

(Unofficial Translation)

# Fifty-Second (52nd) Annual Report of the Auditor General 2071 (2015) Summary



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

## **Vision**

An independent, efficient and effective audit institution to promote good governance.

## **Mission**

Provide quality audit service to the nation for the efficient management of public resources.

## **Values**

- Independence,
- Integrity,
- Credibility,
- Professionalism, and
- Serving the public interest.

# **Auditor General of Nepal**



**Babar Mahal, Kathmandu  
Nepal**

## **Summary Report**

In accordance with the Interim Constitution of Nepal, 2063 (2007), I hereby submit today the Fifty-second Annual Report to the Right Honorable President. The report has also been made public through the office's website - [www.oagnep.gov.np](http://www.oagnep.gov.np).

This summary book has been prepared based on the Fifty-second Annual Report with an objective to enhance the accountability and transparency through disseminating information to the general public about the audit results on the public financial management of the country.

(Bhanu Prasad Acharya)

Auditor General

2015 April 12  
(2071 Chaitra 29)

## **PREFACE**

The Interim Constitution of Nepal, 2063 (2007), in order to run state in accordance with rule of law, has constituted various state machineries to mobilize them focusing on the fulfillment of the citizen's service and necessity. As provided the basis of independent existence to the Auditor General by the constitution, the Office of the Auditor General (OAG), through carrying out audit independently and objectively about the results in mobilization of financial resources of public entities and the accountability adherence, is committed to make transparent of true fact and status of irregularities and managerial inefficiencies related to mobilization those resources to the legislature-parliament, civil society and stakeholders. In view the mandate of the constitution and prevailing laws, the OAG has attempted to prepare report incorporating the changes that occurred in fiscal affairs, the availability of service & facility, and subject matter of public's concerns. Based on evaluation of the fiscal management, recommendations have been incorporated with an objective not only to make negative comments but also to sensitize the government for adopting good practices.

There has been necessity to enhance the quality of audit as per demand of time and the changes taking place in international arena. As a member of International Organization of Supreme Audit Institution and its regional organization, the OAG has given special attention in presenting this report with an objective to make the audit findings result-oriented by following the audit policies & procedures propounded by those institutions and international accepted good auditing practices & methodologies. This summary report has been prepared with an objective to inform people about the assessment carried out independently and impartially on the work performed by public entities covering major subject matters included in the Annual Report.

The government machineries have not been found effective in promoting good governance and financial discipline by maintaining the fiscal accountability and transparency. This year, the audit of Rs. 2 trillion 354 billion 130 million is completed inclusive of Rs. 853 billion 940 million of 3 thousand 933 government entities, Rs. 1 trillion 351 billion 840 million of 70 corporate bodies, Rs. 69 billion 600 million of 516

boards and other institutions, and Rs. 78 billion 750 million of 75 district development committees. The irregularity amount of government offices has figured Rs. 37 billion 410 million (4.38 percent of audited figure). The accumulated amounts requiring recovery, settlement and further action has reached to Rs. 273 billion 20 million. Major observations revealed by audit include: true status of financial transactions of the government not presented in the consolidated fund, effectiveness not found in control of revenue leakages, slow progress in national pride projects, mobilization of foreign aid beyond the budgetary framework, non-budgetary expenditure incurred, resources not utilized economically and efficiently, procurement management not carried out efficiently, foreign assistance not presented for audit, budget discipline not maintained, different funds not operated as per set objectives, weak management of public investment etc.

There is a situation that the reform measures for audit recommendations highlighted in previous years' reports have not been implemented satisfactorily. The amount of irregularities has been increasing due to lack of initiative on the part of the Accounts Responsible Officers and responsible persons to take action and settle the audit observations pointed out by the audits. There has been no improvement in the compliance status of financial accountability due to lack of the government initiative to implement the decisions of the Public Accounts Committee. Pursuant to the seriousness of those subject matters, all audited offices, regulatory entities, and stakeholders should pay special attention.

Finally, I wish to express my sincere gratitude to the Legislature-Parliament, all constitutional bodies, Government of Nepal and its subordinate entities, development partners, civil societies, media persons, general public and all those supported and put their concerns in the preparation and submission this report in conformity with the responsibility conferred by the constitution . In addition, I wish to give special thanks to all dedicated and hard-working subordinate staffs of the OAG that contributed by completing audit works in time and assisted in preparing this annual report.

(Bhanu Prasad Acharya)  
Auditor General

# Table of Content

	Page No.
1. Background	1
2. Audit, Irregularities and clearance	8
3. Highlights of Some Audit Observations	13
• Economic Indicators, Income and Expenditure	14
• Accuracy of Government Accounts	17
• Public Debt and Guarantee	19
• Budget Discipline	20
• Compliance with laws	23
• Protection and Utilization of Resources	27
• Revenue Rebate and Leakage Control	30
• Public Procurement Management	39
• Economy	43
• Efficiency in Program Implementation	48
• Monitoring	54
• Return on Investment	56
• Acquisition of Resources	56
• Internal control	57
4. Suggestion for Future Reforms	59

## Acronyms

ASOSAI-	Asian Organization of Supreme Audit Institution
FCGO -	Financial Comptroller General's Office
FPA -	Financial Procedure Act
FPR -	Financial Procedure Regulation
FY -	Fiscal Year
GON –	Government of Nepal
INTOSAI -	International Organization of Supreme Audit Institutions
OAG -	Office of the Auditor General
PAC -	Public Accounts Committee
PPA -	Public Procurement Act
PPR -	Public Procurement Regulation
Rs.-	Nepalese Rupees (Currency)
SAI -	Supreme Audit Institution

Note: In this report, the following words carry the following meaning:-

1. **Fiscal Year-** Budgetary period of the Government of Nepal starting from 16 July to 15 July of each year.
2. **This Year-** Fiscal year 2013/14 (2070/71).
3. **This Office-** Office of the Auditor General, Nepal.

# Summary of the Auditor General's Annual Report, 2071 (2015)

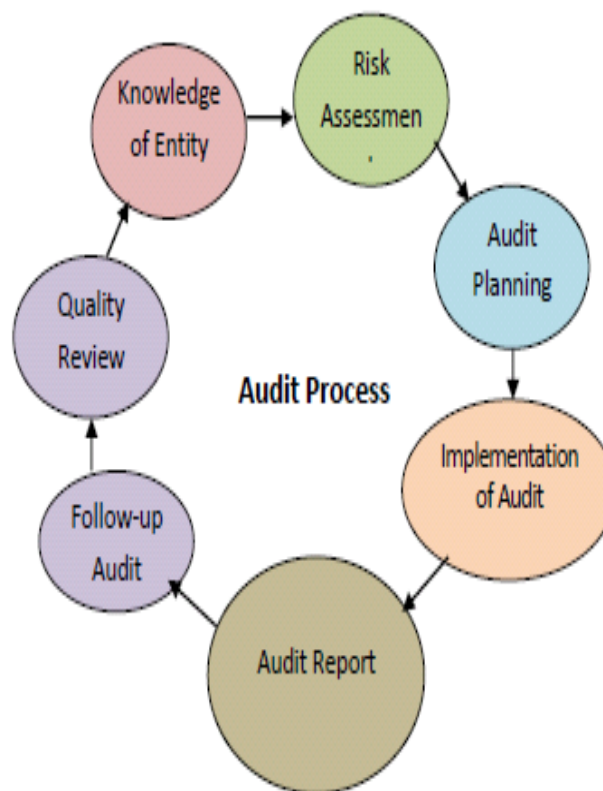
## 1. Background

1. **Legal provision** - Pursuant to Article 123 of the Interim Constitution of Nepal 2063 (2007), the Auditor General is mandated to carry out the audit of all government offices and other organizations as specified by law following established standards and procedures with due consideration to regularity, economy, efficiency, effectiveness and propriety and to submit report to the President in accordance with Article 124 of the Interim Constitution. Audit Act 1991, provides detail regarding the methodology, scope and the matters to be audited and the audit of fully and majority owned corporate bodies by the Government of Nepal. Audit is carried out in conformity with the legal mandate provided by the Constitution and the Audit Act.
2. **Objectives** - The objective of audit, with due consideration to regularity, economy, efficiency and effectiveness as deemed necessary in the acquisition and utilization of public resources, is to provide assurance on the following matters:
  - Financial statement has been prepared in the prescribed formats and transactions are reported in true and fair manner,
  - Expenditure has been incurred only for specified task and purpose within the limit set by Appropriation Act,
  - All incomes including revenue are properly collected and deposited,
  - Adequate arrangements have been made for maintaining records of government property, its usage and safeguarding,
  - Arrangements for internal control are effective,
  - Financial transactions are conducted complying with rules and supporting evidences pertaining to these have been sufficiently maintained, and
  - Targets have been achieved within the stipulated time as set in programme.
3. **Scope** - Audit of the financial transactions of fiscal year 2070/71 (2013/14) and audit backlogs of accounts of previous years, to the extent submitted, has been carried out during this year of the Constitutional bodies, Ministries, Departments and Offices, Corporate Bodies, Committees, Boards, Funds, Authorities and Universities and other institutions as prescribed by law. In conformity with the approved annual plan, financial audit as well as performance, information & technology and environmental



audit have been carried out. In addition, piloting of the audit work for the use of Electronic Working Paper (EWP) has been completed within 15 entities.

**4. Methodology** - Audit has been accomplished in compliance with Audit Act, 1991, Government Auditing Standard, founding principles promulgated by the International Organization of Supreme Audit Institution (INTOSAI), audit guidelines and good audit practices. The audit has included the application of test of control and analytical procedures for the matters identified on the basis of the risk assessment as well as the sampling techniques and detailed examination procedures, as deemed necessary, to collect adequate and relevant evidences. The audit process is depicted in the chart.



**5. Audit Standards and Guidelines** - The following standards and guidelines have been used in course of the auditing:

<ul style="list-style-type: none"> <li>▪ Government Audit Policy Standards</li> <li>▪ Government Audit Operational Guidelines</li> <li>▪ Performance Auditing Guide</li> <li>▪ Guidelines for the Auditing of Corporate Bodies</li> <li>▪ Auditor General's Directives and Circulars related to audit</li> <li>▪ Directives related to the Composite Audit</li> <li>▪ Quality Assurance Handbook</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project Financial Statements Audit Guidelines</li> <li>▪ Public Procurement Audit Guidelines</li> <li>▪ Administrative Expenditure Audit Guidelines</li> <li>▪ Revenue Audit Guidelines</li> <li>▪ District Development Committee Audit Guidelines</li> <li>▪ Risk- based Audit Guidelines</li> <li>▪ Auditor's Code of Conduct.</li> </ul>
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**6. Quality Control and Review** - The Office of the Auditor General (OAG) has adopted the quality management framework internationally developed for Supreme Audit Institution. This framework includes the arrangements related to promoting independency of auditor, recruiting the capable and competent staffs and enhancing their professional knowledge and skills continuously, preparing the auditing standards and guidelines in line with international auditing standards, performing audits and preparing reports by preparing strategic and annual operational plan. The works of supervision by senior-level officials on every phase of audit and monitoring in respect to adherence to code of conduct and activities related internal control are being carried out. In view of optimizing the use of available resources and maintaining work relationship with the stakeholders, a system has been established to disseminate the audit results for the improvement of public financial management.

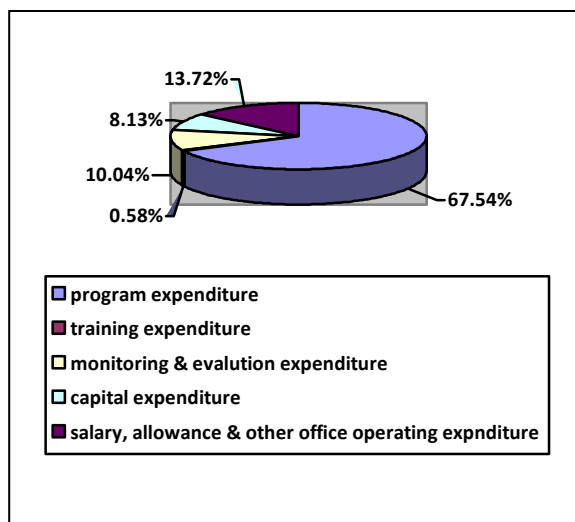
Peer review of this office has been conducted from other SAI in order to assess the status of the implementation of quality control framework. Likewise, post quality review of 50 files on selection basis is being undertaken every year after the completion of audit in accordance with Quality Assurance Handbook covering the files of all directorates, audit teams and the nature of audits. In addition, one audit file of each audit team is reviewed for the purpose of evaluation of the Performance - based Incentive Scheme. Arrangements for forming review teams have been made in consideration to minimizing the conflict of interest in the quality review process.

**7. Peer Review-** Based on the performance assessment indicators as prescribed by International Development Initiative (IDI) under International Organization of Supreme Audit Institution framework, peer review of the OAG has been carried out this year by Supreme Audit Institution of India. In the peer review assessment report, the works performed by the OAG in respect to timely submission of Auditor General's report covering all entities and effective dissemination of audit results to all stakeholders through the media have been highlighted. The works described as positive aspects of OAG in the report include- preparation and implementation strategic plan, preparation of annual plan and working in planned manner, and formulation of code of conduct and the mechanism to monitor the audit activities. Likewise, the report has praised the OAG's effort to improve its auditing in accordance with international standards by issuing audit standards and guidelines in line with internationally prescribed auditing standards and the arrangement to control audit quality by establishing Quality Assurance Review System.

Lack of adequate financial and administrative autonomy to Auditor General, untimely settlement of observations pointed out by audit, inadequate opportunity for capacity enhancement to employees and physical infrastructure and excess workload are mentioned as weak aspects in the report. This report has been made public by the OAG.

**8. Audit Advisory Committee-** In view of the effort to improve the quality of audit and good international practice in consideration, an Audit Advisory Committee comprising of 15 members of special repute in various disciplines had been constituted to provide advice on audit processes, relevant subject matters and reporting. Advices received from the committee to Auditor General are useful in implementing reforms for the improvement of audit.

**9. Organizational Management and Budget** - There are 4 Divisions, 14 Departments and 27 Sector-wise Directorates as per OAG organization structure. There is an inherent practice of carrying out one hundred percent field-based audit by deputing staffs for a short period in the audited offices throughout the country. There are 448 approved positions in the OAG which has not been reviewed for the last 21 years. Of the total allocated budget Rs.386 million 711 thousand in fiscal



year 2013/14 (2070/71), total of Rs.310 million 658 thousand is expended. Details of expenditure by categories are presented in the graph picture. On that basis, the percentages of expenditure incurred on training and capital expenditure against the total appropriated budget of OAG have stood 0.58% and 8.13% respectively. When compared the office's fiscal year 2013/14 (2070/71) expenditure with the total audited amount Rs.1 trillion 113 billion 415 million of the same year, the audit cost for the audit of each one-hundred thousand Rupees remains Rs. 35.84.

**10. Participation of Stakeholder** - The OAG has implemented the concept of participating stakeholders in the audit process as and when required. In this context, the office, without affecting the independency of the audit, has been involving the civil society organizations and beneficiaries or interest groups in course of

performance audit to identify risks in course of audit planning phase and utilize as the source of information in course of implementation phase. In addition, the office has a plan to involve civil society organizations in disseminating results of the audit reports at local level.

- 11. Stakeholder Survey** – The OAG has received the feedback from 326 stakeholders from six districts to evaluate the effectiveness of audit covering issues related to the quality of audit and its trustworthiness, auditor's proficiency, impartiality and honesty. Out of these, 74 percent viewed that communication with auditors was held on transparent manner. Likewise, 70 percent viewed that the role of auditors was creative and relevant, 82 percent viewed that audit has been supportive to increase effectiveness of management, 51 percent opined that auditors have necessary expertise, 67 percent expressed that audit has played satisfactory role to maintain financial discipline and 48 percent opined that the level of auditors' impartiality and honesty were good.

Likewise, 50 percent expressed the view that audit reports are trustworthy and relevant, while 53 percent expressed the opinion that auditors' focus should be concentrated on evaluation of economy, efficiency and effectiveness. Of the respondents, 55 percent expressed that there is necessity to make some improvements in the matters pointed out by the auditors. Likewise, 68 percent has mentioned that auditors have played positive role in the follow up of audit. Based on the views expressed by the stakeholders, this office has adopted a policy of undertaking reforms in auditing as per need of time.

- 12. Effectiveness of Audit** - Government receives revenues in its treasury annually from the audit observations highlighted as- short collection of revenues, over payment done and non-compliance with prevailing law. The comparative statement of amount recovered in the last three-year is shown in the table given below. It is presumed that the implementation of matters highlighted by audit in connection to the compliance with statutes would play supportive role in maintaining financial discipline.

(Rs. in millions)

<b>Fiscal Year</b>	<b>Irregularities to be recovered</b>	<b>Amount realized</b>	<b>Office Expenditure</b>
49th Report (2010/11)	2,769.70	712.00	204.60
50th Report (2011/12)	3,899.70	968.90	206.70
51th Report (2012/13)	3,749.40	2,504.10	310.60

On the basis of observations highlighted by audit, Rs. 2 billion 60 million is realized during the period of 52nd report.

- 13. International Relation-** With an objective to enhance the pride of nation, make this office's audit in line with the international standards by adopting good practices of the public sector audit, and to acknowledge other countries the good works performed by the office, the OAG has adopted a policy to participate actively in international arena and has performed the following activities accordingly:
- 13.1 The OAG has got opportunities to organize international seminars within country through its international initiation. The office has successfully organized SAARC Level Project Accounts Audit Workshop in association with Asian Development Bank in March 2014, SAI Performance Evaluation Experience Sharing and Quality Assurance Workshop in assistance with INTOSAI-IDI in March 2015 represented by 10 countries for a week, and Sovereign Debt related Problems Identification Meeting in association with the UNCTAD represented by 5 countries for two days. A Program in association with Asian Organization of Supreme Audit Institution (ASOSAI) is scheduled for July-August 2015 to be participated by 46 countries of Asian Region. Initiation has been taken to organize such programmes in Nepal in years to come.
- 13.2 Nepal, as a founder member of ASOSAI that established in 1979 AD, has been elected, for the first-time, in Governing Board for the period 2015-2018 A.D. from the Assembly held in Malaysia on February 10-13, 2015. From the success achieved through the election, the OAG Nepal has got the opportunity to perform in international field.
- 13.3 Pursuant to development of standards and work procedures to be adopted by international organizations in field of public sector auditing, this office has been mobilizing its human resources. The office's manpower has been involved in the task of developing various audit standards and directives initiated by ASOSAI. The office is to assume leadership of Risk-based Audit Research Program for 2015-2018 A.D. to be organized by ASOSAI.
- 13.4 OAG Nepal has been emphasizing on the need to establish cordial relationship with SAIs and organizations of other countries. Pursuant to this, the Auditor General of Norway and Vietnam visited OAG Nepal during this year. A representative of Capacity Development Group of INTOSAI also visited the OAG Nepal. Likewise, a study team of OAG Nepal under leadership of its Auditor General performed the visit of Auditor General Office of South Africa.

- 13.5 During the visit of Norwegian Auditor General to Nepal, a workshop on "Independency of Supreme Audit Institutions" was organized on September 4, 2014 in the presence of parliamentarians of different committees of Constitutional Assembly. During the Workshop, the participants including the Auditor General of Norway reiterated that Auditor General of Nepal needs more administrative and fiscal autonomy.
- 13.6 OAG has initiated the work of extending its bilateral relation with other SAIs of the globe by exchanging cooperation various sectors. A bilateral agreement has been signed with the Auditor General of Norway, while agreements with SAIs of Vietnam and India are in pipeline. These agreements will help to extend the relation of OAG Nepal with European, South Asian and South-east Asian countries. This year, in association Norwegian Auditor General Office, Technology Transfer Methodology, an environmental audit of Solid-waste management of Kathmandu Metropolitan has been carried out.

## 2. Audit, Irregularities and Clearances

1. **Audit** - This year, this office has carried out audits as follows:

1.1 **Government Offices** - This year, audits of 3 thousand 933 government offices amounting to Rs.853 billion 946 million is carried out including appropriation, revenue and deposit accounts as follows:

(Rs. in Millions)

S. No.	Transaction	Audited Figure of FY 2013/14 (2069/70)
1.	Appropriation disbursed	432,239.00
2.	Revenue realized	361,925.10
3.	Deposit income	22,153.50
4.	Others	37,628.80
	Total	853,946.40

1.2 **Corporate Bodies, Boards and other institutions** - This year, audits of Rs.1 trillion 351 billion 842 million of 70 corporate bodies, Rs. 69 billion 608 million of 516 boards and other institutions and Rs. 78 billion 754 million of 75 District Development Committees (DDCs) have been completed.

1.3 **Performance and other Audit** - This year, performance audits of 20 subject matters, environment audit of one subject matter, and information technology-based audit of three software have been accomplished.

1.4 **Audit Report with Opinion** – OAG has issued audit report with opinion on the Accounts of Consolidated Fund (CF).

Among the 36 consolidated financial statements submitted by controlling entities, audit reports with unqualified (clean) opinion are issued to 3 entities and audit reports with qualified (unclean) opinion are issued for 33 entities. Entities that are issued unqualified reports include Office of the President, Office of the Vice-President and the OAG. In addition, audit reports with opinion are also issued to 75 DDCs. In case of corporate bodies, for the total of 11 corporate bodies related to 11 fiscal years inclusive of this year and previous years, audit reports with unqualified opinion are issued to 2 corporate bodies for 2 fiscal years and audit reports with qualified opinion are issued to 9 corporate bodies for 9 fiscal years.

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

2.1 The accumulated recoverable amount to be settled by the audited entities is Rs. 273 billion 123 million. This amount has increased by 11.23 percent as compared to last year.

(Rs. in Millions)

S. No.	Particulars	Amount
1.	Government offices - irregularities	90,976.20
2.	Irregularities related to District Development Committees, other institutions and Boards	45,808.00
3.	Audit backlog	4,643.30
4.	Revenue arrears	107,902.20
5.	Outstanding reimbursable foreign grant	17,230.20
6.	Outstanding reimbursable foreign loan	4,508.80
7.	Overdue principal and interest of loans made available on GON guarantee	2,054.30
	<b>Total</b>	<b>273,123.00</b>

*Note: 1. Of the irregularities prior to FY 2002/03 (2059/60) handed over to the Kumari Chowk and Kendriya Tahasil Karyalaya (Central Recovery Office) as per the Cabinet decision on September 27, 2012 (2069/6/11), the outstanding irregularities amounting to Rs. 101.7 million has been included in the above figures.*

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

2.2 A comparative status of audited amount and irregularities amount of the government offices of the last three years are as follows:

(Rs. in Millions)

Report	Audited Amount	Irregularities Amount	Percent
Fiftieth	742,594.30	27,969.60	3.77
Fifty-first	804,857.30	28,759.40	3.57
Fifty-second	853,946.40	37,405.70	4.38



In comparison to audited figures, the irregularities amount was 3.57 percent in last year, but it has increased to 4.38 percent during this year.

- 3. Classification of Irregularities** - Irregularities are categorized as amount to be recoverable, non-compliance with relevant law, non-submission of evidence of financial transaction, reimbursements not received, and advance not settled (staff advances, mobilization advances, Letter of credit (LC) advances and institutional advances). The category-wise irregularities noted by the audits pertaining to government offices, committees and other institutions and corporate bodies are as follows:

(Rs. in millions)

Classification	Government offices	Boards and other institutions and DDCs	Total	Percent on total irregularity
<b>Total irregularities</b>	<b>37,405.70</b>	<b>6,313.80</b>	<b>43,719.50</b>	<b>100.00</b>
1. To be recoverable	3,461.50	743.30	4,204.80	9.62
2. To be regularized	16,955.90	4,449.40	21,405.30	48.96
<input type="checkbox"/> Non-compliance	4,250.40	2,246.10	6,496.50	14.86
<input type="checkbox"/> Non-submission of documentary evidence	11,802.40	1,990.60	13,793.00	31.55
<input type="checkbox"/> Balance not carried forward	106.30	-	106.30	0.24
<input type="checkbox"/> Reimbursement not obtained	796.80	212.70	1,009.50	2.31
3. Advances	16,988.30	1,121.10	18,109.40	41.42
<input type="checkbox"/> Staff Advances	228.30	120.70	349.00	0.80
<input type="checkbox"/> Mobilization Advances	8,229.70	-	8,229.70	18.82
<input type="checkbox"/> LC Advances	5,379.20	-	5,379.20	12.30
<input type="checkbox"/> Institutional Advances	3,151.10	1,000.40	4,151.50	9.50

Irregularity amount of government offices as compared to corresponding total audited amount has stood 4.38 percent. Out of the total irregularities, recoverable is 9.62 percent. Among the irregularities noted as recoverable by audits, significant observations are as follows:

- 3.1** Pursuant to Ministry of Finance, revenues amounting to Rs. 1 billion 280 million have been noted as recoverable this year caused by short collection of customs duty due to use of inappropriate rates, failure to recover revenues from income tax and value-added tax owing to inability to include in tax-net, non-declaration of true figures of purchases and sales transaction, non-redemption of taxes by filing tax

returns despite of having transaction of tens of millions, claims being entertained for expenditures not associated with business, non-deduction of taxes at source in advance, recovery of short revenues due to disclosure of less production by industries, granting of rebate facilities that are not entitled, non-deposition of deposit amounts into consolidated fund even after accomplishment purposes etc.

- 3.2** The Ministry of Information and Technology has not recovered Rs. 340 million from five various telecommunication-related service providers in connection to frequency charge.
- 3.3** Among the budget released to four entities including Agriculture Input Company Limited under Ministry of Agriculture Development, the balance outstanding Rs. 417 million after expenditure has not been deposited to consolidated fund.
- 3.4** In forty-five offices under Ministry of Physical Infrastructure and Transport, irregularities amounting to Rs. 183 million 84 thousand are noted as recoverable inclusive of excess payment made in price adjustments, payment made for the amounts not allowed by regulations, double payment made, non-recovery of liquidated damages, non-collection of recoverable amounts from other institutions, taxes not deducted etc.
- 3.5** In the offices under Ministry of Health and Population, a sum of Rs. 128 million is revealed as recoverable in connection to excess payment made in travelling and mother security program, non-deduction of taxes at source in advance, excess expenditures incurred than the approved norms, more expenditures incurred than the actual amount of supporting bills etc.
- 3.6** Various District Education Offices are required to recover Rs. 100 million for the excess budget released to various schools inclusive of salary & allowance provided more than the positions of teachers and release of salary, allowance and daytime Tiffin expenses of retired teachers.
- 3.7** The Alternative Energy Centre is required to recover liquidated damage of Rs. 50 million from 31 companies that were charged for not performing the solar electricity installation in accordance Directives of the Centre.
- 3.8** Various offices under Ministry of Urban Development are required to recover a sum of Rs. 19 million in respect to double payment made, liquidated damages amounts recoverable, amounts not deducted as per agreement, payment made for ineligible guarantees and price adjustments.

Similarly, the irregularities related to advances which figured Rs. 14 billion 46 million in last year, has reached to Rs. 18 billion 109 million during this year. This amount has stood 41.42 percent of total irregularities. It has increased by 3.04 percent as compared to last year.

Government entities with no substantial irregularities are: the Office of the President, Office of the Vice-President, Commission for Investigation of Abuse of Authority, Office of the Auditor General, Public Service Commission, National Human Rights Commission, Judiciary Council, Ministry of Law, Justice, Constitutional Assembly & Parliamentary Affairs, Ministry of General Administration and National Planning Commission.

4. **Settlement of irregularities** – This year, the status of irregularity settlement and settlement through follow-up audit is given as follows:

(Rs. in millions)

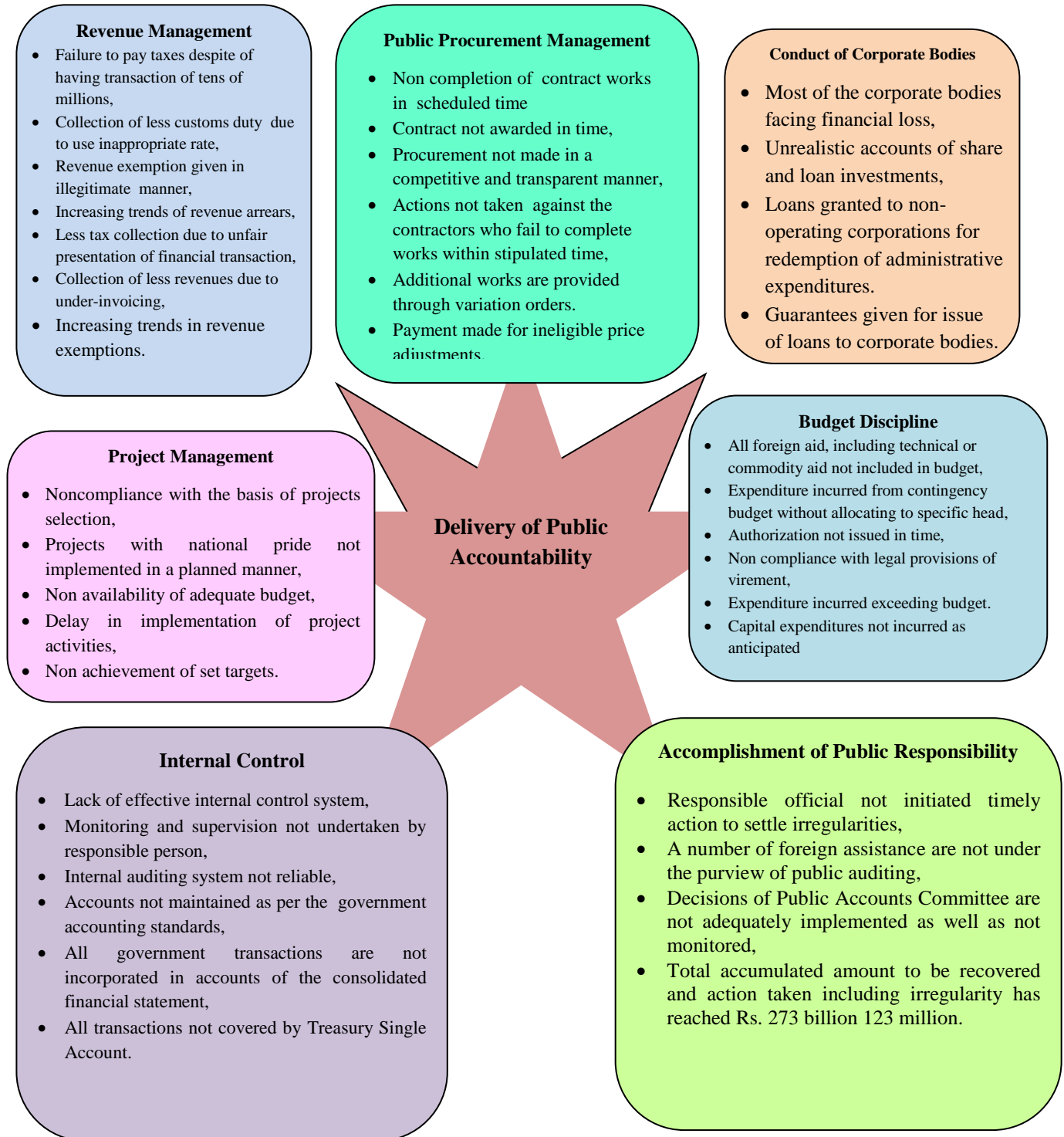
Particulars	Irregularities of the previous years	Adjustment made by deducting	Settlement through follow-up audit	Irregularities of Current Year	Status of outstanding irregularities
Government offices	73,688.30	98.30	20,019.50	37,405.70	90,976.20
Corporate bodies, Boards and other Institutions	41,743.20	-	2,249.00	6,313.80	45,808.00
<b>Total</b>	<b>115,431.50</b>	<b>98.30</b>	<b>22,268.50</b>	<b>43,719.50</b>	<b>136,784.20</b>

Although deliberations on the 49th, 50th and 51st Annual Reports of the Auditor General have been started in the Public Accounts Committee, it has not yet concluded.

Among the irregularities amount Rs. 22 billion 268 million settled during this year, the amount settled by Ministry of Urban Development, Ministry of Irrigation, and Ministry of Physical Infrastructure and Transport Management is figured Rs. 6 billion 600 million. Of the settled irregularities, 66.06 percent or Rs 4 billion 394 million constitutes mobilization advances. Such advances would have been settled automatically when payments of running bill of construction work are made. Thus, the employees are getting rewards even though irregularities of such nature are settled through such normal process. Except these, the concerned audited entities have not paid attention adequately to clear other types of irregularities.

### 3. Highlights of Some Audit Observations

1. **Status of Public Accountability:** With regard to adherence to public accountability, major audit findings have been presented in brief as given below:



- **Economic Indicators, Income and Expenditure**

2. **Overall Economic Situation** –On the basis data published by Financial Comptroller General Office and Nepal Rastra Bank, the implementation status of policy adopted by the Ministry of Finance (MOF) in maintaining the overall economic stability has been presented below. In order to measure the overall status, a comparison has been made with the economic indicators of the Three-year plan period (2013/14 - 2015/16):

(In percentage)

Particulars	Target of the plan	Achievements 2070/71 (2013/14)
Economic Growth rate	6.0	5.5*
Inflation rate	7.0	9.1*
Total Revenue/Gross Domestic Production (GDP)	21.1	18.49
Total Expenditure / Gross Domestic Production	25.06	22.55
Current Expenditure/ Gross Domestic Production	18.63	15.74
Capital Expenditure / Gross Domestic Production	6.44	3.46
Foreign Grant / Gross Domestic Production	3.37	2.18
Foreign Loan / Gross Domestic Production	2.54	0.93
Domestic Loan / Gross Domestic Production	2.25	1.03
Trade Deficit/ Gross Domestic Production		32.10*
Remittance income/ Gross Domestic Production		28.17*
Export/ Gross Domestic Production		4.7*
Import/ Gross Domestic Production		36.80*
Budget Deficit(+) Saving(-)/ Gross Domestic Production	0.59	-2.2*

*\*Sources: Nepal Rastra Bank, Financial Comptroller General Office*

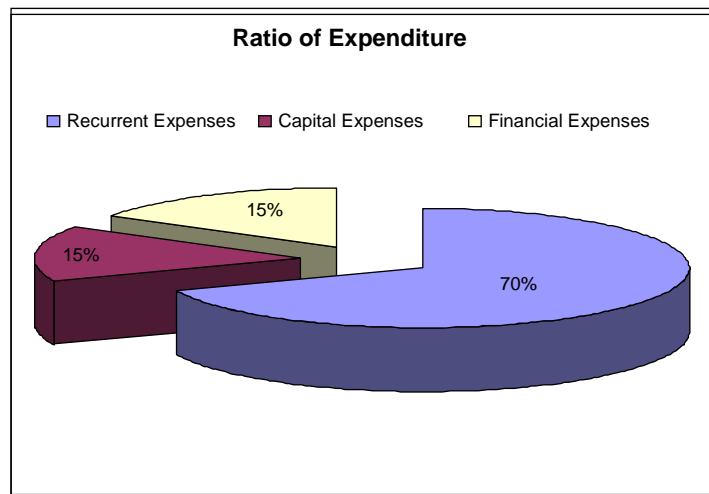
Although the three-year plan projected achieving 6 percent average annual economic growth rate for the first year 2013/14, the overall economic growth rate has remained only 5.5 percent. The average inflation rate is noted 9.1 percent as against the target of limiting 7 percent. The trade deficit has increased to 32.10 percent of GDP due to rise in imports and decline in exports, and the contribution of remittance inflows in comparison to GDP has reached to 28.17 percent. Likewise, revenues/GDP ratio is limited to 18.49 percent against the targeted estimate to establish 21.1 percent, and the capital expenditure/GDP ratio has also limited to 3.46 percent in comparison to the target of expending 6.44 percent.

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

(Rs. in millions)

Particulars	2068/69 (2011/12)	2069/70 (2012/13)	2070/71 (2013/14)	
			Estimated	Actual
<b>Revenue</b>				
Tax revenue	<b>211,722.60</b>	<b>259,214.90</b>	314,640.00	312,441.30
Indirect tax	153,952.00	187,807.40	238,026.30	227,706.60
Direct tax	56,446.70	71,407.50	82,133.40	84,734.70
Non-tax revenue	35,263.90	38,727.40	39,919.70	44,179.50
Principal repayment	187.00	755.30	550.00	569.80
Others	-	-	-	5,734.20
<b>Total revenue</b>	<b>247,173.50</b>	<b>298,697.60</b>	<b>360,000.00</b>	<b>362,924.80</b>
Foreign grant	40,810.30	35,229.80	59,536.10	34,000.60
Foreign loan	11,083.00	11,969.40	43,703.90	21,132.40
Internal loan	36,418.60	19,042.90T	44,000.00	19,982.90
<b>Total income</b>	<b>335,485.40</b>	<b>364,939.70</b>	<b>517,240.00</b>	<b>438,040.70</b>
<b>Expenses</b>				
Recurrent expenses	243,460.00	247,455.40	353,417.50	303,531.70
Capital expenses	51,390.70	54,598.40	85,099.70	66,694.70
Financial expenses	44,316.71	56,584.10	78,722.80	64,825.80
<b>Total expenses</b>	<b>339,167.50</b>	<b>358,638.00</b>	<b>517,240.00</b>	<b>435,052.20</b>
<b>Saving (deficit)</b>	<b>(3,682.00)</b>	<b>6,301.70</b>	-	<b>2,988.30</b>

3.1 The ratios of recurrent expenditure, capital expenditure and financial cost in total expenditure have appeared 69.77 percent, 15.33 percent and 14.90 percent respectively. This is also presented in the chart. There has been higher rate of price inflation due to greater amount of share occupied by recurrent expenses in total government expenditures.



The tax revenue has increased by 47.57 percent during last three years.

Of the tax revenues, the direct tax and indirect tax revenues have increased by 50 percent and 47.90 percent respectively.

3.2 Foreign grant has been declining since last three years. The foreign grant receipt was amounted to Rs. 40 billion 810 million in 2068/69 (2011/12), is reduced to Rs. 35 billion 229 million in 2070/71 (2013/14), which has declined by 16.69 percent.

4. **Expenditure Management-** The government has adopted a policy of establishing financial discipline, controlling the recurrent expenditure and raising capital expenditures by enhancing the effective management of public expenditures. In this context, the status of recurrent and capital expenditures of the government for last three years is noted as follows:

(Rs. in millions)

Particulars	2068/69 (2011/12)		2069/70 (2012/13)		2070/71 (2013/14)	
	Expenditure	Percent	Expenditure	Percent	Expenditure	Percent
Recurrent expenses	243,460	71.78	247,455	69.00	303,531	69.77
Capital expenses	51,391	15.15	54,598	15.22	66,695	15.33
Financial provisions	44,319	13.07	56,587	15.78	64,826	14.90
<b>Total expenses</b>	<b>339,170</b>	<b>100.00</b>	<b>358,640</b>	<b>100.00</b>	<b>435,052</b>	<b>100.00</b>

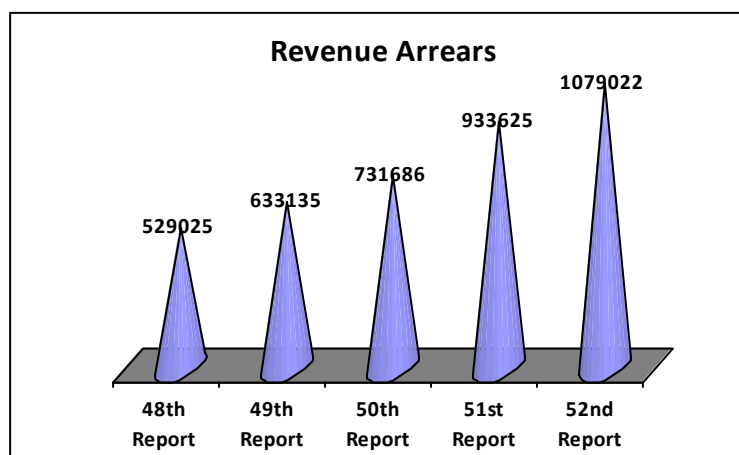
While analyzing the trend of government expenditure of last three years and its structure, it has been revealed that the ratios of recurrent expenses and capital expenses on total expenditure are 70.18 percent and 14.58 percent respectively. Satisfactory progress has not been achieved in development and construction of infrastructures due to lack of significant increase in capital expenses.

5. **Pension Liability** - In the absence of contributory pension fund, the financial burden of government related to pension has been increasing every year. When comparing expenditure of last three years, the pension expenditure which figured Rs. 11 billion 540 million in 2068/69(2011/2012), has reached to Rs. 24 billion 380 million in 2070/71 (2013/2014) with an increase by 111.27 percent. Considering the increasing trend of expenditure for pension, which stood 6.84 percent of the total revenue and 8.03 percent of the recurrent expenditure of this year and the liability which is likely to increase further in future, there will emerge a situation that require the government to set aside major portion of its budget for its payments. Hence, the government should consider implementing the concept of contributory pension system.



6. **Revenue arrears** - On the basis of statement received during the audit, revenue arrears up to this year have reached Rs. 107 billion 902 million. Compared to the figure of last year, the arrear amount has increased by 15.57 percent. However, the arrear of value added tax (VAT) amounting to Rs.2 billion 864 million has not been included in the arrears record. Should the amount of arrears is added, the total amount revenue arrears would be Rs. 110 billion 766 million. The status of total revenue arrears for the last five years has been presented in the figure given below.

Among the arrears, the arrears pertaining to principal and interest receivable from public enterprises is Rs. 60 billion 692 million. Of the principal and interest receivable, major receivables include Rs. 18 billion 22 million of Nepal Oil Corporation, Rs. 21 billion 129 million of Nepal Electricity



Authority, Rs. 4 billion 597 million of Nepal Water Supply Corporation, Rs. 1 billion 610 million of Nepal Civil Aviation Authority, Rs. 1 billion 294 million of Biratnagar Jute Mill, Rs. 730 million of Kathmandu Metropolitan, and Rs.308 million of Bhaktapur Brick & Tile Factory. The receivable amounts also include Rs. 1 billion 333 million of those enterprises that are not in existence currently. Pursuant to income tax and VAT arrears amounting to Rs. 40 billion 825 million, there has been diverse situations like: some of taxpayers have gone for lawsuit, some are not operating transactions as well as not in existence, and some other taxpayers have not paid taxes to the government despite of operating transactions.

### ❖ The Accuracy of Government Accounts

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

- 7.1 The financial statement of the consolidated fund has not been prepared in compliance with the cash based Nepal Public Sector Accounting Standards (NEPSAS) approved by the Government of Nepal on 2066/5/30 (September 15, 2009).
- 7.2 As per prevailing law, the accounts of consolidated fund should be recorded in cash basis. However, balance of consolidated fund at year-end has been shown negative.



The balance of the fund, that was negative by Rs. 76 billion 487 million up to last year, has remained Rs. 61 billion 576 million negative up to this year-end after the adjustment of this year's saving of Rs. 14 billion 911 million. Although an audit recommendation was made in previous years for carrying out necessary investigation in respect to the negative balance, the situation has remained status quo. Reconciliation works should be carried out by maintaining coordination between Ministry of Finance, Nepal Rastra Bank (NRB) and the FCGO.

- 7.3 Pursuant to the payment made by Ministry of Finance last year for increasing quota of promissory note of International Monetary Fund, a refund of Rs. 2 billion 825 million is received in this year and deposited in revenues account. The amount, which was booked as expenditure in last year and also included in consolidated fund, has been deposited in revenue head no.15111 during this year after refund. Hence, the revenue account of the consolidated fund does not exhibit true state of affairs. This has resulted overstatement of expenditure of the last year and revenues of this year.
- 7.4 In the Financial Statement of Consolidated Fund submitted by the FCGO, the receipt of foreign loan amounting to Rs. 15 billion 83 million is presented as shown by the NRB in its central treasury account. This has resulted difference in figures of loan receipt between the NRB and FCGO. The FCGO should reconcile the difference Rs.6 billion 870 million of the foreign loan receipt and make adjustments accordingly by identifying the causes of difference.
- 7.5 In the Financial Statement of Consolidated Fund submitted by the FCGO, Rs. 43 billion 642 million has been shown as foreign grant in cash. Since NRB has shown Rs. 36 billion 940 million as the grant receipt, a difference of Rs. 6 billion 701 million is noted in between the account shown in Consolidated Fund and the grant receipt shown by NRB, which should to be reconciled and adjusted.
- 8. Commodity Aid-** Rule 87 (chha) of Financial Procedure Regulation 2007 (2064) provides that the FCGO shall maintain central accounts of cash, direct payment and commodity loan or aid as well and prepare an consolidated yearly financial statement. Rule 49 of same Regulation also stipulates that separate details of commodity aid not included in the budget but obtained in a special circumstance shall be prepared and got audited by the OAG. In the consolidated yearly financial statement submitted by the FCGO, commodity aid worth Rs. 4 billion 903 million received from various countries and agencies has not been included. The commodity aid is not incorporated in government budget and accounts are also not presented in audit. Since the aid amount is not included in the financial statements of

Consolidated Fund, the accounts do not provide the true and fair state of income and expenditure.

9. **Technical assistance** – In accordance with Statement of Technical and Other Assistance presented in parliament, technical assistances worth Rs. 48 billion 195 million are estimated to be received for 27 ministries under 143 agreements, but the sectors where the expenditure will be utilized have not been not specified. As Accounts Responsible Officers have failed to include the technical assistances in the Central Financial Statement as required by the Section 14 (2) of Financial Procedures Act, 2055 (1998), the central financial statement does not give true and fair state of the government income and expenditure. The audited entities have also not submitted the financial statements and accounts of technical assistance for audit.
10. **Value Added Tax (VAT) Fund** - This fund has been created in accordance with the Rule 51 of the VAT Regulation 2053 (1996). Among Rs. 37 billion 610 million received from Custom Offices during this year, Rs. 7 billion 29 million is expended as VAT refund and the remaining balance Rs. 30 billion 580 million has been deposited to the Consolidated Fund. Government offices should deposit all collected monies in consolidated fund and if needed to spent or refund any amount that should be incurred as per Appropriation Act incorporating in budget expenditure. However, some of the collected revenues as mentioned above have been expended without depositing in the Consolidated Fund. Since such transactions of income and expenditures are not reflected in the government income-expenditure statement and are also not included in consolidated financial statement, true state of the financial affairs of the country has not been exhibited.
11. **Customs Fund Account** - This fund has been created by opening Kha-11 Group account for the purpose of transacting and depositing the amounts received as per Customs Act and Finance Act. In accordance with the provision of the Acts, the balance of this account should be made nil by transferring remaining balances to the Single Deposit Account in every fiscal year-end. However, on contrary to the provision, four Custom Offices have kept the balance of Rs. 552 million in this fund account at the end of this fiscal year.

## ❖ Public Debt and Guarantee:

12. **Per capita Debt** - According to the statement of the FCGO, total accumulated debt liability of the Government of Nepal (GoN) up to 2071/72 (2013/14) is Rs. 553 billion 508 million. The total debt amount has increased by 1.5 percent in comparison to last year. The total debt liability remains 28.70 percent GDP figure

Rs. 1 trillion 928 billion of the FY 2070/71 (2013/14). If compared the figure with the total population of Nepal of the year 2070/71, which is 27.5 million as published by the Central Bureau of Statistics, the per capita debt liability as of 2070/71 becomes Rs. 20 thousand.

- 13. Guaranteed Loan** - According to Section 4(1) of the Loan and Guarantee Act, 1968 (2025), the Government of Nepal can provide guarantee only for the projects included in the government's approved development plan and to purchase new aircraft to the Nepal Airlines Corporation. Pursuant to this, this year, the government has provided guarantees for issue of loans to the Nepal Oil Corporation (NOC) amounting to Rs. 4 billion 350 million from the Employees Provident Fund and Rs. 2 billion 800 million from the Citizens Investment Trust, and also provided the guarantee for issue loan to Nepal Airlines Corporation amounting to Rs. 6 billion 923 million from Employees Provident Fund. Thus, the outstanding liabilities of the government guaranteed loan up to this year have remained Rs. 18 billion 415 million to Employees Provident Fund and Rs. 7 billion 930 million to the Citizen Investment Fund. In addition, the government has still recoverable amounts of overdue principal and interest amounting to Rs. 2 billion 44 million provided to different 25 corporate bodies including Gorakhkali Rubber Udyog. When provided the government guaranteed loans to those corporate bodies having weak financial positions without any definite capacity enhancement plan, the entities will not become self-sustained and will also increase the government's financial liability in future.

Public Debt Management of the government is not found weak due to lack of proper documentation of loan investment and non-recovery of principal and interest, the rise of per capita debt burden to Rs.20 thousand and providing guaranteed loan to the corporate bodies by the government that have no repaying capacity.

## ❖ Budget Discipline

- 14. Excess Budget Expenditure** –Rule 35(2) of the Financial Procedures Regulation, 2064 (2007) provides that any expenditure shall be incurred only where the amount is within the approved budget and falls under the concerned expenditure heading and remains to be expended. However, this year, Rs. 2 billion 405 million has been incurred in excess of net appropriated budget under 24 sub-heads including payment of accumulated leave, medical expenses, school education program. Despite of implementation of Single Treasury System, expenditures are incurred in excess of appropriated budget, which is not justifiable.

- 15. Non- budgetary expenditure-** As per Appropriation Act, allocated amounts should be expended for the purpose of which the appropriation is made, however, budget allocation has been made under contingency head in lump-sum and provided to various entities as per decisions of Ministry of Finance on the basis of demands put by entities. Last year, the Ministry of Finance had released additional budget of Rs. 8 billion 175 million to various entities on the basis of demands made from contingency heads, while it has disbursed Rs. 10 billion 177 million during this year. The expenditure amount has increased by 19.68 percent in comparison to last year figure. Though it has been emphasized on making necessary expenses by allocating budget in respective programmes and budget-heads and checking in non-budgetary expenses, the practice of appropriating budget in contingency head is growing. It appears that the increasing trend of making non-budgetary expenditure will make the budget discipline and control system weak, hinder transparency and make the recording and monitoring difficult.
- 16. Contingency Expenditure** – While formulating budget, amounts that are not possible to specify as per details of expenditure code are to be proposed under the heading of contingency expenditure. However, Rs. 773 million of recurrent expenditure (30 percent of total appropriated amount) and Rs.360 million of capital expenditure (51 percent of total appropriated amount) of Police Head Quarter of this year were appropriated under the heading of contingency expenditure. Of the amount appropriated in contingency heading, Rs.35 million 394 thousand of recurrent expenditure are expended for salaries, allowances, feeds for animals & birds, program expenses and medical expenses and Rs. 62 million 57 thousand of capital expenditure are expended for building constructions, furniture & fixtures, vehicles, machineries & equipments and public works. Such expenditures, which were possible to incorporate in concerned service and functional heads in preparing budget, have been appropriated under contingency expenditure heads. This practice is not in conformity to the budget principle.
- 17. Unallocated of Budget** – The Section 6(2) of Financial Procedure Act, 1999 mentions that immediately upon receipt of the program-wise budget statement and authority to make expenditure from the Ministry of Finance, the concerned Ministry shall give authority to make expenditure to the departmental head, and the departmental head shall give such authority to the chief of subordinate office. The Department of Education has allocated Rs 20 billion 841 million to district offices out of the total budget Rs. 22 billion 8 million of School Sector Reform Program and remaining Rs. 1 billion 167 million is held by the department as unallocated,

which is only released later to District Education Offices at the end of the year as per departmental decisions.

- 18. Budget Transfer or Virement** – The Section 3 (2) of Appropriation Act 2013 (2070) mentions about provisions related to the amounts to be expended from Consolidated Fund. If any amount appropriated for a service and an activity of entity, ministry and secretariat is noticed inadequate, the Government of Nepal can make transfer amounts from the Heading having reserves to other Heading allocated to the extent of ten percent of initial appropriation amount. However, in eleven ministries and entities, transfers of budget have been done to the extent of 216 percent in excess/decrease of initial appropriation amounts of some budget-heads.

The Section 3(3) of Appropriation Act states that the amount appropriated in Grant no. 501 to 602 can be transferred to Grant no. 101 to 602 to the extent of any amount in same Grant number, which is releasable for making expenditure. Although Rs. 40 billion 482 million was appropriated in capital grant number 501 to 602, Rs. 8 billion 776 million is subsequently added from other Grant numbers and Rs. 9 billion 770 million has also been deducted to transfer budget in other grant numbers. Thus, in comparison to amounts appropriated in the grant heads, 21 percent of amounts are brought in the grant number from other heads and 24 percent of the amounts of the grant numbers are again transferred to other heads. Though the Appropriation Act allows transferring the amount appropriated within the Grant number from 501 to 602, transfers have also been made to other Grant numbers. There should be control in practice of making transfers beyond the headings specified by Appropriation Act.

- 19. Budget not Spent-** Budget should be formulated on the basis of the monitoring and evaluation of programmes considering that whether expenditures are incurred in compliance with the approved budget for which requests for budget allocation were made. Of the allocated budget Rs. 517 billion 240 million in recurrent and capital expenditure under 1 thousand 213 sub-heads for FY 2070/71 (2013/14), the budget appropriated in 36 sub-heads amounting to Rs. 8 billion 956 million has not been expended. Among the budget-heads amounts of which are not expended, a total of Rs. 1 billion 160 million of 6 sub-heads has been deducted through virement to transfer budgets in other budget heads. There should be control in the practice of inflating the budget shape by appropriating budgets in unexpendable budget sub-heads.

- 20. Reimbursement** –Rule 37(5) of the Financial Procedure Regulation, 2064 (2007) requires that the Accounts Responsible Officers shall conduct monitoring to ensure that whether the requests for reimbursement are made in a timely manner and shall submit the annual reimbursement statement. As against the last year's reimbursable grant outstanding Rs. 20 billion 776 million, it has declined by 17.7 percent during this year reducing to Rs. 17 billion 230 million. Similarly, the outstanding amount of foreign loan reimbursable which figured Rs. 8 billion 959 million in last year, has sharply dropped by 49.67 percent reducing to Rs. 4 billion 509 million. A total of reimbursable outstanding of loan and grant amounting to Rs. 612 million up to this year of various 45 projects and programmes, is likely to unrecoverable due to closure of the projects/ programmes. Although the reimbursable outstanding amount has been decreasing in comparison to previous years, the burden on the government source will rise, if the reimbursements from developing partners are not timely received. Accordingly, adjustments in account may require to change the source for which expenditure were already incurred.
- 21. Budget Refund-** Rule 43 (6) of Local Self-Governance Financial Administration Regulation, 2064 (2007), mentions that the remaining balance amount of the Government of Nepal's subsidy after expenditure shall be refunded to District Treasury and Comptroller Office. However, among the budget released for various programmes during this year, 17 District Development Committees including Dolakha, Mahottari, Baitadi, Terhathum have retained the outstanding balance Rs.86 million 441 thousand in their own accounts without refunding to respective District Treasury and Comptroller Offices. Likewise, among the amounts made available to five entities inclusive of Agricultural Input Company Limited and Salt Trading Company under Ministry of Agriculture Development, Rs. 539 million, the balance remaining after expenditure, have also been retained without refunding to the government treasury.

## ❖ Compliance with Laws

- 22. Excise Duty** - According to Section 3(Ka)3 of the Excise Duty Act, 2058 (2001), excise duty paid on the quantity of raw materials used only to manufacture finished product can be deducted from the excise duty to be paid in the export on finished goods. As per clause 6 of the Excise Duty Directives 2068 (2011), credit shall not allowed for excise duty paid on packaging materials. However, pursuant to five taxpayers, a credit of Rs. 67 million 167 thousand that paid as excise duty on packaging materials has been granted for deduction as against the provisions of Excise Duty Directive and as such the amount is less recovered.

- 23. Limit of Land** – The Section 7 (1) of Land Act 2021 (2064) provides that any person or his/her family may own land without exceeding 10 bigahas (6.77 hectare) in Madhesh or Terai region, 25 ropani (1.25 hectare) in Kathmandu Valley and 70 ropani (3.50 hectare) in other hilly region. In accordance with the National Agriculture Census 2068 (2011) published by Central Bureau of Statistics, the number of person or family utilizing for agriculture land above 5 hectare and below 10 hectare is 10 thousand 7 hundred, and the number of person or family utilizing equivalent to or above 10 hectare of land is 1 thousand 1 hundred. In accordance to the statement of agricultural land ownership, 20 percent family owns 52.5 percent or 1 million 342 thousand 6 hundred hectares and the rest 80 percent family owns 47.5 percent or 1 million 180 thousand and 1 hundred hectares.
- 24. Remuneration Tax** – The Income Tax Act 2058 (2001) stipulates that an employee working in foreign diplomatic missions is allowed to deduct 75 percent of his/her foreign allowance and rest 25 percent amount is to be included in income for tax assessment purpose. As per the decision of the Council of Minister dated 2063/4/1, a payment for the equivalent amount of the remuneration tax applicable on allowances and facilities as foreign allowance, family allowance, education allowance, settlement allowance and medical expenses will be provided to employees in addition to foreign allowance. This year, tax amounting to Rs. 20.8 million has been less deducted as required by the provision of Income Tax Act in the incomes of salaries and foreign allowance received by the employees of 34 foreign embassies and diplomatic missions,.
- 25. Work Permit** –Rule 6 of Labour Rules, 2050 (1993) provides that a skilled non-Nepalese citizen may be engaged on contract basis for a maximum term of two years at a time by receiving the approval from the Department of Labour. The work permit of a foreign citizen selected as a consultant in a capacity of finance and management specialist of Kathmandu Valley Water Supply Limited for the period from 2070/6/1 to 2070/10/20 was rejected by the Department of Labour. His work permit has expired on 2070/5/28 (2013/9/13), but he has been allowed to continue in the work in Nepal even after the time with tourist visa and a payment of Rs. 545 million is also granted to him. Since the person has only tourist visa, he cannot work as a fulltime consultant.
- 26. Bills and evidence** - Rule 46(3) of Local Body Financial Administration Rules, 2064 (2007) mentions that books of accounts along with supporting bills and evidences should be maintained while making expenditures. However, fifty District Development committee offices inclusive of Dolpa, Sindhupalchowk, Jumla, Jhapa,

Morang, Mahottari, Baitadi, Bara, Parsa, Humla, Jajarkot, Nawalparashi, Dhanusha have paid a total amount of Rs.177 million 589 thousand to various individuals, firms and entities without including supporting bills and evidences while making expenditures from various heads for the purpose of carrying out various programmes.

- 27. Investment-** Where as the Section 7(2) of Nepal Rastra Bank Act, 2058 (2002) stipulates that the Bank may provide loan to and invest in the shares of the institutions which carry out the functions helpful in carrying out the function of the Bank not exceeding ten percent of the total capital of such institutions, however an investment of Rs. 59 million 566 thousand in excess of the limit, has been invested in shares of various institutions. Section 75 (1) of same Act prohibits the Bank to provide financial supports to government owned institutions, but an amount of Rs. 253 million has been invested in Rural Self Reliance Fund as seed money.
- 28. Contingency Expenses**—This year, Ministry of Physical Infrastructure & Transport has expended contingency expenses of Rs. 773 million without maintaining records. Likewise, Ministry of Urban Development has also expended Rs. 68 million as contingency expenses. Twenty-four District Development Committees have incurred excess contingency expenses of Rs. 16 million than the amount that could be allocated from total amount of capital investment. Department of Water Supply and Sewerage has procured three vehicles and motorcycles costing Rs. 37 million utilizing the contingency amounts appropriated for different programmes of various Divisional and Sub-division Offices and distributed those vehicles and motorcycles to the offices not related with programmes. By keeping the records of contingency expenses, the practice of making expenditure in excess of the set limit and incurring expenses for unrelated activities should be controlled.
- 29. Borrowing from Board Member** - Section 11 (kha) of the Income Tax Act, 2058 (2001) has made a provision that the source of income shall be sought for investment other than the investment in hydro electricity projects of national importance, industries providing employment opportunity to more than 300 workers and industries using more than 50 percent domestic raw materials in production. The circular of Inland Revenue Department mentions that the authenticity of the sources of loans received from board members are to be examined while making tax assessment. There has been situation that the taxpayers used to show quite a huge amount of interest-free loans from their respective board members as borrowings, unsecured credit, advance for share capital; not disclose the matters of such borrowings and unsecured loans inflow in Notes to Accounts; not transact such



moneys through banking network; and disclose sources of income of lenders as sale of gold, inherited wealth and land without evident to justify for those wealth.

For instance, on the scrutiny of one group of business house engaged in cement production registered in Large Taxpayer Office, it is revealed that interest-free loans amounting to Rs.1 billion 810 million has been provided to 11 business activities, despite of situation that it has received dividend of only Rs. 12 million from the related 14 entities during FY 2069/70 (2013/14). Likewise, one synthetic private limited under purview of the same office, which had outstanding borrowing liability of Rs. 980 million up to FY 2067/68, has shown outstanding liability of borrowings of Rs. 420 million with its director up to FY 2068/69 (2012/13) after settlement of Rs. 560 million within the year. In such a situation, it has been noticed that the interest-free loans of Rs. 980 million was provided in FY 2068/69 to an institution that is operating Rs. 335 million in loss. Pursuant to such directors' borrowings, the related Inland Revenue Offices have not carried out the necessary investigations.

- 30. Use of loans for other purpose-** Section 8 of Banking Offence and Punishment Act, 2064 (2008) provisions that no one shall misuse the credit facilities availed from a bank or financial institution or let the same be misused by diverting in the purpose other than for which the credit facilities were availed and in the event of a person commits offences and if the suit amount is above Rupees ten million, he/ she shall be liable for an imprisonment from three years to five years. Eleven taxpayers including 8 taxpayers of Large Taxpayer Office and 3 tax payer of Inland Revenue Office Lalitpur that received the loans of Rs. 12.5 million to Rs. 306 million from various banks and financial institutions have utilized the acquired loans other than specified purposes. The concerned regulating entities have not taken any action to the taxpayers in accordance with the prevailing law.
- 31. Investment Agreement** –In accordance with Section 11 of Income Tax Act 2058 and amendment made by the Financial Act 2070 (2013), hydro power companies shall be entitled to exemption of total income tax for the first 10 year if the business production is started up to 2075 Chaitra and then after entitled to 50 percent exemption of income tax for 5 years. However, agreements are entered with the companies of Arun Three and Upper Karnali Hydro power projects incorporating the provision of tax exemption as mentioned above although they were scheduled to start electricity production only in 2080 Asadh.

**32. Deposit into Revenue** – Rule 64 of Financial Procedures Regulation, 2064 (2007) stipulates that in event of fulfillment of the purpose of the deposit for which it was furnished, the deposit or security money retained as per the prevailing law or terms of the contract should be deposited into government revenue account. However, the Revenue Investigation Department has retained a sum of Rs. 105 million in its deposit account inclusive of Rs 32 million that received from auction sale and Rs 73 million for which decisions were made to deposit into revenue in course of law suits. The amounts retained in deposit account should be deposited into revenue accounts.

### ❖ **Protection and Utilization of Resources:**

**33. Safeguard of government assets** – There has been provisions in prevailing laws for making safeguard of assets like buildings, land, vehicles by maintaining records and carrying out repairs maintenance and auction sale of goods & inventories. However, the concerned ministries and subordinate offices have not maintained the consolidated records of such assets. In addition, auction sale of un-repairable goods have not been undertaken timely. Government-owned lands have been encroached and used unauthorizedly. There has been necessity to make efforts for safeguarding the government assets by maintaining records and carrying out timely repairs and maintenance of old vehicles and goods.

**34. Encroachment of Forest** – In 61 districts under purview of Department of Forest, 121 thousand 234 households have encroached 94 thousand 659 hectare (ha) forests land and built 30 thousand 194 houses, sheds as well as used for cultivation. This year, a target was set to make clear of 750 hectares of encroached land, but only 295 hectares of encroached land has been cleared. Among the total encroached land, the encroachment made in 16 districts including Kailali, Kapilbastu, Rupandehi, Udaypur, Nawalparasi, Kanchanpur, Makawanpur, Rautahat, Dang, Jhapa, Banke, Ilam, Sunsari, Chitwan, Sindhuli and Siraha figures 86 percent (81 thousand 416 hectares).

**35. Insect-free net-** In accordance with the Rule 49 of Financial Procedure Regulation 2064 (2007), goods received as commodity aid shall be treated as income on the basis of quoted price. On scrutiny of customs declaration form, it is revealed that the Epidemiology Division under Department of Health has received 2 million 129 thousand 529 insect-free nets worth Rs. 618 million 500 thousand during this year, but only 1 million 64 thousand 729 nets quoted price Rs. 309 million 700 thousand has been recorded in its inventory book and shown as the nets sent for distribution in

malaria affected districts. The remaining 1 million 64 thousand 800 insect-free nets worth Rs. 309 million 800 thousand has not been yet recorded in inventory book.

- 36. Operation of Information and Technology (IT) Park** – Information and Technology Park was established in FY 2060/61 (2003/04) at an expense of Rs. 241 million at 237 ropanis of land in Panauti, Kavre district with an objective to develop information and technology as a visionary industry, to export by developing software, to promote large, small and medium entrepreneurship, and to achieve the economic growth by involving the donor countries and institution in the development of information and technology. However, the IT Park has not been yet come into operation in accordance with set objectives even after 11 years of establishment.
- 37. Management of Aero-plane and helicopters** - Among the 26 aero-planes possessed by the Mid- Airbase of Army Air Division, 7 planes are found operational, 13 are not in operation and 3 are unserviceable owing to incident. Of the planes, the production of 4 planes has been stopped by manufacturing company and the model of 4 helicopters, that was used in VVIP service, is now not in production. In a situation of 3 planes are unserviceable due to incident, 6 planes require auction sale, and 2 planes, that were received in assistance, are grounded since 2008 due to lack of maintenance, the Mid-Airbase Division should give attention in utilizing those old planes.
- 38. Collection and Excavation of stone, aggregates and sand** – In accordance with the Preliminary Environmental Assessment Report, District Development Office, Sarlahi, is in a position of collecting and excavating 108 thousand 830 cu meter of stone and sand from Bagmati river, however, it has entered into a contract agreement permitting contractors to collect and excavate a quantity of 435 thousand 320 cu meter, which has adversely affected in environment. As per the contract awarded by the office, the rates of stone and sand are fixed at Rs. 70.56 and Rs. 61.79 per cu meter respectively. On the basis of quantity permitted, a royalty of Rs. 23 million is realizable if excavated stone only, Rs. 20.2 million is realizable if excavated sand only and Rs. 21.6 million is realizable on an aggregate excavation. However, only Rs. 2 million 727 thousand has been recovered by the office from the contracts.
- 39. Date Expired Medicines** - The National Health Policy provides that distribution of medicines to the targeted beneficiaries is to be completed before its expiry date, and stock of medicines are to be maintained on the basis of having 2/3 period of total

expiry period or having at least 18 months due date. While carrying out sample tests of Health Offices of 9 districts including Pyuthan, Kavrepalanchowk, Nawalparasi, Khotang, Kailali, Kaski, Ramechhap, Bajura and Lalitpur, it is revealed that the stock of 3 million 20 thousand tablets, 85 thousand ampoules, 96 thousand packets, 5 thousand bottles, 42 thousand capsules, 72 thousand tubes and 9 thousand vials of price-undisclosed medicines are found in the date expired condition, which has caused losses of medicines.

**40. Grant Distribution** – The Directive for providing Grant to Cooperative Association/ institution, 2068 (2011) has accorded high score-load for providing preference to geographical region and inclusiveness. However, most of the cooperatives have been established in developed and facility prone districts and they had provided a grant of Rs. 111 million to such institutions for the period of 5 years from 2065/66 (2008/2009) to 2070/71(2013/14). Although there are 502 cooperatives in remote, undeveloped and less assessable districts along with 57 in Solukhumbu, 8 in Manang, 35 in Mustang, 91 in Humla, 79 in Mugu, 53 in Dolpa, 91 in Kalikot and 88 in Bajura, these cooperatives have been provided any grant in those districts.

**41. Fund Management-** Various funds are being operated on the basis on Operational Fund Act 2043 and Special Acts related to the constitution of entities. On the basis of information made available to audit, in comparison with the last year's opening balance of Rs. 42 billion 856 million, there has been a cumulative closing balance of Rs. 51 billion 265 million in those operational funds at the end of this year, after addition of this year's income Rs. 174 billion 568 million coming to cumulative of the income earned Rs 217 billion 424 million and deduction of Rs. 166 billion 156 million expended during this year. Instances of such funds include various welfare funds, Journalist welfare fund, Environment Conservation Fund, Peace Fund, Prime-minister Assistance Fund, and Prime-minister Relief Fund etc. Although the government has taken decision not to operate such fund under Operational Fund Act 2043, some of funds are still in operational. There should be control over granting permission for operational funds. More observations pursuant to these are given under:-

41.1 There has been balances of Rs. 9 billion 92 million in 3 funds inclusive of National level Welfare fund under Ministry of Labor & Employment, Rs. 260 million in the fund operated for the benefits of educational, academic and health under Nepal Trust Act, 2064, Rs. 209 million in 3 funds inclusive of Domestic and Small Industry Fund under Ministry of Industry, and Rs. 93 million in 4 funds inclusive of

Gender Violence Prevention Fund under Ministry of Women, Children & Social Welfare. Funds have not been utilized as per set objectives. .

41.2 Pursuant to Telecommunication Authority Fund, as established under Telecommunication Act, 2053, there has been provision that the money deposited in fund may be expended by the Authority approving programmes and may demand money to Government of Nepal in the event of the fund money becomes inadequate and require depositing money into government treasury if it has excess balance. On scrutiny of balances of funds at end of Asadh 2071 (July 15 2014), it is revealed that the Telecommunication Authority, except the balance of Rs.7 billion 975 million remaining in Rural Telecommunication Fund, should not retain the balance amounts of other funds.

### ❖ Revenue Rebate and Leakage Control

**42. Revenue Exemption:** As provisioned in Section 18 of the Finance Act 2070 (2013) the authority for Government to lower, raise or allow partial or full exemption on the tariff, fees and tax rates as provisioned by prevailing laws, an exemption on taxes and fees is given in the rates fixed by the VAT Act, Excise Duty Act and Customs Act. Although there has been of practice of specifying the details of revenue exemption along with Income-Expenditure Statement every year as per good international practice, but heading-wise statement of government revenue loss in income tax, customs duty, VAT and excise-duty owing to exemption has not been presented. On the basis of information received from different sources including custom data of the Customs Department, it is revealed that a total exemption on revenues equivalent to Rs. 38 billion 267 million was provided during this year. A total amount of Rs. 7 billion 30 million collected in the government treasury as VAT on Ghee, oil, and mobile export has been refunded and Rs. 517 million collected as VAT on sugar has also been granted refund by making adjustment. The government has not maintained the record of the revenue exemption of Rs. 45 billion 786 million as mentioned above. Other observations are as follows:

42.1 In accordance with the provision of Finance Act 2070 (2013), the exemption of customs duty and VAT is permissible on imported grain including corn and soya-bean and oil-seed when used by food producing industries and on that basis a revenue exemption of Rs. 4 billion 130 million has been granted during this year. However, there has been no such situation to ensure that the imported grains are utilized for the purpose of producing the animals and birds food.

- 42.2 In order to enhance the competitive capability of domestic industries, the Finance Act 2070 (2013) has made the provision to grant exemption in the custom duty of imported mustard, soya-beans, sunflower seed and crude oil to be used by ghee and oil producing industries and to grant refund 50 percent of VAT collected by ghee and oil industries and on that basis VAT amounting to Rs. 1 billion 285 million has been refunded during this year. /Amongst the 6 stages of oil production, 5 phases are accomplished in foreign countries and the imported semi-refined oils are processed performing only simple procedures prior to making sale and distribution. In such a situation, such industries have made little value adding contribution in production of oil, but VAT refunds are being granted to those industries.
- 42.3 In accordance to the provision of Finance Act 2070 (2013), exemptions on custom duty and the VAT are permissible on construction equipment and machinery & equipment, that are either not produced or produced insufficiently in Nepal to be used by hydro-electricity production, transmission, distribution, operation or maintenance on the recommendation of Electricity Development Department related and on that basis an rebate equivalent to Rs. 1 billion 455 million has been granted to such industries by during this year. Since there is no such basis specified objectively to distinguish between the goods are not produced or produced insufficiently in Nepal, it could not be ensured that such exemption facilities granted on the basis of the departmental recommendations have been properly utilized.
- 42.4 Finance Act 2070 (2013) provisions that custom-duty at the rate of 1 percent shall be charged and 100 percent rebate on VAT shall be given on the solar power production- related items including the required equipments, tubular batteries on the recommendation of the Alternate Energy Promotion Center (AEPC), and on that basis a revenue rebate equivalent to Rs.574 million has been granted by customs offices in the imported tubular batteries during this year. There has been a situation that a single importer has imported tubular batteries along with the payment and without payment of customs duty and VAT, and the tubular batteries are used not only for the solar electric systems but also for producing inverters, the rebate given for the promotion of solar energy should be reviewed.
- 42.5 In accordance with the decision of the Government of Nepal, there has been provision made for granting rebate in custom duty, tax, fees on the imported construction materials to be used by the projects implemented under foreign aid. A revenue rebate of Rs. 765 million has been granted during this year for such imported goods through different custom points that included in the master-list of the projects. Pursuant to custom duty, excise duty, VAT rebate granted on imported

goods, there has been no consistency in providing such rebate as the audit has noted that rebate of only custom duty is provided in some cases and rebate is also granted only for partial quantity of the goods in other cases. It is deemed necessary to formulate a clear policy on including goods in master-list of a foreign aided project and granting revenue rebate and should also establish the system of monitoring to ensure that the goods imported on the basis of revenue exemption have been used for the purpose of specific projects.

42.6 There is provision in Finance Act 2070 (2013) for granting a rebate of customs duty on ambulance and funeral vehicle (Sab Bahan) to be imported by approved private or community hospitals and health institutions and accordingly an exemption of Rs. 272 million has been granted during this year in connection to imports of 157 such vehicles. The pre-conditions of such imported vehicles include: vehicles imported on the basis of exemption facility should not be used for other purposes, ambulance vehicles should have printed display as "*Acquired on the basis of revenue exemption of Government of Nepal*" and the fare rates to be charged while delivering service including transporting patients should be as determined through Ministry of Health & Population. However, those pre-conditions have not been complied with.

42.7 With an objective to promote the import of mobile through the formal process, the system of granting VAT refund has been adopted and accordingly VAT equivalent to Rs. 399 million 660 thousand is granted refund during this year in the imported mobiles. In present situation, import and sales of mobiles are being transacted through authorized representatives, as such, the previous system of granting rebate of customs duty on imported mobiles which should have been reviewed, but has not been yet reviewed. The Revenue Exemption Effect Assessment Report, 2070 also mentions that the VAT refund on mobiles does not contribute in employment generation opportunities because mobiles are import-based product rather than country's indigenous product and it also has no positive effect on general consumers as it does not contribute in minimization of cost of production. Thus, the policy of granting VAT refund on imported mobiles should be reviewed.

42.8 This year, the VAT refund of Rs. 100 million has been granted to National Trading Limited in respect to sugar import. This policy was implemented with the objective to avail sugar at easy means at fair price to consumers and control the price rise and black marketing. However, the policy of providing VAT refund on sugar has been continued without assessing the production capacity of domestic industries and the sale, distribution and monitoring of imported sugar.

- 43. Renewal Charge** - Pursuant to license renewal charge for the operations of telecommunication service, the Council Minister, Economic and Infrastructure Committee had made a decision that Nepal Telecommunication Authority should recover Rs 20 billion that equivalent to first renewal charge from Nepal Telecommunication Company Limited. In this respect, Rs. 5 billion was recovered as of now and the balance amount has not been yet collected. The Telecommunication Authority has also issued a letter on 2070/10/27 (Feb 10, 2014) to the company requesting to make the payment of Rs. 20 billion for second-time license renewal charge. However the Ministry of Information and Communication has allowed to renew the license by collecting only Rs 189 million reducing the renewal amount as fixed by earlier decision and as a result a sum of Rs 19 billion 811 million would be less collected as compared to first renew charge.
- 44. VAT Credit** - In accordance to the Section 17 of the Value Added Tax Act, 2052 (1995), a person registered can deduct the tax paid on the commodity or service related to the transaction of the taxable item from the tax to be payable by him/her. According to the report presented by the Inland Revenue Department (IRD), taxpayers submitting the credit (to be paid ) return is 45 percent, the zero return is 27.37 percent and the debit (to be collected) return is 27.14 percent. Compared to the debit amount the credit amount, which stood 7.20 times higher in last year, has figured to 8.20 times higher during this year depicting credit amount with rising trend. Based on the data of the month 2071 Asadh (Mid July 2014) collected in course of audit, the total of credit amount of the month has figured Rs. 19 billion 572 million, while the total of debit amount has figured only Rs.4 billion 889 million. This clearly indicates a challenging situation with ineffective implementation of value added tax.

Although there has been an arrangement in the Performance-Based Incentive System of employees working in Inland Revenue Office for investigating the balances in a situation the credit amounts exceed more than 6 times of debit amounts, the credit amounts of those offices have increased by 10.49 times in comparison to debit amounts. The credit figures as well as the percentages have been rising affecting in the overall effectiveness of tax system arising out of failure to investigate the credit amounts by the offices having excessive credit. In view of the increased quantum of the VAT exemptions and claims lodged for the ineligible credits on the basis of fake bills and unrealistic stocks, effectiveness in VAT implementation should be brought by enhancing the monitoring and carrying out investigation and actions.



**45. Continuity of Transaction-** According to Section 96 of the Income Tax Act 2058 (2001), the taxpayer should submit income statement (Tax Returns) within 3 months after the end of each fiscal year by making self-assessment. However, tax payers carrying out transaction of tens of millions Rupees have not submitted their tax returns regularly. For instance, while analyzing the taxpayers' transaction on the basis of customs data, among the tax payers conducting transaction with getting registration and receiving PAN number with Inland Revenue Offices within Kathmandu valley, 31 taxpayers have imported clothing items worth Rs. 1 billion 120 million in FY 2069/70 (2012/13). Other 4 tax payers having transaction ranging from Rs. 140 million to Rs.380 million in a year have imported vegetables, fruits etc. equivalent to Rs. 1 billion 286 million in 2069/70 and 2070/71. However, those tax payers have neither submitted tax returns nor deposited tax amounts in accordance with time specified by laws. If calculated the tax amounts of those taxpayer on the basis of privileged rate fixed for the tax payers not submitting tax returns and not depositing tax as provisioned by the Finance Act, the tax amounts to be recoverable would become Rs. 81.7 million.

Revenue leakage has not been controlled because increasing trend of revenue exemption, rise in the number of tax payers submitting credit VAT returns, tax payers not submitting tax returns after making transaction, revenue leakage in absence of information linkage between entities, less recovery of revenues due to under-invoicing, claims made for ineligible wastage (Jarti), industries not showing production as per norms, less recovery of revenues due to non-compliance with some of legal provisions etc.

Likewise, although one exporter conducting transaction of the export of nuts with the registration in Inland Revenue Office, Biratnagar has exported amounting to Rs. 655 million and 11 taxpayers with registration in Large Taxpayer Office have carried out transactions from Rs. 31 million up to Rs. 1 billion 243 million in a single year, they have not submitted tax returns. Pursuant to those tax payers, legal actions should be taken as per Income Tax 2058 (2007).

**46. Use of Information** – In order to bring effectiveness in tax revenue collection, it is necessary to establish inter-connection or linkage and flow of information between one entity to another within Ministry of Finance. In absence to these, 4 tax payers registered in Inland Revenue Office, Lalitpur, have not included Rs. 136 million in their incomes and also not deposited the VAT amounts thereon, related to their sales to government entities including Melamchi Water Supply Project and Irrigation & Water Resource Management Project. Likewise, a taxpayer supplying rations by

registering in Inland Revenue Office, Kathmandu Area No 3, has concealed the payments received from Armed Police after deduction of taxes in advance and addition of VAT concerning to sales of previous three years. The Inland Revenue Office has determined Rs. 462 million as VAT and Income tax liability of the taxpayer for the three fiscal years.

In view of the tax payers' tendency of not including the transactions made with the government entities in their returns realistic manner, the information flows between entities should be inter-linked with each other. In addition, the system of disclosing the taxpayers PAN number in Single Treasury Account System should be introduced and should also provide the access on such system to the Inland Revenue Offices.

- 47. Revenue Leakage** – Two food importers, conducting transaction of Tens of Millions Rupees with registration in Inland Revenue Office Butwal and Kathmandu as per Rule 23 of Income Tax Regulation 2059, have imported total of Rs 874 million and Rs. 720 million throughout the year as depicted from ASICUDA data, however they have shown only Rs 32 million and Rs. 36 million respectively as sales transaction. Should the closing stock of taxpayers taken into account, it is observed that the taxpayers have concealed sales amounting to Rs. 842 million and Rs. 681 million respectively. If assessed the tax liability on the basis of concessional rate as provided by the government, the revenue leakage committed by the taxpayers would become Rs. 30 million.

Similarly, one service Center registered in Taxpayer Service Office, Balaju has submitted tax returns showing income of Rs. 639 thousand in FY 2068/69 (2011/12) as per presumptive taxpayer (Day 1), but it has been noted that the taxpayer has conducted sales transaction equivalent to Rs. 268 million 702 thousand with another taxpayer that registered in Large Taxpayer Office. Since sales amounting to Rs 268 million are less presented, there has been revenue loss equivalent to tax amount to Rs. 13.7 million. Pursuant to such taxpayers necessary actions should be taken as per Income Tax Act 2058 (2001).

- 48. Under invoicing** - Five taxpayers registered in Inland Revenue Office, Jhapa have carried out under invoicing in transactions of nuts. On the basis of selling rate of Rs. 105/- to Rs. 200/- per KG, the average price of nuts becomes Rs. 152.50 per KG. But, the taxpayers have submitted tax returns showing the selling price of nuts from Rs. 55.67 up to Rs. 81.90 only, which has caused significant difference in presentation of income in tax returns. The under invoicing by the taxpayers has

caused under reporting of sales amounts by Rs. 505 million and for the transaction investigation should be carried out in accordance to Income Tax Act 2058 (2001) and Value Added Tax Act 2052(1995) for recovering of total of Rs. 192 million inclusive of Income tax Rs 126 million and VAT Rs 66 million.

- 49. Long-term Contract** – In accordance to Section 26 of Income Tax Act 2058 (2001), for purposes of computing the income earning under the long-term contract, the income shall be deemed recognized on the basis of estimated amounts includible and deductible according to the sum of sequential increase as per the percentage of completion of the contract. It has been noted that the tax returns submitting under long-term contract by two taxpayers registered in large Taxpayer Office have shown that there will be huge losses from the operation of business owing to minimal income and excessive expenditure. If calculated the work completion percent of the taxpayers with an estimate of becoming loss equivalent to 15 percent overheads that allowed for construction contractors as per Public Procurement Regulation 2064, the transactions of the two taxpayers would have been less reported by Rs. 1 billion 199 million. On the basis of 25 percent of the amount, the recoverable tax becomes to Rs.300 million, but the taxpayers have submitted tax returns showing loss of Rs.1 billion 625 million and Rs. 203 million respectively, which should be considered as a bid to tax-avoidance. As such, re-ascertainment should be carried out by making re-characterization in accordance with Section 35 of Income Tax Act 2058 (2001).
- 50. Wastage** – Three beer industries registered in Inland Revenue Office, Bharatpur, in a situation of breakdown of flow meter, have taken remission by claiming more than 2 percent wastage related to pasteurization and packing. Therefore, excise duty amounting to Rs. 64 million and the interest and penalty thereon for the excess quantity than specified by Rule 23 (Ka) of Excise Duty Regulation 2059 and income tax and VAT associated to the transaction should be recovered by making reassessment.
- 51. VAT Return on Re-export**– Section 25 (Kha) of Value Added Tax Act 2052 (1996) stipulates that when goods are re-exported, the concerned Customs Office, on the basis of the evidence of re-export of the goods, shall make refund from the deposit amount of value added tax kept in the customs by the concerned person. As per the interpretation of Inland Revenue Department pertaining to VAT return on re-export, goods should be exported through the air route, customs declaration forms of export should be accepted in case of certificate of origin and minimum value add of 10 percent on the price of imported goods should be done while making export of such goods. This year, the Tribhuvan Airport Customs Office has granted VAT

refund of Rs. 262 million to one company in respect to re-export of 100 thousand 251 mobiles of various models at interval of some days of the imports. However, the VAT refund is not found legitimate as the requirements of the minimum 10 percent value add on the imported price was not complied with. Of the amount refunded to the company, if deducted the eligible VAT refund of 60 percent related to domestic sales, the remaining ineligible VAT refund becomes Rs.105 million, which should be recovered.

One taxpayer has imported one brand of product from Singapore as per the price fixed for Nepal and re-exported to United Arab Emirates via Singapore through 3 taxpayers and has provided VAT refund of Rs. 152 million showing more than 10 percent value add in the imported price. According to the Import Export statistics, it is observed that Nepal has imported razor blades of total price of Rs. 1 billion 86 million during 2070/71 (2013/14), but the three firms has shown export of worth Rs. 1 billion 82 million during the year. From the data, it should be considered that all of imported razors would have been used for export. Since the consumers of Nepal have also been using the products, it is necessary to carry out an investigation on the reliability of export figure shown by the exporters.

- 52. Less Duty-** When carrying out the inspection work of the imported goods by Customs offices, there has been arrangements to make confirmation of the actual code of goods in accordance to the code number as stipulated in Annex-1 of Finance Act 2070 and the Customs Rate (Darbandi) Book. On examination the Customs Declaration Forms of five customs offices, total of Rs. 89 million including Rs. 58 million of customs duty, Rs. 10 million of VAT and Rs. 20 million of excise duty, are found as recoverable due to application of inappropriate customs code numbers and rates, and granting of ineligible rebates.
- 53. Advance Tax** - In accordance with the Section 87, 88 and 89 of the Income Tax Act 2058 (2001), it is necessary to deduct tax in advance while making payment of taxable amounts. However, 852 offices have not deducted income tax in advance of Rs. 215 million while making payments. The uncollected tax amount should be recovered.
- 54. Debt /Equity Ratio** – In accordance with Section 14 of the Income Tax Act, 2058 (2001), the interest paid on loan is regarded as deductible amount and as such taxpayers are more attracted to take loans rather than injecting share capital. This year, on review of the tax returns of some taxpayers, it is revealed that the portion of loans stood up to 768 times more than share capital. Due to excessive use of

borrowings, taxpayers' interest costs tend to increase and the tax liability comes down as a result of squeeze of profits. Nepal laws concerning taxes have not clearly specified the ratios of share capital and debts to be maintained. In this regard, various countries have managed such problem by limiting the share capital and borrowing ratios from 1:1.5 to 3.1 and making disallowance of the ratios higher than the ratios for tax purpose. There should be legal provision for limiting the debt-equity ratio in line with the international practice.

- 55. VAT on Structure Construction** - Section 8(3) of the Value Added Tax Act, 2052 (1995) requires that any building, apartment or shopping complex or similar structures as specified by the department authorities valued at above Rs. 5 million and constructed for business purpose, are accomplished through unregistered person, tax should be collected from the owner of such infrastructure by making assessment assuming that work are accomplished through registered person equivalent. Twenty-five taxpayers engaged in the construction of large structures are found transacting with the unregistered entities when constructing capitalized or in stock structures, hence, for the VAT amount that could not be collected from those taxpayers, reassessment should be done along with the recovery of the uncollected tax amount Rs. 496 million and the penalty thereon.
- 56. Norms** – In accordance with the norms of the year 2063 (2006) published by the Department of Industry, the input output ratio of steel rod production is 94.34 percent, however, excise duty amounting to Rs. 4 million has not been collected from four taxpayers due to understatement of their productions. Similarly, the departmental norm of producing 1 kg readymade noodles is 745.5 gram input of wheat flour, but three noodle producers has shown less production than the stated norms and as a result, excise duty amounting to Rs.23 million has not been collected. Pursuant beer production, although 100 hecto liter beer is to be produced from the input of 1 thousand 475 KG barley, one beer producer has shown less production causing non- recovery of excise duty of Rs. 42 million. The uncollected Rs. 69 million excise duty as mentioned as above should be recovered. Its effect in Income tax and the VAT due to understatement of production should also be reassessed.
- 57. Capital Gain Tax** - According to Section 2 da (4) of the Income Tax Act, 2058 (2001), if a natural person does transaction of house or land in excess of Rs. 3 million, capital gain tax as specified in Section 95 (ka) 3 of the Act shall be collected during the event of registration. This year, 37 Land Revenue Offices

including Dillibazar, Bara, Jhapa have not collected capital gain tax equivalent to Rs. 56 million 430 thousand.

- 58. Valuation of Land** – For the purpose of completing the registration process and determining the transaction value of land & buildings of different places, Land Revenue Offices should accomplish the processes like: acquiring the report from staffs along with demarcation in printed maps as regards the existence of road, drinking water, sewerage, telephone etc.; receiving reports from local people's representatives and the persons engaged in such transactions; consider the mortgage prices of banks and financial institutions; and prevailing prices etc. However, the minimum prices are fixed by Price Determination Committee without accomplishing those processes and as a result, less revenues are being collected due to fixation of unrealistic price of land & buildings.

## Public Procurement Management

- 59. Time Extension** – It is because of the reason the works of contracts made by the public entities are not completed in due time during this year, time extensions have been granted for 1 thousand 689 contracts (55.83 percent) in accordance to Section 56 of the Public Procurement Act 2063 (2007) out of 3 thousand 25 contracts arranged by 16 public entities. Time extensions up to 50 percent of initial contract period are granted for 675 contracts, time extensions from 51 to 100 percent of initial contract period are granted for 487 contracts and time extensions of more than 100 percent of initial contract period are granted for 507 contracts. The cost of projects and programmes has been increasing because of practice of granting time extension for contracts.
- 60. Award of Contract** - Rule 20 (9) of the Financial Procedure Rule, 2064 (2007) mentions that the cost estimates should be prepared to complete the works within stipulated time and the task of approving contract should be completed within the first trimester of each fiscal year. This year, eight ministries had awarded contracts of total amount Rs. 33 billion 643 million of which contracts amounting to Rs. 30 billion 708 million were awarded during the period of second and third trimester. Of those contracts awarded in the third trimester, contracts amounting to Rs. 5 billion 713 million were awarded in the month of Asadh (June/July).
- 61. Piecemeal Cost Estimates** - Section 8(2) of the Public Procurement Act, 2063 (2007) restricts conversion of works or services in piecemeal that would limit to competition in procurement. On contrary to the provision, cost estimates of 1,124

pieces were prepared for making procurement of infrastructure construction and goods under 15 ministries and works amounting to Rs. 1 billion 17 million have been implemented. The control over such procurement process has not been established due to absence of actions against persons that carrying out direct procurement through preparing cost estimates in piecemeal without inviting tenders.

- 62. Direct Purchase** - According to Rule 85 of Public Procurement Regulations, 2064 (2007), direct procurement can be performed for construction works not exceeding Rs. 500 thousand and purchase of goods not exceeding Rs. 300 thousand. However, 17 Offices under 12 entities have made direct purchase of goods, construction works, other services and machinery goods worth Rs. 107 million from time to time by limiting competition. Likewise, 107 entities under Ministry of Health and Population have procured medicines, goods and equipments costing Rs. 462 million without making competition. Making Procurements by limiting competition cannot be justified from the view point of economy as well as compliance with legal provisions.
- 63. Delay in Works** –Section 63(1) of Public Procurement Act 2063 (2006) stipulates that black-listing may be done if the liabilities as specified in contract agreement are not fulfilled and Rule 128 of Public Procurement Regulation 2064 mentions that liquidated damage shall be recovered if clauses of contract are violated. There has been a provision in the procurement contracts that the works should be initiated within 14 days of date of agreement. However, the works amounting to Rs. 2 billion 7 million of 216 contracts arranged by 7 units under Ministry of Physical Infrastructure and Transport during this year, have not been yet initiated. Among those contracts, the period of 189 contracts amounting to Rs. 1 billion 647 million has already elapsed. Advances of Rs 150 million have also been provided for those contracts. Actions have not been taken as per the provisions of prevailing laws and contract agreement against the contractors that are not performing their works as per work-schedules and time specified in contracts.
- 64. Incomplete Contract-** Rule 120 of Public Procurement Regulation relates to the time extension of procurement contract, Rule 121 deals with the recovery of liquidated damage in the event of delay is caused by contractor, and Rule 128 provides arrangements for the termination of contract agreement. Of the 4 thousand 52 contract agreement arranged by 47 units under Department of Roads, the works of 3 thousand 735 contracts are to be completed within 2071 Asadh (Mid July 2014), however, the works of only 1 thousand 892 contracts have been completed and the works of remaining 1 thousand 843 contract have remained incomplete.

Despite of lapse of the periods of those contracts, no actions have been taken to the contractors in accordance with the regulation and condition of contract.

- 65. Cost overruns-** After the restructuring of Melamchi Water Supply Project in 2008, the initial cost, which was estimated to US Dollar 317 million, has been increased to US Dollar 355 million in 2014. The cost of the project has increased by US Dollar 38 million and also witnessed the time overruns because of more time consumed by the Government of Nepal to undertake restructuring of the project and fulfill the conditions of commitment made, delay occurred in appointment of consultants and processes of contract award, new contract to be rearranged for the construction of tunnel, and payments being made for the consultancy service despite of non commencement of the construction work of tunnel and water treatment plant.
- 66. Variation** –Section 54 of Public Procurement Act 2063(2006) states that if any circumstances that could not be foreseen at the time of signing of procurement contract, the competent authority may issue a variation order by stating clear reasons thereof. However, the Mid-Hill Western Lok Marga, Dang has reduced the landslide clearing works of 4 contracts to 540 thousand cu meters with estimated cost of Rs. 16 million without justifying technical reasons from the 600 cu meters that included in initial cost estimate, but expended additional Rs 44 million by adding the works of constructing of stone masonry wall up to 571 percent in excess of the estimate.
- 67. Liquidated Damage-** Rule 121 (ka) of Public Procurement Regulation provides that a recovery liquidated damage at the rate of 0.05 of contact price shall be levied if works are not performed as per specified time framework. Twenty-four offices under Ministry of Physical Planning and Transport have not recovered liquidated damage of Rs. 100 million while making payments to contractors. Pursuant to the procurement contract of equipment, vaccine and medicine supply, four divisions under Ministry of Health & Population have recovered the liquidated damage at the rate of 0.5 percent per week in case of supply of medicine and at the rate of 0.5 percent per day in case of supply of equipment. Without following the legal provisions, total of Rs 44.2 million liquidated damage has been less recovered including Rs. 21.6 million by Primary Health Care Revitalization Division in the supply of various medicines, Rs. 19 million by Epidemiology Division in the supply of vaccines, Rs. 1.9 million by Child Health Division in the supply of medicines, and Rs. 1.7 million by Supply Management Division in supply of five different equipments.



- 68. Guarantee for Advance-** Rule 113(6) of Public Procurement Regulation mentions that if the construction entrepreneur fails to settle advances as provided clauses of contract, the public entity shall have to settle the advance by obtaining the bank guarantee amount from the concerned bank and shall also have to recover from him/her an interest by ten percent on such advance amounts. Seven units under Department of Roads have not settled the advance amounts even after the expiry of maturity period of the bank guarantees that received for providing the advances Rs. 109 million 953 thousand under 45 contracts.
- 69. Excess Advance-** Rule 74 of Financial Procedure Regulation 2064 mentions that more advances than the amounts needed for the concerned works shall not be provided. Letter of Credit advances of Rs. 128 million has been granted to Nepal Rastra Bank along with Rs. 66 million provided by the Supply Management Division under Department of Health in accordance with procurement contracts arranged for the supply of 4 types of equipments and Rs, 62 million provided by the Child Health Division for procuring vaccines. Although the quantity of goods fixed in the contract agreement is to be supplied in installments as per work schedule within 3 years, but the total of advance amounts of the contract has been provided at once, which is not appropriate.
- 70. Insurance Claims-** Pursuant to the construction of suspension bridge over Babai river at Kusumbaghat of Bardiya district, one construction entrepreneur is required to cover the insurance of construction works for the defect liability period after the time extension as per the clauses of contract and Provisions of Public Procurement Act 2063(2006) and Regulation 2064 (2007). However, the insurance has been covered only for 12 months even though the initial contract period is 24 months. After expenditure of 80 percent of total contract amounts up to FY 2070/71 (2013/2014), the bridge has been swept away by the flood of 2071 Shrawan (2014). Despite of provision in Rule 112 of Public Procurement Regulation 2064 that a construction entrepreneur shall bear the obligation for the loss and damage from the insurance except the reasons as mentioned in Sub-rule (2) like: war, rebellion, ionizing radiations, sound, pressure wave etc., the compensation for the destruction of works constructed has not been received due to failure to cover insurance of the whole period.
- 71. Low bid price-** Rule 65 (2) and (3) of Public Procurement Regulations 2064 (2007) provisions that clarification may be sought if the bidder quotes minimum rate and such tender may be accepted only after the receiving additional performance guarantee. This year, 32 unit offices under Ministry of Physical Planning and

Transport have arranged 823 contract agreements amounting to Rs. 9 billion 862 million 707 thousand (61.51 percent below than estimate on an average) through tenders and quotations as against the cost estimate amount of Rs. 25 billion 626 million 33 thousand.

## ❖ Economy

**72. Cost Estimate-** Rule 11 of the Public Procurement Regulation 2064 (2007) stipulates that cost estimate should be prepared in realistic manner. However, various divisions under Department of Health have expended more money than the price disclosed in customs offices. Such amounts include the payment granted as per contract amount US Dollar 98 thousand 5 hundred for five USG machines as compared to the customs declaration price of US Dollar 59 thousand; payment of US Dollar 349 thousand for 10 sets of X-ray machine as compared to customs declaration price of US Dollar 289 thousand; payment of US Dollar 544 thousand for one set of Flat Panel Digital Fluoroscopy machine as compared to customs declaration price of US Dollar 380 thousand; and payment of Indian Rs.2 million 936 thousand for 50 sets of Dark Room X-ray Accessories as compared to customs declaration price of Indian Rs. 2 million 905 thousand. Thus, payments have been made in excess of 21 to 65.38 percent of customs declaration prices.

Economy in use of financial resources has not been maintained due to existence of situations like: implementation of dual programmes, granting of double and excess release, availing of more privileges and facilities, use of excess portion of consulting services in construction works, lack of control in the practice of charging various office items under engineering facilities of construction contracts, lack control on contingency expenditure and alike.

**73. Price Differentiation-** There has been price differentiation in the per unit minimum and maximum prices of 20 different office goods procured by 26 central level entities through tenders, sealed quotations and direct purchases. For instance, minimum and maximum unit price variations has been found from Rs. 2,500 to Rs. 13,100 in case of H.P. Tonner, Rs. 1,150 to 9,000 in case of Cannon 2900 Tonner, Rs. 540 to Rs. 3,000 in case of 8 GB Pen-drive, Rs. 60 to Rs.550 in case of Table Sharpener, Rs. 1 to Rs.1,800 in case of Register No-1, and Rs. 1 to Rs. 390 in case of one litre Phenyl. There should be provisions to control the practices of quoting high or low prices of the office goods.

**74. Dual Programmes-** There has been duplication is implementation of programmes being approved by National Planning Commission. For instance, programmes like Food Security Programmes are being launched through Ministry of Agriculture as

well as Ministry of Federal Affairs & Local Development; the Deprived Group and Unplanned Settlement Management activities are being implemented under Ministry of Land Reforms & Management as well as Ministry of Urban Development; and road and bridge construction and management works are being launched under Ministry of Urban Development, Ministry of Federal Affairs & Local Development and Ministry of Agriculture Development as well. Likewise, programmes related to irrigation facilities are being implemented under Ministry of Irrigation, Ministry of Federal Affairs & Local Development and Ministry of Agriculture Development. There has been duplication in the water supply and sanitation programmes due to implementation of such programmes through Ministry of Urban Development and Ministry of Federal Affairs & Local Development. In order to avoid such duplication, programmes should be implemented based on one-window policy that maintains economy in expenditure.

- 75. Price Adjustment-** Public Procurement Act 2063, Section 55 (1) stipulates that price adjustment shall be granted while executing procurement contracts exceeding 15 months and Section 55 (2) of same Act provides that such price adjustments shall not be granted if the works are not accomplished due to delay caused by the person attaining the procurement contract. Under Department of Roads, 35 unit offices have granted price adjustments of Rs. 706 million 340 thousand inclusive of the cases where inappropriate price indicators used, indicators used as against the clauses of contract and price adjustment paid in the cases where time extension allowed without increasing financial burden, construction works delayed due to cause of construction entrepreneurs, price adjustments of general items, and payment made without deducting the advances.

The same Regulation provides that no price adjustment shall be provided in procurement contract of lump-sum work-performance. While making contract agreements on the basis design and built mode, the Department of Roads, Bridge Project has arranged all contract agreements mentioning single work and thus price adjustment should not be provided in such contracts as they fall under lump-sum contract. However, price adjustment of Rs. 253 million 424 thousand has been provided in eight bridges including Kothiyaghat, Bardiya Bridge, Dhading Benighat during the last three years by making arrangement of price adjustments in the clause of contracts. Thus, the contract agreements of bridge construction have not been found economical.

- 76. Engineer's Facilities** – In accordance to Financial Procedure Regulation, 2064, only related items should be included in engineer's facilities while preparing cost estimate

of construction works. However, 21 unit offices under Ministry of Physical Planning and Transport management have incurred expenses of Rs. 73 million 300 thousand for the procurement of vehicles, hiring charge of vehicles, procurement of laptops, computers, cameras etc.

Likewise, the contract agreements arranged under Department of Water Supply and Sewerage include Rs. 24 million 800 thousand for the purchase of vehicles, while the contract agreement arranged under Ministry of Irrigation include Rs. 68 million 600 thousand for the purchase and hiring of vehicles. Nine entities under Ministry of Federal Affairs & Local Development have also included Rs. 14 million 700 thousand for the purpose of purchasing motorcycles and laptops, conducting supervision, hiring vehicles etc.

- 77. Staff Facilities-** Amongst the 14 allowances including provident fund, medical treatment fund, gratuity fund and employees security fund that are made available to staffs of Nepal Rastra Bank, seven types of allowances are being provided to all staffs and the rest seven types of allowances are provided to special group of staffs in accordance to job responsibility. The total of allowances and inducements facilities has figured 161 percent of salary expenses. On the top of salary expenses, the bank has expended Rs. 731 million 400 thousand in FY 2069/70 (2013/14) and Rs. 913 million 400 thousand in FY 2070/71 (2014/15) for the purpose of the payment of such allowances and facilities.
- 78. Excess Release-** This year, for the purpose of payment of teachers' salary and allowances, 39 District Education Offices along with Jumla, Bara, Kathmandu, Kailali, Darchula have released Rs. 45 million 900 thousand budgets in excess of the amount receivable by the schools. Likewise, 22 District Education Offices including Kailali, Siraha, Baglung, Doti, Nuwakot, Dhading, Darchula have released Rs. 5 million 500 thousand budgets to 118 schools inclusive of salaries of teachers that have already retired. Thus, the total of excess budget released amount stands Rs. 51 million 400 thousand.
- 79. Excess Expenses-** Although the number of students, that attended in literacy centers of 47 districts along with Rolpa, Pyuthan, Dhading Doti, Arghakhanchi, has figured 967 thousand 243, the Informal Education Center, on the basis of 1 million 168 thousand 626 students, has incurred total expenditure of Rs. 161 million 500 thousand along with Rs. 97 million 400 thousand for stationeries and Rs. 64 million 100 thousand for text books. Thus, the Center has incurred total of excess expenditure Rs. 30 million 100 thousand inclusive of Rs. 19 million 200 thousand

for stationeries and Rs. 10 million 900 thousand for text books in respect to the students that have not participated and attended in the programmes.

- 80. Grant for Electricity Charge-** This year, the Ministry of Energy has paid Rs. 685 million 841 thousand to Nepal Electricity Authority in respect to electricity charge dues outstanding up to FY 2069/71 (2013/14) inclusive of Rs 407 million 915 thousand of eight jute mills, Rs. 100 million 940 thousand of cold storages, and Rs. 39 million 818 thousand of Dairy chilling centers and late charge Rs. 137 million 168 thousand.

The Agriculture Business Promotion Policy 2063 mentions that 25 percent amounts of electricity charge to be used for running cold storage, agriculture wholesale market and collection center and slaughter house will be given rebate up to 10 years of operation of business/ entrepreneurship by including in budget speech. Although the policy has spelled out providing grant facilities up to 10 years of establishment, procedures relating to these have not been ascertained. A rebate of 50 percent has been granted though the policy has mentioned for granting only 25 percent rebate. Additional burden of Rs. 137 million 168 thousand as late charge has been borne due to inability to provide timely grants for the payment of electricity charge.

- 81. Consultancy Services** - In almost projects implemented under foreign aid, there has been provision to incur expenditure in consultancy services up to 38 percent of the total cost of the project. The services of consultants have been procured for the works which could be performed through the departmental manpower. Amounts allocated for procuring the consulting services in projects are as follows:

(Rs. in millions)

Project	Currency	Total cost estimate	Amount allocated for consultancy services	Percent of consulting service on total project cost
Sub-regional Transport (Services) Improvement Project	USD	24.50	6.00	24.49
Melamchi Water Supply Project, Sub-project-1	NRs.	23,458.60	3,381.20	14.42
Road Sector Development Project	USD	125.60	12.80	10.20
SASEK Road Connectivity Project	USD	97.00	4.60	4.74
Kathmandu Sustainable Urban	USD	10.00	3.80	38.00

Transport Project				
Bheri-Babai Diversion	NRs.	16,433.00	750.00	4.56
Vocational Education and Training Enhancement Project	NRs.	3,625.60	1,081.00	29.00

- 81.1 The cost of project has been rising due intake of consultancy and other services from outside manpower for those works which can be performed through departmental manpower. For example, Department of Roads and seven units under it and Department of Building Construction & Urban Development have expended Rs. 180 million 100 thousand and Rs. 16 million 900 thousand in consultancy services respectively. There should be control in the practice of procuring outside consultants for the sake of survey and design works that can be performed within organizations.
- 81.2 Of the total estimated cost Rs.23 billion 459 million of Melamchi Water Supply Project, the amount allocated for the consultancy service is Rs. 3 billion 381 million (14.42 percent of total cost). Among the total expended Rs. 12 billion 1 million up to 2071 Asadh (Mid July 2014), the expenditure incurred on consultancy service is Rs 3 billion 373 million (28.11 percent). Although the project's completion period is scheduled for 2073 (2016), new contracts have been arranged for the construction of Water Treatment Center and Tunnel and the service of supervision consultants is to be continued for this purpose. This will increase consultancy expenditure furthermore.

Pursuant to consultancy service expenditure, there is growing tendency of acquiring services of consultants even for the simple works due to absence of specific policy and standards. Consequently, an economy in government expenditure has not been maintained.

- 82. Fuel Consumption-** In Airplane Operational Manual of Nepal Airlines Corporation, the fuel consumption norm is fixed on the basis of height and weight of airplane. On an average of 35 thousand feet height, the fuel consumption rate of 95 toned plane is fixed 3.61 tons per hour. However, the corporation has shown the consumption rate of 4.01 tons per hour for the same. Accordingly, total fuel consumption of 23 thousand 57.16 tons has been shown during this year for total of 5 thousand 733.39 flying hours inclusive of 3 thousand 261.3 hours of one Boeing and 2 thousand 477.09 hours of another Boeing. Without complying the fuel consumption norms of 3.61 ton per hour, excess fuel consumption of 2 thousand 293.35 ton has been expended on the basis of 0.4 ton in excess for every hour. While conducted field-based examination of Kathmandu-Bangkok and

Kathmandu- Hong Kong flights, the fuel consumption rate is found 3.8 ton per hour. Based on field-based examination rate, excess fuel consumption of 1 thousand 205 tons in total has been shown with excess rate of 0.21 ton per hour. When multiplied the figure by average rate 0.787, the excess quantity written comes 1 million 531 million 200 ton and if multiplied it by average rate Rs. 108.50, excess expenditure incurred without proper justification becomes Rs 166.10 million.

#### ❖ **Efficiency in Program Implementation**

- 83. Target and Progress** – When reviewing the annual progress of the programmes being launched under 19 entities, it has been observed that the zero percent progress achieved in 1 thousand 103 programmes, 0-25% progress achieved in 264 programmes, 26-50% progress achieved in 627 programmes, and 51-75% progress achieved in 337 programmes. Though the Financial Procedures Rules, 2064 (2007), Rule 26 specifies that necessary action will be taken to responsible person after reviewing the progress of annual programmes, it is found that no action of any type has been taken by the concerned ministry or department in accordance with the provision.
- 84. Authorization and Expenditure at year-end-** In accordance to Rule 23(2) of the Financial Procedures Rules 2064 (2007), authorization of annual program and expenditure to the office by the concerned ministry shall be given within 15 days of the beginning of the fiscal year and as per Rule 32 (2), authorization to subordinate offices shall be sent not later than fifteen days of the receipt of the budget statement and the letter of authorization. This year, within 22 different entities, authorizations for Rs. 5 billion 494 million are given to the offices and projects only in the month of Asadh 2071 (June/July 2014).
- In accordance to data furnished by Single Treasury Account of Financial Comptroller General, of the capital expenditure Rs. 66 billion 692 million this year, Rs. 24 billion 984 million (37.46 percent) has been expended in the month of Asadh (July). There has been the practice of releasing huge of amount of money by Ministry of Finance at the end of each fiscal year and the expending offices, after receiving such amounts, tend to provide advances, transfer of such money to non-freezing account or retain such money in deposit account, the situation of which has not improved yet.
- 85. National Pride Project-** In accordance to the target set in the periodic plan, national pride projects have been implemented with highest priority for expanding

physical infrastructure and offer service to the people. Progress status of some of the national pride projects is as follows:

(Rs. in millions)

S. No.	Name of the Project	Year of start (BS)	Year to Complete (BS)	Estimated Total cost	Expenditure up to date	Physical Progress in percent
1	Mid-Hill (Madhya Pahadi) Highway Project	2064/65	2074/75	33,372	7,272	26.84
2	Postal (Hulaki) Highway Project	2066/67	2074/75	35,800	4,687	not specified
3	Sikta Irrigation Project	2059/60	2070/71	25,020	9,037	70.50
4	Rani Jamara Irrigation Project	2066/67	2074/75	12,638	3,694	22.89
5	Babai Irrigation Project	2045/46	2070/71	7,670	3,231	29.14
6	Melamchi Water Supply Project	2055/56	2073/74	23,459	12,001	58.43
7	Bheri-Babai Diversion	2068/69	2075/76	16,433	75	0.58
8	Budhi Gandaki Hydro Electricity Power Project	2069/70	2077/78	209,000	725	0.23
9	Kathmandu-Tarai Fast Track	2065/66	not yet determined	not specified	2,595	not specified
10	East-West Rail Marga	2066/67	not yet determined	not specified	2,877	not specified
11	North- South Highway (Uttar-Dachhin Lokmarga) Karnali	2064/65	2079/80	3,407	277	8.00
12	North- South Highway (Uttar Dachhin Lokmarga), Koshi	2065/66	not yet determined	2,059	508	25.00
13	North- South Highway (Uttar Dachhin Lokmarga), KaliGandaki	2066/67	2076/77	25,456	177	1.00

**85.1** Although Second International Airport, Simara is included in the national pride project, it has not yet been implemented by incorporating the program and budget approval process. The feasibility study of this project has already been carried out, but the work has not commence yet due to uncertainty in the modality of selection of investors and source of funding.

**85.2** The work of Melamchi Water Supply Project is targeted to complete within the year 2073/74 (2016/17). Although this project was initiated in the year 2055/56 (1998/99), the physical progress of the project is only 58 percent. Based on analysis of the progress achieved, there is no possibility that the project will complete in specified time.



Sikta Irrigation Project and Babai Irrigation Project were initiated in the years 2059/60 (2002/03) and 2045/46 (1988/89) respectively and are targeted to complete by the year 2070/71 (2013/14) and 2074/75 (2077/78) respectively, however, the progress achieved up to this year is only 70.50 percent and 29.14 percent respectively. On the basis of physical progress of the projects achieved within the 12th and 27th years of commencement, the outcome attainable from these national pride projects has remained still uncertain. By making amendment of the master plans of the projects, the estimated completion year has been extended for additional 7 years and 4 years respectively. It is because of extension of time, the cost estimate has also been revised and increased to Rs. 25 billion 20 million for Sikta Irrigation Project and Rs. 7 billion 670 million for Babai Irrigation Project. Hence, the project cost has increased by 95 percent and 103 percent respectively as against the initial cost estimates.

**85.3** Rani-Jamara Irrigation Project, with a cost estimate of Rs. 12 billion 638 million, was initiated in FY2066/67 (2009/10) with a target of completing by 2074/75 (2017/18) within 8 years of commencement. In view of achievement of only 23 percent progress after the elapse of half of the project period, there has been no such situation that the project will complete in scheduled time.

**85.4** Bheri-Babai Diversion, with a cost estimate of Rs. 16 billion 433 million, was initiated in FY 2068/69 (2011/12) with a target of completing by 2075/76 (2018/19) within 7 years of commencement. On completion of 2 years period, the project has attained only 1 percent physical progress incurring an expenditure of Rs. 75 million.

**85.5** Mid-Hill Highway (Madhya Pahadi Lokmarga) Project, with a cost estimate of Rs. 33 billion 372 million, was started in FY 2064/65 (2007/08) with a target of completing by 2074/75 (2017/18) within ten year of commencement. In view of the attainment of only 27 percent progress after the elapse of six year period and expenditure of Rs. 7 billion 272 million, there is no possibility that this project will complete by next 10 years. Slow progress has been witnessed in the project due to

Despite of announcement of National Pride Projects, the implementation status has not been found satisfactory due to lack of implementation capacity, disputes at local level, difficulty in acquisition of lands, weak management of construction entrepreneurs, poor coordination between entities, and absence of clear modality for implementation. Project implementation has also been affected due to late issuance of authorization letters for the approved programmes. There is no certainty in achieving yields of projects due to absence of effective monitoring system in a number of programmes.

dispute in track-opening work and non-accomplishment of works by the contractors in due time.

- 85.6** Budhi Gandaki Hydro Electricity Project was initiated in 2069/79 (2012/13) at a cost of Rs. 209 billion with an estimate to complete by 2077/78 (2020/21). However, the project has expended only of Rs. 725 million up to this year. It has achieved only 0.23 percent physical progress along with completion of Detailed Project Report (DPR). The works of resettlement of affected people and commencement of construction has not been yet initiated.
- 85.6** North-South Highway (Uttar Dachhin Lokmarga) Project, Karnali was initiated in 2064/65 (2007/08) at a cost of Rs. 3 billion 407 million with the estimate to completing by 2079/80 (2022/23) after the 15 years of commencement. However, after the 6 years of commencement, the project has achieved only 8 percent physical progress and incurred expenditure of Rs. 277 million.

North-South Highway (Uttar Dachhin Lokmarga) Project, Koshi, which was initiated in 2065/66 (2008/09) at a cost of Rs. 2 billion 59 million, has achieved 25 percent physical progress up to this year at an expense of Rs. 508 million, but the estimated completion date of the has not been yet determined. Likewise, North-South Highway (Uttar Dachhin Lokmarga) Project, Kali Gandaki was initiated in 2066/67 (2009/10) at a cost of Rs.25 billion 456 million with the estimate to completing by 2076/77 (2019/20) within the 15 years period of commencement. However, after the 4 years of commencement, the project has achieved only 1 percent physical progress with the expenditure of Rs. 177 million. In view of the existence of the situation as mentioned above, there has been no situation that those projects will complete in specified time.

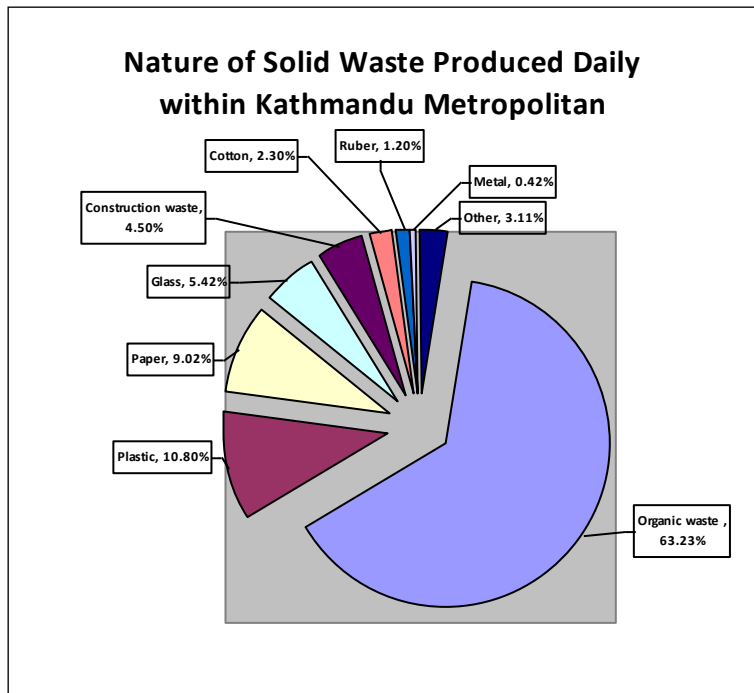
- 85.8** Hulaki Rajmarga Project was started in the year 2066/67 (2009/2010) with an estimate to completing by 2074/75 (2017/2018). But, the project has only incurred expenditure of Rs.4 billion 687 million up to this year. The implementation of the project is observed slow due to disputes in land acquisition and alignment of roads including the national parks occupied areas. This project, which is implemented under assistance of Government of India, has been facing problems in implementation due to breakdown of the contracts with existing contractors.
- 85.9** In Kathmandu-Tarai Fast Track and East West Rail Track, expenditure of Rs. 2 billion 295 million and Rs. 2 billion 877 million have been made up to this year. However, the Detailed Project Report (DPR) of the Kathmandu- Tarai Fast Track has not been yet prepared and investors for the project has also not been selected although it is spell out that the project will be constructed under the BOOT

system. The construction work of East West Rail Track Project is not year clear as DPRs of some are prepared while DPRs of some other sections have not been yet prepared.

For National Pride Projects, it is because of reasons like: detailed project reports of some have not been prepared, time-bound action plans including implementation model have not been prepared, lack of implementation capacity and existence of disputes at local level, lack of coordination between entities etc, the targeted yields is not likely to be achieved by completing in time. Hence, efforts should be made to complete such high priority projects within scheduled time and achieve the targeted yields

**86. Physical Infrastructure of Schools-** Programme Implementation

Handbook, point no 2.3 (yah) mentions that the work completion report of building construction and repairs & maintenance related to schools should be certified from technical staff, head-master, and chairperson of school management committee and such reports should be kept in concerned school, education office and



resource center within the month of Asadh of every Fiscal Year. However, out of Rs. 5 billion 291 million that are released to District Education Offices from Department of Education, School Sector Reform Programme during this year, the work completion reports of the expenditure Rs. 3 billion 179 million have not been presented that are incurred for construction and repairs maintenance.

**87. Segregation of Wastes-** The Solid Waste Management Act, 2011, Section 6 has made the provision of segregating waste into different types, at least organic and inorganic waste, during production phase. There has been 63.22 percent organic and 36.77 percent inorganic waste produced in Kathmandu Metropolitan area, but separation of these wastes has been made yet. As a result, the management of

wastes in collection site, transfer center and land-field site has also been affected leading to the situation of littering of waste everywhere, water supply contamination and bad odor in surroundings. So, it has become essential to perform the work of segregating wastes at the point of origin.

- 88. Transfer Center-** The Transfer Center being operated by the Metropolitan is in open space and residential area and waste management has not been done efficiently due to non-operation of the plant constructed for producing compost fertilizer. This has caused high air pollution in the area due to bad odor in surroundings and has also increased water pollution due to direct flow of leachate (polluted water) into the Bishnumati river. The Metropolitan, for the pollution management caused by accumulated wastes in the Transfer Center, has not taken controlling measures adequately by spreading pesticides and anti-odor spray around the centre.
- 89. Solid Waste Management in landfill-** In accordance to Environment Impact Assessment (EIA) Report of Sisadol landfill site, Kathmandu Metropolitan has not commissioned the infrastructure construction and repairs works including constructing leachate liner in landfill site, constructing leachate treatment unit (pond) and its effective operation, constructing separate drainage for rain water management in order to minimize leachate generation, construction of separate underground drainage to prevent spring water pollution around landfill area, managing gasses generated in landfill site, monitoring & follow up of environmental condition etc. This has created water and air pollution in the landfill area resulting to absence of environment-friendly management. Hence, reform measures should be taken to improve such situations.
- 90. Operation of Canal-** Narayani Irrigation Management Office is supposed to supply 850 cumecs water in 37 thousand 400 hector land of southern Bara, Persa and Rautahat districts from 81 Kilometer long canal, but the water availability in canal is only from 350 to 600 cumecs. This has caused the sufficiency of water supply for the operation of only 13 blocks out of total 16 blocks of the canal and has also caused insufficiency of water for the supply in Rautahat district.
- 91. Administrative Expenses-** According to the Local Bodies Financial Administration Regulations 2064 (2007), District Development Committees (DDCs) can spent specified percentage of its internal income for administrative purpose. However, 59 DDCs have spent Rs. 220 million in excess of the allowed limit of internal income for administrative expenses. Regarding this, the Public Accounts Committee has made a decision on 2068/12/01 (March 14, 2012) that

departmental action should be taken for the person making over spending. However, this decision has not been yet implemented and the practice of incurring such excess expenditure has also not been stopped.

## ❖ **Monitoring**

- 92. Disappearance Cooperative Director-** Up to last year, there were 63 cooperatives that had directors' disappearance. Among them, Rs. 74 million from 19 cooperatives registered in Kathmandu Office and Rs. 85 million from 2 cooperatives registered in Lalitpur were found manipulated by concerned directors. However, no action has been taken by the concerned ministry and department against the disappeared directors and recovery of such manipulated amounts.
- 93. Award of Scholarships-** In accordance to Basic Policy related to Affiliation of Technical University under Ministry of Education 2063, an institute running technical college is required to provide scholarship to Government of Nepal at a rate of 10 percent if the investor is domestic and at a rate of 20 percent if the investor is foreign. The colleges running medical course including M.B.S.S. have been providing such scholarships, but engineering colleges and colleges conducting master degree courses (P.G.) in medicine have not provided such scholarships.

Likewise, in Higher Secondary Educational Council, Affiliation Bylaw 2055, there is provision for granting free education to poor, disable and intelligent students at least 3 percent of total student. This year, since the number of students, that have appeared in the examination of class 11 and 12 after the registration, figures 491 thousand 364, scholarships are to be made available for 14 thousand 740 students as per the Bylaw, but such scholarships have been provided to 5 thousand 635 students (1.14 percent) only.

- 94. Grants-** Financial Procedure Rule 2064, Rule 41(3) provisions that it shall be the duty of the concerned Ministry to obtain progress report and monitor the matters as to whether the amount has been expended in the work for which such amount was provided or not. Major observations pertaining to these are given under:
- 94.1 This year, Ministry of Health & Population has provided Rs. 530 million grant to 66 institutions inclusive of Rs. 97 million for 16 Community Hospitals Rs. 428 million to one cooperative and 48 other hospitals. Total of Rs.322 million grants have also been provided from Health Tax Fund inclusive of Rs. 295 million to 3 government hospitals for the treatment and control of cancer disease, Rs. 22

million for Bhaktapur Cancer Hospital, and Rs. 5 million for 2 private limited and 24 non-governmental Organizations. However, no policy and standards have been formulated while providing such grants. Monitoring and follow up action in respect to utilization of such grants have also not been carried out.

- 94.2 Ministry of Agriculture Development has provided this year Rs. 8 billion 947 million grants to different individuals, groups, cooperatives etc. for conducting 31 various programmes including procuring chemical fertilizer, agriculture extension, business-related agriculture and trade fair, reimbursement for infectious chickens, animal service extension, agriculture business promotion and high yield seeds. The Ministry has stated that grants are being provided on the basis of cost sharing basis, more demands for grants are received than the money available and there has been difficulty in rendering service due to availability of limited budgets. However, no independent study has been carried out for evaluating the expenditure incurred from such grants, and the central entities like ministry, department have also not conducted monitoring of the grants utilization.
- 94.3 As provided by Ministry of Agriculture Development, the statement of agriculture grant and its contribution in production of last four years are as follows:

S.No	Fiscal Year	Grant Amount (Rs. in ten millions)	Economic Growth Percent of Agriculture Sector		Food Production in M. Ton	
			Target	Progress	Target	Progress
1	2067/68	267	3.9	4.5	7762	8615
2	2068/69	323	3.9	4.6	9050	9561
3	2069/70	489	3.9	1.1	9561	8738
4	2070/71	899	4.0	4.7	9480	9563

While studying the grants distributed and increase in productivity of 4 years as mentioned above, It has been noted that although the food production of last three fiscal years was more than target set, the increase in food production of FY 2068/69 in comparison to FY 2067/68 stood only 10.98 percent against 20.97 percent increase in grant amount of the same period. Similarly, increase in food production of FY 2069/70 in comparison to FY 2068/69 stood only 8.60 percent despite of 51.39 percent increase made in grant money of same consecutive year and increase in food production of FY 2070/71 (2013/14) in comparison to FY 2069/70 stood only 9.44 percent despite of 83.84 percent increase made in grant money of same consecutive year. Thus, the increase rate of production has been found below the increase rate of grant money and no positive correlation is found

between the grant money and agricultural production. Hence, the grants should be mobilized establishing relation with production and productivity.

#### ❖ Returns on Investment

95. **Returns to Investment in Shares** - Of the total investment Rs. 126 billion 654 million made by the Government of Nepal in 107 corporate bodies, dividends of only Rs. 12 billion 993 million have been received from eight corporate bodies. It represents 10.25 percent of the total share investment made in corporate bodies. As most of the corporate bodies are in loss, no dividend has been realized.
96. **Project Loans** - It is observed that the arrears amount of loan provided by Provident Fund (Karmachari Sanchaya Kosh) to a housing company is found Rs. 306 million up to 2071 Asadh. The project does not seem to come under operation as borrowing Company has been blacklisted by Credit Information Centre, as such, total loan loss provision has been made and the period of capitalizing the interest has also matured. Loan amount should be recovered along with the process of auction sale of the collateral.
97. **Risky Investments** - Civil Investment Fund has invested in fixed deposit of Rs. 615 million in eight development banks and financial institutions which are declared as troublesome and immediate reform requiring by Nepal Rastra Bank. So, it seems difficulty in recovering the deposit amounts. Similarly, Army Welfare Fund has also investments in troubled development banks and 3 financial institutions and principal and interest Rs. 357 million remaining in fixed and saving account up to 2071 Asadh has not been recovered and so the deposits are in risk.

#### ❖ Acquisition of Resources

98. **Recovery of Arrears-** The Social Welfare Council has not recovered outstanding rent up to 2071 Asadh of Rs.17 million 798 thousand from 19 individuals and 24 institutions that have been using land and building of Brikuti Mandap.

The revenue arrear of Nepal Electricity Authority has reached to Rs. 8 billion 120 million increasing 2.41 percent in comparison to last year. The arrear in respect to street lights has increased by Rs. 534 million as compared to last year, but the Authority has recovered only minimum amount.



- 99. Recovery of Taxes & Charges-** Forty four District Development Offices including of Kathmandu, Sindhupalchowk, Taplejung, Dhading, Rupandehi have not recovered tax and duty amounting to Rs. 394 million inclusive of Rs. 366 million in cumulative of last year from different income related contractors. The amounts have not been recovered despite of decision made by Public Accounts Committee on 2069/1/10 for recovering immediately.
- 100. Land lease Tax-** The Petroleum Regulation 2041, Rule no 36 provisions that entrepreneurs are required to make payment of land lease tax as specified in law. However, Petroleum Exploration Project has not recovered the land lease tax of Rs. 171 million inclusive of Rs. 132 million cumulative up to last year and Rs. 39 million of this year from 5 entrepreneurs in accordance to arrangement of contracts.
- 101. Energy Loss –** The status of this year's energy availability and distribution of Nepal Electricity Authority is as follows:

Particular	Availability (G.W.H.)			Distribution(G.W.H.)			Leakage Percent
	Generation	Purchase	Total	Internal consumption	Sales	Leakage	
2069/70	2291.96	1966.12	4258.08	27.35	3161.39	1069.34	25.11
2070/71	2300.34	2331.17	4631.51	35.66	3447.58	1148.27	24.79
Increase Percent	0.3656	18.57	8.77	30.3839	9.053	7.381	-1.28

There has been improvement by 0.32 percent in energy loss of the Authority in this year as compared to the energy loss rate of last year, but there still exists energy loss of quite high rate of 24.79 percent. If calculated energy loss of this year on the basis of average selling rate of Rs. 8.14 per unit, the total loss amount becomes Rs. 9 billion 347 million. Hence, such losses should be controlled.

## ❖ Internal Control

- 102. Overall Situation -** There is a trend of not complying with the provisions of laws as audit observations includes: most of the concerned ministry/department have not prepared and implemented internal control system provided in Rule (95) 1 of the Financial Procedures Regulations, 2064 (2007), concerned ministries/ departments have not undertaken inspection and monitoring, salary reports have not been passed and offices have not prepared the procurement plan. The internal audit carried out by the District Treasury & Comptroller Office has not been



effective. Despite of formulation and implementation of Internal Audit Directive, 2068(2011), adequate manpower are not available for carrying out internal audit, adequate opportunity are not provided for manpower involved in audit and audits are also not carried out following the procedures mentioned in the Internal Audit Directive.

- 103. Tax Audit** - The number of taxpayers that received Permanent Account Number (PAN) from the Inland Revenue Department are 685 thousand. Out of this, only 426 thousand (62.19 percent) taxpayers have submitted tax return. This year, 7 thousand 192 taxpayers have been selected by IRD for tax audit. The number is only 1.04 percent of total taxpayers that received PAN and only 1.7 percent of taxpayers submitting tax returns. However, tax audit has been carried out only for 4 thousand 713 (55.68 percent) taxpayers out of 8 thousand 465 taxpayers selected for audit inclusive of 2 thousand 854 taxpayers carried forward from last year and 5 thousand 713 taxpayer selected in this year. Internal control has become weak due to non-accomplishment of tax audit as per target set.
- 104. Salary Report-** In accordance with the provision of Education Rule 2059, Rule 126(2)(Nya) the annual salary report of the teacher requires to be passed from School Teacher Record Office (Kitabkhana), however, 53 District Education Offices have made payment of Rs.21 billion 290 million 212 thousand in this year without passing such salary reports. In the absence of passing of salary reports, there is possibility of releasing more money than that are entitled.

## 4. Suggestions for Future Reforms

In view of good practices adopted in public sector auditing, the Office of Auditor General has been making efforts to make its audits reliable and effective by making reforms in audit procedures as per requirements of time. In accordance with the responsibility as conferred by the constitution to the Auditor General, the following recommendations are suggested as practiced in previous years:

- 1. Independence of the Auditor General (AG)** – In accordance to the Mexico Declaration 2007 of International Organization of Supreme Audit Institution (INTOSAI), Supreme Audit Institutions should have the independency relating to-constitutional and legal provision, legal surety of tenure of AG, authority that needed to fulfill responsibility, access to information, independency to report any time as and when required, independency to determine reporting time and contents of report, authority to carry out follow up action in respect to implementation of audit recommendations, and administrative and financial autonomy. It is necessary to make reforms in legal provisions to ensure the administrative and financial autonomy of the Auditor General.
- 2. Operation of Audit Service-** The second amendment made in 2064 of Civil Service Act has included the audit service into the civil service. In view of the professional independency to be maintained for audit staffs as per good international practice of public sector auditing and effective management of audit works and the administrative independency are to be ensured as directed Public Accounts Committee. Therefore, the operation of audit service should be conducted by formulating an Act.
- 3. Institutional Reforms-** OAG Nepal has challenges in implementing its Strategic Plan 2013-15, and giving continuity to the activities related to audit procedures such as: conducting risk-based auditing, involving stakeholders in performance audit process, use of electronic working paper in auditing and performing audit including use of information and technology. In addition, it has also challenged in enhancing the capacity of its manpower engaged in auditing for effective implementation of the audit standards and guidelines that formulated by Supreme Audit Institutions. Pursuant to initiatives taken by this office, there should be cooperation from the government and other stakeholders.
- 4. Quality Assurance-** This Office has implemented the Quality Assurance Handbook in line with international standards to ensure that whether or not the audits are carried out in accordance with its established policy, standards and procedures and to evaluate that whether or not the quality control measures are effectively implemented and the quality assurance review of 50 files are being undertaken every year. For enhancing the quality of audit, it has been felt that the numbers of

such quality assurance review are to be increased along with the preparation of trimester calendar of reviews. In addition, for the improvements of the shortcomings and weakness as mentioned in the review report, it has become necessary to prepare implementation action plan and to maintain its relationship with staff incentive system.

5. **Audit of Foreign Aid** – Financial Procedure Act, 2055 (1998), Section 5 stipulates that all cash and assistance in kind that are receivable from friendly countries and international organizations in the form of grant or loan should be incorporated in government budget. However, the practice of not incorporating the developing partner's assistance in budget of the Government of Nepal and not submitting such accounts in OAGN audit has been prevailing even now. In accordance to the provision of the Act, all types of foreign assistance should be included in government budget and accounts of such assistance should be submitted to OAGN for the audit.
6. **Monitoring of Grants-** From various public funds, the Government of Nepal has been providing grants to different academies, schools, local bodies, boards and social organizations. The audit of such availed grant does not fall under purview of Auditor General. Therefore, directives should be prepared to ensure the parliament that whether grants have been used in accordance to provisions of laws and the system of monitoring of grant should also be established.
7. **Audit Reports of projects-** There has been provisions in the cooperation agreement signed between the Government of Nepal and Developing Partners to submit the audit reports of project within the timeframe as specified. However, project accounts have not been presented for certification by most of projects within the specified time, despite of issuance of reminders to the concerned project and ministries. As a result, audit reports of projects have not been submitted to concerned entities within specified time.
8. **Settlement of irregularities-** Financial Procedure Act 2055 (1998), Section 19 provides that the irregularities as pointed out in preliminary audit report of OAGN shall be settled within thirty-five days or within the time limits for which the time extension has been given. Since the accounts responsible officers that responsible for the settlement of irregularities, have not taken actions to clear irregularities in accordance with time specified and procedures highlighted, audit irregularities figure have been rising every year and the status of financial discipline in public sector has also been found weak and unsatisfactory. Therefore, the Accounts Responsible Officer should pay attention in clearing irregularities pointed by audit within the time specified by law. The practice of not clearing irregularity in specified time, but settling later through constituting committees should be discouraged.

- 9. Follow up Audit-** The task of producing evidences for follow up audit in course of field- based audit has not been carried out effectively. Past irregularities are settled fixing targets for follow up audit, but same irregularities are being continued in due course of time. For this, emphasis should be given in making reforms in follow-up audit as well as work procedures. The settlement of irregularities should also be included as a basis for evaluating the performance of the responsible officers.
- 10. Implementation of the Public Sector Accounting Standards (NEPSAS)-** The cash basis Nepal Public Sector Accounting Standards (NPSAS), approved by the Government of Nepal has been implemented in two ministries on pilot test basis. If the approved accounting standards are fully implemented, it will help in making the financial transactions more transparent and reliable and will also ease in the audit works. Hence, the initiative for amending the exiting accounting formats of the Government of Nepal should be taken to comply with the standards and these standards should also be implemented all ministries.
- 11. Deliberation in the Public Accounts Committee (PAC) –** There has been a situation that all annual reports of Auditor General are not discussed in Public Accounts Committee. Since the effectiveness of audit can be enhanced only after the discussions of audit reports, attention should be given in making timely discussion of Auditor General's Annual Reports in Public Accounts Committee
- 12. Audit of the Corporate bodies –** As per existing arrangements, the responsibility to maintain account, prepare financial statements and submit accounts for audits is of the executive chief of corporate body and the responsibility to give replies to the audit observations mentioned in audit reports and certify the financial statements rests on Board of directors. However, number of corporate bodies have not prepared financial statements on time, not completed internal audit, not provided replies to audit reports and consequently the final audit reports of number of corporate bodies have not been issued. Therefore, the responsible officers of corporate bodies should, comply with the responsibility specified by law to make the financial administration fair and respectful.

-The End-