond national budgetary frameworks without having parliamentary scrutiny, but such various funds have been still operated by the governments including provincial governments and local levels till these days without having any legal base. By making arrangements of performing the expected works from regular or existing structure, the practice of incurring expenditures by establishing separate funds beyond the budgetary frameworks needs to be controlled.
 - 3.3. Virement are to be done remaining within the ceiling specified by the prevalent Appropriation Act. It has been practiced that huge amounts are appropriated in the budget grant number in which the ceiling of the virement are not applicable and making virement then after from such grant number to other budget grant numbers. Such practices need to be controlled.
 - 3.4. The budgets of foreign assistance should be included only on the basis of the certainty of receiving the assistance amounts. In addition, budgets are to be

appropriated on the basis of the certainty of becoming expenditures and medium term expenditure frameworks.

- 3.5. The pre-budget discussions being organized between the parliamentarians, parliamentary committees and stakeholders are to be made transparent and result-oriented. The matters of budget formulation, mid-term and annual reviews and feedback received in course of budget implementation are to be utilized in preparation of upcoming budgets.
- 3.6. The practices of appropriating budgets to the projects which have not completed the works of pre-preparation phase and keeping budget amounts in un-freezable accounts so as to inflate the volume of expenditure or transferring budget amounts in the accounts of other organization/institution are to be abandoned.
- 3.7. Budgets need to be formulated by considering the international and national circumstances along with the identification and analysis of the risks that may arise in future, and the contingent liabilities or expenditures to be borne in near future.
- 3.8. Necessary budgets are to be included for all program and projects to be undertaken from the provinces and local levels, and the practice of providing conditional grants to the provinces and local levels in the middle of fiscal year for implementation of new programs needs to be stopped.
4. **Project Management** - The following improvements are to be undertaken to resolve the problems witnessed in several phases of the project management:
 - 4.1. By stopping the practice of making selection of projects on the basis of various types of pressure and influence, the project banks are to be prepared by making the prioritization of projects on the basis of net present value, cost benefit analysis, internal returns rates, payback periods etc. The system of not including budgets to the projects that are outside the project banks should be strictly followed.
 - 4.2. In order to make the monitoring and evaluation result-oriented, the monitoring and evaluation should be done by project offices, ministries, National Planning Commission and Office of the Prime Minister by adopting modern methods. The project management information system is to be prepared and implemented in order to monitor the projects being implemented by the Federation and Provinces. There should be arrangement to assess and monitor the status of cost benefit rates upon the completion of projects.

- 4.3.** In order to make work performance of projects' leadership and staffs result-oriented, the work performance contracts are to be entered with the project chiefs along with the adoption of policy of not transferring to any project chief during project period. The culture of discharging accountability is to be developed linking the work performance with the career development. Necessary certification courses are to be conducted to enhance the capacity development relating to the project management.
- 4.4.** National Pride Projects are to be declared only on the basis of certain indicators and standards, and such projects are to be completed efficiently within specified time and cost. Appropriate agency is to be established for carrying out monitoring and separate laws are to be provisioned and implemented for the implementation of such projects.
- 4.5.** In the absence of objectivity in assessment of lands, disputes have appeared in making payment of compensation and petitions have been filed in courts, which have caused problems in the implementation of projects. There should be appropriate legal arrangements to make the acquisition of necessary lands and compensation distribution simple, scientific and systematic.
- 4.6.** Situations have emerged requiring to change the drawings/designs in implementation phase as the drawings/designs are prepared without conducting proper studies and field observations, and the technicians/consultants that have prepared such designs without making adequate studies are to be held responsible.
- 4.7.** In the perspective of same nature of projects have been implemented through various entities/governments, projects are to be implemented by establishing coordination between the inter-related entities, such as - the road, electricity, telephone, irrigation, water supply, forest etc.
- 4.8.** The construction capacity should be enhanced in line with national necessity considering the availability and professionalization of the manpower, heavy machines, equipment, construction materials that are necessary for construction works and analyzing national construction capacities.

- **Resource Management**

5. **Foreign Assistance** - Pursuant to mobilizing foreign assistances and bringing such assistances within national budget and reporting system and making such assistances result-based, the following improvements are to be undertaken:
 - 5.1. Viewing the national interest and preferences and making the processes of acquiring foreign assistances more transparent, the receivable foreign assistances are to be mobilized only through national budgetary system and the consolidated funds in a situation where it is needed for the national expenditure and available national resources are insufficient.
 - 5.2. Foreign assistance should be mobilized only in the sectors or projects that will contribute to enhance the production and productivity in conformity national interest, create employment, make import substitution and export promotion and give high yields, and contribute in becoming the self-reliant economy.
 - 5.3. In mobilizing the foreign assistances, the knowledge, skill and capacity of the manpower engaged in foreign assistances should be enhanced, and the institutional structures should be strengthened and coordination between involved organizations should also be established.
 - 5.4. Where possible, the policy of not accepting any conditional foreign assistance should be followed. Emphasis should be given to the foreign assistances that are receivable to support the national budgetary system rather than those assistances that are receivable based on projects and programs to be scattered in multi-sectors and multi-entities.
 - 5.5. Since huge gaps are witnessed between the commitments and the actual receipts and actual receipt and utilization of the development assistance, initiatives are to be taken to obtain the development assistances in accordance with the commitments and use the assistances in accordance with receipts.
 - 5.6. In order to make the foreign assistances mobilized through national and international governmental Organizations (NGO/INGO) transparent and accountable, separate monitoring agency needs to be developed and the foreign assistances are to be channeled through the government organizations.
 - 5.7. The state may have to loose the receivable grants and pressures may develop towards the government sources if the government fails to receive timely

reimbursements in the projects implemented under foreign assistances. Hence, more efforts are to be taken to obtain timely reimbursements of assistances. Appropriate system are to be established for timely reporting of the foreign assistances being mobilized by the Provinces and Local Levels to the Federal Government and sending the reimbursements requests within specified time.

- 5.8.** Operational directives need to be prepared and implemented to maintain consistency between all stakeholders in respect to mobilizing international development assistances and mobilizing the assistances on the basis of national priority.
- 6. Revenue Mobilization** - In order to systematize the collection and administration of revenues inclusive of the income tax, value added tax, customs duty, excise duty and non-tax revenue, the following improvements are to be undertaken:
 - 6.1.** All businesses are to be brought under tax net by making in-depth studies of changing patterns of various sectors and businesses of the economy. Steps are to be taken to enhance the revenue mobilization capabilities by bringing specially to the informal sector of the economy into tax net. Intensive coordination and inter-linkage in flow of information are also to be established between the other governmental and regulatory entities.
 - 6.2.** With respects to the revenue remissions granted under the Finance Act, Special Act, Regulation or loan/grant assistance agreement, it is to be assured that the goods/equipment in which the remission is granted, have been utilized in accordance with the specified terms and purposes. The practice of granting revenue remission on the basis of specifying notes in the Finance Act needs to be checked. There should be arrangements of preparing a consolidated amount-wise statement of the revenue losses occurred from overall revenue remission and progresses achieved out of expected outcome, and presenting such statement in the parliament.
 - 6.3.** Revenue arrears should be recovered by adopting the techniques, methods and processes provided in various laws relating to tax recovery. The practice of granting remission facilities in succeeding years to the taxpayers, which have not submitted tax returns on time and have kept revenue arrears without settling taxes on time, should be stopped.

- 6.4.** In order to make tax-base sustainable and solid, attentions need to be given to reduce the share of import-based revenues and identify and extend the internal revenues areas.
- 6.5.** In order to make customs declaration of goods, classification and valuation realistic and transaction price-based, it is necessary to disseminate the electronic information with inland customs administration and to make the explanations of customs tariff further clearer.
- 6.6.** The electronic transactions such as - the social network, virtual meeting platform, online business etc. which have been undertaken without any geographical boundary restrictions should be brought into tax-net.
- 6.7.** By making the integrated tax system strong and secured, the system of conducting tax assessment based on risks is to be strengthened. In order to make the tax assessment more fair, economical and efficient, the activities conducted in course of tax assessment, such as demanding information and description with the taxpayers, getting replies etc. and the reporting done after the determination of taxes, are to be integrated with this system. Arrangements are to be made to conduct monitoring in a planned manner of tax statements that have been submitted in regular process and submitted during tax assessment period, and to determine taxes by conducting inquiries if any produced statement is found unnatural.
- 6.8.** The IT based integrated Tax System should be updated in a manner which can generate the financial statement of revenues automatically and reconcile with the statements including the arrears, recoveries etc. automatically and should have arrangements to verify information between the Tax System and Revenue Management Information System (RIMS) with one another.
- 6.9.** The artificial intelligence should be used in tax assessment extending research based examination. In addition, steps are to be taken to make the tax assessment system face-less.
- 6.10.** Specialized qualifications are to be determined for the service entry of the manpower to be engaged in revenue administration, and capacity development programs are to be conducted for the existing employees. The system of determining genuine tax should be adopted through conducting monitoring, internal and peer reviews of tax assessments.

- 6.11.** The Central Invoicing Monitoring System should be implemented for all taxpayers by increasing access of the Department and offices in invoicing system to be used by the taxpayers. In addition, the market monitoring should also be made effective.
- 6.12.** The minimum subject matters to be examined by the auditors in certifying the income statement on the behalf of taxpayers should be ascertained, and necessary actions are to be taken against the auditors that have failed to comply with the requirements.
- 6.13.** In order to discourage the under-valuation in customs, under-valuations in purchase and sale of houses & lands, under-invoicing in sale of goods and services in markets, and low income declaration of house & land rents, the system of exchanging information between all concerned entities and conducting monitoring of markets should be made more effective.
- 6.14.** A Tax Information Network needs to be established by obtaining information from the regulating agencies (make the registration of industries, trades, professions, businesses, institutions) and tax administration through electronic medium.
- 6.15.** By making studies with respect to timely short-out and settlement of disputes related to tax assessment and considering the necessities and good practices, appropriate legal and structural frameworks are to be arranged.
- 6.16.** For the purpose of preventing of the acts of transfer pricing between related parties, fragmentation of incomes and preparation of tax evasion plan and making the tax assessment realistic as per 'Arm's Length Principle', the act of making coordination and collaboration with the international associations/ organizations should be done.
- 6.17.** In order to make the production related industries' matters, such as - output rate, losses and waste claims of raw materials etc. realistic, sectorial matters are to be studied, coordination is to be established with concerned regulatory entities and necessary standards are to be determined.
- 6.18.** The non-tax revenues should be made cost effective and revised as per relevancy of time considering the delivery of services, costs, facilities, use of technology and timeframe.

7. Safeguards and Usage of Public Assets - Pursuant to the recording, protection and use of assets owned by the public entities, it is essential to make the following improvements:

7.1. Heritages of historical, religious, cultural and archaeological significance need to be conserved and managed, and the public lands owned by the government, public entities and universities need to be protected clearing up the encroachments.

7.2. Where possible, the old assets including the government vehicles should be managed by using buy back methods as provisioned by the Public Procurement Act, 2063 (2007), and if it is not possible do so, the processes of auctioning, selling or disposing are to be followed according priority.

7.3. By replacing the old paper-based asset management system completely, the electronic system related to Public Assets Management should be implemented up to the local levels making more effective.

7.4. In order to systematize the use of natural resources inclusive of leasing and usufruct of the government lands and forest areas and extraction of mines, clear standards are to be prepared and properly used, and managed and monitored in a manner that will give yields.

7.5. The records, maps, pacts, agreements of national importance and historical documents are to be kept safe making digitization treating as the vital assets, and such documents are to be managed properly in order to keep paper-wise safe e.g. manuscripts for long-term period.

7.6. Monitoring are to be done pursuant to whether or not the protection works and usage of lands that acquired for public use have been done in accordance with the objectives.

• **Expenditure Management**

8. Controls of Expenditure - In order to check the unproductive expenditures and obtain maximum returns, the expenditure management is to be done in the following manner:

8.1. To manage public expenditure efficiently, efforts are to be taken to keep the recurrent expenditure within reasonable limits. Necessary managements are to be done to keep the public debt within certain limit and link the expenditure with the yields.

- 8.2.** The institutions, such as - Funds, Councils, Commissions, Boards established for the work which can be done through the ministries and departments, are to liquidated and merged, and the works of establishing structures of the federal government for the works specified to the provinces and local levels are to be stopped. In addition, organizational reforms are to be undertaken to make effective to the ministry, department and office level governmental machineries of all three tiers of governments.
- 8.3.** In order to incur expenditure with high yields and quality based on the approved budget, programs and available resources as per provisions of the Financial Procedures and Fiscal Accountability Act 2076 (2019) and Rules 2077 (2020), the arrangements of assuming fiscal accountability and responsibility are to be effectively implemented.
- 8.4.** The world-wide spreading of Covid-19 pandemic has massively affected in the country's economy and government revenue receipts. In this perspective, the policy guidelines related to maintaining economy and effectiveness in public expenditure needs to be strictly implemented in order to control the unproductive expenditures, expensive vehicles are not to be purchased, miscellaneous expenditures need to be controlled, and the expenditures incurred in meetings, conferences, assemblies, anniversaries, foreign tour etc. are also to be controlled.
- 8.5.** In respect to buildings, office rooms, furniture, equipment and vehicles to be used by the government offices/employees, necessary standards are to be developed considering needs of offices, number of employees and levels of employee, and such standards are also to be effectively implemented.
- 8.6.** The contribution-based pension system is also to be implemented for the school and university teachers and local level employees.
- 8.7.** The system of appropriating administrative budgets, that are necessary for office operations, in recurrent budget and incurring administrative expenditure from contingencies of the construction works needs to be stopped.
- 8.8.** In the context of excessive expenditures are being incurred in consultancy services, the works such as - preparing drawings & design, cost estimates, and survey reports of plan/projects, preparing financial statements etc. are to be commissioned from the available departmental human resources, and the practices of performing such works through the external consultants are to be abandoned.

- 9. Public Procurement Management** - In order to make the public procurement procedures competitive, fair, accountable, transparent, economy and qualitative, the following improvements are to be implemented:
- 9.1.** The needs of goods, construction works and services are to be identified and procurement master plans and annual procurement plans are to be prepared in accordance the arrangements procurement law. In is necessary to control in the acts, such as - preparing the bases of qualifications and specifications that will suit only to certain construction contractors, suppliers and consultants, carrying out direct purchases by slicing cost estimates into pieces to same nature of works, granting additional works through variations without preparing cost estimates realistic manner in a situation where the necessary works can be predicted.
- 9.2.** The audits have witnessed the practices, such as - works have been awarded to the user groups by slicing works into pieces that have more amount than the ceilings fixed by the Public Procurement Rules, works that awarded to user groups have been undertaken from the construction contractors, and direct purchase of goods has been done from the user groups which are required to purchase from tender bidding etc. Such practices need to be controlled by adopting strict measures. Any work which is complex in nature and requires use of machines should not be undertaken through the user groups. There should be mandatory provision of the complying with public procurement law and carrying out audits if any user group is to get such works the payments of which will be given from the government treasury.
- 9.3.** The works of procurement management should be commenced only after completion of the pre-preparation works, such as - preparation of detailed project report, acquisition of lands, tree cutting, shifting of electricity poles, environmental impact assessment and coordination with stakeholders etc.
- 9.4.** By developing the procurement management information system which can provide the description of contracts being undertaken by the construction contractors throughout the country, there should be arrangements to evaluate the resources of the construction contractors periodically. The policy of determining maximum limits of works which can be performed by each construction contractor should be adopted on the basis of work involvements and progresses made and the

equipment owned, recurrent capital, skill manpower, experience and management capacity.

- 9.5.** In order to systematize the phases and work procedures of the public procurement system, the Public Procurement Monitoring Office should issue necessary directives. Such directives should cover the modern modalities of procurement such as - Public-Private-Partnership, Built-Own-Operate-Transfer (BOOT), Engineering Procurement Contract and Operations, and Proposal Invitation and Assessment of Financial Lease.
- 9.6.** Problems have been appearing in quality of works and the trend of leaving contracts without completing works has been increasing due to quoting of excessively low rates in bids. For overcoming such problems, legal provisions are to be made to approve such bid, the amount of which is nearer to average amount of the remaining bids by excluding the minimum and maximum quoted bids.
- 9.7.** In making legal arrangements of public procurement by the provinces and local levels, it should not be against the principle and acceptance the existing Public Procurement Act. The bid documents issued by Public Procurement Monitoring Office are also to be implemented by the provinces and local levels.
- 9.8.** There should be arrangement of making purchases by all offices of the country by making the structural contract agreements in the specified rates quoted by the suppliers which have already been selected upon the assessment of bids or proposals.
- 9.9.** Arrangements are to be made for the mandatory implementation of e-procurement system and using the e-procurement system in the purchases to be made from donor agencies/countries. The e-procurement system should also be used in the execution and payment of contracts.
- 9.10.** Considering the procurement as a technical subject, the efficiency of employees involved in public procurement process needs to be enhanced.
- 9.11.** In order to minimize delays in procurement process, the preparatory activities of the procurement, such as- preparing human resources, preparing work place, bid documents, publishing notices, assessment of bids etc. are to be timely commissioned.

- 9.12.** Legal provisions are to be made clear pursuant to whether or not to add work performance guarantee after issue of variations and the bases of variation percent to be taken. Though different level of officers has been prescribed in law for approving variation order based on percentages, but confusions exist whether the determination of percent is to be based on the cost estimate or contract amount.
- 9.13.** It is in practice that the joint-venture of domestic and foreign firms are being selected for carry out the construction works, but the construction works are undertaken by less experienced firms or with the involvement of the domestic firms only. Clear provisions relating to joint venture are to be framed to control such practices. In addition, the practice of giving continuity to the joint venture that formed for one purpose in other works needs to be stopped.
- 9.14.** The Public Procurement Act 2063 (2007) and Rules 2064 (2007) have provided the procurement related powers of various levels of officers. But, confusions have appeared as such officer levels are not available in the province and local levels. Legal provisions relating to powers of officers are to be made clear in accordance with the nature of entities.
- 10. Grant** - In order to systematize the practices of giving grants to promote the agriculture, industrial and service sectors and giving assistance to weaker groups, the following improvements are to be undertaken:
- 10.1.** The act of providing grants and assistances should be based on necessity. While providing grants and assistances, it is necessary to consider the aspects, such as - the revenue generation, productivity growth, capacity development, employment creation, capital formation, change in socio-economic transformation, enhancement of entrepreneurship etc. and the achievement of such objectives are to be assured. The system of providing grants based on results should be implemented by ending the existing practice of providing grants based on inputs.
- 10.2.** Considering the situation of growth in practices of distributing grants and assistances by all three tiers of governments, clear legal arrangements need to be framed for the distribution of grants and assistances.
- 10.3.** The objective-based standards and methods should be prepared considering the matters, such as - no duplication will take place in distribution of grants and assistances by the federation, provinces and local levels, beneficiary selection will be transparent, grants and assistances will not be given for consumption, same

person/group will be always benefitted, provided grants will benefit communities rather than certain individuals, grants will be provided only on the basis of cost participation etc. The matter of grant and assistance distribution should be made transparent, economical and accountable by making public of such details.

10.4. Continuous monitoring is to be done pursuant to the usage of grants and assistances. It is necessary to evaluate with respect to whether or not the grants provided have contributed in production and productivity and have brought positive changes in living standards of people. Necessary improvements are to be done in programs and procedures of the grants on the basis of the results of monitoring and evaluation.

10.5. In providing grants to the Provinces and Local Levels by the Government of Nepal and to the Local Levels by the Provincial Governments, the amounts should be provided on the basis of expenditure needs and revenue earning capabilities of the concerned levels, and the share of fiscal equalization grant needs to be increased, whilst the shares of conditional, complementary and special grant need to be decreased gradually. The system of distributing equal grant amount to the local level, which can become self-reliant from internal income, needs to be reviewed.

- **Service Delivery**

11. Public Service Delivery - In order to make the delivery of services economical, efficient and effective with the maximum utilization of available resources, the public entities need to undertake the following improvements:

11.1. To reduce time, distance and costs in service delivery and make such services safe, reliable and sustainable, arrangements are to be made to provide services linking with the electronic and mobile governance system.

11.2. In order to control undue activities, such as - irregularities, delays, special consideration due to direct contact with the service recipients, preferences given on the basis of personal relation and abuse of authorities etc., the paperless and faceless services based on IT system need to be delivered in accordance with the concept of E-governance.

11.3. By winding up the existing indirect accountability system of the officials and manpower involved in service delivery, the system of becoming accountable or responsible directly towards service recipients should be implemented. For this,

the social networks and electronic medium are to be used for the complaint management and the monitoring and evaluation system are also to be put into actual practice.

- 11.4. By keeping citizen charters with compensation, effective monitoring are to be done pursuant to whether or not the public entities have delivered services in accordance with the citizen charters, and whether or not the system of giving compensations in the event of failure to deliver any service within specified time have been implemented.
- 11.5. The delivery of services are to be strengthened by obtaining feedbacks in respect to public services through the medium of the public audit, social audit and public hearings, service recipient's satisfaction survey, press meet etc. .
- 11.6. Since the social security programs have been currently implemented from different entities in a fragmented way, an integrated policy related social security is to be formulated and a social security coordination unit needs to be established for overcoming the problems, and the social security related programs are to be implemented through the unit only.
- 11.7. In order to make the service delivery qualitative and effective, various methods inclusive of the time rotation system, token system, layout management & help desk, simplification of procedures, processes and forms etc. are to be put into implementation.
- 11.8. By determining the standards, quality standards and fees of the hospitals, clinics providing private and public health services and schools, the monitoring of services are to be carried out by the federation, provinces and local level as per jurisdiction.
- 11.9. The acts, such as - enhancing in use of the creativeness and modern technology, exchanging international experiences and using good practices in service delivery as per situations are to be performed. Arrangements are to be made to avoid duplication in the services to be delivered by the federation, provinces and local levels, and other public entities.
12. **Use of Information Technology (IT)** - To make the services of the federation, provinces and local levels fair, transparent and trustworthy with the use information and technology, the following improvements are to be undertaken:

- 12.1. An emphasis on the use of information & technology is to be given to make the services of the entities of the federation, provinces and local levels easy accessible, reliable, trustworthy and economical.
- 12.2. The works of keeping records of the information system used by various government entities, regulating the systems with integration, and developing the system that can transfer and use the information interrelated with entities are to be performed.
- 12.3. By making the technical and security audits mandatory for the software and equipment to be purchased in IT use, any software is to be implemented only after assuring that it has been developed in accordance with specified standards. The concept of paper-less government is to be made successful implementing the integrated office management system.
- 12.4. To bring consistency in operations, the federal, provincial and local level entities should make the arrangement for developing and using software as per nature of work of entities. The act of purchasing software by each and every entity needs to be discouraged.
- 12.5. For making the operations of electronic and digital transactions systematic and credible, appropriate legal provisions are to be formulated and the system of electronic signature is also to be implemented.
- 12.6. Since the work of operating a separate data center by each and every government entity has appeared challenging from the economic, technical and security view point, an integrated data center is to be developed as per international standards and is also to be used mandatorily by all government entities.
13. **Public Enterprises Management** - With respect to the financial management of public enterprises, the following improvements are to be undertaken:
 - 13.1. To make the operation and management of the public enterprises (PEs) effective by enhancing the work efficiency, clear policies, integrated law, strategic plan and business work plan are to be prepared and implemented.
 - 13.2. There should arrangements to give responsibilities to the specialists having business skills in the board of directors of PEs, appoint executive chiefs making competition on the basis of business work plans, and give continuity to executive

chiefs on the basis of evaluation of the annual work performance by entering work performance contract.

- 13.3.** The post and number of employees are to be determined on the basis of work plan, work scope and work loads by conducting new organization and management (O&M) survey. By conducting evaluation of employees on the basis of work description and work performance indicators of the employees, the employee's performances are to be linked with their career development.
- 13.4.** The accounts related to share and loan investments made by the governments in PEs and receipt of interests and dividends thereon are to be updated by reconciling accounts regularly. The principal and interest to be paid to the Government of Nepal are to be timely settled preparing necessary financial plans.
- 13.5.** By analyzing the service delivery, competitive capacity, operating cost and relevance of the existing PEs, preferences are to be determined by preparing clear status about the PEs which is - to be continued with the government's involvement, to be privatized, to be given in management contract, to be given to private sector for operations, to be merged or liquidated.
- 13.6.** Nepal Financial Reporting Standards is to be implemented to maintain financial discipline in PEs. By making the internal controls system effective, arrangements are to be made to complete the final audits timely basis and implement the observations/ recommendations pointed out by audits.
- 13.7.** By making proper safeguards and usage of the assets inclusive of lands, buildings owned by the PEs, the records are to be properly maintained and reports are to be prepared on a regular basis.
- 13.8.** Appropriate control systems are to be adopted to keep the operating expenditure of the PEs within reasonable limits. The approved positions of the PEs are to be reviewed in view of the technology changes occurred by conducting organization and management (O&M) survey.
- 13.9.** The unsettled disputes of the privatized PEs are to be resolved. Regular Monitoring are to be carried out pursuant to the implementation of provisions specified in agreements of the privatized PEs. The assets inclusive of machinery tools, lands, buildings, and equipment etc. of the liquidated or non-operational PEs are to be utilized by obtaining the records of such assets.

- 14. Human Resource Management** - Pursuant to human resource management of the federation, provinces and local levels, the following improvements are to be undertaken:
- 14.1.** Necessary arrangements are to be made to implement the principle of 'right man right time and right place' practically, enhance the motivation and morale of the employees, make transfer and promotion predictable and give the responsibility of departmental chiefs, project chiefs etc. making assessment of leadership capacity.
 - 14.2.** To resolve the problems existed in human resource management, an emphasis is to be given in the implementation of concurrent human resource policies, strategies and working policies in practice, and all level of governments should formulate an integrated human resource development and management plan along with clear roadmap.
 - 14.3.** There exist situations where the human resources have not been fulfilled timely basis as per the approved positions and the provinces and local levels have been confronting with the lack technicians of the concerned areas to undertake the development works. Hence, necessary human resources are to be fulfilled as per approved position along with making reviews of existing approved positions.
 - 14.4.** Arrangements are to be made to develop the knowledge, skill and capacity which enables manpower to perform works in a competitive way and to use the available manpower in an effective manner by providing necessary domestic and foreign trainings. Trainings are to be made professionalized along with the revision of the national training policy related to the civil servants. The short-term training courses are to be conducted every year to maintain the knowledge and skills and enhance the efficiency on relevant subjects of the civil servants.
 - 14.5.** The human resource development plans related to civil service and other government services are to be formulated and implemented. The knowledge and skills that required for the civil or other government services are to be included in the syllabus of the universities.
 - 14.6.** Necessary policy and legal provision are to be formulated for using the knowledge, skills and experiences acquired by the human resources that have got retirements from civil and other government services.

14.7. Arrangements are to be made for producing necessary manpower by making scientific projection of the essential manpower required in future.

- **Accounting and Reporting and Internal Controls**

15. Accounting and Reporting - For maintaining proper accounts of the financial transactions and producing reports as per needs of the stakeholders, the following improvements are to be undertaken:

15.1. The cash basis Nepal Public Sector Accounting Standards (NPSAS) adopted by the government needs to be updated in accordance with the changes taken place in International Public Sector Accounting Standards (IPSAS). The financial statements of Nepal Public sector Accounting Standards are to be prepared on the basis of the formats approved by the Auditor General. In addition, arrangements are to be made for maintaining accounts and preparing statements on the basis of functional classification, sustainable development goal codes, gender responsible budget codes, and climate change budget codes.

1.1. Since the cash basis accounting system cannot present and given picture on the overall financial conditions and financial work performances incorporating all financial transactions, necessary works are to be done to converse existing cash basis accounting system of the Government of Nepal into the accrual basis accounting system.

15.2. A Consolidated Financial Statement is to be prepared by incorporating the transactions of all three tiers of governments and the budgetary and non-budgetary entities functioning under the governments.

15.3. In making disbursement of grants under fiscal transfer, the disbursed amounts are recognized as expenditure but the unspent amounts are kept as balances in the consolidated funds of the concerned governments after the end of the fiscal year, which have made the revenue and expenditure amounts unrealistic. To overcome such situations, appropriate alternatives should be adopted for making adjustments in order to subtract the double treated amounts.

15.4. Proper accounting and reporting are to be done by consolidating the statements of all government assets/properties and liabilities. There should be arrangements to maintain accounts of the liabilities and commitments created under multi-year

projects or other types. In addition, arrangements are to be made to maintain the accounts of loans provided under government's guarantee.

- 15.5.** The amounts deposited in divisible funds, which are created to deposit the amounts receivable as sharing from the revenues and natural resources as per Inter-Governmental Fiscal Arrangement Act, 2074 (2017), should be divided to all concerned levels within the stipulated time without keeping any balance amount at the end of the year. It has been witnessed that the revenues collected under the concurrent powers of the federation, provinces and local levels have been deposited in own consolidated funds instead of depositing in the concerned divisible funds. Hence, such revenues should be deposited in concerned divisible funds.
- 15.6.** The consolidated financial statements incorporating all financial information of all levels need to be prepared as provided in the Financial Procedures and Fiscal Accountability Act, 2076 (2019), and such financial statements are to be produced with the certification from the Federal Ministry of Finance. While publishing the financial statements, the Auditor General's audit report along with the opinions and the financial statements certified by him/her should also be enclosed.
- 15.7.** The accounting system should be made paper-less making arrangements to upload the accounts related documents in the Computer Based Government Accounting System (CGAS). Arrangements are to be made to generate the basic accounting statements automatically from the System.
- 15.8.** The work of making accreditation of the financial management experts needs to be done in order to produce the essential human resources concerned with the public finances in public sector of Nepal. Appropriate structures are to be formed for the capacity development of human resources engaged in financial administration, and the regulation of such works are also to be done.
- 15.9.** The Financial Procedures and Fiscal Accountability Rules 2077 (2020) has provisioned that the advances shall not be considered as irregularity, separate formats are to be developed for the purpose of preparing consolidated statements by extracting the balance amounts of advances provided by the government offices and certifying the balance of advances.

- 15.10.** Pursuant to the implementation of federalism, the integrated Public Financial Management Reform Strategy is to be prepared and implemented by covering the all financial affairs of the federation, provinces and local levels.
- 16. Internal Controls and Internal Audit** - For the effective utilization of the public resources, the following improvements are to be undertaken in respect to the internal controls system and internal audit:
- 16.1.** The offices operating under all levels of governments should make effective to the internal Controls & Audit Committees are constituted as per Financial Procedures & Fiscal Accountability Act, 2076 (2019). All public entities should, in course of the attainment of own objectives, comply with laws and objectives of report, develop the internal controls system in order to identify, make projection and manage the subject matters on the basis of priority after making analysis.
- 16.2.** In addition to the ethical provisions made to the officials working in public accountable posts of all levels specified by prevalent laws, separate code of ethics are to be issued as per nature of works of offices, and such code of ethics need to be strictly adhered to and monitored in respect to compliance. There should be arrangements to make restriction in the activities that make the financial, family or business type of conflict of interests to public officials.
- 16.3.** The internal audits of the local levels and universities, Committees, Boards, Corporate Bodies are to be made effective. To make the internal audit effective, the legal and organizational reforms are to be done in order to keep free from managerial and operational responsibilities in line with good international practices.
- 16.4.** Necessary arrangements are to be made to develop and implement the internal audit standards and directives effectively, enhance the capacity of employees, carry out monitoring, inspection and supervision of audit works, and make timely settlement of the audit findings provided in audit reports as per the procedures specified in the Financial Procedures & Fiscal Accountability Act, 2076 (2019) by holding discussions in the internal control and audit committees.
- 16.5.** By enhancing the effectiveness of internal audits, the coordination between final audit and internal audit needs to be improved. Considering the good practices of other countries, necessary legal provisions are to be framed to empower the Auditor General to carry out some of the audit works through the internal auditors.

- **Audit and Regulation**

- 17. Final Audit** - In order to enhance audit quality and impact, the following improvements are to be undertaken in final audit:
- 17.1.** To maintain the financial, administrative and functional independency of the Supreme Audit Institution in accordance with the Lima and Mexico Declarations of the International Organization of Supreme Audit Institutions and the resolutions adopted by the United Nations' General Assembly in various time, special efforts are to be taken to create the situation in which the necessary means & resources be made available to the office.
- 17.2.** There should be arrangements to implement the concept of risk-based audits effectively, extend the scope of performance audits and conduct and issue separate report of compliance audit. With maximum use of information and technology, the system of carrying out audits through remote audit techniques need to be adopted.
- 17.3.** The involvements of citizens and stakeholders in auditing and other works performed by this office need to be increased for the enhancement of credibility and effectiveness of audits. In order to collect and exchange information and evidences establishing collaboration with civil society organizations, the mobile technology and other latest developed technologies are also to be used in auditing.
- 17.4.** In addition to the regularly and ritually conducted financial and compliance audits, the Office of the Auditor General should give attentions in carrying out the concurrence audit, forensic audit, disaster and pandemic audit, environmental audit, audit of implementation of sustainable development goals as well as special audits relating to other contemporary and newly developed subject matters.
- 17.5.** Considerations are to be given in increasing professional specialists in auditing and establishing own laboratory in the office to conduct quality tests of the construction works and other technical works. For this, an Audit Documentation and Excellence Center is to be established and other physical infrastructures are also to be arranged.
- 17.6.** To enhance the quality of the audits, necessary resources are to be arranged giving special importance to the capacity development of the employees involved in auditing.

- 17.7.** Actions are to be taken as per the Audit Act against the person that has not submitted the financial statements and accounts on time, not produced documents related to accounts, not provided the related information, not maintained accounts as per specified formats and not completed audits on time. In respect to the implementation of audit observations and recommendations, the systems are to be introduced for obtaining the progress statement related to works performances of the responsible person and preparing reports by examining such progress reports.
- 17.8.** There should be arrangements for presenting and holding timely discussions in the concerned legislative bodies of all levels in respect to the annual reports, report on functioning of the Provinces and audit reports of Local Levels submitted/issued by the Auditor General. In respect to significant audit issues/matters, there should also be arrangements to organize pre-discussion, and make coordination and collaboration in the Public Accounts Committees.
- 17.9.** Continuous monitoring are to be done whether or not the employees/officials involved in auditing have complied with the code of ethics issued by the Office.
- 17.10.** Section 16 of the Audit Act, 2075 (2019) provisions that no employee of the Office of the Auditor General shall be personally liable for any damage or error that has occurred from the audit work, the audits of which have been completed in accordance with the standards, policies, directives, guidelines and audit plans issued by the Auditor General. Section 14 of the Audit Act, 2019 stipulates that the errors or weaknesses which any auditor has not identified in the auditing, which has been carried out on the basis of the auditing standards and directives issued by the office, shall not be reviewed by any entity, except for the purpose of the peer reviews. Necessary coordination is to be done in acknowledging this matter to the mass stakeholders.

It is imperative to keep consistency between the provisions of the Audit Act 2075 (2018) and Financial Procedures and Fiscal Accountability Act, 2076.

- 17.11.** Pursuant to the decision made by the Chief Accountability Officer as per Section 40 of the Financial Procedures and Fiscal Accountability Act, 2076 (2019) and decision made by the Public Accounts Committee on the contents of the annual report as per Section 41 of the same Act, there has been mandatory provisions for settling the audit observations by this office within specific timeframe has

impacted on the functional independency of the auditing and need to be ammended.

- 17.12.** It is necessary to make a provision that any person, who wishes to participate in any level of election, shall not have any irregularity of recoverable amounts and unsettled advances.

18. Regulation Arrangement - Pursuant to the Constitution and law, the government regulate the task and to make legal arrangements for open and participative manner in accordance with the concept of 'limited government'. The following improvements are to be made in respect to the regulation:

- 18.1.** It is essential to make capacity development of the regulating entities by conducting investigation on the quality of the drug and medical goods, quality of construction materials and works, crime investigation, corruption, money laundering, revenue and tax invasion etc. Necessary information is to be exchanged between the regulating entities.
- 18.2.** Since the problems, such as - goods are sold at high price making excessive profits in comparison to the costs involved in production, imports, transportation, storing or distributing, supplying low quality, low weight and due date expired goods and services in market, scarcity of essential goods etc. have prevailed in the markets, the system of monitoring and taking action needs to be performed effectively in coordination with concerned entities.
- 18.3.** A regulatory entity is to be established to regulate the various Funds inclusive of the Citizen's Investment Fund, Social Security Fund, and Employee's Provident Fund. In addition, the regulating works of banks and financial institutions should be made effective.
- 18.4.** Monitoring is to be carried out in respect to whether the directives issued by the parliamentary committees have been complied with by keeping proper records.
- 18.5.** Regular monitoring are to be carried out making arrangements of giving reasonable compensation in the event if any loss or damage of financial, physical, human body or other type has occurred from the faulty acts of the public and private service providers.

18.6. All government entities and regulating entities should maintain the fiscal discipline in an exemplary manner and conduct public behavior according high importance to fiscal accountability.

- **Implementation of Federalism**

19. Financial Management in Federalism - In order to make effective to the developmental activities, resource mobilization and service delivery being performed by all three tiers of governments of the country, the following improvements are to be undertaken:

19.1. In accordance with the recommendations of the National Natural Resource and Fiscal Commission, the act of giving information related to fiscal transfer and transferring works are to be performed timely basis and effectively. In addition, arrangements are to be made to provide conditional grants to the Provinces and Local Levels by specifying the sectorial terms, and target & achievements by ending the practice of providing grants specifying the activities only.

19.2. Necessary human resources are to be fulfilled in the Provinces and Local Levels by enhancing the effectiveness of the Province Public Service Commissions.

19.3. The act of drafting the remaining laws as per list of powers of the local levels specified by the Constitution is to be performed more effectively.

19.4. The relation between the federal units needs to be harmonious and co-operational. If any conflict appears between the federation, provinces and local levels, it should be shorted out from the National Coordination Council on time. There should be coordination between three levels of governments in implementing such projects which will be run in more than one province. When using the natural resources, the benefits need to be distributed in an equitable, balanced and transparent manner.

19.5. In order to bridge the gaps between the internal income and expenditure requirements of the provinces and local levels, the local governments need to give emphasis on the expansion of their revenue scope. The system of depositing the revenues collected under concurrent powers in the concerned divisible funds and making distribution within time need to be implemented effectively.

19.6. Pursuant to the matter of concurrent powers as specified by the Constitution, the programs which are required to be transferred to the provinces and local levels

have been retained by the federation and provinces, which has caused duplication in implementation of programs related to roads, irrigation, agriculture, livestock forest etc. Improvements are needed in this respect.

- 19.7.** The federation, provinces and local levels should make division and implementation of the projects and programs in accordance with the Standards related to Development Program and Project Classification and Division, 2076 (2019). An emphasis is to be given in the fiscal transfer in order to bring improvement in the existing situation, in which the federal government has been incurring more than two-third of budget expenditure.
- 19.8.** The provinces and local levels need to make their administrative expenses economical. It has been witnessed that the expenses being incurred in facilities of the officials and employees, vehicles, fuel, meeting allowance, monitoring etc. can be curtailed. In order to make provision related to the expenditure of the provinces and local levels and maintain consistency in facilities of the officials and employees, necessary standards relating to the expenditure need to be formulated and implemented. It is imperative to make regulation and check in the excessive expenditures that have been incurred by political parties and candidates.
- 20. Financial Management of Province Level** - In order to make effective to the financial management of the provincial levels, the following improvements are to be implemented:
 - 20.1.** By enhancing the effectiveness of the Province Policy and Planning Commissions, necessary policies, plans and programs are to be formulated for provincial development, and effective monitoring and evaluation are to be done pursuant to the formulation and implementation of project banks.
 - 20.2.** To bridge the gaps between the periodic plans and provincial annual budget, the medium-term expenditure frameworks are to be implemented effectively by specifying the prioritization, cost and time of the programs without limiting it only in 3 year projection of income and expenditure.
 - 20.3.** All ministries and entities of the provinces should prepare the financial statements based on Nepal Public Sector Accounting Standards (NPSAS).

- 20.4.** All provinces should formulate and implement the Financial Procedures Rules to make the financial transactions operations systematized, trustworthy and transparent.
- 20.5.** The province ministries, departments and offices should make delivery of services effective by making their organizational structures intact and smart. The practice of executing development works by the provincial ministries needs to be discouraged, and they should focus in the formulation and implementation of policies, planning, laws and standards and monitoring and evaluation.
- 20.6.** There should be arrangements to avoid duplication in works to be carried on or being carried on by the federal government and local levels. Necessary works are to be performed by establishing offices in accordance with the concept of integrated office.
- 21. Financial Management of Local Level** - To make effective to financial management of the local level, the following improvements are to undertaken:
- 21.1.** Section 21 (4) Inter-Governmental Fiscal Management Act, 2074 (2017) has provisioned that the province and local level shall submit the estimates of revenues and expenditures in such a way that the revenue collected by them and the amount to be received from revenue sharing shall cover the administrative expenditure, however, several local levels have been appropriating more amounts as administrative expenditure. Such practices need to be controlled.
- 21.2.** Emphasizes are to be given in formulation of the periodic plans and its implementation maintaining linkages with the sustainable development goals, federal periodic plan, and provincial periodic plans.
- 21.3.** By discouraging the act in which small unproductive and distributive fragmented projects/programs are being selected, considerations are to be given in executing such plans that will contribute in the production growth and will address the needs of the local people.
- 21.4.** The Sub-national Treasury Regulatory Application, which has been used in financial accounting of the local levels, needs to revised and used by all local levels by enhancing capacities of the manpower involved in accounting. The application should be revised in such a way that the financial reports to be

produced from the application will give real picture covering all transactions of local levels.

- 21.5.** The capacity of the leadership and manpower of the local levels needs to be enhanced by making arrangements for participating in the capacity development programs, specially related to public procurement and financial management.
- 21.6.** The employee's total position of each local level is to be determined on the basis of physical condition, expenditure needs, services to be delivered, and the services of the local levels are to be made effective by timely fulfilling the vacant positions.
- 21.7.** As per prevalent law, the reports issued by the Office of the Auditor General to the local levels are tabled in rural-municipal assemblies or municipal assemblies and the irregularities are to be settled holding discussions by constituting Accounts Committees. Necessary improvements are to be made in policy and legal provision to ensure that it will not create the conflict of interest while making settlement of irregularities witnessed in course of the works performed by the officials of the municipal councils and municipal employees.

Necessary arrangements are to be made for completing the internal audits of all level levels in an independent, trustworthy and effective manner.

The End