The Auditor General’s
Fifty Fourth Annual Report
2017

The Office of the Auditor General

Babarmahal, Kathmandu, Nepal
The Auditor General’s Fifty Fourth Annual Report 2017

The Office of the Auditor General
Kathmandu, Nepal
SERVING THE NATION AND THE PEOPLE

Vision

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

Mission

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

Core Values

Integrity
Independence
Professionalism
Transparency
Accountability
Transmittal letter

Letter No.: 2016/17
Ref no.: 36

Date: April 12, 2017

Subject: Fifty-Fourth Annual Report

The Right Honorable President,
Office of the President,
Kathmandu, Nepal

We hereby submit the Annual Report, as required by the Article 294 of the Constitution of Nepal; following the audits carried out for the financial year 2016/17 pursuant to the Article 241.

Yours Sincerely

(Sukdev Bhattarai Khatri)
Acting Auditor General
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Foreword

Economic objectives, as enshrined in the Constitution of Nepal, is to achieve rapid and sustainable economic growth, by way of maximum mobilization of available means and resources, and to build independent and robust economy through equitable distribution of the gains. In order to achieve this objective, the state resources must be acquired economically, and used efficiently and effectively. The Constitution has entrusted responsibility to the Auditor General to evaluate and report on whether the public resources have been mobilized in a responsible manner. This report, with recommended measures, has been presented to the Right Honorable President by conducting objective analysis of financial transactions.

It is high time that the quality of auditing be enhanced by imbibing changes and best practices in auditing in the international arena. The Office of Auditor General (OAG), being a member of International Organization of Supreme Audit Institutions (INTOSAI) and Asian Organization of Supreme Audit Institutions (ASOSAI), as well as the elected member of the governing board of ASOSAI, has formulated a five-year Strategic Plan to come into existence by adopting the standards issued by these Institutions in order to further enhance the quality of audit.

In order to achieve effective utilization of limited resources, audit has been conducted to the offices based on risk assessment as stipulated by the Audit Act. District wise and Ministry wise reports, and an annual report have been prepared this year with the objective of providing easy access in audit reports and disseminating it to the stakeholders. The practice of reporting on common issues of all offices was initiated from the 49th Annual Report. This year, common and significant thematic issues have been included in the annual report whereas other issues have been included in ministry wise and district wise reports. With a view to facilitate the audit for the state and the local level in line with the federal structure of the country, a proposal for expansion of organizational structure of this Office has been submitted to the Government of Nepal. It is believed that it would ease the reporting on financial transactions of the federal, province, and local level by addressing public concerns.

Considering the suggestions received from the Public Accounts Committee (PAC) from time to time, deliberations held with officials of GoN, Strategic Plan of this Office, and recommendation of peer review report, reporting based on the common and thematic issues have been initiated by modifying transaction wise and entity wise reporting system. Due to this practice, it is expected that the report would become more readable and facilitate the PAC in holding timely deliberations and issuing necessary instructions.

As per the Constitutional provisions, the State’s action shall be directed/oriented to make public administration fair, impartial, transparent, and accountable to guarantee good governance. According to legal provisions, the responsible person is required to collect the government receipts or make expenditure by paying attention to regularity, economy, efficiency, and propriety as well as carry out internal check of the financial transaction made by them and become confident of its accuracy. Noncompliance with such provisions while carrying out financial transactions results in audit objections.

Universally accepted, the philosophical aphorism ‘सत्यप्रतिष्ठायं तियाफलाश्रयत्वम’ (Satyapratiṣṭhāyāṁ kriyāphalāśrayatvam), states that a basis in truth inherently imbues all actions and results. In the same context, it is essential that one must comprehend one’s integrity, professional honesty, and responsibility towards respective work for making fair financial transactions. Considering this fact, the Office has prepared and applied Professional Code of Ethics for its staff. It is equally essential that the offices responsible for financial transactions, regulatory authorities, and stakeholders direct their
attention towards this end. In this context, considering the important role of internal control and auditing, that also needs to be made effective.

Last but not the least, we would like to express our gratitude towards Legislature-Parliament, all Constitutional bodies, entities of Government of Nepal, public organizations, development partners, civil society, media person, general public, and others for providing suggestions for preparation of the Audit Report as per the Constitutional mandate. All reports have been published on the official website www.oagnep.gov.np of this office and we appeal to all to provide your valuable opinion, advice, and suggestions after studying it.
Audit Report on the Accounts of the Consolidated Fund

The Finance Secretary,
Ministry of Finance,
Singh Durbar, Kathmandu


2. **Management’s Responsibility for the Financial Statements** - Under the responsibility for preparation and fair presentation of the financial statements in accordance with Financial Procedure Act 1999, Financial Procedure Rules, 2007, prevailing laws, Nepal Public Sector Accounting Standards (NPSAS), accepted accounting principles and practices, management is responsible for effectively executing an internal control system into an entity after developing it and presenting of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

3. **Auditor’s Responsibility** - Our responsibility is to express an opinion on the financial statements based on our audit. The audit is conducted in accordance with the Constitution of Nepal, Audit Act, 1999, basic audit principles of International Organization of Supreme Audit Institution (INTOSAI), government standards on Auditing and guidelines issued by the Office of Auditor General. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures, including verifying and testing, to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

4. Basis for Expressing Qualified Opinion - The following issues are the basis for expressing qualified opinion that have material effect on the financial statement:

4.1 The Financial Comptroller General Office has not prepared Financial Statement of Consolidated Fund that should have been maintained in accordance with Cash Basis Nepal Public Sector Accounting Standards (NPSAS), as approved by the Government of Nepal on September 15, 2009.

4.2 The observations, regarding Consolidated Fund, deposits (payable deposits) and other transaction of Government of Nepal, that were made with relation to correctness of transactions, compliance with legislations, internal control management, safeguarding of assets and use of resources, have been communicated to the ministries. Of those observations, some of the significant observations have also been included in the 54th Annual Report. From this year’s audit, total irregularities amounting to NPR 88 billion and 855.9 million has been observed that includes amounts to be recovered of NPR 40 billion 438.9 million, irregular transactions of NPR 5 billion 155.5 million, non-submitted documentary evidence of NPR 18 billion 142.5 million, non-carried forward revenue of NPR 1.4 million to be collected, non-obtained reimbursable amount of NPR 1 billion 123.8 million, and irregular advances of NPR 24 billion 13.8 million. In addition, revenue arrears of NPR 132 billion 111.8 million, and yet to be reimbursed grant and loan of NPR 22 billion 517.6 million and NPR 14 billion 337.2 million, respectively, has impacted government receipts.

4.3 Out of the allocated budget to National Reconstruction Authority, unspent amount of NPR 18 billion 260 million, under the budget sub-head 6028013/4; NPR has been transferred to the Kha 12 Reconstruction Fund Account, opened in the Financial Comptroller General Office, at the end of the fiscal year. Similarly, NPR 5 billion has been transferred to Economic Rehabilitation Fund. Due to mere transfers of these funds, instead of incurred, actual expenditure has resulted in overstatement of expenditure in the Consolidated Fund.

4.4 The Government of Nepal has deposited collected VAT amount in a separate bank account that was opened this year and has refunded VAT of NPR 5 billion 449.3 million from the same account. However, the Financial Comptroller General Office has not incorporated the said accounts in the Consolidated Fund Account.

4.5 The prevailing legislation specifies to prepare government account by applying cash basis of accounting. However, Consolidated Fund reflects annual negative balance. Up to Last year, the total balance of government account was negative of NPR 78 billion 694.4 million, on which savings of this year of NPR56 billion 42.7 million has been added, thus resulting in balance of
negative NPR 22 billion 651.7 million at the end of this year. The occurrence of negative balance, despite preparing the financial statement by applying cash basis of system of accounting, has not been yet scrutinized and confirmed.

4.6 The Financial Statement of Consolidated Fund shows total receipt of NPR 27 billion 426.6 million under the external loan, which comprises NPR 4 billion 196.6 billion received in cash, NPR 14 billion 550.8 million received as reimbursement and NPR8 billion 679.2 million under direct payment. The Central Treasury Account submitted by Nepal Rastra Bank shows external loan of NPR 29 billion 773.5 million was received, thus there is a striking difference in loan amount seen between Nepal Rastra Bank and Financial Comptroller General Office. The difference of NPR 2 billion 346.9 million in the loan received between the financial statement of Consolidated Fund submitted by Financial Comptroller General Office and Central Treasury Account of Nepal Rastra Bank has not been reconciled.

4.7 Under the foreign grant, the Financial Statement of Consolidated Fund shows total receipt NPR 43 billion 48.8 million that includes NPR 3 billion 914.2 million received as cash, NPR 28 billion 562.8 as reimbursement, NPR 7 billion 527 million as direct grant payment and NPR 3 billion 44.8 million as commodity grant. Similarly, Nepal Rastra Bank has shown NPR 39 billion 783.2 million as grant received. As a result, the balance of the Consolidated Fund, excluding direct grant and commodity grant, of NPR 32 billion 477 million and the grant received as shown by Nepal Rastra Bank reveals a difference of NPR 7 billion 306.2 million, which has not been reconciled.

5. Auditor’s Opinion- In our opinion, based on the accounts, documents, information and explanation submitted to us, the matters stated in Annex-4, including non-preparation of the financial statement of Consolidated Fund in accordance with Nepal Public Sector Accounting Standards, non-approval of the format of Financial statement of Consolidated Fund as per the laws, billions of rupees observed as irregularities, difference in revenue collection, non-inclusion of VAT in Consolidated Fund, negative balances and non-reconciliation of difference amount reported, were reported in last year’s report also, however, the status-quo persists. In our opinion, except for the possible effects of the aforementioned matters, the financial statements of Consolidated Fund of Government of Nepal present fairly, in all material respects, as at July 15, 2016 the financial position of the financial transaction for the year then ended in accordance with the accounting system of the Government of Nepal.

(Sukdev Bhattarai Khatri)
Acting Auditor General
Objective, Scope and Methodology of Audit

1. Constitutional and Legislative Provision - Pursuant to the Article 241 of the Constitution of Nepal, the Auditor General (AG) is mandated to carry out the audit of all government offices of the federal and the states including local level and institutions as specified by law having regard to, inter alia, the regularity, economy, efficiency, effectiveness and the propriety thereof; and an annual report is to be submitted to the President by the Auditor General in accordance with the Article 294. The Audit Act, 1991 stipulates the methodology, scope and the matters to be audited by the AG; moreover, it also stipulates for carrying out the audit of wholly and majority owned corporate bodies of Government of Nepal. This report has been prepared by conducting audit in conformity with the legal mandate as conferred by the Constitution and the Audit Act.

2. Objectives - The objective of audit was to ensure that acquisition and utilization of public resources was done with due consideration to regularity, economy, efficiency, effectiveness and propriety as per the need and to provide assurance on the following matters:

- Financial statement has been prepared in the prescribed formats and transactions are reported in true and fair manner,
- Expenditure has been incurred for the very purpose and specified task within limit approved for as set by Appropriation Act,
- All receipts including revenue and deposit are properly collected and deposited,
- Adequate arrangements have been made for maintaining records of government property, its usage and safeguarding,
- Arrangements for internal control are effective,
- Financial transactions are carried out in compliance with laws and adequate supporting evidences have been maintained,
- The progress as per the program is achieved within the specified period and
- Issues pointed out in the past have been implemented.

3. Scope – In this year, Audit has been carried out of the financial transactions of fiscal year 2015/16 and audit backlogs of previous years, to the extent submitted, has been carried out by covering all Government Offices, Corporate Bodies, Committees, Boards, Trust/Funds, Authorities and Universities, other institutions as prescribed by law. As per the approved annual audit plan, financial audit along with performance, information & technology, and environmental audit has been carried out. From this year, issued based audit has been done by focusing on some important issues and has been included in the report.

4. Methodology - The audit has been accomplished in accordance with the Constitution, Audit Act, Auditing Principles as pronounced by the International Organization of Supreme Audit Institutions (INTOSAI), audit guidelines and good audit practices and exercises.

Audit reports were issued following audits conducted at a field level as prescribed by the annual plan and program. In order to ensure quality of its function, review has been done by conducting inspection and supervision during an audit execution for enhancing audit quality and monitoring about compliance with the code of ethics. As per the plan and procedure approved on the basis of risk assessment for selecting the entities and transactions to be audited, audit has been concluded by applying a detailed and test of controls procedures along with based on the internal audit and central financial statements.
Status of Audit, and Irregularities

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

1.1. **Government Offices** - This year, audits of 3 thousand 944 government offices with transactions of NPR 1 trillion 295 billion 449.2 million has been accomplished towards appropriation/revenue/deposit accounts as follows:

   *(NPR in million)*

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Transaction</th>
<th>Audited figure of 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Appropriation released/disbursed</td>
<td>6,00,851</td>
</tr>
<tr>
<td>2</td>
<td>Revenue collected</td>
<td>4,75,124.9</td>
</tr>
<tr>
<td>3</td>
<td>Deposit Receipt</td>
<td>26,764.9</td>
</tr>
<tr>
<td>4</td>
<td>Others</td>
<td>1,92,708.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>12,95,449.2</strong></td>
</tr>
</tbody>
</table>

The details of audited figures/transaction of the Government Entities is mentioned in Annex -1.

1.2. **Corporate Bodies, Boards and other Institutions** – This year, audit of NPR 1 trillion 798 billion 836 million of 63 corporate bodies, NPR 122 billion 476 million of 693 boards and other institutions and NPR 12 billion 327.7 million of 75 District Development Committees (DDCs) has been completed. The detail description/statement is mentioned in Annex 2, 3, 4 and 6.

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

1.4. **Audit backlog** – The audit backlog of government offices, has reached NPR 5.306 billion of 2,925 offices this year as compared to NPR 5.741 billion of 2,929 offices up to previous year. Likewise, in case of corporate bodies, this year, remaining audit backlog is of 436 financial years which was 482 financial years up to previous year.

1.5. **Audit Report with Qualified Opinion** – This Office has issued audit reports with qualified opinion on Consolidated Fund Account and Ministry-wise Consolidated/Compiled Financial Statement submitted by central level entities. In case of corporate bodies, among the 38 financial statements submitted, audit reports with unqualified (clean) opinion have been issued to 4 entities and remaining 34 entities have been received qualified audit reports.

2. **Irregularities** - Section 2 (da) of the Financial Procedures Act (FPA), 1999 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."

   The cumulative irregular amount including recoverable to be settled of the audited entities had totaled NPR 328 billion 523.8 million in the previous year, while such irregularities has reached NPR 396 billion 256.1 million this year. Such amount has increased by 20.62 percent as compared to that of the previous year. Out of which, irregularities of Government offices and District Development Committees (DDCs) and other Institution/ Committees to date is stood at NPR 222 billion.
Note: As the records of irregularities regarding corporate bodies are not maintained and follow-up are not conducted by this Office, the same figures are not included in the above figures.

3. Classification of Irregularities: - Under the Financial Procedure Act (FPA), (1999), irregularities are categorized into 3 categories as: recoverable, to be regularized and advances. This office has categorized irregularities as: recoverable, irregular, unsubstantiated expenses (non-submission of evidence), non-carried forward of balances, non-obtaining reimbursement (unclaimed reimbursements) and outstanding advance. Advances have been further categorized as staff advances, mobilization advances, letter of credit (LC) advances and institutional advances. In this year, the irregularities raised by the audits in the government offices, committees and other institutions are as follows:

(NPR in million)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Irregularities in Government Offices</td>
<td>167492.7</td>
</tr>
<tr>
<td>2</td>
<td>Irregularities in District Development Committees, Other Organizations and Committees</td>
<td>54399.8</td>
</tr>
<tr>
<td>3</td>
<td>Audit Backlog</td>
<td>5306.4</td>
</tr>
<tr>
<td>4</td>
<td>Revenue Arrears</td>
<td>132181.8</td>
</tr>
<tr>
<td>5</td>
<td>Foreign Grant to be reimbursed</td>
<td>22527.7</td>
</tr>
<tr>
<td>6</td>
<td>Foreign Loan to be reimbursed</td>
<td>14337.2</td>
</tr>
<tr>
<td>7</td>
<td>Past due Principal and Interest granted on Guarantee</td>
<td>20.5</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>396256.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Classification</th>
<th>Government offices</th>
<th>Boards &amp; other Institutions and DDCs</th>
<th>Total</th>
<th>Percent of total irregularity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total irregularities</td>
<td>88,855.9</td>
<td>8,581</td>
<td>97,436.9</td>
<td>100.00</td>
</tr>
<tr>
<td>1. Recoverable</td>
<td>40,438.9</td>
<td>947.8</td>
<td>41,386.7</td>
<td>42.48</td>
</tr>
<tr>
<td>2. To be regularized</td>
<td>24,403.2</td>
<td>6,077.8</td>
<td>30,481</td>
<td>31.28</td>
</tr>
<tr>
<td>Irregular (non-compliance)</td>
<td>5,135.5</td>
<td>2,096.4</td>
<td>7,231.9</td>
<td>7.42</td>
</tr>
<tr>
<td>Unsubstantiated expenditure (non-submission of documentary evidence)</td>
<td>18,142.5</td>
<td>3,709.6</td>
<td>21,852.1</td>
<td>22.43</td>
</tr>
<tr>
<td>Balance not carried forward</td>
<td>1.4</td>
<td>-</td>
<td>1.4</td>
<td>0.00</td>
</tr>
<tr>
<td>Unclaimed reimbursement</td>
<td>1,123.8</td>
<td>271.8</td>
<td>1,395.6</td>
<td>1.43</td>
</tr>
<tr>
<td>3. Advance</td>
<td>24,013.8</td>
<td>1,555.4</td>
<td>25,569.2</td>
<td>26.24</td>
</tr>
<tr>
<td>Staff Advance</td>
<td>409.1</td>
<td>409.1</td>
<td>818.2</td>
<td>0.45</td>
</tr>
<tr>
<td>Mobilization Advance</td>
<td>16,617.3</td>
<td>-</td>
<td>16,617.3</td>
<td>17.05</td>
</tr>
</tbody>
</table>
3.1. With regard to Government Offices, the five Ministries with higher irregularities in monetary terms, noted this year, are mentioned below:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Audited figure</th>
<th>Irregularities Figure</th>
<th>Percentage of total irregularities</th>
<th>Percentage of irregularities in comparison to audited figures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Recoverable</td>
<td>To be regularized</td>
<td>Advance outstanding</td>
<td>Total</td>
</tr>
<tr>
<td>1</td>
<td>Finance</td>
<td>718,956.6</td>
<td>37,536.1</td>
<td>1,548.6</td>
<td>39,114.9</td>
</tr>
<tr>
<td>2</td>
<td>Physical Infrastructure and Transportation</td>
<td>70687</td>
<td>650</td>
<td>2,425.2</td>
<td>9,695.3</td>
</tr>
<tr>
<td>3</td>
<td>Federal Affairs and Local Development</td>
<td>67,062.6</td>
<td>255.2</td>
<td>4,201.3</td>
<td>3,578.3</td>
</tr>
<tr>
<td>4</td>
<td>Education</td>
<td>92,030.4</td>
<td>105.8</td>
<td>7,391.6</td>
<td>267</td>
</tr>
<tr>
<td>5</td>
<td>Water Supply and Sanitation</td>
<td>14,643.4</td>
<td>174.6</td>
<td>2,154.4</td>
<td>1496</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>963,380</td>
<td>38,721.7</td>
<td>17,721.1</td>
<td>15,066.8</td>
</tr>
</tbody>
</table>

The irregularities of above mentioned five ministries stands at 80.48 percentage of total irregularities observed in the Government entities.

3.2. The comparative position of audited figures and irregularities of past three years regarding government entities is as follows:

<table>
<thead>
<tr>
<th>Annual Report</th>
<th>Audited figure</th>
<th>Irregularities figure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fifty Second</td>
<td>8,53,946.4</td>
<td>37,405.7</td>
<td>4.38</td>
</tr>
<tr>
<td>Fifty Third</td>
<td>10,43,238.4</td>
<td>48,778.8</td>
<td>4.67</td>
</tr>
<tr>
<td>Fifty Fourth</td>
<td>12,95,449.2</td>
<td>88,855.9</td>
<td>6.86</td>
</tr>
</tbody>
</table>

The irregularities figure in comparison with the audited figures has reached 6.86 percent in this year that was 4.67 percent in previous year.

4. Recovery: This year, out of the irregularities of NPR 97 billion 436.9 million noted by the audit, 42.48% or NPR 41 billion 386.7 million are the irregularities which needs to be recovered. The observations noted in this regard are mentioned as below:

4.1. Following the irregularities reported in various government entities by the Office, irregular amount of NPR 1 billion 969.2 million was recovered in total that included recovered amount of NPR 97.6 million during the audit, NPR 23.3 million after issuance of preliminary audit report and NPR 1 billion 848.3 million during follow-up. Regarding committees, NPR 2 billion 89.7 million has been recovered as a
result of audit, which includes NPR 12.5 million recovered from 5 entities. The details of entity wise recovery are mentioned below:

(NPR in. thousand)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Entity/Ministry</th>
<th>During Audit</th>
<th>After issuance of preliminary report</th>
<th>During Follow-up</th>
<th>Gross Total</th>
<th>Other Entity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Office of the President</td>
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<td>Constituent Assembly and Legislature Parliament Secretariat</td>
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<td>-</td>
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<td>107</td>
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<td>3.</td>
<td>Supreme Court</td>
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<td>4.</td>
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<td>6.</td>
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<td>7.</td>
<td>Office of the Attorney General</td>
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<td>National Human Rights Commission</td>
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<td>10.</td>
<td>Office of the Prime Minister and Council of Ministers</td>
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<td>21.</td>
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<td>24.</td>
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<td>101</td>
<td>10131</td>
<td>12801</td>
<td>-</td>
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<td>25.</td>
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<td>16</td>
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<td>26.</td>
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<td>28.</td>
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<td>29.</td>
<td>Education</td>
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<td>69806</td>
<td>80120</td>
<td>1903</td>
<td>82023</td>
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<tr>
<td>30.</td>
<td>Labor and Employment</td>
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<td>0</td>
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<td>31.</td>
<td>General Administration</td>
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<td>32.</td>
<td>Irrigation</td>
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<td>15405</td>
<td>16805</td>
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<td>33.</td>
<td>Information and Technology</td>
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<td>237</td>
<td>274025</td>
<td>274314</td>
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<td>274314</td>
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<td>34.</td>
<td>Urban Development</td>
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<td>2051</td>
<td>12615</td>
<td>14716</td>
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<td>35.</td>
<td>Drinking Water and Sanitation</td>
<td>634</td>
<td>353</td>
<td>4628</td>
<td>5615</td>
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<td>36.</td>
<td>Federal Affairs and Local Development</td>
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<td>9038</td>
<td>83075</td>
<td>117140</td>
<td>426</td>
<td>117566</td>
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<tr>
<td>37.</td>
<td>Health and Population</td>
<td>2327</td>
<td>333</td>
<td>19962</td>
<td>22622</td>
<td>71654</td>
<td>94276</td>
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</tbody>
</table>
4.2. This year, Ministry of Finance has the highest recoverable amount of NPR 37 billion 536.1 million out of the recoverable irregularities. Such amount includes non-recovery of capital gain tax, non-declaration of actual amount of purchase and sales transaction, non-collection of VAT even on vatable transactions, credit claim of ineligible VAT and non-filing of income returns and non-payment of tax despite having transaction is in excess of crores of rupees.

4.3. In and under the Ministry of Physical Infrastructure and Transport, The recoverable amount of NPR 650 million is reported which includes excess payment of price adjustment, non-recovery of liquidated damages, excess payment made by inflating total amount, determining higher rates on a new item, and payment of expenses under provisional sum without bills and receipts.

4.4. In and under the Ministry of Information and Technology, the recoverable amount of NPR 554.6 million is reported, which includes non-recovery of frequency fee, renewal fee and royalty from telecom service provider companies.

4.5. The amount of NPR 336.3 million is reported to be recovered by the Ministry of Land Reform and Management. It happened mainly due to non-collection of capital gain tax on sale of land and buildings and non-collection of registration fee etc.

4.6. In and under the Ministry of Agricultural Development and the Ministry of Federal Affairs and Local Development, the recoverable amount of NPR 256.2 million and of NPR 255.2 million is reported due to refunding of un-utilized amount of conditional grant and failure in collecting advance tax respectively.

5. **Advances:** As per the chapter 9 of the Financial Procedure Rules, 2007, mobilization advances, letter of credit, staff and other advances are required to be settled by applying stipulated procedure, however, in this year, there is unliquidated advance irregularities of NPR 2 billion 413.8 million remained in the government offices. Such advance irregularities to date has reached to NPR 58 billion 363 million. Advance Irregularities has increased by 12.55 percent as compared to that of previous year. The details of advance are stated in Annex 5.

    Although mobilization advance can be provided after signing a procurement contract and that advance amount requires deduction from the running bill as per the provision stated in the Rule 113 of the Public Procurement Rules, 2007, unliquidated advance irregularities has remained NPR 27 billion 85.5 million till this year including unliquidated advance of NPR 16 billion 617.3 million of this year.
Major Audit Findings

The major audit findings, regarding adherence to public accountability, observed during the audit conducted by this Office is presented in brief as follows:

<table>
<thead>
<tr>
<th>Status of Public Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget Management</strong></td>
</tr>
<tr>
<td>All foreign aid, including technical or commodity aid not included in budget</td>
</tr>
<tr>
<td>Virement made contrary to the Law</td>
</tr>
<tr>
<td>Expenditure shown by transferring amount at year end</td>
</tr>
<tr>
<td>Non-monitored to grant though significant part of budget covered by grant</td>
</tr>
<tr>
<td>Capital expenditures not incurred as anticipated</td>
</tr>
<tr>
<td>Reimbursable amount not received in time</td>
</tr>
<tr>
<td>Unrealistic report of current and capital expenditure.</td>
</tr>
<tr>
<td><strong>Public Procurement Management</strong></td>
</tr>
<tr>
<td>Additional works are provided through variation orders due to unrealistic cost estimate</td>
</tr>
<tr>
<td>Non-arrangement of contract in time</td>
</tr>
<tr>
<td>Direct Purchase made by splitting cost</td>
</tr>
<tr>
<td>Non completion of contract works within prescribed period</td>
</tr>
<tr>
<td>Non-recovery of pre-determined liquidity damages</td>
</tr>
<tr>
<td>Payment made for ineligible VAT claimed</td>
</tr>
<tr>
<td>Payment made for ineligible claims</td>
</tr>
<tr>
<td><strong>Project Management</strong></td>
</tr>
<tr>
<td>Non implementation of projects of national pride in a planned way and low progress achieved</td>
</tr>
<tr>
<td>Non-preparation of project’s action plans</td>
</tr>
<tr>
<td>Dependency upon consultant</td>
</tr>
<tr>
<td>Non-achievement of expected output and outcome</td>
</tr>
<tr>
<td>Minimum utilization of foreign aid</td>
</tr>
<tr>
<td>Low progress compared to target</td>
</tr>
<tr>
<td>Contingency expenditure incurred without standards</td>
</tr>
<tr>
<td>No inter-entity coordination</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Protection and Usage of Resources</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non maintenance of consolidated records of Government’s assets.</td>
</tr>
<tr>
<td>Encroachment of Government’s forest and land.</td>
</tr>
<tr>
<td>Non-utilization of Government’s assets.</td>
</tr>
<tr>
<td>No proper return from consumption of natural resources.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Internal Control and Accuracy of Transactions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>No inspection, monitoring from responsible person,</td>
</tr>
<tr>
<td>Ineffective Internal Audit,</td>
</tr>
<tr>
<td>Accounts not maintained as per government standards and not reflected on Consolidated Fund Account,</td>
</tr>
<tr>
<td>Surplus amount not deposited in the Consolidated Fund,</td>
</tr>
<tr>
<td>Weak internal control system.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Revenue Administration</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non deduction of proportionate tax credit,</td>
</tr>
<tr>
<td>Non clearance despite having high transactions,</td>
</tr>
<tr>
<td>Adjusted ineligible VAT credit,</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Operation of Corporation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Most of corporate institutions operating in loss,</td>
</tr>
<tr>
<td>Weak internal control</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Responsibility Undertaking/ Bearing</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non settlement of irregularities by taking action within stipulated time by a Responsible Person,</td>
</tr>
<tr>
<td>Short collection of customs duty by applying wrong tariff code of low rate, Non-assurance of use of revenue exemption</td>
</tr>
</tbody>
</table>
Economic Indicators

1 Overall Economic Activity – As per the data of National Planning Commission, the Thirteenth Plan (2013/14- 2015/16) had targeted to attain average growth rate of 6 percentages, however, the periodic growth rate remained at 2.9 percent. The targeted growth rate for agriculture and non-agriculture sector was 4.5 percent and 6.7 percent respectively, however, the actual growth rate remained at 2.2 and 3.4 percent respectively. In spite of an economic growth of 0.8 percent achieved owing to shrunken economic activities caused by badly affected overall economic sector which was mostly a result of the earthquake, and border obstructions, among other in the fiscal year 2015/16, considering the average growth rate of the last decade which remained at 3.8 percentage, expected growth has not been achieved. In order to become a middle income nation by 2030 growth rate of more than 7 percent is required. On the basis of rate of growth as per the Thirteenth Plan, it requires 24 years to double the GDP, whereas, further 18 years is required on the basis of average growth rate of last decade. Therefore, in order to achieve the targeted growth rate, huge investment must be made and capacity for implementing project should be enhanced. Other observations related to this are mentioned below:

1.1 As per the Economic Survey, this year, remittance income inflow into national economy is NPR 1 trillion 79 billion, representing 32 percent of total GDP, however, such income was expended in consumption, therefore, it has not contributed in capital formation. Due to non-achievement of the desired level of growth in domestic production for import substitution and due to decline in competitive capacity, the export remained at only 3 percent of GDP. This year, import is NPR 781 billion as compared to export NPR 70 billion, as a result the trade deficit has surged to NPR 711 billion. Though it was targeted to limit average inflation rate to 7 percentages by controlling price rise in order to improve the purchasing power of general public, inflation rate for 2072/ 2073 was 9.9 percent and for the plan period was 8.7 percent, due to which the goods and services were received in lesser amount than expected. In the last decade, gross consumption was 90 percent and gross domestic surplus was 10 percentage to GDP. In the current year, despite the consumption has increased to 94.7 percent and savings has decreased to 5.3 percent, due to high remittance inflow, the gross national surplus to GDP has been 42.9 percent, however investment has not increased in productive sectors.

1.2 During the plan period, the ratio of population below the poverty line, which was 23.4 percent, was targeted to brought down to 18 percent, however, due to lower economic activity, it has decreased by 2.2 percent points only, whereas yearly average employment growth rate has increased only to 2.9 percent against the targeted average employment growth of 3.2 percent. Similarly, during plan period, the per capita gross national income was estimated to increase from US Dollar 713 to 902, however, it has decreased by 0.53 percent as compared with base price income of previous year and has been stagnant at US Dollar 766. As per Human Development Report, 2016, Nepal stands at 144th position with a human development index of 0.558, whereas, its Gini coefficient was 32.80 and Palma ratio was 1.3 which indicates overall lower development of human aspects and high inequality in income distribution. At the year end, on the basis of outstanding debt of NPR 627 billion 690 million, per capita
outstanding debt has increased by NPR 2,895/- over the figures of last year and has reached NPR 22,129.00, however, the economic growth rate has decreased.

1.3 Against the target of the Plan of confining public debt within 33 percent of GDP, it was 27.9 percentage i.e. within the desired limit, however, due to weak development management capacity, against a target of mobilizing NPR 341 billion 590 million of foreign grant and debt aid, only 53.44 percent of the target i.e. NPR 182 billion 550 million was mobilized. Though the national pride projects, including mega infrastructure based projects, for the development of nation are being undertaken, the progress has been sluggish. As per data of National Planning Commission, during the Plan period, expenditure incurred was NPR 1 trillion 358 billion 630 million representing 84 percentage of estimated budget of NPR 1 trillion 616 billion 750 million. Regarding capital expenditure, 72.9 percentage of estimated budget on base price terms of NPR 329 billion 980 million has been expended. Similar to prior years, the gross government expenditure of NPR 601 billion 10 million has been expended this year, representing 73.34 percentage of the targeted budget, while, capital expenditure of NPR 123 billion 250 million has been expended, representing 59 percentage of capital budget. The capital expenditure was lower than expected because of legal complexity, lack of proper management of available capacity, lack of coordination among entities and lack of public accountability. Moreover, due to lack in public accountability and non-compliance with legal provisions regarding revenue management and expenditures in public sector and due to lack of fiscal good-governance, the audit of appropriation, revenue and deposit of government office conducted this year has revealed NPR 88 billion 855.9 million as irregularities. Out of such irregularities NPR 40 billion 438.9 million (45.51 percentage) needs to be recovered. In such condition, due to lack of proper use of resources mobilized, the expected return has not been obtained. Moreover, as per the statement of Finance Comptroller General Office, if advances of NPR 22 billion 280 million and transfer of NPR 24 billion released at year end is deducted from the expenditure accounted on cash basis, then the actual expenditure is decreased by NPR 46 billion 280 million. In such scenario, economic growth rate would be further lowered.

1.4 As per the data of Nepal Rastra Bank, up to 2016/17 mid February, expenditure of NPR 313 billion 300 million including financing activities was made, representing 29.83 percentage of total budget, which is 38.39 percent of current expenditure and 15.05 of capital expenditure. Actual capital expenditure will further decrease if advance is deducted from such expenditure. Capital formation may be stagnant due to increasing trade deficit in the current year, decreasing remittance inflow and shortage of loanable fund, and current account saving and balance of payment may decrease in the current year. Moreover, because of weak capacity of government expenditure management in comparison to available resources, there is cash balance of NPR 201 billion 610 million in the treasury of the Government of Nepal till mid February. Due to inflation and long idle period, there is condition of significant slump in present value. Overall, additional efforts are to be exercised to maintain financial stability, to increase access to finance, to strengthen financial management and to attain higher economic growth by expanding such sectors, in existing economic scenario.

It is expected that need for public expenditure will be increased along with implementation of the federal system. This year, though revenue collection has met its target, source of revenue should be made sustainable to meet the need of increasing resource requirement. There is the dominance of import based tax revenue, therefore for sustainable growth of revenue, it is necessary to expand domestic revenue base by increasing production of internal goods and services so that revenue from value added sector is increased. Similarly, in order to graduate the country to a developing country by 2022 and to a middle income country by 2030 through attainment of sustainable development goals and high economic growth, reformatory initiatives should be undertaken such as: commercialization and development of sectors having comparative advantage like agriculture,
forestry, energy, tourism; providing emphasis on infrastructure development; making timely reforms in legal and administrative sectors to increase domestic and foreign investment; investing remittance income in areas of capital formation; simplifying legal obstacles and procedural complexities for proper mobilization of available resources; enhancing capacity of development management so as to increase capacity of incurring capital expenditure; making manpower and institutions skilled and professional; making the project implementation aspect accountable; and providing effective service delivery by use of information and technology.

2. **Status of Income and Expenditure** - According to the Financial Comptroller General Office, the position of income and expenditure of the Government for the last three years is depicted as below:

(NPR in million)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax revenue</td>
<td>312,441.30</td>
<td>355,955.5</td>
<td>448,360</td>
</tr>
<tr>
<td>Indirect tax</td>
<td>227,706.60</td>
<td>243,499.9</td>
<td>321,110</td>
</tr>
<tr>
<td>Direct tax</td>
<td>84,734.70</td>
<td>243,499.9</td>
<td>127,250</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>44,179.50</td>
<td>112,455.6</td>
<td>51,600</td>
</tr>
<tr>
<td>Principal repayment</td>
<td>569.80</td>
<td>49,910.7</td>
<td>2,000</td>
</tr>
<tr>
<td>Others</td>
<td>5,734.20</td>
<td>2,081.6</td>
<td>3,260</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>362,924.80</td>
<td>413,929.9</td>
<td>501,96</td>
</tr>
<tr>
<td>Foreign grant</td>
<td>34,000.60</td>
<td>38,267.3</td>
<td>110,930</td>
</tr>
<tr>
<td>Foreign loan</td>
<td>21,132.40</td>
<td>25,615.8</td>
<td>94,960</td>
</tr>
<tr>
<td>Internal loan</td>
<td>19,982.90</td>
<td>42,423.1</td>
<td>88,000</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td>438,040.70</td>
<td>520,236.1</td>
<td>7,95,850</td>
</tr>
<tr>
<td>Recurrent expenditure</td>
<td>303,531.70</td>
<td>339,407.3</td>
<td>484,270</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>66,694.70</td>
<td>88,843.5</td>
<td>208,880</td>
</tr>
<tr>
<td>Financial expenditure</td>
<td>64,825.80</td>
<td>103,307.2</td>
<td>126,330</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>435,052.20</td>
<td>531,558.3</td>
<td>819,47</td>
</tr>
<tr>
<td>Saving (deficit)</td>
<td>2,988.30</td>
<td>(11,322.2)</td>
<td>(23630)</td>
</tr>
</tbody>
</table>

Indirect tax collection was estimated to be NPR 321 billion, however, only NPR 290 billion or 90 percentage was collected. Though capital expenditure has increased by 39 percent as compared to previous year, expenditure incurred remained 59 percent of estimated figure of NPR 208 billion 880 million. While assessing the trend of government expenditure and its structure, the share of recurrent expenditure, capital expenditure and financial services expenditure was stood at 61.77, 20.51 and 17.72 respectively of total expenditure. Other observations related to this are mentioned below:

2.1 A significant portion of the government budget has been spent on salaries of civil servants and pension service. This year, the ratio of this portion to total expenditure is 22.8%. Such expenditure is also borne from recurrent grant provided to local bodies and other institutions, committees and boards. As the ratio of recurrent grant provided to these entities is 16.69 per cent of total expenditure, the share of expenditure having consumable nature, including salary of civil servants and pension service, is more in total expenditure.
2.2 Out of the total expenditure of the country 31.56 percent or NPR109.00 million has been spent on providing conditional and unconditional grant, 22.76 percent of which is social service grant, 5.63 percent is local body grant, and 3.16 percent is social security grant. NPR. All of the grant amounts are accounted under recurrent expenditure. However, NPR 68 billion 540 million was released for the purpose of capital formation. As a result, shown recurrent and capital expenditure does not present correctly, moreover, the grant so provided is shown as expended even if the grant is not utilized by the respective entity.

2.3 Even though budget of NPR1 billion 992.8 million was appropriated for the purchase of vehicles under capital expenditure, expenditure of NPR 2 billion 219.7 million was incurred (11.39 percent more than the appropriation). If expenditure amounting to NPR 406.6 million made by Department of Road and Department of Drinking Water and Sanitation out of contingency budget is included in such amount, percentage will further increase.

- **Budget management**

3. **Expenditure from Contingency Head** – As per Rule 35(2) of Financial Procedure Rules, 2007, budget release and expenditure can only be made where the amount is within the approved budget and falls under the concerned expenditure head. Moreover, as per the Operational Manual, 2013, amount appropriated from General Administration head should be released in such a way that such released amount is accounted on the same budget sub-head of a concerned Ministry. As per the decision made by the Ministry of Finance on 21 June 2016, it is inappropriate to disburse NPR 5 billion through Nepal Rastra Bank to Economic Rehabilitation Fund for its operation, for the purpose of interest grant and refinancing from the Contingency Budget Head, even though, neither the program nor the budget was approved for providing such fund. NPR The amount of such fund has still not been utilized.

4. **Finance Budget** - As per Rule 35(2) of Financial Procedure Rules, 2007, the competent authority is empowered to release budget only when the amount is within the approved budget and falls under the concerned head. The amount appropriated by Appropriation Act must have been expended for the same purpose, however a lump sum amount of NPR 56 billion 669.1 million under finance budget head was appropriated and spent on the activities like financial assistance, travelling allowance, refund of customs, refund of tax, physical facilities, earthquake reconstruction etc., based on the ad hoc decision of Ministry of Finance. Such amount is 6.94 percent of total appropriated budget of this year NPR 816 billion 170 million. Such amount has been released through different Ministries as: NPR 54 billion 500 million to National Reconstruction Fund, NPR 183.5 million for financial assistance, NPR 120 million to Ministry of Supplies for physical assistance and NPR 12 million to Ministry of Livestock Development. Whereas NPR 13 billion 460 million was released in previous year.

*If this practice is continued, then there would be problems on implementation of budgeted program, difficulty on monitoring, non-transparency of budget, and problem on maintaining record and expenditure management. Therefore, such practices of spending from finance budget head needs to be controlled. It is obvious that such expenditure has made an impact on budgetary discipline also. The practice of non-appropriation or under-appropriation under the concerned program and head, but releasing from the finance budget does not comply with budgetary principles.*

5. **Increment in Expenditure Size** - Pursuant to Rule 33 of Financial Procedure Rules, 2007, the unspent balance at the end of the fiscal year should be frozen. This year, it is noted that with the motive to avoid freezing of budget, and to increase the size of expenditure, Ministry of Finance has made following release and accounted as expenditure. Such amount has been transferred to related Board, Fund, Authorities including other bodies in the last day of the fiscal year, however, they were unutilized, so
it cannot be taken as actual expenditure. Due to such expenditure, size of the budgetary expenditure has increased by 6.2 percentage.

\[(NPR \text{ in million})\]

<table>
<thead>
<tr>
<th>Organization</th>
<th>Payment Date</th>
<th>Description</th>
<th>Disbursement &amp; Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kathmandu Drinking Water Board</td>
<td>July 4, 2016</td>
<td>Establishment of Fund from Miscellaneous Expenditure</td>
<td>5,000</td>
</tr>
<tr>
<td>Kathmandu Drinking Water Board</td>
<td>July 12, 2016</td>
<td>Loan Investment</td>
<td>4,348.1</td>
</tr>
<tr>
<td>Nepal Electricity Authority</td>
<td>July 13, 2016</td>
<td>Loan Investment</td>
<td>4,879.9</td>
</tr>
<tr>
<td>Nepal Electricity Authority</td>
<td>July 15, 2016</td>
<td>Share Investment/ towards losses on electricity sales</td>
<td>3,967.7</td>
</tr>
<tr>
<td>National Reconstruction Authority</td>
<td>July 15, 2016</td>
<td>Transfer of unspent balance to non-freezable account</td>
<td>18,260</td>
</tr>
<tr>
<td>Nepal Army</td>
<td>July 15, 2016</td>
<td>Virement from 6020233 by change of source</td>
<td>409.7</td>
</tr>
<tr>
<td>Patan Academy of Health Sciences</td>
<td>July 15, 2016</td>
<td>Virement from 6020233</td>
<td>200</td>
</tr>
<tr>
<td>Town Development Fund</td>
<td></td>
<td>Loan Investment</td>
<td>216.7</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td></td>
<td></td>
<td><strong>37,282.1</strong></td>
</tr>
</tbody>
</table>

Despite the absence of possibility of incurring the expenditure, it is inappropriate to release budget for purpose of keeping money in non-freezable account just to increase the volume of budgetary expenditure. This has resulted in violation of fiscal discipline. So, it is required to release the budget and account the expenditure by fully adhering to the provisions of legislation.

6. **Virement (Amount Transfer)**- As per the provision laid down in Apportionment Act, no amount can be transferred exceeding 10 percentage of apportioned amount. The Public Account Committee had directed to make virement according to law, however, as per the details obtained from the Finance Comptroller General Office, it revealed that, in an average, virement upto 29.67 percent of initial appropriated budget was made in 25 entities as depicted below:

\[(NPR \text{ in million})\]

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry/ Entities Name</th>
<th>Initial Budget</th>
<th>Addition from virement</th>
<th>Additional Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Physical Infrastructure and Transport</td>
<td>42,021.8</td>
<td>11,781</td>
<td>28.04</td>
</tr>
<tr>
<td>2.</td>
<td>Office of the Prime Minister and Council of Ministers</td>
<td>4,236.1</td>
<td>7,344.1</td>
<td>173.37</td>
</tr>
<tr>
<td>3.</td>
<td>Ministry of Irrigation</td>
<td>18,784.7</td>
<td>3,400.5</td>
<td>18.10</td>
</tr>
<tr>
<td>4.</td>
<td>Ministry of Urban Development</td>
<td>18,610.5</td>
<td>3,112.6</td>
<td>16.72</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Defense</td>
<td>3,099.1</td>
<td>824.8</td>
<td>26.61</td>
</tr>
<tr>
<td>6.</td>
<td>Ministry of Foreign Affairs</td>
<td>2,990.1</td>
<td>505.5</td>
<td>16.91</td>
</tr>
<tr>
<td>7.</td>
<td>Ministry of Commerce and Supplies</td>
<td>1,310.1</td>
<td>486.2</td>
<td>23.39</td>
</tr>
<tr>
<td>8.</td>
<td>Ministry of Peace and Reconstruction</td>
<td>1,867.5</td>
<td>436.8</td>
<td>23.39</td>
</tr>
<tr>
<td>9.</td>
<td>Ministry of Energy</td>
<td>927.8</td>
<td>367.3</td>
<td>39.59</td>
</tr>
<tr>
<td>10.</td>
<td>Ministry of Finance</td>
<td>2,246.2</td>
<td>286.1</td>
<td>12.74</td>
</tr>
<tr>
<td>11.</td>
<td>Ministry of General Administration</td>
<td>771.4</td>
<td>278.3</td>
<td>36.08</td>
</tr>
</tbody>
</table>
### Table: Expenditure and Revenue Income

<table>
<thead>
<tr>
<th>No.</th>
<th>Department/Commission/Parliament</th>
<th>Expenditure</th>
<th>Revenue Income</th>
<th>Other Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.</td>
<td>Office of the Prime Minister and Council of Ministers</td>
<td>965.5</td>
<td>147.8</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>Ministry of Education</td>
<td>168.8</td>
<td>115.5</td>
<td>68.42</td>
</tr>
<tr>
<td>14.</td>
<td>Public Service Commission</td>
<td>416.2</td>
<td>925</td>
<td>22.22</td>
</tr>
<tr>
<td>15.</td>
<td>Office of the Attorney General</td>
<td>170</td>
<td>652</td>
<td>38.35</td>
</tr>
<tr>
<td>16.</td>
<td>Office of the President</td>
<td>235.4</td>
<td>469</td>
<td>19.92</td>
</tr>
<tr>
<td>17.</td>
<td>Constitutional Assembly/Legislature Parliament</td>
<td>129</td>
<td>331</td>
<td>256.59</td>
</tr>
<tr>
<td>18.</td>
<td>Office of the Vice President</td>
<td>1.3</td>
<td>27.1</td>
<td>2084.62</td>
</tr>
<tr>
<td>20.</td>
<td>National Planning Commission Secretariat</td>
<td>62.1</td>
<td>11.8</td>
<td>19</td>
</tr>
<tr>
<td>21.</td>
<td>Ministry of General Administration</td>
<td>38.6</td>
<td>9.2</td>
<td>23.03</td>
</tr>
<tr>
<td>22.</td>
<td>Ministry of Youth and Sports</td>
<td>2.5</td>
<td>9.1</td>
<td>364</td>
</tr>
<tr>
<td>23.</td>
<td>Public Service Commission</td>
<td>57.5</td>
<td>7.8</td>
<td>13.57</td>
</tr>
<tr>
<td>24.</td>
<td>Ministry of Law, Justice, Constituent Assembly and Parliamentary Affairs</td>
<td>4.7</td>
<td>5.2</td>
<td>110.64</td>
</tr>
<tr>
<td>25.</td>
<td>Council of Justice</td>
<td>0.9</td>
<td>4.1</td>
<td>44.556</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>99146.7</strong></td>
<td><strong>29418.3</strong></td>
<td><strong>29.67</strong></td>
</tr>
</tbody>
</table>

Other observation related to virement are mentioned as below:

6.1 Under the section 8 of Financial Procedure Act, 1999, it empowers the making virement if there is surplus in any appropriated budget. The Budget Sub-Head No. 6021064, namely, Contingency for Development Programs, which had initial budget allocation of NPR 5 billion, was made NPR 9 billion 253.3 million after additional virement. Thereafter NPR 9 billion 531.9 million was reduced through virement which resulted in a negative balance of NPR 278.6 million in that budget head.

6.2 Ministry of Finance had transferred initial appropriated whole budget of NPR 6 billion 52.6 million to other heads from 37 budget sub-heads NPR therefore, the appropriation was not seemed realistic.

6.3 As per Rule 33 (k) of Financial Procedure Rules, 2007, transaction must be closed 7 days before annual closing, however, it is observed that out of total virement of NPR 166 billion, virement of 14.46 percent i.e. NPR 24 billion was made in 7 days of the fiscal year end.

6.4 Even though there was no budget allocation in foreign share investment this year, NPR 706.8 million has been spent on share investment through virement from contingency head.

   The practice of appropriations and virement by contravening the provision of legislation needs to be controlled.

7. **Expenditure and Revenue Income** – This year, Government of Nepal has treated NPR 4 billion 880 million as interest income out of the outstanding interest of NPR 20 billion 400 million that was to be paid to Government of Nepal by Nepal Electricity Authority, out of the budget disbursed as loan investment by Government of Nepal on July 13, 2016. It does not seem logical to present this as revenue for the interest that was payable to Government of Nepal that has been settled from the appropriation made as loan investment by the Government of Nepal itself. Due to such transactions, volume of expenditure and income of Government of Nepal has been inflated and as a result the report published by the Government is not fair.

8. **Spending Authority and Expenditure at the fiscal year end** - As per the Single Treasury Account of Financial Comptroller General Office, NPR 58 billion 420 million (47 percent) has been expended
only in the month of Ashadh (month ending mid-July) out of capital expenditure of NPR 123 billion 250 million incurred in this year. A substantial amount of additional budget is released by Ministry of Finance at the end of each fiscal year, and, out of such amount offices tend to provide advances, and transfer such money to non-freezing account, such practices found unchanged. Some of the observations related to this are as follows:

8.1 As per Rule 33 (k) of Financial Procedure Rules, 2007, financial transactions should be closed 7 days before annual closing, however, as per details obtained from Financial Comptroller General Office, it revealed that, out of total appropriated budget of NPR 601 billion, NPR 870 billion or 14.47 percentage has been expended in last 7 days of fiscal year. Achievement from such expenditure could be minimal. Therefore, law should be complied with on timely spending.

8.2 Ministry of Physical Infrastructure and Transport, has expended NPR 28 billion 930 million (77.92 percent) out of total incurred expenditure of NPR 37 billion 130 million in the third trimester. Out of which NPR 18 billion 380 million (49.49 percent) has been spent only in the month of mid-July.

8.3 Instead of authorizing total budget for capital expenditure by the Headquarter of Armed Police Force, it granted authorization of NPR 0.14 million initially and such authorization was given intermittently to maintain at NPR 545.1 million. Similarly, Ministry of Defense has given budget authorization of NPR 410 million for reconstruction work on May 6, 2016.

8.4 As per the decision made on July 4, 2016 by the Ministry of Finance, Ministry of Education has made virement of NPR 299.8 million on July 5, 2016 and provided authority to 68 District Education Offices for construction of school building and additional classrooms, purchase of machine and equipment, and computer, construction of science lab, toilet and compound wall, playground and installation of solar. In this way, although the grant money has been recorded as expenditures in the last moment of the fiscal year by depositing grant money in the accounts of schools, authority has been provided even though there was no possibility to complete the work within the stipulated time, moreover, cent percent physical and financial progress has been shown just on the basis of deposit of amount in the account of school, which is not justified.

The activities like incurring substantial amount of expenditure in the month of Ashadh (June 15- July 15), transferring money in Funds and Boards, among others, at the yearend to show high volume of expenditure, making virement in excess of stipulated limit, and making expenditure after virement from Contingency and Finance Budget etc. reflect weak scenario of budget discipline. Additionally, Government of Nepal should demonstrate its seriousness to maintain budgetary discipline and formulate legislation regarding fiscal accountability and implement it.

**Debt and Assistance**

9. Overall Debt - In details submitted by the Office (FCGO), total debt liability of Government of Nepal till 2015/16 is NPR 627 billion 790 million. Out of which internal debt is NPR 239 billion 300 million and foreign debt is NPR 388 billion 760 million. Similarly, total debt liability is 27.92 percent of gross domestic product of 2015/16. This comprised of 10.63 percent internal debt and 17.29 percent foreign debt. On basis of total population of 28.4 million, the per capita debt till this year comes to NPR 22 thousand 129.

10. Foreign Assistance - Observation noted pertaining to Foreign debt and grant are as follows:

10.1 This year, the budget allocation for expenditure towards foreign grant was NPR 110 billion 930 million and towards foreign debt was NPR 94 billion 960 million, totaling to NPR 205 billion 890 million, however, NPR 39 billion 541.7 million expenditure was made towards foreign grant and NPR 33 billion
228.3 million expenditure was made towards foreign debt totaling to NPR 72 billion 770 million has been found to be expended. This year, in totality, only 35.34 percentage of estimated amount of foreign debt and grant as per budget statement was found utilized.

10.2 Under the Ministry of Agriculture, Ministry of Irrigation and Ministry of Federal Affairs and Local Development, agreement was made for foreign grant and loan for 12 projects. The status of utilization of loan is depicted as below:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Project Name</th>
<th>Donor Entity</th>
<th>Project period</th>
<th>Period Elapsed</th>
<th>Total Agreement Amount</th>
<th>Total Expenditure</th>
<th>Expenditure Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Raising Income of Small &amp; Medium Farmers Project</td>
<td>ADB</td>
<td>8</td>
<td>6</td>
<td>25920</td>
<td>10217</td>
<td>39.42</td>
</tr>
<tr>
<td>2.</td>
<td>Project for Commercial Agriculture and Trade</td>
<td>World Bank</td>
<td>9</td>
<td>7</td>
<td>60000</td>
<td>26480</td>
<td>44.13</td>
</tr>
<tr>
<td>3.</td>
<td>Building Resilience to Climate Related Hazard</td>
<td>World Bank</td>
<td>5</td>
<td>3</td>
<td>5154</td>
<td>2933</td>
<td>56.91</td>
</tr>
<tr>
<td>4.</td>
<td>Agriculture and Food Security Project</td>
<td>World Bank</td>
<td>5</td>
<td>3</td>
<td>49300</td>
<td>25373</td>
<td>51.57</td>
</tr>
<tr>
<td>5.</td>
<td>Improved Seed Program for Farmer</td>
<td>World Bank</td>
<td>7</td>
<td>4</td>
<td>47760</td>
<td>11916</td>
<td>24.95</td>
</tr>
<tr>
<td>8.</td>
<td>Rani Jamara Kulariya Irrigation Project</td>
<td>World Bank</td>
<td>7</td>
<td>6</td>
<td>52298</td>
<td>22247</td>
<td>42.54</td>
</tr>
<tr>
<td>9.</td>
<td>Strengthening National Rural Transport Program</td>
<td>World Bank</td>
<td>5</td>
<td>3</td>
<td>174786</td>
<td>31227</td>
<td>17.87</td>
</tr>
</tbody>
</table>
It is seen that even though 50 to 94 percent of project time has elapsed, only 18.87 to 70.69 percent of debt grant been utilized, so it is unlikely to spend the whole amount within the project period and the set target can be achieved. Therefore, project should be completed within agreed period.

11. **Reimbursement of Grant** – Till the previous year, the reimbursable amount toward grant was NPR 21 billion 250 million and in this year the reimbursable expenditure was NPR 25 billion 120 million, so the total reimbursable amount was NPR 46 billion 370 million. Out of such amount, this year, NPR 23 billion 853.4 million was reimbursed and/or adjusted, and at the year end NPR 22 billion 517.7 million remained as balance. In comparison to last year, the reimbursable grant has increased by 5.96 percent. Other observations related to this are mentioned as below:

11.1 It is found that the following 5 ministries, which have the highest reimbursable grant, have balance of NPR 19 billion 250 million. Such amount represents 85.49 percent of reimbursable grant amount.

\[(NPR \text{ in million})\]

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Till Previous Year</th>
<th>Till Current Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Education</td>
<td>14,030.4</td>
<td>13,346.6</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Federal Affairs and Local Development</td>
<td>3,073.0</td>
<td>2,467.5</td>
</tr>
<tr>
<td>3.</td>
<td>Office of the Prime Minister and Council of Ministers</td>
<td>371.7</td>
<td>1,512.8</td>
</tr>
<tr>
<td>4.</td>
<td>Ministry of Agriculture Development</td>
<td>938.5</td>
<td>1,194.5</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Health and Population</td>
<td>(101.6)</td>
<td>730.2</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>18312.0</strong></td>
<td><strong>19251.6</strong></td>
</tr>
</tbody>
</table>

Because of non-reimbursement of such reimbursable amount that increases financial burden on the resources of Government of Nepal. Therefore, reimbursement should be obtained on due time.

11.2 In detail submitted by Financial Comptroller General Office, reimbursable amount in 22 projects is negative NPR 12 billion 651.8 million, however, the reason has not been disclosed. Due to negative balances in the closed projects as well, the total reimbursable amount also decreases - as a result, the
shown balance of outstanding reimbursable amount was not accurately presented. Such account should be timely reconciled.

12. **Debt Reimbursement** - Till the previous year, the reimbursable expenses toward foreign debt was NPR 8 billion 679.5 million and in this year the reimbursable expenditure was NPR 20 billion 279 million, so the total reimbursable amount was NPR 28 billion 958.5 million. Out of such amount, this year, NPR 14 billion 653.4 million got reimbursed and NPR 32.1 million was adjusted, and at the yearend NPR 14 billion 337.2 million remained to be reimbursed as balance.

Outstanding debt reimbursement amount has increased by 65.18 percentage as compared to previous year. The Ministries having highest outstanding reimbursable debt are: Ministry of Finance having NPR 13 billion 268.7 million, Ministry of Federal Affairs and Local Development having NPR 1 billion 672.1 million and Ministry of Irrigation having NPR 1 billion 226.6 million reimbursable debt. Arrangement should be made for timely recovery of reimbursable amount.

13. **Technical and Other Assistance** - In the details of Technical and Financial Assistance presented along with the Budget Speech in the Legislature-Parliament, it was mentioned that for 133 agreements of 20 ministries, NPR 25 billion 39.7 million technical assistance would be received.

As per Section 14(2) of Financial Procedure Act, 1999, details of technical assistance should be incorporated along with central compiled financial statement, however, as the same has not been done, thus the overall picture of expenditure and revenue of the Government has not been presented. Even though Public Accounts Committee has directed for getting conducted audit of technical assistance, audit of such technical assistance has not been done by submitting the financial statements and accounts of such assistance.

\[(NPR \text{ in million})\]

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Entity/Ministry</th>
<th>Number of Agreement</th>
<th>Annual Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Supreme Court</td>
<td>1</td>
<td>71,745.5</td>
</tr>
<tr>
<td>2.</td>
<td>National Human Right Commission</td>
<td>1</td>
<td>79,750</td>
</tr>
<tr>
<td>3.</td>
<td>Finance</td>
<td>3</td>
<td>106,140.9</td>
</tr>
<tr>
<td>4.</td>
<td>Industry</td>
<td>3</td>
<td>95,477.9</td>
</tr>
<tr>
<td>5.</td>
<td>Agricultural Development</td>
<td>12</td>
<td>94,871.8</td>
</tr>
<tr>
<td>6.</td>
<td>Energy</td>
<td>4</td>
<td>15,654.5</td>
</tr>
<tr>
<td>7.</td>
<td>Home Affairs</td>
<td>3</td>
<td>43,323.5</td>
</tr>
<tr>
<td>9.</td>
<td>Women, Children and Social Welfare</td>
<td>1</td>
<td>1,120</td>
</tr>
<tr>
<td>10.</td>
<td>Land Reform and Management</td>
<td>1</td>
<td>4,070</td>
</tr>
<tr>
<td>11.</td>
<td>Forest and Soil Conservation</td>
<td>13</td>
<td>142408.7</td>
</tr>
<tr>
<td>12.</td>
<td>Commerce and Supplies</td>
<td>3</td>
<td>34,939.2</td>
</tr>
<tr>
<td>13.</td>
<td>Education</td>
<td>17</td>
<td>765,856.7</td>
</tr>
<tr>
<td>14.</td>
<td>Culture, Tourism and Civil Aviation</td>
<td>1</td>
<td>3,911</td>
</tr>
<tr>
<td>15.</td>
<td>Peace and Reconstruction</td>
<td>3</td>
<td>21,890.6</td>
</tr>
<tr>
<td>16.</td>
<td>Urban Development</td>
<td>4</td>
<td>11,543.8</td>
</tr>
<tr>
<td>17.</td>
<td>Federal Affairs and Local Development</td>
<td>23</td>
<td>732,429</td>
</tr>
<tr>
<td>18.</td>
<td>Health and Population</td>
<td>17</td>
<td>177,146.8</td>
</tr>
<tr>
<td>19.</td>
<td>Secretariat of National Planning Commission</td>
<td>1</td>
<td>24,337.1</td>
</tr>
<tr>
<td>20.</td>
<td>Labor and Employment</td>
<td>4</td>
<td>11,118.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>133</strong></td>
<td><strong>2,539,071.8</strong></td>
</tr>
</tbody>
</table>
Other observation relating to other assistance are as follows:

13.1 Despite fund received from the Government of India under the Indian Assistance Program, District Development Committee of Udyapur, Gorkha, Makwanpur, Kathmandu, Achham and Bajura expended NPR 53.1 million for construction of schools and other works as such amount has not been incorporated in the budget allocation.

13.2 For assistance to Earthquake victims, Government of China has provided commodity assistance amounting Nepali Currency of NPR 93 million to Ministry of Commerce and Supply which included 10 thousand units of induction stoves equivalent to Chinese Yuan 5 million, 10-ton salt, 10-ton vegetable oil and 30-ton rice equivalent to Chinese Yuan 1 million. On testing by Department of Food, Technology and Quality Control, of assistance received, a report was submitted that salt, oil and rice were as per the standards set by the Government of Nepal, however, as the level of acid in the oil should not be more than 0.5 percent, and the reported level of acid in oil was 1.26 to 1.41 percent, as a result it found inedible. In relation to induction stove, grant of NPR 25 million was provided to National Trading Limited for payment of Custom Tariff and Value Added Tax (VAT), however, such stoves are still at the custom’s warehouse due to non-payment of demurrage of NPR 10 million. Consequently, earthquake victims have been deprived of the benefit, so, appropriate arrangement should be made in time.

Reimbursement of foreign debt and grant should be obtained on time and capacity for utilization of foreign assistance should be enhanced. In addition, all foreign assistance should be incorporated in budget and its audit has to be conducted.

- Accounting of Consolidated Fund

14. Consolidated Fund

The position of receipt and payment of Consolidated Fund as presented by Office (FCGO) is as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>F.Y. 2015/16</th>
<th>F.Y. 2014/15</th>
<th>Increase/decrease in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipt &amp; grants</td>
<td>528288.4</td>
<td>449341.7</td>
<td>17.57</td>
</tr>
<tr>
<td>Revenue</td>
<td>485239.6</td>
<td>411959</td>
<td>17.79</td>
</tr>
<tr>
<td>Grant</td>
<td>43048.8</td>
<td>37382.7</td>
<td>15.16</td>
</tr>
<tr>
<td>Financing Arrangement</td>
<td>128708.8</td>
<td>64881.4</td>
<td>98.38</td>
</tr>
<tr>
<td>Repayment of loan investment</td>
<td>13694</td>
<td>2081.5</td>
<td>557.89</td>
</tr>
<tr>
<td>Sale of share</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipt of foreign loan</td>
<td>27426.7</td>
<td>20432.3</td>
<td>34.23</td>
</tr>
<tr>
<td>Receipt of domestic loan</td>
<td>87588.1</td>
<td>42367.6</td>
<td>106.73</td>
</tr>
<tr>
<td>Total</td>
<td>656997.3</td>
<td>514223.1</td>
<td>27.77</td>
</tr>
<tr>
<td>Payment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year payment</td>
<td>494546.3</td>
<td>428032.8</td>
<td>15.54</td>
</tr>
<tr>
<td>Expenditure charged to Consolidated Fund</td>
<td>8763</td>
<td>9334.8</td>
<td>-6.13</td>
</tr>
<tr>
<td>Expenditure through Appropriation Act</td>
<td>485783.3</td>
<td>418698</td>
<td>16.02</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------</td>
<td>--------</td>
<td>-------</td>
</tr>
<tr>
<td>Payment under Financing</td>
<td></td>
<td>106467.1</td>
<td>103307.2</td>
</tr>
<tr>
<td>b) Expenditure charged to Consolidated Fund.</td>
<td>68949.7</td>
<td>64457.8</td>
<td>6.97</td>
</tr>
<tr>
<td>Expenditure through Appropriation Act</td>
<td>37517.4</td>
<td>38849.4</td>
<td>-3.43</td>
</tr>
<tr>
<td>Adjustment of expenditure made by District Treasury Controller Office but not paid from bank.</td>
<td>-58</td>
<td>-80.8</td>
<td>-28.22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>600955.4</td>
<td>531259.2</td>
<td>13.12</td>
</tr>
<tr>
<td>Previous year due payment</td>
<td></td>
<td>56041.8</td>
<td>-17036.1</td>
</tr>
<tr>
<td>Change in cash</td>
<td></td>
<td>-78694.4</td>
<td>-61575.9</td>
</tr>
<tr>
<td>Opening balance for the financial year</td>
<td></td>
<td>-22652.6</td>
<td>-78612</td>
</tr>
</tbody>
</table>

Domestic loan of NPR 42 billion 367.6 million was taken in previous financial year, which increased by 106% to NPR 87 billion 588.1 million in current financial year. Foreign loan and grant has increased by 34.26 & 15.16 percent respectively in current financial year. Other observations noted in relation to the above are as follows:

14.1 In comparison to the previous financial year, repayment of loan investment has increased by 5.57 times and reached NPR 13 billion 690 million. This includes repayment of NPR 12 billion 64 million i.e. 92% of principal of loan of Nepal Oil Incorporation.

14.2 As per the prevailing laws, Government accounting should be done on cash basis of accounting. However, the balance of consolidated fund was seen in negative. This year, despite there was a saving of NPR 56 billion 41.8 million, the balance has reached to negative NPR 22 billion 652.6 million. As the financial statement prepared following cash basis of accounting showed negative balance, the financial statement does not reflect the true and fair picture of the financial position.

14.3 As per financial statement of the Consolidated Fund, foreign loan receipt is NPR 27 billion 426.7 million. However, as per the treasury record of Nepal Rastra Bank, foreign loan is NPR 29 billion 773.5 million, therefore, difference of NPR 2 billion 346.8 million was appeared in the amount of loan shown between treasury record of Nepal Rastra Bank and the Office.

14.4 As per the financial statement of Consolidated Fund, there is a foreign grant receipt of NPR 32 billion 470 million except direct grant and commodity assistance out of the total foreign grant receipt is NPR 43 billion 48.8 million, but of the grant shown by Nepal Rastra Bank which is NPR 39 billion 783.2 million, consequently, there is a difference of NPR 7 billion 307.2 million.

14.5 After preparation of the format of the Consolidated Fund, the Financial Comptroller General Office has not taken approval from the Office of the Auditor General. Therefore, considering the prevailing Act, Rules and good practices, the Office should design the format of Consolidated Fund and get it approved from the Office of the Auditor General.

14.6 With respect to the above, the Public Accounts Committee has directed to prepare the format of Consolidated Fund and act as per the suggestion, to ascertain the cash balance, to reconcile the difference amount and to submit the report within 3 months, however, it has not been complied with.
Necessary modifications and improvement should be made in the format of Government accounts and reconciliation should be done with the account of the Nepal Rastra Bank.

- Revenue Exemption

15. **Exemption and Concessions:** As per section 18 of the Finance Act, 2015, Government of Nepal can reduce, increase, partially or fully exempt the fees, charges, amount and rate of tax as levied by the laws. Finance Act has made provision to give the remission on rates of tax and levy it as specified in Value Added Tax Act, Excise Act and Custom Act. On July 15, 2016, the Public Accounts Committee has instructed to control the provisions of granting remission, to keep accounting of remission as per international practice and to conduct effective monitoring of remission. It can be seen that this type of remission in past three financial years from the financial year 2013/14 is NPR 38 billion 270 million, NPR 49 billion 10 million and NPR 51 billion 310 million, respectively, thus NPR 138 billion 590 million has been exempted. In the three years’ period, revenue exemption granted amount has increased by 34 percent. Impact assessment of such revenue remission has not yet been done. This year’s revenue remission is as follows:

**(NPR in million)**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Exemption Purpose</th>
<th>Exempted Revenue</th>
<th>S. No.</th>
<th>Exemption Purpose</th>
<th>Exempted Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agriculture and livestock related production, hatchery and tea industry</td>
<td>11,772.4</td>
<td>2.</td>
<td>Chemical Fertilizer</td>
<td>5,517.8</td>
</tr>
<tr>
<td>3.</td>
<td>Medicine and Pesticide medicine and raw materials of medicine</td>
<td>5,361.8</td>
<td>4.</td>
<td>Raw materials imported by feed industries.</td>
<td>4,185.2</td>
</tr>
<tr>
<td>5.</td>
<td>Mill machinery</td>
<td>3,432.4</td>
<td>6.</td>
<td>Gold and Silver</td>
<td>2,523</td>
</tr>
<tr>
<td>7.</td>
<td>Nepal Army, Police including Government and other offices</td>
<td>3,418.1</td>
<td>8.</td>
<td>Electricity production equipment parts through recommendation of Department of Electricity</td>
<td>2,406.5</td>
</tr>
<tr>
<td>9.</td>
<td>LPG gas, salt, cotton and instrument,</td>
<td>2,203.6</td>
<td>10.</td>
<td>Hospital and Social organizations</td>
<td>2,158.5</td>
</tr>
<tr>
<td>11.</td>
<td>SAFTA exemption</td>
<td>1,616.4</td>
<td>11.</td>
<td>Generator, rapeseed, thresher, harrow, pumping set including agriculture instruments</td>
<td>1,286.5</td>
</tr>
<tr>
<td>12.</td>
<td>Aero plane parts</td>
<td>1,038.2</td>
<td>13.</td>
<td>Solar battery and others</td>
<td>799.5</td>
</tr>
<tr>
<td>14.</td>
<td>Project operated under foreign assistance</td>
<td>653.9</td>
<td>15.</td>
<td>Cotton sari, lungi, tika tikuli and bangles</td>
<td>639.4</td>
</tr>
<tr>
<td>16.</td>
<td>Electrical vehicles, vehicles, fire engine, ambulance, hearse</td>
<td>532.3</td>
<td>17.</td>
<td>Crude oil imported by oil mill</td>
<td>511.1</td>
</tr>
<tr>
<td>18.</td>
<td>Printing books and printing materials, news print paper, bank notes</td>
<td>449.3</td>
<td>19.</td>
<td>Crude jute and spare parts of jute mill and reserve parts of jute mill</td>
<td>383.8</td>
</tr>
<tr>
<td>20.</td>
<td>Fiber of carpet industry including manmade fiber and Kashmiri yarn and cotton yarn</td>
<td>331.3</td>
<td>21.</td>
<td>PVC Film, BOPP Film, Filler master batch</td>
<td>66</td>
</tr>
<tr>
<td>22.</td>
<td>Goods imported for up gradation of standard of Hotel, goods</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total 51,308**
imported by cine industry on recommendation of the Film Development Board.

There is an international good practice of submitting details of revenue exemption, which is an integral part of income expenditure statement, and impact assessment of such remission along with the budget speech, itself. The Ministry of Finance has not prepared the records on revenue foregone due to remission of custom, vat and excise. Significant observations regarding this are as follows:

15.1 In Group 11 under Schedule 1 of Value Added Act, 1996, goods built in gold or powder gold and ornaments of gold are exempted from VAT. Due to such facility, NPR 1 billion 940 million was exempted last year, and NPR 2 billion 520 million has been exempted this year after increment amounting NPR 574.9 million (29.51 percent). Exemption provided in such luxurious goods should be reviewed.

15.2 As per the arrangement, revenue exemption, and non-collection of fee and duty to agro and livestock products was granted in order to supply of essential food in low and affordable price, revenue exemption of NPR 1 billion 770 million has been granted on imports made by agriculture and livestock, hatchery and tea industries in this year. The study of impact caused by such rebate on domestic products related to agriculture and livestock has not been carried out.

15.3 If goods pertaining to SAFTA exemption as per Finance Act, 2015 are produced in SAARC countries and imported from the same countries with the certificate of origin then there is a provision of partial exemption on customs. As per such provision this year NPR 1 billion 616.4 million has been exempted from different custom offices. Government has not assessed the impact on domestic industries because of such exemption. Country has to enhance competitive capacity to derive benefits from provision of SAFTA agreement signed among SAARC countries. Detailed study should be done regarding import and export of SAFTA exempted goods and initiation should be taken to preserve the interest of the country at SAFTA meeting.

15.4 As per Finance Act, 2072, exemption of custom and VAT is provided on import of maize, soybean oil seed cake and other goods by grain industry. From this provision, exemption of NPR 4 billion 180 million has been granted this year. There is no mechanism to get it ensured that the goods imported under revenue exemption has been utilized for the production of birds and animal’s feed. Impact on overall economy due to such exemptions should be assessed by preparing statement of exempted revenue and presented in Legislature-Parliament along with the budget.

• Capital Gain Tax

16. Capital Gain Tax: As per section 2(ka da) (3), 2(da) and 2(ka na) of Income Tax Act, 2002, a foreign investor disposing non business chargeable assets is considered as a permanent establishment; as per section 67(l)(2) withholding tax should be deposited in case of payment made in relation to activities carried out in Nepal; and as per section 35 an arrangement or part of an arrangement that is entered into or carried out as part of a tax avoidance scheme can be re-characterized. Even though these conditions were present in case of transfer of shares by a foreign investor in telecom sector, it has not submitted income tax return as per those sections and has created intermediate entities in various countries for establishing indirect control and has thus entered into a tax avoidance scheme. As per sec 96(5) of Income Tax Act 2002, jeopardy tax assessment as per section 100 can be carried out in case a person is about to leave Nepal indefinitely, the person is otherwise about to cease activity in Nepal or the Department otherwise considers it appropriate. However, Large Tax Payer’s Office has not acted
Accordingly. A private limited company engaged in providing telecommunication services has filed tax return regarding change in control as per section 57. In spite of prevalence of all these situations, the Department has not made effort to make the same foreign investor submit tax return and recover taxes. In this regard, following observations were noted on the basis of obtained information and documents during audit:

16.1 As on April 12, 2019, the date of disposal of the interest in the private limited carrying out telecommunication business in Nepal, the net worth was NPR 72 billion 462.40 million and reserve was NPR 72 billion 362.3 million. Net capital assets was NPR 43 billion 992.1 million, capital work in progress was NPR 8 billion 33.9 million and total assets reached NPR 137 billion 753.4 million. At that time, the same private limited occupied more than 50 percent of the market share in Nepal, and earned net profit of NPR 27 billion 522.8 million from revenue of NPR 59 billion 761 million; under these circumstances, it would have been difficult for any other telecommunication service provider to enter into business in Nepal. Considering the customer base and market share, assets created from reserves and investment, and non-consideration of technical valuation of license, among others, and goodwill, the value disclosed by taxpayer for disposal of 80 percent controlling interest at the amount of NPR 144 billion 782.5 million and for 20 percent stake at NPR 11 billion 576 million, could not be justified as a fair deal. Therefore, the Large Tax Payer’s Office, following consideration of the valuation of goodwill, share purchase agreement, confirmation of transacted price from the concerned buyers, and investigation of the related banking transactions, should carry out amended tax assessment and recover taxes accordingly based on section 35 of Income Tax Act, 2002.

16.2 The 80 percent share of aforementioned telecommunication service provider was held by a foreign company which in turn was fully owned by another foreign company. The shares in the first foreign company was fully transferred by the latter foreign company to another foreign company, which has resulted in the disposal of interest in the company situated in Nepal, as a result of which, advance tax of NPR 9 billion 969.6 million was paid on the gains accruing to the first foreign company on such disposal. On the basis of submitted documents regarding such transaction, it is observed that the same tax was deposited as 15% of the gains NPR 66 billion 463.8 million, which was derived by deducting the cost of shares NPR 78 billion 318.7 million from the sales value NPR 144 billion 782.5 million. The tax payer that selling the shares must have filed the income returns as per section 96 of Income Tax Act, 2002 and must have deposited tax at the rate of 25 percent as per schedule 1, however, 15 percent only has been paid as advance tax, the remaining amount NPR 6 billion 646.4 million along with the interest and charges should be recovered after assessment of tax based on the investigation carried out pursuant to section 35.

16.3 The foreign company selling the shares has neither submitted the share purchase/sale agreement in the Large Tax Payer Office, nor has the office sought such agreement. As per the available record and evidence at the office, foreign company selling the shares has purchased the shares at NPR 1 billion 128.8 million on October 1, 2008, however, while selling the shares, it has deducted the NPR 78 billion 318.7 million as cost of share. Therefore, the excess claim of NPR 77 billion 189.9 million should be disallowed by considering it as a tax avoidance scheme, and the short amount of withholding tax at the rate of 15 percent worth NPR 11 billion 578.5 million as per section 95(a)(2)(b) should be recovered from the company transferring the shares after investigation. Similarly, action should be taken against the foreign investor for being involved in a tax avoidance scheme and NPR 19 billion 297.5 million tax, calculated at the rate of 25 percentages, including advance tax as per schedule 1(2) of the Act, along with the interest and charges should be recovered after assessment of tax based on the investigation carried pursuant to section 35.
16.4 In the aforementioned telecommunication service provider, according to a tax return for the financial year 2015/16 submitted by a nonresident Nepali taxpayer 2015/16, who holds 20 percent shares, the nonresident has deposited the tax amount of NPR 2 billion 831.5 million at the rate of 25 percent on the gain of NPR 11 billion 326 million after deducting purchase cost of NPR 250 million from the sale value of NPR 11 billion 576 million. As per the annual report of a foreign investor, the same shares seller has obtained the loan of $ 230 million i.e. around NPR 20 billion against the security of such 20% share from the foreign company. As per the sale purchase agreement submitted to the Department of Industry, the buyer shall be free from any financial interest after the payment of NPR 3 billion 312.4 million on account of sold shares. Therefore, on the basis of share sale purchase agreement submitted to the Department of Industry, income tax returns submitted to the office and the fact that NPR 20 billion loan has been taken against the security of such shares, it revealed that tax payer has undervalued the transaction amount and has entered into a tax avoidance scheme. Hence, it is noticed that there is a tax avoidance scheme, so as per section 35 of the Income Tax Act, 2002, the transaction should be re-characterized. Despite the buy sale transactions are carried out at the same time, in case of a foreign investor, the 80 percent shares held by it is valued at NPR 144 billion 447.8 million, while in case of the said taxpayer, 20 percentage of shares sold by the taxpayer is valued at NPR 11 billion 576 million. On a proportionate basis, the value of shares disposed by the taxpayer should have been NPR 36 billion 195.6 million, thus there is an undervaluation of the shares by NPR 24 billion 619.6 million. Therefore, investigation should be conducted and on such undervalued amount and the tax amount of NPR 6 billion 154.9 million, at the rate of 25 percent as per schedule 1 of the Act, should be assessed and recovered along with the interest and charges.

16.5 The income tax returns on the basis of change in control by the same telecommunication supplier private limited has been filed as per section 57 of Income Tax Act, 2002, and gain of NPR 248.3 million on disposal of assets has been shown as per the self assessment. However, the Large Taxpayer Office has not ascertained the valuation after considering the value of assets, liability, license and goodwill. The Department must conduct annual tax audit by selecting taxpayers on the basis of risk, however, upto now, tax audit of the same private limited has been done only up to FY 2011/12. So, based on risk assessment of tax of the same private limited, tax audit should be conducted for additional years as well and the actual position of said valuation should be ascertained.

16.6 As per the decision of Finance Committee of the Legislature-Parliament, taken on June 4, 2015, after getting company registered in Nepal, following earning profit and making capital gain from the sale of shares by transferring of the ownership from the seller, capital gain tax shall be paid in Nepal. In the decision, it is mentioned that in the past previous shareholders of the company had carried out various transactions, that the shares were transferred time and again but the tax was paid by making under valuation of shares, and that, regarding the parties relating to the current irregularities on hand, it is mentioned that the Government of Nepal would be instructed to proceed with legal action against wrongdoers by getting a probe conducted by the Commission for the Investigation of Abuse of Authority into the matters, finding out who evaded how much. However, no evidence regarding investigation or action taken has been submitted.

17. Change in the structure of share holding - As per section 35 of Income Tax Act, 2002, Department can ascertain the tax liability by re-characterizing a tax avoidance scheme or part of the scheme. Significant observations in this regard are as follows:

17.1 The Department of Industry has given approval to one Service Limited, Cyprus to purchase 50 percent share (50 thousand in number) of one Telecom Limited situated in area number 1 Inland Revenue Office, Kathmandu from one international limited of United Kingdom at NPR 50 million on October
5, 2008. After that, in such Telecom Limited, 50 percent share is held by the Service Limited, Cyprus, 40 percent is held by one Telecom Private Limited, 5 percent is held by a natural person, 3 percent is held by a Telecommunication Limited, Pakistan, and 2 percent is held by one Telecom Limited, Bangladesh.

As referred in page number 54 and 58 of Annual Report 2011 of foreign company located in Sweden, such foreign company has obtained interest of 25 percent in a Telecom Limited, Nepal by purchasing 51 percent shares of the Service Limited, Cyprus for NPR 2 billion 30 million (191 million Swedish Kroner). Further, as per the page 27 and 102 of Annual Report 2012 of such foreign company, it has purchased 25 thousand shares in the mentioned Telecom Private Limited through the Service Limited, Cyprus. Thereafter, on 26 April 2012 such foreign company has paid NPR 3 billion 680 million (295 million Swedish Kroner) to purchase 49 percent share of the Service Limited, Cyprus in order to increase the share ownership to 75 percent from 50 percent in such Telecom Limited. As a result, such foreign company has cent percent ownership in the Service Limited, Cyprus.

As per section 67(6)(l)(2) of Income Tax Act, 2002, a taxpayer has to pay taxes on capital gain from the activities having source in Nepal, however, the tax payer has established a company in Cyprus with very small investment and made indirect transfer of share to the foreign company so as to derive capital gain but not pay taxes by making tax avoidance scheme.

Therefore, during the period from 2011 AD to 2012 AD, such foreign company has purchased 75 percent shares of such telecom limited for NPR3 billion 870 million (half of NPR2.03 billion and NPR3.68 billion) on proportionate basis. There is a capital gain of NPR 3 billion 820 million after deducting NPR 50 million (50,000 shares of NPR1000 each), which is the cost of 75 percent share as mentioned in balance sheet, from NPR 3 billion 870 million. Since, such transaction is a tax avoidance scheme as per section 35 of the Income Tax Act 2058, and such transaction have a source in Nepal as per section 67(6)(l)(2), such transaction should be re-characterized and tax of NPR 955 million at the rate of 25 percent according to Schedule 1 of the Act along with interest and charges, should be determined and recovered after conducting investigation.

17.2 According to the agreement, dated 14 September 2011, between a Telecom Private Limited, Nepal, under the jurisdiction of Taxpayers Service Office, Tripureshwor, and a Services Limited, Cyprus, which was submitted to the Department of Industry, 40 percent shares (40 thousand in number) or 25 thousand number of shares in the interest of a Telecom Limited, Nepal, were sold to Services Limited, Cyprus, for NPR 25 million, within 45 days as per the agreement. As per the published Audit and Annual Report of a foreign company situated in Sweden, which is the holding company of Services Limited, Cyprus, on 26 April 2012, the Swedish company invested NPR 3.68 billion (295 million Swedish Kroner) to acquire 50 percent ownership of shares (50 thousand number) in such Telecom Limited, Nepal. Such 50 thousand shares also include 25 thousand shares obtained from the ownership of Telecom Private Limited. On this basis, the foreign company has invested NPR 1.84 billion (50 percent of 3.68 billion) to obtain ownership of the shares of Telecom Private limited.

There was no substantial change in customer base, investment and future possibility of such Telecom Limited, Nepal in the 5 months’ period after such Telecom Private Limited sold the shares. Even though the share of such Telecom Limited were transacted at NPR 91 thousand per share in 2011 AD and at NPR 74 thousand per share in 2012 AD, it was valued at NPR 1 thousand only on September 2011 while selling the share to Services Limited, Cyprus, thus it is noticed that a scheme for tax avoidance was made as per sec 35 of the Act. Therefore, as a tax avoidance scheme was created for undervaluation by establishment of intermediary company, the amount should be quantified in market value terms as per section 27. The transaction is deemed to be carried out at NPR 1.84 billion (295
million Swedish Kroner, exchange rate equivalent to NPR 12.47 on 26 April 2012), the value disclosed by the investor. From such value, the initial purchase NPR 25 million is to be deducted and that capital gain of NPR 1 billion 820 million should be taxed at the rate of 25 percent according to section 2 of Schedule 1 of the Act and tax of NPR 453.8 million along with interest and charges, should be determined and recovered.

18. Sale of Assets - Observations in relation to the capital gain tax to be recovered on sale of assets including land and building are as follows:

18.1 As per section 2(r)4 of Income Tax Act, 2002, if a natural person doing the transaction of land & building, in the nature of business asset, the value of which is NPR3 million or more, then, profit on such transaction shall be included in the income from business as per section 7 of Income Tax Act, 2002 and shall be taxed at the rate of 25 percent as per schedule 1 of the Act. Two taxpayers located at New road and Baneshwor, engaged in real estate business, have sold land costing NPR 860.3 million and such sale amount is received while disposing business assets. However, the same taxpayers have not filed the tax returns or, even if submitted, the sale amount has not been included in the revenue. Therefore, either the tax should be assessed or NPR48.2 million tax at the rate of 5 percent on gain made by the natural person on disposal of non-business chargeable asset should be recovered.

18.2 As per section 2(r)(4) of Income Tax Act, 2002 and decision of Inland Revenue Department on July 28,2009, if a natural person sells land and building once or time and again during an income year of the value of NPR 3 million or more, then on such capital gain, capital gain tax should be recovered as per sec 95A (3). This year, in 27 Land Revenue Office, including Dillibazar and Chabhis, capital gain tax of NPR 264.10 million has not been recovered due to reasons like claim of excess expenditures, shown inflated purchase cost and non-aggregation of different disposals made during the income year by the same disposer. As per section 95A (7) of Income Tax Act 2058, the concerned person should be made liable and the shortfall amount of capital gain tax should be recovered along with the interest as per section 119 and fees as per section 120. The concerned ministry should scrutinize the remaining documents that were not audited in various offices and recover the due amount.

18.3 If a natural person, obtaining the loan from bank or financial institution against the security or mortgage of private land and building, does not repay the loan on time, then capital gain tax is levied on sale or transfer of such land or building. If such tax is not paid by the owner of land and building, the person retaining such land building as a security or mortgage should pay the tax and should account the expenditure incurred on auction or while taking in possession in the name of loanee. Land Revenue Office, Dillibazar, should recover advance capital gain tax of NPR 15.60 million at the rate of 5 percent, on auction or disposal, by three loaners, of land and building valued at NPR 312.50 million of which purchase price was not disclosed.

• Tax Settlement

19. Waiver of Tax -The significant findings observed from the audit in relation to the activities carried out by the Tax Settlement Commission, set up by the Government of Nepal for the purpose of settlement of issues relating to tax assessment upto fiscal year 2012/13, tax arrears, tax amount receivable by Government, tax and tariff issues sub-judice before court or other body, are as follows:

19.1 The commission had received 1726 applications, out of which tax case was settled by taking action against 1069 applications. The status of settlement of outstanding amount sub-judice in administrative review, revenue tribunal, court and other bodies are given below:

19.2
Applications with total outstanding amount of NPR 40 billion 830 million were received in the Commission, out of which action was taken against application totaling NPR 30 billion 525.8 million and that was settled at NPR 9 billion 546.1 million through agreement. In totality, 68.73 percent of all revenue outstanding have been waived. Based on the review of application for settlement and action taken, it revealed that out of 1 thousand 69 application settled, 690 applications were relating to outstanding amount. In value terms, out of total outstanding amount settled of NPR 30 billion 520 million, the portion of outstanding amount is 31.86 percent i.e. NPR 9 billion 730 million. The said outstanding amount are not the amount over which the taxpayer has applied for review or has filed litigation, rather, it is unpaid due to reluctance of taxpayers. Even though the Tax Settlement Commission was established to resolve the disputed amount, it is seen that the amount of tax not paid deliberately by the taxpayer is found in excess over the disputed amount. Therefore, it is seen that the practice of not paying taxes but getting it waived by formation of Commission has been trending.

19.3 Excluding the cases sub-judice in administrative review, revenue tribunal and courts from the amount waived by commission, the outstanding revenue, assessed on 2012/13, of NPR 760.8 million has been settled through agreement at NPR 257.10 million. Even though tax assessment was done, and taxpayers did not pay the assessed amount, it was waived within 2-3 years by forming the Commission. The settlement of outstanding amount by the Commission has restricted the rights given by revenue related Acts of making an amended assessment within four years, therefore it not in line with the law.

19.4 It is seen that agreement for settlement has been done regarding value-added tax of NPR 216.40 million that should have been paid by various construction entrepreneurs for the income year 2012/13. Further it is seen that the value added tax paid by the Government or the service receiver for the construction works also has not been deposited. Even though the taxpayer him/herself has shown those amount as payable in the returns, it was not paid and remained outstanding, however, the Commission has waived such amount by entering into an agreement to settle them.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Number of applications</th>
<th>Outstanding Amount Demanded</th>
<th>Settled number</th>
<th>Settled Tax Arrears</th>
<th>Unsettled Arrears NPR</th>
<th>Amount Settled at</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative review</td>
<td>248</td>
<td>10270.7</td>
<td>147</td>
<td>8293.2</td>
<td>1977.5</td>
<td>2309.0</td>
</tr>
<tr>
<td>Revenue Tribunal</td>
<td>237</td>
<td>7764.2</td>
<td>128</td>
<td>6754.3</td>
<td>1009.9</td>
<td>500.4</td>
</tr>
<tr>
<td>Court or other bodies</td>
<td>144</td>
<td>10322.8</td>
<td>60</td>
<td>5740.2</td>
<td>4582.6</td>
<td>5182.5</td>
</tr>
<tr>
<td>Relating to Outstanding</td>
<td>1037</td>
<td>12457.9</td>
<td>690</td>
<td>9726.9</td>
<td>2731.0</td>
<td>1542.9</td>
</tr>
<tr>
<td>Change in revenue code</td>
<td>60</td>
<td>17.8</td>
<td>44</td>
<td>11.2</td>
<td>6.6</td>
<td>11.3</td>
</tr>
<tr>
<td>Total</td>
<td>1726</td>
<td>40833.4</td>
<td>1069</td>
<td>30525.8</td>
<td>10307.6</td>
<td>9546.1</td>
</tr>
</tbody>
</table>
19.5 Under the Large Tax Payer’s Office, the amount of outstanding VAT of a brewery till 2012/13 was NPR 401.4 million, however, the Commission has settled it at NPR 1.4 million i.e. 0.35 percent waiving a huge amount of NPR 400 million. While checking the audit trial report of the same taxpayer, it is observed that out of the total outstanding amount, NPR 27.4 million is the tax assessed figure and remaining NPR 375 million is value added tax as per the VAT return which was collected from customer while selling the goods. In this way, even though the taxpayer collected the VAT amount from customers, and disclosed it as payable in the returns filed by themselves, it has been waived by entering into an agreement.

19.6 Under jurisdiction of Inland Revenue Department, Pokhara, agreement was made to recover NPR 19.4 million only with a hotel out of the recoverable VAT of NPR 184.3 million, by providing waiver of 89.47 percent. While checking the audit trial report of the taxpayer, it is observed that out of the outstanding amount only NPR4.2 million was the tax assessed figure and as per the VAT returns, the remaining NPR 180.1 million was the amount collected by the hotel from customers in order to pay to the Government that was self declared by the tax payer. Agreement has been entered into even to waive off such amount.

The VAT amount of NPR 770 million, collected from the customers that should have been deposited in the revenue by the concerned taxpayer has been waived off, which has aided in revenue leakage. Therefore, the officials of the commission should be held accountable.

19.7 The objective of the commission was to protect the tax base and recover the maximum outstanding tax. However, while agreeing for the settlement of tax with taxpayer, the Commission agreed for a minimum amount which led to a situation where the tax paid earlier by taxpayers found excess, therefore, NPR 78.20 million was refunded to 9 taxpayers by obtaining additional budget release in this year. In case of a trader, having outstanding amount of NPR 29.10 million till 2009/10, the Tax Settlement Commission agreed to settle it for NPR 4.5 million, which led to refund NPR 18.9 million from State fund. Similarly, in case of a tea company having outstanding amount of NPR 79.90 million, it was settled by agreeing to collect NPR 2.6 million only, i.e. around 3 percent of the total outstanding amount. As a result, amount of NPR 26.50 million was returned to such company from the State Treasury. Since the Commission has entered into agreement in an illogical manner, which led to refund of amounts from the State Treasury rather than recovering the outstanding tax amount, the Officials of the Commission should be held accountable.

19.8 It has been stated that the Commission should, take objective basis to assess and settle tax by mutual agreement. Few comparative instances of the outstanding tax and agreed amount thereon of government owned corporations and private business are produced below:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Tax payer name</th>
<th>Outstanding tax amount</th>
<th>Settled tax amount</th>
<th>Waiver in percentage</th>
<th>Tax payer name</th>
<th>Outstanding tax amount</th>
<th>Settled tax amount</th>
<th>Waiver in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agricultural Development Bank, Ltd.</td>
<td>3919.8</td>
<td>1930.0</td>
<td>50.76</td>
<td>One inter-continental</td>
<td>68.6</td>
<td>3.0</td>
<td>95.63</td>
</tr>
</tbody>
</table>
Agreement has been made to recover only NPR 9 billion 550 million out of the total outstanding revenue of NPR 30 billion 530 million. Among them, in the case of 9 government corporations, out of NPR 11 billion 188.1 million outstanding, agreement has been made so as to recover NPR 5 billion 635.3 million. Out of total amount agreed for recovery, 59 percentage belongs to 9 corporations and remaining 41 percentage belongs to 1069 private businesses. In the case of government corporations, waiver ranging from 38 to 74 percent was provided, whereas, to the private businesses, tax waiver was given up to 99 percent. The commission has given waiver to private businesses at a higher rate than to government corporations. Even though, the Commission had made arrangements for settlement on objective indicators, it is noticed that private and government entities were treated differently while waiving their taxes, so, it cannot be get assured that objective basis was adhered.

Minimum of the outstanding tax amount of government corporations have been waived and maximum waiver have been provided to private businesses, which indicates signs of collusion, therefore investigation should be done regarding the decisions of tax settlement.

19.9 Within the stipulated period mentioned in the agreement between the Commission and a tax payer, a tax payer has to take clearance by paying the agreed (settled) amount by informing related revenue offices, otherwise, the agreement shall be deemed to be invalid and the entire amount shall be considered as outstanding revenue. According to the details collected during audit this year, the Commission has agreed (settled) the amount of NPR 9 billion 550 million out of which agreement of only NPR 6 billion 290 million of 826 taxpayers of 22 revenue offices has been implemented. The agreement of remaining amount of NPR 3 billion 260 million has not been implemented and the revenue has neither been collected not further waived. As the agreement has not been implemented within the agreed period, it should be included in the tax arrears list and process for recovery of the same should be initiated.

19.10 In case of a tax payer, in jurisdiction of area number 3 of Inland Revenue Office, the outstanding amount was NPR 529.90 million, and, it was settled at NPR 43 million i.e. 8.11 percent of the
outstanding amount, however, the same amount had already been removed from the revenue arrear list in the income year 2014/15. The amount should have been paid within October 13, 2016 as per the agreement. However, the tax arrears were removed from the records without depositing the amount; hence, such outstanding amount must be maintained again. Similarly, in case of a travel agent who had value added tax payable of NPR 16.60 million, agreement was made to recover NPR 0.5 million i.e. 3 percent and thus resulted to waive off the remaining amount of NPR 16.1 million. Even though out of such value added tax, the principal amount involved is NPR 6.1 million, so that even such amount could not be recovered by granting waiver in the agreement, which needs to be further investigated.

19.11 One bank, under the jurisdiction of the Large Tax Payers Office, which had income tax payable of NPR 77.3 million for the income year 2008/09 to 2009/10, settlement was made at NPR 32.3 million by providing waiver of NPR 32.3 million i.e. 41 percent and in case of another bank, which had assessed income tax of NPR 98.3 for the income year 2006/07 to 2009/10, settlement was made at NPR 10.4 million by providing waiver of NPR 87.9 million i.e. 89 percent. Similarly, in case of another bank, which had income tax payable of NPR 212.8 million for the income year 2003/04 to 2008/09, settlement was made at NPR 38 million by providing waiver of NPR 174.8 million i.e. 82 percent, whereas, in case of another bank, which had income tax payable of NPR 82.7 million for different income years, settlement was made at NPR 27.5 million by providing waiver of NPR 55.2 million i.e. 67 percent. Even though the Tax Settlement Work Procedure, 2014 has mentioned to consider taxing ability, nature of business, similarity in level of taxpayer and transactions as a basis for settlement, and even though there were no substantial difference among the taxpayers on such basis, waiver of 42 to 89 percent of outstanding revenue was provided to different commercial banks. Therefore, the set criteria have not been adhered with.

19.12 After the settlement agreement of the Commission with the taxpayer, it was forwarded along with the details to the relevant revenue office, whereupon, the relevant offices have decided to waive off the outstanding amount without referring to the files of the taxpayer. As a result, tax assessment order, assessed tax amount, penalty and interest could not be matched and the amount of tax paid and the security kept by the taxpayer could not be ascertained.

19.13 The provision for establishment of Tax Settlement Commission was made in the Tax Settlement Commission Act, 1976, in order to settle disputes arising from the power conferred to the Tax Department to assess tax on best judgement assessment basis as per the then Income Tax Act, 1974. Income tax Act, 2002, has adopted the system of self-assessment of tax and as per the chapter 21 of the same Act, the taxpayer if not satisfied with the decision of Department can file an objection with the Department for administrative review and if still dissatisfied by the decision of administrative review can file an objection to the Revenue Tribunal. If aggrieved by the decision of Revenue Tribunal, the taxpayer can challenge such decision with the permission of Supreme Court. Income Tax Act.

Sufficient legal provisions for a dispute resolution regarding income tax have been subsumed by the Income Tax Act.

As per section 142 of Income Tax Act, 2002, no other Acts except this Act shall be made capable to make changes, amendment and imposition, assessment, reduction, increment, exemption, or remission of tax to be made by amending this Act itself by annual Finance Acts. Establishing a Commission for settlement of tax matters by invoking provisions which were existent when the concept of self-assessment of tax was not in place and was used for dispute settlement in a different context, does not seem consistent with the prevailing Income Tax Act. Therefore, the settled outstanding tax of NPR 30 billion 525.8 million by making agreement of NPR 9 billion 546.1 million and granting waiver should be investigated.
On February 26, 2016, this office had requested making the report of activities carried out by the Commission available. However, it was disobeyed at that time and was provided after around one year. Thus it is obvious that it was done to make the action taken relating to tax matters unquestionable.

20. **Arrears of Revenue** - In this year, the revenue arrears has grown by 3.08 percent to NPR132 billion 180 million as compared to NPR128 billion 230 million in the previous year. Out of the outstanding amount, 91.06 percentage is of the Ministry of Finance. In this year's outstanding revenue, the outstanding value added tax has not been recorded as arrear and not included in the financial statement, hence the outstanding amount cannot be ascertained. Though there is the provision in the prevailing law to recover the revenue amount by freezing transactions, movable and immovable properties of the person who do not pay the revenue amount within the due time, offices not have taken action as per legal provisions which has resulted in increment in the outstanding revenue.

Out of the outstanding amount, the principal and interest to be received by the government from government corporations is NPR 108 billion 680 million. Mainly, such receivable amount includes NPR 84 billion 790 million from Nepal Electricity Authority, NPR 2 billion 940 million from Udaypur Cement Industry, NPR 1 billion 670 million from Kathmandu Valley Drinking Water Management Committee, NPR 1 billion 350 million from Butwal Spinning Mills, NPR 1 billion 210 million from Orient Magnesite, NPR 1 billion 80 million Janakpur Cigarette Factory and NPR 1 Billion 50 million from Gorakhhali Rubber Industry.

- **Income Tax**

21. **Non-submission of Income returns** – As per section 96 of the Income Tax Act, 2002, subject to sections 97, 98 and 100, every person shall make self-assessment and file a tax return of income for the year at the place prescribed by the Department not later than three months after the end of each income-year. However, the 7 taxpayers under the Large Tax Payer Office have sales transactions but have not submitted tax returns. At this stage, 2 percent of the transaction amount which comes to NPR 157.5 million tax has not been recovered as per the provision of the Finance Act. Therefore, assessment and recovery of tax should be made along with fees and interest.

22. **Air Transportation** – As per section 70(1) and section 67(6)(l)(2)(1) of Income Tax Act, 2002, the nonresident person carrying on the business of air transport should pay the tax on the carriage of all passengers from Nepal, however, income tax has not been paid by the related air transport operator in accordance with the passenger departure details given by Civil Aviation Authority of Nepal. Therefore, NPR 282.3 million should be assessed and recovered from the 6 taxpayers of 2 offices who have paid less tax than the payable amount.

23. **Employee Bonus** – As per section 5 of Bonus Act, 1973, each profit-making enterprise shall have to allocate an amount equivalent to 10 percent of its net income of one fiscal year for bonus to the
employees and as per sec 13 of the Act, 70 percent of the residuary amount after distribution of bonus from the allocated amount for bonus pursuant to Section 5 shall be deposited with the Welfare Fund and remaining thirty percent shall be deposited with the National Level Welfare Fund. As per the circular dated March 11, 2016 issued by the Inland Revenue Department, if the bonus amount remains as surplus by the reason of non-distribution, such remaining bonus amount should be written back in the income of subsequent income year as per sec 25(1) (c) of the Income Tax Act, 2002. In case of two taxpayers under jurisdiction of Large Tax Payer Office, amount has not been accordingly remitted to the Fund, therefore, the bonus amount already deducted as expenditure by the taxpayer should be added back to the income and NPR 53.30 million should be assessed and recovered.

24. **Foreign Permanent Establishment** - As per section 2 (ay) foreign permanent establishment is considered as resident and accordingly the taxpayer should withhold taxes on income. However, transaction of a taxpayer of area number 1 of Balaju appears as a foreign permanent establishment according to the nature of works contract and contract agreement made by non-resident, therefore, tax of NPR 60.2 million on the income repatriated by the taxpayer to the foreign country should have been deducted. However, it has not been deducted. Therefore, tax should be assessed and recovered along with interest and fees.

25. **Royalty** – One casino operator falling in the area of Large Tax Payer Office had deducted the expenses of royalty for the F.Y. 2014/15 and previous year which was payable to Government of Nepal, and had disclosed the NPR 60 million in the current liabilities, however, on checking of electronic details of tax payment from July 17, 2014 to July 15, 2016, payment of such amount was not observed. The fees and interest along with such amount should be calculated and recovered.

26. **Transaction of Tax Exempt Organization** – There is provision regarding tax exempt organization in section 2(s) of Income Tax Act, 2002. Tax exempt organizations have carried out activities that are ultra vires their objectives and which are not social and charitable activities like: bus service committees have earned rental income and trip management fees, non-government organizations have earned income from deposit acceptance and loan investment, sale of electricity and non-government health organizations have earned income from professional service fee, health checkup fee, family planning service fee, income from commercial transactions etc.; income tax on these income and surplus should have been paid by 12 taxpayers under 7 offices amounting to NPR 72.6 million, which has not been paid. Therefore, tax should be assessed and recovered along with its interest and fee on such income.

27. **Income Splitting** – As per sec 34 of the Income Tax Act, 2002 income should not be shifted. A taxpayer of Large Tax Payers Office has shifted his income so as to reduce the tax liability on liquor related transaction with associated persons, therefore, tax of NPR 37.3 million along with its interest and fees should be assessed on sales of liquor flavor.

28. **Money Transfer and Merchant Banking Service** – As per clause (b) of group 11 of schedule 1 of Value Added Tax Act, 1995, financial service has been categorized as exempted service. Accordingly, remit of the amount from one place to another and the transactions related to investment by Money Transfer and Merchant Bank are related to financial service. However, these financial service institutions have not been registered in Value Added Tax on the basis of their services. On the basis of being financial services and non-registration in value added tax, tax should have been paid at rate applicable to the financial institutions i.e. 30 percent. Hence, the shortfall of 5 percent amounting to NPR 43.6 million should be recovered from 21 taxpayers of 5 offices towards Money Transfer and 9 taxpayers of 3 offices towards Merchant Bank.
29. **Long Term Contract** – As per section 26 of the Income Tax Act, 2002, estimated cumulative inclusions and deductions under a long-term contract of the person shall be treated as derived or incurred according to the percentage of the contract completed during the year. 2 taxpayers falling under Large Tax Payers Office which should have calculated income on the basis of percentage of completion have calculated it erroneously, and shortfall tax of NPR 29.6 million, with its interest and fees, should be recovered.

30. **Recovery Rate** – According to the Raw Material Norms, 2006 published by the Department of Industry, production should have been in accordance with the consumption of raw material. However, 5 taxpayers have shown higher consumption in contrary to the specified norms, therefore, income tax, value added tax, and excise duty of NPR 67.2 million which was under assessed, with its interest and fees, should be recovered.

31. **Change in Control** – As per section 57(1) of the Income Tax Act, 2002 where there is a change of 50 percent or more in the underlying ownership of an entity as compared with its ownership 3 years previously, the entity shall be treated as disposing of any assets owned by it and any liabilities owed by it and as per section 57(2) where there is a change in ownership, after the change, the entity is not permitted claim losses as per section 20 and to carry forward loss as per section 20(4). However, one taxpayer under Large Tax payer Office did not include the gains on land in their calculation, the value of which is NPR 15.9 million including other assets; in accordance with the market value. The two taxpayers of Inland Revenue Office, Bhairahawa and Taxpayer Service Office, Balaju deducted the past loss of NPR 29.8 million which is not allowed for deduction. Their effect on income tax should be ascertained and tax should be assessed.

32. **Income not Disclosed** – As per section 7 of Income Tax Act, 2002, persons’ profits and gains from conducting a business for an income year should be included in business income. However, three taxpayers under 3 Offices, including of Inland Revenue Office of area number1, have not shown the sales amount of NPR 732 million in business income. The tax amount of NPR 46.2 million, on inclusion of such figures in income along with its fees and interest should be assessed and recovered.

33. **Withholding Tax** - As per chapter 17 of Income Tax Act, 2002 tax must be withheld on payment. As per section 90(1) of the same Act, every withholding agent is required to deposit the amount within 25 days after the end of each month. 2 taxpayers under the Large Tax Payers Office had to withhold tax amounting to NPR 105.5 million on payment of management fees and rent expenses did not withhold, therefore such amount should be recovered.

34. **Monitoring of Tax Payer** - As per section 96 of Income Tax Act, 2002, every person shall file tax return for the year on self-assessment basis not later than three months after the end of each income year. 3 tax payers under the Inland Revenue Office, Bhairahawa that have done transactions up to NPR 505.8 million as per the custom data, should have submitted income returns with tax assessed by themselves, have avoided returns. Therefore, tax amount of NPR 10.1 million on such transactions along with its interest and fees should be recovered.

35. **Difference in Sale** – The amounts derived from disposal of the trading stock as per section 7(c) of Income Tax Act, 2002, and as per section 16 of Value Added Tax Act, 1995 should be accounted as sale. The shortfall NPR 29.4 million comprising income tax and value added tax by the reason of not accounting the receipt of disposal as sale should be recovered from 3 taxpayers under the Inland Revenue Office, Lalitpur.

36. **Capitalization of Interest** – As per the section 14 of Income Tax Act, 2002 interest incurred by the person during the income year under a debt obligation which was used to purchase an asset that is used
during the year is allowed for deduction. However, 6 taxpayers under Large Tax Payers Office including 6 offices, have claimed NPR 76.4 million as interest expenses incurred on the loan of NPR 244.8 million, which was used for the construction of building and acquiring land which is not in use, instead of capitalizing it. Therefore, in case of 2 taxpayers, NPR 27.7 million should be adjusted with loss, and in case of remaining 4 taxpayers, NPR 48.7 expenses should be disallowed and income tax NPR 10.9 million along with its interest and fees should be assessed and recovered.

37. **Loan from Related Foreigner** - As per section 14(1) of the Income Tax Act, 2002 every person is allowed to deduct the interest expenditure incurred to generate income from business in any income year. One taxpayer providing telecommunication service under Large Tax Payer Office has obtained the short-term loan from one related foreign company in Netherland at the rate of 9.83 percent. However, as per Double Taxation Avoidance Agreement the interest rate should be as per general market rate i.e. 4.5 percent on the basis of LIBOR rate. Since there is an excess payment of interest by 5.33 percent on loan of NPR 3 billion 935.3 million, such excess interest expenditure amounting NPR 209.7 million is deductible as expenditure and accordingly tax of NPR 52.4 million should be recovered on such income by disallowing such expenditure.

38. **Rate of Tax** – As per section 2(2) of schedule 1 of Income Tax Act, 2002, the tax should be deposited at the rate of 30 percent on the taxable income for the entities dealing with tobacco items, liquor and beer. 25 taxpayers under the Large Tax Payer Office including 7 offices have paid taxes at rate lower than 30 percent, therefore, tax amounting to NPR 7.2 million which should be assessed and recovered.

39. **Advance Tax** – As per section 87, 88, 89 of Income Tax Act, 2002 while making the payment of tax applicable amount, tax should be withholding at the time of payment. However, 348 offices of 26 bodies have made payment without withholding tax of NPR 65.5 million. Similarly, along with the amount of NPR 18.1 million not withheld by corporate bodies, committee and 83 other institutions, total amount of NPR 83.6 million should be recovered along with interest. Other observations regarding this are as follows:

39.1 While making rental payment of NPR 125.1 million to six private helicopter companies, the Home Ministry should have withheld tax at the rate of 15 percent but withheld it at the rate of 1.5 percent, therefore the shortfall amount of NPR 10.6 million should be recovered.

39.2 Though it had been reported in earlier years to withhold tax after deducting 75 percent foreign allowance from taxable amount of the employees serving in diplomatic mission, Ministry of Foreign Affairs has withheld less tax of NPR 21 million on the salary and foreign allowance of 173 officers of 33 missions. The person having liability to pay tax has not paid the tax and the office responsible to recover tax has not recovered the tax. Remuneration tax should be recovered.

39.3 The tax has not been recovered on the quantification of the loan facility of NPR 4 billion 390 provided to employees of Nepal Rastra Bank up to this year by including it in the taxable amount.

39.4 As per section 87, 88 and 89 of the Income Tax Act, 2002, every person shall be required to withhold tax on payment of remuneration, service fees, rent and contracts amount. However, Tribhuvan University Teaching Hospital, including, 32 bodies have not withheld total tax of NPR 10.5 million including NPR 9.3 million tax for remuneration, NPR 11.1 million tax for rental payment and NPR 0.1 million tax for other payment. That levied tax amount should be recovered from the concerned person.

39.5 As per section 88 and 89 of the Income Tax Act, 2002 tax should be withheld on payment. This year, 43 District Development Committees should have withheld tax on payment as per law but have not withheld tax of NPR 6.6 million.
• **Value Added Tax**

40. **Valued Added Tax Credit** - According to Value Added Tax Act, 1995, non-filers are 30 percent, debit returns receivable by the Government are 13 percent, the credit returns payable by the Government are 51 percent and of zero percent returns are 35 percent. The trend analysis of past 3 years has been depicted in the following chart:

![Tax Return Trend Analysis](image)

In comparison to past years, it can be seen that debit returns have decreased whereas credit returns have increased. The credit amount is 4.98 times higher than debit amount. The ratio of credit amount will go up in comparison to debit if the value-added tax of NPR 5 billion 450 million refunded by the Department is adjusted. Therefore, emphasis should be given on effective monitoring.

41. **Proportional Tax Credit** - According to the Section 17(3) of VAT Act, 1995 and Rule 40(4) of VAT Rule, 1996, tax paid on proportional purchase can be deducted only to the extent used for the purpose of taxable sale, the deduction of value added tax paid on purchases used for taxable as well as tax exempted transactions should be taken proportionately. There is the excess claim of credit by 15 taxpayers of 3 offices by the reason of non-adjustment of valued added tax paid on purchases for various income year. Since such amount should have been adjusted as debit. Therefore, such act should be declared invalid and tax should be assessed.

In the aforementioned ineligible credit, a medical college has claimed full tax credit of NPR 178.7 on purchase, even though major portion of its income is exempt. A hospital has made excess claim of tax of NPR 47.9 million which was paid on purchase of capital assets but was not proportionally credited after the commencement of sales as stipulated in the Directives. One authority has claimed excess credit of NPR 56.9 million, on account of taking full credit even though it made nontaxable sales. And 4 construction companies have claimed excess credit of NPR 132.1 million by the reason of non-adjustment as debit even though they were carrying out non-taxable transactions.
42. **Ineligible Credit** - As per Section 17 of VAT Act, 1995, credit of tax paid on purchases can be taken only if it is related to taxable sales, however, 5 Taxpayers of 5 offices that were not carrying out taxable transaction have claimed ineligible VAT credit of NPR 52.6 million, therefore it should be assessed and recovered.

43. **Value Added Tax on Structure Construction** – As per Section 8(3) of VAT Act, 1995, even though the construction of a building or apartment or shopping complex and other similar structure as specified by the Department, of which value is more than 5 million rupees, and which is built for business purpose is procured even from a non-registered person, tax shall be assessed and collected from a person who has ownership in that structure as if such construction were procured from a registered person. However, there is the non-recovery of value added tax of NPR 379.6 from 42 taxpayers of 14 offices engaged in such construction, the value of which is more than NPR 5 million, therefore, the same should be assessed and recovered along with fees and interest.

44. **Stock Broker Commission** – As per schedule 1 of VAT Act, 1995 value added tax is levied on the goods and services imported in Nepal. If transaction is carried out by a person without being registered, then the tax officer can assess the tax as per section 20 and can also impose the penalty as per section 29. The brokerage commission received by the broker providing brokerage services is not VAT exempted, however, Taxpayers Service Office, Putalisadak and Naya Sadak has not recovered VAT of NPR 60.7 million on the transaction of NPR 467 million from 9 taxpayers. Such amount should be recovered.

45. **Tax Collection** – As per Vat Act, 1995 if tax is levied on the transaction of any person, tax should be collected and deposited with Inland Revenue Office in accordance with section 15(3). Accordingly, though one authority has carried out taxable transaction of NPR 1 billion 177.9 million in 2014/15 VAT of NPR153.1 million has not been deposited in the revenue by issuing the VAT invoice; the same should be recovered.

46. **VAT in Cafeteria Operation** - As per schedule 1 of VAT Act, 1995, VAT is not exempted on the supply of food and edible items for hotel, restaurant, guest house and cafeteria etc, and as per section 20 and 29 of the Act, if these persons carry on such transactions without registering, then the tax officer can assess the tax. 6 taxpayers registered in Inland Revenue Office, Lalitpur, Bhaktapur, area number 3 of Kathmandu and Large Taxpayer Office, have earned school fee on account of food and lunch income and an Authority has earned airline catering and handling fees income, however, VAT at the rate of 13 percent amounting to NPR 37.7 million has not been recovered, the same should be recovered.

47. **VAT outside Nepal** – As per section 8 (2) of VAT Act, 1995 the person receiving services from the person outside Nepal which is not registered should assess and recover the tax in the taxable amount while making payment according to VAT Act, and rules. However, in case of 2 unregistered taxpayers under Large Tax Payer Office, value added tax of NPR 1.89 million on payment of service has not been recovered, therefore, it should be recovered along with the penalty and interest.

48. **Commodity Market** – As per section 5(1) a of VAT Act, 1995, vat is levied on the goods and services supplied within the state of Nepal and according to the same Act vat is not levied on the goods and services listed in the schedule 1 of the Act. Similarly, as per the sub section 3 of section 17, if the entire portion of goods or services transacted in a month were not used for taxable transactions, the tax previously paid on the goods or services shall be deducted as prescribed for the portion that was solely used for taxable transaction of the goods or services. However, in case of a taxpayer carrying commodity market business, falling under area no. 2 of Inland Revenue Office, VAT of NPR 9.4 million on the service fees has not been recovered, so the same should be assessed and recovered.
49. **VAT Refund** – This year, as per the group 11 of schedule 1 of VAT Act, 1995, amended by Finance Act, 2015, there was a refund of NPR 5 billion 450 million. This type of refund was NPR 7 billion 30 million in 2013/14 and NPR 5 billion 760 million in 2014/15, therefore in the past 3 years NPR 18 billion 240 million was refunded. This year, out of refund, NPR 1 billion 209.5 million VAT was refunded to 19 oil processing taxpayers under the Large Taxpayers Office even though out of 6 process of oil processing, 5 processes were carried outside Nepal and imported in Nepal and such imported oil was sold after being simply refined. Similarly, NPR 752.2 million was refunded to 7 importers of cellular mobile phone sets which are not manufactured in Nepal. Even though the suggestions were given in past reports to review these types of process, the same has not been complied with.

The value-added tax paid on the import of tablet set is not allowed. The tax amount of NPR 6.5 million refunded to 3 taxpayers of 2 offices on the import of tablet set should be recovered. Similarly, even though only NPR 79.8 million has been deposited in the Consolidated Fund on account of VAT by the mobile importers of Large Tax Payer office by exporting after doing local sale with one other, refund of NPR 119 million has been taken, the excess refund of NPR 39.1 million should be assessed and recovered.

50. **Tax Invoice** - As per Rule 17 of Value Added Tax Regulation, 1996, except as otherwise permitted by the Tax Officer, a registered person shall, in supplying any goods and services, give tax invoice to the recipient in the format as set forth in Schedule -5 and Schedule 5a. Following are observed regarding these provisions:

50.1 The joint venture with which bridge construction agreement was entered by Sanfebagar Mangalsen Maartadi Road Project was found unregistered in VAT on searching in the online information system of Inland Revenue Department, therefore, NPR 0.24 million which was paid on account of VAT to such joint venture should be recovered.

50.2 Tax imposed inside Nepal in import of different equipment through International Bidding by Logistics Management Division of Department of Health Services, were reimbursed to importers by the Division. At the time of agreement, the price of goods was stated in foreign currency, therefore only tax that were levied inside Nepal should have been reimbursed. However, in case of 5 importers, NPR 1.3 million of excess VAT than the VAT actually paid by the importers by declaring at the custom point was refunded. Amount paid in excess should be recovered.

50.3 Armed Police Force, Headquarter, made payment of NPR 3.2 million amount to 3 importers even though the invoice number was not legible, was corrected or was hand written and Mahakali River Control Project made payment of NPR 21.9 million, thus VAT has been paid without VAT invoice totaling NPR 25.2 million.

50.4 Tax Invoice has not been issued by one of the construction entrepreneur of Rani Jamara Kularia Irrigation Project for NPR 49.4 million pertaining to difference in foreign exchange rate and by another construction entrepreneur of Sikta Irrigation Project for NPR 15.1 million while receiving payment. Therefore, appropriate actions should be taken as per the law and tax should be recovered after assessing the tax liability.

50.5 Even though the invoices were handwritten and scribbled, Drinking Water and Sanitation Division Office, Rupandehi, Nawalparasi including other 6 offices paid VAT amounting NPR 3 million and Melamchi Drinking Water Development Committee paid NPR 24.5 million, thus totaling to NPR 27.5. Such VAT should be deposited or adjusted in concerned Inland Revenue Offices.

50.6 As per section 14(1) of Value Added Tax Act, 1995, except otherwise stated, every registered person is required to issue an invoice to the recipient, in supplying any goods and services. It is observed that
tax invoice has not been obtained for making payment of VAT, amounting NPR 8.7 million, to 73 firms for purchase of goods and services by District Development Committee Saptari, Solokhumbu, Rukum including 17 offices. Payment of VAT amount without tax invoice should be recovered.

50.7 Office of District Development Committee Jhapa, Sunsari, Dhanusa including other 23 have not recovered VAT amount of NPR 43.4 million on the contract income of NPR 334 million as per Section 15(3) of Value Added Tax Act, 1995. Similarly, Office of District Development Committee, Sindhipalchowk, has not deposited VAT amount of NPR 2.8 million on income recovered from forced account.

- Custom and Excise

51. **Under Collection by Differing Custom Rate** - Custom clearance should be done by accurately ascertaining the code of the imported goods as per the Schedule-1 of Finance Act, 2072 and Custom Tariff (Darbandi) Book. Mechi, Biratnagar, Birgunj, Dry port, Tribhuwan International Airport and Bhairahawa and other 6 custom offices have collected less revenue by applying different code number and custom tariff rate on goods like storage tank, cabinet, shrink sleeve, crane-lorry, aluminum circle, glass bids, tyre, telecom equipment, adaptor, cover of mobile set, etc. amounting NPR 87 million. Such under collected revenue should be recovered by making concerned officer responsible.

52. **Excise on Import** - Excise should be collected on imported good as per excise tariff stated in Finance Act, 2015 and Section 3 of Excise Act, 2001. However, Biratnagar, Birgunj, Dry Port, and Bhairahawa, including other 6 custom offices, have either not recovered or under-recovered excise amounting to NPR 337.2 million, along with other charging tariff, on that accordingly on import of television, filler master batch, thinner and other goods. Such amounts should be recovered.

As per section 14(3)(u) of Annex 1 of Finance Act, 2015, there is a separate provision of custom rate for purpose of import of essential parts for television installation by television assembling industries. Biratnagar, Birgunj, Dry port, and Bhairahawa Custom office applied custom rate to be used for import of spare parts for repair purpose rather than applying prescribed custom rate provided for television assembling industries, which has resulted in loss of revenue NPR 318.3 million.

53. **Exemption Facility** - As per Finance Act, 2015 and Finance Act, 2016, exemption of Custom, Excise and VAT is provided only if the stated raw materials are imported by prescribed industries and importers. The ineligible exemption amount NPR 54 million provided by Tribhuvan International Airport, Mechi, Biratnagar, Dry port and including 5 custom offices on import of tower, oil seed cake, soybean, maize, handicraft goods, helicopter parts and other goods by various importers should be recovered.

54. **Facility of Guarantee and Record** - Schedule 1 of Finance Act, 2015 has provided facility of import on guarantee and on record for specific work or purpose. Accordingly, importers have imported equipment related to film, cement and other goods from Tribhuvan International Airport and Birgunj Custom Office worth NPR 57.5 billion under the facility of guarantee and on record. However, such goods have not been returned, therefore revenue chargeable on such goods should be recovered.

55. **Import on Lease** - NPR 40 million have been collected by Tribhuvan International Airport on import of aircraft on lease by one Airline Service Providing company, however, in other cases, clearance is given by obtaining deposit only. Due to absence of clear provision for import on lease, separate custom tariff rate should be provisioned as per international best practices and tariff shall be recovered.

56. **Bank Guarantee** – According to Rule 16 of Custom Rules 2007, if the licensee of the bonded ware house, imports necessary raw materials by furnishing the bank guarantee equivalent to the chargeable
Customs duty for the purpose of producing goods for export or sale in Nepal in convertible foreign currency, and if the finished goods is made by using of such raw material is not exported within 11 months or extended time period, then additional 25% of the custom tariff shall be recovered from the bank guarantee. Despite raw material being imported by the 63 industries on the basis of bank guarantee from Biratnagar, Tribhuvan International Airport, Birgunj, Dry port, and Bhairahawa custom, finished goods made from those raw materials were not exported within prescribed time, so, custom duty on import of raw materials and 25 percent additional amount of such custom duty totaling to NPR 88.8 million should be recovered.

57. **Packing Material Credit** – As per section 3(a) of Excise Act, 2000 as amended by Finance Act, 2015, credit can be taken on excise paid on raw materials, however, excise paid on auxiliary raw materials (packaging materials) is ineligible for credit. However, a tax payer under the Taxpayer Service Office, Koteswor has claimed excise credit of NPR 14.5 million paid on packing material, such amount should be recovered.

58. **Wastage** – As per Rule 23(a) of Excise Duty Rules, 2001, in case of beer manufacturing industry, if the volume of inventory shown by bottle counter after bottling is less than the volume of inventory measured by Flowmeter before bottling, then maximum of 1.5 percent wastage is allowed. Similarly, on physical verification of damaged bottles during pasteurization, packaging and storage in godown, 2 percentage of wastage is allowed. However, in case of a beer industry registered in Inland Revenue Office, Bharatpur, the flow meter was out of order and it had claimed wastage in excess of 2 percent at the time of pasteurization and packaging, and had claimed remission of NPR 122.4 million excise duty, which should be assessed and recovered.

The VAT credit is not accurate due to the reasons like non-submission of tax returns by several taxpayers, non-inspection by the Government of large number of returns in which the government has to refund (credit) compared to debit returns, ineligible credit claim of VAT, non-claim of proportionate credit, and claimed credit even for unrelated purchase to the business. This has resulted in short recovery of revenue.

The effectiveness of Revenue Administration has not been enhanced as expected due to the reasons like: laxity of implementation aspect of tax system, waiver of tax duly payable by forming Tax Settlement Commission rather than initiating proceedings as per the law against the tax defaulters, increase in trend of granting tax exemption by provisioning the same in the Finance Act, inability to bring the potential tax payers within the ambit of tax, short recovery revenue than stipulated by the law, increased in revenue arrears, non-monitoring even though the taxpayers doing millions of turnover have absconded, engaging in taxable transaction even though tax exemption of certificate have been obtained. Therefore, in order to increase revenue collection by reforming the discrepancies identified, and to make the tax administration more effective, it is necessary to make tax administration responsible and to show seriousness in the implementation of law.

- **Project Management**

59. **National Pride Projects** - Expenditure and progress, up to 2015/16, of projects of national pride which have been implemented with highest priority for developing physical infrastructure of the country and expansion of service to the people are as follows.

(NPR in million)
Due to revision of total cost of Babai, Sikta Irrigation Project, Budigandaki Hydropower Project, Pokhara Regional International Airport, there seems difference in physical progress this year as was witnessed in the previous year. Similarly, it was stated that the physical progress of Master Plan of Pashupati Area Development Trust is different than that of previous year.

59.1 Melamchi Drinking Water Project was commenced in 1998/99 and the total cost is estimated to be NPR 23 billion 450 million, physical progress of 82 percentages has been attained till now after expenditure made of NPR 18 billion 140 million. Construction of Headworks, Tunnel and Water Purifying Centre was scheduled to be completed within 2016/17, however, upto mid-February 2017, head works has been 29 percent complete and in case of tunnel, out of 27.5 km, 22.6 km have been
completed and 4.84 km remains. Regarding water purifying center, even though purifying center with capacity of 170 million liters was planned to be constructed, one water purifying center with a capacity of 85 million is in the process of being completed and in case of another purifying center with same capacity, the contract agreement has been done however, the construction has not been started till now. It is observed that work completion within stipulated time is an uphill task because of reasons as shown for delaying construction like: presence of soft rock during tunnel drilling, decrepit machine equipment, banda (strikes), earthquake etc.

59.2 Upper Tamakoshi Project has a goal of generating 456 mega watt of electricity in total. The project was started in 2010 and was scheduled to be completed in 2015/16. However, due to reasons of obstructions in border area, earthquake, and other reasons, it is estimated to be completed within 2017/18. The headwork of the project is 85.3 percent completed, main tunnel work is 81.8 percent completed and power house and transformer concrete cavern is 89.3 percent completed till first trimester of 2016/17. Work completion was seen behind the schedule due to need for construction of main structure as its construction was obstructed by earthquake and additional study was needed due to weak topography of project’s location.

59.3 The estimated length of 1,776 km track has been demarcated from Chiyobhanjyang of Panchthar to Jhulaghat of Baitadi under Mid-Hill Highway. The construction of the highway was started in 2007/08 and is scheduled to be completed in 2017/18. Of total cost of NPR 33 billion 370 million, 41.35 percent financial progress has been achieved after incurring expenditure of NPR 13 billion 800 million. During the plan period, all bridges were targeted for completion within the alignment of road and to upgrade 350 km that were not upgraded, however, as per the annual progress report of such period, only 211 km i.e. 60.28 km roads have been upgraded. In the eastern portion, out of 40 bridges 21 bridges have not been constructed. Therefore, it seems that the target is unlikely to be achieved within the stipulated time.

59.4 Budhigandaki Hydropower Project has a target of generating 1200 MW electricity by constructing a water reservoir in Budigandaki River located between border of Dhading and Gorkha District. The project is scheduled to be completed within 8 years of commencement from 2012, and has estimated cost of NPR 278 billion 190 million. The project has neither approved operation modality nor formulated rules although its physical progress is 5.11 percent after incurred expenditure of NPR 1 billion 270 million till now. Though budget appropriation of NPR 200 billion 900 million was for purchase of necessary land for operation of project, NPR 39.9 million (1.38 percent) was expended.

59.5 In order to construct an alternate airport, Gautam Buddha International Airport has set a target of upgrading existing runway of Gautam Buddha Airport, constructing an international building, installing equipment for operation, communication and guiding navigation. Runway and international building are being constructed and regarding installation of equipment, bids have been invited and have been evaluated. Work has been witnessed to be not implemented in scheduled time due to lack of skilled staff, untimely delivery of goods by supplier, lack of proper functioning of financial management etc.

59.6 Rani Jamara Kulariya Irrigation Project aims at strengthen canal system of Rani Jamara and Kularia of Kailali district and to extend irrigation in potential areas and provide irrigation facility to 20,300 hectares. At present, construction of intake and link canal in Chisapani has been completed, construction of main canal and settling basin from Chisapani to Balchaur and construction of feeder from Katase to Mohana has been completed. The estimated total cost of project was NPR 12 billion 630 million, and NPR 6 billion 130 million has been expended till now. Project was launched in 2009/10 and was targeted to be completed in 2017/18 and two years before scheduled completion,
48.55 percent of estimated cost has been spent with physical progress of 58.16 percent. Several problems are being faced in the construction works like: shortage of local construction materials for construction works (stone, aggregate, sand), delay in land acquisition due to dispute, lack of skilled manpower, mapping of canal through forest area, lack of inter entity coordination, etc.

59.7 Sikta Irrigation Project, which aims to provide irrigation facility to 43-thousand-hectare land of Banke District, had initial cost estimate of NPR 7 billion 440 million. However, after the latest revision, the estimated cost of project has been determined to be NPR25 billion 20 million. Project completion period has been rescheduled to 2019/20 after three amendments. Till now 47.69 percent physical progress has been achieved after incurring expenditure of NPR 12 billion 10 million (52.47 percent). Till 2015/16, head works and 35 km main canal has been constructed in the Project. Detailed drawing design, preparation of cost estimate etc for construction of branch canal and command area has not been commenced. There are problems in implementation of project because of difficulty in supply of construction materials (aggregate, stone, and sand) and additional local charges was demanded for excavation, collection and processing of riverbed construction materials for use in main canal. The Project cost has been increasing due to delays in project.

59.8 Babai Irrigation Project was commenced in 1988 to provide irrigation facility in Bardiya district and was targeted to be completed by 2017/18. This year, after revision the total cost estimate stands at NPR 12 billion 580 million. At the time of 2 years before the estimated completion date of the master plan, NPR 4 billion 800 million has been spent and physical progress of 32.49 percent has been attained, therefore it can be observed that the project cannot be completed within the stipulated time.

59.9 Bheri Babai Diversion Project was commenced in 2011/12, and was scheduled to be completed in 2018/19 after construction of a dam in Chiple of Surkhet District and tunnel of 4.2 meters in diameter 12 km length to link water of Bheri River in Babai River, in order to generate electricity and to provide irrigation facility to 51 thousand hectares of land. The Project will also generate 48 megawatts of electricity. The total cost of project is NPR 16.43 billion, while NPR 1 billion 820 million has been spent up to July 15, 2016 in project management, construction work and consultancy services. Agreement of NPR 10 billion 570 million has been concluded with a foreign construction entrepreneur for excavation of tunnel of the project by boring machine within March 28, 2020. As per the contract, even after passage of 23 percent of tunnel construction period, only NPR 962.9 million has been expended to date. Therefore, there is a situation of having delay in construction works.

59.10 Western-Seti Hydropower has submitted detailed project feasibility report in 2017 A.D. which had to be submitted by 2013 A.D. and financing agreement of this project has been concluded between Government of Nepal and one Chinese Company in mid- February 2017 (Magh 2073). As per the agreement, 25 percent investment will be made by Electricity Authority and 75 percent will be invested from the contractor company. The companies have had their work operation delayed due to problems occurred with respect to project’s cost estimate, land acquisition, transmission line and resettlement etc.

59.11 Pashupati Area Development Trust has set a target of overall development of Pashupatinath area and to develop it as model of religious, cultural and tourist center. This project was commenced in 2000/01 for carrying out works like conservation of religious heritage, fostering religious tourism, conservation of uncultivated land, management of Pashupatinath Temple etc. However, lack of skilled technical manpower and construction material has created problem in contract management. As per the status of evaluation and monitoring of the implementation of the projects under the Trust, construction works have not been carried out rapidly after the earthquake. Trust has not had their financial transaction audited since 2013/14.
59.12 Lumbini Area Development Trust is being operated under the Lumbini Master Plan, with the objective to establish the Holy Land of Gautam Buddha as an international centre for Buddhists and Peace loving community in the. Construction of administration building and excavation and conservation of archeological site of Dev Daha, Ramgram and Sainamaina has been completed. It was found that as per the master plan Lumbini Cultural Centre Building, Water Tower including 16 other works has remained to be completed and for its completion cost of about NPR 5 billion 900 million was estimated. Remaining works of master plan should be completed.

59.13 The physical progress of Pokhara Regional International Airport Project will have reached 20 percent by the first trimester of 2016/17. Land acquisition work for airport has been started, and out of total 451 ropani of land to be acquired, compensation for 276 ropani has been distributed till now and loan agreement has been concluded between the Government of Nepal and the Government of China for project construction. Project is estimated to be completed within 4 years of agreement after inauguration in April 13, 2016.

59.14 Second International Airport in Nijgadh is expected to make important contribution in augmenting nation’s tourism activities as a state of the art airport. Such construction work was commenced from January 2015. The Project office has been established, land has been identified, four side boundaries of the project have been demarcated by acquiring the land and now, the compensation is being distributed. The construction of the Project has been delayed due to delay in budget and management of program.

59.15 Kathmandu Terai Madhesh Fast Track Project has the objective of construction of fast track to link the capital city Kathmandu with Terai. The length of the Project is 76 kilometers. The project office for implementation of the project was established in 2008/09, however till 2015/16, construction work was not commenced. It was seen that NPR 2 billion 13.8 million has been expended for land acquisition for the track, distribution of compensation, and for operational expenses etc. Construction work had not been started till now due to incomplete acquisition of land, opposed by local denizens and changed in alignment.

In Budget statement of Fiscal Year 2014/15, it was stated that the government will ensure minimum number of vehicle to domestic or foreign investors willing to invest in building and operating Kathmandu Terai Madhesh Fast Track Project, and on that basis one foreign company was also selected. In Budget statement of Fiscal Year 2016/17, it was stated that construction work will be initiated by the Government of Nepal from next fiscal year and arrangement was made for commencement of construction of Budhune-Heatuda fast track as a part of this project by allocating budget of NPR 10 billion. A clear policy for operation of such projects should be formulated and implemented.

59.16 East-West Railway was targeted to be completed in 2018/19 after commencement in 2011/12. As per the feasibility study of the project the total cost estimate is NPR 689 billion, however, even after 5 years of commencement of project, physical progress of 5.96 percent only has been achieved, therefore the total time for completion of the entire project could not be ascertained. As per report obtained, it was revealed that out of the NPR 1 billion 550 million budget allocated for this year, 42.21 percent progress has been made by incurring expenditure of 650 million. Despite allocation of NPR 105 million for construction of Simara Bardibas Railway track bed (108 km), which is project’s main work, no work has been done. According to project, delay was due to problems like hindrance in forest area, delay in approval of project, land acquisition, alignment of road and determination of compensation. It is observed that in order to complete project in stipulated time Department and Ministry should decide an appropriate working directives and programs.
Among the North-South Highway, Karnali, Kaligandaki and Koshi Corridor are operated as National Pride Projects. In those three and 12 additional North-South Highway, 333 km of track is planned to be opened. In line with the priority given to road connecting Northern border point, as per the annual progress report of 2015/16, 20 km in Karnali Corridor, 2 km in Kaligandaki Corridor and 20 km in Koshi Corridor totaling 42 km have been constructed and 20 km gravel has been accomplished in Kaligandaki Corridor, which has resulted in attainment of 64.5 percent physical progress of annual target. According to project, there is difficulty in implementation of project due to geographical remoteness. Out of total 333 km, till now 172.33 km i.e. 51.76 percent progress has been achieved.

Despite having target of upgrading 507 km road out of 606 km of Postal Highway Road, only 82 km i.e. 16.17 percent road has been upgraded. In 2015/16, 33 km road has been blacktopped and 8 bridges have been constructed under the project. The project, with cost estimate of NPR 35.8 billion, was commenced in 2009/10 and was scheduled to be completed in 2017/18, however, as only 15.4 percent progress has been achieved, as a result, the project cannot be completed within the stipulated time. The Project has mentioned that problem in compensation distribution, inactiveness of construction entrepreneur and dispute by locals in mapping are some reasons behind the delay.

This project, which has been operated by the President Terai-Chure-Madesh Conservation Development Board, has a aim of controlling wildfire in Chure and controlling forest encroachment and theft and export, carrying out employment oriented afforestation for poor and deprived residents in Chure. Even though, in the programs of Board and under the project, total NPR 2 billion 930 million expenditure has been incurred till now including NPR 127.3 million of this year, however, consolidated progress report has not been prepared. This year, NPR 23.9 million has been expensed towards salary of expert for preparation of conservation master plan of Committee, however, such master plan has not been approved. Such amount includes NPR 27.5 million paid to NGO’s which has been selected for operation of social mobilization program in 31 districts.

Significant observations arising from audit of National Pride Projects are included in thematic section. Remaining observations are included in Ministry wise section.

**The project implementation is dissatisfactory due to absence of criteria along with indicators for announcing National Pride Project, lack of implementation capacity for announced projects, difficulty in land acquisition due to local level dispute, hindrance for construction in forest area, weak management by construction entrepreneurs, lack of inter entity coordination and unclear implementation modality. In addition, non preparation of detailed feasibility study and detailed project report and not having time bound work plan along with implementation model are also reason for dissatisfactory progress condition of projects.**

Therefore, indexes for determining National Pride Project should be defined, detailed project report should be prepared on time and project should be operated on the basis of time bound project work plan, implementation modality should be determined and work should commence after gathering of resources, compensation dispute should be resolved on time, inter entity coordination should be maintained, high level management and technical skilled manpower should be deployed and given continuation, equipment and manpower should be mobilized on time in working site as per agreement after commencement of construction work and in such project budget implementation and monitoring should be made effective. Manpower should be made liable after evaluation on the basis of result based performance indicators.
60. **Project Development**- Investment Board has made project development agreement with two foreign companies on September 19, 2014 and November 25, 2014, for construction of two hydro power project Upper Karnali and Arun III, respectively, having capacity of 900 MW. As per the agreement the promoter has to make arrangement for acquisition of land necessary for project, rehabilitation of residents affected in local level, education, health, development and training of Nepalese manpower and resources and infrastructure construction. As per the work schedule land acquisition should have been completed within one year, however, even though Arun III Project has distributed compensation for private land, acquisition of government land and forest land has not been completed due to lack of coordination and facilitation among government entities. Work related to land acquisition for Upper Karnali Project has not been started. Both the projects had targetted to make commercial production within December 31, 2021, however, delay in preliminary work related to land acquisition will have effect of delaying the construction works also, therefore, the Board should do the necessary coordination and facilitation and should initiate the project implementation process as per the work schedule.

61. **Project Selection**- As per section 11(2) of Local Body Resource Mobilization and Management Procedure, 2012, programs and projects having a cost less than NPR 0.5 million cannot be selected from Capital Grant apportioned under Social and Infrastructure Development. District Development Committee Office Baitadi, Dhading, Achham and including 10 others have made an expenditure of NPR 277.6 million after selecting 1,576 projects having cost less than NPR 0.5 million from capital head. Project should be selected according to the procedure.

62. **Consultancy Service**- As per section 29 (1) (a) of the Public Procurement Act, 2007, public entity may procure consultancy service for the works that can not be performed by the human resources available at the entity. Observations seen in relation to this are stated as below:

62.1 In projects operated under Foreign Assistance, consultancy expenditure up to 47.1 percent of total cost has been made as follows.

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Currency</th>
<th>Total Cost Estimation</th>
<th>Amount Separated for Consultancy Service</th>
<th>Percentage of consultancy on Total cost of project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irrigation and Water Resources Management Project</td>
<td>USD</td>
<td>58.1</td>
<td>16.3</td>
<td>28.05</td>
</tr>
<tr>
<td>Water Resources Project Preparatory Facility</td>
<td>USD</td>
<td>13.8</td>
<td>6.5</td>
<td>47.10</td>
</tr>
<tr>
<td>Community Managed Irrigated Agriculture Sector Project</td>
<td>USD</td>
<td>72.7</td>
<td>3</td>
<td>4.13</td>
</tr>
<tr>
<td>Strengthening National Rural Transport Project</td>
<td>USD</td>
<td>175.4</td>
<td>19.7</td>
<td>11.23</td>
</tr>
<tr>
<td>Community Irrigation Project</td>
<td>USD</td>
<td>3,659.7</td>
<td>454.2</td>
<td>12.41</td>
</tr>
<tr>
<td>AFPR</td>
<td>USD</td>
<td>2.7</td>
<td>0.4</td>
<td>14.81</td>
</tr>
<tr>
<td>Third Small Town Drinking Water and Sanitation Project</td>
<td>SDR</td>
<td>38.9</td>
<td>5.1</td>
<td>13.11</td>
</tr>
<tr>
<td>Melamchi Drinking Water Project</td>
<td>USD</td>
<td>287.5</td>
<td>31.8</td>
<td>11.06</td>
</tr>
</tbody>
</table>
62.2 Five projects, under the Ministry of Agricultural Development, related to commercial agriculture and business, small and medium farmer income level, high value agricultural products, agriculture and food safety and hybrid seeds for farmers, have total cost of 19.630 billion. Upto this year, NPR 746.8 million was expended, totaling NPR 8 billion 380 million till now. Out of such expenditure, expenditure incurred for consultancy service is NPR 1 billion 890 million. Consultancy service expenditure should be monitored as expenditure ranging from 11 to 36 percent has been made in relation to consultancy service.

62.3 Two entities under Department of Road have made expenditure of NPR 293.7 million for procurement of consultancy service even though manpower was fulfilled as per the required position. It is necessary to reduce dependency upon consultant.

62.4 As per Public Procurement Rules, 2007, there is no provision to include overhead in preparation of cost estimate for consultant. However, this year, four entities under Department of Road has included overhead amounting NPR 255.5 million. Person preparing cost estimate contrary to law should be made liable.

62.5 As per the agreement of Department of Road with consultant for detailed engineering survey of bridge and drawing design, if work as per agreement cannot not be awarded to consultant, then compensation of 10 percent of agreement amount shall be provided. NPR 11.9 million amounting to 10 percent of agreement amount has been paid as compensation to 39 consultants citing reasons such as the bridge already being under construction by other bodies on that site and non-availability of site in connection of survey. Entering into agreement without ascertaining the survey site has resulted in additional financial burden to the Government of Nepal, for which officials entering into agreement should be held accountable.

62.6 In the 40 agreements, entered into by Department of Road, amounting to NPR 26.6 million made in 2011/12 for survey of bridges, there is no provision in the agreement to issue variation order. Even though the agreement was done for detail survey of bridges and drawing design which were included in annual program of fiscal year 2011/12, variation order was passed to carry out survey of bridges which were included in the yearly program of 2014/15 and 2015/16, and the agreement price was maintained at NPR 275.2 million. The consultants were appointed for carrying out survey of bridges and drawing design, however, the work stipulated in the agreement were not completed in time and the time was continuously extended, moreover, variation order was passed to carry out survey of bridges falling in subsequent years’ program, which is in contravention of the Public Procurement Act.

62.7 As per Rule 83 of Public Procurement Rule, 2007 there is a provision for appointment of a consultant on basis of qualification if higher level of expertise is required to carry out any task and if only few consultants are qualified to perform the required task. Under Department of Road without basis for need of higher level of expertise, NPR 77.8 million has been paid after agreement made with 32 persons on basis of qualification. Though it was pointed out to control such types of activities in the previous audit report also, no improvement was noticed.

62.8 Local Bodies of 66 districts under Local Governance and Accountability Facility (LGAF) Secretariat have made an expenditure of NPR 142.5 million after entering into agreement with 66 civil society organizations for providing consultancy services not exceeding one year in order to provide quality service for making work performance quick and easy and transparent. There is no basis which indicates that works under the consultancy services like training, awareness, orientation, cannot be done from the Departmental manpower; there is no standard by which the work performed by the consultant can be evaluated, therefore the usefulness of the expenses done for the consultancy services cannot be
ascertained. Similarly, from budget apportioned under reimbursable category, NPR 67.3 million has been paid for remuneration and other works without any basis for justification of expenses.

62.9 In Road Improvement Project, in comparison with the agreed construction expenditure, only NPR 827 million i.e. 16.47 percent was spent. Regarding consultancy services, NPR 149.9 million was expended i.e. 63.17 percent of agreed amount. At the final stage, it seems that consultancy service is towards completion while the construction work will remain to be completed.

62.10 Rani Jamara Kularia Project has made a total payment of NPR 93.8 million till now including NPR 38.1 million of this year after signing of an agreement of NPR 220 million with a Foreign Consultant for supervision of construction work.

62.11 It was observed that Lumbini Development Trust has entered into an agreement of NPR 174.3 million for visitor information centre, utility, water supply and other works under Lumbini Area Infrastructure Improvement. It was noted that agreement of NPR 75.3 million has been made with a consultant for design related to construction works and survey. According to which, for a construction work of NPR 174.3 million, a consultant was appointed for design and supervision work of NPR 75.3 million, and after variation, the agreement amount with the consultant has been increased to NPR 96.4 million. Consultancy fee that needs to be paid 55.3 percent amount of the infrastructure construction contract seems irrational.

It can be seen that economy was not maintained in expenditure due to reasons like appointment of consultants for the works that could be performed by the manpower of the Department, higher percentage of consultancy expenses in comparison with construction expenses due to absence of limit, and use of consultant even in cases where progress cannot be measured. In this respect, policy and standard should be formulated so as to maintain uniformity and restrain consultancy expenses within desired limits.

63. Contingency Expenditure - As per Rule 10(7) of Public Procurement Rule, 2007, in the cost estimate of construction works, work charge staff expenses of 2.5 percent and other petty expenses of 2.5 percent can be included as contingency. There is no clarity in the Act and Rule regarding the expenses to be included in work charge staff expenses and other petty expenses. It was noted that NPR 2 billion 196.3 million expenditures has been made from contingency including NPR 35.4 million transferred by 277 entities to departments under following 5 Ministries:

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Unit</th>
<th>Amount (NPR in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Physical Infrastructure and Transport</td>
<td>69</td>
<td>1239.2</td>
</tr>
<tr>
<td>Ministry of Irrigation</td>
<td>88</td>
<td>487.2</td>
</tr>
<tr>
<td>Ministry of Urban Development</td>
<td>8</td>
<td>133.4</td>
</tr>
<tr>
<td>Ministry of Drinking Water</td>
<td>74</td>
<td>209.3</td>
</tr>
<tr>
<td>Ministry of Federal Affairs and Local Development</td>
<td>38</td>
<td>127.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>277</strong></td>
<td><strong>2196.3</strong></td>
</tr>
</tbody>
</table>

It was revealed that in the Department of Road and under it, large amount is expended in muster roll wages, fuel, publication of information, daily travelling allowances, repair works and office materials as contingency expenditures. Some entities have not maintained the records of contingency expenditure. In addition, weaknesses like non-formulation of clear policy for expenditure, non-maintenance of contract wise record of expenditure and incurring similar type of contingency expenditure from capital head and from recurring expenditure head were noted in audit.
Expenses from contingency expenses should be controlled by formulating a detailed work procedure. Regarding the past contingency expenses made by office of the District Development Committees, the Public Account Committee decided to give a warning on April 22, 2012 to the doer of making such expenditure. However, no improvement on trend of such expenditure has been noticed.

64. Usage of Canal- As per the progress report obtained from the Department of Irrigation, 33 irrigation systems are in operation to provide irrigation facility to 325 thousand hectares. As such, per the report, irrigation facility has been provided in 170 thousand hectares from July 15 to November 15, 120-thousand-hectare form November 16 to March 13 and 31 thousand hectares from March 14 to June 14 from such system. Out of such, the status of expenditure and irrigation provided of large irrigation system are as follows.

<table>
<thead>
<tr>
<th>Irrigation System</th>
<th>Expenditure (in Millions)</th>
<th>Command Area (hectare in thousands)</th>
<th>July-November Irrigated Area (hectare in thousands)</th>
<th>November-March Irrigated Area (hectare in thousands)</th>
<th>March-June Irrigated Area (hectare in thousands)</th>
<th>Irrigated Area Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunsari Morang Irrigation System</td>
<td>567</td>
<td>68.0</td>
<td>66.0</td>
<td>58.0</td>
<td>17.0</td>
<td>25</td>
</tr>
<tr>
<td>Bagmati Irrigation System</td>
<td>558.9</td>
<td>45.6</td>
<td>39.7</td>
<td>25.5</td>
<td>13.0</td>
<td>29</td>
</tr>
<tr>
<td>Kamala Irrigation System</td>
<td>271.9</td>
<td>25.0</td>
<td>25.0</td>
<td>10.0</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>Narayani Irrigation System</td>
<td>169.9</td>
<td>28.7</td>
<td>28</td>
<td>18</td>
<td>0.5</td>
<td>64</td>
</tr>
<tr>
<td>Mahakali Irrigation System</td>
<td>166.5</td>
<td>11.6</td>
<td>11.0</td>
<td>9.0</td>
<td>0.2</td>
<td>81</td>
</tr>
<tr>
<td>Total</td>
<td>1734.2</td>
<td>178.9</td>
<td>169.7</td>
<td>120.5</td>
<td>30.7</td>
<td></td>
</tr>
</tbody>
</table>

Observations noted in relation to this are as follows:

64.1 Sunsri-Morang Irrigation Project was established with an objective of constructing intake with capacity of 60 cumecs in Koshi River, which flows through Chatara of Sunsari district, and passing it to main canal for providing irrigation facility in 40-thousand-hectare land of Sunsari district and 28 thousand hectare of Morang district totaling 68-thousand-hectare land.

It had an objective of making uninterrupted flow of 60 cumecs water in main canal. It was seen from meter reading placed at intake that discharge of water was decreased in winter and dry season and the discharge was 13 cumecs in November, 19 cumecs in February and 18 cumecs in March. However, while making inspection of such work, it was found that only 10.93 cumecs (25 percent) water has been discharged. As a result, even though 75 percent of the command area was not irrigated, this year NPR 567 million has been expended. While assessing the expenditure incurred the achievement is found very low.

As Koshi River had witnessed the biggest flood in 2008, the flow was shifted to west bank and in comparison to the upper level (crest level) of the intake, from where water is discharged, the level of river water has receded 80 cm below, as a result the water is not being discharged in sufficient quantity. After less flow of water in the intake, for its management, the Project implemented alternative system. Likewise, to channelize the river towards the intake, three spurs were constructed. Similarly, as the construction entrepreneur did not remove the stones and silt which were aggregated at the time of construction of coffer dam while constructing bridge in Koshi River, the flow of water in the intake has decreased. Permanent remedy should be sought to avoid such problems in future.
This year, in Bagmati Irrigation Project, even though 71 percent of command area could not be irrigated NPR 558.9 million was expensed; in Kamala Irrigation System, even though 60 percent of command area could not be irrigated, NPR 271.9 million was expensed; and in Narayani Irrigation System, even though 36 percent of command area could not be irrigated, NPR 170 million was expensed. As a result, the efficiency and effectiveness of afore-mentioned projects is very low. Use of irrigation infrastructure facilities in less than full capacity is not appropriate. Ministry and Department of Irrigation should undertake necessary actions for operation of irrigation system in full capacity and making availability of water in command area.

Road Construction – Nepal Army, Directorate of Development and Construction Works, has till now made an expenditure of NPR 2 billion 206.8 million including NPR 654.9 million of this year for track opening work of Jajarkot-Dolpa, Kaligandaki corridor and Mailung-Syaprubesi road project. In the annual program and progress report, date of completion for the 4 projects and cost of Mailung-Syaprubesi road project has not been disclosed. Drawing, design after detailed survey of other road has not been prepared, except Jajarkot-Dolpa road. In previous year’s observation, it was reported that total cost and completion period could not be determined due to non-preparation of detailed drawing, cost estimate and design, however, no improvement has been made in this year also. As per annual program NPR 398.7 million has been expended for labor in 4 road projects for cutting of 8.979 million cubic meter soil. Detailed drawing, design and cost estimate of the road projects should be prepared and the quantity of chainage wise soil, soft rock and hard rock that are to be cut should be disclosed. However, as the cost estimate has not been prepared, completed quantity could not be matched. Detailed drawing design should be prepared and the quantity of soil and rock should be disclosed.

Project Approval – As per Rule 22 of Financial Procedure Rule, 2007, in preparing the budget for a development project, such a project has to be approved by the Government of Nepal, also taking into account of the returns from it, on the basis of the feasibility study and financial, technical, environmental and administrative propriety of the proposed project. Drinking Water and Sanitation Division Office, Jumla has made an expenditure of NPR 16.8 million till now for providing drinking water facility in Chandannath Municipality and other five VDCs under the name of Dhauligadh Drinking Water Project from 2009/10, and NPR 105.1 million cost was mentioned in the annual program, however, such program has not been approved. Those who make expenditure without approval of project as per Rule should be made liable.

It was found that expenditure of NPR 204.5 million has been made till now without approval of cost estimate of NPR 1 billion 80 million pertaining to 18 projects of Drinking and Sanitation Division Office Jhapa, Dhanusha, Dolkha and including other districts. Project operation and expenditure should be done only after approval of cost estimate as per Act.

Intake Dispute- As per Drinking Water Policy, 2004, before operation of the project works registration of intake location for water should be done. There is a difficulty in operation of projects after dispute over source of 12 projects having cost estimate of NPR 285 million under Drinking and Sanitation Division Office Shankhuwasabha, Jumla and including other 7 offices. It was observed that NPR 52.7 million has been spent until now on such projects. Projects should be completed in time by resolving the disputes.

Asian Standard Road - The entities carrying out the projects should complete the approved programs and sub-projects within the stipulated time and should accomplish the targets as per the objective. Towards the road network, for the construction of 61.25 km of Asian standard road and 126 km of feeder road, the work was initiated so as to complete them by setting work schedule from 2014 to 2017 and 2018 respectively, however, upto this year, the physical progress is achieved at 26.16 percent in
case of Asian standard road and 40 percent in case of other 4 roads. Towards expansion of electricity transmission, among 7 sub-projects, progress of 1 project is up to 90 percent, while that of 2 projects is less than 30 percent and that of other projects is less than 5 percent. Towards information and communication sub-projects, even though time period of such sub-projects has been extended by five times, the sub-projects still remain incomplete.

69. **Incomplete Project/ Contract** - As per Rule 23 of Financial Procedure Rule, 2007, the approved programs need to be completed in the stipulated time, however, it was seen that different projects could not be completed this year for which expenditure of NPR 2 billion 151.5 million was made by 43 different entities under following mentioned 8 Ministries.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Unit</th>
<th>Amount (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Drinking Water and Sanitation</td>
<td>6</td>
<td>654.8</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Urban Development</td>
<td>11</td>
<td>572.9</td>
</tr>
<tr>
<td>3.</td>
<td>Ministry of Physical Infrastructure and Transport</td>
<td>6</td>
<td>507.8</td>
</tr>
<tr>
<td>4.</td>
<td>Ministry of Information and Communication</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Federal Affairs and Local Development</td>
<td>15</td>
<td>287</td>
</tr>
<tr>
<td>6.</td>
<td>Ministry of Irrigation</td>
<td>2</td>
<td>37.1</td>
</tr>
<tr>
<td>7.</td>
<td>Ministry of Home Affairs</td>
<td>1</td>
<td>27.3</td>
</tr>
<tr>
<td>8.</td>
<td>Ministry of Education</td>
<td>1</td>
<td>14.6</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>43</td>
<td>2151.5</td>
</tr>
</tbody>
</table>

Major findings in relation to this are as follows:

69.1 As per Rule 22 of Financial Procedure Rule, 2007, prior to implementation of approved project, budget should be prepared by determining cost estimate and annual program accordingly. Out of the project implemented by Drinking Water and Sanitation Division/ Sub-division, it was observed that 188 projects of 18 districts having cost estimate of NPR 6 billion 823.9 million were not completed, even though they were commenced before 2011/12. Expenditure of NPR 2 billion 552.2 million was made on such projects. The projects are still not complete even after 19 years have passed by after project’s commencement. As a result, it has not been able to provide even the most basic service like drinking water. Most of the offices have stated that budget constraints as a main reason for non-completion of projects in time.

69.2 As per Local Self Governance Act, 1999, project should be selected and implemented after estimation of cost, time, resources and return derived from it. District Development Committee Offices Achham, Rautahat, Ramechhap and including other 15 have made expenditure of NPR 287 million this year in 124 projects that were operated from previous years and have cost estimate of NPR 64.1 million, however, such projects are still remaining incomplete.

69.3 While appraising the condition related to building construction of Urban Development and Building Construction Office 13, construction has not been completed for 55 construction agreements amounting to NPR 901.7 million from 2008 to 2012 even though time period was added repeatedly. In details obtained from offices reasons like land dispute, work abandoned by construction entrepreneur without information and action being initiated for blacklisting construction entrepreneur were stated. For instances, in case of agreement made for construction of Mangal Sen Palace in July 8, 2008 for Rs 22.6 million under Division Office Doti, 40 percent of the work remained incomplete and in the agreement made for construction of Hardiya Primary Health Centre, Parsa in May 9, 2010 for NPR 29.7 million,
92 percent works remained to be completed till July 15, 2016. In Kathmandu, in case of the agreement entered into on October 16, 2014 for construction of Kapan Health Post building for NPR 15 million, construction work has yet to start because of land dispute.

69.4 District Development Committee Office, Dolpa, has entered into an agreement with the lowest bidder for construction of Rupa Guard Motorable Bridge for amount NPR 31.5 million and has paid mobilization advance of NPR 5.5 million on November 26, 2015 as per the agreement. No work has been carried out in site till the work completion period of November 25, 2016. Neither the construction entrepreneur has submitted work schedule at the time of agreement nor has any action been taken by the office in order to complete the work. Thus, action should be taken against the construction entrepreneur that did not work as per the agreement by blacklisting, getting refund of mobilization advance, and recovering the additional amount that would be spent for completion of the remaining works.

Some prevalent problems to be faced are non-availability of service that has to be provided by the Government, cost overrun of project, and payment to be made for price escalation due to non-completion of project in time. Concerned party should be held accountable for not completing the work within the stipulated time.

Sufficient technical preparation was not done during selection of the project, time bound work plan of the implementation of the project was not prepared, projects were operated without preparation of budget and manpower, expenditure was made without preparing norms, and consultants were hired for doing general work that could have been done by the Departmental manpower. Therefore, efficiency, economy, and effectiveness should be maintained in project management. It is necessary to implement project after preparation of work plans and technical preparedness, and to prepare norms for all types of expenditure and to decrease dependency upon consultant.

• Procurement Management

70. Cost Estimate – The procedure for preparation of cost estimate of construction works, goods and consultancy service is mentioned in Rule 10, 11 and 12 of Public Procurement Rule, 2007. Factors like using 100 percent manual rate while preparing rate analysis of soil excavation work; inclusion of additional overhead which is ineligible as per the Rules; non-uniformity in entity wise norms; preparation of cost estimate applying rate of other district; double inclusion of amount pertaining to quality testing in provisional sum and item rate; non-approval of main cost estimate and preparation of cost estimate without adhered with the prescribed criteria have caused 47 entities under the 9 ministries to be non-compliant with the law while preparing cost estimate of NPR 2 billion 511.6 million.
Irregularities of NPR 2 billion 510 million was noted while conducting a test audit of preparation of cost estimate in 47 units under above mentioned 9 Ministries. Some significant findings among them are as follows:

70.1 Rani Jamara Kulariya Project has prepared cost estimate by using Manual Approach of 2002 of Department of Irrigation. While doing site inspection of the project, concrete work was seen to be done by using Batching Plant. The method of preparing concrete by use of manual labor was replaced by concrete mixture and now the concrete is being made by batching plant method. However, the cost estimate was prepared considering the use of labor instead of equipment, which is not realistic. While calculating the quantity of Concrete M20 included in bill of quantity of construction work on the basis of approved norms of Department of Road, cost estimate which in excess by NPR 329.9 million has been approved while analyzing four on-going contracted project. Therefore, norms should be modified.

70.2 In Shahid Gangalal National Heart Centre, this year, while preparing cost estimate of 154 sets of pace maker of 6 lots for NPR 28.8 million, average rate of two suppliers only was taken as base and while preparing cost estimate of NPR 141.9 million for 622 set valve of 5 lot, 875 set stent of 12 lot and 5 lot P.T.M.C. balloon and 180 set goods, it was seen that cost estimate was prepared without disclosing a justifiable base.

70.3 While preparing cost estimate of 16 types of medical equipment and machinery by the Human Organ Transplant Centre , instead of considering previous year’s rate for all items, highest rate among the rates obtained from market has been taken, while in some items the market rate has not been taken, in some rate has been taken only from one firm and in others average rate has not been taken as the basis and cost estimate has been approved without sufficient evidences and procurement of NPR 136.6 million has been done which is not consistent with the Rule.

70.4 As per the norms of Department of Roads, there is a provision to use 1.15-ton iron rod in per ton work for cutting, binding, fixing, etc works while doing work of iron steel. In case of entity other than Department of Road, the norm is for usage of 1.05-ton iron rod. On checking of cost estimate of 7 entities under the Ministry of Physical Infrastructure and Transport, it was found that 451 thousand kg iron rod was used in excess and this caused an additional cost of NPR 44.9 million. Similarly, there is a provision in the norms of the Department of Road and in other department’s norms for stone required of 1.15 m$^3$ and 1.10 m$^3$ respectively for constructing one cubic meter stone wall using cement and sand. While examining the cost estimate of 5 entities, it was found that additional 10 thousand cubic meter of stone was used and NPR 15.6 million cost was found to be increased without justification.

70.5 As per Rule 10(7) of Public Procurement Rule, 2007, 15 percent overhead expenditure can be incorporated while preparing cost estimate of construction work. In Rani Jamara Kularia Project, while approving the cost estimate by the Departmental Head, for construction of lining of feeder canal, bridge and culvert and upgradation of road, 5 percent extra overhead in addition to 15 percent, was also added. Cost estimate of the such contract towards construction works (except general item, day works and P.S item) was NPR 754.3 million and after making 15 percent overhead of NPR 111.6 million and additional overhead of NPR 35.4 million, the cost of the contract has increased and has resulted in extra financial burden. On deduction of 5 percent overhead, the actual cost estimate of the construction works would have been NPR 718.4 million, however the cost estimate was fixed at NPR 754.3 million and the contract was approved and the agreement was entered at NPR 775.3 million. The cost was increased by NPR 56.9 million due to inclusion of additional overhead, which is not in alignment with the prevailing law. Officials charged with governance who made such a decision contrary to the Rule should be held accountable.
70.6 Despite Postal Road Project including the rate of related item for quality test in the cost estimate, NPR 9.3 million, as the provisional sum, was also apportioned in the bill of quantity for quality testing. Similarly, on analysis of the rate of cement concrete, embankment, brick masonry mixing of cement and sand, it was found that in rate of every item 15 percent was added for quality testing in the cost estimate. Thereby, cost estimate reached NPR 13.2 million and an agreement was entered into with the construction entrepreneur for NPR 9.9 million. Therefore, it is seen that that there was a condition of dual payment for such quality test.

70.7 Rate determined by Rate Fixation Committee of a concerned district should have been taken as the base for rate of construction materials and workers’ wages while preparing cost estimate of construction work. However, for construction of all the roads in Kavrepalanchowk District undertaken by Division Road Office, in 2014/15, rate of Bhaktapur has been taken as the base, as a result in the 10 projects, additional financial burden of NPR 11.8 million have been occurred.

70.8 As per the norms of Department of Roads, the size of aggregate to be used in asphalt concrete should be 6-10 mm, however, on examining the report of quality testing of samples of construction materials used in the Kathmandu Valley Road Expansion Project, it revealed that such aggregates were only 50 percent. Because of the use of different sized aggregates, under 5 procurement agreement, additional cost of NPR 4.6 million had to be borne.

Cost estimate should be prepared in a realistic manner by confining within the limit as specified by the Public Procurement Rule.

71. **Design Change** – As per the report submitted by a consultant of Department of Rail, foundation of Kalinjohr and Phuljohr Bridge must have been constructed upto the depth of 30 to 35 meter and height of 2 meter through a pile. However, citing the reason of non-availability of 2-meter-thick piles in Nepal, the design of the bridge was changed so as to build it in well foundation and cost estimate of NPR 854.5 million was approved. For design of foundation of such bridge a sum of NPR 2.8 million was included in Bill of Quantity so as to make payment to one construction entrepreneur.

Following the approving of a consultant’s report and faulty design like unsuitable foundation of bridge, non-availability of 2-meter-thick piles in Nepal and non-mentioning of requirement of steel casing in 30 to 35-meter-deep pile foundation, USD 2.8 million and Nepalese currency Rs. 12.9 million has been paid to a consultant. Due to the weakness of the consultant, additional expenditure amounting NPR 2.8 million has been incurred for design modification.

Similarly, for construction of Madhi River Bridge within 2 years, an agreement of NPR 57.6 million was entered into with a construction entrepreneur by Division Road Office, Dhanusa and has made a payment of NPR 11.4 million. Cut off wall of the bridge as per the initial design drawing has to be changed, contract period of procurement agreement has expired due to delay in construction work and validity period of the advance guarantee of NPR 5.8 million has expired. Similarly, the Kaligandaki Bridge Chapakot Nirdimghat which is being constructed by Division Road Office Palpa had cost estimate of NPR 141 million, however, the design was modified so as to keep pile foundation instead of well foundation, as a result, the bid price has increased by NPR 3.6 million.

72. **Contract Management** - As per the Financial Procedure Rule, 2007, the approval of contract should be done within the first trimester. Out of the contract of NPR 210 billion 580 million awarded this year by 5 ministries, contract of NPR 185 billion 190 million was settled in second and third trimester. Out of contract settled in third trimester, NPR 20 billion 250 million contract was done in the month of Ashadh (mid-July). The quality of work may suffer due to work done in rush in the month of Ashadh (mid-July), therefore, the processing of contract should be performed as stated by the law.
73. **Price Adjustment** - As per section 55(1) of Public Procurement Act, 2007, price adjustment may be considered in the implementation of a procurement contract having period exceeding fifteen months and as per section 55(2) price adjustment cannot be made where the work under the contract is not completed within the period prescribed in such contract and if procurement contract is concluded on the basis of lump sum contract or fixed budget. As per the details obtained during the time of audit, payment of NPR 516.2 million has been made for price adjustment by 62 entities under the 7 Ministries as given below, in contravention of the Rules and the agreement.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Unit</th>
<th>Amount (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Physical Infrastructure and Transport</td>
<td>40</td>
<td>278.2</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Drinking Water and Sanitation</td>
<td>6</td>
<td>161.5</td>
</tr>
<tr>
<td>3.</td>
<td>Ministry of Irrigation</td>
<td>7</td>
<td>43.8</td>
</tr>
<tr>
<td>4.</td>
<td>Ministry of Science and Technology</td>
<td>1</td>
<td>16.7</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Urban Development</td>
<td>6</td>
<td>13.9</td>
</tr>
<tr>
<td>6.</td>
<td>Ministry of Home Affairs</td>
<td>1</td>
<td>1.9</td>
</tr>
<tr>
<td>7.</td>
<td>Ministry of Energy</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>62</td>
<td>516.2</td>
</tr>
</tbody>
</table>

Main observations in relation to this are as follows:

73.1 A sum of NPR 141.8 million, paid to 44 construction entrepreneurs for the price adjustment by following 11 offices under the Ministry of Physical Infrastructure and Transport, must be recovered.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Entity</th>
<th>Observation</th>
<th>Number of construction entrepreneurs</th>
<th>Amount (NPR in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bridge Project West Sector No.3, Nepalgunj</td>
<td>Price adjustment for construction work was paid even though the delay was caused by construction entrepreneur</td>
<td>7</td>
<td>37.2</td>
</tr>
<tr>
<td>2.</td>
<td>Pushpalal (Mid-Hill) Highway Project Western Section</td>
<td>Consumer price list published by Nepal Rastra Bank should be taken as base for the purpose of price adjustment, however, the project has taken non-edible substances of the consumer price list as the base. Price adjustment not calculated by deducting advances from the bill amount.</td>
<td>1</td>
<td>20.7</td>
</tr>
<tr>
<td>3.</td>
<td>Project Directorate (ADB)</td>
<td>Price adjustment payment made even though NPR 88.6 million was recovered as previously determined compensation due to non-performance on basis of milestone as per agreement by construction entrepreneur. Non-deduction of mobilization advances</td>
<td>4</td>
<td>17.7</td>
</tr>
<tr>
<td>4.</td>
<td>Bridge Project Sector No. 2</td>
<td>Price adjustment payment made on Lump sum contract. Rather than making calculation on the basis of wholesale price list published by Nepal Rastra Bank, calculation was made on the basis of consumer price list.</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2.1</td>
</tr>
</tbody>
</table>
Calculation made on the basis of price list published after 9 month of work completion and price adjustment of insurance done  

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Unit</th>
<th>Amount (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Physical Infrastructure and Transport</td>
<td>25</td>
<td>248.3</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Irrigation</td>
<td>3</td>
<td>139.6</td>
</tr>
<tr>
<td>3.</td>
<td>Ministry of Drinking Water and Sanitation</td>
<td>7</td>
<td>115.6</td>
</tr>
<tr>
<td>4.</td>
<td>Ministry of Health</td>
<td>6</td>
<td>31</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Science and Technology</td>
<td>1</td>
<td>24.9</td>
</tr>
<tr>
<td>7.</td>
<td>Ministry of Foreign Affairs</td>
<td>1</td>
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<tr>
<td>8.</td>
<td>Ministry of Forest and Soil Conservation</td>
<td>2</td>
<td>5.2</td>
</tr>
</tbody>
</table>

While making arrangement of contracts, Project Implementation Directorate under the Ministry of Drinking Water and Sanitation has entered into 6 procurement contracts without clearly specifying the advance amount adjustment for the purpose of payment of price adjustment. As the price adjustment has been paid without deducting advance of 1 billion 150 million, extra financial burden of NPR 121.1 million has been borne this year.

Expenditure by Variation – As per section 54 of Public Procurement Act, 2007, if unforeseen works arise in the course of implementation, variation should be done by stating clear technical justification. Variation order up to 5 percent can be issued by Office- In- Charge, up to 15 percent by Departmental Head and more than 15 percent by Government of Nepal. Likewise, if there is increment in quantity in excess of 25 percent of work as mentioned in the bill of quantity of a contract agreement made with construction entrepreneur or if the payment is to be made in excess of 2 percent of initial contract amount, then variation order should be issued for the additional quantity. Entity which have done variation against the Rule are as follows:
This year, while doing sample audit, variation in 59 units amounting NPR 607.6 million was found in contravention to Rule. Out of such, main observations noted are as follows:

74.1 For the work of removal of drinking water pipe and electricity pole in provisional sum item under Bardaghat Paaldanda Triveni Road upgrade, a variation order was issued by 4 thousands 687 percent over the initial bid amount of NPR 1.1 million by the Lumbini Circuit Project and contract price reached NPR 51.6 million. There is no competition in provisional sum item, however, massive variation order was issued, which cannot be justified.

74.2 An agreement was made by Bridge Project Sector No. 2 for construction of bridge with a span of 120 meter at Mugling in Trishuli River. However, as per the technical report, bridge of length 160 meter was to be constructed. As a result, additional cost of NPR 22.4 million (excess by 33.33 percent of procurement agreement) would be incurred and it was approved by Gazetted Second Class Office- In-Charge, who did not have the authority for approval of such variation order. It was stated that the amount for the additional works would be met from provisional sum, however, it was found that variation order was not issued from authorized person as empowered by law.

74.3 Pushpalal (Mid-Hill) Highway Project, Western Sector had issued variation order of NPR 51.1 million which ranging from 16.04 percent to 17.57 percent of the initial bid price, which should have been issued by the Council of Ministers, Government of Nepal, however, it was issued by the Chief of Department, by crossing the jurisdictional limit as stipulated by the Act.

74.4 Division Road Office, Kathmandu 1 has entered into an agreement for construction of a road and has made a payment of NPR 53.9 million to a construction entrepreneur. As per the agreement, 3 thousand 800-meter road should have been widened by 7.5 meter and 500-meter road should have been widened by 5.5 meter, thus, 31 thousand 250 sq. m. road should have been widened and blacktopped, however, 2 thousand 380 meter of road was widened upto 21 meter and payment was made of works equivalent to 35 thousands 823 sq. m. The length of the road has been shortened by 37.37 percent. Based on the shortening of length of the road construction, NPR 17.8 million should have been paid for 808 cu.m. of asphalt used, however, for 1 thousand 433 cu.m. of asphalt NPR 3.15 million has been paid. According to payment made for asphalt, work should have been increased by 77.37 percent. However, such work was not presented as justifiable on technical basis.

74.5 Regarding Division Road Office, Kathmandu 1, in four procurement contract, BOQ item was exceeded by 25 percent and total contract amount was exceeded by 2 to 10 percent, however, payment of NPR 31.1 million was made without seeking the prior-approval of concerned entity which must have been taken as per the legal provision.

74.6 Regarding Pushpalal (Mid-Hill) Highway Project Western Section, contract item in four contract increased by 25 percent and items in total contract agreement increased by 10 percent, however, additional works in 6 items of NPR 11.2 million was awarded without the approval of the concerned entity, which was inconsistent with the law.

74.7 The Department of Quarter Master General had invited bids for procurement of 4 thousand 500 jacket uniform after preparing cost estimate of NPR 17.9 million and a bid by a supplier of NPR 17.7 million
was approved. The supplier has obtained approval for carrying out transaction of readymade clothes and textiles from Department of Commerce on June 22, 2016. As per the agreement all the supplies should supply clothes within 1 day that is on July 11, 2016. Variation order has been issued for supply of additional 607 set of jacket to the same supplier. Payment of NPR 22.3 million for initial agreement and variation was found to be inconsistent with the law.

74.8 National Public Health Laboratory has entered into contract of NPR 7.8 million without approving variation for lab material and made payment of NPR 10.1 million. Despite District Health Office 3 and Division Logistic Management Division including National Public Health Laboratory making 18 to 79 percent additional procurement of drugs amounting to NPR 107.4 million by issuing variation order, it has not been justified logically.

74.9 Shahid Gangalal National Heart Centre has entered into agreement with 2 suppliers for procurement of stent for NPR 39.9 million and NPR 26.7 million, respectively, however, procurement of excess quantities was done and NPR 7.59 million and NPR 3.71 million was paid by issuing variation order of 89 percent and 39 percent respectively. Similarly, for procurement of P.T.M.C. Ballon and J Wire, agreement of NPR 1.5 million and NPR 0.38 million respectively, was entered into, however, procurement of NPR 7.5 million and NPR 0.56 million, respectively was done, as a result, variation of less than 50 percent and more than 100 percent has occurred respectively, however, the variation has not been approved as per the provision of the Rules.

74.10 Mahakali River Training Project, Darchula has made payment of NPR 11 million without approval of variation for construction work of embankment.

74.11 In Sikta Irrigation Project, the cost estimate for gate and hydro mechanical works in head works was NPR 1 billion 956.5 million, and the agreement of NPR 966.1 million was entered into with the lowest bidding construction entrepreneur for completion of work through international bidding. The construction was operated under design and build model and the construction work was commenced after the approval of the drawing which was prepared by the construction entrepreneur, however, during the course of construction, the quantity was altered and NPR 143.1 million variation was approved in the latest instance and upto now payment of NPR 739.4 million has been made. Despite the construction work was commenced after design of drawing from construction entrepreneur under design and built model, variation of NPR136.3 million was approved. Under this method of construction, the risk must be borne by a construction entrepreneur, therefore, legislative arrangement should be made in such a way that variation order cannot be issued in case a construction entrepreneur himself designs and undertakes the construction work under the design and build model.

74.12 Department of Passport had entered into an agreement on August 27, 2010 with a French company for printing and issuing 4 million machine readable passport at the rate of USD 3.59 per piece, for the five years. Based on the decision of the Financial and Infrastructure Committee, Council of Ministers had approved a variation order so as to supply and issue additional 2.5 million passports from the same company at the rate of USD 5.14. As per the initial agreement between the Ministry of Foreign Affairs and the same company, supply order for 0.6 million additional passport could have been given at the rate of the initial agreement, however, the Department had given order for additional 0.5 million passports and to purchase additional 2.5 million passport at the rate of USD 5.14, a variation agreement was done, therefore, additional financial burden of NPR 14.6 million was incurred to purchase 0.1 million passports by paying more at the rate of USD 1.55 in each passport.

74.13 In order to supply drinking water in the Sankhuwasabha Khadbari Bazaar, an agreement was entered into among Local User Committee, Second Small Town Drinking Water Project and one construction entrepreneur, at a cost of NPR 328.4 million so as to complete the work within January 31, 2015.
Showing the reasons of mismatch of length of pipe and pressure setting due to change in alignment and technical fault, and non-inclusion of materials for construction of approach road and fitting in initial design, third variation order was approved so as to increase the cost by 14.97 percent. As a result, the contract amount has been maintained at NPR 400.5 million.

The reasons for repeated variation to be ordered are: non-inclusion of some pipe and fitting in estimate and design that could have been estimated; faulty job conducted by the consultant responsible for conducting design survey and preparing cost estimate; approval granted without conducting sufficient examination whether the cost estimate design and drawing were rational or not. Officials making faulty design and approving them should be made liable.

**Variation should be made only in compliance with Public Procurement Law.**

**75. Liquidated Damages** - As per the Public Procurement Rules 2007 and procurement agreement, if the work under the procurement contract could not be completed within the time specified in the contract due to delay caused by the supplier, the supplier shall have to pay liquidated damages in a sum to be set by zero decimal zero five (0.05) percent of the contract price per day not exceeding ten percent of the contract price. 72 entities under the following 9 ministries have not complied with such provisions and failed to recover liquidated damages of NPR 261.1 million.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Unit</th>
<th>Amount (in Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Physical Infrastructure and Transport</td>
<td>26</td>
<td>181</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Federal Affairs and Local Development</td>
<td>13</td>
<td>18.8</td>
</tr>
<tr>
<td>3.</td>
<td>Ministry of Urban Development</td>
<td>11</td>
<td>15.4</td>
</tr>
<tr>
<td>4.</td>
<td>Ministry of Health</td>
<td>11</td>
<td>15.3</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Drinking Water and Sanitation</td>
<td>3</td>
<td>12.8</td>
</tr>
<tr>
<td>7.</td>
<td>Ministry of Irrigation</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>8.</td>
<td>Ministry of Education</td>
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<td>9.</td>
<td>Ministry of Information and Communication</td>
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<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>72</strong></td>
<td><strong>261.1</strong></td>
</tr>
</tbody>
</table>

Main observations noted in relation to this are as follows:

75.1 Division Road Office, Bharatpur has made agreement with one construction entrepreneur for repair and expansion work of bridge at a cost of NPR 18.2 million to be completed within June 30, 2015. In spite of the delays in the completion of the work, period of the contract was not extended as per the provisions set forth in the rule. During the payment of NPR 17.2 million made after the work was completed on July 9, 2016, liquidated damages of NPR1.6 million were not recovered.

75.2 One construction entrepreneur under the Division Road Office, Kathmandu 1, was required to complete the work as per the agreement within December 8, 2013 and despite the work was completed on January 7, 2014, the liquidated damage amounting to NPR 1.6 million for 31 days of delay in completion of the work has not been recovered as per the rules.

75.3 Supply Division, Ministry of Health, entered into an agreement with a supplier to supply 20 thousand roll of gauge per year for the period of three years at NPR 16.7 million for supply of 60 thousand roll. However, 20 thousand roll of last year was found unsupplied. Even though third year supply period had expired, payment of second year amount has been provided without settlement of reimbursable
advance of NPR 558 thousands. The maximum amount of predetermined liquidated damages of 10 percent of the contract amount for non-performance of the work should be recovered from supplier for breach of the agreement because of expiration of supply period.

75.4 Supply Division of Ministry of Health, entered into an agreement with a private limited for supply of 0.9 million vial of anti-rabies vaccine for NPR 220.5 million, however the time was extended by levying liquidated damages. As per the agreement, in third year, 300 thousand A.R.V should have been supplied, however, it was noted that only 193 thousand dose A.R.V. was received. As per the first schedule 75 thousand vial amounting NPR 18.3 million were obtained after a delay of 48 days, therefore, as per the agreement, it was seen that NPR 0.6 million liquidated damages at the rate of 0.5 percent per week need to be recovered. Likewise, as per the second and third schedule, 59 thousand dose, each, were supplied after a delay of 93 days and 44 days respectively, therefore for NPR 28.9 million, liquidated damage of NPR 1.4 million should be recovered from the supplier.

75.5 Headquarter of the Armed Police Force received supply of various uniform after a delay of 25 to 76 days from 4 suppliers, and the time was extended provided that the liquated damages should be recovered. However, the liquidated damages were not recovered, therefore NPR 4.2 million should be recovered from the supplier.

75.6 District Development Committee Dhanusha, Gorkha, Nawalparasi including 13 have not recovered liquidated damages of NPR 18.8 million for non-completion of the construction works within the specified date under the stated provision of the contract agreement.

Predetermined compensation should be recovered for delay by construction entrepreneur or supplier.

76. Time Extension - According to Section 56 of Public Procurement Act, 2007 period of procurement contract may be extended due to force majeure, among others. Observation seen in relation to this are as follows:

76.1 Rural Re-construction and Rehabilitation Program has made an agreement with one consultant for NPR 136.3 million for preparation of detailed project report of 67 roads located in 20 districts within October 31, 2014 (15 months). Even though time was extended by 20 months (133 percent) for the fourth time by the Department Chief without additional burden to be borne, only NPR 107 million (70 percent) was spent, whereas, in 19 road base line survey was pending, in 21 roads rehabilitation was pending, in 9 roads environmental impact was pending and in 8 bridges feasibility report was pending, as a result the detailed project report has not been prepared. Arrangement should be made for timely completion of work.

76.2 In Division Road Office, Kathmandu 1, it was seen that time was extended by Regional Director instead of Department Head in 55 contracts. Similarly, in three contracts, bid was approved by Regional Director whereas time period of 6 months was extended by Division Head. No powers to extend period of a contract as provided in the Public Procurement Rule, 2007 can be delegated. However, time was extended without having such authority which is not in compliance with the law.

77. Guarantee - As per Rule 110 of Public Procurement Rule, 2007, performance guarantee should be valid till defect liability period. Similarly, bank guarantee should be taken for providing mobilization advance. However, 32 entities under the following 8 Ministries have done transactions without validity period of bank guarantee of NPR 357 million.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Under Ministries</th>
<th>Unit</th>
<th>Amount (in million)</th>
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### Main observations in relation to this are as follows:

#### 77.1 Ministry of Physical Infrastructure and Transport
- Division Road Office Humla, Surkhet, Palpa, Lalitpur and Makwanpur have retained bank guarantee of less time period and the time period of performance and bank guarantee amounting to NPR 162 million has expired.

#### 77.2 Suspension Bridge Division
- Has terminated a contract for constructing suspension bridge in Nuwakot, therefore, NPR 0.684 million relating to performance guarantee should be forfeited.

#### 77.3 Ministry of Irrigation
- In District Technical Office, Siraha, for the upgradation of Siraha-Sukhipur road within 15 months, an agreement was entered into for NPR 181.1 million and as per the agreement, 10 percent mobilization advance of NPR 16 million was provided. However, till January 24, 2017, physical progress of construction work stood at 1.5 percent. No construction work was found to have commenced even though office repeatedly notified to carry on construction work. Despite the time period for construction work expiring, time period for the same has not been extended and bank has refused the demand for encashment of guarantee amount as the time of guarantee has also expired. This has posed a risk to the advanced amount, therefore, the concerned program chief should be held accountable.

#### 77.4 Armed Police Force
- Headquarter, has extended the time period of the procurement contract with 2 suppliers for supply of camouflage trouser and cotton pants by taking a decision of recovering liquidated damages at the rate of 0.05 percent per day because of non-completion of work on time. The supplier not performing the work as per the procurement agreement should be black listed and bank guarantee of NPR 3.8 million should be forfeited.

#### 77.5 Ministry of Drinking Water and Sanitation
- For building of the National Public Health Laboratory, a construction entrepreneur had submitted performance guarantee of NPR 3.6 million and advance payment guarantee of NPR 6.2 million from a commercial bank, however, it had expired and, on November 3, 2016, correspondence was done with the bank for withholding those guarantee. Guarantee would have been seized before its expiry and later should have deposited the forfeited amount in the government treasury. It did not happen accordingly so the amount is at stake. Therefore, the person not claiming guarantee amount to recover after posing the risk should be made liable.

#### 77.6 Ministry of Federal Affairs and Local Development
- Two procurement agreement of NPR 40.2 million was concluded with one construction entrepreneur for construction of two bridges in Surkhet-Jumla road under Karnali Highway. As the construction entrepreneur had not commenced the construction of one bridge and had abandoned the construction site of another bridge after partial construction, communication with the bank was done so as to forfeit the advance guarantee of 5.3 million 52 thousand, however, the bank replied that there was no guarantee issued in the name of the construction entrepreneur. The contract was terminated and the construction entrepreneur was black listed. The guarantee for procurement contract and the cost for completing the remaining work should be ascertained and should be recovered.
77.7 As per Renewable Energy Subsidy Delivery Mechanism, 2013, after the service provider companies submit a proof of installation and claim subsidy amount, the applications are evaluated and based on the bank guarantee, upto 90 percent payment can be made. Upon examining the status of bank guarantee, submitted to Alternative Energy Promotion Center, which were submitted by service provider companies, as per the aforementioned provision, it was found that bank guarantee of NPR 46.3 million submitted by 17 companies had expired. Since the period of guarantee have expired, the advance amount is at risk, so it must be recovered.

In relation to bank guarantee of NPR 90.8 million issued in the name of other 7 companies, it has been stated that application for demand of advances by company and requisition forms to be submitted for subsidy have not been presented. It was found that payment of the amount from the fund was made just on the basis of guarantee so as to benefit a particular company, without requisite proof and documents required for advances, which is not appropriate.

*The persons involved in elapsing the validity period of performance guarantee and not forfeiting the same should be made liable, and arrangements should be made for recovery of the same as per the procurement rules.*

78. **Direct Procurement**- As per Section 8(2) of Public Procurement Act, 2007 procurement shall not be made in piecemeal so as to limit competition. In contravention of the Act, 48 units under the following 8 Ministries/ Entities were found making procurement of NPR 185.8 million by preparing in different piecemeal cost estimate for procurement of goods and construction of structure.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Unit</th>
<th>Amount (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Drinking Water and Sanitation</td>
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<td>16.4</td>
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<td>Ministry of Irrigation</td>
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<td>3.</td>
<td>Ministry of Federal Affairs and Local Development</td>
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<td>Ministry of Home Affairs</td>
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<tr>
<td>6.</td>
<td>Ministry of Science and Technology</td>
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<td>Ministry of Defense</td>
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<td>8.</td>
<td>Ministry of Information and Communication</td>
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<tr>
<td></td>
<td><strong>Total</strong></td>
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<td><strong>185.8</strong></td>
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</table>

Competitive bidding process has not been implemented and control has not been exercised over the practice of direct procurement by making piecemeal cost estimate. Limiting of competition in making procurement does not seem to be appropriate from the angle of economy and from legislative angle as well. For making procurement process competitive and economic as well as for control over direct procurement activities, the central entity having responsibility for monitoring of procurement should be responsible for themselves.

79. **Delay in Work** – Sikta Irrigation Project entered into an agreement of NPR 988.1 million with a construction entrepreneur for construction of link canal and repair of water supply sources within November 7, 2018. Accordingly, advances of NPR 83.3 million was provided but the work has not commenced till the passing of 233 days from the date of agreement. Similarly, time period for completion, as per the agreement of 6 contracts amounting to NPR 411.7 million, has expired however
only 25 to 60 percent work has been performed. Construction entrepreneur not doing work in time should be made to follow work schedule by taking necessary action.

80. **Termination of Procurement Agreement** - Rule 128 of The Public Procurement Rules, 2007 provides the remedies available in the event of the breach of the procurement contract. Significant observations regarding this are as follows:

80.1 In Puspalal (Mid-Hill) Highway (Madhya Pahadi Lokmarga) Project, western sector, the contract of NPR 14 million with one construction entrepreneur, not doing the construction work of Ghodabanda Kharbang road sector, has been terminated by convenience. The payment of NPR 0.9 million has been made even after 662 days from the date of expiry of the procurement contract after extension of the date as demanded. Payment of NPR 5.2 million has been made to one construction entrepreneur who was completed 32.76 percent of the procurement contract of NPR 14 million. The liquidated damages of NPR 0.1 million has not been recovered from construction entrepreneur who did not complete the contract within time, performance guarantee of NPR 0.8 million submitted by such entrepreneur has not been forfeited and the work not performed by such entrepreneur amounting to NPR 9.4 million has not been given to another construction entrepreneur, rather, the contract has been terminated by convenience, therefore, the persons involved in such activity should be held accountable.

80.2 In Division Road Office, Dang, an agreement was entered into with a construction entrepreneur for construction works of a road for NPR 73.9 million within March 4, 2015, however, since the work was not completed within such time period, a decision to terminate the contract and NPR 19.2 million to be recovered was made on January 12, 2017. On termination of the contract due to non-performance of the work by the construction entrepreneur, for completion of the incomplete works, 25 percent of the cost estimate NPR 88.3 million i.e. NPR 22.1 million should have been recovered, however, only NPR 11.4 million has been recovered, therefore, the under recovered amount of NPR 10.7 million should be recovered and the persons contravening the provisions of the agreement should be held liable.

81. **Dual Agreement** - After approving the cost estimate of NPR 1 billion 70 million in the Dharan – Chatra – Gaighar – Katari – Sindhuli – Hetauda road project, procurement contract of NPR 667.8 million has been entered into and payment of NPR 203.4 million have been made and the procurement agreement has been in force. The Project Coordinating Office has entered into agreement with one J.V for NPR 7 billion 103.6 million to complete the work within 36 months in the same site where the construction work has been already carried on. It has been found that, without assessment of the work completed and payment made in the project, new procurement agreement has been entered into so that more than one construction entrepreneur had to be perform the same work. This type of activity cannot be considered in alignment with the law.

82. **Environmental Assessment** – Puspalal (Midhill) Highway Project, East Section, has entered into a procurement contract on 2011/12 of NPR 128.8 million for construction of road in the Ghrumi Chatra, Kabeli Chatra and Leguwhaghat Chatra section of Koshi corridor without conducting environmental impact assessment, therefore, 3 procurement contract were halted after performing work of NPR 6.7 million, moreover, the advance guarantee period has also expired. Action should be taken against the person making procurement agreements contrary to law.

83. **Interruption due to Dispute** – In Kathmandu Valley Road Expansion Project, different packages of purchase contracts have been made without ascertaining the area to be occupied, width of the road, road alignment etc., as a result, dispute and disruption have emerged and in one of the four procurement contract of Jorpati Sankhu Section, construction work has not commenced even after 15 months of signing of agreement. For the improvement and expansion of the existing roads, the road construction
work was abandoned after cutting and grading was done and have not been blacktopped for a long time, consequently, the dust generated from the road has polluted the atmosphere that has adversely affected the health of the common people.

84. **Specification** – The payment for the goods received should have been made only after the examination of whether technical specification and quality has met as specified in the contract, however, National Public Health Laboratory has made payment of NPR 3 million to 2 suppliers even though the good supplied were in conformity with the specification as specified in the contract. Similarly, Human Organ Transplant Center has accepted and made payment for machineries/goods like hemodialysis machine, row plant, dialyzer reprocessor and electrosurgical unit even though the said machineries and goods were not as per the technical specification specified in the contract. The machines, equipment which are not fully compliant with the specifications, that should not have been accepted, have been accepted. Therefore, the concerned person accepting them should be held liable.

85. **Supply of Free Medicines** – The Ministry of Health had announced free distribution of medicines of 102 items of 70 types through district hospital having 25 beds, 102 items of 70 types through Primary Health Center and 71 items of 61 types through Health post to general citizens.

Factors like cancellation of procurement process of 5 packages; timely decision not being made by the officials involved in decision making process, though the process of procurement of medicine for 2015/16 and 2016/17 was initiated, the agreement for procurement of 20 packages was done in June 15- July 15, 2016 and for 20 packages was done in July 16- August 16, 2016 so, rather than purchasing the medicine in the same year that was to be supplied in a current financial year, the medicine was purchased in the yearend resulting the general public not receiving medicine in time and affecting health service delivery badly by not utilizing the health budget properly in the next year. Arrangement for timely supply of medicines should be made.

86. **Supply of Medical Equipment** – Significant observations with regards to the supply of tuberculosis related medicines and equipment are as follows:

86.1 A standard should be set for minimum and maximum stock level in center as well as district, however it has not been done. On analysis of the stock at the Center, where medicines required for the whole country is stored and is distributed as per the demand from the District, due to non-formulation of clear policy of maximum and minimum stock level, it revealed that stock of Kanamycin was sufficient for 7 days, Levofloxacin for 11 days, Ethambutol for 18 years and Isoniazid 300 mg for three and half year, based on average annual consumption. Medicines amounting to 3.3 million tablets for previous year and medicines amounting to NPR 4 million all expired this year.

86.2 Regarding medicines received from donor agencies, 0.228 million tablets having expiry date up to March 13, 2013 and syringes manufactured in January 2016, having expiry date up to January 14, 2019 did not meet the quality standard so they have been stored uselessly.

86.3 This year, an agreement of NPR 923 million was concluded with the Global Fund. However, an agreement was made with directly appointed international non-governmental organization to expend 25 percent of the total assistance i.e. NPR 230.2 million for the fund management without any approved program. As per the audit report of 2015/16 of the Save the Children, which is the main recipient of the Global Fund tuberculosis assistance, out of the total expenditure of USD 317.5 million, USD 1.256 million was spent on medicines and equipment related to tuberculosis, which should have been received in National Tuberculosis Center, however, the same has not been received till December 2016. The non-receipt of medicine and equipment is not in line with the agreement.
87. **Building Construction** – A contract was entered into with one construction entrepreneur to construct two-storied barrack for soldiers (*jawan line*) building in Ganeshdal Gan (battalion) within July 9, 2016 for NPR 15.1 million. As per the authorization, the whole amount was not spent for the said barrack, therefore, third floor was constructed from the same construction entrepreneur from the surplus and NPR 16.4 million has been paid. Full payment has been made for the whole work as per the contract agreement, however, during the on-site inspection of building, it was revealed that fittings of windows, door, plaster, paint, electricity, toilet, bathroom etc. has not been performed. The payment of NPR 3.684 million for the work not performed should be recovered and the officer making such payment should be made liable.

88. **Inventory of Pipe** – As per the decision of the Government Nepal (Secretary Level) of February 20, 2006 and circular of Department of Water Supply and Sewerage of April 16, 2006, the previous inventory should be used and purchase should be made only in the case of emergency. However, for water supply projects operated in districts, pipes and fittings were purchased in excess quantity than the approved annual program, similarly, procurement was done without utilizing old inventory so as to result inventory in at the end. It was noted that the criteria regarding minimum stock of pipe and fittings has not been prepared. In Water and Sanitation Division/Subdivision Office 10, this year, NPR274 million 0.993-million-meter pipe of worth NPR 274 million was purchased despite there was inventory of 0.285-million-meter pipe of NPR 42.2 million lying in stock. This year, there is inventory of 0.516-million-meter pipe of NPR71.4 million in Lalitpur, Sankhuwasabhaa, Jhapa and other 8 offices. The Officials who disobeyed the decision and instruction of the Department and did not determine the minimum stock level should be made liable.

89. **Engineering Facilities** – As per the decision of the Public Accounts Committee made on April 20, 2012, resources required for care, supervision and other activities regarding construction works should be managed by making provision in the budget and practice of making payment to construction entrepreneur by incorporating engineering facilities in the bill of quantity of a contract should be controlled. Significant observations, in this regard, are as follows:

89.1 In Rani Jamara Kulariya project, in five procurement agreement, vehicle rental facility of NPR 123 million has been kept in bill of quantity, and payment of NPR 77.7 million has been made till date, including NPR 17.1 million in this year, to the construction entrepreneur. Therefore, including the vehicle facility in BOQ with the intent of providing facilities to the engineers increases the construction cost. Though it controlling such expenditures through previous years’ reports of this office was suggested, the situation has not been improved till date.

89.2 Mahakali River Training Project of Darchula has made payment of NPR 4.3 million and Mahakali Irrigation Project has made rental payment of NPR 1.4 million by including it in the bill of quantity. It is seen that payment of NPR 29.9 million has been made to provide vehicles in various irrigation projects. The decisions of the Public Accounts Committee and corresponding policies should be implemented to reduce unnecessary overhead expenditure of the project.

89.3 It has been found that Urban Development and Building Construction Division Office 12 has entered into agreement for various construction contract so as to supply vehicles, vehicle rental, computer, laptop, motorcycle, scooter etc. worth NPR23.5 million.

90. **Agricultural Fertilizer Procurement and Transportation** – This year, the Government has provided NPR 3 billion 870 million price subsidy for 180 thousand metric ton of chemical and other fertilizer to Agriculture Inputs Company Limited and NPR 1 billion 570 million for 107 thousand metric tons to Salt Trading Corporation, thus totaling to NPR 5 billion 440 million.
Salt Trading Corporation has accounted NPR 1 billion 998.9 million as expenditure to purchase 107 thousand metric tons, which is in excess by NPR 424.6 million over the subsidy received. Also, the Corporation has not taken approval from Ministry prior to such excess expenditure.

To import the chemical fertilizer, Agriculture Inputs Company Limited has accounted bank commission expense, for letter of credit, NPR 1.4 million for 191 thousand metric ton and Corporation has incurred NPR 4.8 million for 107 metric tons, therefore, there is the difference in expenditure accounted by two companies. The Assessment Team of Ministry has recommended to conduct enquiry regarding payment of excess commission on import of less quantity. However, as such action has not been finalized, the same should be finalized.

Out of the purchase made by Agriculture Inputs Company Limited, 65 thousand 851 metric ton urea, 13 thousand 784 metric ton DAP, 6 thousand 28 metric ton of potash and 441 metric ton of Agricultural Chun (lime) equivalent to NPR 2 billion 46.6 million is remained for distribution. If it is not used within the prescribed time, it would be useless due to deterioration of quality. Therefore, such fertilizer should be brought into use as soon as possible.

91. **Insurance Payment** — As per Rule 112 of Public Procurement Rules, 2007 construction entrepreneurs should insure the construction works including construction materials and plant, machineries and equipment to be used therein covering the defect liability period. 44 bodies of the following 5 Ministries have made payment of NPR 75.3 million insurance expenses without covering the specified period and coverage, and without providing the evidence of procured insurance. Insurance should be done to cover all types of risks.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Unit</th>
<th>Amount (NPR in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Physical Infrastructure and Transportation</td>
<td>24</td>
<td>63</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Irrigation</td>
<td>10</td>
<td>9.6</td>
</tr>
<tr>
<td>3.</td>
<td>Ministry of Urban Development</td>
<td>8</td>
<td>2.4</td>
</tr>
<tr>
<td>4.</td>
<td>Ministry of Home Affairs</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Drinking Water and Sanitation</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>44</td>
<td><strong>75.3</strong></td>
</tr>
</tbody>
</table>

Factors like untimely arrangement carried out for contract, procured directly due to piecemeal cost estimate so that contract was not managed in a competitive and transparent manner, time extended in almost all of the contract, non-recovered liquidated damages, cost estimate not prepared in a realistic manner, not including works that could be estimated beforehand in the cost estimate rather doing it by variation, issued variation order even in provisional sum contract and design and built contract, no action taken even as per the contract on non-performance of the work on time, providing ineligible price escalation, faulty design etc. have caused problems in construction work. Even though the contract were awarded in time, the work was not completed within the stipulated time as a result it has made the time and cost increased. Public procurement work has not been done in efficient manner. Therefore, timely improvement should be done in these types of activities.
• Audits

92. Non-Conduction of Audit – Significant observations regarding non-fulfillment of obligation to conduct audit by office as per legal arrangements are as follows:

92.1 As per section 16(2) of Financial Procedure Act, 1999, each office shall submit accounts and financial statements and get the audit of the same to be carried out, however, as the books of account of the National Tuberculosis Center of NPR 167.1 million and, that of Child Health Division of NPR 161.3 million, totaling to NPR 328.4 million were not submitted, the audit could not be conducted. They should submit the financial statements and the books of account of the financial transaction, and have them audited.

92.2 Technical assistance of NPR 279.5 million in Local Governance and Community Development Program; NPR 4 billion 705 million received from 5 donor countries and organizations and NPR 547 million grant and loan directly received from 3 donor countries in Rural Drinking Water and Sanitation Program, Rural Access and Improvement Program, Sector wise Suspension Bridge Program under Department of Local Infrastructure Development and Agricultural Road; NPR 417.1 million of Project for Strengthening the National Rural Transport Program received from International Labor Organization; and NPR 60.9 million released for road improvement to District Technical Office, Khotang has not had those transactions of NPR 6 billion 9.5 million audited.

92.3 Though the request was made on December 17, 2016 to make the financial statements, copy of agreement, accounts, and documents regarding the financial assistance of NPR 226.2 million received by Central Child Welfare Committee in 2014/15 and 2015/16 for conducting an audit available, the same has not been submitted to date.

92.4 Out of 377 backlog units of the Tribhuvan University upto previous financial year, in this year, 53 units have got their financial transactions audited by submitting the financial statements. This year, the number of outstanding audits has increased to 380 from 324. Though, in April 2012, the Public Accounts Committee had directed to conduct audit of the outstanding units within 3 months, the same has not been complied with. Even though this issue was raised in the report of previous years also, the situation has not been improved.

Audits of all types of transactions should be done. Likewise, as Tribhuvan University has disobeyed the directions of the Public Accounts Committee, the concerned officer should be made liable.

93. Auditing of Local Level Bodies- According to article 241 of the Constitution of Nepal, audit of local level should be carried out by the Auditor General. The observations, in this regard are as follows:

93.1 As per section 69(2) of Local Self-Governance Act, 1999 the final audit of the former village development committee shall have to be carried out by an auditor approved by the District development committee on the recommendation of the accounts committee constituted by the village council and as per section 135(2) the final audit of income and expenditure of the municipality shall have to be carried out by a registered auditor appointed by the municipal council on the recommendation of the accounts committee. However, such audit shall have to be carried out by the Auditor General as per article 304(1) of the Constitution of Nepal, which needs to be implemented.

As per the constitutional provisions, the preliminary work has been started to conduct the audit of local level from 2016/17 from this Office. It was agreed with the Ministry, that arrangements shall be made by the Ministry for audit of former village development committee and municipality for 2015/16 as per the provisions that was then in force (former) and from 2073/74 onwards the financial transactions would be audited by this Office as per the constitutional provisions. Audit reports of the
then 41 municipalities have been received in the office as per the agreement made with the Ministry for making an arrangement to provide audit reports of FY 2015/16 from the registered auditor. Such audit reports include audit remarks like difference in bank balance and accounts, unrealistic valuation of assets, non-reconciliation of lending and reimbursement, non-transfer of amount as per the revenue sharing to concerned District Development Committee, non-settlement of advances etc.

93.2 On monitoring the former village development committees and municipalities of 60 districts, excepts the 12 districts of the valley and mountain regions, regarding the appointment, service terms, report etc., the details regarding the appointment of auditor from 33 districts has been received. Accordingly, an orientation/interaction program regarding the provision of Audit Act, 1991 and auditing, was organized for the 1725 auditors appointed by the municipalities and village development committees for the audit of 2015/16. During such orientation/interaction program, information regarding audit planning, audit management and reporting system, code of conduct and the minimum matters to be included in the report was disseminated. Though auditors have been appointed in 49 municipalities and 1725 village development committee of thirty-three districts, audit of only 23 municipalities and 393 village development committees has been completed till February 11, 2017.

93.3 Out of the 23 municipalities and 393 village development committees whose audit has been completed, in 8 municipalities and 15 village development committee whose transaction amount were disclosed, the turnover is NPR 3 billion 939.3 million. The audit irregularity of NPR 79.8 million was noted in municipality and village development committee whose economic turnover number was disclosed. Such amount includes NPR 6.127 million to be recovered, NPR 39.3 million irregularities and NPR 34.4 million advance outstanding. In order to facilitate the auditing of local level, arrangements should be made to handover the accounts of the municipality and village development committees to the village institutions and municipalities to be formed after restructuring.

94. Internal Audit – After assessing the internal audit of offices under the Government of Nepal, State-Owned Enterprises, Local Bodies and Tribhuvan University, following issues have been noted:

94.1 As per the Financial Procedure Act, 1999, the Financial Comptroller General Office shall carry out or cause carrying out of the internal audit of all government offices as prescribed. Though the Internal Audit Directive, issued by the Financial Comptroller General Office has stated the objective and scope of audit, internal audit of all transactions and all government bodies were unable to be covered.

Internal audit of 72 offices (excluding valley) has been conducted by the District Treasury Comptroller Office. Out of the audited ones, there are no irregularities observed in 1 thousand 897 offices. Out of the irregular amount observed in internal audit, more than 99 percent relates to advance irregularity, most of the observations are thematic and the legal basis has not been stated in the observations. This clearly shows the Financial Comptroller General Office has been unable to carry effectiveness in internal auditing. As the irregularities and recoverable irregularities were in small percentage, and as the audit was not conducted effectively and in a result oriented manner, so more time was needed to devote in the final audit.

In the report, dated April 26, 2010, of the sub-committee, set up by the Public Accounts Committee, to examine public accounting, auditing and situation of evaluation and monitoring, it was recommended to separate internal auditing from District Treasury Comptroller Office and to set up a separate unit in the Financial Comptroller General Office for performing audit, to enhance the capacity of the auditors, to develop auditing standards, to develop management information system, and to recover or settle the irregularities within two months of raising such irregularities. However, it has not been implemented. It is necessary to strengthen internal auditing by preparing an action plan.
94.2 As per the Company Act and prevailing rules of the corporations, audit committee should be established. The Internal Audit and Inspection Directives prepared in 2003 by the Nepal Rastra Bank is being implemented without being updated till now. Nepal Aushadhi (Drugs) Limited and Nepal Airlines Corporation have not even constituted audit committee to maintain corporate governance. Hetauda Cement Industry has not prepared the manual to support the auditing. The internal audit department of the Nepal Television has not been authorized to examine the functions and duties of all executive level officers. Kathmandu Valley Water Supply Management Board has not had the internal audit of its transactions been conducted. All transactions were not covered for examination by the internal audit division of the Agriculture Inputs Company. In the year 2015/16, no meeting of audit committee of the Timber Corporation Nepal Limited was held. The corporate bodies have failed to make the internal audit effective, result oriented and as per the need of the hour.

**Internal audit of corporate bodies should be made effective by improving the areas like:** establishment of audit committee, implementation and modification of directives, fixing the manpower and scope, commitment for reforms, implementation of a report and its continual review, among others.

94.3 As per Local Body Financial Administration Rules, 2007, District Development Committee should conduct an internal audit of the Village Development Committees and of its own and the irregularities of district development committee obtained from internal audit should be settled before final audit and the record of the irregularities of village development committee should be maintained and follow-up audit should be conducted.

The practice of conducting internal audit in a trimester rather than in a monthly basis and submitting audit report only at the end of the fiscal year still persists. Moreover, the irregularities raised by internal audit were not settled before final audit. In this regard, on examining the status of irregularities of internal audit and its settlement in District Development Committees, the internal audit was not effective due to the reasons like: non settlement of irregularities in 7 District Development Committees amounting to NPR 743.6 million, non-updating the record of irregularities in 5 District Development Committees, non-inclusion of advance of NPR 28.6 million in the name of 19 persons and institutions as irregularity in District Development Committee Kathmandu, non-disclosing the basis of irregularities in the report of 12 District Development Committees and non-updating the records of irregularities and settlement in Village Development Committees.

**The report should be prepared on a monthly basis by mentioning the legal criteria as per the Rules, and the reported irregularities should be settled in time and financial transaction should be made fair and transparent.**

94.4 As per the legal provision, internal audit of Tribhuvan University should be conducted after preparing the Statement of income and expenditure by updating accounts. This year, only 69 out of 126 units of University have got internal audit conducted and submitted the financial statements. Since the financial statement was not submitted for an audit because the internal audit not being conducted in time, the audit of entities under the Central Office, Teaching Hospital, Institute of Engineering and Office of the Controller of Examination together with 57 bodies could not be conducted. The persons who could not carry out or cause the carrying out of internal audit timely and those who did not submit financial statements should be made liable.
Accrued Income

95. Rent Arrears - Revenue from rent should have been deposited into revenue account after recovering it as per the agreement, however, the air fare, fuel expenses, allowances and landing charges determined by the Commercial Flight Committee of Directorate General of Army Aviation have not been recovered. This includes NPR 3.2 million recoverable from 3 entities by Mid Air Base, NPR 67.6 million helicopter charter fare recoverable from 59 bodies and institutions for the period of 1977/78 to 2015/16, and NPR 12.5 million towards VVIP flight service from 28 bodies and institutions for the period of 1985/86 to 2015/16, therefore in total NPR 83.3 million recoverable amount is outstanding. Out of the outstanding amount, NPR 6 million was recoverable from 8 dissolved government bodies and NPR 31.3 million from Ministry of Home Affairs. While 50 percent of the rent equivalent to NPR 40 million would have been deposited as revenue, revenue has not been recovered. Similarly, NPR 104.4 million is recoverable under the Ministry of Health, including, rent from shutters of 10 hospitals amounting to NPR 21.1 million. Action should be taken as per the prevailing laws and arrears amount should be recovered as soon as possible.

96. Land Rent tax- Petroleum Exploration Project had received a land rent tax of NPR 50 million from one company out of which only NPR 45.1 million has been deposited, therefore, the remaining amount of NPR 4.9 million should be deposited.

97. Broadcasting Fees – As per section 5 of National Broadcasting Act, 1993 any person or body corporate who intends to broadcast any program by way of satellite, cable or other means of communication or to broadcast any educational (didactic), entertaining and informative programs by establishing the frequency modulation (F.M.) broadcasting system in any place within Nepal shall pay broadcasting and license fees to the Government of Nepal. NPR 48.1 million fees regarding 23 F.M. stations of Radio Nepal and broadcasting and distribution fees of Nepal television from 2009/10 has not paid till this year. Provision specified by the Act must be complied with and the remaining amount should be recovered.

98. Penalty on Royalty - As per rule 26 of Telecommunications Rules, 1997, a licensee who has obtained a license should pay the royalty in an amount at the rate of four percent of the total income to the Government of Nepal each year. As the telecommunication service providers had not submitted the royalty within 3 months from the end of the year, the Authority had passed a decision to levy 2 percent additional fees per month on the outstanding balance and sent it to the Ministry of Information and Communication on May 6, 2016. In the audit report of previous years also, it was pointed out that the telecommunication service providers did not pay the royalty amount within the stipulated time and delayed the payment by withholding the royalty amount with themselves; in the current year as well, as no decision has been taken upon the proposal and recommendation of the Authority, the service providers have not paid the royalty amount even up to 11 months. The provision of imposing penalty on late deposit of royalty amount has not yet been implemented. In this regard, related body should be made liable.

99. Frequency Fees - The minimum frequency fees for each year should be paid within 6 months of the end of the fiscal year. Additional and maximum frequency and VSAT fees should be paid within three months from the beginning of the fiscal year. As per the provision, if it is not so paid, then additional fees at the rate of 2 percent for each month will be charged and, if it is not paid within six months from the levy of additional fees, then the license would be cancelled, and it would be recovered as governmental dues. 3 service providers have not paid frequency fees of NPR 53.5 million for previous and current year, and total outstanding frequency fee to be recovered is NPR 351.1 million which should be recovered by the Ministry of Information and Communication.
Radio Frequency Policy, 2012, has approved the method of price determination and as per clause 11(a), the fee for minimum frequency allocated for G.S.M. mobile service shall be paid in lump sum, equal to 0.4 percent of the total annual income of the service provider. As per the approved policy, the minimum frequency fee of the G.S.M. service should be collected in lump sum on the basis of total income.

100. **Compliance with the Frequency Policy** - Radio Frequency Policy, 2012 has been amended for the first time and Radio Frequency Policy, 2016 has been issued. In the Frequency Policy, 2012, it was stated that for the allocation of 4G frequency bandwidth, the minimum price would be fixed for frequency which would be used for each service and auction method would be used, and that the Ministry of Information and Communication should prepare proposal after studying the practice of neighboring country, and place it before the Committee within 6 months from the date of coming into force of the policy, however, in 2016, during the time of amendment of the Policy, it was stated that some works were pending and as a result, the policy arrangement could not be complied with. Observations in this regard are as follows:

100.1 As per section 49 of the Telecommunication Act, 1997 there shall be a Radio Frequency Policy Determination Committee chaired by Minister of Information and Communications for the purpose of determining the policy relating to the radio frequencies, allocation and price. The frequency, occupied in excess than the minimum, by the service providers before the enforcement of Radio Frequency Policy, 2012 on November 4, 2012, has not been withdrawn and the direction of the Public Accounts Committee to employ auction method has not been implemented.

100.2 In the Radio Frequency Policy, 2012, it was stated that the radio frequency used in the telecommunication service is limited and highly important technical resource, therefore, the price determination by auction method is the universally accepted best practice. Thus, to ensure the situation where the state receives the actual value of the frequency of telecommunication service, it is necessary to allocate it in competitive manner and because of the necessity of determination of the price of frequency of 3G, 4G and other services, the Policy was issued. At the time of first amendment of Frequency Policy, 2012, i.e. after 5 years, it was stated that as the 900 MHz and 1800 MHz band frequency that are more useful in the operation of 3G and 4G were allocated to the service providers, the auction could not be held, therefore, the frequency allocation and distribution was done in a different method than the declared policy.

100.3 As per the Frequency Policy, 2012, it was announced that as soon as the Policy came into force, the process of auction would be initiated for 4G frequency, however, after passing of 5 years of coming into force of the policy, permission to use 4G was granted without any competition by adopting technology neutral provision. Competition should be done on all frequencies of high value.

100.4 As per section 49(1) of the Telecommunication Act, it is the right of Committee to determine the pricing policy of radio frequency. In the Telecommunications Service Frequency Policy, 2012, the mechanism of auctioning of 700MHz and 2600 MHz frequency bands was made, and it was stated that within 3 months of the coming into force of the Policy, minimum fee of the 700 MHz and 2600 MHz would be determined by the Authority. As per the law the fee should be determined by the Committee formed under of the Chairmanship of the Minister, however, as per the Policy, the price was to be determined by the Authority. This arrangement should be improved by making it consistent with the law.

101. **Mountaineering Royalty** - As per Section 37(2) of Tourism Act, 1978, the Government of Nepal may delegate power to the Mountaineering Association for issuing permit of mountaineering expedition on prescribed Himalayan-peaks. In Section 37(4) there is a provision that Government of Nepal, may issue necessary orders or directives to the Mountaineering Association and it shall be the duty of such
Association to abide by such orders or directives. As per the decision of Government of Nepal on January 18, 1978, it has delegated authority to Nepal Mountaineering Association to grant permit by charging service fee from trekkers and mountaineers desirous to climb 18 small peaks.

On September 16, 2002, the Council of Ministers, delegated responsibility of collecting royalty, promoting and managing of 15 additional Himalayan-peaks thus totaling 33, to the Association. As per the decision, 20 percent of the collected royalty amount should be deposited in Local Development Fund, 10 percent in Environment Conservation Fund and 5 percent in Relief Fund. As per the details obtained regarding recovery of royalty by Association, NPR 538.8 million was collected during 1993/94 to 2013/14 and NPR 49.3 million was collected in 2015/16 totaling NPR 588.1 million. This year, NPR 12.8 million that should have been deposited in Local Development Fund and NPR 3.5 million that should have been deposited in Conservation Fund totaling NPR 16.3 million has been expended by Association itself. Neither the Association has submitted the audit report of the expenses and nor has the Ministry carried out inspection regarding the expenditure of the collected royalty.

Like the royalty of other Himalayan-peaks that is collected by the Department of Tourism, royalty of all Himalayan-peaks should be collected by the Department and deposited in the Revenue, and if any money is to be provided to the Mountaineering Association, then arrangements should be made through budget.

102. Reimbursement of Mission Expenditure - As per agreement with the United Nation, if there are no equipment and vehicles to be deployed in mission or if it is unfit on examination, then there is a provision for deduction of daily allowances to be received every month by security personnel in the ratio of such equipment and security personnel deployed. This year, out of the allowance of mission period distributed to Police Force deployed in Sudan Mission, by the Nepal Police Welfare Fund, reimbursement of NPR 71.3 million has not been received which has resulted in additional financial burden over the Fund. Similarly, as security materials and equipment related to armed personnel carrier could not be arranged, reimbursement of USD 512 thousands equivalent to NPR 5 billion 495.3 million at the exchange rate on July 15, 2016 was not received from Sudan and Haiti.

Towards Armed Police Force, due to non-delivery of main equipment and self-sustainment equipment as per understanding of UN Mission-2 Sudan could not be delivered, Armed Police Force Welfare Fund has not received reimbursement of USD 1 million 541 thousand equivalent to NPR 165.4 million. Similarly, in Juma Mission of Sudan, as 6 sets armed personnel carrier (A.P.C.) could not be delivered, Fund has not received reimbursement of deployment allowance USD 485 thousand equivalent to NPR 52 million.

While deploying manpower in conflict areas in mission, necessary equipment and materials were not provided which affected the credibility of Nepal in the international arena. Moreover, it also directly affected the reimbursable expenses, therefore arrangement of necessary equipment and materials should be done in time.

103. Registration Fee - As per the circular dated March 21, 2011 of the Department of Land Reform and Management, once determined valuation amount should be regarded as the minimum valuation for the subsequent sale. In Land Revenue Office, Dillibazar, in seven registration deeds, disposal was shown to be at value which is less by NPR 93 million, consequently 4.5 percent registration fees and Bagmati Civilization Fees of NPR 4.2 million was not recovered, and because the land which was purchased by female taken exemption on registration, was sold within 3 years, the exempted amount NPR 2.2 million, totaling to NPR 6.4 million should be recovered.
Overpayment and Financial Burden

104. **Payment Claim in Melamchi** – As per section 58(1) of Public Procurement Act, 2007, the dispute arising in course of implementation of procurement contract shall be settled amicably. If dispute arises in construction work, then amicable settlement shall be done as per the agreement. For the construction of headworks of tunnel, an agreement was done with a construction entrepreneur for NPR 638.7 million. However, the construction entrepreneur cited the reasons of late submission of drawings, increased in the volume of rock to be excavated than that of the agreement, not being able to work in time etc., and claimed liquidated damages for 408 days of NPR 1 billion 200 million regarding cost of delay, cost of inactive employees and tools and machines, financing cost and inventory cost. However, the time has been extended by 342 days and claim of NPR 586.2 million (98.23 percent of the contract amount) has been paid by the Committee. In this connection, the following observations are noted:

104.1 Head works and longitudinal section and open cut excavation at southern portal as mentioned in the bid documents, final excavation plan shall have to be prepared by the construction entrepreneur and all types of disputes arising during time of excavation shall be addressed within the excavation period. It was seen that by complying with such provision, the construction entrepreneur had prepared the open cut excavation drawing and it was approved by the engineer and the work was carried out.

The Consultant rejected, in principle, the claim citing the reason that the construction entrepreneur was responsible for preparing the drawing and design and that the work was delayed by working on such design and the claim due to the reason of delay in providing drawing and design was not tenable. The Committee has also consented on such observation. However, even though there was disapproval by officials directly involved and even though it was the responsibility of construction entrepreneur for preparation of final map as per the agreement, the same was refused and additional claim was paid, which is contrary to the contract.

104.2 As per the agreement concluded with construction entrepreneur, out of NPR 7 billion 3.5 million contract amount of headwork and tunnel, portion of headwork component is NPR 628.7 million i.e. 8.14 percent. It was seen that only small proportion of work of same procurement contract had been halted and 91.86 percent portion of total contract was being operated.

In spite of smaller portion being halted, the resources of the construction entrepreneur would not be inactive while larger portion of the work is being carried on. Therefore, it was seen that manpower and equipment to be used in headwork could have been used in work under this contract. That the manpower and machine and equipment could not be used is a weakness of internal management of construction entrepreneur. So, the liability created due to weakness of construction entrepreneur being borne by the Committee is not justifiable.

104.3 Claim amount is only the indemnification of damage incurred by construction entrepreneur. Profit cannot be a part of such payment. Profit is derived by construction entrepreneur after completion of work. Out of the total work, the construction entrepreneur had completed the work of NPR 2 billion 641.6 million and work of NPR 5 billion 80 million remained to be completed as per the procurement agreement. Profit is generated on the basis of volume of work completion, therefore, on payment of claim of NPR 509.7 million, profit of 5 percent equal to NPR 25.5 million was paid.

104.4 Delay cost was claimed from September 2014 to September 2015, however, as per the decision of Dispute Adjudication Board, interest at 8 percent of NPR 509.7 i.e. NPR 51 million has been paid for the period of 14th March 2015 to date of decision of the Board as payment of claim. The construction entrepreneur has submitted the claim only in September 2015. Interest should have been calculated
only for the period after the submission of claim, however, interest has been calculated from 6 months’ earlier date, as a result excess interest of NPR 5.5 million has been paid.

104.5 As per the decision of Dispute Adjudication Board, while making payment, the proportion of domestic currency and foreign currency should be determined as per the nature of the approved claim amount. Accordingly, out of the damaged amount, the damages in domestic currency should be calculated in domestic currency and the damages in foreign currency should be calculated in foreign currency. However, the same has not been done and payment of NPR 72.3 million and Euro 620 thousand has been made on basis of proportion of foreign currency as stated in agreement. While evaluating items of damages most of them are related to domestic currency. However, more payment has been made in foreign currency than the proportion as per the agreement.

As the basis of technical verification of claim submitted by construction entrepreneur was not found, such amount should be refunded. In this regard, investigation should be carried out and the concerned person should be held accountable.

105. **Overpayment**- As per procurement contract, payment should have been made on the basis of work performance, overpayment has been made as follows:

105.1 In two procurement contract of Pushpalal (Mid-Hill) Highway Project western sector, NPR 1.7 million overpayment was made than the actual work performed and in another contract excess NPR 7.6 million was paid than the variation amount; in Project Directorate (ADB), under Leguwa Bhojour road construction, overpayment of NPR 3.7 million was made than stated in the agreement for soil excavation and hard rock works; in Department of Rail, overpayment of NPR 1.7 million was made for gabion wire; Alternate Energy Promotion Centre has paid NPR 8.3 million excess than stated in agreement to the service providers in the works related to solar energy and road light installation in 12 Municipal and 19 Local entities; in Jaleswor Custom Office, NPR 1.4 million deposit was misappropriated, therefore, total amount of NPR 24.4 million should be recovered. Officials making payment in contravention of the Rules should be made accountable.

105.2 Office should make payment of bill amount as per the conditions of the agreement. In the Ministry of Drinking Water and Sanitation, Department of Drinking Water and Sewerage, Melamchi Drinking Water Development Committee, Directorate of Project Implementation, Second/ Third Small Town Drinking Water and Sanitation Project, Division of Drinking Water and Sanitation and Subdivision Lalitpur, Sunsari, Tanahu, Kathmandu including 29 offices, due to the reasons like excess price escalation given, amount that was to be borne by user committees borne by the office as to cost sharing model, payment made in excess than the norms and making double payment have caused to make ineligible payment of NPR 25.2 million. Amount paid against the Rule should be recovered.

105.3 It is seen that the District Administration Office, Kaski has made contract agreement with one construction entrepreneur, that has accepted to work at 12 percent lower price than the bid amount and per unit rate, and on that basis contract was signed at NPR 34.6 million. However, the Office has not deducted the discount as stated on the bid price and has made payment upto seventh running bill, therefore the overpayment of NPR 3.3 million should be recovered.

105.4 Following embezzlement in salary, of the allowances and ration reported in the audit report, NPR 7.8 million has been deposited in the consolidated fund including misappropriation of NPR 3.1 million in District Police Office, Humla; NPR 1.5 million in Armed Police Force Hospital; NPR 0.7 million in Armed Police Force, Border Security Office; NPR 0.4 million in Armed Police Force, Nilbarahi Battalion, Balambu; NPR 1.6 million in Judicial Council; NPR 0.5 million in District Health Office Mahottari. As per section 26(2) of Financial Procedure Act, 1999, it has also been brought in the notice.
of Accounts Responsible Officer regarding such findings for taking necessary action. Departmental action should be taken against the responsible staffs involved in such work and transactions of previous years performed by them should also be probed. By this, such malpractice in incurring expenses has to be fully controlled in the days to come. Similarly, Department of Quarter Master General has deposited NPR 1.6 million after recovering it from the supplier after the auditor pointed out that the clothes were not supplied as per the specification. Persons making payment without supply of goods as per specification should be held liable on such work.

106. **Excess Liability** - Nalsingard Hydropower Project had invited technical and financial proposal for carrying out work related to environmental and feasibility study, for procurement to be made by cost and quality based method as per Rule 81(1) of Public Procurement Rule, 2007. In the Financial and Technical Proposal Evaluation Report, it has been mentioned that the marks of technical valuation of the lowest bidding consultant was 66.501 and the marks of the highest bidder was 70.312. However, on joint evaluation of financial and technical proposal, a consultant obtaining total marks 81.501 had bid amount of NPR 848.9 million and other consultant obtaining 81.994 marks had bid amount of NPR 1 billion 90 million. In joint evaluation, due to obtaining of slightly higher marks, the proposal of the bidder with higher financial proposal was accepted and as result there was additional burden of NPR 241.1 million. Basis of technical evaluation was not obtained for audit.

107. **Excess Fund Disbursement** - As per Rule 179 of Education Rule, 2002, action shall be taken against the officials demanding more amount than required and the officials releasing such amount and the amount released shall be recovered from the concerned official. NPR 53.1 million was released in excess by 45 District Education Offices for salary and allowances, NPR 2.8 million by 12 District Education Office for salary and allowance of retired teachers, NPR 0.9 million by District Education Office which is in excess of the amount requested by schools, NPR 3.9 million by 7 District Education Office for ineligible scholarship and NPR 17.8 million by District Education Office 12 which is in excess than the specified price list of free text books, therefore, in total NPR 78.5 million excess fund has been disbursed, which should be recovered and action should be taken against the concerned officials.

108. **Expenses without Bill and Voucher** - As per Rule 36 of Financial Procedure Rule, 2007 there shall be maintained account of expenditure, along with the bills and vouchers of the expenditure made, however 118 entities of under mentioned 8 Ministries have made expenditure of NPR 318.7 million without bills and voucher.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Ministry</th>
<th>Unit</th>
<th>Amount (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ministry of Federal Affairs and Local Development</td>
<td>49</td>
<td>190.3</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Physical Infrastructure and Local Development</td>
<td>19</td>
<td>80.9</td>
</tr>
<tr>
<td>3.</td>
<td>Ministry of Irrigation</td>
<td>4</td>
<td>24.6</td>
</tr>
<tr>
<td>4.</td>
<td>Ministry of Urban Development</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Health</td>
<td>16</td>
<td>6.8</td>
</tr>
<tr>
<td>6.</td>
<td>Ministry of Drinking Water and Sanitation</td>
<td>10</td>
<td>5.3</td>
</tr>
<tr>
<td>7.</td>
<td>Ministry of Forest and Soil Conservation</td>
<td>13</td>
<td>1.8</td>
</tr>
<tr>
<td>8.</td>
<td>Ministry of Population and Environment</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>118</td>
<td>318.7</td>
</tr>
</tbody>
</table>

Main observation in relation to this are as follows:
108.1 Narayanghat-Muglin Road Project and Road Area Improvement Project under the Ministry of Physical Infrastructure and Transport has made payment of NPR 51.9 million without keeping bill and vouchers of provisional sum item.

108.2 As per Rule 46(3) of Local Body Financial Administration Regulation, 2007, account shall be maintained along with expenditure bill and voucher while doing expenditure. This year, District Development Committee Office, Dang, Achham, Mugu including 49 offices have made payment NPR 19.3 million to person, firm and bodies without keeping bills and vouchers for operating different programs under different heads. Public Accounts Committee on April 22, 2012 has instructed for making recovery and taking departmental action in relation to such expenditure and same has been pointed out in the previous year report. However, no improvement has been noticed in this year also.

Such expenditure should be probed and person making payment without bills and voucher should be held liable.

109. **Casting Errors**- As per Rule 36 of Financial Procedure Rules, 2007, expenditure shall be made by completing the procedure related to Governmental amount. However, 15 bodies under the following mentioned 3 Ministries have over casted expenditure by NPR 21.9 million. Over-casted expenditure should be recovered.

<table>
<thead>
<tr>
<th>Under Ministries</th>
<th>Unit</th>
<th>Amount (NPR in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Physical Infrastructure and Transport</td>
<td>7</td>
<td>11.4</td>
</tr>
<tr>
<td>Ministry of Drinking Water and Sanitation</td>
<td>6</td>
<td>10.1</td>
</tr>
<tr>
<td>Ministry of Urban Development</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
<td><strong>21.9</strong></td>
</tr>
</tbody>
</table>

110. **Chemical Fertilizers** - Agriculture Inputs Company Ltd. receives grant on the basis of procurement quantity from the Government of Nepal. Grant of NPR 339.7 million was received for procured 111 thousand 899 metric ton Urea, 63 thousand 287 D.A.P and 4 thousand 987 metric ton Potash in 2015/16. On the basis of such quantity, grant of NPR 1 billion 57.2 million has been provided. In comparison to the procurement agreement, 2 thousand 783 metric ton of urea and 346 metric tons of D.P.C. was received, therefore, there is an additional financial burden of NPR 96.6 million on the Government of Nepal.

111. **Fine**- It is seen that agreement of USD 2 37 thousand (NPR 27.653 million) was done on 6th March 2006 for procurement of 600 sets of security material with one company by Department of Quarter Master General. It has been stated that supplier should supply the materials within 180 days. Accordingly, USD 237 thousand has been sent to account of supplier through TT. Even though the agreement was signed during the time of Peace Accord in 2005/06, no action has been taken upto March 13, 2013, for bringing such material. The Company had stated that it delivered the material in Custom Office Tatopani as per agreement, but as the materials were not received, it claimed USD 230 thousands as additional demurrage charge, import license renewal charges and transportation charges, however, the evidence of receipt of such goods in 2006 in Custom has not been attached. As per custom declaration form (pragyapan patra), custom clearance was done on June 17, 2016 and the store entry was done on June 30, 2016. Due to the decision of Government of Nepal to pay the damages from December 2006, additional burden of expenditure of NPR 24.8 million has been incurred.

112. **Incentive Allowance** – As per Rule 123 of Financial Procedures Rules, 2007, any office shall, while making such decision as to cause financial liability by increasing additional facilities, obtain the prior approval of the Ministry of Finance. As per the provisions relating to payment of performance based incentive allowance of Constituent Assembly Secretariat Act, 2008, the Committee for Operation and
Management of Secretariat, as per the decision of September 23, 2015, has provided incentive allowance of 80 percent of the initial pay scale amounting to NPR 66.4 million, meal/ lunch allowance of NPR 750 per public holiday and NPR 600 per day for other days amounting to NPR 52.8 million, therefore total NPR 119.2 had been paid to employees without the work performance indicator, and without the prior approval of the Ministry of Finance. Such types of allowance should be incurred only after getting work performance indicator approved from the Council of Ministers.

113. **Miscellaneous Expenditures** - As per the decision of the Council of Ministers, one-time expenditure limit of Chief District Office to Home Minster is stated to be NPR 500 to NPR 5,000, however, the time period has not been stated. Even though it has been stated that National Investigation Department and other bodies under it have done expenditure as per Special Service Rules, 2007, the Rule has not determined the limit for expenditure which was pointed out in previous years report and the same situation still persists. It was seen that this year expenditure of NPR 5.9 million was made by Home Minister, NPR 2.4 million by Home Secretary, NPR 0.8 million by Inspector General of Police and Rs 13.7 million by Chief Director of Investigation of National Investigation Department, therefore total expenditure of NPR 22.8 million has been made under miscellaneous head for secret activities in relation to peace and security.

It was found that in comparison to previous year, this year, excess expenditure of 28 percent has been done by Home Minister, 33 percent by Inspector General of Police and 6 percent by Chief Investigation Director. It is necessary to control the practice of incurring such expenditure.

114. **Family Allowance** – As per the decision of Government of Nepal (The Council of Ministers) of April 12, 2015, family allowance, education allowance and insurance expenses and medical expenses shall not be given to dependent family members that are not residing with the Mission Chief and other diplomat staff deployed in Nepalese Mission located in foreign country. Similarly, Public Accounts Committee had directed on May 5, 2016 for not providing allowance if the family is not residing together. This year, NPR 54.7 million has been paid to 119 staffs of 23 mission without verifying whether the family members are with them or not. Such amount should be recovered from the concerned officials.

115. **Expenditure against Objectives** – As per Rule 26(1) of Foreign Employment Regulation, 2007, NPR 1,000 shall be recovered from workers going abroad for foreign employment and the amount shall be deposited in Foreign Employment Welfare Fund, which shall be used for providing assistance to workers. This year, out of the income of Fund NPR 4 billion 340 million, NPR 340 million has been spent and balance of NPR 3 billion 710 million remains. From the Fund, expenditure of NPR 2.2 million had been incurred for salary of contract staffs, NPR 3.7 million for purchase of vehicle of Nepalese Embassy of Korea, NPR 0.1 million for Foreign visit and NPR 0.5 million in respect of hotel expenditure of Minister of State, therefore total expenditure of NPR 6.6 million has been incurred. The practice of making expenditure against objective and beyond the scope of work should be controlled.

- **Safeguarding and Utilization of Governmental Property**

116. **Property Management** – According to Financial Procedures Rules, 2007, land-building, stock, cash and movable and immovable property should be recorded, handed over and taken over, safeguarded and utilized. Observations, in this regard are as follows:

116.1 As per the details obtained from Metropolitan Police Circle, Swayambhu, the, 4 ropani 9 aana (2321.55 m²) land occupied by office is in the name of Samyak guthi (trust) and 16 aana (508.83 m²) land of Metropolitan Police Circle, Public Service, Kathmandu is in the name of one company limited. As the
land occupied by the office is still in the ownership of the guthi (trust) and company, the office has not obtained ownership in the name of the office.

116.2 The Ceremony and Meeting Management Section, Ministry of Home Affairs has not stored 36 thousand 680 sets of Mahendramala, Nepal Pratap Bhaskar and medals and ornaments in a secure manner due to the lack of safe box.

116.3 It was seen that Nepal Trust Office has NPR 378 million in fixed deposit account, NPR 10.73 million, Pound 48 thousand, and US Dollars 1 million 37 thousand in savings and current account. It has 230 thousand 102 units of bank shares of different kinds in 3 organizations and 21 thousand 562 ropani (34975.66 m²) land in 12 districts in its name. Though the process to provide the land of Kathmandu-3 and Makwanpur in lease has been initiated, no process has been initiated for the use of other remaining land and assets. The building built in 68 ropani and 12 anna (34975.66 m²) land, which is in the name of trust has been used by one private residential school for past few years without any agreement with the trust. Protection and proper management of such property should be done.

116.4 As per the bill of quantity for the construction of building of the Department of Rail, it was mentioned that vehicles would be provided for 30 months and after such period the vehicle ownership would be transferred in the name of the Department, and accordingly NPR 11.5 million was paid, therefore, the vehicle ownership should be brought under the Department.

116.5 In Rural Reconstruction and Rehabilitation Project, laptop of NPR 0.9 million has not been handed and taken over, 3 motorcycles of NPR 0.5 million has been used by the Ministry and motorcycle, projector and laptop among others, worth of NPR 0.4 million has been lost. It was revealed that in Local Government and Community Development Program, an employee has been given the letter of departure without handing over of motorcycles, laptop including others items worth of NPR 0.4 million issued to him; that the former president and executive director of Dalit Commission, and Badi Community Upliftment and Development Committee have not handed over a laptop of costing NPR0.2 million; that District Technical Office, Lalitpur has not made store entry of 6 motorcycles of NPR 1.7 million though it has been listed in bill of quantity; 6 jeeps, 39 pickups, 153 motorcycle received from the International Labor Organization under National Rural Transportation Strengthening Program has not been handed over and store entry has not been made and diplomatic number plate numbers are being used on them. Since there is misuse of government property, arrangement for the safeguarding of assets from the responsible officers should be strengthened.

116.6 The National Public Health Laboratory has purchased the materials related to laboratory of NPR 33 million but kept in a warehouse.

116.7 This year, Agricultural Commercialization and Trade Project has booked expenditure of NPR 17.9 million for the purchase of 29 machineries and equipment of 16 types for Office of the Veterinary Quality and Drug Management and has booked expenditure of NPR 4.74 million for 5 machineries of NPR 47.4 million for Department of Food Technology and Quality Control, therefore NPR 65.3 million has been spent, however, during physical inspection it was found that these machineries and equipment were put in unused condition, some even at the unpacked state. The project clarified that the building had been in unusable condition after the earthquake struck. After completion of the building currently in progress, the machines would be fixed and would be put to use. Procurement should be made only after considering required infrastructure.

116.8 Report has been found that out of 127 units of Tribhuvan University, 9 campuses have 355 bigha 17 kattha (2410040.38 m²) of land and 24 campus/ bodies have 7 thousand 87 ropani 14 anna (3605743.77 m²) land. Around 90(609563.70 m²) bigha land of Mahendra Bahumukhi Campus, Dang and the land
of Dhankuta Bahumukhi Campus, Jhapa has been encroached, land ownership document for 187 ropani (95130.64 m$^2$) land of Teaching Hospital, Maharajgung has not been obtained, and 10 bigha 11 kattha (71451.24 m$^2$) land of Butwal Bahumukhi Campus is yet to be registered.

116.9 This year, like previous year, 1336 bigha (904823.68 m$^2$) land in Deukhuri having ownership of Nepal Sanskrit University has not generated any income. While having discussion in this regard, it was responded that around 500 bigha (3386315 m$^2$) land is under tenancy (mohi) and other remaining land has been encroached by different person from year, and the utilization of the land could not be done.

117. **Excavation of Riverbed Materials** – The major observations observed while conducting the environmental audit of District Development Committee Lalitpur, Dhading, Chitwan and Makwanpur in connection with whether proper attention has been given by the District Development Committee by following the provisions of Local Self-Regulation Act and Regulations for the minimization of effect while doing the excavation of natural resources are as follows:

117.1 According to initial environmental assessment, in order to perform the work of collection in environment friendly manner, District Development Committee has to keep the records of reserved quantity of stones, aggregates and sand accumulated in the rivers of their area after rainy season. As per the details obtained, in 2015/16, District Development Committee, Dhading has determined the quantity so as to excavate equal quantity from all the rivers and has determined that from 9 rivers, 607 thousand cubic meter would be excavated and in Chitwan it has been determined to excavate 171 thousand cubic meter from 5 rivers. Makwanpur has stated that this type of examination has not been done. On the basis of the income generated from stones, aggregates and sand collection, District Development Committee, Dhading has earned income of NPR 31.1 million and Chitwan has earned income of NPR 3.153 million by collecting more than the targeted quantity of 121 thousand cubic meter and 29 thousand 686 cubic meter respectively. If the excavation is done in a quantity higher than the predetermined amount, then there will be change in the course of river, cutting of river edge, effect in the bridges and culverts and other environmental effects. Hence arrangement should be made not to excavate in excess of predetermine quantity.

117.2 According to Environmental Protection Act and Regulations, while collecting the stones, aggregates and sand from rivers, initial environmental assessment should be conducted. However, District Development Committee, Makwanpur, has earned income of NPR 11.9 million from stones, aggregates and sand collection from Lothar river in 2015/16 without conducting initial environmental examination which is found contrary to the law.

117.3 Instruments and equipment as mentioned in initial environmental assessment and agreement should be used to collect riverbed materials. As per the agreement, District Development Committee, Dhading granted use of 2 excavators in 2 rivers out of the 9 permitted rivers and Makwanpur granted 1 excavator for excavation in 5 out of 8 rivers. Chitwan was not entered into agreement to use the excavator but, as per the decision of monitoring committee, 5 excavators were granted for excavation usein 3 rivers. In addition to excavator use permitted in the rivers of Dhading, excavators were used illegally in some other rivers as it was stated. Due to the use equipments that were not mentioned in the agreement with the District Development Committee, and due to excavating by making deep ditch in the shores and within the river, the physical and biological environment of that area has been adversely affected. The use of such devices whether legally or illegally which affects the environment should be controlled.

117.4 As per the meeting of the Council of Ministers, Government of Nepal on September 2, 2013, crusher industry should be established by maintaining specified distance from, religious, cultural and archaeological sites, highways, river banks, educational institutions, health institutions, security
agencies, forest, park, reserves and dense colony. However, in District Development Committee, Dhading, 50 crusher industries were established out of which 33 are in operation. And out of such 33 crushers which are in operation 26 have not met the standards. The 2 crusher industries of Chitwan which are in operation do not meet the standards. Also, out of 42 crusher industries established in Makwanpur district, 10 crusher industries which are in operation do not meet standards. Lalitpur has informed that it has no crusher industry in its area. Therefore, due to operation of crusher industries without fulfilling the standards has resulted in illegal excavation, and due to sound, dust and other factors, it has adversely impacted the environment of areas with dense population. The crushers industry operating without meeting the specified standards should be made to operate after complying with the specified standards.

118. **Sand Excavation** - As per Local Self Governance Act, 1999, District Development Committee can collect revenue by management and usage of sand, aggregate, stone, soil including other natural sources within its jurisdiction. Accordingly, District Development Committee Office, Bhaktapur recovered NPR 53.2 million in the past 4 years by management of contract in 6 places. However, recovery has not been done this year due to lack of arrangement of contract. As per the details received, based on the revenue collected, on average 6.038 million cubic feet of sand and stone and 1.698 million cubic feet loam soil had been excavated. However, records for quantity control of excavation and its verification data has not been kept. Similarly, as per legal provisions, illegal mine excavation should be investigated and the natural resources extracted should be confiscated and auctioned and revenue should be deposited. Accordingly, on April 29, 2016, on site inspection, 8 thousand 511 cubic meter sand was confiscated, however, as its auction was not made, NPR 23.1 million revenue could not be received. Therefore, maximum utilization of natural resources, should be done in pursuance to Local Self Governance Act and Regulation and revenue should be collected and theft should be controlled as per the decision of the cabinet.

119. **Facilities to Entrepreneur** – One entrepreneur operating cable car was provided the facility of using natural resources and revenue exemption by the Government. Observations, in this regard are as follows:

119.1 It was noted that 36 hectares of forest area of Chandragiri Hill was given on lease to construct cable car network to one entrepreneur at the rate of NPR 5 thousand per hectare amounting NPR 180 thousand annually. Accordingly, the fees of that land is NPR253.80 per Ropani (508.74 m²) per year. The land of Gokarna forest area was given on lease by Nepal Trust Office to one entrepreneur at NPR 6407.27 per ropani (508.74 m²) per annum. Even in comparison with the land lease agreement with Gokarna forest area, the Government receives less revenue by NPR 4.364 million per annum at the rate of NPR 6153.47 per ropani (508.74 m²) by providing 36 hectares to use forest area of Chandargiri. Therefore, the forest area should only be leased through competition by inviting the proposals according to the Forest Regulations.

Out of the said 36 hectares of forest area provided by the Council of Ministers, permission for construction of physical structures was granted for 5 hectares only, however, the inspection report of District Forest Office has stated that the physical structures were constructed in 5.86 hectares. On approval of environmental impact assessment, the terms to minimize the impact on habitat and movement of wildlife was mentioned however such terms were not addressed. Also, during the onsite inspection, it was seen that the stones, clays etc. generated from construction structures has not been managed in an environment friendly manner.

As per the decision of the Council of Ministers, Government of Nepal, construction work is being carried out as a company was granted approval for construction work of building cable car, swimming
pool, resort etc. in Chandragiri Hill. In contrary to the historical, religious and cultural beliefs of traditional temple area, another temple has been built alongside with the ancient Bhaleshwar Shaktipith (shrine). It has been observed that neither the impact on fundamental cultural and religious area has been assessed nor has the approval been obtained from the Department of Archeology.

119.2 As per section 14(3)(k) and 14(3) of the Finance Act, 2014, fifty percent exemption is available on applicable custom duty levied on the import of cab or the steel plates necessary for the construction of cabs essential for construction work for industries constructing cable car under heading 73. Also, there is the provision for clearance by levying 20 percent custom and 13 percent value added tax on tower, and lattice mast falling under custom tariff HS Code subheading 73082. In last year, dry port custom office has given bank guarantee facility to one cable car operator for importing steel, iron plates and polls falling under heading 73, assuming them to be machineries, due to which there is the revenue loss of NPR 62.6 million because of non-recovery of custom duty and VAT at the applicable rate. Such lost revenue amount should be recovered from the concerned entrepreneur.

The state has suffered loss because of leasing the land to cable car entrepreneur at low rate and granting high amount of revenue exemption. In this regard, necessary probe is conducted.

120. Utilization of Bridge – Bridges, construction of which has been completed, should be utilized. However, Khrotk-Ghurmi road on Sakhar river under east sector of Puspla (Midhill) Highway Project, constructed at the cost of NPR16.6 million, has not been utilized. It has been observed that the bridge has not been used because the land adjoining with the bridge has not been acquired. Though the office has stated to bring the bridge in use as soon as possible, the land has not been acquired yet.

121. Date Expired Medicines - This year, out of the offices audited, in 16 offices, 15.5 million tablets of 90 types, 22 vile, and 195 thousand medicines whose type has not been disclosed are in unusable condition because of expiry of date. It is necessary to make the arrangements for procurement so that it can be utilized in timely manner and for the proper utilization of public sources.

122. Forest Encroachment - In order to control encroachment, Forest Encroachment Control Strategy, 2011 and Forest Area Security Plan, 2013 has been formulated and is implemented, however, it is observed that, till this year, in 740 places of 62 districts 121,234 households has encroached 94 thousand 233 hectare forest and 3 thousand 876 hectares of 6 national park and reserve in which 30 thousands 194 house and huts were constructed.

This year, it was targeted to remove encroachment from 705 hectares of 24 districts, however, encroachment of 680 hectares of 21 districts were removed by incurring expenditure of NPR29 million. As it was targeted to remove encroachment from 0.74 percent of total encroached land, the target itself has been set low. Substantial progress in vacating encroachment land should be achieved.

123. Usage of Forest area - As per Rule 39(a) of the Forest Regulation, 1995, the Bushy Shrub Area of the national forest, the area taken from the encroachers, the area reclaimed after destroying a forest in a natural calamity, the forest area having less than Twenty percent crown cover and sensitive area with the view of soil conservation may be granted to a desirous body corporate or industry as a leasehold forest by invitation of proposal. However, the Department of Forest has provided 5 thousand 60 hectare of forest area to various institutions. As per the decision of the Council of Minister, 14 thousand 28 hectares of land was provided to various institutions, however, it was found that plantation has not been done as per the Guidelines on Use of Forest Area for Other. Purposes, 2063 (2006). Records of land so provided has also not been properly kept by the Department of Forest.

124. Timber Stock – As per the details obtained from the Department of Forest, District Forest Office of 26 districts of inner Terai, the Timber Corporation and Forests Products Supply Committee had 1.9
million 73 thousand cubic meter stock of timber in last year and out of such balance, this year, 633 thousand cubic meters have been carried forward, as a result stock of timber has been carried forward less by 1.3 million 40 thousand cubic meter this year. However, it is not substantiated. The Department of Forest has stated that wrong wood balance was included while carrying forward the balance from 2009/10. Based on the average price of timber (wooden log) for F.Y. 2014/15 of NPR 859 per cubic meter, it is revealed that for 1.34 million cubic meter of timber, worth NPR 1 billion 150 million was being under carried forward. Inquiry should be conducted in relation to such short stock.

125. **Forest Fee** - District Forest Office, Kathmandu and Sunsari have not recovered fees of NPR1.602 million as per the Forest Regulations, 1995 while providing 318.77-hectare forest area to 9 entrepreneurs for tourism and forest based industry and others. Such fees should be recovered as soon as possible.

126. **Resin Collection** – The observation on District Forest Offices of Baitadi, Doti, Dadeldhura and Achham, as selected for audit, in relation to collection of resin revealed that the collection work was not carried out as per the Resin Collection Directives, 2007, which are stated below:

126.1 An agreement had been entered into with a private limited company in Kailali, without competition, for period of 10 years, and on its expiry on February 25, 2017, it was extended again for 7 years. As per the agreement, the collector has to make arrangement to protect tapping area from fire, to prepare environment impact assessment report and submit it for approval, and the District Forest Office has to monitor, at least twice a year, and submit the report on the work performed as per the agreement and report it, however, these have not been done. Therefore, agreement should be complied with.

126.2 Since the collection of resin was not done in competitive basis, the entrepreneurs have paid NPR 8 per kg. as royalty. This rate has not been reviewed on timely manner.

126.3 According to the Resin Collection Directives, there should be minimum of five mother trees per hectare with more than 30 centimeter diameter of girth of such trees. The resin has to be collected after girdling the bark of a tree in a fixed shape, however, deep cuts were made due to which the trees are in dying condition and have become hollow, and, as the resin is highly inflammable and due to lack of cleaning of cut, the diameter of most of the trees have burned and the trees have dried. The resin should have been extracted by grinding, based on the capacity of the trees. However, due to use of large quantities of sulphuric acid for extracting more resin at a single time, the timber has decayed and changed into chaff husk. Therefore, above mentioned situation has to be improved by proper monitoring.

127. **Facilities to Officials** - The Supreme Court has ordered on December 8, 2011, that if Prime Minister, Minister, and State Minister are to be provided additional facilities a apart from entitled in the Remuneration and Facilities of the Ministers Act, 1993, then it should be provided only by incorporating it in the Act. However, Ministry of Home Affairs has provided vehicle facilities to three former officials and one legislator without of making provision in the Act.

128. **Land Ceiling** - According to The Land Act, 2021 (1964), the land exceeding the ceiling can be given either to former land owner or tenant or any other person on the basis of priority. As per the details provided by the Department of Land Reform & Management with respect to the details of upper ceiling of land) of 10 offices, it was revealed that out of 74.795 million square meter of land acquired up to 2015/16, 58.365 million square meter of land has been sold/distributed and balance of 16.430 million square meter found unsold/ undistributed. In case of other offices, it should be investigated whether there is land exceeding the ceiling or not.

_Due to absence of compiled updated records of government assets, it is difficult to ascertain the total assets of the government. Because of various reasons like encroachment of government forest and_
land, absence of updated records of timber available in forest, non-auctioning of timber, non-utilization of government property, lack of protection and inventory management in a proper manner etc., the public properties have not been safeguarded and used efficiently. Similarly, the management and safeguarding of public land, Chure heritage, water resources, mines, jungles and other natural resources is not satisfactory.

- **Utilization of Grant**

129. **Grant**- This year, the observation regarding total grant of NPR 190 billion that comprises NPR 137 billion towards social service grant to various institutions and NPR 52 billion 880 million towards current and conditional grant of local bodies are stated below:

129.1 A grant of NPR 7 billion 170 million including capital grant of NPR 790 million was provided to the University Grant Commission, and NPR 10 billion 620 million was granted to nine institutions including 1 billion 670 million to the Council for Technical Education and Vocational Training NPR. However, monitoring of its implementation and proper utilization has not been conducted. The utilization of such grant should monitored.

129.2 This year, the Ministry of Education has, under program for Education for Conflict Affected Families, disbursed total of NPR 80.1 million grant which comprises NPR 15 million towards capital grant and NPR 65.1 million toward recurrent grant to a Non-Governmental Organization established as per Institution Registration Act, 1977 to provide free education including hostel facilities to one thousand four hundred students. The Public Accounts Committee, on February 7, 2016, directed to submit progress report of the institution, number of teachers and students, statement of achievement of expenditure and to refund the unspent sum, if any to the consolidated Fund. However, instead of initiating any action towards that direction grant has been disbursed this year.

129.3 Ministry of Education has disbursed NPR 43.1 million of total grant, for scholarship, that includes NPR 42.5 million to two institutional schools, NPR 0.5 million to a medical college and NPR 1.1million to two Ashram/ Gurukul. Out of the cash scholarship of NPR 14.2 million distributed to 195 students studying in grade 4 to 12, it was observed that, cash to the extent of NPR 152 thousand per student has been distributed to the students studying in class 4. The scholarship distribution process should be made objective, dependable and reliable and the monitoring system should be made effective.

129.4 The Ministry of Education has disbursed grant of NPR 43.1 million to eighty-two libraries, Gurukul, and schools at the rate ranging from NPR 50 thousand to NPR 2.2 million this year. It is inappropriate to make direct disbursement from Ministry without obtaining program, progress report, auditor’s report including monitoring of expenditure and identifying need assessment. It should be controlled.

129.5 The Ministry of Education has disbursed a total conditional capital grant of NPR 21.5 million that includes NPR 10 million provided to an institutional school for construction of hostel and class room, NPR 10 million to a school for the procurement of material related to information and technology and laboratory; and NPR 1.5million to a Gurukul for construction of school building. Grant of NPR 10 million was provided for the purpose of information technology and laboratory, however, the work completion report of building and swimming pool has been obtained. The grant has not been used as per the approved programs. In case of other two entities, neither the work completion report has been submitted nor has the Ministry monitored the use of fund.

129.6 The University Grant Commission has disbursed NPR 65 million as recurrent grant and NPR 15 million as capital grant to the Kathmandu University and NPR 64.3 million for recurrent grant and NPR 20
million for capital grant to Purbanchal Kathmandu University. Since the audit of such amount is not carried out by this office, whether the audit of the same has been conducted or not is unclear.

The Commission has provided capital grant of NPR 794 million to nine campuses and institutions under 9 universities. However, it has not been monitored. Therefore, use of such grant should be ensured.

129.7 In last year, the Ministry of Health disbursed grant of NPR 832.6 million to 56 institutions whereas NPR 479 million has been disbursed to 22 institutions this year, thus NPR 1 billion 310 million has been disbursed however, it was found unmonitored. Aspects like registration of institution, permission for operation of health services, renewal, and quality control has not been taken as criteria while selecting the institutions for grant purposes. Due to which, the grant has been provided to institutions that have not obtained permission and, even if permission was obtained, were not renewed. As per the Minister level decision taken this year, a Community Health Service Center situated in Nepalgunj was provided grant of NPR 11 million, however, the institution has not obtained permission for operating a hospital. Similarly, the status of permission obtained and renewal of 22 institutions has not been mentioned. If the criteria like status of service delivery, quality, status of services provided to senior and underprivileged citizen are not considered while evaluating, then it cannot be realistic, and it cannot be ensured that the institutions that need grant the most receive the grant. Therefore, while selecting, these aspects of the Directives should also be considered.

In July 2016, Dhulikhel Hospital signed an agreement with the Ministry for procurement of equipment for which it received grant of NPR 43.3 million, however, it was disclosed in the income and expenditure statement that in the month of July itself, it procured health equipment worth Rs 47.6 million, therefore, reliable basis for utilization of grant was not found. Similarly, Birgunj Eye Center signed an agreement with ministry and received NPR 16.6 million in order to purchase equipment whereas on September 20, 2016 the Center has requested for permission from the Ministry for purchasing equipment. In the financial statement of the institution, it was disclosed that the equipment was purchased out of the grant in September 2016, which should be scrutinized.

129.8 In the last two years, NPR 67.4 million was provided as a seed capital to 82 groups after making the grant agreement for carrying out the various businesses from the Sustainable Development Program for extremely marginalized communities under the Ministry of Federal Affairs and Local Development. However, due to non-submission of the progress report, monitoring report, audit report and work completion report of the same, the use of grant could not be ensured. Therefore, regular monitoring should be conducted so as to ensure that the grant is utilized as per its objective.

129.9 Since last few years, the Ministry of Women, Children, and Social Welfare has been providing grant ranging from NPR 150 thousand to NPR 60 million to various institution and entities during the year end. This year, grant of NPR 166.5 million has been distributed to 233 organizations. Out of which NPR 60.9 million was distributed to 10 organization and institutions. In 2015/16, out of the total expenditure of NPR 1 billion 800 million of Ministry. NPR 166.5 million was distributed towards grant. This stands at 21 percent of total expenditure. No monitoring was conducted so as to ensure that the said grant has been utilized by the concerned institution for the intended purposes.

129.10 As per Cash Incentive Scheme, 2013, for the purpose of payment of cash incentive to the industry exporting specified goods to the third countries, the Department of Industry has disbursed NPR 300 million to Nepal Rastra Bank this year. Out of the total sum of NPR 534 million, that includes balance of last year of NPR 234 million and NPR 300 million received this year, NPR 198.8 million has been distributed and at the year end, NPR 335.2 remained as balance. It was found that, even though the
amount is provided to the Nepal Rastra Bank every year, the money is found unspent, therefore the balance amount should be returned and deposited in the revenue.

According to Directive, at least 30 percent value addition should have been made in the exports of grant recipient industries. However, grant has been provided without analyzing that condition. The specified provisions of work procedure of the Department of Industry should be enforced and monitored.

129.11 This year, Agriculture Development Ministry has approved the program to carry out the activities like one village one product, pond construction, livestock and vegetable farming, chemical fertilizer, seed, agriculture tools etc. through 24 projects/programs for which NPR 11 billion 740 million was released and out of which, NPR 10 billion 40 million has been spent. NPR 170 million was unspent from the amount allocated for providing grant as per the budget. Despite the budget allocation for carrying out five programs was NPR 115 million, they were found to be unimplemented. Program implementation capacity should be enhanced.

129.12 The Ministry of Culture, Tourism and Civil Aviation has provided a total grant of NPR 842.9 million that includes NPR 451.7 million to 25 Committees under it, NPR 381.5 million to various organizations, institutions, private enterprises through 73 District Development Committees (DDC) and NPR 9.7 million to 12 institution. However, details of project, program to be undertaken and their cost were not disclosed. The report on how and for which purpose the grant was used has not been obtained and has not been monitored.

129.13 As per the Clause 60 of Local Bodies Resource Mobilization and Management Procedure, 2012, in connection with the utilization of conditional grant released to Village Development Committee (VDC), DDC is required to carry out regular monitoring and obtain program budget, financial and physical progress report and audit report pursuant to Clause 54. District Development Committee Office Lalitpur and Kathmandu including 14 DDCs had provided NPR 119.3 million conditional grants of less than NPR 300 thousand for operation of various programs, however, the financial, physical and audit report have not been obtained, therefore its expenditure and achievement could not be ensured.

130. **Scholarship to Children of Civil Servants** – The students who are pursuing graduation level study and are selected as per section 3(3) of Directives Related to Awarding Scholarship to the Children of Civil Servants, 2014 are awarded scholarship of NPR150 thousand to NPR 500 thousand per student based on the cost involved. It was observed that a deed was signed by the student studying under scholarship pursuant to Clause 26 (1) of Directive, with effect that the Government of Nepal could assign him/her in any institutions or entities. The Ministry of General Administration has awarded scholarship of NPR 438.8 million to 2 thousand 429 students during the period of 2009/10 to 2015/16, however, students have not been assigned to services pursuant to the Directive to date. They should be mobilized according to the requirement, as per the deed.

*Although a substantial amount of unconditional grant is being provided to various entities, monitoring of the same is not done and reports are not obtained to confirm whether such amount is used for the intended purposes. As a result, the utilization of the grant could not be ensured. Therefore, utilization of grant should be ensured.*

- **Program Implementation**

131. **Duplication of Programs**– As per the Government of Nepal (Allocation of Business) Rules, 2015, the functions of the Ministry of Culture, Tourism and Civil Aviation has been allocated for collecting, protecting, preserving, exploring and excavating of archeological monuments, sites and archeological goods; and protecting and preserving of cultural resources, cultural heritage and historically important
palaces. Pursuant to the decision of the Council of Ministers, this year, NPR 318.9 million expenditure has been made for carrying out work related to cultural, religious and tourism infrastructure in Special Physical and Infrastructure Areas Development Project under the Ministry of Urban Development. Likewise, Ministry of Culture, Tourism and Civil Aviation has made expenditure in work of similar nature by disbursing NPR 391.2 million through District Development Committees. There will be duplication if work of a similar nature is carried through various bodies; it should thus be done through a single body.

132. Ropeways (Tuin) Displacement - As per the policy of Budget Speech 2015/16, all ropeways (pulley system crossings) would be replaced by suspension bridges within the coming two years. However, as per the survey conducted by the Suspension Bridge Department, in 43 districts, out of 237 ropeways, 66 temporary crossings have not been displaced; in case of 29 ropeways, construction of suspension bridge is not possible; in 3 ropeways, additional study of design and foundation has to be carried out; therefore, work of displacement of 98 ropeways have not been started and in remaining 139 ropeways, its replacement work is being under constructed.

Though the Government of Nepal had decided to replace ropeways, Working Procedure for Replacement of ropeways was approved only in July 22, 2016. Generally, bridges are constructed in 1 year to 18 months’ period and upto the audited period, 8 bridges were constructed among the 139, deadline of completion of 52 bridge is October 17, 2017 and in 23 bridges bid documents were being evaluated. Regarding the 56 bridges that would be constructed through the district development committee, the records regarding completion period could not be found in the relevant division. The work procedure has not been formulated to displace the bridges for which additional study is required and the 98 bridges in which replacement found infeasible. Therefore, despite sufficient budget, a lack of manpower was reported. Consequently, the declaration of the Government to replace all the ropeways was difficult to be implemented.

133. Constituency Infrastructure and Development Program – Under the 133 Constituency Infrastructure Special Program and Constituency Development Program, in 2014/15, NPR 3 billion 110 million was expended and in 2015/16, NPR 4 billion 610 million was spent. Main observations regarding project selection and implementation status of program are mentioned as below:

133.1 Rule 5(7) of Constituency Infrastructure Special Program (Operational Procedure) Rule, 2014 mentions about the criteria of selection of programs. It was observed that in 2014/15, in 31 districts, 810 programs worth NPR 820 million and in 2015/16, in 36 districts, 1423 programs worth NPR 1 billion 500 million were not selected on the basis of stated criteria. If programs are selected without identifying the stated criteria, then the objective of the program cannot be fulfilled, therefore, programs should be selected by identification of the criteria as laid down by the Rule.

133.2 In Constituency Infrastructure Special Program, in 2014/15, maximum of 10 programs and in 2015/16 maximum 15 programs could be selected. However, in 2014/15 in 9 districts 56 programs were selected, and in 2015/16 in 15 districts 90 programs were selected. Similarly, in Constituency Development Program, in 2013/14, maximum of 7 programs could be selected and in 2014/15 and 2015/16 maximum of 12 programs could be selected. However, in 2013/14 in 6 districts, 157 programs were selected, and in 2014/15, in Nuwakot, Humla, Salyan and Jumla districts 52 programs were selected and 2015/16, in 11 districts, 120 programs were selected. Therefore, 475 excess programs were selected in total.

In Constituency Infrastructure Special Program, programs having cost below NPR 700 thousand and in Constituency Development Program, programs less than NPR 50 thousand cannot be selected. However, in 2014/15, in Doti, Dang and Dhading districts, 25 programs of NPR 9.4 million and in
2015/16, in 8 districts, 171 programs of NPR 48 million were selected which have cost less than NPR 700 thousand. And, in Constituency Development Program, in 2013/14, in 7 districts, 157 programs of NPR 6.9 million and in 2014/15, in 7 districts, 93 programs of NPR 4.6 million and in 2015/16, in 7 districts, 55 programs of NPR 2.7 million, were selected having cost below NPR 50 thousands.

*Because of selection of excessive programs, adequate budget cannot be allocated to the programs and is scattered in small programs. Consequently, the program implementation cannot be effective. Programs should be selected within the limit as prescribed by the Rule.*

133.3 While selecting program, infrastructure program that are related with non-governmental organization and political parties and their sister organization cannot be selected. In 17 districts 126 program of NPR 53.5 million related to non-governmental organization and political parties were selected in contradicting to the Rule. Programs cannot not be selected by contravening the Rule.

133.4 Programs should have minimum 20 percent public participation as per Rule 3 (6) (Ga) of Constituency Development Program (Operational Procedure) Rule, 2001. Under Constituency Development Program, in 6 districts, in 257 completed program of NPR 30.8 million, there was no public participation and in 13 districts, in 1100 completed programs of NPR 173.6 million, public participation in less than 20 percent. Because of less public participation, the Government investment will increase and there will be less economy in expenditure, therefore, program should be operated only after arranging public participation as prescribed.

133.5 Rule 14 of Constituency Infrastructure Special Program (Operational Procedure) Rules, 2014 and Rule 8 (Ka) of Constituency Development Program (Operational Procedure) Rules, 2001 contains provisions for monitoring of programs. As per details obtained, in 22 districts out of 23 districts, in 2013/14, 295 projects of NPR 46.7 million, in 2014/15, 1045 projects of NPR 432.5 million and in 2015/16, 1843 project of NPR 87.7 million were implemented. However, its supervision and monitoring was not carried out. On observation, it was revealed that out of 195 projects of NPR 20.6 million in Mustang district, 95 percent program were contracted by consumer committees, notice board was not kept in 95 percent program and in order to avoid freezing of the money of the incomplete programs, it was transferred to the account of VDC. Program implementation will not be effective due to non-monitoring of operated programs and non-improvement of remarks of monitored programs. So, supervision and monitoring should be done and remarks pointed out should be improved.

133.6 As per Rule 6 of Constituency Infrastructure Special Program (Operational Procedure) Rules, 2014 and Rule 4 (1) of Constituency Development Program (Operational Procedure) Rules, 2001, expenditure should be made in construction program. In Constituency Infrastructure Special Program, in 2014/15, NPR 16.5 million was expensed for procurement of material by 9 constituencies of 5 districts and in 2015/16, NPR 68.6 million was expensed by 22 constituencies of 14 districts. In Constituency Development Program, in 2013/14, NPR 4.4 million was expensed after appropriation by 12 members of parliament of 8 districts and in 2014/15, NPR 23 million by 37 member of parliament of 19 districts and in 2015/16, NPR 23 million by 37 member of parliament of 19 districts. Program has not been implemented as stipulated by the Rules, therefore, the programs should be selected and implemented as per the procedure.

134. **Social Security Program** - According to the Social Security Program Operation Guidelines, 2012, payment made in each trimester should be settled within 7 days from disbursement date by submitting receipts to District Development Committee and while providing second and third installment DDCs are required to deduct outstanding payments of earlier installment; and advance amount taken for third installment shall be submitted for settlement within July 5 and advance should be settled within July
10. Last year, in social security program, NPR 12 billion 260 million was expensed, whereas in this year NPR 16 billion 150 million has been expensed, which shows an increase of 31.69 percent. Observations regarding these are as follows:

134.1 In the Budget Statement of 2015/16 it has been stated that, as the current social security programme is scattered, from the current session, a consolidated social security legislation would be tabled in the Legislative Parliament, however it has still not been tabled. Due to this, uniformity has not been maintained in allowance for senior citizens, single women among others social security allowance and pension related allowances.

134.2 This year District Development Committee, Siraha, Salyan, Sunsari including other 31 have not settled the advances amount of NPR 1 billion 400 million provided for social security programs.

134.3 Out of 1 thousand and 31 VDCs of District Development Committee Office, Achham including other 24 districts, on sample checking of the documents related to social security allowance of 73 VDCs, it was found that ineligible payment of NPR 5.3 million has been made. Since such amount requires recovery, it should be ensured by District Development Committee in other 957 VDCs as well.

135. **Selection of Local Roads, Bridges and Construction** - In Department of Local Infrastructure Development and Agriculture Road, out of 2 thousand 90 bridges demanded from local level, detailed feasibility study of 330 bridges were done and 242 bridges were selected for construction. During 2010/11 to 2015/16, 211 construction agreements were entered into and procurement agreement was made so that 20 bridges would be constructed by Department of Bridges and 191 bridges would be constructed in the local level. However, no clear selection criteria have been prepared for bridges to be constructed from the Department and from local level. Out of 20 bridges being constructed from Department, 2 has been completed, construction period as per agreement of 12 bridges has expired and in 6 bridges, despite time has been extended for 5 times, construction work has not been completed. Even though time extension has been provided for 5 times in Man River bridge of Banke district and for 4 times in Surahi Rivulet bridge of Kapilvastu district, work was not completed till audit period. Despite payment of NPR 22.7 million made up to the last year for Chauri Khola Bridge Kavreplanchowk, Sabhakhola Bridge Barhabise Sankhuwasabha and Kisne Khola Bridge Jhapa, it was found that no any additional construction work has been done this year.

Similarly, in 4 bridges of Puntaragad Road Bridge, Dadeldhura, Sunkoshi River Bridge, Marsyangdi River Bridge Manang and Mohana River Bridge Kanchanpur, design has been changed due to reasons like: existence of rock in site of construction, adding of pile in foundation work and change of foundation under construction. After change in design, due to variation, cost of 1 bridge has decreased by NPR 1.2 million and in 3 bridges, it has increased by NPR 9.6 million. As there is weakness in initial drawing design work of bridges, the criteria for selection of bridges should be clearly stated; the work should be completed as per the approved work schedule; and action should be taken against the technician making erroneous drawing design and construction work should be completed in time.

136. **Golden Thousand Days Program** - This program is operated in 15 districts including Rautahat and Sarlahi district and it has the objective of alleviating child and mother malnutrition by carrying out activities like improvement in habit of hand washing and other activities. This program commenced in 2012 and is scheduled to be end of July 15, 2017 and it has a target of making expenditure of NPR 4 billion 200 million (USD 40 million). However, till July 15, 2016, expenditure of only NPR 2 billion 15.5 million has been spent. In the remaining 8 months, no condition shows the balance amount might be expended. As per the details obtained, only 64 percent physical progress has been achieved. In 8 districts including Rautahat, NPR 113.4 million advance was taken for program to be completed in 100 days, however, till audit period of February 12, 2017, bill and vouchers were not received and remains
unsettled, therefore, completion of work in specified time period could not be ensured. Thus, program should be operated so as to achieve goal as per objectives.

137. Day Meal - As per provision of Program Implementation Directives, 2015/16, NPR 12 is to be provided per student of pre-primary and primary level for every day of opening of school, upto 200 days, for making arrangement of day meal to schools of 14 districts. This year, 3 offices including District Education Office, Dolpa have released excess amount of NPR 3.4 million for student which were in excess of actual number of student; such amount should be recovered. District Education Office, Dang and Rolpa have released day meal expenses of NPR 27.3 million after the closure of academic session. Therefore, the objective has not been fulfilled due to implementation of program in this manner.

138. Infrastructure Construction – As per the Program Implementation Guidebook, 2015/16, for implementation of program, agreement shall be made within first trimester between school management committee and District Education Office, final fund disbursement shall be made after preparing work completion report, schools not completing the work shall not be disbursed final installment and, till June 29, the office has to provide certified work completion report to concerned body. This year for Physical Service Extension Program NPR 11 billion 280 million budget has been allocated however, NPR 10 billion 90 million has been accounted as expenditure by releasing the same in the account of schools. Among them, 72 District Education Offices have provided grant of NPR 6 billion 570 million for operation of Physical Improvement Programs, however, work has not been completed. However, as per detail provided by the Department of Education, 99 percent progress was shown in construction work. It is not appropriate to show progress on basis of fund release, even though the work is not completed. Work completion report should be prepared after completion of the program and there after work progress report should be prepared in realistic way on technical basis.

139. Free Textbooks - As per Program Implementation Guidebook 2015/16, issued by the Department of Education, release shall be made after verifying the number of student by taking data of student from concerned schools and deducting the number of student repeating the class. And at the beginning of academic session, one set of textbooks shall be distributed to every student after its procurement. The Ministry had made a commitment of providing textbooks to schools within second week of every academic session, however, on the basis of data obtained, it was found that in 2015, 6.1 percent student of class 1-5, 6.1 percent student of class 6-8 and 3.2 percent student of class 9-10 have not received textbooks. As per the Directive, while providing textbooks, release shall be made after deducting the number of student repeating the class, however, it was not done, as a result while releasing, the number of student repeating the classes were also recounted and consequently there was an excess burden of expenditure of NPR 58.7 million. This should be monitored and controlled. For making free books available on time, concerned entity should be made responsible for approving the curriculum, issuing the printing order, printing and distribution.

140. Alternate Route - Galchi Betrawati 36 k.m. road was rehabilitated in 2012 and since then there has been a regular plying of vehicles. Out of 28 k.m. Betrawati Mailung Syaprubesi road, track has not been opened in 7 k.m. road. Rather than giving priority to opening track in remaining part of Betrawati Mailung Syaprubesi road, Department of Road has made a separate procurement agreement with one construction entrepreneur for upgradation of 46 k.m. road from Galchi to Mailung where transportation is already being operated.

Tatopani border of Sindhupalchowk district was closed after the devastating earthquake of April 25,2015. Therefore, as an alternative, the bilateral trade between Nepal and China is being made from Rasuwagadhi border. Even though the Development Committee had directed that Rasuwagadhi border road be made more pliable, no work of maintenance and rehabilitation of the same road was done;
therefore, the single lane road has not been able to make smooth vehicle movements. The Office has replied that only emergency maintenance work was done due to delay in receiving the spending authority.

141. **Lack of Coordination** - Under the Kathmandu Valley Road Improvement Project, for repair and expansion of Balaju Bridge-Shova Bhagwati-Dallu Road, a procurement agreement was signed with a construction entrepreneur for NPR 63.3 million, and payment of NPR 42 million has been made. While such work was under construction, High Powered Committee for Integrated Development of Bagmati Civilization, awarded contract for river training and laying hume pipes for drainage at the same work site and the construction entrepreneur has already been mobilized and so the project has terminated the procurement contract. For construction of sewerage system, out of previously completed works, the retaining and demarcation wall costing NPR 77 million is required to be demolished and to be reconstructed again due to lack of coordination between the two governmental bodies, consequently, the investment in such work has become wasteful. Therefore, it is necessary to make the bodies liable for wasting expenditure for such work.

Under Division Road Office Dhanusha, it was observed that, procurement contract was signed with one construction entrepreneur so as to complete the construction work of bridge in Baluwa River at a cost of NPR 48.4 million and advance of NPR 4.8 million was provided. District Technical Office, Dhanusha has also entered into an agreement for construction of bridge in the same place at a cost of NPR 24.9 million and during the course of field inspection it was observed that the construction works was in progress. It was seen that procurement agreement was made for the exact location of the same road section, by the two Government bodies without coordinating with each other.

142. **Treatment of Deprived Citizens** - In the Ministry of Health, as per Deprived Citizen Medical Treatment Fund Directive, 2071, for identifying 8 different kinds of diseases in indigent citizen and for providing financial aid for treatment, in 2015/16, 39 hospitals were selected to provide treatment of heart disease, kidney disease, cancer, Parkinson, Alzheimer, spinal injury, head injury and sickle cell anemia. A payment of NPR 999.3 million was made to 30 hospitals for medical services provided to 33 patients. Since the records were not maintained as per the Directive, the accurate status of the beneficiaries of the programme and its effectiveness could not be assessed.

143. **Health Insurance** – The committee was established with the aim to provide health service to all citizen of Nepal as per the Social Health Security Development Committee (establishment) order on January 5, 2015. It aims to cover health insurance of all the districts in a phase wise manner, and in 2015/16, in the first phase, the programme was launched from Illam, Kailali and Baglung district. This year, even though budget of NPR 48.4 million was allocated, there was no physical progress because of non-operation of the program. Progress should be attained in accordance with the target.

*It does not seem that program implementation was handled efficiently due to reasons like common nature of program operated from different Ministries, incomplete status of several projects/programs, non-operation of Constituency Infrastructure and Development Program as per Rules, non-implementation of several program announced, lack of coordination among projects, showing a hundred percent progress on basis of expenditure recorded based on disbursement despite absence of physical construction work.*

- **Decision Implementation**

144. **Public Accounts Committee** - Concerned Ministry should implement the instructions as given by the Public Accounts Committee upon the findings included in the Annual Report of Auditor General of
previous years. Some of the examples, related to Ministry of Finance, in which such directions were not implemented and complied with are as follows:

<table>
<thead>
<tr>
<th>Para of Annual Report</th>
<th>Summarized Finding of Report</th>
<th>Decision of Public Accounts Committee</th>
<th>Decision Date</th>
<th>Status of Action taken</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Report – 2013 (50th Report)</strong></td>
<td></td>
<td></td>
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<tr>
<td>35.3</td>
<td>Taxpayer carrying on transaction of liquor has shown sale in excess of NPR 90.4 million to another tax payer. As tax returns have not been submitted, VAT and income tax should be recovered by carrying out investigation.</td>
<td>Finalization to be made within 3 month after investigation</td>
<td>June 7, 2016</td>
<td>Not Finalized</td>
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<td>40.1</td>
<td>One tax payer carrying on transaction of liquor has shown sales to 12 taxpayers ranging from NPR 2.2 million to NPR 5.5 million and for the same D1 return has been submitted. As a result, VAT NPR 2.7 million should be recovered.</td>
<td>Finalization of follow up audit after investigation within 3 month</td>
<td>June 7, 2016</td>
<td>Not Finalized</td>
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<tr>
<td><strong>Annual Report- 2014 (51st Report)</strong></td>
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<td>29 9</td>
<td>Revenue collection cost has been increased in comparison with last year</td>
<td>Improvement to be made in system</td>
<td>June 6, 2016</td>
<td>Not Finalized</td>
</tr>
<tr>
<td>33.5</td>
<td>NPR 513.6 million to be recovered in respect of outstanding casino royalty</td>
<td>Ministry of Culture, Tourism and Civil Aviation should recover outstanding amount within 6 month</td>
<td>June 6, 2016</td>
<td>Not Finalized</td>
</tr>
<tr>
<td>44</td>
<td>Investigation regarding capital gain tax to be done regarding transfer of share of NPR 88.3 million between related party</td>
<td>To be Completed within 3 month</td>
<td>June 6, 2016</td>
<td>Not Finalized</td>
</tr>
<tr>
<td>47.4</td>
<td>A tax payer carrying on transaction relating to food had shown under-sales by NPR 34.6 million, therefore the purchase cost should be disallowed and tax at rate of 20 percent equal to NPR 6.9 million should be recovered</td>
<td>To be finalized within 3 months after investigation</td>
<td>June 6, 2016</td>
<td>Not Finalized</td>
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<tr>
<td><strong>Annual Report – 2015 (52nd Report)</strong></td>
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<tr>
<td>45.1 and 45.2</td>
<td>Non-finalizing of irregularity and clearance of files by taking action within period of 4 year and non-completion of proceedings of amended tax determination within 4 years</td>
<td>Work plan be prepared as to complete within 3 year</td>
<td>June 3, 2016</td>
<td>Not Finalized</td>
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<tr>
<td><strong>Annual Report- 2013 (50th Report)</strong></td>
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<td>74.2</td>
<td>NPR 9.9 million less revenue recovered by allowing ineligible deduction in solar leadlight</td>
<td>Getting follow-up audit to be done within 3 month</td>
<td>June 2, 2016</td>
<td>Not Finalized</td>
</tr>
<tr>
<td>70.4</td>
<td>Revenue of NPR 4.8 million lost due to clearance by applying different tariff rates in</td>
<td>Getting follow-up audit to be done within 3 month</td>
<td>June 2, 2016</td>
<td>Not Finalized</td>
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</table>
For maintaining fiscal discipline, the task of settlement of irregularity should be given priority in accountable manner. Moreover, the direction given by the Committee should be completely complied with, and only then the deliberations held in the Public Accounts Committee will be meaningful. Otherwise, it will be difficult to control leakages in Revenue regime.

While making payment of salary to staffs of the Parliament Secretariat in 2013/14, NPR 0.4 million tax had been under-deducted and in the 52nd report of this Office, it was stated to recover the same. However, a Sub-committee under the Public Accounts Committee, stating that the total tax amount was being deducted from 2015/16, has waived off the recovery of the same as per the decision of January 5, 2016. Discharging from tax liability, by waiver of tax of resident natural person, by mechanism other than as stated in the Income Tax Act, 2002 is not tenable. Thus, such tax should be recovered as per Section 8 of same Act.

As per Annex 1 of Income Tax Act, 2002, regarding the employee working in the foreign diplomatic missions of Nepal, seventy-five percent amount of foreign allowance shall be deducted from the taxable income and tax shall be calculated on the remaining income only. On July 17, 2006, Council of Ministers had made a decision for waiving off tax from employment income on foreign allowance, family allowance, education allowance, settlement allowance and medical facilities from income year 2001/02. Further, a decision was made to provide additional amount topping up on other facilities including foreign allowance s equivalent to the tax levied on such allowances and medical facilities; and that the Finance Ministry would make additional release for the same amount; and that a provision would be introduced in the Finance Ordinance regarding this issue. The Public Accounts Committee had directed implementation of the same decision, to carry out follow up audit, and to publish the decision in the Gazette. As the Council of Ministers had decided in a manner which is different from the legal provisions and had given immunity from tax liability of resident natural persons and to bear the same from Government treasury, the Auditor General’s Report has been raising this issue every year to stop such practices. This year, NPR 20.3 million tax on salary and foreign allowance has been under-deducted in case of 167 officials of 33 missions, and NPR 98.1 million tax has been under-deducted from 2012 till now. Person having liability to pay tax as per the Act have not paid tax, and the concerned office that has to recover tax, has not recovered the same. Waiver cannot be provided so as to result discrimination in compliance with legal provision. Such tax should be recovered as per Section 119 of Income Tax Act.

### 145. Agriculture and Water Resources Committee – The Committee, as per decision of December 24, 2014, has directed the Ministry of Land Reform and Management to make necessary arrangement to deliver services through information technology services by implementing modern land information system in the Land Revenue Offices and also to introduce the same system in the Survey Office.

As per letter of Department of Land Reform and Management, it has been stated that, till now, in 18 Land Revenue Offices of 11 districts, Land Revenue Information and Management System Service has
have been implemented; in 7 Land Revenue Office of additional 2 districts, such service will be operated in 2016/17; and in 25 Land Revenue Office of 19 districts infrastructure will be developed for operation of such service in 2016/17; and in remaining office and districts, the work is being carried out through computer system installed by Department of Land Information and Archive such that the work is being supervised by the Department itself. It was seen that such service has been installed in 25 Land Revenue Offices of 13 districts whereas it has not been installed in remaining 62 districts, therefore, activities should be carried out so that the direction of the Committee is obeyed.

146. **Good Governance and Monitoring Committee** – The Committee had given direction for setting up a separate fund other than insurance and mobilization mechanism and to implement it so as to provide emergency rescue in road accident, to provide immediate relief, compensation and other necessary assistance. As per the letter obtained from the Department of Road with respect to implementation of the same instructions, it was stated, that a draft of Road Safety Act is being prepared by incorporating those issues also. The instruction should be implemented after making necessary legal and structural arrangements.

147. **Implementation of Policy Level Decision of the Council of Ministers** - This year, the Council of Ministers has taken 152 policy decision related with the Ministry of Physical Infrastructure and Transport Management, Finance, Energy, Health and Forest and Soil Conservation. Key observations were noticed by conducting test audits of the implementation of the decision, are as follows:

147.1 As per Rule 21 of the Government of Nepal (Performance) Rule, 2007, financial liability also must be clearly stated along with the summary of agenda to be presented to the Council of Ministers. While making policy decision by the Council of Ministers, it was seen that out of 152 decisions, except in 2 decision related to road project, financial liability was not disclosed in 150 decisions. It was observed that if the assessment of financial liability of the decision to be enforced and the source of expenditure is not disclosed, then, the implementation of the decision will be uncertain, therefore the financial liability should be ascertained as per the Regulation.

147.2 As per Rule 21 of the Government of Nepal (Performance) Rule, 2007, implementing agency must be clearly stated along with the summarized particulars of agenda to be presented to the Council of Ministers. In case where there is involvement of more than one agency for implementation of the decision of the Council of Ministers, only the responsibility is designated to the respective agency and no arrangement for inter-agency coordination is made, therefore there is difficulty in implementation of the decision.

For example: In order to facilitate trade and transit and to operate and strengthen the border points both in the north and south, the Council of Ministers on December 3, 2015 decided to upgrade 82 km long Galchi Trishuli Mailung Syaprubeshi Rasuwagadi Road. The Chief District Officers of the respective districts were instructed to acquire land within 3 months; the Ministry of Forest and Soil Conservation was directed to make necessary arrangements for cutting trees in the forest area; the Ministry of Science, Technology and Environment was directed to make necessary arrangements to conduct initial environment assessment and environment impact assessment; and all the agencies of the Government of Nepal were directed to make other necessary arrangements. But, due to non-establishment of coordination mechanism, there was delay in work performance, as a result of which only 9 percent physical progress, including construction survey, has been achieved by incurring expenditure of NPR 3.2 million in the first year of project implementation.

147.3 As per Citizen Relief, Compensation and Financial Aid Related Procedure, 2012, in cases of prominent person of nation’s life or person who have provided significant contribution to the nation, who are suffering from chronic disease, for providing medical treatment within the country or in
abroad, Former President, Former Vice-President and Former Prime Minister are provided upto NPR 1.5 million, Former Chief Justice, Former Speaker of Parliament are provided upto NPR 1 million and person who have made significant contribution in areas like literature, music, art, politics, public administration and other area of nation’s life are provided upto NPR 500 thousands on the recommendation of the Medical Board. The Council of Ministers has decided, in 10 decisions, to distribute NPR 14.5 million to 5 high ranked persons for medical treatment without the recommendation of the Medical Board and by crossing the limit prescribed by the procedure. And it was decided to provide medical treatment and other expenses to 5 persons without producing bills in support of expenditure on treatment. Procedure should be complied with while providing medical treatment expenditure.

147.4 As per the program to reimburse loss on import of electricity in Concept Paper and action plan on National Energy Crisis Prevention and Electricity Development Decade, (2072) 2016, the Council of Ministers decided to reimburse NPR 3 billion 967.7 million on account of loss on importing and supplying of electricity from India during the period of July, 2014 to November 2015. On review of implementation of that decision, following observations were noted:

In the concept paper, it was stated that in order to control extreme technical and non technical leakage, electricity saving programme would be implemented, however the statements presented for audit reveals that transmission and distribution loss occurred of 25 percent in 2015/16, 24 percent in 2014/15 and 24 percent in 2013/14. World’s average electricity leakage is 8 percent and that of medium income country is 10 percent. In order to prevent energy crisis of the Nation, technical and non-technical leakage in transmission and distribution should be controlled.

- Electricity is being imported from India to avoid increase in load shedding and reimbursement of loss is being provided by the Government of Nepal to the Nepal Electricity Authority. This year the Authority has purchased 1 billion 790 units of electricity at the rate of NPR 5.51 to NPR 8.72 per unit and after deducting loss of 25 percent i.e. 446.8 million units of electricity, 1 billion 340 million units of energy was sold at the rate of NPR 8.04 per unit and consequently there was a loss of NPR 3 billion 960 million.

As per the policy stated in the work plan, the Ministry of Energy has to ascertain the loss on the basis of difference of purchase rate and selling rate and seek reimbursement from the Council of Ministers, however, wastage and operational loss (transmission and distribution) of the Authority was also included in the loss and proposal was submitted to reimburse 25 percent of the loss. This has resulted in non-compliance with the policy stated in the work plan and electricity transmission and distribution loss was also reimbursed in the form of share investment.

- Electricity of 949.7 million units was imported from July 2014 to March 2015 and it was found that 257.4 million units (25 percent) has been shown as loss. Whereas it was observed that instead of claiming a net system loss of 24.44 percent, as per the audit of 2014/15, for the same period, 25 percent of 237.4 million units i.e. 5.3 million units loss was claimed at a rate of NPR 8.04 per unit, therefore NPR 42.6 million has been reimbursed in excess.

147.5 As per the decision of the Council of Ministers of June 30, 2016, reimbursement was provided by the Ministry of Finance, on a condition that in future additional sum would not be provided towards losses and that there would be immediate adjustment of price of electricity. The Ministry of Energy has recommended to the Ministry of Finance for reimbursement of NPR 3 billion 263.8 million for similar nature of losses for the period of December 2015 to August 2016. This recommendation, which is
contrary to the decision of the Council of Ministers not to provide additional amount to the Authority, is not appropriate.

147.6 As per section 68(1) of Forest Act, 1992, if there shall be no significant adverse effect in the environment, the Government of Nepal may give assent to use any part of the forest for operating national priority projects.

This year, 340.81 hectare of land of forest area was provided to 14 hydroelectric projects as per the decision of Council of Minister of various dates. As per the decision, these projects have to take remedial measures to minimize effect on the environment, comply with environment management plan, purchase private land equal to and in lieu of the area occupied by the project, plantation of trees in the area designated by the Forest Office in the ratio of 1:25 for every trees removed, and these activities shall be monitored by a 5-member monitoring committee under the coordination of Regional Director. However, the monitoring was found ineffective. It was noted that no action has been taken on the suggestion, based on observation, relating to right to use provided to Hetauda-Bardaghat 220 K.V., one hydropower and one Darshan Pvt. Ltd. by Directorate of Central Regional Forest, Butwal.

148. **Enforcement of Treaties or Agreements** - As per legislative provisions the international treaties, convention, optional protocol in which Nepal is a signatory will come into force after being ratified by the Parliament and publication in the Official Gazette. Main observations with respect to implementation status of treaty, agreement and optional protocol relating to jurisdiction of the Ministry of Population and Environment are as follows:

148.1 For implementation of provision in multilateral environmental agreement and Nepal Climate Change Assistance Program, it was found that, on 30th April, 2012, the committee had approved to formulate Low Carbon Development Strategy at cost estimate of NPR 53.4 million and the program was also approved. It was decided to complete the work through Alternative Energy Promotion Center. The same strategy was presented to the Council of Ministers on June 16, 2014 by Alternative Energy Promotion Center via the Ministry, however it has not been passed. Strategy for promoting low carbon emission and increasing the use of clean energy should be implemented.

148.2 As per the Kyoto Protocol linked to The United Nations Framework. Convention On Climate Change, which was signed in 1998 A.D., an agreement of GBP 14.6 million was signed on 10 January, 2010, among the Government of Nepal, European Union and DFID for operation of “Nepal Climate Change Support Program.” The same program was initiated in 2012 and was completed in 2016. In the same program, only NPR 1 billion 158.3 million has been spent (49.93 percent of agreement amount).

It was observed that the assistance obtained as per the provisions of the convention for climate change impact mitigation and adaptation activities, was not expensed in full capacity. Improvement should be done in conditions of non-ratification of international treaty and agreements for a long time, non-implementation of the provision of ratified treaty, non-utilization of the technical assistance due to lack of coordination with international agency administering the treaty and non-preparation of periodic and specified reports in time.

149. **Free Air Ticket and Visa** - As per the State Minister level decision of the Ministry of Labour and Employment, arrangement for free air ticket and visa system will be made effective from July 6, 2015. According to the same decision, the employer company of Bahrain, Qatar, Saudi Arab, United Arab Emirates, Oman, Kuwait and Malaysia shall bear visa expenses and provide free to and fro air ticket and the foreign employment company can claim up to NPR 10 thousand in respect of promotion expenses and service fee.
On analysis of data of 2 years of the Department of Foreign Employment, it was revealed that before the enforcement of this policy, preapproval for sending 1 million 370 thousand 570 workers in 7 countries to licensed company was given while, 502 thousand 307 workers i.e. 36.64 percent have obtained final approval. After enforcement of this policy (June 13, 2015 to July 15, 2016), even though preapproval for 1 million 247 thousand 632 workers was given, only 388 thousand 430 i.e. 31.13 percent workers have obtained permission for going to foreign country. On quantitative analysis it was found that the number of workers obtaining approval after enforcement of this policy was less by 122 thousand 938 in comparison with the figure of the same period of previous year.

Due to lower fees, the licensed companies have taken less quota of workers and have indirectly taken higher amount in the quota received, as a result, the policy has not been effectively implemented. For this, agreement must be done with the concerned countries on the same concept, similarly, it is necessary to make worker’s grievance redressal more simple and organized.

**Monitoring**

150. **Affiliation Process** – Council for Technical Education and Vocational Trading Act, 1988 and Regulations, 1994, contains provisions for providing temporary approval, permanent approval and cancellation of approval regarding operating Technical Schools. For providing affiliation, the council invites for proposal, evaluates and examines the proposal and decides whether or not to provide affiliation to the institutions. As per the details, 1 thousand 107 institutions were registered for training in different streams, while only 457 institutions have been renewed in 2016/17. There is delay in approval of affiliation. And the Council has not approved and implemented the code of conduct, work procedures, guidelines etc. to be observed after attaining the approval. Procedures, indices, and guidelines to evaluate whether the institute have operated as per the affiliation has not been prepared.

As per Rule 19 of Council’s Regulations, 1994, permanent approval can be provided to the institutions that have obtained temporary approval, however, till now none of the institution have been provided with permanent affiliation and the affiliation is being renewed. The council should initiate inquiry the proposal received for providing approval and finalize the process of providing affiliation within time; it should maintain records of the affiliated institutions and update the records by disclosing the details like registration, renewal, operational status, approval for additional program etc; and it should also formulate and implement the code of conduct, work procedures and guidelines.

151. **Institutional Fees** – If the conditions of Tribhuvan University Organization and Educational Administration Rules, 1993 has been fulfilled, then the University can grant affiliation. Temporary and permanent affiliation has been provided to 15 colleges under the Institute of Medicine and as per the agreement, the financial statement has to be submitted in every 6 months, however, those colleges have not submitted the same. After an Inquiry Committee has submitted the report which states that 9 colleges have not paid institutional fees of NPR 84.1 million, reminder was issued to the colleges, however, even then the institution fees have not been received. Necessary action should be taken against the colleges that have not paid institutional fees.

152. **Monitoring of Chemist Shops** - The Department of Drug Administration has not inspected and monitored the matters related with registration of chemist shops, operation of shops by qualified person, sale and distribution of expired and sample medicines as per Pharmaceutical Drugs Act, 1978. This year, though the Department of Drug Administration had targeted to inspect 1 thousand 820 medicine shops out of 8 thousand 152 shops, only 1 thousand 823 shops have been inspected. Out of these shops 134 shops have been closed down, 41 have been suspended and 1 has been referred to the Department for action.
As per the records obtained from the Department, on the basis of regular and complaint received, from the surveillance of 1823 shops, following status was noted: 138 shops were unregistered; in 265 shops, the business person were absent; 67 shops sold unregistered medicines; 156 shops have not maintained records of narcotic and psychotropic drugs; 2 shops have not kept vaccine in appropriate temperature; 46 shops have stored expired medicines; 8 shops have stored physician sample and freely distributable medicines; and 56 shops have not renewed their certificate.

As there is fewer manpower compared to the no. of shops to be monitored, arrangement of necessary posts should be made for effective monitoring. It is necessary that state of art laboratories should be established, contemporary training should be provided, coordination should be maintained with law enforcement agencies relating to medicine, and necessary amendment should be made after paying attention to control aspects of prevailing Acts and Rules.

153. **Permission and Operation of Health Institutions** – As per the details obtained from the Ministry of Health, out of 857 hospitals which are in operation, 367 private and community and cooperative hospital has been granted permission, according to the provision of Establishment of Health Institution, Operation and Upgradation Standards, 2013, and out of them, 5 hospitals have been shut down and regarding the remaining 362 hospitals, their permission for operation has expired. The various aspects of these hospitals that are being operated without renewal, like: the quality of service delivery, service fees, free services, the facilities to be provided to the senior citizens etc., should be monitored and improved.

154. **Food Quality** - The Department of Food Technology and Quality Control has been entrusted to provide the quality assurance of food materials and related technology to general citizen after inspecting the quality and its implementation in accordance with the Food Quality Regulation and Inspection Certification Act, 1967 and Feed Act, 1976. The Department has not been able to wholly inspect problems like adulteration in grains, low standard of food technology, mixture of non-edible items in the food served by hotel, restaurants and sweet shops, use of low quality and contaminated food, ignorance of hygiene and nutrition. As per the Departmental report, of the 551 sample collected in Kathmandu in 2015/16, adverse result was seen in 105 sample, therefore, alertness should be maintained and stern legal action should be taken towards this end.

- **Quality of Construction Works**

155. **Damage in Canal** - The construction of main canal and the structure situated around Sikta Irrigation Project has been completed on March 19, 2015 and the two years defect liability period has begun. Payment of NPR 2 billion 4.1 million has been made for the same work. During the inspection of the same work on June 27, 2016, it was found that the canal lining of outer slope of right part of Jhijhiry River Aqueduct and VRB wall towards north has collapsed. In this regard, Ministry of Irrigation had formed an inquiry committee and the report of the committee has stated that seal and water stop was not properly kept in one or more joints between the aqueduct, transition and lining.

During onsite inspection, it was observed that turf in has been jolted out, there were no seal in joints, there was additional risk in side wall, the structures of the canal were cracked, and there was a necessity of repairs of concrete and other structures. Repair and rebuilding of canal should be done immediately and the necessary action should be taken against the wrongdoer.

156. **Quality Test** – As per rule 9 (2) of Public Procurement Rules, 2007 while preparing the cost estimate, quality test should be included as a separate item in the cost estimate and as per Rule 111(1)(e), quality test should be conducted. This year, Department of Water Induced Disaster Management, and Irrigation Development Division, Jhapa along with 4 other bodies have made agreement of NPR 236.7 million
and payment of NPR 3.4 million was made towards quality test. In this regard, quality test item was not included in cost estimate of several construction works. Quality test has not been conducted of the construction work done through consumers and the materials used in such construction.

157. **Sub-standard Quality** – More than 75 percent portion of 7-kilometer blacktopped road of Tokha-Gurjvanjyang_Chahare road under Division Road Office, Kathmandu 2 has been damaged. Though there is low traffic density and no impact of natural disaster, the damage to road within 2 years of blacktopping shows that the construction work is of sub-standard quality.

**Internal Management**

158. **Election Expenditure** – A sum of NPR 10 billion 290 million has been released to the Election Commission for the local level election to be held on May 14, 2017. In addition to this, security and other government agencies are incurring expenditure separately. As these agencies make expenditure on their own way without formulating standards and norms, there is no uniformity in expenditure. In the elections held in the past, various officials were provided various facilities which were not provisioned in the law. Preparation and implementation of the procurement procedures related to election should be done.

In the Auditor General’s Report 2015, various issues were reported like: work procedure relating to procurement for election were to be formulated and implemented; integrated standards and norms should be formulated to bring uniformity in expenditure and manage election expenditure in order to avoid shortage of resources and duplication in expenditure of different types of allowances such as lunch, food, and expenditure related to the employee working on contract or on deputation and security officials. Therefore, in this regard, necessary standards should be formulated and expenditure should be managed by concerned entities.

Moreover, the vehicles and equipment together with other materials used in the previous elections that can be put into use should be utilized in the local election also.

159. **Traffic Management** – In order to control and manage the tendency of increasing urbanization, traffic congestion, limited and narrow roads and violation of road discipline, the traffic management should be made convenient, simple and effective. Especially, the traffic at Thapathali, Balkhu, Kalanki, Koteshwor, Gaushala, Chabahil, Maharajgunj, and Balaju junction of Kathmandu Valley is becoming complex. As per the details obtained, in these junction vehicles stoppage is from 15 minutes to 1 hour 30 minutes from 9am to 11 am in the morning and 4pm to 6 pm in the evening. Due to this, general public are facing problems on a daily basis, and on the other hand there is serious impact on the environment because of smoke, dust and noise pollution. From 2006, in the Valley, for traffic management there were 1 thousand 85 approved positions of metropolitan traffic police in 23 units, and because of traffic congestion 15 temporary units have been established, therefore in 38 units there are 1 thousand 200 manpower including 115 who are working on deputation basis.

The length of road in Kathmandu is 1 thousand 595 kilometers and 0.923 million vehicles are registered in Bagmati zone. On this basis, each traffic police has to manage 850 vehicles and 1.46 kilometer of traffic. There is shortage of manpower in comparison to the vehicular density. Similarly, due to lack of effective automatic traffic management system, sufficient number of traffic police has to be deployed in each junction. Moreover, it is necessary to give emphasis to use of automatic electrical equipment and its management.

The traffic management is becoming complex because of the reasons like population, vehicle congestion, unmanaged traffic light, lack of vehicular education, poor state of road, shortage of manpower, lack of effective monitoring etc. It is necessary to manage the traffic congestion by ensuring
adequate manpower, replacement of old vehicles, arrangement of large public vehicles, managed traffic light and CCTV and effective monitoring and coordination between the Ministry of Physical Infrastructure and Transport and Traffic Police.

160. **Teacher’s post** - As per the data of 13 departments out of 38 central departments under Tribhuvan University, the number of total student is 1 thousand 437 and number of professor is 173 and NPR 84.4 million has been spent for teacher’s annual salary and allowance. The ratio of teacher to student is 1:8 and the cost per student is NPR 59 thousand. The number of students is decreasing every year in the University. The ratio of teacher to student is decreasing every year due to reasons like: decrease in the number of student in subjects like history, geography, culture and language; non-adjustment of teachers of certificate level in other faculty after it was phased out; appointment of subject wise teacher every year even though there is no admission of students on the same ratio. Therefore, the teachers post should be adjusted.

161. **Operating at a Loss** – In the regular program of Teaching Hospital, the internal income and including disbursed budget is NPR 1 billion 444.6 million and expenditure is NPR 1 billion 484 million, so there is loss of NPR 39.4 million and along with the deficit of NPR 7.2 million toward pharmacy, the total deficit of NPR 46.6 million. It has been observed that the hospital is operating at a loss because of the reasons like: non-consideration of budget ceiling, incurred expenditure by creating liability without procurement plan, and excess expenditure of NPR 305.4 million made than the budget.

162. **Salary Report** – As per section 7 of Civil Service Act, 1993 no salary shall be provided without having a salary report passed by the Civil Servants Records Office, in the case of civil servants serving in Ministries, Secretariats, Commissions and Departments and Offices within the Valley, and by the District Treasury Comptroller Office concerned, in the case of civil servants of the District based Offices. This year, 45 entities of 4 ministries have incurred expenditure of NPR 1 billion 78.7 million without approving salary report. Expenditure should be accounted for after passing salary report. The role of internal control is vital for fiscal governance. For the effective internal control, the Head of entity shall prepare an internal control system as per the nature of their respective function so as to accomplish the function supposed to be accomplished by themselves and the subordinate agencies in an economical, efficient, and effective manner. There has been an increase in the irregular expenditure because of weak internal control system. As the activities like monitoring and inspection of financial transaction and physical assets, updation of accounts, reporting and establishment of control environment and information flow are not managed properly, therefore, improvement is required in this regard.

- **Electricity Generation and Distribution**

163. **Electrical Power Transmission Lines** - As per section 21 of Electricity Act, 1992 if any person desires to sell in bulk the electricity generated, the Government of Nepal may purchase or cause to purchase such electricity to the national grid. As per the details obtained, from January 26, 2009 till date, 107 companies have been granted license to survey electricity transmission line of 33 K.V to 400 K.V. Similarly, 20 license have been granted to private companies and 36 license have been granted to Nepal Electricity Authority, thus in total, license has been granted to 56 power companies for connecting electricity to the national grid and for own distribution. As there in no mechanism and policy to connect electricity generated from the whole country to national transmission line, the hydroelectricity companies that have obtained license have shown unwillingness to generate electricity, and in case of 40 megawatt Khanikhola, 4.36 megawatt Tugun Thosnekhola and 2 megawatt Khanikhola, even
though these companies have already generated electricity, as they have not been linked to the national grid, the generated electricity is not being fully utilized by procuring it.

164. **Cancellation of License** – As per sub section 2 of section 4 of Electricity Act, 1992 on receipt of an application for obtaining license after necessary checking and enquiries license should be issued within 30 days of receipt of such application in case of license for conducting survey relating to electricity and within 120 days in case of license for generation, transmission or distribution of electricity. Till now 143 companies have applied for survey license, out of which license has been granted to 96 companies only and 117 companies had applied for generation of 3 thousand 341 megawatt electricity, out of which only 11 companies have been granted license to generate 2 thousand 397 megawatt electricity. The remaining application have neither being cancelled nor approved but are kept in status quo. The process of providing license should be made systematic so as to grant approval by studying the application received and cancellation of the licenses not fulfilling the due process.

165. **Recovery of Royalty** – As per section 11 of Electricity Act, 1992 the licensee shall have to pay royalty to the Government of Nepal at a rate of NPR100 for each installed kilowatt of electricity per year plus 2 percent of the average tariff per unit (per kilowatt hour) for a term of up to fifteen years from the date of generation of electricity for commercial purpose and after the mentioned term the licensee shall have to pay royalty to Government of Nepal at a rate of NPR1000 for each installed kilowatt of electricity per year plus 10 percent of the average tariff per unit (per kilowatt hour). Accordingly, on the basis of generated and installed capacity, the revenue to be collected by Department of Electricity Development from 51 hydroelectricity project is NPR 1 billion 653.6 million including the revenue arrear of 2014/15, whereas this year only NPR 1 billion 584.4 million was recovered and NPR 91.5 million remains recoverable. The interest and penalty has not been charged even though the royalty has been deposited after 3 years. Legal arrangements should be made to charge interest and penalty against the companies making delay in depositing revenue for royalty.

166. **Monitoring of System and Penalty** – As per Renewable Energy Subsidy Delivery Mechanism, 2013, monitoring of 10 percent of the solar electricity system installed by various companies was done with the help of independent consultants, however penalty of NPR 57 million imposed on companies that failed to perform in line with the Directive has not been collected. Out of total penalty, NPR 30.2 million (52.91 percent) was noted as recoverable from 5 companies only. For eliminating the weakness seen in subsidy distribution, the current threshold of 10 percent sample must be increased and the scope of monitoring should be expanded.

**Fund Management**

167. **Fund Operation** - Towards Government Offices, in Funds operated under 19 Ministries/entities, previous year balance carried forward is NPR 64 billion 978.6 million and current year’s income is NPR 207 billion 117.6 million totaling NPR 272 billion 96.2 million, and after making an expenditure of NPR 161 billion 369.6 million, there is a balance of NPR 110 billion 726.6 million (Annex 11). These Funds include Prime Minister Natural Disaster Relief Fund, Reconstruction Fund, Nepal Army Welfare Fund, Nepal Police Welfare Fund, Armed Police Force Welfare Fund, Journalist Welfare Fund, Environment Conservation Fund, Forest Development and Collection Fund, Female Education Fund, District Education Fund, Peace Fund etc. Some entities have carried forward different balance than the balance shown in the previous year, thus there is a difference of NPR 839.1 million in balance transfer amount. Other findings in relation to this are as follows:

167.1 In the Ministry of Labor and Employment, it was seen that there was a balance of NPR 10 billion 64.7 million in the Fund in respect of bonus received from various establishments as of July 15, 2016
pursuant to Bonus Act, 1974. Rather than maintaining account by disclosing amount to be received, amount received, and outstanding amount from every enterprise, and monitoring shall have to be carried out in respect of non receipt of amount, the Fund has in this year also treated the amount deposited as per bank details as income. Balance amount should be spent for welfare of labors by preparing a work procedure.

167.2 As per arrangement made by Budget Speech 2009/10, one percent social security tax is to be collected from employees of Government Bodies, Board Committee, Centre, Government organization and enterprises of private sector. Such amount is to be spent in 9 types of social security programmes like: Unemployment Insurance Plan, Occupational Injury or Accidental Insurance Plan, Maternity Plan, Dependent Insurance Plan etc. However, due to non-enactment of the Act, the total amount in the fund of NPR 11 billion 355.8 million till now, including NPR 3 billion 267.6 million of this year has not been spent on the specified activities as per the objective of the Fund.

*Necessary arrangement is required to manage the huge amounts lying in the Fund.*

168. **Unspent Amount is to be deposited in the Consolidated Fund** - As per Rule 33 of Financial Procedure Rule, 2007, amount not expended within Fiscal Year and remained surplus shall be refunded. Observation for not depositing as stated are as follows:

168.1 Section 45(3) of Telecommunication Act, 1997 states that if the amount received by Nepal Telecommunication Authority becomes insufficient to carry out its functions it may request to the Government for such deficit amount, and in case the amount so provided by the Government is in excess the Authority shall pay such excess amount to Government. Even though it was pointed in the last year’s report that the accumulated fund of NPR 19 billion 660 million of Nepal Telecommunication Authority must be deposited in Consolidated Fund, this year, out of such accumulated fund, only NPR 6 billion 500 million has been deposited in the Consolidated Fund. Excepting NPR 12 billion 660 million of Rural Telecommunication Fund, out of accumulated amount of NPR 29 billion 270 million of this year, NPR 16 billion 610 million should be deposited in Consolidated Fund.

168.2 On analysis of the income and expenditure of the Insurance Board for past 3 years, it was noted that after charging of expenditure from income, the surplus in 2013/14 was NPR 338 million, in 2014/15 was NPR 32.9 million and in 2015/16 was NPR 509 million. In the Board, the surplus amount has been increasing every year and has reached to NPR 2 billion 532.3 million. The balance amount needs to be deposited forthwith in the Consolidated Fund. In this regard, attention needs to be paid also by the Ministry of Finance.

168.3 In Girl Child Education Fund established as per the decision made on July 13, 2005 by the Council of Ministers for providing scholarship to girls studying in schools and campus, there is a balance amount of NPR 439.2 million including NPR 20 million deposited this year by the Ministry of Education. Though, the fund has been established, it has not been utilized till now. The Public Accounts Committee has instructed for immediately formulating a work procedure for utilization of the Fund on February 7, 2016, however, as it has not been done, the amount should be deposited in Consolidated Fund.

168.4 Agriculture Inputs Company Limited has disclosed in its financial statement that out of the grant received, expenditure of NPR 3 billion 669 million has been made. The balance amount of NPR 197 million has not been refunded to the Government and deposited in the Consolidated Fund.

168.5 As per Rule 47 of Local Bodies Resource Mobilization and Management Procedure, 2012, out of grant released to Village Development Committees, surplus amount at the end of fiscal year shall be refunded in District Treasury Comptroller Office. While reviewing the financial statement of 443 Village Development Committees under the 20 District Development Committees including Siraha, Lalitpur,
Sarlahi that have submitted final audit report, it was revealed that balance amount of NPR 187.4 million including refundable grant of Village Development Committees is kept that needs to be refunded in the fund. Therefore, the unspent amount out of grant released must be ascertained and refunded in the Consolidated Fund.

168.6 District Development Committee Office, Makwanpur, Tanahu and Rupandehi have transferred NPR 109.4 million in District Development Fund out of amount received from the Government of Nepal. In this regard, the Public Accounts Committee had made a decision on April 22, 2012 to caution the concerned, and not to repeat such practice and to refund the balance amount; however, the same issue has been repeated this year also. Such amount should be deposited in the Consolidated Fund by implementing decision of the Public Accounts Committee.

168.7 NPR 300 million grant was provided by the Asian Development Bank through Prime Minister Natural Disaster Relief Fund, in respect of immediate temporary building construction and furniture management in schools of 14 most affected districts by earthquake. As per the details obtained from District Education Office, Bhaktapur and including other 13 offices, there is a balance amount of NPR 57.2 million remaining without being expended. Such amount should be refunded and deposited in the Consolidated Fund.

168.8 The Ministry of Supplies has made release of NPR 33.5 million to Salt Trading Corporation for transportation of salt, however the amount was not spent. Thus, unspent balance amount should be deposited in the Consolidated Fund.

168.9 National Cooperative Development Board has not refunded grant amount of NPR 2.5 million that has remained unspent at the end of the fiscal year. Such amount should be deposited in the Consolidated Fund.

168.10 As per Rule 33 (a) of Financial Procedure Rules, 2007, out of NPR 75 million received by Local Development Training Academy for operation of different programs from the Government of Nepal, NPR 10.5 million has remained without being expended and out of amount obtained from other Ministry for operation of training, NPR 4.4 million saved from previous years not being expended totaling to NPR 14.9 million should be deposited in the consolidated fund. Similarly, cash balance of NPR 7.6 million in 5 account of Solid Waste Management Technical Support Centre has remained idle from 1987. So, such non-earmarked amount has to be deposited in the Consolidated Fund.

168.11 In accordance with the agreement concluded between the Government of Nepal and the National Housing Company as per the decision of the Council of Ministers, while distributing the land there is a provision for providing land ownership document by charging additional service fee of 20 percent of minimum valuation amount for purpose of registration in Land Revenue Office. NPR 12.4 million which comes to be 50 percent of amount that was received as per above provision shall have to be deposited. However, the same amount has not been deposited so far.

168.12 As per Rule 47 of Local Bodies Resource Mobilization and Management Procedure, 2012, District Development Committee Office, Jumla, Parsa, Kalikot including other 22 offices have not refunded the unspent amount of NPR 97.1 million within fiscal year. Such amount should be deposited to the consolidated fund.

168.13 Out of amount released to Central Hajj Committee from the Ministry of Home Affairs, carried over previous year’s balance of NPR 6.7 million and this year’s unspent amount of NPR 0.9 million totaling NPR 7.6 million should be deposited in the consolidated fund.
168.14 Out of 2 percent contingency amount of capital expenditure worth NPR 83.7 million received by the Department of Drinking Water and Sanitation from regional and district Division and Sub-Division Offices situated in the district under it, unspent amount of NPR 3.7 million should be deposited in the consolidated fund.

168.15 District Education Office, Saptari decided to close schools, and NPR 1.6 million lying in the ceased bank account of 39 non-operating schools has not been deposited in the Consolidated Fund.

Funds have been established with a specified objective and money has been deposited in them, however, as the work procedure has not been formulated and implemented, the collected amount has remained unutilized. As operating funds cannot be created under the Operating Fund Act, the Government had decided on August 14, 2008, to close operating funds under all the entities and to make expenditure as per the Appropriation Act. Fund management should be carried out as per the decision.

In the 15 entities mentioned above, the amount to be deposited in the Consolidated Fund is NPR 20 billion 300 million. The fund required by the entities should be provided through budget allocation release and the amount in dormant funds of various entities should be deposited in the Consolidated Fund. The Ministry of Finance should give its attention towards this end.

169. Investment Risk - It was observed that loan of NPR 15 million of Youth and Small Entrepreneurship Self-Employment Fund in one Finance company which was declared problematic by Nepal Rastra Bank was found to be in risk. Moreover, the repayment period as per the loan schedule of loan disbursed by the Fund to 4 Cooperatives has expired, however, investment of NPR 112.6 million is yet to be recovered, therefore legal proceedings should be initiated for recovery of the same loan. In investment agreement made by the Fund with 2 banks, recovery date has not been stated, however, the finance department has confirmed that recoverable principal installment NPR 149 million also need to be recovered.

Likewise, a total sum of NPR 99.4 million that comprises of principal amount of NPR 77.4 million and interest NPR 22 million to date of B.P. Koirala Memorial Cancer Hospital, Bharatpur which is in fixed deposit account of one development bank that has been declared problematic, should be recovered.

- Disaster Management

170. Relief Collection and its Distribution - Main observation noted while assessing economy and effectiveness aspect in works related to relief collection and distribution by Central Natural Disaster Relief Committee and District and Local Natural Disaster Committee after the earthquake of 2015 are as follows:

170.1 The Ministry of Urban Development procured 433 thousand sets of tarpaulins for NPR 593.4 million. Out of them, in the first phase, 27,709 sets of tarpaulins were directly procured for NPR 59.1 million. Price of such tarpaulins, procured in three phases, varied from NPR 4.47 to NPR 14 per square feet. Among them, 200 thousand sets of tarpaulins of the same quality were procured from suppliers, however 49 thousand 581 sets of tarpaulin were procured from one supplier at a price which is higher by NPR 0.12 per sq. ft. and 61 thousand 134 sets were procured from another supplier at a price which is higher by NPR 0.38 per sq. feet. Due to procurement at higher rate, additional expenditure of NPR 7.45 million was incurred. Out of total procured quantity, 73 thousand 121 set of tarpaulins of NPR 94.2 million are lying in stock. It was seen that additional financial burden was borne due to purchase of same quality goods at different rates. Timely distribution should be made by making procurement in economic way.
170.2 Relief materials that were not demanded and required by the victims were also received from friendly countries and agencies. 192 boxes of meat, 950 packets of flour, 13 cartoons of food items, 100 cartoons water bottles, all of them date expired and of substandard quality, and 411 cartons of used clothes lying Central Warehouse situated at the Tribhuvan International Airport were destroyed. District Disaster Relief Center, Kavreplanchowk also disposed 2231 cartons of flour, 207 carton of milk powder due to expiry of date and Sindhupalchowk disposed 450 kg of rice, 33 cartoon of bread, 64 cartoon noodles and other relief materials as it was not used within the prescribed time.

As clothes sent to Irkhu of Sindhupalchowk were of large size, they were not accepted by the victims, and they were stored in a class room of a school without keeping record of the same. As per the statement of victims of Sangachok of Sindhupalchowk, Gankhu and Chhoprak of Gorkha, and other Village Development Committee, the rice distributed were inedible. It was observed that, as the list of relief materials were not dispatched on time, unnecessary and sub-standard goods were received and, due to a lack of mechanism for testing the received goods, while all the goods were received, many goods had to be destroyed and even the distributed goods were found unusable. Sub-standard and unnecessary relief materials should not be accepted.

170.3 In the central warehouse of Tribhuvan Internal Airport, out of relief material received, 148 cartoon of medicine, 106 sacks of clothes, 158 tarpaulins and other goods were not recorded, and were left in unorganized manner in the open space, as a result such goods were in inconsumable condition. It was seen that 5 thousand kg rice, 2000 kg pulse and 3000 kg sugar were completely damaged. District Natural Disaster Relief Committee, Gorkha provided 26 generators, 650 mattresses, 650 sacks of oil and rice, 450 packet sugar and 225 packet powder milk to one organization and 225 tarpaulins and mattress each to one Political Party. The Committee has not obtained the details of relief materials distributed by the concerned organization and political party. The Committee should make an arrangement for storage of adequate relief material by disclosing the details as per the Directives.

170.4 As per National Census, 2011, Gorkha, Sindhupalchok and Kavreplanchok district had 214 thousand households. As per preliminary report of the Ministry of Home Affairs, number of completely destroyed and partially damaged houses were 198 thousand. And in final report, there was 42 percent increase and the figure has reached to 282 thousand. It was observed that in those district, amount for temporary accommodation was provided to 233 thousand individuals and amount for warm clothes was provided to 235 thousand individuals. As the assessment of damage was found to be different in the same Ministry itself and among other bodies, the accurate figure of damage could not be confirmed. If there is non-uniformity in assessment of damage, then the distribution of relief will be adversely affected, therefore, assessment of damages should be done accurately and uniformly.

170.5 As per latest report of the Ministry of Home Affairs, NPR 194.5 million was distributed for temporary shelter at the rate of NPR 15 thousand to 697 thousand families and NPR 6 billion 540 million was distributed for warm clothes at the rate of NPR 10 thousand to 654 thousand families. Number of household receiving money for temporary shelter is more than that receiving warm clothes by 51 thousand 586. In Mahadevbesi of Kavre, one organization had constructed 139 temporary shelters, and in Sangachok of Sindhupalchowk, another organization had distributed corrugated zinc sheets to 2793 household at the rate of 2 bundle per household. However, it was seen that, Local Natural Disaster Relief Committee has distributed NPR 15 thousand even to such earthquake victims. Panauti Municipality has also provided amount of temporary shelter to all victims who were distributed 700 bundles of corrugated zinc sheets. In Gorkha District, Natural Disaster Relief Committee has not distributed NPR 59.1 million at the rate of NPR 15 thousand to 6 thousand 915 households that were distributed corrugated zinc sheets by organizations. It was found that relief distribution was ineffective
due to non-coordination and non-compliance with Directives. Coordination should be maintained while distributing relief and one door system should be fully implemented.

170.6 Out of relief of 10 thousand metric ton rice received from the Government of Bangladesh, 30.7 metric ton was distributed and 12.6 metric ton of stock remains in Thapathali warehouse of Nepal Food Corporation and the remaining balance is lying as stock in warehouses outside Kathmandu. The Board of Directors decided to sell the remaining rice on the condition of reimbursing the balance rice to the Government of Nepal as and when required, and being sold after determining its selling price. Food needed in emergency state should be mobilized in cyclic order.

171. **Rehabilitation and Reconstruction Program:** Main observation noted in the course of performance audit of condition of implementation of rehabilitation and reconstruction program in most affected district by earthquake under National Reconstruction Authority are as follows:

171.1 As per Rule 3 of Rules Relating to Reconstruction of the Earthquake Affected Structures, 2015 (2072), the Authority shall implement program only after providing first priority to service related to health organization. As per the post disaster need assessment report, it was mentioned that 1100 health institutions including hospital, primary health center, health posts were completely destroyed. However, record of rehabilitated organization was not found in the Authority. As per details obtained during Audit, it was revealed that District Hospital Rasuwa is being operated in temporary shelter and out of 14 health posts that were completely destroyed, 12 health posts were being operated in shelter and remaining 2 health posts of Langtang and Haku are not delivering their service. Rehabilitation and reconstruction work should be operated according to the policy priority to resume health service.

171.2 In National Reconstruction and Rehabilitation Policy, 2015 and Periodic Plan it has been stated that accurate and updated record of vulnerable households will be prepared, that appropriate place for relocation of families of victims will be identified and policy for settlements relocation shall be formulated and implemented. As per the details obtained from the Authority, it was noted that, 76 vulnerable settlements were identified in 77 VDCs of 9 districts of Okhaldhunga, Ramechhap, Dhading, Sindhupalchowk, Kabreplanchowk, Nuwakot, Gorkha, Rasuwa and Dolkha. It was mentioned to operate risk mitigation program in 29 settlements out of such vulnerable settlements, however, appropriate area has not been identified and implemented for resettlement.

171.3 Prior to the monsoon of 2016, NPR 1 billion 8.8 million was allocated to the Authority with the objective of resettling 1224 families of 11 districts, displaced due to earthquake in temporary shelters in 85 places. This year, NPR 405.3 million was spent for construction of temporary shelters and the construction was completed in 43 places, however they have not been duly handed over to Village Development Committees and mechanism for their security has also not been arranged. In Dunche of Rasuwa, as per direction of the District Natural Disaster Relief Committee, 20 families of Haku Village Development Committees were living in 1 temporary shelter. Similarly, police have shifted to Dhungrebas, located in Kamala Mai Municipality of Sindhuli district, and the remaining temporary shelters were not put to use. Accordingly, it was seen that utilization has not been made as per the objective of investment made in construction of temporary shelter.

171.4 As per National Reconstruction and Rehabilitation Policy, 2015 and Earthquake Damaged Private House Reconstruction Grant Distribution Work Procedure, 2015, individuals whose house was completely destroyed and cannot be put to use even after repairing and retrofitting and individuals not having any another residential house are to be included in the list of beneficiaries receiving grant for reconstruction of private residence. As per National Census, 2011 there were 622 thousand households in 11 most affected districts by earthquake except capital. It was observed that 532 thousand households have been identified and included in the list of beneficiaries receiving grant for private residence.
Considering 57 thousands 800 households that were missed in the survey, and the household, even though included in survey, but did not fulfill the standards, the total number of households in 11 districts was 590 thousand. Thus, the ratio of number of household as per the census of 2011 to beneficiary was seen to be 1: 0.95.

171.5 As per Rule 7 of chapter 2 of Private House Reconstruction Technical Supervision Procedure, 2073 and Annexure 3 of Earthquake Damaged Private House Reconstruction Grant Distribution Work Procedure, 2015, grants is to be distributed in three installments. NPR 150 thousand of second installment is to be provided after inspection of the construction work up to the plinth level, clearance and certification by the technicians of District Project Implementation Unit. Out of 479 thousand 303 beneficiaries with whom agreement was made till February 10, 2017, NPR 23 billion 7.2 million of first installment at the rate of NPR 50 thousand per beneficiary was disbursed to 460 thousand beneficiaries (96 percent). Similarly, out of 460 thousand beneficiaries of 11 district receiving first installment grant, second installment has been disbursed to 798 individuals only.

In a survey conducted, along with participation of civil society organizations, by selecting sample of family who have received first installment till July 15, 2016 and have constructed the house in 3 wards of 3 Village Development Committee of Ramechhap and Nuwakot, report has been received that out of the 400 beneficiaries receiving the grant amount, only 40 have completed up to the plinth level and only 15 have completed the construction. As per the discussion with the beneficiaries, the reasons for non-construction of the private houses in expected number were: inappropriate design, irregular attendance of technicians, lack of skilled manpower and high transportation cost due to shortage of construction material to be used as per the approved design.

**Audit of Wholly Owned Corporate Bodies**

172. **Audit Status:** The audit of 91 fiscal years including backlog audit of 44 corporate bodies was conducted this year, of which audit of 38 fiscal years of 28 bodies has been accomplished and audit of 53 fiscal years of 21 bodies remained as backlog to be audited. Out of the audit completed, preliminary audit reports of 13 bodies related to 14 fiscal years was issued but final audit report has not been issued due to non-submission of replies from the Board of Directors on preliminary audit report and approved financial statement.

4 fiscal years of Nepal Railway Company, 3 fiscal years of Nepal Tourism Board and Nepal Water Supply Corporation, and 2 fiscal years of Janak Education Material Centre and Janakpur Cigarette Factory have not had their audit conducted. The audit report of 22 fiscal years of Guthi Sansthan, 7 years of Udayapur Cement Industry and Herbs Collection and Processing Company has not been concluded. Among the institution that have been liquidated, audit has not been conducted in Agriculture Tools Factory for 15 fiscal years, Tobacco Development Company and National Construction Company for 4 fiscal year and Hetauda Textile Industry for 2 fiscal years.

*Failure to get audit conducted would cause non-preparation or non-finalization of financial statement, non-presentation of correct accounts of share and investments, non-transparency of profit and loss of bodies, excessive increase in administrative and operational expenses and ultimately, deterioration of the financial position leading to sick institutions. The person, including concerned Ministry, that failed to get audit conducted on time according to law should be held accountable.*
173. **Operational Results of Corporate Bodies** – Among the institutions audited, 28 corporate bodies, committees and other institutions that follow commercial accounting and prepare Balance Sheet have been included in this report, of which 16 corporate bodies, committees and other institutions have a total operational profit of NPR 50 billion 371.2 million, whereas 12 entities have suffered operational loss of NPR 8 billion 740 million.

Similarly, the corporate bodies, committees and other institutions that do not follow commercial accounting and prepare Income and Expenditure Account, and 1 other body have operational surplus of NPR28.1 million. The observations related to operational results are stated below:

173.1 In Nepal Rastra Bank, in 2015/16, total assets are NPR 985 billion 980 million which comprises of financial assets in foreign currency of NPR 919 billion 790 million, financial assets in local currency of NPR 61 billion 350 million and other assets of NPR 4 billion 840 million. The financial liability in foreign currency is 18 billion 620 million, liability in local currency and other liability is 824 billion 710 million and capital and reserve fund is NPR 142 billion 650 million.

In last year, the net profit was NPR 12 billion 950 million which has increased in this year and reached to NPR 38 billion 780 million. The operational profit of last year was NPR 10 billion 760 million which has been increased to NPR 13 billion 900 million this year; similarly, the foreign exchange gain has reached to NPR 18 billion 140 million from previous year’s NPR 2 billion 530 million as a result net profit has been increased. Last year, there was loss of NPR 1 billion 220 million on revaluation of bullion whereas there is profit of NPR 5 billion 710 million in this year, due to which the profit has increased. Out of net profit, the distributable saving is NPR 15 billion 170 million. Out of the distributable profit, amount as per section 41 of Nepal Rastra Bank Act, 2002, has been appropriated to Reserve and Funds and balance of NPR 7 billion 250 million, which is 47.77 percent, has been set aside for making payment to Government of Nepal.

Total investment of Nepal Rastra Bank is NPR 935 billion 380 million, out of which, towards foreign investment, the bank has invested NPR 5 billion 330 million in American Treasury Bill, NPR 203 billion 70 million in Indian Treasury Bill, NPR 48 billion 40 million on Repo purchase, NPR 425 billion 980 million in term deposit of banks and NPR 21 billion 280 million on gold. Similarly, towards local investment, NPR 21 billion 280 million has been invested in Government securities, NPR 3 billion 430 million in bank and financial institutions, NPR 17 billion 330 million in fixed deposit in local banks and NPR 182 billion 710 million in others have been invested.

173.2 In the Employees Provident Fund Total, source of fund of up to 2015/16 is NPR 224 billion 710 million which comprises provident fund of NPR 217 billion 610 million, reserve and other fund of NPR 4 billion 660 million, liability of NPR 880 million, and provision of NPR 1 billion 560 million. Out of such source, NPR 75 billion 730 million is invested in National Saving Bonds and debenture, fixed deposit and share investment; NPR 23 billion 370 million in project loan; NPR 118 billion 150 million in loan to contributors; NPR 1 billion 140 million in fixed assets and work-in-progress (including investment on assets); and NPR 2 billion 150 million in miscellaneous assets, and NPR 4 billion 170 million remains in cash and bank balance. Last year, the Fund earned a profit of NPR 1 billion 710 million, whereas the profit is only NPR 1 billion 600 million in this year.

173.3 In Nepal Electricity Authority, the total capital and liability in 2014/15 is NPR 189 billion 540 million which comprises of NPR 49 billion 270 million share capital, NPR 23 billion 73 million Reserve Fund (negative), NPR 98 billion 950 million long term liability, and NPR 65 billion 50 million current liability. In case of assets, fixed assets is NPR 162 billion 40 million and current assets is NPR 27
billion 500 million. There was cumulative of loss of NPR 20 billion 240 million up to last year and on adding loss of this year of NPR 5 billion 510 million, total cumulative loss stands at NPR 25 billion 750 million. If the cumulative loss of NPR 27 billion 190 million, written off in 2010/11, as per the decision of the Government of Nepal is considered, then the total loss is more than NPR 52 billion.

173.4 In Rastriya Baniya Bank, the total capital and liability upto 2015/16 is NPR 166 billion 430 million that includes NPR 8 billion 590 million share capital, NPR 20 million reserve and other fund, NPR 940 million loan payable, NPR 146 billion 210 million deposit liability, and NPR 10 billion 670 million towards bills payable and other liability. In case of assets, cash and bank balance is NPR 28 billion 740 million, investment is NPR 43 billion 770 million, loan investment is NPR 81 billion 780 million, fixed assets is NPR 510 million, and other assets are NPR 11 billion 630 million. Cumulative of loss up to last year was NPR 6 billion 250 million while the loss stands at NPR 4 billion 370 million up to this year.

In last year, the bank has earned additional profit of NPR 2 billion 760 million from the sale of shares of the bank. Similarly, in 2011/12 the Government of Nepal injected an amount of NPR 5 billion 720 million to increase the capital of the bank. Even though the bank has earned NPR 8 billion 48 million from non-banking transaction, still the bank has not been able to generate profit.

173.5 In the Nepal Telecommunication Authority, in 2014/15, cumulative profit was NPR 19 billion 660 million and balance in Rural Telecommunication Development Fund was NPR 10 billion 180 million, whereas the cumulative profit upto this year is NPR 16 billion 290 million and balance in Development Fund is NPR 12 billion 660 million. The fund has been utilized as: NPR 40 million in fixed assets and NPR 29 billion 230 million in net current assets. The net worth of the Authority was NPR 29 billion 840 million in previous year whereas it is NPR 29 billion 270 million in this year. Last year, out of the total income of NPR 4 billion 170 million, the Authority was able to make net profit of NPR 3 billion 290 million, while in this year, the net profit stands at NPR 3 billion 450 million from the total income of NPR 4 billion 210 million.

173.6 In Nepal Airlines Corporation, in 2014/15, the share capital is NPR 162.2 million, cumulative loss is NPR 1 billion 86.5 million, investment of Government of Nepal is NPR 2 billion 940 million, mid-term and long-term loan is NPR 10 billion 96 million; fixed assets is NPR 11 billion 860 million, investment is NPR 6.1 million, and current assets is NPR 336.6 million. The net worth of the Corporation stands at NPR 1 billion 240 million.

The cumulative loss at the year end has reached NPR 1 billion 870 million after adjusting profit of NPR 16.1 million for this year and previous year’s expenditure of NPR 38.4 million; among others, whereas there was cumulative loss of NPR 1 billion 840 million up to previous year.

173.7 In Dairy Development Corporation, up to 2014/15, the Fund is 730 million, cumulative loss is 473.6 million, fixed assets is NPR 344.5 million, assets under-construction is NPR 5.8 million, investment is NPR 27 million, and net current assets (negative) is NPR 120.7 million. The net worth of the Corporation has reached to NPR256.5 million. The cumulative loss up to last year was NPR 514.6 million, the net profit for this year is NPR 42.8 million and after adjustment of last year’s loss of NPR1.7 million the cumulative loss has reached to Rs 473.6 million at the end of the year.

173.8 In Hetauda Cement Industry Limited, up to 2014/15 the share capital fund is NPR 990.07 million, reserve and cumulative loss is NPR 831.5 million, non-current liability is NPR 1 billion 150.2 million, and current liability is NPR517.08 million. The net worth of the Industry is NPR269.02 million. The cumulative loss up to last year was NPR 693.01 million whereas as there is profit of NPR53.02 million
this year. After adjusting last year’s income tax of NPR 191.6 million, the cumulative loss at the end of the year has come to NPR 831.5 million.

The annual capacity of clinker production of the Industry is 260 thousand metric tons, whereas, this year, only 104 thousand metric tons has been produced. The fixed expenditure of industry is increasing continuously however, only 40 percent of production capacity has been utilized.

173.9 In Agriculture Inputs Company, up to 2014/15, the share capital is NPR 426.3 million, reserve fund and cumulative profit is NPR 912.4 million, fixed assets is NPR 810.9 million, investment is NPR 427.6 million, and net current assets is NPR 100.2 million. The cumulative profit up to last year was NPR 350.5 million and on adding this year’s profit of NPR 3.2 million, the cumulative profit has reached to NPR 356.7 million at the end of this year.

173.10 In Rastriya Awash Company, up to 2014/15, the share capital is NPR 2 billion 540 million, reserve fund is NPR 214.7, investment is NPR 10.7 million, and net current assets is NPR 2 billion 370 million. The cumulative profit up to last year was NPR 47.4 million and after adding on this year’s profit of NPR 51.3 million, the cumulative profit has reached to NPR 98.7 million at the end of this year.

173.11 In National Trading Limited, up to 2012/13 the share capital is NPR 169.3 million, reserve and cumulative loss is NPR 775.8 million, long term loan is NPR 150 million, fixed assets is NPR 26.9 million, investment is NPR 40.8 million (negative), and net current assets is NPR 442.6 million (negative).

The cumulative loss up to last year was NPR 707.9 million and on adding this year’s loss of NPR 146.2 million, the cumulative loss has reached to NPR 854.1 million at the end of this year.

173.12 In Nepal Drugs Limited, up to 2013/14, the share capital is NPR 75.5 million, reserve and cumulative profit is NPR 1 billion 40 million (negative), mid-term and long term loan is NPR 330.9 million, fixed assets is NPR 19.6, investment is NPR 1.3 million and net current assets is NPR 654.8 million (negative). The cumulative loss up to last year was NPR 920 million and on adding this year’s loss of NPR 1 billion and after adding this year’s loss of NPR 1 billion 570 million, the cumulative loss has reached to NPR 2 billion 570 million at the end of this year.

174. **Internal Control Management** - the observations noted in this respect are as follows:

174.1 In Nepal Rastra Bank, as per the details obtained, the stock of gold is 2 thousand 615 kg and silver is 126 thousand 172 kg in 2015/16. The details with touch number based on the of purity of aforementioned stock should have been maintained, however, only the details of quantity and amount has been kept. Physical verification has been carried out on the basis of recorded quantity. Actual quantity and quality should be ascertained.

174.2 In addition to employee’s provident fund, medical treatment fund, gratuity fund and employee security fund, 14 types of allowances are being provided to Nepal Rastra Bank staff, out of which 7 allowances are provided to entire staff and other 7 types of allowances are given to special group of staff. The ratio
of such allowances and incentives to salary becomes 195 percent. In 2015/16, apart from salaries, NPR 1.1 billion has been incurred towards other allowances and incentives.

174.3 As per the public notice of Nepal Rastra Bank issued on January 22, 2013, in order to repatriate the profit earned on investment made in foreign currency, it is required to submit bank statement showing deposit of money in Nepali bank from foreign bank as a proof of inflow of capital. A telecommunication company that deposited only NPR 58.1 million before December 7, 2014 in Nepalese bank, has thereafter deposited additional sum of NPR 22.1 million till February 19, 2016. The bank has given its consent to the said company to repatriate profit of 2011/12 worth NPR 8 billion 800 million, even though the amount shown as capital was received after December 7, 2014. The Finance Committee of Legislature-Parliament instructed the Government of Nepal on June 3, 2016 to take action against the guilty by probing about transfer of ownership of the company and capital gain tax. Instead of doing so accordingly, consent was given to the company to repatriate the profits.

174.4 In Employees Provident Fund, at the year end, the unreconciled bank balance amount is NPR 1 billion 560 million. Due to unavailability of ageing details of the same amount, it is difficult to ascertain its impact on assets, liability, and income and expenditure of the Fund. Hence reconciliation should be done timely.

174.5 Due to weak inter branch reconciliation system prevalent in Rastriya Banijya Bank, the inter branch adjustment amount is NPR 3 billion 370 million at the end of this year. Due to inclusion of unreconciled amount since many years, non-characterization by preparing the age wise details of due amount and non-reconciliation of such amount, it is difficult to ascertain the impact of such amount on the bank’s assets, liability, and income and expenditure based on the nature of the transactions.

The deposit of NPR 990 million includes NPR 650 million towards matured deposit and NPR 340 million as unconfirmed deposit. In last year, such amount was NPR 840 million that comprised of NPR 500 million and NPR 340 million respectively. In comparison to last year, such amount has increased, therefore necessary action from the management has not been taken. Appropriate action should have been taken by renewing the matured deposits and by classifying un-refunded deposits according to their nature by identifying the reason of non-refunding, however, the same has not been done. Delay in depositing in concerned deposit account might have negative impact in bank’s credibility.

174.6 As per the instruction of Nepal Rastra Bank, Rastriya Banijya Bank has to accept the collateral of the written off loans, and if done otherwise, the loans cannot be written off. However, in contravention of such instruction, the bank has only recovered principal of NPR 1 billion 510 million and interest of NPR 1 billion 173.7 million till July 15, 2016, that comprised of NPR 194.4 million of principal amount and NPR 203.2 million as interest amount of the current year, and NPR 3 billion 303.6 million of principal amount is yet to be recovered.

174.7 As per the decision of Board of Directors, if the income of milk products that are transferred from one project of Dairy Development Corporation to another project is found short, then the Project Manager shall be made liable for the loss of goods. However, difference in dispatched goods were noted that include the difference of NPR 600 thousand in goods dispatched by Dhangadi to Nepalgunj, NPR 600 thousand in goods dispatched by Janakpur to Biratnagar. NPR 3.2 million in goods dispatched by Hetauda to Kathmandu, NPR 900 thousand in goods dispatched by Biratnagar to Kathmandu and NPR 800 thousand in case of goods dispatched by Lumbini to a Dairy. Since it has been mentioned that the Project Manager is responsible for shortage, the shortfall amount should be investigated and should be recovered from the responsible party.
As per the agreement related to purchase of quality certified polythene, entered into between Corporation and supplier Company, a minimum of 388 packet can be filled from 1 kg of polythene film and loss shall not exceed 2 percent. It is stated that 300 packets of yoghurt can be filled from one Kg of polythene. Milk and yoghurt packets should have been produced on the same basis, however the projects of the corporation have over-consumed packing material equivalent to NPR10.7 million. The related party should be made liable for over expenditure than the norms.

174.8 Hetauda Cement Industry has accounted expenditure of NPR 14.5 in staff welfare fund till this year. This amount should have been treated as investment by showing as assets and contra entry in liability. However, only NPR 530.2 million was deposited in Citizen Investment Trust and balance amount has not been invested.

Stock worth NPR 3.811 million shown under general store remains unutilized since 2011/12 to date. The details of other unmoved stock were not made available during the audit period. Keeping of unmoved stock impacts the current capital and occupies space in store. Such unutilized goods in the store list should be managed by ascertaining their condition. Out of the goods purchased by Central Office of the Industry this year, 20.45 percent of the purchases or goods worth NPR 15.5 million found unconsumed. Procurement should be made only after assessing the requirement.

174.9 In Agriculture Inputs Company, while preparing the cost estimate of fertilizer, average price of middle east, Asia and China is considered; and in case of DAP, average price of Morocco, Jordon, Saudi Arabia, China and India is considered. On that basis it was found that, the minimum price is higher than the average price per ton by USD 1.50 to 22 per metric ton. The price of countries having minimum FOB price should have been taken as base, however, as it is not so taken, the cost has been increased by nearly USD 1.2 million equivalent to above NPR 100 million that comprises USD 168 thousand for 111.899 thousand metric ton of urea at the rate of USD 1.50 per metric ton, USD 75 thousand for 4.987 thousand metric ton of potash at the rate of USD 15 per metric ton, USD 759 thousand for 287 metric ton of DAP at the rate of USD 12 per metric ton. Since the entire procured fertilizers have been produced in China, if the cost estimate were prepared keeping in view the market price of neighboring countries including China, it would have been more realistic.

175. Privatization – The Privatization Committee is required to maintain the updated individual records of institutions privatized so far and calculate the recoverable installments along with interest and penalty due as per the terms of agreement and recover such amount as government due pursuant to Section 22 of Financial Procedure Act 1999.

The Public Accounts Committee on July 15, 2016 directed to resolve dispute and recover leases of lands including interest and penalty of NPR 60.9 million from Nepal Resin and Turpentine Company; and to recover amount on account of sale of share as per the agreement including interest and penalty amounting to NPR 18.4 million from Raghupati Jute Mills, however these amount found unrecovered. The Ministry should proceed ahead to recover the due amount of NPR 170.417 million, interest at 17 percent and penalty at 4 percent on due amount from a limited company as per the agreement for the sale of assets and business of Brikuti Paper Mills to the said Company. The ministry has replied that action is being taken to recover the outstanding amount.

176. Payment of a Liability - The liability of public corporation is required to be met out of its assets and, in case of limited companies, the liability of such organization should be limited to extent of share invested. However, it is observed that the government is still investing a substantial amount in public corporation that were disinvested, dissolved and wound up in the past. So far the Government has
invested NPR 5 billion 470 million for paying off the liability. If the Government pays liability of
disinvested, dissolved and wound up public corporations, it imposes extra financial burden to the
Government; therefore, timely management of corporation must be done. The Ministry has replied
that since the value of assets of corporation is higher than the investment of Government of Nepal,
Government does not need to bear additional financial burden.

### 177. Returns on Share Investment

As per the statement received from the Financial Comptroller General Office, the Government of Nepal has invested a total sum of NPR 158 billion 770 million in 107 corporations till now, whereas dividend of NPR 14 billion 982.9 million (9.43 percent of investment) has been received from 9 corporations this year. Out of such return, 46.72 percent has been received from Nepal Rastra Bank and 45.8 percent from Nepal Telecom. Separate records of partially, substantially and wholly owned corporation has not been maintained. In the context of low rate of dividend in comparison to investment, the efficiency of corporations has to be enhanced.

The government has invested NPR 26 billion 670 million in the following corporations as share
investment, and the profit earned by these corporation is NPR 2 billion 326.9 million in 2014/15, however, no dividend has been declared for GON. Therefore, return on investment from concerned bodies have to be obtained in time.

(NPR in million)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Corporations (SOE)</th>
<th>Share Investment</th>
<th>Profit (F.Y. 2014/15)</th>
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<tbody>
<tr>
<td>1</td>
<td>Civil Aviation Authority of Nepal</td>
<td>20,820.9</td>
<td>1,180.0</td>
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<td>2</td>
<td>Nepal Airlines Corporation</td>
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<td>214.0</td>
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</tr>
<tr>
<td>4</td>
<td>Nepal Transit Warehousing Co. Ltd.</td>
<td>12.2</td>
<td>20.1</td>
</tr>
<tr>
<td>5</td>
<td>Citizen Investment Trust</td>
<td>45.0</td>
<td>171.7</td>
</tr>
<tr>
<td>6</td>
<td>Nepal Industrial Development Corporation</td>
<td>412.7</td>
<td>402.3</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>26,670.0</strong></td>
<td><strong>2,326.9</strong></td>
</tr>
</tbody>
</table>

### 178. Differences in Share and Loan Investment

The updated financial statement of share investment provided by the Ministry of Finance and the record of share investment maintained by the Financial Comptroller General Office does not tally. Among the 17 institutions mentioned in the financial statement in which investment has been made, 5 institutions have shown investment higher by NPR 1 billion 268.8 million and 12 institutions have shown investment lower by NPR 17 billion 848.3 million. The amount should be ensured by carrying out inquiry in this regard.

The statement of loan investment provided by the Ministry of Finance and the record of loan investment maintained by the Financial Comptroller General Office does not tally. In comparison with the figures in the financial statement of share and loans, 4 institutions have shown investment higher by NPR 5 billion 746.6 million and 10 institutions have shown investment lower by NPR 4 billion 4 million. The amount should be ensured by carrying out inquiry in this regard.
179. **Debt Financing from Internal and External Sources** - As per the financial statement submitted by the Financial Comptroller General Office, loan of NPR 19 billion 150 million has been invested in 13 entities from internal sources and NPR 5 billion 640 million has been invested from foreign sources this year.

Out of the above financing, NPR 564.8 million was invested as loan in 8 corporations for administrative expenditure, salaries of staff, allowances, payment of liabilities, clearance of old loan including gratuity of staff. It is inappropriate to provide loan for meeting the operational and administrative expenses, salaries and allowances including clearing of loan. Such investment decision should be discouraged.

180. **Past Due Principal and Interest** - As per the statement received from the Financial Comptroller General Office, the amount of principal and interest was Rs 58 billion 410 million in the last year, and has reached NPR 108 billion 680 million this year with an increase of 53.96 percent by that of previous year. Out of such recoverable principal and interest amount, the significant amount includes NPR 84 billion 790 million from Nepal Electricity Authority, NPR 1 billion 670 million from Kathmandu Valley Water Management Committee, NPR 1 billion 80 million from Janakpur Cigarette Factory, and NPR 1 billion 50 million from Gorakhkali Rubber Industries. Despite the non-recovery of past due principal and interest, additional investment has been made in some corporations. Among the bodies that have past due principal and interest include bodies that have been liquidated, sold and leased, non-existent and idle bodies. The recovery of past due principal and interest should be made effective.

181. **Project Loan** - In Employees Provident Fund, under the project loan, the institutional and co-financing loan in the last year was NPR 25 billion 590 million which stands at NPR 14 billion 52 million, this year. The investment of Fund has been dropped by 43 percent. Likewise, in course of disbursing of loan, the borrowers were required to submit their financial statement of each year, however, most of the borrowers have not submitted audit report and financial statement to the Fund. Confirmation of stock balance of NPR 520 million has not been received from 11 borrowers to whom loan was disbursed under co-financing arrangement.

An agreement was signed on April 9, 2012 between the Fund and a private company for providing loan for one project. Now, the loan disbursed to the borrower company has been classified as bad loan. Loanee has been out of contact for the last three years. It was revealed that NPR 307.8 million is payable by the said Pvt. Ltd. Company at the end of current year. The Fund authority has not initiated any action in connection with recovery of loan and auction of mortgaged assets except issuing 35 days’ notice in Gorkhapatra daily calling for the loanee to clear the loan. The concerned party should be made liable for disobedience of law.

182. **Rental Arrears** - An agreement was signed on December 21, 2014 between the Fund and tenant to lease out the Fund’s building situated at Lagankhel for 15 years at the rate of NPR 5.47 million per month. As per the agreement NPR 88.3 million rent was outstanding. As the bank guarantee of only NPR 65.6 million has been submitted by the tenant, the Fund might suffer a loss of NPR 22.7 million because of insufficient guarantee. Hence concerned officer should be made liable.

183. **Loan Clearance** - This year, Rastriya Baniya Bank has cleared 11 loans above NPR 10 million, totaling NPR 439.1 million. Similarly, correspondence was done with Ministry of Industry and Ministry of Finance, requesting for recovery of outstanding loan exceeding NPR 110 million towards principal and interest from Janakpur Cigarette Factory, however no reimbursement has been received.

184. **Renewal Fee** - Nepal Telecommunication Authority issued license to Nepal Telecommunication Company for the operation of mobile services for a period of 10 years effective from May 12, 1999
by charging NPR 210 million license fees and stating that on renewal, fees payable by service providers selected through competitive process would be charged. On expiry of the license on May 12, 2009, it was renewed for the first time for 5 years by charging NPR 189 million. Thereafter, a Pvt. Ltd. Company that was selected through competitive bids agreed to pay NPR 20 billion towards renewal of license. On the same basis, Nepal Telecommunication Company should have been charged NPR 20 billion as accepted by the company while getting license renewed for the first time, however, on May 9, 2014, it was decided to renew the license for second time at fee of NPR 189 million even though the first time renewal fee was not paid. As Nepal Telecommunication Company has not paid renewal fee of NPR 20 billion as per the terms agreed by it and as the Authority has not recovered the same, necessary action must be taken. However, evidence of the action taken towards the responsible parties involved in renewal of license of mobile service has not been submitted.

185. Electricity Leakage - As per the statement provided by Nepal Electricity Authority, the position of availability of energy and its distribution is given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Availability (giga-watt hrs)</th>
<th>Distribution (giga-watt hrs)</th>
<th>Leakage percentage</th>
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<tbody>
<tr>
<td></td>
<td>Generation</td>
<td>Purchase</td>
<td>Total</td>
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<tr>
<td>2013/14</td>
<td>2298</td>
<td>2389</td>
<td>4687</td>
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<tr>
<td>2014/15</td>
<td>2367</td>
<td>2639</td>
<td>5006</td>
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<tr>
<td>Increased Percent</td>
<td>3.00</td>
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<td>6.81</td>
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</tbody>
</table>

Authority has made improvement in energy leakage by 0.22 percent this year as compared to last year. Since this year Authority has suffered loss worth NPR 9 billion 983 million (average sales price NPR 8.16), the leakage should be controlled by improving management aspect.

The management has not conducted physical verification of assets lying under works in progress pursuant to bye-law 36(6) of Financial and Administrative By-laws, 2011. Nepal Electricity Authority has been showing NPR 548.7 million of fixed assets in work-in-progress related to 154 projects since last years, however no further progress was noted. A sum of NPR 17.4 million accounted as works in progress related to 4 projects is not in physical existence. Similarly, there is negative balance of NPR 78.6 million under works in progress. The assets of completed projects equivalent to NPR 693.2 million has not been capitalized.

186. Additional Financial Burden – Due to the absence of provision of creating life insurance fund in Employees’ Service Rules, 1997 of Nepal Drugs Ltd., the same could not be created except with the approval of the Ministry of Finance, however the Board of Directors without obtaining the prior consent of the Ministry of Finance has decided on March 13, 2013, to account expense equal to 5 years of initial salary, to provide at the time of retirement or at the time the Government of Nepal closes the company. Due to such decision, the company has suffered additional financial burden of NPR 178 million. Personnel who made decisions without legal basis should be held liable.

Chameliya Hydro-electricity Project was commenced in January 2007 and was targeted to be completed by January 2012, however time was extended to April 2016. The physical progress of the project was 94.99 percent till the end of 2014/15. The estimated cost of the project was NPR 8 billion
500 million but it has increased to NPR 15 billion 60 million due to increase in overhead, price escalation and variation in works. Similarly, despite the absence of provision with regard to claim for prolongation value in the contract entered with construction entrepreneur, NPR 222.3 million has been accounted in 2014/15 for under it, and such overpaid amount cannot be considered as regular payment.

187. **Timber Sawing Wages and Stock** – The quantity published in bid documents cannot be done in piecemeal, and timber quantity should be calculated in a realistic manner. The Timber Corporation of Nepal signed a contract with a supplier, who had no experience in timber cutting, for less quantity than as specified in the published bid document and has paid wages of NPR 4.4 million for sawing timber. Similarly, in 4 depots including Pashupati, NPR 10.7 million equivalent to sale of 7 thousand 100 quintal of timber was under-casted, therefore inquiry should be done and assurance regarding the inventory should be provided.

- **Audit of Substantially Owned Corporate Bodies**

188. **Consultation for Appointing Auditors** - According to Section 7(2) of Audit Act, 1991 (first amendment, 2016), the substantially owned corporate bodies of GON are required to seek consultation from the Auditor General before appointing auditor. The number of corporate bodies that are required to seek consultation of appointment of auditors have not been ascertained. This year, 17 institutions have sought consultation for appointment of auditor. Concerned Ministries are required to take necessary action against the institutions that fail in getting their accounts audited by seeking consultation in time. Similarly, the Ministry of Finance and the Financial Comptroller General Office need to maintain updated records of substantially owned Corporate bodies of the Government of Nepal. For appointment of auditor as per the Constitution, consultation from the Auditor General should have been sought by Butwal Spinning Mills Co. Ltd. and CDS and Clearing Ltd., however, they have appointed auditor without seeking consultation from the Auditor General.

189. **Financial Position** - The financial position and operational results of some substantially owned entities which obtained consultation in appointing auditor are as follows:

189.1 In Nepal Telecom, which contains only share capital in the capital structure, this year, the net worth has increased by 6.21 percent as compared to last year, and has reached NPR 86 billion 30 million including this year’s capital of NPR 5 billion. This is 74.64 percent of total capital and liability. Out of the total assets of NPR 115 billion 260 million, 53.90 percent is current assets which consists of liquid assets of NPR 56 billion 610 million including cash. Nepal Government owns 91.52 percent share in this company.

The total income of the company has reached to NPR 44 billion 210 million by registering an increase of 3.68 percent compared to that of the previous year, however, the net profit has dropped by 6 percent and reached to NPR 13 billion 680 million due to expense of NPR 4 billion 360 million towards voluntary retirement scheme. Out of the total income of 92.12 percent is from communication services. There is rise of 7.93 percent towards GSM mobile as compared to last year and reached to NPR 22 billion 640 million and incase of CDMA, the income has reached to 1 billion 360 million with an increase of 6.93 percent. However, average revenue per user has dropped by 8.49 percent towards GSM and 3.24 percent towards CDMA compared to that of previous year.

Similarly, there is decline in sale of interconnection and telephone sets and other items by 2.03 percent and 28.41 percent, respectively, as compared to previous year and income has reached to NPR 11 billion 440 million and NPR 20 million, whereas, there is rise in basic telephone services by 1.19 percent with a income of NPR 5 billion 270 million. Due to decrease in net profit, the earning per share
in the current year is NPR 91.21 as compared to that of last year of NPR 97.04 whereas return on capital investment has reached to 13.87 percent this year as compared to that of previous year of 15.21 percent.

189.2 Nepal Oil Corporation has earned a net profit in the previous year and this year with a total of NPR 34 billion 400 million due to which the net worth, that was negative by NPR 14 billion 690 million in the previous year, has improved and this year the shareholders fund has reached to NPR 1 billion 890 million including share capital of NPR 290 million. The government owns 98.37 percent share in this corporation.

Despite the sales revenue being lower by 30.19 percent compared to last year, due to various reason like: decrease in purchase price of oil in an international market which resulted decrease in cost of sales by 10 percent, decrease in interest payment because of repayment of loan, lower spending from price equalization fund, etc. have contributed a rise of 28.70 percent in net profit and it stood to NPR 19 billion 360 million. If contingent loss is adjusted that may arise with the amount of NPR 7.8 million towards doubtful investment, NPR 12.6 million towards unsecured debtors and advance payment, adjustment of inter branch transaction, the profit, then net worth of the corporation may go down.

189.3 The net worth of Agriculture Development Bank (ABD) has increased by 12.51 percent as compared to that of the previous year and has reached to NPR 18 billion 130 million which includes preference share capital of NPR 11 billion 560 million. Out of which the share of Nepal Government is 81.40 percent. This is the ratio of risk weighted assets to total capital fund is 17.16 percent as stipulated by Nepal Rastra Bank. Similarly, at the year end, under the head of debenture and loan, except deposit, the balance is NPR 1 billion 942.5 million and towards current assets, liquid assets are NPR 10 billion 811.1 million including bank balance.

Deposit at the yearend is NPR 87 billion 390 million. Loan of NPR 79 billion 490 million has been mobilized this year with an increase of 15.91 in lending loan as compared to that of the previous year. The ratio of non-performing loan to total loan and advance which was 5.35 percent in last year, has improved in this year and stands at 4.35 percent at the end of this year.

The net interest income of the bank has increased by 11.67 percent over the last year’s figure and the total operating income is maintained at NPR 7 billion 420 million. The operational profit before provisioning of possible loss has increased by 22.14 percent over the last year’s figure and has reached to NPR 3 billion 640 million, however, as the withdrawal from provision for possible loss of this year is less by NPR 2 billion 380 million as compared to last year’s figures, the net profit of this year has decreased by 29.38 percent and has reached to NPR 2 billion 460 million. Due to lower net profit and increase in number of share, the earning per share which was NPR 111.77 in the last year has reached to NPR 62.59 this year. Due to the increase of non banking assets of NPR 55.6 million in this year, the total non banking assets has reached NPR 200.8 million. In this context, in order to convert non-performing loan to pass loan and to mitigate their risks, the control environment should be made effective.

189.4 A total capital and liability of Nepal Bank Ltd. on 2015/16 stood at NPR103 billion 480 million that includes share capital of NPR 6 billion 460 million, reserve and funds of NPR 250 million, deposit liability including payable bills of NPR 89 billion 410 million. In this, the 62.61 percent share is held by the Government of Nepal. Towards asset, loan and bill purchase is NPR 61 billion 250 million, investment is NPR 12 billion 840 million, other assets are NPR 8 billion 430 million and cash and bank balance is NPR 15 billion 610 million. The net worth of bank is NPR 6 billion 710 million.
Last year’s total profit of bank was NPR 480 million whereas it has reached to NPR 2 billion 880 million in this year. The reason for massive rise in profit, is non operational income, which was NPR 60 million in last year and is NPR 1 billion 740 million in this year.

190. Control Environment – While assessing the control environment of some bodies to whom consultancy in connection of appointing auditor were provided is observed as follows-

190.1 In case of Nepal Oil Corporation, some key facts observed includes: non-utilization of calibration tower and weighing bridge in most of the depots, excess distribution of LPG to gas industries than specified quota, non-clearance of staff loan even after expiry of loan period, non-settlement of advances even after fulfillment of their purposes, booking of interest worth NPR 65.2 million in order to reconcile the branch account, incurring additional damage of NPR 15 million towards loss on petroleum products in excess of specified limit, non-full coverage of insurance to protect assets from possible loss; earmarking NPR 2 billion 360 million for bonus even though the condition does not allow distribution of bonus as to legal provision, showing NPR 6.6 million share investment in Bitumen & Barrel Industry that has already been sold by the Government, non expansion of storage facilities despite increase in yearly demand of petroleum products at the rate of 12 percent and non-diversification of transactions.

190.2 Nepal Telecomm has occupied 47.72 percent of Voice Service and 55.15 of data service of the market however various anomalies have been observed like: non-expansion of market share; non-carrying out of work so as provide reach of digital dividend in all sector; non-compliance with revenue assurance and technical audit that requires to be conducted; non-reconciliation of NPR 140 million lying in Suspense Inventory account; non-clearance of NPR 15 billion 180 million payable to various parties; low number of social site users in comparison with 17.3 million users of GSM and CDMA; net free cash flow of NPR 699.9 million becomes negative after adjusting capital injected into investment activities by the company; low rate of return on investment is achieved as compared to the company’s 12 percent cost of capital, and losing of NPR 28.9 million interest income due to idle parking of money instead of transferring it to call account after expiry of fixed deposit of NPR 1 billion 580 million, kept in a commercial bank etc.

190.3 Some weaknesses have been observed in the Agriculture Development Bank like, Nepal Rastra Bank has directed to raise minimum paid up capital up to NPR 8 billion without involving preference share till mid July 2017, however; paid up capital is still deficit by NPR 5 billion 624 million.; bank was unable to convert non banking assets of NPR 200.8 million into banking assets; not-invested retirement fund amount of NPR 5 billion 665.3 million in profitable sector; less dividend earned on investment made of NPR 7 billion 669.4 million in various institutions; not mobilized assets in an area of high return by mitigating risk and increasing capital in order to sustainability of bank through proper portfolio management, and non-not characterized debit balance of NPR 139.4 million lying in under branch account etc.

190.4 Nepal Bank Ltd has not prepared financial statements in line with Nepal Accounting Standards. The bank has not reconciled inter branch account, as a result balance under payables is NPR 40 billion 210 million and under receivable is NPR 67 billion 660 million. Out of the outstanding, more than three years older payable is NPR 11 billion 330 million and receivable is NPR 11 billion 610 million, therefore, the accounts should be timely reconciled. Moreover, in Kathmandu branch of the bank, NPR 1.046 million cash was found short. Similarly, the bank has written off NPR 2 billion 730 million of loan till the year end, of which the interest recoverable is NPR 38 billion 80 million and NPR 112.5 million has been recovered in this year, necessary action is to be taken for recovering the remaining amount.
The cumulative loss of the bank is NPR 4 billion 510 million whereas NPR 370 million has been kept as provision at the rate of 8 percent out of the net profit of 2012/13, 2013/14 and 2015/16. Similarly, Internal Revenue Department has levied tax of NPR 480 million for the year 2004/05, 2011/12 and 2012/13 on the income return filed by the bank and, as the Honorable Supreme Court is yet to give a verdict, additional financial burden to that extent will have to be borne. Likewise, the unsecured claim over the bank which the bank has not accepted is NPR 106.5 million. The sub-standard assets of the bank are NPR 2 billion 440 million, which is 3.1 percent of the total assets. Effort from bank is required to reduce the volume of sub-standard assets. The bank has not accepted non-banking assets worth NPR 140 million which should have been timely accepted.

Inconsistencies noted by audit include: non-conduction of audit in time by most of the corporate bodies, no settlement and action taken timely on the observations raised by the audit, non-submission of responses to preliminary audit report, no monitoring carried out by controlling ministry, fund that has to be deposited in the government treasury has not been deposited, providing loan by government to various inactive bodies to meet administrative expenses. In entirety, the financial management of the corporate bodies is found to be ineffective. There is no updated records of government's investment in share and loan and there is unfavorable situation for recovery of invested principal and interest on it. Therefore, it is required that fiscal discipline and accountability of the corporate bodies have to be enhanced.

### Settlement of Irregularities

191. **Status of Settlement** - The Financial Procedure Act, 1999 and Financial Procedure Rules have made provision regarding procedures and responsibility for maintaining records of irregularities, settling irregularities and conducting follow up audit. Responsible person and accounts responsible officers are held accountable on financial transaction that was carried out. Based on the above provisions, the position of settlement of irregularities in various government entities is as follows:

The audit observations shall cause a follow up by settling it within 35 days or extended time, if any; preliminary report of irregularities of this year’s totaling of NPR106 billion 412 million of government offices, corporate bodies, committees, and others as depicted in Annexure 9 and 10; was disseminated, irregularities worth NPR 8 billion 976 million (8.43 percent) only was settled within the specified period. Of the settled amount, NPR120.9 million has been recovered.

192. **Settled Irregularities** - The status of this year’s settlement of irregularities and follow up audit is stated below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Previous year irregularities</th>
<th>Increase/ (decrease) due to adjustment</th>
<th>Settlement and follow-up</th>
<th>Irregularities of current year audit</th>
<th>Unsettled cumulative irregularities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Offices</td>
<td>121413.8</td>
<td>1.7</td>
<td>33778.7</td>
<td>88855.9</td>
<td>167492.7</td>
</tr>
<tr>
<td>Corporate bodies, committees</td>
<td>50404.9</td>
<td>-</td>
<td>4586.1</td>
<td>8581.0</td>
<td>54399.8</td>
</tr>
</tbody>
</table>
Of the total amount of irregularities amounting to NPR 162 billion and 820 million of the previous year, NPR 38 billion 364 billion has been settled. and, after topping up this year’s remaining irregularities of NPR 97 billion 447 million, the total unsettled amount of irregularities stands at NPR 222 billion. The details are given in Annexure 9 and 10. The irregularities of NPR101.7 million reported till 2004 is not included in the above mentioned irregularities due to it being transferred to the then Irregularities Settlement Committee.

### Areas for Improvement

193. **Monitoring of Irregularities** - A Committee formed under the chairmanship of the Chief Secretary is active with regard to monitoring and evaluating the settlement of irregularities. The Committee has set a target for limiting current year irregularities and settling previous year’s irregularities and has been monitoring whether those target have been achieved. Due to the activeness of the Committee, action taken on irregularity settlement and follow up audit has improved, however, the desired level of improvement has not been achieved. Currently, the monitoring of settlement of irregularities is based on the amount (figure) of irregularities. Even though the irregularities are being settled, similar nature of events and practices have not been improved. As a result, similar irregularities are being repeated again and again. Due to non-monitoring of principle and policy level opinion raised by the audit, despite the improvement is noticed on the number of irregularities settled, policy level and qualitative improvement have not been achieved.

194. **Legal Action** - Pursuant to Rule 45 of the Financial Procedure Rules, 2007, the competent Authority shall, sanction or spend the government funds with the viewpoint of regularity, economy, efficiency, effectiveness and propriety; as well as carryout internal check of the financial transaction made by him and become confident of its accuracy. Non-compliance with the legal provision has caused the occurrence of irregularities. Therefore, adoption of a preventive measure is essential in such a way that no audit objections are raised instead settling them after irregularities are reported. To that end, amendment should be made in Financial Procedure Act, 1999, so as to impose a higher penalty on the persons contravening the Act, rather than the current provision of imposing fifty rupees as fine, to empower the Auditor General to hold an Accounts Responsible Officer accountable for not imposing fine, and linking irregularity and its settlement with the performance appraisal.

195. **Accounts** - The Constitution of Nepal has mandated the Auditor General to prescribe the accounting formats of offices to be audited. Presently, various entities have developed and used different accounting software. For maintaining consistency and regularity among the entities having same accounting method, a single software should be prepared and approved from this Office. The financial statement of public sector entities which needs to be prepared in line with accounting standards based on cash basis of accounting, as per the decision of GON on September 15, 2009, also needs to be approved from this Office and then be implemented.

196. **Independence of the Auditor General** - Legal arrangement should be made in providing administrative and financial autonomy to Auditor General in line with the Mexico Declaration, 2007, of the International Organization of Supreme Audit Institution (INTOSAI), which states that constitutional and legal provisions should be made regarding the Supreme Audit Institutions, that legal guarantee of tenure should be ensured, that commensurate rights to fulfill the responsibility should be

<table>
<thead>
<tr>
<th>and other entities</th>
<th>Total</th>
<th>1.7</th>
<th>38364.8</th>
<th>97436.9</th>
<th>221892.5</th>
</tr>
</thead>
</table>

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provided, that access to information should be provided, that autonomy of reporting at any time should be given, that independence regarding timing and subject matter of reporting should be provided, that the right to monitor the implementation of its suggestions should be provided and that administrative and financial independency should be ensured.

197. Audit Jurisdiction - In accordance with the Constitution of Nepal, the Auditor General has been entrusted the responsibility of conducting audit of financial transactions of federal, state and local level. This has expanded the scope of audit and has necessitated the conduct of audit in three levels and produce reports accordingly. In order to facilitate the task of auditing and preparing reports, regional level organizational structure has been prepared and a proposal has been submitted to Ministry of Finance on December 22, 2016 for establishing regional offices. Corresponding to it, cooperation is required from all sectors including the Government of Nepal in order to appoint required human resources, make budget available, and formulate operating procedures as needed.
## Details of Audited Amount of the Government Offices

(NPR in thousand)

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Name of Ministry/Entity/Office</th>
<th>Appropriation</th>
<th>Revenue</th>
<th>Deposits</th>
<th>Other Transactions</th>
<th>Audited Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To be Audited</td>
<td>Audited</td>
<td>To be Audited</td>
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| 19 | Ministry of Irrigation | 45 | 75,859 | 2 | 103 | 87 | 25111 | 0 | 0 | 0 | 0 | 0 |
| 20 | Ministry Of Urban Development | 15 | 26,543 | 2 | 4 | 41 | 2949 | 0 | 0 | 0 | 0 | 0 |
| 21 | Ministry of Water Supply and Sanitation | 43 | 130,313 | 0 | 0 | 14 | 218 | 0 | 0 | 0 | 0 | 0 |
| 22 | Ministry Of Information and Communication | 0 | 0 | 0 | 0 | 12 | 3026 | 0 | 0 | 0 | 0 | 0 |
| 23 | Ministry of Federal Affairs and Local Development | 229 | 312,675 | 0 | 0 | 159 | 19334 | 0 | 0 | 0 | 0 | 0 |
| 24 | Ministry of Health and Population | 279 | 1,100,355 | 59 | 31381 | 2 | 329 | 498 | 47953 | 0 | 0 | 11896 |
| 25 | Ministry of Cooperatives & Poverty Alleviation | 7 | 12,440 | 6 | 11526 | 178 | 329 | 13 | 98 | 2 | 329 | 0 |
| Total | 991 | 4969006 | 9 | 2003285 | 505 | 415460 | 5 | 59672 | 1410 | 342525 | 5 | 59672 | 23 | 14201 | 0 | 0 | 2065631 |
| Grand Total | 5302 | 605259299 | 4313 | 600850947 | 3723 | 475540406 | 3220 | 475124901 | 4436 | 27112293 | 3028 | 26821943 | 1357 | 192843633 | 1333 | 192708396 | 1295449189 |
Annexure -2  
(related to para 1.2 of page 1 of the report)  
Details of audit of Corporate Bodies, Committees and other entities  
(NPR in thousand)  

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**Annexure - 3**

(related to para 1.2 of page 1 of the report)

**Corporate Bodies, Committees and other entities that prepare Balance Sheet**

**Audited Figures, irregularities, liabilities and assets**

**(NPR in thousand)**

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*Fifty-fourth Annual Report of the Auditor General, 2017*
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121 Fifty-fourth Annual Report of the Auditor General, 2017
### Corporate Bodies, Committees and other entities that prepare Income and Expenditure Account

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126 **Fifty-fourth Annual Report of the Auditor General, 2017**
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**Fifty-fourth Annual Report of the Auditor General, 2017**

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(NPR in thousand)

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**Annexure -6**
(related to para 1.2 of page 1 of the report)

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Fifty-fourth Annual Report of the Auditor General, 2017
### Classification of irregularities of Government Offices

#### Appropriation, revenue, deposit and other transaction

**F.Y. 2015/16**

(NPR in thousand)

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**Annexure -7**

(related to para 3 of page 2 of the report)
| Ministry of Culture, Tourism and Civil aviation | 174 | 97 | 235945 | 0 | 5 | 592 | 174 | 92 | 235353 | 160336 | 6322 | 15756 | 0 | 22078 | 1891 | 51048 | 52939 |
| Ministry of Land Reform and Management | 758 | 342 | 850278 | 2 | 6 | 111537 | 756 | 336 | 838741 | 336348 | 66408 | 382704 | 0 | 449112 | 3796 | 49485 | 53281 |
| Ministry of Physical Infrastructure and Transport | 2478 | 1043 | 12792952 | 6 | 31 | 22438 | 2472 | 1012 | 12770494 | 650002 | 1408186 | 1016996 | 0 | 2425182 | 5709 | 9689601 | 9695510 |
| Ministry of Women, Children and Social Welfare | 311 | 113 | 314016 | 0 | 4 | 101 | 311 | 109 | 313915 | 2926 | 6107 | 263298 | 0 | 269405 | 5 | 41579 | 41584 |
| Ministry of Youth And Sports | 18 | 9 | 163197 | 0 | 0 | 0 | 18 | 9 | 163197 | 8 | 533 | 108401 | 0 | 108934 | 290 | 53965 | 54255 |
| Ministry of Defense | 396 | 82 | 2403224 | 198 | 15 | 27776 | 198 | 67 | 2375448 | 5379 | 27142 | 28349 | 0 | 55491 | 8558 | 2300602 | 2314578 |
| Ministry of Forest And Soil Conservation | 1048 | 550 | 309414 | 4 | 28 | 6853 | 1044 | 522 | 302561 | 28774 | 60353 | 149466 | 0 | 209819 | 23867 | 40104 | 63968 |
| Ministry of Commerce | 42 | 12 | 8992 | 0 | 0 | 0 | 42 | 12 | 8992 | 785 | 7695 | 363 | 0 | 8058 | 40 | 109 | 149 |
| Ministry of Supply | 31 | 7 | 156595 | 0 | 1 | 119183 | 31 | 7 | 37412 | 91 | 0 | 37321 | 0 | 37321 | 0 | 0 | 0 |
| Ministry of Science, Technology | 53 | 8 | 76739 | 1 | 0 | 0 | 52 | 8 | 76739 | 2752 | 19529 | 54039 | 0 | 73568 | 419 | 419 | 419 |
| Ministry of Population and Environment | 136 | 46 | 409142 | 0 | 4 | 12994 | 136 | 42 | 396148 | 74151 | 57229 | 49811 | 0 | 213107 | 320147 | 1850 | 1850 |
| Ministry of Peace and Reconstruction | 46 | 48 | 313395 | 0 | 0 | 0 | 46 | 48 | 313395 | 50 | 30056 | 279438 | 0 | 309494 | 3851 | 3851 | 3851 |
| Ministry of Education | 1265 | 1322 | 7790880 | 6 | 67 | 26483 | 1259 | 1255 | 7764397 | 105807 | 183653 | 7207679 | 213 | 7391545 | 39922 | 227123 | 267045 |
| Ministry of Labor and Employment | 143 | 76 | 94636 | 0 | 0 | 0 | 143 | 76 | 94636 | 216 | 37001 | 38565 | 0 | 75566 | 2849 | 16005 | 18854 |
| Ministry of General Administration | 7 | 1 | 451 | 0 | 0 | 0 | 7 | 1 | 451 | 0 | 0 | 0 | 0 | 0 | 0 | 451 | 451 |
| Ministry of Irrigation | 1830 | 669 | 3124889 | 15 | 53 | 68190 | 1815 | 616 | 3086699 | 31985 | 685497 | 371920 | 0 | 39435 | 1096852 | 3027 | 1924835 | 1927862 |
| Ministry Of Information and communication | 250 | 112 | 698963 | 2 | 7 | 233 | 248 | 105 | 698730 | 554622 | 53540 | 82613 | 165 | 1244 | 137562 | 950 | 5596 | 6546 |
| Ministry Of Urban Development | 615 | 328 | 1252548 | 0 | 4 | 11430 | 615 | 324 | 1241118 | 40460 | 131840 | 302760 | 0 | 434600 | 3834 | 762224 | 766058 |
| Ministry of Water Supply and Sanitation | 1139 | 417 | 5789615 | 1 | 28 | 1964536 | 1138 | 389 | 3825079 | 174655 | 781278 | 726363 | 646755 | 2154396 | 787 | 1495241 | 1496028 |
| Ministry of Federal Affairs and Local development | 2044 | 2121 | 9534930 | 12 | 100 | 1500159 | 2032 | 2021 | 8034771 | 255179 | 480321 | 3717208 | 3728 | 4201257 | 109128 | 3469207 | 3578335 |
| Ministry of Health and Population | 1631 | 1296 | 1246553 | 7 | 78 | 63445 | 1624 | 1218 | 1183108 | 52295 | 344631 | 260212 | 0 | 604843 | 70207 | 455763 | 525970 |
| Ministry of Cooperatives & Poverty Alleviation | 185 | 87 | 261431 | 0 | 18 | 1818 | 185 | 69 | 256913 | 22505 | 1754 | 4515 | 214870 | 221139 | 1216 | 14753 | 15969 |
| National Planning Commission Secretariat | 51 | 22 | 8559 | 0 | 1 | 2 | 51 | 21 | 8557 | 252 | 5417 | 550 | 0 | 5967 | 1438 | 900 | 2338 |
| total | 20899 | 12200 | 93377477 | 294 | 847 | 4521617 | 20605 | 11354 | 88855860 | 40438872 | 513533 | 18142480 | 1353 | 1123812 | 24403178 | 365736 | 23648074 | 24013810 |
### Classification of irregularities of Corporate bodies, other entities, committees, and District Development Committees of this year

**F.Y. 2015/16**

(NPR in thousand)

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<th>Preliminary Irregularity</th>
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### Annexure -8

(related to para 3 of page 2 of the report)
## Appropriation, revenue, deposit and other transaction Towards Government Offices

### Details of Settlement of Irregularities and Follow-up

(NPR in thousand)

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<th>Request made for Follow up</th>
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<th>Yet to be followed-up</th>
<th>Remaining balance up to Last year</th>
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Transferred to Irregularities Settlement Commission (upto 2004 Report): 101692

Grand Total: 112617205
Towards Corporate bodies, other entities, committees, and District Development Committees
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(NPR in thousand)

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#### F.Y. 2015/16

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### Annexure -11

(related to para 167 of page 99 of the report)
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