The Auditor General
Fifty-Sixth Annual Report
2019

Summary Report

Office of the Auditor General
Kathmandu, Nepal
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
The Article 241 of the Constitution of Nepal mandates the Auditor General to conduct the statutory audit of all government offices of federation, provinces & local levels and Section 10 of Audit Act 2075 (2018) empowers the Auditor General to conduct the statutory audit of wholly government-owned corporate bodies in consideration with regularity, economy, efficiency, effectiveness and propriety thereof. This year, the financial transactions of 6 thousand 644 entities inclusive of the regular fiscal year and audit backlogs of prior fiscal years have been audited. In the course of this audit, prevailing practices of the office, international practices, and auditing standards adopted by International Organization of Supreme Audit Institution (INTOSAI) and Asian Organization of Supreme Audit Institution (ASOSAI) have been complied. The 56th Annual Report has been prepared incorporating the major audit findings. This Summary Report has been prepared by including the significant issues of the Annual Report with an objective to acknowledge the stakeholders by making an independent and impartial analysis on the works performed by the public entities. It is hoped that it will contribute in financial good governance through the impact of audit.

This year, total amount of NRs. 5 trillion 160.92 billion has been audited comprising of the transactions of government entities & local levels, corporate bodies, boards & other institutions and District Coordination Committees. Out of the which, the amount of NRs. 2 trillion 8.84 billion of 4 thousand 841 federal government entities have been audited, in which total irregularity of NRs. 106.34 billion or 5.29 percent identified. Likewise, total amount of NRs. 2.62 billion of 7 provinces have been audited, which has the total irregularity of NRs. 195 million or 7.25 percent and total amount of NRs. 571.51 billion of 747 local levels have been audited, which has the total irregularity of NRs. 24.14 billion or 4.22 percent. Similarly, total amount of NRs. 2 trillion 577.95 billion has been audited pursuant to public enterprises, District Coordination Committees and other institutions. In addition, with respect to the recommendation to appoint auditor, total amount of NRs. 739.80 billion of 30 corporate bodies for 41 fiscal years has been audited. Thus, altogether total of NRs. 5 trillion 900.72 billion has been audited in this year.

In comparison to previous year's outstanding irregularities amount NRs. 290.52 billion, the total of outstanding irregularity has stood NRs. 377.48 billion up to this year after subtracting the amount of this year's adjustment and settlement made amounts, and including this year's irregularities of NRs. 141 billion 50 million. This year, total of NRs. 9.7 billion has been recovered in course of audits and follow-up audits, The total amount that require taking action for settlement has reached to NRs. 683.66 billion up to this year in comparison to corresponding figure of NRs. 500.08 billion up to last year. In course of audits, recommendations have been provided for the improvement of the lacuna & weaknesses witnessed in respect to subject matters - budget discipline, service delivery management, public procurement management, project management, revenue administration, public enterprises operation, province & local level management, and internal control responsibility & accountability. It is believed that implementation of these recommendations will contribute in maintaining the financial discipline in public administration.

This year's audit program was initiated by conducting an interaction and deliberation with Accounts Responsible Officers of federal government in the presence of Rt. Honorable Prime Minister. Accordingly, discussions had been undertaken with the high level dignitaries inclusive of Honorable Chief Justice, Honorable Speaker of House of Representative, and Chairperson of National Assembly. While identifying and resolving problems, I myself visited 15 districts of all 7 states, and conducted discussions and interactions with Honorable Chief of Provinces, Chief Ministers, Speakers, Officials of Provincial Parliament Committees as well as with responsible officials & staffs in the issues relating to policy formulation, budget implementation and audits. In course of the
implementation of fiscal federalism, if the available means & resources are mobilized economically, efficiently and effectively by projecting resources in planned and coordinated manner, the national motto of "Prosperous Nepal & Happy Nepali (Samridha Nepal Sukhi Nepali)" will be materialized. For this, in formulating projects from very beginning of local levels, it is essential to select projects of sustainable nature and manage them properly and control in existing system of making distributive and unproductive expenditure.

I would like to express my sincere gratitude to Rt. Honorable the President for providing the valuable guidance and express gratitude towards all concerned inclusive of Federal Parliament, Provincial Assemblies, Constitutional Bodies, all level of Governments, public enterprises, Audit Advisory Committee, development partners, civil society, media persons, general public for providing suggestions in course of preparation of the report by accomplishing the audits as per of constitutional responsibility. In addition, I would like to extend special thanks to all staffs of my office for their valuable contributions in preparation of this report by timely completion of audit works through their engagements throughout the day and night.

(Tanka Mani Sharma, Dangal)
Auditor General
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1. Background

1. **Legal Provision** – Under the Article 241 of the Constitution of Nepal, the Auditor General (AG) has been mandated to carry out the audits of all government offices of the federation and provinces, local levels and other institutions as specified by laws in accordance with the methods as prescribed in law with due regard to, inter alia, the regularity, economy, efficiency, effectiveness and the propriety thereof; and all Constitutional Bodies are required to submit their annual reports to the President in accordance with the Article 294 of the Constitution. The Audit Act, 2019 stipulates the methodology, scope and the audit matters pertaining to the Federal Provincial and Local Government as well as wholly and substantially owned corporate bodies of Government of Nepal are to be determined by Auditor General. Audits have been carried out in conformity with the legal mandate as conferred by the Constitution and the Audit Act.

2. **Objectives** – The objective of our audit has been to provide appropriate conclusions & recommendations by ensuring the following matter with due consideration to regularity, economy, efficiency, effectiveness and propriety thereof pursuant to acquisition and utilization of public resources, and to give reasonable assurances in the presentation of financial statements:
   - The accounts of Consolidated Funds of all three tiers consisting of federation, provinces and local levels, Contingent Funds of federation and provinces, and other government funds present real picture,
   - Financial statement has been prepared in the prescribed formats and transactions are presented in true and fair manner,
   - Expenditure has been incurred only for the very purpose and specified task within the limit approved for as set by Appropriation Act,
   - All receipts including revenue are properly collected and deposited,
   - Adequate arrangements have been made for maintaining records of government property, its usage and safeguarding,
   - Financial transactions are conducted complying with laws and supporting evidences have been sufficiently maintained,
   - Services have delivered by the public entities as specified,
   - The progress and achievement have been attained as programmed within the specified time frame,
   - Accountability and responsibility have been assumed and economy has been maintained while incurring expenditure,
   - The objective & policy have been clearly identified and works are being performed in conformity,
3. **Scope** - In this year, audits have been carried out to the financial transactions of fiscal year 2017/18 (2074/75) of constitutional bodies, all Government Offices of Federation and Provinces, Local Levels, Corporate Bodies, Committees, Boards, Trust/Funds, Authorities and Universities, and other institutions as prescribed by law, and the audit backlogs of prior fiscal years to the extent the accounts of which submitted. The financial audit as well as the performance, environmental, disaster management & sustainable development, information & technology and special audits have been carried out in conformity with the approved annual audit plan. While assessing to service delivery and other necessary subject matters by the audit, data and information have been obtained up to the audit period.

4. **Methodology** - Audits have been completed in compliance with Audit Act, 2019, Government Auditing Standard, Founding Principles adopted by the International Organization of Supreme Audit Institution (INTOSAI), audit guidelines and good audit practices. The audit methodology also include Performing risk assessment in accordance with audit plan and the use of test of controls & analysis to the issues identified and the application of sampling techniques and detailed examination procedures, as deemed necessary, to collect sufficient and appropriate evidences. The audit process has been depicted in the chart.

5. **Audit Criteria** - In course of the audits, prevalent laws, Rules, Guidelines, procedures, norms, agreement, administrative decisions, decisions of the Parliament and Parliamentary Committees have been taken as the criteria. The auditing standards and guidelines being used in audits are given below:

- Auditor General's Action Plan
- Audit Guide of Project Financial Statements
- Performance Auditing Guide
- Guidelines for the Audit of Public Enterprises
- Audit related Directives and Circulars
- Quality Assurance Handbook
- Financial Audit Manual
- Government Auditing Policy Standards
- Public Procurement Audit Guidelines
- Administrative Expenditures Audit Guide
- Revenue Audit Guidelines
- Local Level Audit Guidelines
- Auditor's Code of Ethics
- Participatory Audit Procedures

6. **Quality Control and Review** - The Office has adopted the international standard of the Quality Management Framework that developed for the Supreme Audit Institutions. This framework includes the arrangements in pursuant to promoting of the auditors' independency, enhancing auditors' professional knowledge & skills continuously by deputing the capable & competent staffs, developing the auditing standards & guidelines, and audit execution & reporting by preparing annual plan. The audit works have been supervised by senior-level officials on every phase of audit, and the monitoring has been carried out in respect to adherence to Code of Ethics and internal control activities. With maximum use of available office resources and maintaining working relationship with the stakeholders, a system of communicating the audit results has been established for the improvement of public financial management.

After the completion of audits, the post quality review of 79 audited files has been undertaken in accordance with Quality Assurance Handbook covering each audited files of all directorates, each audit team and each audit type. Pursuant to 54 audit teams deputed to 49
districts outside Kathmandu Valley, the quality assurance reviews of one preliminary report of each audit team have been undertaken prior to issuance of the audit reports. In addition, the field inspections have been conducted by the high-level supervision teams and the teams consisting of technical persons as and when necessary.

7. **Organizational Management and Budget** - Under the office's approved organization structure, there are 4 Departments namely - Finance & Economic Sector Audit Department, Social Service & Performance Audit Department, Infrastructure Development Audit Department, and Governance Management Audit Department, 14 Divisions and 29 Sector-wise Directorates. The office's approved position, which was 448 previously, has reached to 614 positions with the increment in this year. The increased positions are under process of fulfillment. To make field-based audit effective in upcoming days, the office has plan to carry out audit works through establishing the necessary field offices at province level. This will help to enhance the quality of audit through making the audit works quicker, swifter and effective.

The office has total allocated budget of Rs.491.6 million in fiscal year 2018/19 (2075/76) and only NRs.267.9 million has been spent up to 1 April 2019. As per the expenditure, the percentages of expenses incurred on training and capital expenditure against the office's total allocated budget have stood 0.04 percent and 5.67 percent respectively. When compared the office's expenses till the period of the fiscal year 2018/19 with the corresponding total figure NRs.5 trillion 160.92 billion, which was audited by the office's human resources, the audit cost per One Hundred Thousand Rupees comes to NRs. 5.20 only.

8. **Effect of Audit** - The audit enables to be vigilant through the assessment of lacunae & weaknesses of financial transactions that prevailed in development works and service delivery, and implementation aspect of public policies by highlighting matters with due regard to regularity, economy, efficiency, effectiveness and the propriety thereof. Consequently, it has been contributing in the prevention of mis-spending, misuse, loss & damage and checking leakages of national resources, and has also been contributing in maximization of returns from the use of means & resources. The subject matters highlighted by the office and the misused public monies are being recovered and deposited in the Consolidated Fund. Additional revenues are being generated to state's coffer as a result of the improvement in laws, rules, policies and organizational reforms. The situation of growth in revenue collection has been witnessed after the reviews made in the system of granting the revenue exemption and refund. It has brought economy & efficiency in the public expenditure and effectiveness in the service delivery to people. Hence, the contribution of audit in maintaining the fiscal discipline has become vital.

After the point out of audit observations for recovery of the short collection of revenues, monies kept in various Funds without use, excess payment made and expenses incurred without complying with the prevailing laws, the total amounts of NRs. 2 billion 89.7 million in 2015/16, NRs. 14 billion 91.1 million in 2016/17 and NRs. 9 billion 700.4 million in 2017/18 have been recovered and deposited in the national treasury. The comparative statement related to this has been mentioned below:

<table>
<thead>
<tr>
<th>Report Year</th>
<th>Recoverable Irregularity Amount</th>
<th>Recovered Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fifty-fourth Report, 2017</td>
<td>41,386.70</td>
<td>2,089.70</td>
</tr>
<tr>
<td>Fifty-fifth Report, 2018</td>
<td>18,707.90</td>
<td>14,091.10</td>
</tr>
<tr>
<td>Fifty-sixth Report, 2019</td>
<td>32,035.20</td>
<td>9,700.40</td>
</tr>
</tbody>
</table>
2. Audit, Regularity and Follow-up Audit

1. **Audit** - This year, the office has performed the audits of NRs. 5 trillion 160 billion 920 million of 6 thousand 644 entities. The description of audited entities and subject matters are as follows:

<table>
<thead>
<tr>
<th>Audited Entity and Subject</th>
<th>Number</th>
<th>Amount</th>
<th>Irregularity</th>
<th>Irregularity Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(A) Financial Audit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Federal Government Office</td>
<td>4,841</td>
<td>2,008,840</td>
<td>106,340</td>
<td>5.29</td>
</tr>
<tr>
<td>2. Province Government Office</td>
<td>68</td>
<td>2,620</td>
<td>190</td>
<td>7.25</td>
</tr>
<tr>
<td>3. Local Level</td>
<td>747</td>
<td>571,510</td>
<td>24,140</td>
<td>4.22</td>
</tr>
<tr>
<td>4. Committee &amp; Other Institution (Including District Co-ordination Committee)</td>
<td>861</td>
<td>253,720</td>
<td>10,380</td>
<td>4.09</td>
</tr>
<tr>
<td>5. Corporate Bodies</td>
<td>99</td>
<td>2,324,230</td>
<td>*</td>
<td>-</td>
</tr>
<tr>
<td><strong>(B) Performance, IT and Special Audit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6,644</td>
<td>5,160,920</td>
<td>141,05</td>
<td>-</td>
</tr>
</tbody>
</table>

*The irregularity figure of corporate bodies has not been disclosed as the record of irregularity and follow-up audits works of such bodies are being maintained by the concerned entities themselves.*

1.1 This year, the audits of NRs. 20 trillion 8 billion 840 million inclusive of appropriation, revenue, deposit and other accounts of 4 thousand 841 federal government offices, NRs. 2 billion 620 million of 68 entities under the government offices of seven provinces, and NRs. 571 billion 510 million of 747 local levels inclusive of 6 metropolitans, 11 sub-metropolitans, 276 municipalities and 454 rural municipalities have been completed.

1.2 This year, the audits of NRs. 144 billion 450 million of 76 District Co-ordination Committees, NRs. 109 billion 270 million of 785 Committees and other institutions, and NRs.2 trillion 324 billion 230 million of 99 units under corporate bodies have been completed.

1.3 This year, the audits of NRs. 739 billion 800 million of 30 audit consultation provided institutions have been completed.

1.4 This year, performance audit of 22 topics, information technology (IT) audit of 3 topics, environment audit of one topic, and special audit of 2 topics have been completed.

1.5 Pursuant to the audit backlog of government offices, which appeared NRs. 3 billion 381 million of 2,899 units up to previous year, none of these entities have produced any document for auditing during this year. The audit backlog of the government office has reached to NRs. 3 billion 402 million up to this year with the addition of audit backlog of NRs. 21 million of Ministry of Women, Children, & Social Welfare during this year. Likewise, in case of corporate bodies, the audit backlog up to this year has stood 33 fiscal years of 7 institutions as compared to audit backlog of 43 financial years of 8 institutions up to previous year.

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

Irregularities have been classified into recoverable, to be regularized, evidence/document not submitted, balance not brought forward, reimbursement not received and advance outstanding. The advances have been further classified into staff advance, mobilization advance, Letter of Credit (LC) advance, and institutional advance. This year, the audits have established total irregularity of NRs. 141 billion 50 million as mentioned below with respect to federal and provincial government offices, local levels, corporate bodies,
committees, and other institutions. The figures as per irregularity classification are as given below:

(NRs. in Millions)

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<tr>
<th>Classification</th>
<th>Government Office</th>
<th>Provincial Government Office</th>
<th>Local levels</th>
<th>Committee/ Other Institution and District Coordination Committee</th>
<th>Total</th>
<th>Percent of Total Irregularity</th>
</tr>
</thead>
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<tr>
<td>1. Recoverable</td>
<td>32,035.2</td>
<td>21.1</td>
<td>2,721.6</td>
<td>697.9</td>
<td>35,475.8</td>
<td>25.15</td>
</tr>
<tr>
<td>2. To be regularized</td>
<td>29,254.2</td>
<td>66.3</td>
<td>14,816.0</td>
<td>7,556.8</td>
<td>51,693.3</td>
<td>36.65</td>
</tr>
<tr>
<td>• Irregular (non-compliance)</td>
<td>6,673.8</td>
<td>29.6</td>
<td>6,325.4</td>
<td>2,046.4</td>
<td>15,075.3</td>
<td>10.69</td>
</tr>
<tr>
<td>• Evidences/documents not submitted (Unsubstantiated)</td>
<td>21,525.3</td>
<td>36.7</td>
<td>8,424.4</td>
<td>5,499.1</td>
<td>35,485.5</td>
<td>25.16</td>
</tr>
<tr>
<td>• Balance not brought forward</td>
<td>0</td>
<td>0</td>
<td>41.7</td>
<td>0.5</td>
<td>42.2</td>
<td>0.03</td>
</tr>
<tr>
<td>• Reimbursements not received</td>
<td>1,055.1</td>
<td>0</td>
<td>24.5</td>
<td>10.8</td>
<td>1,090.4</td>
<td>0.77</td>
</tr>
<tr>
<td>3. Advance</td>
<td>45,048.6</td>
<td>107.7</td>
<td>6,604.0</td>
<td>2,121.1</td>
<td>53,881.4</td>
<td>38.20</td>
</tr>
<tr>
<td>• Staff Advance</td>
<td>267.0</td>
<td>2</td>
<td>2,316.4</td>
<td>24.9</td>
<td>2,608.5</td>
<td>1.85</td>
</tr>
<tr>
<td>• Mobilization Advance</td>
<td>26,369.9</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>26,369.9</td>
<td>18.70</td>
</tr>
<tr>
<td>• Letter of Credit (LC) Advance</td>
<td>8,745.1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>8,745.1</td>
<td>6.20</td>
</tr>
<tr>
<td>• Institutional Advance</td>
<td>9,666.6</td>
<td>107.5</td>
<td>4,287.6</td>
<td>2,096.2</td>
<td>16,157.9</td>
<td>11.45</td>
</tr>
<tr>
<td>Total irregularity</td>
<td>106,338.0</td>
<td>195.1</td>
<td>24,141.6</td>
<td>10,375.8</td>
<td>141,050.5</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Note: The irregularity figure of corporate bodies has not been disclosed in the above figures as the record of irregularity and follow-up audits works of such bodies are being maintained by the concerned entities themselves.

3. Cumulative Irregularity - The cumulative irregularity to be settled by the federal government offices, state government offices, local levels, district coordination committees, other committees & institutions has reached to NRs. 377 billion 480 million up to this year. This amount has increased by 29.93 percent as compared to the amount of last year.

(NRs. in Millions)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>Up to last year</th>
<th>This year's plus/ minus</th>
<th>Cumulative Irregularity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Federal Government Office</td>
<td>2,13,66,79</td>
<td>72,33,33</td>
<td>1,03,33,92</td>
<td>1,82,66,20</td>
</tr>
<tr>
<td>2.</td>
<td>Province Government Office</td>
<td>0</td>
<td>19,51</td>
<td>10.77</td>
<td>8,74</td>
</tr>
<tr>
<td>3.</td>
<td>Local Level</td>
<td>14,24,60</td>
<td>21,74,65</td>
<td>6,60,40</td>
<td>29,38,85</td>
</tr>
<tr>
<td>4.</td>
<td>District Coordination Committee,</td>
<td>62,61,28</td>
<td>(732,51)</td>
<td>-</td>
<td>55,28,77</td>
</tr>
<tr>
<td>Other Institution &amp; Committee</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,90,52,67</td>
<td>86,94,98</td>
<td>1,10,05,09</td>
<td>2,67,42,56</td>
</tr>
</tbody>
</table>

4. The cumulative amount of action to be taken - The cumulative amount to be settled by federal government offices, Province government offices, local levels, district coordination committees, other committees & institutions by taking timely actions with respect to past irregularity and audit backlogs, revenue arrears, reimbursable foreign grants & loans, has reached to NRs. 306 billion 180 million in this year. The amount has increased by 46.11 percent as compared to the last year’s figure.

(NRs. in Millions)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>Up to last year</th>
<th>This year's plus/ minus</th>
<th>Up to this year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Audit Backlogs</td>
<td>3,380.7</td>
<td>21.4</td>
<td>3,402.1</td>
</tr>
<tr>
<td>2.</td>
<td>Revenue Arrears</td>
<td>161,161.5</td>
<td>90,968.6</td>
<td>252,130.1</td>
</tr>
<tr>
<td>3.</td>
<td>Foreign Grants to be reimbursed</td>
<td>20,581.4</td>
<td>181.2</td>
<td>20,762.6</td>
</tr>
<tr>
<td>4.</td>
<td>Foreign Loans to be reimbursed</td>
<td>22,378.1</td>
<td>5,457.9</td>
<td>27,836.0</td>
</tr>
<tr>
<td>5.</td>
<td>Overdue Principal and Interest of Guaranteed loans</td>
<td>2,050.0</td>
<td>0</td>
<td>2,050.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>209,551.7</td>
<td>96,629.1</td>
<td>306,180.8</td>
</tr>
</tbody>
</table>

After addition of the cumulative outstanding irregularity NRs. 377 billion 480 million on the above amount, the cumulative amount of action to be taken becomes NRs. 683 billion 660 million. This amount was NRs. 500 billion 80 million in previous year. The cumulative amount of action to be taken has increased by 36.71 percent in this year as compared to the corresponding amount of the last year.

5. Comparative Irregularity Status - The comparative status of audited figure and irregularity figure of the federal government offices of last 3 years are as follows:
The irregularity figure as compared to audited figure is 5.29 percent in this year, against the 5.41 percent in previous year.

6. Clearance of Irregularity - The status of this year's irregularity clearance and settlement through follow-up audits are as follows:

<table>
<thead>
<tr>
<th>Entity/Particulars</th>
<th>Federal Government Office</th>
<th>Corporate Bodies, Committee Other Institutions</th>
<th>Provincial Government Office</th>
<th>Local Level</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Year's Irregularity</td>
<td>213,667.9</td>
<td>62,612.8</td>
<td></td>
<td>0</td>
<td>14,246.0</td>
</tr>
<tr>
<td>Adjustment Plus (Minus)</td>
<td>12,476.2</td>
<td>(11,931.1)</td>
<td></td>
<td>0</td>
<td>1.0</td>
</tr>
<tr>
<td>Cleared/Settled</td>
<td>46,680.8</td>
<td>5,769.8</td>
<td></td>
<td>0</td>
<td>2,396.2</td>
</tr>
<tr>
<td>Balance</td>
<td>1,799,663.3</td>
<td>44,911.9</td>
<td></td>
<td>0</td>
<td>11,849.8</td>
</tr>
<tr>
<td>Current Year's Audit Irregularity</td>
<td>106,338.0</td>
<td>10,375.8</td>
<td>195.1</td>
<td>24,141.6</td>
<td>141,050.4</td>
</tr>
<tr>
<td>Cumulative Outstanding Irregularity</td>
<td>286,001.3</td>
<td>55,287.7</td>
<td>195.1</td>
<td>35,991.4</td>
<td>377,476.5</td>
</tr>
</tbody>
</table>

Of the this year's the federal government offices' total irregularities cleared/settled amount NRs. 46 billion 480.8 million, total amount of irregularity settled through follow-up audits by the ministries - Water Supply, Urban Development, Irrigation, and Physical Infrastructure & Transportation has been NRs. 15 billion 928.7 million. Of the irregularity settled through follow-up audit, the mobilization advances settled is NRs. 9 billion 307.4 million, which is 58.43 percent. Such advances are automatically cleared while making payments of interim bills of the civil works. Except such type of irregularities, the concerned entities have not given adequate attention in settlement of other types of irregularities.

Out of the irregularity records as of 2002/2003, which was handed over to the Kumari Chowk and Kendriya Tahasil Karyalaya (Central Recovery Office) as per the decision of Council of Ministers made no 2012/09/27 (2069/6/11), NRs. 101.5 million has been settled in this year.
3. Glimpses of Some Audit Observations

1. Public Accountability from the Prospective of Auditor General

**Budget Discipline**
- Expenses incurred by keeping lump sum budget in miscellaneous head.
- All foreign aid were not included in budget and not submitted for audit.
- Disbursements and expenses incurred varying sources.
- Disbursement & expenses made at the year-end to increase the shape of expenditure.
- Liability created by making multi-year contracts without prior approval.
- Foreign aid mobilized through non-governmental organization and transparency not maintained.
- Capital expenditure could not be made as per expectation.
- Weak monitoring of grants provided.

**Service Delivery Management**
- Delivery of services affected due to non-fulfilment of approved positions.
- Unutilization of equipment/ physical infrastructure of the government.
- Public health affected due to environmental pollution.
- Token system not introduced, services to be received from agent.
- Long time to be waited to get the access to health services.
- Ineffective Public hearings and grievances management.
- Services not delivered through the use of ICT.
- Service charges not determined analysing time and cost.
- Quality of food items & medicines not satisfactory.

**Public Procurement Management**
- Delay in procurement.
- Lack of timely completion of contract time and time extension granted frequently.
- Pre-determined liquidated damage not recovered.
- Complex & technical works undertaken through user group.
- E-procurement system not fully implemented.
- Works remained incomplete due to awarding more works than the capacity of contractor.
- Design/cost estimate found un realistic.
- Ineligible price adjustment provided.
- Quality of construction & procurement works found poor.

**Revenue Administration**
- Tax-base not protected & tax-net not expanded.
- Less tax collected due to non presentation of real transaction.
- Low productivity of industries and weak tax compliance.
- Taxpayer not submitting returns and VAT credit amounts found high.
- Less customs duty collected due to use of different classification.
- No control in under invoicing in customs office and market.
- Revenue arrears increasing and arrears account in not true and fair.
- Weak quality of monitoring & assessment by tax administration.
- Business loans used for other than specified purposes.

**Internal Control, Responsibility & Accountability**
- Action not taken despite audit not completed & irregularity not cleared.
- Work performance agreement not effectively implemented.
- Recovery/settlement not made taking action to irregularities.
- Safeguarding and utilization of assets not effective.
- Internal audit found not effective.
- All transactions are not incorporated by consolidated account and Treasury Single Account (TSA).
- Nepal Financial Reporting Standard (NFRS) not implemented.
- Computer based accounting system not implemented.
- Huge amounts kept in Funds without using as per objective.
- Control monitoring & inspection works found weak.

**Province and Local Level Management**
- No uniformity in facilities of province and local level officials.
- More dependency on federal grants.
- Lack of sustainability due to preparation of unproductive & distribution-oriented programs.
- Lack of human resources, capacity, laws, directives etc.
- No clear standards of revenue collection, revenue not collected by states.
- More administrative expenses incurred as compared to internal income of local levels.
- No coordination in plan preparation and implementation.
- Integrated report not prepared as income-expenditure report not submitted by provinces and local levels to the federation.

**Operations of PEs**
- Additional investment made without business plan.
- Huge amount kept in reserve funds but not mobilized.
- Accounts of share and loan is not realistic.
- Majority of PEs have not paid principal & interest to the government.
- No control in unproductive expenses, minimum returns on investment.
- Non-operation of privatized PEs as per agreement.
- Audits is not completed timely manner & replies to audit reports not given.
- Safeguard and management of assets not done by PEs.

**Project Management**
- Projects launched without pre-preparation.
- Projects are not prioritized and Operational in piecemeal basis.
- No budget allocation made in handed over projects.
- No coordination in operation of project and progresses not achieved as per targets set.
- Non-operation of national pride projects in a planned way.
- Minimum utilization of funds of foreign aid.
- Time & cost overruns in the Project.
- No decrease in the dependency on consultancy.
Economic Indicators and Income-Expenditure

2. **Overall Economic Situation** - The matters observed from the analysis of the country’s existing economic indicators, economic growth rate, status of government expenditure, mobilization of foreign aid, price inflation, import-export and balance of payment and the change in gross domestic product (GDP) are as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Target as per Fourteenth Plan</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth Rate</td>
<td>7.20</td>
<td>0.77</td>
<td>6.94</td>
<td>6.30</td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>7.50</td>
<td>9.90</td>
<td>5.10</td>
<td>4.20</td>
</tr>
<tr>
<td>Total Revenue/Gross Domestic Product (GDP)</td>
<td>19.57</td>
<td>20.50</td>
<td>22.30</td>
<td>24.68</td>
</tr>
<tr>
<td>Total Government Expenditure/GDP</td>
<td>32.12</td>
<td>31.20</td>
<td>31.59</td>
<td>36.01</td>
</tr>
<tr>
<td>Recurrent Expenditure/GDP</td>
<td>22.00</td>
<td>19.30</td>
<td>23.67</td>
<td>24.57</td>
</tr>
<tr>
<td>Capital Expenditure / GDP</td>
<td>10.12</td>
<td>7.10</td>
<td>7.92</td>
<td>7.80</td>
</tr>
<tr>
<td>Foreign Grant / GDP</td>
<td>3.76</td>
<td>3.00</td>
<td>1.52</td>
<td>1.41</td>
</tr>
<tr>
<td>Foreign Loan / GDP</td>
<td>6.85</td>
<td>2.60</td>
<td>1.48</td>
<td>2.80</td>
</tr>
<tr>
<td>Domestic Loan/ GDP</td>
<td>2.28</td>
<td>3.90</td>
<td>3.36</td>
<td>4.72</td>
</tr>
<tr>
<td>Trade Deficit/ GDP</td>
<td>(32)</td>
<td>(31.8)</td>
<td>(34.40)</td>
<td>(36.96)</td>
</tr>
<tr>
<td>Total Consumption/ GDP</td>
<td>93</td>
<td>94.70</td>
<td>89.70</td>
<td>84.99</td>
</tr>
<tr>
<td>Export/ GDP</td>
<td>3.50</td>
<td>3.30</td>
<td>3.00</td>
<td>2.70</td>
</tr>
<tr>
<td>Import / GDP</td>
<td>35.51</td>
<td>35.10</td>
<td>37.40</td>
<td>41.33</td>
</tr>
<tr>
<td>Budget Deficit/ GDP</td>
<td>7</td>
<td>7.60</td>
<td>6.50</td>
<td>8.94</td>
</tr>
</tbody>
</table>


2.1. It has been observed that the inflation rate and the revenue growth are witnessed in accordance to target set, but the economic growth rate of the fourteenth plan is found 6.30 percent in this year as against the target set for achieving economic growth rate of 7.2 percent. As against the target of maintaining the recurrent expenditure and capital expenditure 22 percent and 10.22 percent of GDP, the ratios of recurrent expenditure and capital expenditure have remained 24.57 percent and 7.80 percent respectively due to failure to control on recurrent expenditure and growth in the capital expenditure. It is because of failure to mobilize foreign grants and loans as per expectation, the ratio of foreign grant and loan in comparison to GDP is only 1.41 percent and 2.80 percent respectively as against the expected target of 3.76 percent and 6.85 percent respectively. Against the target fixed to maintain the overall budget deficit within 7 percent of GDP, it remained 8.94 percent.

2.2. Growing imports and declining exports have caused the growth in ratio of trade deficit against the GDP and the ratio has reached to 36.96 percent in this year, which has also affected in the balance of payment. Controlling the use of luxurious goods is one of the means for the reduction the trade deficit of the country. So, it is essential to reduce the trade deficit through making reviews of the existing tax rates applicable to luxurious goods.

2.3. Keeping in view of the status of un-favorable condition of some indicators of overall economy, it has become essential to take a coordinated effort from the government and private sector for making the import control, export promotion, government expenditure management, consumption, saving & investment expansion.

3. **Income-Expenditure Situation** - The status of income-expenditure of the Government of Nepal of previous four years are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>Estimate</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>413.93</td>
<td>498.91</td>
<td>615.47</td>
<td>745.05</td>
<td>782.39</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>355.95</td>
<td>421.09</td>
<td>553.80</td>
<td>666.20</td>
<td>659.49</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
<td>49.91</td>
<td>60.86</td>
<td>55.31</td>
<td>63.85</td>
<td>67.23</td>
</tr>
<tr>
<td>Principal Repayment</td>
<td>2.08</td>
<td>13.70</td>
<td>2.94</td>
<td>15.00</td>
<td>55.67</td>
</tr>
<tr>
<td>Others</td>
<td>5.99</td>
<td>3.26</td>
<td>3.42</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Foreign Grants</td>
<td>38.27</td>
<td>39.54</td>
<td>40.82</td>
<td>72.17</td>
<td>39.32</td>
</tr>
<tr>
<td>Foreign Loans</td>
<td>25.62</td>
<td>33.23</td>
<td>59.02</td>
<td>214.04</td>
<td>89.60</td>
</tr>
<tr>
<td>Domestic Loans</td>
<td>42.42</td>
<td>87.59</td>
<td>87.53</td>
<td>145.00</td>
<td>14.47</td>
</tr>
<tr>
<td>Total Income</td>
<td>520.24</td>
<td>659.27</td>
<td>802.84</td>
<td>1,176.26</td>
<td>925.78</td>
</tr>
<tr>
<td>Recurrent Expenditure</td>
<td>339.41</td>
<td>371.29</td>
<td>518.62</td>
<td>803.53</td>
<td>696.92</td>
</tr>
</tbody>
</table>
Though the Financial Comptroller General Office has shown NRs. 28 billion 290 million as other amounts received, the amount has not been shown in income-expenditure statement. As a result, the actual status of accounts cannot be ascertained.

Of the total expenditure, the share of recurrent expenditure, capital expenditure and financing expenditure has remained 64, 25 and 11 percent respectively, which have been also shown in graph picture. The recurrent expenditure has occupied big chuck of government expenditure. In comparison to fiscal year 2014/15, the revenue has increased by 89 percent and recurrent expenditure by 105 percent in fiscal year 2017/18.

4. Government Expenditure - The government has been collecting revenues every year almost par to or more than the revenue estimated, but the actual expenditure has remained only 73 to 86 percent as compared to budget estimate, which exhibits a weak capacity to mobilize the government means & resources. It has become essential to enhance the capacity of budget estimation. The status of the government revenue and expenditure of last four years is given below:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Budget Appropriation</th>
<th>Capital Expenditure</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimate</td>
<td>Actual</td>
<td>%</td>
</tr>
<tr>
<td>2014/15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015/16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016/17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017/18</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Due to the use of Government Finance Statistics (GFS) Codes issued by International Monetary Fund (IMF), some of expenditures of capital nature provided through grant, which related to public works have been included in recurrent expenditure and financing expenditure. As such, the above mentioned figures of recurrent, capital and financing expenditure do not exhibit the actual status for the purpose of making analysis.

5. Expenditure Head-wise Analysis - The main head-wise expenditure and the observations found in course of the analysis are as follows:

<table>
<thead>
<tr>
<th>Name of Expenditure heading</th>
<th>Actual Expenditure of 2015/16</th>
<th>Actual Expenditure of 2016/17</th>
<th>Annual Estimate</th>
<th>Expenditure</th>
<th>Expenditure percent in comparison to annual estimate</th>
<th>Heading wise expenditure percent</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent Expenditure</td>
<td>371,294.9</td>
<td>518,616.1</td>
<td>483,444.0</td>
<td>413,137.8</td>
<td>85.46</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Remuneration Service</td>
<td>89,268.2</td>
<td>118,835.4</td>
<td>130,529.1</td>
<td>111,483.8</td>
<td>85.41</td>
<td>26.98</td>
<td></td>
</tr>
<tr>
<td>Retirement Facilities</td>
<td>35,762.4</td>
<td>47,622.8</td>
<td>62,466.5</td>
<td>53,767.0</td>
<td>86.16</td>
<td>13.02</td>
<td></td>
</tr>
<tr>
<td>Program related Exps</td>
<td>19,771.3</td>
<td>24,660.2</td>
<td>37,247.7</td>
<td>22,552.2</td>
<td>66.55</td>
<td>3.46</td>
<td></td>
</tr>
<tr>
<td>Foreign loan Interest</td>
<td>18,614.7</td>
<td>3,263.5</td>
<td>4,555.4</td>
<td>3,860.4</td>
<td>84.74</td>
<td>0.93</td>
<td></td>
</tr>
<tr>
<td>Domestic loan Interest</td>
<td>50,335.0</td>
<td>6,760.2</td>
<td>26,244.6</td>
<td>12,369.9</td>
<td>47.20</td>
<td>3.00</td>
<td></td>
</tr>
<tr>
<td>Grants to Local levels</td>
<td>33,858.4</td>
<td>54,736.9</td>
<td>9,045.8</td>
<td>8,905.0</td>
<td>98.45</td>
<td>2.16</td>
<td></td>
</tr>
<tr>
<td>Social Service Grants</td>
<td>185.2</td>
<td>189,011.1</td>
<td>174,800.4</td>
<td>159,182.8</td>
<td>91.13</td>
<td>38.53</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>19,019.2</td>
<td>37,616.1</td>
<td>38,275.2</td>
<td>40,999.7</td>
<td>105.85</td>
<td>9.92</td>
<td></td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>123,251.4</td>
<td>208,748.3</td>
<td>216,268.5</td>
<td>193,831.6</td>
<td>89.63</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>2,199.7</td>
<td>6,713.4</td>
<td>3,885.4</td>
<td>6,614.5</td>
<td>170.24</td>
<td>3.41</td>
<td></td>
</tr>
<tr>
<td>Machinery Tools</td>
<td>3,197.3</td>
<td>3,704.3</td>
<td>11,780.6</td>
<td>9,743.4</td>
<td>82.71</td>
<td>5.03</td>
<td></td>
</tr>
<tr>
<td>Civil Works</td>
<td>88,668.4</td>
<td>151,455.2</td>
<td>200,622.1</td>
<td>177,437.7</td>
<td>88.47</td>
<td>91.56</td>
<td></td>
</tr>
<tr>
<td>Financing Arrangement</td>
<td>106,467.0</td>
<td>109,883.3</td>
<td>140,287.4</td>
<td>117,041.8</td>
<td>83.43</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Loan Investment</td>
<td>24,816.6</td>
<td>29,000.9</td>
<td>34,762.9</td>
<td>16,597.9</td>
<td>47.75</td>
<td>14.18</td>
<td></td>
</tr>
<tr>
<td>Share Investment</td>
<td>12,700.8</td>
<td>19,617.8</td>
<td>55,355.5</td>
<td>44,777.0</td>
<td>80.89</td>
<td>38.26</td>
<td></td>
</tr>
<tr>
<td>Foreign loan principal repayment</td>
<td>18,614.7</td>
<td>22,703.2</td>
<td>30,121.1</td>
<td>18,589.2</td>
<td>61.71</td>
<td>15.88</td>
<td></td>
</tr>
<tr>
<td>Domestic loan principal repayment</td>
<td>50,334.9</td>
<td>38,561.4</td>
<td>20,047.9</td>
<td>37,804.6</td>
<td>184.98</td>
<td>31.68</td>
<td></td>
</tr>
</tbody>
</table>
5.1. The major portion of the government budget has been spent in employee's salary, allowance, and retirement benefits. The portion of such expenses represents 40 percent of the total recurrent expenditure of this year. Since such expenses have also been borne from the recurrent grants that provided to local levels & other entities, committees and boards, the actual share of employee's remuneration and retirement benefits on total expenditure will rise furthermore.

5.2. While analyzing budget on the basis of expenditure head-wise, it is witnessed that the highest amount has been expended in public service and economic affairs sector, which represents 37 percent and 36 percent respectively. The expenditure on education and health sector becomes only 4 percent and 3 percent respectively.

Since integrated record of the grants provided to local levels has not been maintained, the status of cumulative expenditure of the education and health sector cannot be ascertained.

5.3. Although NRs. 3 billion 885.4 million is appropriated for the purchase of vehicles, total of NRs. 6 billion 614.5 million (170 percent more than initial appropriation) has been spent by allocating additional budgets through virement. In addition, if the expenditure of NRs.431.2 million that spent for the purchase of vehicles by collecting the contingency amount by the department and including the amounts in construction contracts is taken into account, the total expenditure becomes NRs. 7 billion 45.7 million. Moreover, the local levels have also incurred NRs. 1 billion 194 million for the purchase of vehicles. Such unproductive expenditure should be controlled.

5.4. As against this year’s appropriation of NRs. 20 billion 50 million for the repayment of principal of domestic loans, NRs. 37 billion 80 million (184.94 percent) has been spent. While analyzing the financing expenditure of previous years, it is found that the expenditures incurred for the repayment of domestic loans appeared NRs. 47 billion in 2014/15, NRs. 50 billion in 2015/16 and NRs. 39 billion in 2016/17. During this year, the expenditure of NRs. 37 billion has been made agiants the allocated budget of NRs. 20 billion. Since the budget for the principal and interest repayment of foreign and domestic loans has not appropriated in accordance requirements of the amortization table of loans, such expenditure has been incurred at the end of fiscal year either below or in excess of budget allocations just to maintain a balance between the budget allocation and expenditure, which is not in conformity with budget principle.

5.5. As compared to this year's appropriation of NRs. 34 billion 760 million for the loan investment, only NRs. 16 billion 600 million (48 percent) has been invested. Likewise, in comparison to the appropriation of NRs. 30 billion 120 million for the repayment of principal of foreign loans, only NRs. 18 billion 590 million (62 percent) has been spent. As compared to this year's appropriation of NRs. 26 billion 240 million for the repayment of interest of domestic loans, only NRs. 12 billion 390 million (47 percent) has been spent. Since the budgets has been allocated without considering the requirement, previous expenditure made and the amortization table of loans, such less expenditure has been witnessed.

6. **Implementation of Monetary Policy** - Some major audit observations related to liquidity management of implementation of this year's monetary policy are as follows:
6.1. The situation of high or low liquidity in market makes the interest rates unstable. In the event of low rate of growth in bank deposits as compared to the growth in demand of loans, the banks cannot provide loans as per demands. For this, the interest rates being provided to depositors need to be increased to attract the more deposits. After the increment in interest rate of deposits, the interest rates being charged in loans also need to be increased subsequently, which in turn weakens the competitiveness capacity of Nepalese products in international market due to increase in cost of production or business. As compared to fiscal year 2015/16, the total deposits of 2016/17 has increased by 12.6 percent and total loans by 18.1 percent, whilst the total deposits of 2017/18 has increased by 19.4 percent and total loans by 22.0 percent. As per sector-wise loan flows of 2017/18, it is observed that the agricultural loan has increased by 14.3 percent, but it has increased by 50.8 percent or 3.5 times. The loan expansion rates of most of other sectors have been found more higher than that of the growth rates of deposits.

In the event of high growth rate of demand for loans in comparison to supply of deposits, the interest rate will rise obviously. To stabilize fiscal system from high or low level of liquidity in market, the main objective of open market regime is that Nepal Rastra Bank needs to outflow necessary liquidity when market liquidity is low and absorb liquidity when the market liquidity is high. Since the liquidity management is not only a challenge for monetary policy but also for the operations of overall fiscal policy, the policy relating to liquidity absorbing and outflow needs to be formulated giving attention to this matter.

6.2. After the implementation of Interest Rate Corridor System by Nepal Rastra Bank since 2016/17, the gap between maximum and minimum Repo Rate has shrunk since 2017/18 onwards. Though the compulsory cash ratio and legitimate liquidity ratio have fallen after the implementation of monetary policy, it has not brought any improvement in difference between the weighted average interest rate of the loans and deposits offered by the commercial banks as expected. Such difference has been found 5.98 percent at the end of mid-July of 2018. But, it is not justifiable to keep the weighted average of the interest rates being offered to depositors by the banks more than 5.98 percent than the interest rates being offered by the banks to business-persons. For resolving such situation, the Nepal Rastra Bank and Ministry of Finance should work jointly to coordinate in effective monitoring of financial institutions.

7. **Import Export Situation** - As per the statement submitted by Trade and Export Promotion Center, Nepal's import export situation of the last 3 years are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Export</th>
<th>Import</th>
<th>Total Trade</th>
<th>Trade Deficit</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>71.14</td>
<td>781.15</td>
<td>852.29</td>
<td>710.01</td>
<td>1:11</td>
</tr>
<tr>
<td>2016/17</td>
<td>74.12</td>
<td>985.95</td>
<td>1059.07</td>
<td>913.05</td>
<td>1:13.5</td>
</tr>
<tr>
<td>2017/18</td>
<td>81.33</td>
<td>1245.19</td>
<td>1326.52</td>
<td>1163.86</td>
<td>1:15.3</td>
</tr>
</tbody>
</table>

As per the table, the export has increased by 9.72 percent in 2017/18 as compared to the 4.19 percent increase in 2016/17. Similarly, the import has increased by 26.30 percent in 2017/18 as compared to 26.22 percent increase in 2016/17. The Import Export Ratio of the subsequent 3 fiscal years has remained 1:11, 1:13.5 and 1:15.3 in fiscal years 2015/16, 2016/17 and 2017/18 respectively, which shows a high rate of import growth. Despite of 11.23 percent rise in export in fiscal year 2017/18, the minimal share of export in total trade indicates no effect of export growth. Likewise, the trade deficit, which appeared NRs. 710 billion 10 million in 2015/16, has reached to NRs. 1 trillion 163 billion 860 million in 2017/18. The trade deficit has increased by 63.92 percent during the last 2 fiscal years.

- **Accuracy of Government Accounts**

8. **Consolidated Fund** - Significant observations related to the consolidated fund are as follows:

8.1. The government accounts are maintained as per cash basis, but the annual closing balance of consolidated fund has been shown as negative. The closing negative balance of the fund up to this year has remained NRs. 123 billion 64.5 million. The amount NRs. 28 billion 288 million
which the Financial Comptroller General office had shown as other receipts on 2018/07/16, has been transferred from Reconstruction Fund Account to Consolidated Fund Account only on 2018/11/12 (2075/7/26). Since the amount has not been timely transferred, the closing balance of consolidated fund has appeared as a negative by NRs. 151 billion as of 2018/07/16. It is stated that the negative balance amount has been borne from the balances of central grants accounts and loan accounts that existed in Nepal Rastra Bank and the commercial banks that operating government transactions in the name of Government of Nepal, special loan and grant accounts that opened in the names of projects, deposit accounts, and Value Added Tax (VAT) and Customs Fund accounts. However, the reconciliation statement exhibiting the amounts borne in accordance with accounts has not been submitted.

8.2. As per the Statement of Consolidated Fund submitted by the Financial Comptroller General Office, a total income of NRs. 42 billion 435.8 million has been shown as foreign grants received including cash, reimbursable, direct payment and commodity grants. However, Nepal Rastra Bank has mentioned the receipt of NRs. 28 billion 431.7 million foreign grants. Hence, the difference of grants received amount NRs. 14 billion 4.1 million has been observed in between the accounts of Consolidated Fund and Nepal Rastra Bank, and the amounts should be verified and reconciled.

8.3. The construction work of Kathmandu-Ring-road Extension Project has been completed as per agreement entered with a donor country at the cost of NRs. 5 billion 90 million (at per exchange rate of 2018 July 16) with the condition of handing over after completion of construction works, and the construction works of buildings of Bir Hospital and Paropakar Maternity Hospital have been undertaken as per the agreement amount NRs. 2 billion 39.1 million (equivalent to Japanese Yen 2 billion 39.1 million). However, the expenditure of these projects have not been included in the Consolidated Fund Account. Necessary statements are to be obtained, and the account of consolidated fund should be made realistic by including such expenditures.

The consolidated fund account should be prepared by including all expenditure incurred within a fiscal year. The District Treasury and Controller Offices have disbursed amounts to local bodies as conditional grants for running programs relating to the social security allowance, agriculture, animal husbandry, education etc. programs and of these amounts, NRs. 1 billion 390 million has remained as a balance without utilizing within the fiscal year. In such a situation, the consolidated fund account has been prepared on the basis of disbursed amounts treating all such amounts as expenditure, and as such, the fund account does not represent a true position of the treasury.

**Revenue Exemption and Arrears**

9. **Revenue Exemption** - The Section 19 of Finance Act, 2074 provisions to give revenue exemption to various types of goods, industries, business-persons, institutions and projects. Pursuant to observations related to revenue exemption being pointed out in annual report, some reformatory steps have been initiated by reviewing the provisions of Value Added Tax (VAT) exemption in this year's Finance Act. Major observations related to this are as follows:

9.1. There has been a good international practice of governments to present the description of revenue exemptions along with the budget speech as an integral part of Income-Expenditure Statement. However, the exemptions of customs, value added tax and excise duty have been included in the revenue exemptions description, the head-wise records of lesser revenue collected due to such exemption have not been prepared. As per information collected from Asycuda of Department of Customs and statistics of Department of Inland Revenues, it is observed that a total revenue exemption of NRs 41 billion 240 million was provided during this year. Hence, such exemption statement should be submitted to federal parliament along with budget speech, and reforms initiative in revenue exemption should be continued by discouraging the exemptions being provided through provision in Notes of Finance Act and adhoc decision. In addition, this matter should be made transparent by maintaining systematic record of revenue exemptions.
9.2. In light of one-third of GDP occupied by the agriculture sector, subsidies of NRs. 8 billion 760 million have been distributed to the farmers for the purpose providing chemical fertilizers & others through the Ministry of Agricultural Development to support in their agriculture production. In the situation of the availability of such subsidies to improve the self-sufficiency, the revenue exemption related to custom duty of NRs. 2 billion 430 million has also been granted in imports materials relating to agriculture and livestock production. Despite of the availability of subsidies to promote the growth in domestic agricultural production, the revenue exemption has also been granted simultaneously on the import of agriculture and livestock based raw materials. There has been no study conducted to assess the effect of such revenue exemptions on domestic production.

9.3. In project agreement being implemented under foreign-aid, there has been provision to give the exemption in customs duty, taxes, fees etc. on the import of construction materials as per decision of Government of Nepal, and on that basis, total revenue exemption of NRs. 677.8 million has been granted during this year. However, the record of the amounts of revenue exemption applicable to materials imported under such facility has not been maintained, and such revenue exempted amounts have also not been included in the cost and investment of projects. There has been no monitoring carried out with respect to materials imported under such revenue exemption are only utilized in the concerned projects.

9.4. In the projects run under foreign-aid, there has been the provision in agreements to import vehicles & equipment only keeping the records of imports. This year, total revenue exemption of NRs. 155.6 million has been granted on such imports. Though such vehicles & equipment are required to be either taken back or the applicable customs duty are to be paid after accomplishment of the purposes, but the record of such imports has not been maintained by Department of Customs, and the concerned office or projects. As a result, there exists a situation that the goods imported under revenue exemption have been used even after the elapses of specified period.

10. Import of Sugar and Revenue Exemption - Twelve sugar industries are operating in Nepal. Almost all are incurring losses. There has been provision that the government shall fix prices of sugarcane, give subsidies to farmers on the basis of sale of sugarcane and fix selling price of sugar, and the industries are required to sell sugar on the basis of the fixed price. Significant observations relating to this are as follows:

10.1. The import of sugar increased in fiscal year 2017/18 due to decline of sugar price in the international market. An agreement reached between the industrialists and Ministry of Finance on 2017/12/26 (2074/09/11) for raising import duty on sugar to protect the sugar industries operating within the country. However, the custom duty on imported sugar has been increased from 15 percent to 30 percent only on 2018/04/17 (2075/01/04) without making any immediate formal decision on the agreed subject. The import of sugar has increased immensely during the gap period. As a result, total of 234 thousand metric tons of sugar has been imported during this year, which is 3.3 times more as compared to import of 71 thousand metric tons in the previous year. As per the statistical data, the total annual consumption of sugar of the country is around 230 thousand metric tons and around 175 thousand metric tons of sugar is produced domestically and on the basis of these data, it is revealed that huge quantity of sugar have been kept in stock by importing more quantity than the actual requirements. It is because of the action not taken immediately as per agreement with industrialist and a delay of 4 months occurred in fixing new customs duty rate of sugar, total of 79 thousand 44 metric tons sugar costing NRs. 3 billion 578 million have been imported during the period. If calculate on the basis of increased duty rate 30 percent, it has impacted on the collection of total customs revenue of NRs. 536 million 695 thousand. Such impact has been appeared due to not immediate implementation subject matters for which the agreement or decision reached at policy level. Due attention should be given to such matters.

10.2. The cost price of imported sugar will be NRs. 52 to NRs.56 per kg, if added the applicable Customs duty and VAT on importers’ price NRs. 40 to NRs. 51 per kg. In the light of the
government has fixed retail price of sugar NRs. 65 to NRs. 70 per kg, selling of imported sugar looks more profitable. However, the sugar industries have taken initiatives to raise the price of sugar citing that their industries have incurred losses while selling sugar at the prices fixed by the government. To protect domestic industries, the government has determined a quantitative ceiling in import of sugar since 2018/09/16. However, the sugar, which kept in stock by importer, has been sold in market. Even in a state of downfall of production cost and prices of sugar in the international market, the consumers are unable to enjoy such benefits. So, it is essential to make a study on the contribution of Nepalese sugar industries in national economy and the reasons behind high production cost.

10.3. The government has been granting exemptions of the customs duty in import of sugar to Salt Trading Limited to maintain stability in market price. Accordingly, the revenue exemption of NRs. 387.6 million inclusive of VAT has been granted to the Limited in this year while importing 37 thousand 508 metric tons of sugar at price of NRs. 2 billion 286.9 million. While studying data obtained from Asycuda System, it is revealed that the Limited has imported sugar at NRs. 60 per kg as compared to NRs. 40 to NRs. 51 per kg prices of other importers, and the Limited has paid only 1 percent customs duty as compared to customs duty paid up to 30 percent by other importers, and hence, the cost price of imported sugar of the Limited becomes NRs. 69 per kg inclusive of all taxes. However, the selling price fixed by the government is below than that price. In this context, the sugar imported by importers from open market is cheaper than the cost of sugar purchased on revenue exemption to maintain price stability in market, the propriety of the revenue exemption granted of NRs. 387.6 million cannot be justified.

11. Revenue Arrears - Revenue arrears have been increasing every year. In comparison of previous year’s figure NRs. 161.16 billion, it has increased by 56 percent in this year and reach NRs. 252.13 billion. Out of the figure, the overdue principal & interest alone constitutes NRs. 93.37 billion, in which the arrears of 15 public enterprises that are not in operations alone represent NRs. 13.03 billion, which includes NRs. 1.46 billion of Oriend Magnesitte, NRs. 1.28 billion of Butwal Spinning Mill, NRs.1.40 billion of Gorkhkali Rubber Industry, NRs. 2.19 billion of Janakpur Cigarette Factory, NRs. 1.24 billion of Yatayat Sansthan, and NRs. 2.12 billion of Sajha Yatayat. Likewise, the arrears of 3 metropolitans is NRs. 1.54 billion.

The tax arrears of Inland Revenue Department and offices thereunder have appeared NRs. 146.21 billion up to 2017/18. Of the arrears, appeals have been made with respect to NRs. 47.33 billion (32.37 percent). Cases have been filed in Supreme Court with respect to NRs.72.58 billion, which include NRs. 60.71 billion of a telecommunication Service provider and NRs. 11.87 billion of a taxpayer. Thus, the revenue arrears of NRs. 119.91 billion are still under legal considerations. The recovery of revenue arrears should be made effective by taking actions as per prevalent laws.

- Foreign Assistance

12. Foreign Aid - When assessed the development assistances which are mobilized to support to Nepal’s development, it is observed that foreign assistance has occupied 23 percent of the government budget of fiscal year 2017/18. Significant observations relating to this are as follows:

12.1. Rule 27.2 of Financial Procedure Rules 2007 (2064) provides that all foreign assistance amounts should be spent by incorporating in programs and budget. In the circumstance of endorsement of the matter to include foreign assistances in recipient budgets by Paris Meeting of donor community, it has been stated in the publication of Ministry of Finance that around 22 percent of development assistances of Nepal are still off-budget. Major observations pertaining to this are as follows:
Though the audit recommendation provided in previous reports to improve in the practice making Off budget and Off treasury expenditure, the recommendation has not been strictly implemented. Attempts should be made to incorporate all foreign assistances in national budgeting and accounting system in accordance with the legal provision, foreign aid policy and international commitments.

12.2. As per the Development Cooperation Report 2017 (2074) published by Ministry of Finance, it is stated that various developing partners & international community have made declarations to provide the assistances of USD 4 billion 109.5 million in an International Donor Conference organized in Nepal for the reconstruction to be undertaken after earthquake, and the commitment of getting USD 3 billion 629 million (88 percent) assistance has also been received. However, the committed assistances have not been received in accordance with the commitment and the assistances. Only USD 826.6 million or 23 percent amount of the commitment have been received within 3 years period. Hence, with respects to foreign assistance mobilization, the work performance and recording system in between sectorial ministries and donors need to be improved.

12.3. The Clause No 2.9.10 of Development Co-operation Policy, 2014, provides that International Non-governmental Organizations (INGOs) cannot propose a project using the amount that has already been earmarked by an aid agency to Nepal. When analyzed the statistics of Aid Management Platform of the Ministry, it is revealed that INGOs have proposed projects from the grants receivable to Nepal from donor agencies as against the policy and have incurred disbursements and expenditure of USD 134 million 332 thousand from such grants. From this, it is acknowledged that the assistance amounts have been spent not only for necessary works of Nepalese people, but also for the payment of salary, allowance, facilities of domestic/foreign staffs, consultants and administrative and overheads expenses of such foreign institutions. Therefore, there should be control in the practice of mobilizing assistances beyond Development Cooperation Policy.

12.4. Though the diseases control programs are being undertaken from Ministry of Health and entities thereunder, however, without implementing such programs through the Ministry, the Save the Children has been authorized to perform as a principal recipient instead of the Ministry as per a tripartite agreement signed between the Ministry, Global Fund and Save the Children. The Ministry of Finance's letter dated 2018/06/04 stipulates that the agreement to effect the alternative to implement programs through the Save the Children has been chosen as the Ministry of Health has not become eligible to act as a principal recipient. It is acknowledged that the Ministry cannot be considered as a capable institution from the viewpoint of donor's for implementing the programs due to reasons the like- the government entities are not able to implement programs effectively on timely basis, and they have huge volume dis-allowed expenses and irregularities, weak fiscal discipline etc. Under this process, the appropriated budgets of NRs. 381.8 million of National Tuberculosis Center, NRs. 401.1 of National Aids & Sexually Transmitted Disease Center, and NRs. 214.9 million of Epidemiology Division have been channelized through the Save the Children as against the legal provision. In accordance with this process, the overall works related to implementation
of programs including the procurement of drugs & equipment, mobilization of human resources, delivery of services and payments, accounting, reporting, & auditing have been performed through the Save the Children, which is not in conformity with Foreign Aid Policy and prevalent laws.

12.5. Various non-governmental organizations/institutions have entered agreements of NRs. 58.58 billion with the Social Welfare Council for the implementation of programs from 2015/16 to 2017/18. But, the foreign assistance management information system of the Ministry of Finance has shown the amount NRs. 51.88 billion. However, the foreign aid received amount as per information of 28 commercial banks of the country is NRs. 153.72 billion, and hence, more foreign assistance of NRs. 95.14 billion has been received than the stated amount. Hence, pursuant to mobilization foreign aid, a single window system should be implemented, and such accounts should be operated under direct control and approval of the Nepal Rastra Bank.

12.6. The Clause No 5 of Directives related to Foreign Aid Acceptance, 2071 issued by the Social Welfare Council, provides that any organization/institution is liable for actions if it operates any program without getting pre-approval for the operations of project. As per statement obtained from the Council, the project agreement of NRs. 62.59 billion has been signed with 2 thousand 101 organizations during the period 2015/16 to 2017/18. However, it is observed that 263 organizations, without getting such approvals for operating projects, have incurred expenditure of NRs. 6.38 billion entering agreements directly with donors or INGOs during the same period. From the practice of operating programs entering agreements directly with donors, the situations like, weakening of the fiscal discipline, non-mobilization assistance in prioritized sectors and resource mobilization beyond the government control etc. have emerged. The actions as prescribed in the Directives need to be taken to those which operate programs without getting pre-approval of the projects.

13. Technical Assistance - In accordance with Statement of Technical and Other Assistance presented in Parliament, it is stated that the total technical assistances equivalent to NRs. 29 billion 360.8 million shall be received to 25 ministries/entities under 142 agreement arrangements. Since these technical assistances, which should have to be included in the central financial statement as per requirements of Section 14 (2) of Financial Procedures Act, 1998 (2055), have not been included in the statement and the picture of overall income and expenditure of the government has not been presented. Though the Public Account Committee has issued the directive to carry out audits of such technical assistances, such audits have not been completed by submitting financial statements and books of accounts of such technical assistances.

14. Receipt of Foreign Aid - In comparison to the estimate of obtaining total foreign aid of NRs. 286.20 billion inclusive of NRs.72.17 billion foreign grant and NRs. 214.03 billion foreign loan, total of NRs. 128.92 billion along with NRs. 39.32 billion foreign grant and NRs. 89.60 billion foreign loan have been obtained during this year. As against this year's budget estimate, only 54.48 percent foreign grant and 41.86 percent foreign loan, and 45.04 percent on an overall average have been utilized. Observations pertaining this are as follows:

14.1. On donor-wise basis, as compared to the estimate of obtaining foreign grant of NRs.72.17 billion from 37 donors and foreign loans of NRs. 214.03 billion from 16 donors in this year, the foreign grants of NRs. 39.32 billion from 33 donors and foreign loans of NRs. 89.60 billion from 14 donors have been received. By coordinating with donors, an attention should be given in receiving the assistances as per agreements entered.

14.2. While analyzing the receipt of foreign aid ministry and entity-wise basis based on the statement obtained from the Financial Comptroller General Office, the details of some ministries/entities that have utilized grants and loans less than 50 percent in 2017/18 are as follows:
In addition to above data, the entities that have mobilized the foreign aid less than 50 percent also include 40.90 percent by Office of the Prime Minister & Council of Ministers, 35.66 percent by Ministry of Water Supply & Sanitation, and 44.69 percent by Ministry of Physical Infrastructure & Transportation. Declining absorptive capacity of foreign aid has directly affected in the development works and delivery of services. Hence, the responsible officials of the concerned entity should give due attention in mobilization of maximum amounts of the assistance by coordinating with donors pursuant to the assistance to be mobilized.

- **Budget Discipline**

15. **Actuality of Source** - In the Annexure 1 of Budget Speech 2017/18 submitted by the Finance Minister in Parliament, it was proposed that the estimated expenditure would be NRs. 1 trillion 138.7 billion, total of NRs. 1 trillion 35.97 billion would be generated from revenue & other sources and the balance NRs. 102.73 billion would be deficit. The budget, which prepared without identifying the required source, is revised while preparing revised estimate of the year in the budget of fiscal year 2018/19 and reduced the expenditure volume to NRs. 938.24 billion showing a budget surplus of NRs. 62.07 billion. In the circumstance of the financial statement submitted by the Financial Comptroller General Office, has shown the year-end balance of consolidated fund negative by NRs. 123.06 billion, the revised budget prepared with surplus balance has also been witnessed not near to actuality.

16. **Year-end Expenditure/Payment** - Rule 33 of Financial Procedure Rules 2007 provides that the closure of accounts should be done on 25th Asadh prior to end of any fiscal year. This year, of the total appropriated budget NRs.1 trillion 278.99 billion, the total NRs. 1 trillion 84.31 billion has been spent, and of the expenditure, NRs. 222.83 billion (20.55 percent) has been incurred in the month of Asadh. Amongst the expenditure, the expenditure incurred from 25th to 31st Asadh is NRs. 117.92 billion, which is 10.78 percent of total expenditure. Hence the provision of the Rule should be complied, and the act of incurring expenses after 25th of Asadh needs to be controlled.

17. **Liability Management** - Amongst the budget sub-heads implemented by the Ministry of Physical Planning and Transportation in 2017/18, the 1 thousand 281 procurement contracts of value NRs. 47 billion 69.8 million are entered pursuant to the road construction works under 21sub-heads, which falls under roads to be handed over to state government and budget unallocated. Out of amount, the payment of NRs. 20 billion 580.5 million has been granted and the remaining NRs 26 billion 639.3 million has been shown as outstanding liability. Since the government has not allocated any amount for those roads in 2018/19 and the handover of roads to the state government has not taken place, and the expenditure incurred on the roads has become futile. The sources for the liability management have not been yet identified. Pursuant to implementation of the procurement contracts, no clear policy decisions have been taken place.

18. **Multi-year Contract**- With respect to an enquiry made by Finance Committee of House of Representative related the record of multi-year contracts and the budget arrangements for the liabilities generated thereon, the Ministry of Finance in its reply by letter on 2018/11/16 has...
mentioned that the total multi-year contracts NRs. 115.35 billion, inclusive of NRs. 93.43 billion in Ministry of Urban Development, NRs. 15.16 billion in Ministry of Water Supply, have been awarded without obtaining the approval of Ministry of Finance.

In accordance with Rule 19 of Financial Procedure Rules, 2007, each entity, while allocating budget specifying multi-year project upon the recommendation of National Planning Commission, shall determine priority & policy level goals pursuant to the plan and program of upcoming fiscal year providing guidelines to the concerned ministry and Ministry of Finance, however the multi-year contracts have been awarded without doing so. Consequently, there has been a situation the non-budgetary burden will arise in course of the implementation of projects. Hence, such practices need to be controlled.

19. **Disbursement through Finance budget** - Rule 35(2) of Financial Procedure Rules 2007 provides that the competent official shall release funds for making expenditure only where the amount is within the approved budget and falls under the concerned expenditure heading and still remains to make expenditure. The amounts allocated by Appropriation Act needs to be spent in the specific purpose, however, with respect to lump-sum appropriation of NRs. 69 billion 308.4 million in budget sub-head 602 (Finance -Miscellaneous), NRs. 5 billion 532.5 million has been added in the budget sub-head. On the basis of repetitive decisions, NRs. 65 billion 971.5 million has been provided to various offices under the constitutional bodies, commissions or ministries. The amount so provided becomes 5.15 percent of NRs. 1 trillion 278 billion 994.9 million, the total appropriated budget of this year.

Out of the virements and disbursements made, the significant additional amounts provided include NRs. 10.32 billion provided to Nepal Army for the procurement of chopper & airplane and allowances distribution to personnel designated in election; NRs. 10.32 billion provided for the distribution of election allowances through Ministry of Home Affairs; NRs. 3.12 billion provided to Ministry of Physical Infrastructure & Transportation for the distribution of land compensation and construction of roads; NRs. 11.50 billion provided to Election Commission for election works; NRs. 18.89 billion provided to National Reconstruction Authority for the distribution of personal house grants and reliefs to flood affected people; NRs. 1.72 billion for reliefs to conflict affected families; NRs. 4.69 billion provided to Ministry of Energy and Irrigation for the reconstruction of food-affected structures and Bheri-Babai Irrigation Project; NRs. 2.04 billion provided to Ministry of Urban Development for the physical infrastructures of the states; and NRs. 4 billion provided to Ministry of Federal Affairs & General Administration for the distribution of social security grants.

The above mentioned activities are not of incidental nature but are of recurrent and predictable nature as the activities have been continued since last some years. In a situation of the predictability of programs due to continuity since past years and the certainty in happening election, the additional disbursements have been granted from Ministry of Finance-Miscellaneous head on the basis of numerous decisions without provisioning adequate budgets, and the disbursements and additional amounts have been provided at the end of fiscal year from finance budget heading without making any appropriation in related programs and budget heading or making the appropriation of minimal amounts. This practice is not in compliance with the budget principle. In such a situation, it will impact on the parliamentary acknowledgement and weakens control on the budgets, create difficulty in conducting monitoring, affect in transparency, and create problems in records keeping. Hence, the practice of making such expenditure needs to be controlled.

20. **Virement** - Out of the total budget NRs. 1 trillion 278.99 billion, the virements of NRs. 75 billion 551.5 million have been done during the month of Asadh (last month of fiscal year) and NRs. 18 billion 423.7 million after 25th Asadh resulting addition on budget amounts in various heads/sub-heads. The Appropriation Act, 2017 (2074), provides that the amount appropriated in any budget head cannot be transferred more than 10 percent of the allocated...
amount. However, the Ministry of Finance has not complied with the provision and has made virements exceeding the limit up to 19 times as against the provision.

21. **Expenditure Size Inflated** – Virements are to be done in those budget headings, the expenses of which are certain, but virements are also done in the heading the expenses of which cannot be incurred. For the purpose of the compensation distribution of Budhigandaki Hydro Electricity Project, NRs. 10 billion are transferred to the project on 2018/07/06 through the virement, however the amount so transferred has not been spent for the very purpose and NRs. 9 billion 911.6 million has been shown as expenditure by depositing the amount in Kha 6-Miscellaneous Account. As the virements have been done in a state of the amounts are not expendable and transferring the amounts again in fund, it has only increased the size of capital expenditure. Hence, the expenditure shown in Federal Consolidated Fund do not represent true picture.

   Likewise, NRs. 5 billion is provided to Hydropower Investment Company on 2018/07/14 without making any provision in budget & program, and NRs. 1 billion is provided to National Grid System Limited with respect to share investment. However, the companies have kept the amounts as balance in their bank accounts without utilizing. Since the budget expenditure are incurred unnecessarily at the end of fiscal year just to transfer amounts in other accounts but kept the amounts as balance, it has just inflated the size of expenditure by NRs. 16 billion. There should be control in the act of incurring such expenditure at year-end just to increase the size of expenditure.

22. **Disbursement Against the Source** - Rule 35(2) of Financial Procedure Rules 2007 provides that funds shall be released only where the amount is within the approved budget and falls under the concerned expenditure heading. Observations pertaining to this are as follows:

   22.1. As against this year’s appropriation of NRs. 437 billion 344.5 million in Government of Nepal’s source in Budget Sub-heading No.80 for providing grants to local entities, total sum of NRs. 450 billion 917 million has been released without adding any amount in the heading through virement, and the disbursement of NRs. 13 billion 572.5 million in excess of budgeted amount has been made showing a negative balance in the budget sub-heading. Hence, disbursement and expenditure have been incurred in excess of the allocated budget and financial discipline has not been maintained.

   22.2. With respect to the budget appropriation of NRs. 4 billion 421.2 allocated to local levels under foreign sources inclusive of reimbursable loans NRs. 2 billion 339.9 million, reimbursable grants NRs. 1 billion 742 million, and cash grants NRs. 349.3 million, the budgets have been shown in Government of Nepal source while releasing funds to the local levels. For the released amount, the source change has not been yet made in Government of Nepal source. Thus, the practice of incurring expenditure from the Government of Nepal source for the amounts appropriated in foreign sources is not in conformity with the budget principle.

   22.3. When disbursements are made by stating the Government of Nepal source instead of specifying the donor’s fund as per the agreement signed with the development partners, the amounts which are to be incurred from donors’ fund have not been spent. On the other side, it has impacted an extra burden of NRs. 4 billion 421.2 million to the Government of Nepal source. Arrangement has not been made to send withdrawal application for reimbursement of amounts that is borne from the government source.

23. **Handover of Project** – The Appropriation Act 2017 and Section 4 of Directives of Ministry of Finance, provides that the projects included under jurisdiction of local levels should be handed over to the concerned local levels if it has remained the budget appropriation up to NRs. 5 million to the rural municipality, NRs. 10 million to the municipality, and NRs. 20 million to the sub-metropolitan or metropolitan,. For the 939 bridges to be constructed in local level roads, the budget appropriation of NRs. 3 billion 502.9 million has been made in 2017/18, in which the number of bridges having budget more than NRs. 20 million are 15
only. The construction works of 924 bridges, which are required to be handed over to local levels, are still being implemented through the entities under Ministry of Physical Infrastructure & Transportation and expended NRs. 10 billion 169.7 million pursuant to these bridges. The projects/programs that required to be handed over to local levels have not been done yet.

24. **Operation of Funds** – The operational fund during this year are under 21 ministries, the total closing balance of such fund was NRs. 92 billion 820.6 million in the last year, but the total opening balance of NRs. 113 billion 347.6 million has been shown by various entities in this year. Including this year's income NRs. 260 billion 905.6 million, the total income of the Funds has remained NRs. 374 billion 253.2 million and there has been closing balance of NRs. 109 billion 441.8 million in the Funds after incurring expenditure of NRs. 264 billion 811.4 million during this year. Since the amounts are being deposited/expended creating the various Funds against the budget principle, such income & expenditure have remained beyond the parliamentary scrutiny.

**• Loan and Liability**

25. **Total Loan** – As per the statement of loan account obtained from Financial Comptroller General Office, the total loan liability of the Government of Nepal up to 2017/18 has reached NRs. 915.31 billion. Out of the amount, internal loan is NRs. 391.16 billion and foreign loan is NRs. 524.15 billion. The loan liability has increased by 31.19 percent or NRs. 217.62 billion as compared to last year. The loan has stood 30.44 percent of the GDP amount NRs. 3 trillion 7.24 billion (at current price). Out of the loan, internal loan is 42.73 percent and foreign loan is 57.27 percent. Based on the total population of the country 28.829 million as of 2075 Asadh (2018/07/16), the loan liability becomes NRs. 31 thousand 750 per head. The per-head loan liability has increased by NRs. 7,073/- as compared to previous year.

26. **Outstanding Reimbursement** - In accordance with Sub-Rule 3 & 4 of Rule 37 of Financial Procedure Rules, 2007, each project, on the basis of agreement signed with donor community, has to conduct the monitoring by maintaining the records of reimbursement specifying the amount for which the reimbursement has been requested, the amount which has been disbursed & spent, the amount of reimbursement received from donors, and the amount of outstanding reimbursement. The total outstanding reimbursement amount has reached NRs. 48 billion 598.6 million at the end of 2017/18, of which the liability of loans is NRs. 27 billion 836 million and grants is NRs. 20 billion 762.6 million. The reimbursement outstanding amount has risen by 13.12 percent as compared to the corresponding outstanding reimbursement amount of previous year. Observations pertaining to this are as follow:

26.1. With respect to the expenditure incurred as reimbursable from foreign loans in previous years, the reimbursement outstanding was NRs. 22 billion 378.1 million up to last year, and the total amount to be reimbursed becomes NRs. 80 billion 7.7 million along with this year's reimbursable expenditure NRs. 57 billion 629.6 million. The total loan reimbursement becomes NRs. 22 billion 378.1 million up to end of this year after deduction of this year's reimbursement received NRs. 50 billion 113.5 million and the adjustment made NRs. 2 billion 58.2 million. Similarly, the reimbursement outstanding of grants was NRs. 20 billion 581.4 million up to the previous year, and the total amount to be reimbursed becomes NRs. 44 billion 314.3 million along with this year's reimbursable expenditure NRs. 23 billion 732.9 million. The outstanding reimbursement of grants becomes NRs. 20 billion 762.6 million at the end of this year after deduction of this year's received reimbursement NRs. 22 billion 217.1 million and this year’s adjustment made NRs. 1 billion 334.6 million. As compared to last year’s figures, the outstanding reimbursement of loans has increased by 24.38 percent and reimbursement of grants has increased by 0.88 percent in this year.

The ministries, that have major reimbursement outstanding of foreign loans, include NRs. 10 billion 965.1 million of Office of the Prime Minister & Council of Ministers, NRs.10 billion 656.2 million of Ministry of Finance associated with the investments made in public
enterprises, NRs. 3 billion 123.5 million of Ministry of Federal Affairs & General Administration, and NRs. 2 billion 573.6 million of Ministry of Urban Development.

The ministries, that have major reimbursement outstanding of foreign grants, include NRs. 9 billion 794.4 million of Office of the Prime Minister & Council of Ministers, NRs. 4 billion 972.8 million of Ministry of Education, NRs. 1 billion 549.8 million of Ministry of Federal Affairs & General Administration, NRs.1 billion 306.6 million of Ministry of Health & Population, and NRs. 1 billion 72.5 million of Ministry of Physical Infrastructure & Transportation.

26.2. In the statement submitted by the Financial Comptroller General Office, the grants reimbursement of closed projects have been stated as - NRs. 582.6 million reimbursement balance up to last year, NRs. 359 million reimbursed during this year and NRs. 223.6 million yet to be reimbursed up to this year. Likewise, with respect to loan reimbursement of the closed projects, it has been mentioned that NRs. 332.8 million reimbursement balance up to last year, NRs. 17.4 million adjustment made with addition in this year, and NRs. 350.2 million yet to be reimbursed up to this year. Thus, the total reimbursement of loans and grants yet to be received up to this year has appeared NRs. 573.8 million.

If any amount, the reimbursement of which is to be received, has not been taken within the due time, it will create burden in Government of Nepal source. Hence, the reimbursements of loans and grants should be obtained within the specified time coordinating with the Ministry incurring such expenses.

**Performance of Public Enterprises**

27. **Status of Public Enterprises** – Out of the 71 public enterprises established in Nepal, the 33 enterprises are privatized and liquidated and 38 enterprises are in operation. Observations pertaining to this are as follows :-

27.1. Amongst the 18 public enterprises that privatized with the condition of supporting in employment and production through operations only 12 enterprises are in operation now. Bhrikuti Paper Mill, Harisiddi Brick & Tile Factory, Bansbari Leather Factory, Raw Skin Collection & Sales Company, Balaju Kapada Udyog, and Biratnagar Jute Mills are not in operation. The land of Harisiddi Brick & Tile Industry has also been selling lands by plotting. In the situation of the privatized industries are not operated as per agreement/ preamble, the concerned entities/ ministries have not taken any further actions to such industries.

27.2. Though the pace of privatization accelerated after the formulation of Privatization Act 2050, but it has become ineffective in later subsequent years. The privatized enterprises, which had agreed for operating after privatization, have been shut down, and consequently, the situation has emerged not becoming continuity of the policy. Pursuant to the enterprises that are not in operation, the equipment and other valuable assets existed in such enterprises have not been appropriately managed by making timely liquidation. It has created situations such as - equipment becoming useless, un-utilization resources properly, encroachment of land & other assets etc. The loan investment of NRs. 205.9 million has been done by the government in this year just for the purpose of providing salary & allowance of the enterprises that are already liquidated and not operated.

27.3. In the public enterprises, that are still under the government ownership, the burden of expenditure has been increasing in comparison to income generated due to overloaded structure, increasing burden of salary & allowance, unlimited liabilities, growth in operating expenses, burden of principal & interest repayment of loans, high cost of production & service owing to use of old technology, minimal utilization of capacity etc. Since the public enterprises has given attention in raising employees’ facilities in short-term without making the required provisions for meeting future liabilities, the liabilities to be paid in long-term by such enterprises have reached NRs. 38 billion 567.7 million up to 2016/17, the burden of which is to be borne by the government ultimately.
Hence, with respect to privatized and government-owned public enterprises, it is necessary to adopt a clear policy pertaining to merger, liquidation or operation by re-classifying them into operative & non-operative and efficiently operated & efficiently not operated.

28. **Recovery of Rent** – Pursuant to Nepal Tea Development Corporation, an agreement was made on 2000/06/28 pertaining to making privatization by selling and total of NRs. 107.3 million should have been recovered relating to tea-estate rent from the agreement date to fiscal year 2005/06. However, without recovering the amount as per the agreement, a supplementary agreement entered on 2008/03/05 adding a condition that the outstanding rent till 2005/10/20 is to be paid within 10 years as per the decision of Council of Ministers of date 2007/10/07. 10 years term from the supplementary agreement date has been elapsed on 2018/03/06, the amount has not been recovered. So, the amount should be recovered in accordance with prevalent laws.

29. **Audit of Corporate Bodies** – This year, total of 78 fiscal years (inclusive of audit backlogs) of 43 bodies are to be audited, but the audits of only 54 fiscal years of 36 bodies have been completed. Out of the audit completed 36 bodies, the final report of 45 fiscal years have been issued and the final report of 33 fiscal years of 7 bodies are outstanding to be issued. Necessary actions should be taken to make responsible to the institutions and officials that have not produced the accounts for the audits.

   Out of 40 corporate bodies for which the external auditors are appointed in this year, the audits of 11 bodies have not been completed. Amongst the 30 corporate bodies, for which the consultations for the appointment of auditors are provided, the audits of 5 bodies have not been completed. As per Section 11(2) of Audit Act 2075 (2018), the corporate bodies substantially owned by the Government of Nepal need to obtain the consultation of this office for the appointment of auditors. This year, the consultations for the appointment of auditors have been sought only for 41 fiscal years by 30 corporate bodies. The concerned persons of the corporate bodies should be held responsible to the act of not making audits up-to-date by seeking the consultations timely basis.

30. **Compliance with Accounting Standards** – Section 108(2) of Company Act 2063 stipulates that the companies are required to comply with the accounting standards that implemented by a competent entity as per prevalent laws. As per decision of Nepal Chartered Accountants Institute, the commercial banks are required to adopt Nepal Financial Reporting Standards (NFRS). Out of the 28 commercial banks in operations, 24 commercial banks have not prepared their financial statements in accordance with the prescribed standards and the auditors of such banks have issued audit opinions with qualification (specifying conditions). Even in such situation, Nepal Rastra Bank has provided the acceptance to the commercial banks for distributing dividends, which is not appropriate. Hence, the monitoring should be made effective to comply with the prevalent laws.

31. **Loan Liability** – With respect to the outstanding balance NRs. 120.26 billion as of 2017/18 of Nepal Electricity Authority, which relates to loans taken by the Authority from various donor agencies, foreign banks and financial institutions by entering the subsidiary loan agreements with the Government of Nepal, the balance has not been verified by making reconciliation of accounts since past years. The amounts of loans and interests have not been paid timely basis as per the amortization schedule. The review of same has not been done by preparing the year-wise statement of the not due and overdue principal & interest. The loan and interest accounts should be made up-to-date.

- **Revenue Scope**

32. **Tax-base** - As per Section 67 (6) (H) of Income Tax Act 2002 (2058), the payments received by a person who carries a business of transmitting information or news through means of communication such as wire, radio, optical fiber or satellite in respect of transmitting news or information through networks established in Nepal, shall be deemed to have source in Nepal.
Section 67(6) L (2) of same Act provides that the payments made in respect of activities carried out in Nepal shall be deemed to have source in Nepal. To provide internet telephone service via internet services, the applications such as- Viber, Facebook, Messenger, Skype, What Sapp, We Chat, and Imo have been operated in Nepal without any restriction. Since these applications also fall within scope of tax administration of Nepal, the service providers are required to register their entities prior to operations of such services, however, none of entities operating such services have done such registration. Since services of the applications are being provided through the medium of Over-The-Top-Of-Service, such applications have been operated using the significant portion of internet gateway of telephone service. It is because of the operation of such applications, the revenues of the telephone service providers arising out of the use of telephone services have been decreasing, on the other side, the possible revenues that could be generated have not been collected due to non-registration of the entities providing such services. Hence, by making the legal & policy reforms and the registration of such service providers, revenues should be collected from such entities.

33. **Tax in E-commerce** – At present, the business operated through E-commerce and digitization has been growing in the world. Even in Nepal, hundreds of sites have been operating such business. Likewise, entering international E-commerce sites directly from Nepal, goods & services can be received through making domestic and foreign transactions. There is difficulty in carrying out monitoring as separate business codes have not been provided for the transactions to be operated from inland. In a state of the operations of domestic/foreign transactions using foreign sites, the business transactions have not come under tax jurisdiction due to non-registration of such company in Nepal. Observations pertaining to this are as follows

33.1. There has been the situation huge amounts have gone foreign with respect to the advertisement made through the use of various social networks. In the state of non-registration of such social sites in Nepal and non-existence of payment gateway for sending the legitimate payment to these sites from Nepal, the persons or business-persons residing within the country and foreign have to send the payment using the international electronic payment mode such as- Paytm, PayPal, credit cards etc. and advertisements are uploaded after the receipt of such payment. For the advertisement uploaded, the concerned operators of social sites are recovering the advertisement charge on the basis of visit of the advertisement. Since the advertisement services are provided within Nepal, the taxes are to be paid in Nepal on the basis of at source principle despite of transactions are carried out in foreign. However, none of tax has been collected from such transactions, as these transactions have not been recognized and the social sites are also not registered in Nepal. There should be arrangement to bring such sites within the tax net or scope.

33.2. Pursuant to levying of taxes on digital business, sufficient studies have been done by Overseas Economic Cooperation & Development (OECD). European Union has applied VAT since 2015 to the telecommunication suppliers and the service providers of the information transmission and electronic services along with the non-resident. Serbia, Taiwan, and China have also extended the scope of VAT up to digital suppliers. China Malaysia and Thailand have formulated laws for levying taxes on digital income. In Nepal, in the absence of structure, policy rule and legal arrangements, any tax has not been collected from the business-persons bringing such transactions under tax net. No study has been yet made pursuant to taxes amount that may be collected from such transactions.

It is essential to prepare the necessary act, rules, structure and infrastructure and enhance the knowledge, skill and capacity to bring E-commerce under tax net. The legal provision should be made requiring the business operating E-Commerce service globally to register in Nepal or the definition of permanent establishment should be revised to cover any person conducting business in other countries without physical presence in Nepal shall also be deemed to be permanent establishment in Nepal. In addition, the legal provision should be amended to follow the alternative of allocating the income and tax-base of such companies on the basis of the places where business transactions are operated or allocating income on the
basis of the recipient country-wise income. Pursuant to this, an initiative should be taken internationally to adopt action plan relating to Base Erosion and Profit Shifting (BEPS) prepared by the OECD.

34. **Capital Gain Tax in Share** - In accordance with Section 95A (2) of Income Tax Act, 2002, the entity registered in Security Board, Nepal shall be liable for 5 percent tax on the gains received from the disposal of interests. For the purpose of the calculation of gains, the decision at Finance Minister had been taken on 2008/12/07 (2065/08/22) stating that the deduction of expenses will be granted in the figure of base price of share that calculated on the basis of the average of market price of 3 consecutive transactions in the figures that come after calculation of the average, after adjusting the proportion of bonus and right shares to the final price fixed at book closure of shares. The provision of determining capital gain tax was implemented just for otherwise arrangements. Additional cost expenses have been claimed as the adjustments are granted on the basis of market prices of shares instead of taking the basis of actual cost borne. Thus, the actual costs of bonus & right shares are more adjusted than the face value of shares, and consequently, the revenues of capital gain tax have been less deposited.

Since the right and bonus shares of NRs.14 billion 602.1 million are sold in this year, the capital gains at the rate of 5 percent or NRs. 624.9 million should have collected in the amount NRs. 12 billion 497.6 million that comes after deducting actual cost NRs. 2 billion 304.4 million as per Annex 1(4) B3 of Income Tax Act, 2002. But, only NRs. 49 million has been recovered with the short collection of NRs. 575.9 million. The situation has remained status quo despite of the audit observations on this matter incorporated in previous year. The recovery of revenues should be made effective by identifying its effects on taxes.

35. **Low Assessment of Promoters’ Share** – As per Section 37(1) of Income Tax Act, 2058, the tax should be calculated on the basis of the difference amount treating as income if the income received after the disposal of assets or liability is less than the expenditure (outgoings) incurred in respect to such assets or liability. For the purpose of the calculation of capital gain tax on purchase or sale of promoter shares, the Ministry of Finance, Minister level decision of 2008/03/18 (2064/12/05) states the value of 5 times of last year’s book value or 50 percent of market price of ordinary share whichever is less should be taken in case of the company having the net assets positive, and the higher value of 50 percent of average market price of 180 days or 50 percent of market price of the transaction day whichever is less should be taken in case of the company having the negative net assets. There has been no basis for determining the price of the promoter share at 50 percent of ordinary share.

In income year 2017/18, total of 25.52 million units of 72 companies promoter’s shares have been sold at NRs. 10 billion 641.4 million. The value becomes NRs. 5 billion 27.2 million if calculated on the basis of the minimum prices of ordinary share of the share transactions price of that day. Hence, the capital gain tax should have recovered calculating tax on the sales’ difference amount NRs. 5 billion 27.2 million, but the capital gain tax has been calculated on the basis of the decision, resulting the short collection of capital gain tax of NRs. 251.3 million at the rate of 5 percent. Hence, it is essential to make reviews on the decision taken.

36. **Education Service Charge on Abroad Study** – Sub-section 18 of Section 8 of Finance Act 2017 provides that the education service tax at the rate of 1 percent on foreign exchange amount shall be collected while giving foreign exchange facilities in respect to education fees of the students going abroad, however the rate has been increased to 2 percent by Finance Act, 2018. Such education service fee has not been collected from the students that have gone India for studies. As per the record of Tribhuvan University, it is observed that total of 5 thousand 931 students of various faculties have taken equivalency certificates in this year after completing their graduate level studies from India. Similarly, as per the statement obtained from Curriculum Development Center, it is acknowledged that total of 8 thousand...
493 students have taken equivalency certificates in this year that completed 10th grade and 12th grade studies from India.

Based on the above description, the expenditure incurred for the education fee will become minimum of NRs. 6 billion 275.2 million if taken the basis of the average education fee paid by the students to the schools/ universities in India within a year. If calculated the fee at the rate of only 1 percent on the amount, the unrecovered revenue will become NRs. 62.752 million. Hence, the scope of revenue recovery should be expanded by developing machinery for maintaining the record of students visiting India for studies and the education fees being paid by them.

37. **Non-Tax Revenue Rate** – There has been varying provisions for granting license and determining the registration, renewal fees to internet service providers and telephone service providers treating such business separately. The internet service providers are required to pay a fee of NRs. 300 thousand on registration and NRs. 270 thousand every year on renewal. Likewise, the mobile service providers are required to pay NRs. 210 million on registration and NRs. 357.5 million for getting integrated license, and NRs. 20 billion in 5 years or NRs. 4 billion annually while as a renewal fee of licenses.

In Past, the internet service providers used to transmit data, whilst the telephone service providers used to transmit voices, which showed the difference in nature of their businesses. But, with the change in technology, the voice being transmitted by the telephone service providers, have also been transmitted through the internet availed by internet service providers. It is because of the development of technology to transmit visual data along with voice data, no significant difference is witnessed between the two types of businesses. But, the revenues to be collected by the government as non-tax revenue in respect to the registration and renewal of two service providers have been found exceptionally varying. The license and renewal fees, which determined keeping in view of non-transmission of voices and videos through the internet in then situation, have become exceptionally low now as the internet service providers have also been providing the same nature of services which the telephone service providers are providing. Hence, by making the reviews of license and renewal fees of the internet service providers, such huge differences in fees need to be reduced.

### Tax Compliance

38. Section 18 of the Value Added Tax, 1996 (2052) stipulates that the tax payers shall determine tax amount every month making self-tax assessment and submit the tax returns within 25 days of the elapse of the month. As per the Annual Report submitted by the Inland Revenue Department, the status of implementation of Value Added Tax (VAT) up-to 2018 Mid-July is witnessed as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
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<td>Credit Amounts (NRs. in billions)</td>
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<td>27.52</td>
<td>35.71</td>
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<tr>
<td>Credit Returns in Percent</td>
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<td>51.14</td>
<td>51.97</td>
</tr>
<tr>
<td>Debit Amounts (NRs. in billions)</td>
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<td>14.06</td>
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<td>Zero Returns Percent</td>
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<td>35.61</td>
<td>33.97</td>
</tr>
<tr>
<td>Debit/Credit Amount Comparison</td>
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<td>1:3.16</td>
<td>1:3.59</td>
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<tr>
<td>Value Added Tax Refund (NRs. in billions)</td>
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<td>4.76</td>
<td>4.59</td>
</tr>
<tr>
<td>Non-Filers (Tax return not submitted) Percent</td>
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<td>30</td>
<td>24.00</td>
</tr>
</tbody>
</table>

38.1. Amongst the tax returns filed in this year, the tax payers submitting returns payable by the Government (credit) are 51.97 percent, zero returns (transactions not operated) are 33.97 percent, and returns receivable by the Government (debit) are 13.06 percent. The numbers of non-filers (Tax return not submitted) are 24 percent. The existence of large number of taxpayers having the returns payable by the Government, zero return and non-filing, shows the lack of effective implementation of VAT.
38.2. In a state of rising trend of consumption in the country, the VAT collected from the domestic consumption has figured only NRs. 76 billion, which stands 2.53 percent as compared to GDP. The VAT has remained a main base of domestic revenue, and the 63.14 percent of the VAT has been recovered from imports. The collection of significant portion of VAT relying on imports is not an appropriate situation. The scope of VAT should be expanded in such a manner more VAT can be collected from domestic consumption.

38.3. Though the policy reforms in revenue administration have brought an easiness and swiftness in revenue collection, but there are some abnormalities in practice such as - making transactions without registration, non-issuance of invoices by the registered taxpayers, making under invoicing, non-submission of returns in time, showing excessive stock, submitting credit returns by showing assets purchase & low value increase, and no effectiveness in market monitoring despite of non-payment of applicable taxes by the taxpayers that submitted debit returns and lack of effectiveness in billing enforcement work. Hence, it is essential to give continuity and make effective to the billing enforcement and market monitoring works.

39. **Tax of Employees of International Organization/Agency** – Section 10(A) of Income Tax Act, 2002 provides that amounts shall be exempted from tax to any person entitled to tax exemption facility as provided in a bilateral or multilateral treaty concluded between Government of Nepal and any foreign country or international organization/agency. As per the endorsement of the general assembly of United Nations held on 23 February 1946, except the diplomatic staffs of United Nations, the tax exemption is not entitled to other employees and consultants. However, the tax applicable in the amounts paid to such other employees & consultants, excluding the diplomatic staffs of international organizations/agencies, have not been recovered in Nepal. Hence, the recovery of revenues should be made effective by collecting information about such taxes still not collected.

40. **Tax on Mutual Fund** – Annex-1(2) of Income Tax Act, 2002 provides that the tax at the rate of 30 percent shall be applicable in taxable income of financial institutions or such type of entities. Though the Section 88(4)(e) of same Act provides that the circumstances where the tax at source is not to be deducted in income of mutual investment funds, but such organization do not fall under tax exempted organizations as specified in Section 2(s). There exists a situation where the tax at source has not been deducted while making disposal of their interests by the stock exchange traders, and applicable tax has not been deducted while dividing the earned profits among the owners of such funds. In India, the tax exemption is granted to mutual fund but the tax based on transaction has been collected as the substitution. However, in Nepal, with respect to 30 percent tax to be paid on the earnings of such mutual funds, 7 mutual funds have also not paid applicable taxes by making the registration in income tax. Hence, the Department, by identifying the transaction scope of transaction operators, should conduct an investigation pursuant to applicable tax NRs. 711.4 million on such entities’ profit NRs. 2 billion 377.3 million of 2014/15, 2015/16 and 2016/17.

41. **Retirement Payment** – The prohibitory sentences of Section 65(2) of Income Tax Act, 2002, provides that the payment made from any fund not having the contribution of beneficiary, shall not be treated as income in respect to interests of unapproved retirement fund. This matter has been clarified in illustration 12.4.4 of Income Tax Directive, 2009, which states that a 15 percent tax at source should be deducted in accordance with Section 88(1) of Income Tax Act, 2002 in the payment made through such fund and this tax will be a final tax deduction. Citizen Investment Trust, which registered with Large Taxpayer Office, should have deducted 15 percent tax as per the above legal provision while making payment in 2017/18 from non-contributory fund operated by the Trust, but only 5 percent tax has been deducted and hence, the fee and interest applicable on NRs. 109.3 million should be recovered from 216 persons of 43 companies.

42. **Accounting of Returns** – Section 7 of Income Tax Act, 2002 stipulates that any profit and benefit earned from the operation of any business shall be income of the business. Various 18 taxpayers registered with Large Taxpayer Office had deposited a lumpsum amount in past in
Citizen Investment Trust with respect to the amounts provisioned for gratuity. In the amounts, the Citizen Investment Trust has provided extra 5 percent amount in 2016/17 with respect to additional returns. The added amount NRs. 306 million 607 thousand has not been recognized in income account. Hence, necessary tax should be assessed with respect to the recovery of the tax NRs. 79.89 million and applicable fees by conducting an examination on the receipt of such returns and including such returns in incomes of the concerned.

43. **Sales Not Shown** - Section 7 of Income Tax Act, 2002, provides that any income earned by any person from business transaction shall be accounted in income year. One taxpayer registered with Inland Revenue Office, Maharajgunj has recognized income of NRs. 4 million 945 thousand only despite of the export of goods worth NRs. 207 million 236 thousand seen from the customs data; one taxpayer registered with Inland Revenue Office, Putalisadak has shown the sales NRs. 3 million 527 thousand only despite of the exports of herbal tea worth NRs. 44 million 404 thousand; one taxpayer registered with Inland Revenue Office, Tangal, has not recognized as income with respect to NRs. 31 million 997 thousand received from 22 sub-distributors in course of the organizing trainings; and one taxpayer registered with Inland Revenue Office, Dhangadhi has submitted the VAT statement with zero returns in 2016/17 despite of the receipt of payment of NRs. 39 million 688 thousand noticed in accordance with the statement of tax deduction at source obtained from District Soil Conservation Office. Hence, the unrecovered income tax NRs. 77 million 119 thousand along with applicable fees & interest should be recovered conducting necessary investigation.

44. **Income of Foreign Employment businessperson** – As per Section 7 of Income Tax Act, 2002, the service charge needs to be included in income. While examining the sales statement of one taxpayer under jurisdiction of Large Taxpayer Office operating air ticket selling business, it is witnessed that the taxpayer has not recognized as income the ticket amounts that purchased by the foreign employment businesspersons under jurisdiction of 8 Inland Revenue Offices inclusive of Tripureswar, Tangal. In a state of the sales has not been recognized as income, further investigation should be conducted with respect to non-recognition of income, and the applicable tax NRs. 132.6 million and fees & interest on NRs. 530.6 million and the value added amount in the purchase transaction should be recovered.

45. **Remuneration Tax of Doctors** - Section 8(2) of Income Tax Act, 2002, provides that any amount earned by a natural person from the employer as the wage, salary, overtime work payment, fee, commission and other facilities in an income year shall be included in computation of remuneration. Big private hospitals, while providing remuneration to doctors and other officials, have provided such remuneration as consulting service expenses and deducted 15 percent tax at source only. The consulting doctors, who submitted income statement showing income amounts received from hospitals, have also claimed separate expenses citing that they have appointed separate support staffs, in spite of the situation that the amounts of the required resources and facilities of supporting staffs in delivery of services to hospitals have been borne by the hospitals themselves.

In the circumstance of the receipt of remuneration in the capacity of an employee by using materials, physical infrastructure and support staffs from the concerned hospitals, the claims being made for other expenses are not witnessed justifiable. Hence, pursuant to this, further investigation should be done to disallow the claims of other expenses NRs. 261.2 million related to expenses of supporting doctors, equipment made in 2016/17 by 65 taxpayers of 6 revenue offices including Inland Revenue Office – Tripureswar, Kaski, Chabahil, Lalitpur, and should also recover the tax of NRs. 52.2 million and fees & interest applicable thereon by computing the amounts as per Annex 1(1) of the Income Tax Act.

46. **Airport Service Tax** - As per Section 70 of Income Tax Act, 2002, a service tax at the rate of 5 percent shall be levied while carrying passengers with the embarkation from Nepal, and a service tax at the rate of 2 percent shall be levied in the embarkation of passengers from Nepal without arrival in other foreign countries as first destination. The airlines operating air flights have not deposited the required taxes as per the provision of the Act on the basis of
number of embarked passengers, and the airlines which deposited taxes have also deposited inadequate amounts. Based on the selection of audit sampling, the tax amounts inadequately deposited and requiring recovery from 6 airlines alone have appeared NRs. 377.8 million.

As per the above statistics, it is noticed the applicable taxes have been calculated only on the basis of first destination. In the flights operated from Nepal, if the fares of second destinations and the amount of all cargo of connecting flights are added, the above mentioned recoverable amounts will increase furthermore. Hence, the required tax liabilities should be ascertained conducting an investigation on this issue.

47. **Tax on Cargo** - As per Section 70 (1B) of Income Tax Act, 2002, a tax at the rate of 5 percent shall be levied on the payment granted to non-resident of Nepal while transporting the inter-consignment goods dispatched from Nepal. The 10 taxpayers under jurisdiction of 4 Inland Revenue Offices have shown the lumpsum purchase stating the transport of cargos through various airlines companies, have not shown the purchases in Schedule-13, and have not deposited tax applicable in the payment of cargo service. In spite of existence of such situations, the tax offices have accepted the payment granted to cargo companies, and hence, the unrecovered taxes of NRs. 112.16 million and applicable fees thereon should be recovered by conducting an investigation on the transactions of the airlines.

48. **Change in Controls** - Section 57(1) of Income Tax Act, 2002, provides that if the ownership of any entity changes by fifty percent or more as compared to its ownership of the last prior three years, the entity shall be deemed to have disposed the property under its ownership or the liability borne by it. As per Section 57(2) of the same Act, the entity shall not be allowed to deduct the loss suffered by that entity prior to the change in ownership pursuant to Section 20, and it shall be deemed to have assessed the property at market price in case of disposal of assets, and disposed at market price in case of liabilities. Pursuant to change of controls of 20 taxpayers registered with 11 Inland Revenue Offices, the benefits should be determined by identifying the market price in respect to NRs. 626 million 552 thousand - the loss adjustment made as per Section 57(2) of the Act, NRs. 5 million 552 thousand - tax applicable in benefits after deducting disallowed loss suffered, and NRs. 484 million 105 thousand - the market price to be determined. An investigation should be made to recover tax NRs. 2.6 million to be receivable from the benefits of disposal along with retention as per Section 40 and 41 and tax NRs. 19 million 591 thousand on generated benefits as per Section 95A(2)B of the Act.

49. **Net worth Characterization** - Section 45(1)(a) of Income Tax Act, 2002, provides that the person who has disposed the property shall be deemed to have received the amount of the market value of that property immediate before the time of disposal or net expenditure incurred on the property whichever is high. While making the change of ownership with the condition of having accumulated profits in 2016/17 and 2017/18 of 12 taxpayers of 8 offices including Inland Revenue Office - Biratnagar and Dharan, the tax assessments have not been made by computing premium of the profit amounts based on the existing share number. Since the taxpayers are not listed in Nepal Stock Exchange Board, the prices of share are determined on the basis of net worth of book value of the company amongst other various methods, an investigation should be made to recover the 10 percent tax of NRs. 15.55 million and applicable fees and interest thereon on the benefits obtained NRs. 155 million 495 million from share sold amount NRs. 3 billion 228.6 million in accordance with the Section 37 of the Act.

50. **Profit Calculation on Sale of Telecommunication Company** - Section 65(2) of Income Tax Act, 2002, provides that if the ownership of any entity changes by fifty per cent or more as compared to its ownership of the last prior three years, the entity shall be deemed to have disposed the property under its ownership or the liability borne by it. Likewise, Section 40 (e) of the Act provides that any person shall be deemed to have disposed any property or liability in the circumstances referred to in Section 57 in respect of any entity. Section 41 of the same Act mentions that in respect to the property, any person shall be deemed to have received the amount equal to the market value of that property at the time of disposal and the net outgoings
made for that property until that time shall be deemed to be equal to the amount receivable. In respect to liability, it shall be deemed to have spent the amount equal to the market value of that liability at the time of disposal for the disposal, and the incomings derived for that liability until that time shall be deemed to be equal to the amount of expenses.

As per the annual report 2017 published by a Malaysian Company, which has purchased 80 percent share of one taxpayer under jurisdiction of Large Taxpayer Office in 2015/16, it is mentioned that the company has commissioned the acquisition of one telecommunication company of Nepal. As per disclosure made in Note 45 of the financial reports, it is mentioned that the total assets is NRs. 202.46 billion and liability to be paid is NRs. 70.44 billion of the taxpayer of Nepal. Thus, it is obvious from the figures that the net assets of the taxpayer will become NRs. 132.02 billion.

As per income statement submitted by the taxpayer, the book value of net assets is NRs. 57 billion 879.8 million. Though the taxpayer has submitted income statement treating separate income years of the before and after the change of ownership as per Section 57 of the Act and has shown net profit of NRs. 248.3 million, it has not submitted the agreement and other statements at the time of purchase/sale of shares. If taken the net value of assets NRs. 132.02 billion as net receipt amount and deducted book value of balance sheet of the period NRs. 57.87 billion from the amount, the net profit for the purpose of Section 57 of the Act will become NRs. 74.15 billion. However, the taxpayer, as per declaration made in its income statement submitted on 2016/10/07, has shown the profit of NRs. 248.3 million only. After deducting this amount from the profit, the balance amount becomes NRs. 73.89 billion and no tax assessment has been done to recover applicable tax at the rate of 25 percent on the NRs. 73.89 billion i.e. NRs. 19.47 billion. Pursuant to this, if NRs. 50 billion 115.1 million, the equivalent amount of Ringgit 1 billion 843.8 million is included which the Malaysian Company has determined as goodwill, the tax amount will increase furthermore. Hence, the tax should be determined by conducting an investigation relating to applicable tax, fee, and interest as per Income Tax Act.

Abnormal Expenditure – A taxpayer of Inland Revenue Office, Battisputali has received the payment of NRs. 50 million 279 thousand in respect to the construction of retaining wall, excavation and soil filling works in Mugu Airport, Rara. The taxpayer, who has activities in Rara, has shown the expenses of NRs. 10 million 159 thousand in respect to the purchase of fuel from one petrol pump of Hetauda, but has not claimed any amount with respect to the transportation expenses.

Likewise, one taxpayer of Inland Revenue Office, Lahan that conducting fuel transactions, has shown fuel sales of NRs. 92 million 907 thousand to 35 construction and other businesspersons out of the fuel purchase of NRs. 94 million 90 thousand (98.75 percent). Though the taxpayer has done registration stating the purpose to sell fuel to public, private and rental vehicles, the fuel pump that operated in highway has shown abnormal fuel sales to only those businesses that have VAT credits, and thus, the transaction cannot be accepted as real transaction. Pursuant to such expenses, an investigation should be conducted and necessary tax liability should be determined.

Long-term Contract - Rule 12 of Income Tax Rules 2002 mentions that pursuant to long-term contract, the completed percentage, estimated amount, received amount or expended amount of the contract shall be taken as base for the purpose of computation of income from business to any person in any income year. A construction contractor registered with Large Taxpayer Office, pursuant to a long-term contract of NRs. 3 billion 972.4 million entered in 2015/16, has submitted income statement by specifying the estimated cost of NRs. 5 billion 123.1 million, which shows a loss of NRs. 1 billion 150.7 million to the contractor at the time of acceptance of the contract. As such, the statement of long-term contract submitted by the contractor with the assumption of completing construction works at loss does not appear realistic. Since construction contractors usually prepare the cost estimates by adding their own
profit share, an investigation should be made pursuant to the statement submitted by the contractor with the assumption of incurring losses at the very beginning.

53. **Tax of Non-resident** - Section 89 (3) of Income Tax Act, 2002, provides that a tax at the rate of 5 percent shall be deducted in the payment of other contracts to be granted under any contract or agreement by any resident person to non-resident person. One cement industry registered with Large Taxpayer Office has stated that it entered an agreement of NRs. 1 billion 258 million with a foreign service provider in 2015/16 for receiving the consultancy service and has paid NRs. 266.7 million as advance payment. As the service provider involved in purchase, installation and supervision of equipment, the service provider should have operated the transaction registering as a permanent establishment, but it has not done so. Hence, by conducting further investigation to this matter, necessary tax should be assessed to collect 5 percent tax deduction at source of NRs. 13 million 335 thousand and applicable fee and interest on the payment as per Section 89 of the Act.

In the capitalized fixed assets by another cement industry, the machine purchase and equipment installation of NRs. 3 billion 750 million 612 thousand is shown. Pursuant to this transaction, no disclosure has been made in Annex-13 and Notes to the Account. The involvement of international expert may be required in purchase and installation of equipment, but this matter has also not been disclosed. The tax auditor has also not mentioned any comment to this matter, and as such, further investigation should be done to recover the tax and fee applicable to works conducted though permanent establishment as per Income Tax Act, 2002.

54. **Registration** - As per Section 10(3) of Value Added Tax Act, 1996, any person conducting the taxable transaction, shall collect taxes only after getting registration in the concerned office and issuing the tax invoices as specified by laws. In Value Added Tax Directive, 2016, it is explained that the VAT should also be included in the transactions including the dairy products such as chhurpe (hard cheese), cheese, management service, frozen meat etc. operated in excess of threshold. Seventeen taxpayers registered with 8 offices inclusive of Inland Revenue Office - Biratnagar, Dharan, Bhadrapur and Kalanki, have operated such transactions since 2014/15 to 2016/17, but the applicable VAT has not been collected in the transaction. Since the VAT has not been collected in the taxable transaction of NRs. 679 million 192 thousand, the uncollected VAT NRs. 78 million 137 thousand and fees and interest applicable thereon should be recovered.

55. **Tax on Infrastructure Construction** - Section 8(3) of Value Added Tax, 1996, stipulates that even though the construction of a building or infrastructure of which value is more than five million Rupees and which is built for business purpose is carried out from a person who is not registered in tax, the tax shall be assessed and collected from a person who has ownership in that structure. Taxpayers have been constructing infrastructures from the contractors which are partially registered in VAT. From the examination of the statement submitted by the taxpayers and statement of purchases & sales (Annex-13), it is witnessed that the taxpayers, in addition to transactions made with the parties registered in VAT, have also carried out transactions with the parties that are not registered in VAT and consequently the applicable VAT has not been collected from such transactions. The 90 taxpayers registered with 20 offices have carried out the infrastructure works of NRs. 5 billion 113.9 million, and since they have conducted transactions with the unregistered, the VAT of NRs. 664.8 million has not been collected. In view of non-collection of VAT in the transactions, the transactions of other such type of taxpayers should also be examined to recover the applicable VAT along with additional duty, interest and fine.

56. **Tax of Registration Adjournment** - Section 17(4) of Value Added Tax Act, 1996 provides that if goods, for which deductions have been allowed, cease to be used for taxable transaction prior to end of expiry date, tax shall be recovered treating such goods as sold at the immediate market value, and Inland Revenue Department has also issued a circular on 2018/12/30 for recovering the taxes of the taxable goods kept in stock treating such goods are
sold at the immediate market price. The big hospitals of Kathmandu have taken deductions while adding of building and equipment during establishment period and Finance Act 2018 has also given relaxation to the health services from VAT applicable transaction. The seven hospital of Kathmandu Valley for the registration adjournment and some of them for the ordinary type of surgical goods have shown eligible for selling and they have shown incomes related to hospital services as VAT free. However, since the taxpayers have not deposited the revenues with debit adjustment related to VAT deductions that had been taken previously in the construction of building and equipment. Hence, assuming the price of assets as of 2075 Srawan after deducting depreciation as market price, the necessary taxes should be assessed by making an investigation with respect to recovery of the tax NRs. 1 billion 43.7 million and applicable fees thereon.

57. Ineligible Credit - Section 11(Gha 1) of Value Added Tax Act, 1996 provides that if any taxpayer submits a statement of zero return for more than twelve months continuously, the registration of taxpayer shall be liable for cancellation. As per returns details of taxpayers, 25 taxpayers of 8 Inland Revenue Offices, which have submitted their statements with zero returns more than 36 months, have been showing VAT credits continuously since past some years. Hence, pursuant to the VAT credits, an investigation should be made and the tax of NRs. 66 million 345 thousand should be assessed to disallow the credits.

58. Double Tax Refund to Cotton Industry - Clause 18 of Schedule-1 of Value Added Tax Act, 1996 provisions that any domestic cotton industry shall be allowed to make the credit adjustment of 70 percent of the VAT collected by selling goods to VAT registered taxpayers. Four taxpayers under jurisdiction of Large Taxpayers Office have taken credits of VAT paid on their own purchases and also made credit adjustments of 70 percent of the VAT collected on their sales, and other 82 industries, which have purchased goods with the earlier industries for selling purpose, have again taken credits of all VAT paid on their purchases. Since the credits are taken of the VAT paid on all purchases and 70 percent of VAT collected in sales, an excess of 70 percent VAT than the tax deposited in state treasury have been refunded. Hence, the matter of double credit claims should be further investigated and the necessary tax should be assessed with respect to the short collection of revenue of NRs. 162 million 21 thousand due to the credit adjustment.

59. Package Tours - Inland Revenue Department had issued a circular on 1998/01/19 stating that the travel and tours business should collect VAT in package tours. However, there has been a situation that such businesses have not yet collected VAT citing that the package tours and trekking are tax exempted sales. The 28 taxpayers of 8 offices inclusive of Large Taxpayer Office and Inland Revenue Offices - Tripureswar, Patalisadak, have made such transactions of NRs. 966 million 384 thousand, and with respect to the amounts, which are more than the thresholds specified in illustration 10.1 of Value Added Tax Directive 2016, the necessary VAT of NRs. 111 million 177 thousand and applicable fee, interest and fine should be recovered by conducting an investigation.

60. Tourism Entry Fee - Section 5 of Value Added Tax Act, 1996 provisions that except to the tax exempted transactions of goods and services referred in Schedule-1, the Value Added Tax shall be levied on other every transaction. Since the tourism entry fee is not included in VAT exempted list, the transaction is subject to the collection of VAT. Pashupati Area Development Trust has recovered the tourism Service Fee of NRs. 141 million 950 thousand in 2017/18, NRs. 108 million 305 thousand in 2016/17 and NRs. 72 million 548 thousand in 2015/16, but the applicable VAT of NRs.41 million 964 thousand to be levied on the fee has not been recovered. The provision of the Act needs to be followed.

61. Wastage – Rule 23(A) of Excise Duty Rules, 2002 stipulates that any industry producing beer, in the event of filling bottles, if the quantity stock as per filled up bottles becomes shortfall than the quantity shown by the flow meter, the remission at the rate of 1.5 percent to the maximum shall be granted, and for the breakdown of bottles in course of the pasteurization, packaging and warehousing and physical verification, a remission at the rate of
2 percent shall be granted to the maximum. However, one beer industry under jurisdiction of
Inland Revenue Office, Bhaktapur, in the situation of non-operation of flow meter, has
claimed an excess wastage of 1 million 258 thousand litre than the maximum allowable
wastage of 2 percent for pasteurization and packaging, and which in turn, an excess remission
of excise duty of NRs. 149.6 million at the rate of NRs.115 per litre has been claimed. Hence,
amount should be recovered by making tax assessment.

62. **Excise Duty Credits of Imports** - As per Finance Act, 2017, the excise duty paid on imports
of raw materials and parts, the customs duty of which are exempted in Section 3A(5) of
Excise Duty Act, 2002 cannot be claimed for deduction. While importing assembling parts by
the television assembled industries for the purpose of the installation in television, the
customs clearance has to be done by charging customs duty rate at the rate of 20 percent, but
without using the assembling customs duty rate, the customs clearance of the all materials
imported by all assembled television industries has been done by charging a separate excise
duty rate of 10 percent that prescribed for the parts. The credit amounts that remained due to
collection of excise duty at the rate of 5 percent in television sales have been carried forward
by the television producers. Pursuant to the customs clearance made by charging excise duty
rate instead of customs duty rate, the Public Accounts Committee had directed on 2017/07/15
to make zero of the credit balance of excise duty, but the directive has not been yet complied
with.

Since the customs duty on television parts are exempted as per provision of Finance
Act, 2017, the credit of excise duty paid on the raw materials while making customs clearance
on the basis of the heading cannot be granted. However, the total credits of NRs.321 million
847 thousand have been adjusted by the 8 Inland Revenue Offices by including - the credit of
excise duty carried forward of NRs. 223 million 666 thousand taken on imports of the
customs exemption goods with the use of different rate by 11 taxpayers before 2017/05/29,
and the credit of excise duty of NRs. 98 million 181 thousand taken on imports of the customs
exemption goods by the 20 taxpayers since 2017/05/29 to 2018 mid-July. Since the credits
which are not entitled have been adjusted, the excise duty along with the applicable fee and
interest should be recovered conducting an investigation.

63. **Excise Duty of Television** - As per Section 4, sub-section (1B) of Excise Duty Act, 2002, the
excise duty shall be have to be recovered at the time of issue of invoices under self-fabrication
system. The 2 taxpayers registered with Inland Revenue Office Birgunj and Lalitpur-1 have
taken income tax exemption applicable to industries as the companies have manufactured and
sold televisions through the importing television panels along with parts and fitting them to
produce televisions. Out of the total sales of NRs. 582 million 597 thousand which represent
the sales of one taxpayer from the period 2015 Mid- July and sales of another taxpayer from
2016 Mid-August up to 2018 Mid-July, the industrial sales is NRs. 579 million 932 thousand.
Since the excise duty on industrial sales has not been collected and not deposited, a total of
NRs. 57 million 993 thousand inclusive of 10 percent excise duty and VAT should be
recovered by conducting investigations.

64. **Credits on Packaging Materials** - By making amendment of Section 3(a) of Excise Duty
Act, 2002, Finance Act 2015 has provisioned that the excise duty paid on purchase of raw
materials can be deducted if the materials are used in the production of goods which are
subject to recovery of excise duty, but the excise duty paid in purchase of subsidiary raw
materials cannot deducted if such materials are used as packaging materials. One taxpayer
registered with Inland Revenue Office Koteswar has claimed the credits of excise duty NRs.
24.4 million that paid on the purchase of packaging materials in 2017/18, and hence the
amount of excise duty should be recovered by computing applicable additional interest, fine
and fee.

- **Recovery of Revenues**

65. **Disposal of House and Land** - Section 95(a) of Income Tax Act, 2002, provides that in case
of a natural person, the capital gain tax shall be recovered in advance at the time of disposal
of house or land, and in case of an entity, the tax shall be recovered on the balance amount that comes after inclusion of the amount in income statement and deduction expenditure. As per the records received from the Land Revenue Offices, it is observed that the entities which have disposed of their house or lands have not paid capital gain taxes and the tax have been uncollected from such entities. The 29 taxpayers of 13 Inland Revenue Offices which have disposed of their properties, have not included the amounts or have included less amounts and hence the applicable tax of NRs. 329.9 million along with fee and interest on the transaction of NRs. 2 billion 53.3 million should be recovered.

66. **Collected Tax Not Deposited** - In accordance with the Section 17 of Value Added Tax, 1996, the tax amount should be deposited after deducting the amount of tax paid on taxable goods from the amount of tax collected. The taxpayers, which have been running contract businesses registering as joint ventures, have shown the tax amounts to be deposited with the submission of debit returns, and not paid the taxes submitting zero returns continuously and some of them are non-filers too. In Section 10 (b) (4) of Value Added Tax, 1996, there is a provision that with respect to the taxes not deposited by the joint venture businessperson, the revenue administration should recover the amount from the partners of such taxpayers either jointly or separately. The 305 taxpayers of 16 offices inclusive of Inland Revenue Offices - Bhadrapur, Dharan, Tripureswar, Birgunj, have shown VAT of NRs. 341 million 422 thousand outstanding to be deposited, which collected from various user-groups, businesses and government entities. Hence, the amounts need to be recovered.

67. **Non-Filers Taxpayers** - Section 96 of Income Tax Act, 2002, provides that each natural person should submit the income statement within 3 months of end of every fiscal year remaining within Section 97, 98 and 100 of the Act. It is observed from the Value Added Tax statement that 97 taxpayers of 11 Inland Revenue Offices have operated the transactions of NRs. 5 billion 516.9 million during the period 2012/13 to 2016/17. The Inland Revenue Offices have not taken any effective measure to assess taxes being vigilant of the transactions operated by those taxpayers. If computed the transaction-based tax at the rate of 0.75 percent as per Point 17 of Schedule-1 of Income Tax Act, 2002, the tax recoverable becomes NRs. 41.3 million to the minimum. Hence, the applicable taxes should be recovered by conducting investigations on the transactions.

68. **Tax Rate** - As per schedule-1 of Income Tax Act, 2002, a tax at the rate of 30 percent shall be levied to the entities that make production and sales of alcohol, beer and other similar type of liquors. One taxpayer of Large Taxpayer Office has sold liquors flavor related to alcohol in income year 2013/14. With respect to the entity engaged in production and sales of the flavor, a tax at the rate of 30 percent has to be collected, but the tax at the rate of only 25 percent has been collected. Therefore, the shortfall in tax at the rate 5 percent which figures NRs. 27 million 551 thousand and applicable fee and interest thereon should be recovered conducting an investigation.

69. **Import of Apples** - In customs tariff rate mentioned in Clause 16 of Schedule-1 of Finance Act, 2017, it is provisioned that the agriculture reform fee at the rate of 5 percent shall be levied on the agriculture-based goods imported from India and Tibet, the autonomous regions of People’s Republic of China, and to other type of imports, the customs tariff at the rate of 10 percent shall be levied. This year, only agriculture reform fee at the rate of 5 percent has been recovered while importing apples valued NRs. 4 billion 377 million by 71 importers from Rasuwa Customs Office. It is known from the invoices that the apples were not produced in Tibet Autonomous Region of China, but purchased from other provinces but imported through via the Tibet. However, the customs tariff at the rate of 10 percent has been recovered while importing apples that produced in China through via Calcutta port. Since 5 percent agriculture reform fee is recovered instead of the 10 percent customs tariff, the revenue of NRs. 218 million 908 thousand has been less recovered. Though an audit observation was provided stating that – “since the matter is not clear whether the provision of 5 percent tax mentioned in Finance Act 2017 is applicable to goods being produced in Tibet and imported from same place or to the goods being produced any place of China and
imported though the Tibet Autonomous Region, the ministry should sort out this matter clarifying in explanation”. However, no such explanation has been given till now. The matter of levy of different tariff rates for same nature of goods should be sorted out.

70. **Variance in Customs Tariff Rate** - While making the customs clearance of imported goods, the customs offices should accurately determine the true code of the imported goods as per the code number mentioned in Schedule-1 of Finance Act, 2017 (2074) and Custom Tariff (Darbandi) Book. However, while examining the customs declaration forms on sampling basis, the Customs revenues of NRs. 486 million 635 thousand have been less recovered due to application of unrelated codes and tariffs. Major observations pertaining to this are as follows:

70.1 Biratnagar Customs Office has granted the customs clearance to prime coated steel sheet imported by one importer under customs tariff sub-code no. 721041 (zinc coated or ridged or corrugated) with the recovery of 15 percent customs duty plus VAT. Since the goods were not zinc coated, the customs clearance should have made from the sub-code no. 721070 (Color coated, colored or plastic coated) by recovering of 30 percent customs duty plus VAT. It is because of use different customs tariff code, the customs duty of NRs. 24 million 855 thousand has been less collected, which should be recovered.

70.2 Tribhuvan International Airport Customs Office has granted the customs clearance of Frozen Boneless Chicken under customs tariff code no. 020714 (Iced Pieces and Residual) with the recovery of customs duty at the rate of 10 percent only. Since the chicken were imported in vacuum packs after processing and had 2 years of due date, the customs clearance should have made from the customs tariff sub-code no. 160239 (Readymade, or safe meat) recovering 15 percent customs duty plus VAT. But, the customs clearance of the chickens has been done from other sub-codes and the less collected NRs. 17.37 million should be recovered.

70.3 As per the Custom Tariff Rates specified in Schedule-1, Clause no. 14(3)(I) of Finance Act, 2017, any industry registered with the purpose of operating cable car has to pay a customs duty at the rate of 4 percent while importing cable specified in sub-code no. 731210 and readymade cabs specified in sub-code no.721090 or steel sheets specified in sub-code no. 721090 that are necessary to prepare cabs. As per the tariff, the iron materials that are necessary for the construction of towers cannot be classified into above customs tariff codes or machinery goods. The Finance Act has provisioned that the customs clearance of the goods that are necessary for the construction of cable car should be done from the concerned customs tariff rates and the exemption of revenues should be granted only on the basis of the specified customs tariff rates mentioned in the Act. However, Dry Port Customs Office has done the customs clearance of all goods of cable car imported by one Cable Car Pvt. Company from sub-code no. 842860 (machinery) recovering the customs duty at the rate 4 percent only, which is not compliance with customs classifications and explanations principle determined by World Customs Organization. When assessed the customs duty classifying the goods on the basis of customs sub-codes numbers - 7308, 7312, 8428, 8431 and 8528, the short collected revenue becomes NRs. 35.63 million inclusive of the customs duty and VAT. Hence, the amount should be recovered.

70.4 Taking the basis of classification of goods and explanations made by Customs Department, Birgunj Customs Office has granted the customs clearance of imported aseptic packaging materials under customs tariff sub-code no. 760720 recovering 15 percent customs duty plus VAT. However, the customs clearance of the goods was made under customs tariff code no. 481159 in previous year, the customs clearance of the goods has been done from Customs tariff code no. 481159 as per international statistics, the customs classification code has been mentioned as 481159 in the invoices submitted by importer and the goods consist of 70 percent paper, 24 percent plastic and rest 6 percent aluminum as per characteristics analysis. In such a circumstance, the customs clearance has been done in this year by classifying the goods under aluminum code, which is not appropriate. As per the World Custom...
Organization 2012 classification, the heading no. 76.07 (b), which is different from above heading, includes the material characteristic of paper and paper goods (paper board), and the code no. 4811 includes the aluminum foil (panni) which is used as internal cover for making cover or box of milk, fruit juice or other food production. Hence, the customs clearance of goods should have done from 4811590 (plastic coated paper except aseptic), but the customs clearance has been done applying different tariff code. Hence, the short collected customs duty and VAT of NRs. 9 million 761 thousand should be recovered.

The customs clearance of the same nature of goods, namely, laminate for carton (packaging paper) should have done from customs tariff code no. 481159 (laminated others) with the recovery of 20 percent customs duty plus VAT, but the Birgunj Customs Office, pursuant to the goods imported by one importer, has recovered only 15 percent customs duty plus VAT making customs clearance through the customs tariff code no.760720. Since the unrelated customs tariff code is applied, the customs duty and VAT of NRs. 68 million 108 thousand has been short collected. The amount should be recovered.

70.5 As per explanations given in customs tariff rate, except for the vehicles made primarily for the transportation of persons or goods, the customs clearance of the vehicles produced for specific objectives such as; lorries, crane lorries, fire brigades, concrete mixture lorries, road sweeping lorries, spraying lorries etc. are to be done from tariff code no. 8705, the lorries of lifting nature are to be cleared from code no. 8426, and the engine fitted crane lorries are to be cleared from code no. 870510. However, Bairahawa Customs Office, pursuant to customs clearance of the engine fitted crane lorries submitted through 35 different customs declaration forms, has done the clearance using irrelevant tariff codes instead of applying customs tariff code no. 870510, which has resulted a short collection of 10 percent customs duty plus VAT of NRs. 48 million 492 thousand. Likewise, the office has done the customs clearance of concrete mixture lorries from tariff code no. 847431 applying 4 percent customs duty only instead of applying tariff code no. 870540 with the recovery of 10 percent customs duty and 13 percent VAT, which has resulted a short collection of customs duty plus VAT of NRs. 11 million 473 thousand. Thus, the short collected revenue of total NRs. 59 million 965 thousand should be recovered.

70.6 As per the provision of Finance Act, 2017, the customs clearance of the duplex board sheet should have done through customs tariff code no. 481092 with the recovery of 15 percent customs duty plus VAT, but the Bhairahawa Customs Office, has done the customs clearance by recovering 7.25 percent customs duty only after giving SAFTA exemption to the goods presented with 219 customs declaration forms. Since the goods are not eligible for SAFTA exemption, the granting of SAFTA exemption has caused the less collection of 7.75 percent customs duty and VAT of NRs. 14 million 370 thousand. This amount should be recovered.

71. Transactions between Related Parties - Section 41 of Income Tax Act, 2002, and Clause 4.7 of Directives Related to Capital Gain Tax on Land and House Land Disposal provide that in the event of any property that falls under one category at a point of time has been used for other purposes, the property shall be deemed to have disposed of at the point of time. One Cinema Pvt. Limited registered with the Land Revenue Office, Dillibazar, has disposed of 1 ropani, 11 aana and 3 dam of land and house built thereon to a person at a price of NRs. 157 million 407 million on 2018/06/25, but, it is witnessed that the buyer of the property has sold the same property to a hotel at price NRs. 460 million (292.24 percent more price) after 2 two days. Though the cinema hall has made business tax planning by selling the property to other related party within an interval of 2 days with NRs. 302.6 million more prices, no investigation has been made pursuant to this. As a result, the 10 percent capital gain tax, which could have received in advance, has not been collected.

72. Business Tax - While making the transactions of house & land for the business purpose, an income tax at the rate of 35 percent applicable on business income should be recovered instead of the capital gain tax. While making disposal of properties of business nature of total value NRs. 1 billion 381.9 million by 71 persons, the seven Offices inclusive of Land
Revenue Office, Kalanki, Lalitpur should have made the arrangement to recover the applicable tax amounts with the submission of income returns in the concerned Inland Revenue Offices from the persons making such disposals, however, no such statements have been received to ensure that the transactions have been included in the income statements of the concerned persons. In the state of non-submission of income statements along with the above transactions, the tax at the rate of 35 percent on the amount i.e. NRs. 483 million 682 thousand, should be recovered in accordance with the Schedule-1 of the Income Tax, 2002.

73. **Institutional Disposal** - In the non-business taxable property of institutional disposer excluding the real-estate, an advance tax at the rate of 10 percent should be recovered in accordance with the circular of Inland Revenue Department of the date 2016/07/24. In the disposed of total amount of NRs. 357.5 million, the Land Revenue Offices- Dillibazar, Lalitpur, Kalanki, Bhaktapur, Birgunj, Nawalparasi and Manamaiju have, however, not recovered the applicable advance tax of NRs. 41 million 188 thousand. Hence, the tax amount should be recovered making the concerned officers responsible.

74. **Less Capital Gain Tax** - As per the Directives, irrespective of the methods from which the ownership of land and house & land is obtained, the capital gain tax at the rate of 5 percent shall be levied in case the ownership period has not completed 5 years, and the tax at the rate of 2.5 percent shall be levied in case the ownership period has completed 5 years. The 15 offices along with Land Revenue Offices- Kalanki, Surkhet, Parsa, Morang, have recovered less capital gain tax of NRs. 43 million 503 thousand in the disposal of properties done by 186 disposers. Hence, the tax amount should be recovered making the concerned officers responsible.

75. **Building Construction Expenditure** - Pursuant to deductible expenditure of building construction, the circular of Inland Revenue Department of date 2017/07/19 clarifies that the capital gain tax should be computed only granting the costs deduction as per the assessment of date of building construction completion certified by local levels. However, with respect to disposals made by 87 disposers, the 5 offices inclusive of Land Revenue Offices- Lalitpur, Chabahil, Kalanki, Dillibazar, Belbari, have granted deductions without producing the evidence of expenditure at the time of building construction completion. Since the capital gain taxes have not been collected in the disposal of buildings of value NRs. 497 million 135 thousand, the tax should be recovered conducting an investigation.

- **Recovery of Non Tax Revenue**

76. **License of Casino** - There is provision in Rule 10 of Casino Rules, 2013 (2070) that a license fee of NRs. 20 million shall be paid that wish to get licenses for operations of casino, but a license fee of NRs.10 million shall be applicable in cases where games are played through the medium of modern machines or equipment. Rule 12 stipulates that the license period shall be of one fiscal year and Rule 13 mentions that an application for renew of license should be given one month prior to the expiry of the date of any license. Major observations pertaining to the operations of casinos are as follows:

76.1 Three casinos that are in operations have not obtained licenses. Pursuant to operations of casinos without getting licenses, total of license fees of NRs. 40 million should be recovered taking necessary actions, which includes NRs. 10 million from two casino companies and NRs. 20 million from one company which have operated in 4 places.

76.2 Section 17(4) of Finance Act, 2017 provides that the royalty shall be recovered from the entity with an annual fee of 15 percent of the royalty amount if the royalty is not paid within 2 months of end of each fiscal year, and an extra annual fee of 15 percent shall be recovered if the amount is not paid even after the expiry date to till 3 months. Since the royalty of NRs. 87.39 million, inclusive NRs. 30 million of one company and NRs. 57.39 million of another company, has not been paid in this year, the royalty amount should be recovered along with the applicable additional fee.
76.3 Section 17(1) and (2) of Finance Act, 2017 provides that in the place where the games (casino) are played through the use of modern machines or equipment, the games can be played in only one place from one license, but one mini casino has run such games in four places inclusive of Mahendranagar, Birgunj, Biratnagar and Kathmandu by paying the renewal fee of NRs. 5 million of only one place. Hence, the inadequate renewal fee of NRs. 15 million should be recovered taking actions as per the provisions of the Act.

77. **Frequency Duty** - Clause No.11 of Policy Relating to Radio Frequency of Telecommunication Service, 2012 (2069) stipulates that the minimum frequency duty allocated for GSM mobile service shall be fixed at the rate of 0.4 percent of annual total income of the service provider on lumpsum basis, however, the minimum frequency duty from 2 service providers has been less recovered in this year. Therefore, NRs. 80.97 million should be recovered along with extra duty of 2 percent per month in accordance with the Clause 16 of the Policy.

As per Clause 16 of the same policy and Rule 31 of Telecommunication Rules 1997, the radio frequency duty shall have to be deposited each fiscal year at regular basis, and each service provider shall pay microwave frequency and minimum frequency duty within 6 months of expiry of each fiscal year. Since 4 service providers have not deposited the frequency and V-Sat duty in 2017/18, the NRs. 806.58 million inclusive of applicable extra duty should be recovered.

78. **Telecommunication Royalty** - Rule 26 of Telecommunication Rules, 2054 provides that the person that have obtained license shall pay a royalty of the amount equivalent to 4 percent of its total annual income to the Government of Nepal every year. The 3 service providers, which have obligation to pay the telecommunication royalty, have not deposited NRs. 12.58 million, and 20 service providers, which collected amounts from clients, have not deposited the recoverable royalty of NRs. 43.92 million from their incomes. Thus, total royalty of NRs.55.50 million have not been deposited.

Pursuant to one telecommunication service provider's the outstanding royalty NRs. 1 billion 633.5 million to be settled as per the condition of license, the Government of Nepal had rescheduled the installment on 2012/09/30 to be paid in 8 installments. However, the installment of NRs. 204.19 million, which are required to pay by 2017/10/17 (2074 Aswin), has not been deposited till the end of this fiscal year. The outstanding royalty and frequency duty should be recovered along with applicable interest.

79. **Duty Arrears** - Nepal Telecommunication Authority should recover the amounts of license & renewal fee and rural telecommunication development fund duty as per work schedules. However, the Authority has not recovered the total amounts of NRs. 533 million 499 thousand inclusive of the renewal fee of NRs. 500 million 500 thousand from 2 service providers and rural telecommunication development fund duty of NRs. 32 million 999 thousand from another 2 service providers. Despite of its authoritative jurisdiction to take actions, such as- withhold the import of equipment, withhold the services and cancel the licenses, it has not taken any persuasive action for the recovery of the arrears amounts. The arrears amounts of the renewal fees should be recovered.

80. **Mobile Service Renewal** - Rule 10 of Telecommunication Rules, 1997 stipulates that the license shall be awarded to the highest quoted bidder if more than one telecommunication service providers become eligible. Nepal Telecom has acquired the mobile service license upon the condition of making payments par to the amounts of license fee, renewal fee and royalty quoted by the same nature of service provider that will be selected on the basis of competition. Since a private service mobile service provider that selected on the basis of competition, has obtained the service operation license with the condition of making payment of NRs. 20 billion renewal fee, the Nepal Telecom is also required to pay the same amount as per the condition of agreement. With respect to the license and renewal fee, the report provided on 2012/01/08 by the Sub-committee of the Public Accounts Committee mentions that since there have been some ambiguities in the Act and Rules about the renew of every
five year interval after completion of one time renewal, the Sub-committee has suggested to prepare the necessary legal basis in view of the existing practices of other countries, but the recommendation has not been implemented yet. Hence, pursuant to Nepal Telecom’s renewal fee, after making adjustment of NRs. 189 million that paid by the company on 2014/08/31 as renewal fee of second times, the balance renewal fee of NRs. 19 billion 811 million should be recovered. With respects to this, the Ministry of Communication & Information Technology has acknowledged that it has already issued a letter for depositing the amount and the amount has been in the process of recovery.

81. **Usage of Tax and Fees** – Section 13(1) of Finance Act, 2007 stipulates that the Government of Nepal by publishing a notice shall collect a pollution charge at the rate of 50 paisa on every litre on petrol and diesel sold /distributed within Kathmandu Valley and shall spend such collected amounts in the areas of environmental protection depositing such amount in a separate fund. In accordance with this, the revenue of NRs. 5 billion 201.5 million has been recovered /deposited in consolidated fund since 2008/09 to till now.

As per Rules Related to Control and Regulation of Tobacco-Based Products, 2011, the 25 percent amount of excise duty collected from the tobacco based products shall be deposited in Health Tax Fund. Since the excise duty of NRs. 9.01 billion, NRs. 10.99 billion and NRs. 14.04 billion were collected from the tobacco products in the fiscal years 2015/16, 2016/17 and 2017/18 respectively, the 25 percent of the amounts collected or NRs. 2 billion 252.5 million, 2 billion 747.5 million and 3 billion 510.3 million should have deposited in the Fund in the fiscal years 2015/16, 2016/17 and 2017/18 respectively, but only NRs. 400 million, 553.2 million and 500 million respectively have been deposited in the Fund. The amounts as specified in Rules have not been deposited in the Fund.

The charge and tax which are collected for the fulfillment of specific purposes, have not been used for the specified purposes, the propriety of the creation of the Fund and collection of revenue cannot be ensured.

82. **Allocation of Registration Fee** - As per Section 3, Sub-section (2) & (3) of Inter-Governmental Fiscal Management Act, 2017, the house & land registration fee falls under jurisdiction of the tax that can be levied by the provinces and local levels. This year, the circular of 2017/12/19 of the Government of Nepal has directed that since the modality of revenue allocation has not been prepared, the house and land registration fees have to be sent to District Coordination Committee with the provision of not making expenditure. The financial statement of Land Management & Records Department shows that 103 Land Revenue Offices along with Land Revenue Offices - Bara, Parsa, Lekhnath, Tokha have deposited NRs. 3 billion 471.5 million in their operational fund accounts in this year without making the allocation between provinces and local levels. The amounts should be allocated in accordance with the provision of the Act and should be deposited in the state and local level consolidated fund.

83. **Use of Property** - Section 5 of Nepal Trust Act 2007, provides that properties owned by Trust should be used in national interest, educational, academic and health related works so as to attain the mass and utmost public benefits. As per the property description of Trust, it has acquired the ownership of 21562.4-2-1 ropani of land having 216 units (kitta) in 12 districts, 472 thousand 886 units (kitta) of shares of 3 organizations, NRs. 595 million balances in fixed deposit accounts, NRs. 10 million 663 thousand balances in current & saving accounts, NRs. 3.44 million balances in deposit accounts, and the foreign currency balance of Sterling Pound 49.286 thousand and US Dollar 141 thousand. The movable and non-movable properties of the Trust should have invested in income generating activities, but they have been kept idle without making any investment. The properties of the Trust should be invested /used by identifying the income generating areas.
84. **House Unused** - The Nepalese embassy that prevailed in Bonn of West Germany prior to unification of Germany has been shifted to Berlin since 2000, and the 2 houses and 2,846 sq. meter land occupied by the houses existed in Bonn have not been used since 2000 onwards. Despite of audit observations mentioned in previous years with respect to proper safeguard of the government properties are to be made, no decision has been yet made even after the elapse of 18 years period. An expenditure of Euro 8,332 has been incurred in this year pursuant to security guard, electricity and water supply. If calculated the expenditure on the basis of an average expenditure of NRs. 800 thousand each year, the expenditure incurred by the government in 18 years for the unused houses and land becomes more than NRs.14.4 million. Hence, the management of properties should be done as soon as possible.

Nepalese Embassy in Washington D.C., on the basis of the approved cost estimate of US Dollar 7.815 million for the procurement of building, have received 3 proposals which are in compliance with the specifications. Out of the proposals received, the proposal of the least price having more space areas, which consists of a building constructed in 10 thousand 150 sq. ft. and occupied land of 0.93 acres, have been purchased at a price of US Dollar 6.8 million. Inclusive of the purchased building & occupied land and old two buildings, the available 3 buildings and land should be fully used for the purpose of the ambassador residence, other employees’ residence, and operation of the office, and the expenses which have been borne presently in respect to employees’ house rent should be minimized.

85. **Availability of Water** - As per the agreements concluded, the 720 cusec. water is to be received from Koshi West Canal, but less quantity of water has been received and the 300 cusec. water is to be received from Gandak West Canal, only 92 to 213 cusec. water has been received as per the measurement taken in Asadh month. The quantity of water being received in winter season will become further low. Since one of 3 gates, which regulates the water from main canal of Gandak West Canal, has been closed down from the initial period, the water of specified quantity has not been received in Nepal side. The project has not developed command area in 15 thousand acres even though it has capacity of command area of 40 thousand acres.

For the Narayani Irrigation Project, the 850 cu. Sec. water is to be received from Gandak East Canal, but the statements of 2017 Mid June to Mid-August (2074 Asadh & Shrawan) received from Irrigation Management Division show the receipt of less than 700 cu. sec. water in most of time. This project has not been able to provide irrigation facilities in command areas of Rautahat District. Irrigation facilities should be extended by receiving water of specified quantity.

86. **National Land Use Program** - In the three year Policy Related to Land Use, there are goals set for preparing map database related to land use and classifying the land use in all rural municipalities and municipalities. Up to this year, the consultants have been appointed to prepare maps on the basis of condition of soil, physical topography in various 92 rural municipalities and municipalities of 10 districts, and the payments of NRs. 592.4 million have been made in this year with respect to works done in preparation of land use maps, soil classification maps, land capacity maps, land use area maps and kitta measurement maps. However, it is known that the land use map has been handed over to only one local level till now. Hence, the maps should be brought in usage by completing handover to local levels.

87. **Postage Stamp Stock** - As compared to previous year’s stamp stock of 99 million 603 thousand 320 units of the value NRs. 1 billion 841 million 182 thousand existed in Central Stamp Store, the closing stock has remained 101 million 27 thousand 691 units of the value NRs. 1 billion 803 million 159 thousand at the end of this year with the addition through printing of 24 million units and expenditure incurred in this year of 22 million 575 thousand units. Out of the stamps in stock, the value of stamps that cannot be brought into usage is of value NRs. 30 million 828 thousand. Therefore, the postage stamps should be printed out giving due considerations to the requirements and stock available.
88. **Land Ownership Certificate and Rent** - Out of 160 ropanies of land existed in Khumaltar Transmission and 82 ropanies of land existed in Bhaisepatti Transmission Station, Radio Nepal has acquired the land ownership certificates of only 146 ropanies and 42 ropanies respectively in the name of the organization. But, the land ownership certificates of the rest 54 ropanies have not been obtained.

Pursuant to the renting 42 ropanies of land of Khumaltar Transmission Station existed in Lalitpur, an agreement was conducted with a housing company for renting 30 years with the condition of receiving the rent of NRs. 1.724 million per month. As per Standards Relating to House & land Management of Owned by Public Enterprises and Government Owned Committees, Boards, Companies and Organizations, the lease can be given for the maximum period of 30 years only after decision of the Government of Nepal after determining terms of condition and getting concurrence for the same from Ministry of Finance. However, the lease agreement was signed as per decision of the executive director. The rent of NRs. 13 million 793 thousand to be received in this year has also not been received.

89. **Royalty** - Pursuant to the approval given by the Department of Mines & Geology to 157 organizations/persons for the excavation of mines, only 115 organizations/persons have carried out the excavation of mines, and the Department has received the royalty incomes of NRs. 1 billion 136.2 million in this year. The cement and minerals industries have performed the excavation works of mines either in excess or less quantity than the quantity for which the approvals for mining were taken. When examined the records of 20 industries, they have carried out the excavation works of 1.634 million metric tons as against the approval taken for 4.654 million metric tons. Since the excavation works have been carried out in less quantity, it has created a circumstance of unnecessary holding of mines and the revenues receivable to the government of NRs. 180.4 million in respect to the less excavation of 3.02 million metric tons (if calculated at an average rate of NRs. 59.74 per metric ton) have not been received. The control and monitoring mechanism of the mining excavation quantity and revenue deposit processes should be made effective.

90. **Land Encroachment** - Guthi Sansthan (Corporation) should have safeguarded the lands under its ownership preventing from the encroachment, but the most of lands out of lands existed in 70 districts have been encroached and the Corporation has not prepared any up-to-date record of such encroached lands. Major observations related to this are as follows:

90.1 The land encroachments are found in respect to 1 thousand 188 kitta (unit) land of various Guthis (trusts) of Janakpur, around 157 ropanies land of Narayanpur of Dang, and Guheswari Sindur Chandan Tainathi Guthi, Bhandarewar Guthi and Tainathi Guthi of Teku Jagannath Temple existed within Kathmandu Metropolitan. The integrated records of the encroached guthi lands should be prepared and the land encroachments should be cleared by taking support from the concerned ministry and police administration.

90.2 Amongst the lands owned by Barahi Guthi of Janakpur, the 6 bigah 3 kaththa 5 dhur lands having 10 kitta (unit) have been given for usufruct to Janak Hajari Vidhyapith till the running of studies as per the decision of 1993/05/16 of Corporation’s board of directors and the decision of 2018/05/27 of the Government of Nepal. Out of the lands given for such usufruct, a compliant has been received stating that the 2 bighas 14 dhur land having kitta no. 1, 2, 28, and 49 of sheet no. 1354/14 are transferred in the name of a priest of Ratnasagar Maath (abbey) as a tenant by committing a fraud. The record maintained by the corporation shows that the land ownership certificate has been prepared by stipulating name of Ratnasagar Guthi and name of priest in land ownership column. Hence, the ownership of the Guthi land should be reinstated conducting an investigation in this respect.

90.3 The approval of the Corporation should be taken while using the Guthi (trust) lands by other entities or persons. Various government offices, persons, organizations or entities have been using Guthi lands without approval of the Guthi Sansthan. As per the statement received from the Corporation, the 29 government offices of Dhanusa District have used 64 ropanies 7
The encroachments have been witnessed in 1 thousand 188 kitta (units) of lands owned by various Guthis (trusts) existed in Batukbhairab of Patan, Datrataya of Bhaktapur, Hanuman Dhoka and Janakpurdham areas. Likewise, various organizations/persons have encroached the Pashupati Protected Memorial Area without getting approvals for roads and buildings construction, and the protected memorial areas have also been encroached while carrying out the extension works in Buddha Park, Gitamata Temple. Hence, an attention should be given in preservation and security of such encroached heritage sites by taking necessary actions against the persons/organization that have committed such encroachments.

**Management of Offerings** - The Offerings Management Directives 2018, provides that the religious organizations established as per prevalent laws should take the approval of local levels for the management of religious works and the offerings/gift offered in cash should to be deposited in a bank. The number of holy places or temples prevailed in Kathmandu Valley is not clear. There are 799 holy places or temples in remaining 74 districts. There is no information available in respect to whether or not the operations management of such holy places or temples has been done in accordance with the Directives.

Though the records of offering in cash as well in kinds in Pashupatinath Temple are being maintained and incomes are being accounted, the gifts offered in 13 temples including 1 bihar (monastery) & 5 temples prevailed outside the temple and 7 temples existed within the premises of the temple are being taken by the concerned priests and local committees, but the maintenance and reconstruction works of places have been carried out through the Trust, which is against the prevalent law. So, the arrangement should be made to deposit all gifts/offering and incomes of monasteries/temples of the whole Pashupati area in the Trust account and make payment by framing necessary rules and procedures from the Trust account if any remuneration is to be given to the priests.

**Replacement of Land** - Procedures Relating to Use of Forest Area, 2017 provides that the national forest can be used only after the availability of equivalent replacement land within one year, if any change of permanent nature is made in land use of any forest area. In accordance with the provision 3 thousand 837 hectares of forest lands are provided to 205 entities inclusive of hydro power projects, cement industries and eco-tourism industries, but such replacement of lands have not been made by the entities. For the sustainable development of forest areas, the replacement lands should be obtained and forest areas should be protected through the use of scientific forest management.

**Woods of Fast Track Road** - As per Rule 9 of Forest Rules 1993, the forest woods can be sold from bidding of prices for the purpose of household, disaster, agriculture tools through constituting a District Forest Products Supply Committee. As per the approvals given for the cutting off 10 thousand 31 trees of the community forest and 2 thousand 97 trees of national forest that existed in Nijgath-Kathmandu Fast Track, the forest products of 28 thousand 951 cu. ft. timbers and 82 stock piles of firewood of community forests and 940 thousand cu.ft. of timber and 17 stock-piles of firewood of the government managed forests have been kept at the road sides. Since such situations may cause the loss & damage in the condition of woods, the auction of the woods should be done by making the records of such woods up-to-date.

**Vehicle Purchase & Usages** - Major findings noticed on the procurement and use of vehicles are as follows:

**94.1** Out of the 1 thousand 115 motorcycles and 800 hundred vehicles that existed in 22 Ministries situated within compound of the Singha Durbar, only 909 motorcycles and 622 vehicles are in running condition. The procurements of 6 thousand 909 motorcycles and 1 thousand 24 cars,
jeeps, pickups vehicles have been made in fiscal year 2017/18 alone, which cost NRs. 6 billion 614 million 537 thousand. There exists the tendency to procure new vehicles every year without considering the utilization of the available vehicles, and no effective measure has been taken to maintain economy in the government expenditure.

94.2 In accordance with the statement obtained from the Office of the Prime Minister & Council of Ministers, there are 1 thousand 577 vehicles of running condition and 1 thousand 323 officers in 22 ministries. So, arrangements should be made to handover such vehicles to other entities which have such necessity of vehicles, acquiring vehicles from the entities which have excess number of vehicles as compared to necessity of work.

94.3 The 8 Prado vehicles, which were procured from the construction contractors keeping in Bills of Quality of the Chameleya Hydro Power Project of Nepal Electricity Authority, have been used by former high-ranked officials since past years. With respect to the vehicles, the government decisions were made on 2010/03/30 and other different dates to transfer the ownership of vehicles in the name of the Government of Nepal with the lumpsum payment of NRs. 61.71 million to Nepal Electricity Authority, but the ownership of the vehicles have not been yet transferred in the name of the Government of Nepal even after the elapse of 9 years period. Moreover, the Ministry of Home Affairs has also given the reply that it has no information about the status of the BA. 6 Cha 1025 Prado Jeep.

94.4 In accordance with the budget proposed by the Election Commission to procure 5 vehicles in 2016/17, the Ministry of Finance has given concurrence on 2017/07/12 to purchase the vehicles remaining within the approved standards. The Commission has spent NRs 116 million in this year purchasing 5 Prado Jeeps of 2982c.c. at a cost of NRs. 23.2 million per Jeep from one private limited inviting the tender. After completion of election, the Commission has, however, distributed 39 vehicles to various entities inclusive of newly procured 1 vehicle and 39 vehicles kept in stock. Hence, such vehicles should be procured only after the identification of needs.

95. **Income Backlogs** - Nepal Civil Aviation Authority Service Charge Rules, 2010, provides that the service providers shall have to pay any fee, rent, royalty or any other type of incomes to the Authority on timely basis. This year, the Authority has still to collect NRs. 2 billion 372 million 442 thousand from its 241 debtors. One air service provider has withheld its services after operation of its last flight on 12 October 2018 (2075 Aswin 26). The total of NRs. 218.6 million, inclusive of airport development fee NRs. 65.2 million and landing, parking & navigation fee NRs. 153.4 million, has not been recovered from the air service provider. Likewise, the rent to NRs. 80 million is still to be recovered from the 2 private limited, which have rented rooms for operating shops in the international terminal.

Nepal Television has the outstanding debtors of NRs. 255 million 462 thousand, which has remained pending since a long time. Likewise, the Employees’ Provident Fund has the total dues of NRs. 214.1 million up to this year to be recovered from two parties that have rented building. The electricity charge dues of Nepal Electricity Authority has reached to NRs. 15 billion 546 million 987 thousand in 2017/18 with an increment of 14.44 percent as compared to previous year’s figure. Out of the charges dues, the dues in respect to street lights is NRs. 4 billion 452 million. Guthi Sansthan (Corporation) has dues of NRs. 16 billion 237.3 million in respects to usage of Guthi lands.

The amounts should be recovered making responsible to the officials that have not collected such dues.

96. **Agreement at Low Rate** - As per Airport Service Charge Rules, 2010, the land rent for the construction of hanger has been fixed at NRs. 250 per sq. meter per month. The Tribhuvan International Civil Aviation Office has recovered less rent of NRs. 17 million 854 thousand up to end of this year, since an agreement was entered between the Office and one institution for renting the 1 thousand 105 sq. meter land situated at western side of cargo building at the rate of NRs. 175 per sq. meter per month for the 20 years’ period. Hence, the amount should
be recovered making responsible to the persons that have entered the agreement for collecting the rent at the lesser rate than the rate specified in the Rules.

97. **Built, Operate and Transfer (BOT)** - A lease agreement was entered for leasing 50-15-03-01 ropianies of land area of south-west side of Golden Gate of Tribhuvan International Airport for the period of 30 years to construct the business complex. In accordance with the principle acceptance of the Government of Nepal (Council of Ministers) of 2010/08/02, an agreement was signed with a businessperson on 2012/10/18 along with the conditions of completing the construction works within 21 months and returning the constructed building to Civil Aviation Authority after 30 years.

The letters of the Authority of the date 2018/03/16 and 2018/04/08 mention that the adequate security cannot guaranteed as the contractor has constructed underground parking that was not specified in the agreement and constructed the height of building up to 52 ft. against the 37 ft. as specified in the agreement. Though the agreement was signed for the constructing structures having specific area, height and other characteristics and the returns on the investment and other terms of the contracts have been determined on that basis, the construction works have been carried out varying with the specification. With respect to the construction works made varying with the agreement, an investigation should be conducted.

98. **Power Trading** - As per the Mahakali Treaty signed between Nepal and India, there is provision that the Government of Nepal shall get 70 million units electricity each year at free of cost as per English Calendar and the purchases are to be made if more electricity is required. Out of the 402 million 32 thousand 100 units electricity that obtained by the Authority by importing from Power Trading Company, India in 2016/17 and 2017/18, the 201 million 80.233 thousand had been received at free of cost. The Authority has accounted the amounts payable to the Government of Nepal with respect to the 140 million units electricity of the two fiscal years at the rate of NRs. 4.75 per unit, but it has not accounted the NRs. 290 million 131 thousand payable to the Government of Nepal in respect to 61 million 80.233 thousand units electricity that received in excess quantity at free of cost. The payable amounts should be accounted and paid to the Government of Nepal.

- **Loss Damage and Embezzlement**

99. **Government Land** - Revenue Office, Rautahat has done the registration for the disposal of 5 bigah 10 kaththa land on 2018/03/15 from a person through resignation with cancellation of kitta no.150 existed at ward no. 2 of then Laxminiya Village Development Committee. Though Fatuwa Biyjaypur Municipality, Rautahat has mentioned that the land of then Laxminiya Village Development Committee Laxminiya Village Development Committee is of government land, the office has transferred the ownership in the name of the person. The land has been again sold by fragmenting the kitta no. 150 into 9 different kittens. Hence, the evidence of the land registration in the name of Government of Nepal along with the cancellation of 40 bigah 2 kaththa 10 dhur land from the personal names should be produced making responsible to the local level that has provided the recommendation, the Survey Office that has done the fragmentation (kittakat) of lands and the Land Revenue office that has done the registration for transferring the government land into personal names.

100. **Less Revenue Deposited** - Though the accounts section of Land Revenue and Land Reform Office, Bharatpur has received the amount of NRs. 17 million 176 thousand from the concerned sections in various dates the amounts of which are collected by issuing cash receipts with respect to registration fee, service fee and capital gain tax, but the amount has not been yet deposited in the bank accounts. Hence, the concerned entity should make necessary investigation relating to this, and the amount should be recovered taking actions against the responsible persons concerning the less revenue deposit.

101. **Damage in Course Construction** - Clause 7 of Memorandum of Understanding and Agreement signed between Kathmandu Valley Water Supply Project Implementation Directorate and Department of Roads stipulates that if any damage is caused in the pipes laid
down by the Project Implementation Directorate in course of construction of sewerage by the Department of Roads, the Department of Roads shall indemnify the amounts to Project Implementation Directorate that required for the reconstruction of such damages occurred. It is because of the adequate precautionary measures not followed, the pipes equivalent to NRs. 15 million 689 thousand have been damaged by the Division Road Office, Kathmandu-1 in 5 road sections, which has created unnecessary liability to the office. Pursuant to this, the concerned officials should be held responsible.

102. **Loss of Petroleum Products** - The Board of Directors of Nepal Oil Corporation determines the losses in storing of the petroleum products of Biratnagar, Thankot and Sinamangal Stations. The Board has fixed the aviation fuel loss of 0.62 percent for the Sinamangal, but the executive director has increased the loss to 0.85 percent without getting approval of the Board. Since more losses in storing have been shown in Thankot, Sinamangal and Bhairahawa in this year than the loss specified by the board, NRs. 36.5 million calculated on the basis of average selling price for excess losses shown should be recovered from the responsible officials.

• **Over Payment and Additional Burden**

103. **Incentive Allowance** - In accordance with the Financial Procedure Rules, 2007, any office shall take pre-approval of the Ministry of Finance while making any decision that cause financial liability with the increment of additional facilities.

103.1 Ministry of Finance has provided the approval to Federal Parliament Secretariat to distribute incentive allowance to its employees up to 2018/01/21, but the Secretariat has also spent NRs. 36 million 917 thousand in respect to the incentive allowance of the period from 2018/01/22 to 2018/07/16 without getting pre-approval of Ministry of Finance. The incentive allowance which provided against the Rules should be recovered from the concerned.

103.2 As per decision of 56th board meeting of Civil Servants’ Hospital Development Committee, the hospital has paid NRs. 146 million 658 thousand in this year with respect to incentives to specialist doctors and hospital staffs at different rates in proportion of fees collected from service delivery. However, while making payment of the amount, the staff associated with drug purchase has been paid an excess incentive allowance of NRs. 14 million 686 thousand by making double posting in income of NRs. 85 million 149 thousand and computing more allowance by 10 percent of the amount. The double paid amount should be recovered.

104. **Transportation Rent Payment** - For supply of drugs and drug associated goods, the agreements are entered between Department of Health Services, Supply Division and two transporters. While reviewing the documents related to payment of transportation rent, it is found that the goods, which are dispatched for delivering in Humla and Mugu district, have been delivered in Gothijyula Store of Jumla and the goods which are to be supplied in Dolpa have been delivered in Radijyula Store of Rukum. Despite of goods not delivered in specified places, the payments have been made with the higher rate of Humla for the goods delivered in Jumla, with the rate of Jumla for the goods delivered in Kalikot, and with the rate of Dolpa for the goods delivered in Rukum. Hence, pursuant to the excess amount paid in transportation, an investigation should be conducted and the excess amount of NRs. 14 million 671 thousand paid in this year should be recovered.

105. **Excess Payment** - Each office is required to make payment in accordance with the terms of agreement. However, 45 offices along with Water Supply & Sanitation Division/Sub-Division Kathmandu, Bhaktapur, Lalitpur, Sunsari, have incurred the ineligible expenditure of NRs. 31.5 million due to payment of - ineligible price adjustments granted to construction contractors, amounts paid by the office which are required to be borne by the user groups as per partnership in cost-sharing, more amounts paid than that specified by norms, double payments made etc. The amount so paid against the provisions of laws should be recovered.

106. **Printing of Voters’ Education Materials** - Pursuant to legal petition filed in Supreme Court with a claim that the ballet paper to be used for the election of members of House of
Representative and Provincial Assembly should be separate instead of one ballet-paper, the Supreme Court has given verdicts on 2017/10/18 and 2017/10/25. In the verdict, the court has drawn attention of the Commission with respect to the Commission’s decision to print one single ballet paper for election of two types of members in spite of the existence of two separate Acts for House of Representative and Provincial Assembly, and suggested to print separate ballet papers for the election of members of House of Representative and Provincial Assembly. After the verdict, the Commission should have immediately stopped the printing of voters’ education materials, but the Commission has given continuity to printing works and has made the decision to print separate ballet papers only on 2017/10/29. The voter’s education materials such as- posters, pamphlets, brochures, frequently asked questions and sample ballet papers of value NRs. 117.2 million, which printed in between two dates i.e. from the court’s attention drawn date 2017/10/25 to the Commission’s decision date 2017/10/29 as per acceptance of using a single ballet paper for dual purpose, have existed at store in useless condition due to inappropriate for using.

The decision to reprint the materials has taken place after the Supreme Court’s verdicts issued on 2017/10/17 & 2017/10/25 and the Commission has taken decision to print separate ballet papers only on 2017/10/29. The Commission has incurred the expenditure of NRs. 75 million 449 thousand to reprint the voters’ education materials with the objective to make voters’ education effective. Citing the reasons of the inadequacy of time, the reprinted voters’ education materials are, however, not delivered in the 32 districts in which the first phase of election was taken place on 2017/11/26. Since the reprinted voters’ education materials are not delivered in specified districts on timely basis, the materials have remained in un-useable condition.

107. Grant Distribution: It is mentioned that the High-Value Agriculture Products Development Project should make investment in all projects that specified for operation of Sub-Projects as per agreement made with grant recipients. For the amounts quoted by the grant recipients, the investments are to be made by 72 percent only, and on the percentage basis, the grant of NRs. 474.5 million is to be provided for the grant agreement made NRs. 659 million. However, since the project has provided the grants of NRs. 557.9 million, on proportionate basis, an excess amount of grant NRs. 83.4 million has been provided.

108. Grant Expenditure - It is mentioned that the Improved Seeds for Farmers Program should make investment in all projects that specified for operation of sub-project as per agreement signed with grant recipients. In accordance with the amounts quoted by the grant recipients in 156 sub-projects, the investments are to be made by 54 percent only, and on the percentage basis, the grant of NRs. 100.7 million is to be provided for the grant agreement made NRs. 186.5 million. Since the program has given the grants of NRs. 134.1 million, on proportionate basis, an excess amount of NRs. 33.4 million has been provided.

109. Assessment of Progress - For the implementation of Prime Minister Agriculture Modernization Project, the NRs. 2 billion 240.6 million has been spent in 2017/18 along with the establishment of one project implementation unit, 10 super zones and 39 zonal offices. Out of the expenditure, NRs. 607.3 million has been spent for administrative purpose, which includes NRs. 283.9 million in administrative works and NRs. 323.4 million in furniture, machinery tools and vehicles. Since such district level programs are implemented through the local levels, the act of incurring additional administrative expenditure by establishing separate offices for such project is not found justifiable. The evaluation should be conducted with respect to the expenses incurred and progress achieved by this project.

110. Additional Advance - As per the contract agreement signed between the Melamchi Development Board and a contractor, the ratios for making payment in local currency and foreign currency are fixed at 28.10 percent and 71.90 percent respectively, but there is no ceilings specified to spend from Dollar Account for sending in foreign country. As a result, of the payment made to the contractor, the 71.90 percent payment which are provided in foreign currency, have been sent to Italy, which has created problems in cash flows of the contractor.
The Board had already provided the mobilization advance of NRs. 154 million 694 thousand in 2013/14 as per the condition of contract and also provided additional advance time to time, which amounted NRs. 591 million 360 thousand up to previous year. This year, an additional advance of NRs. 113.7 million has been provided for the financial facilitation. Since the contractor used to send 71.90 percent payment amount in Italy without allocating sufficient fund that required for sites and construction works, the problems in cash flow have aroused to the contractor and the additional advances have been provided for this purpose, which shows lapses in the contract agreement. The additional advance provided should be recovered along with recovery of the applicable interest.

111. **Salt Transportation** - While supplying and transporting salt for distributing in specified districts at subsidized rate, there has been a situation that the Salt Trading Limited has distributed more quantity than the quotas which come on the basis of population of the concerned areas. If calculated the amount on the basis of this year’s average transportation rate, an excess expenditure of NRs. 31 million 645 thousand has been incurred owing to the transportation of more quantity than the quotas. Pursuant to this, Ministry of Industry, Commerce & Supply should make an investigation relating to the quotas fixed as per population of the concerned depot, transportation costs, more sales quantity etc. and such excess expenditure incurred should be refunded.

* Mis-spending of Public Resources *

112. **Well Organized Settlement** - The well organized Settlement Commission, 2016, was established to systematize the unplanned settlement and to develop planned & systematized settlement, to prevent encroachment in public & guthi (trust) lands, and resolve problems related to unplanned settlement & homeless. However, the Commission and District Settlement Committees are dissolved as per the notice of 2018/04/28. Pursuant to the planned settlement program, total of NRs. 86 million 567 thousand has been spent in this year inclusive of NRs. 22 million 700 thousand spent in salary, allowance, and NRs. 63 million 867 thousand spent by the district committees. Since the Commission is dissolved prior to the implementation of the program, there has been no such situation to evaluate the progress achieved by the program.

113. **Temple and Pond Reconstruction** - The reconstruction of Rani Pokhari inclusive the Balgopaleswar Temple which damaged by the subsequent earthquake, the Kathmandu Metropolitan has entered an agreement with one contractor at the contract price NRs. 71.1 million, but, after the payment of NRs. 23 million 38 thousand, an consensus has been made to carry on the reconstruction works through the Department of Archaeology citing the reason that the modern technology & materials are used in the construction. Then after, the Department has prepared a cost estimate of NRs. 14.25 million to construct the Balgopaleswar Temple alone in previous dome shape and has signed a contract agreement with a joint venture company for completing the work within Mid-July 2018 and paid NRs. 304.9 million within the period.

Pursuant to this, the Government of Nepal has taken a decision on 2019/01/28 to reconstruct the Balgopaleswar Temple in Granthkut shape as constructed in Pratap Malla’s time. Thus, the expenditure of NRs. 26 million 87 thousand incurred through the Department of Archaeology and Kathmandu Metropolitan have become futile as the appropriate decision on the shape of temple has not been taken on time.

114. **Operation of Sub-project** - With respect to the grants of NRs. 2 billion 183 million provided by Agriculture Commercialization & Trade Project to 1 thousand 216 sub-projects, the project has carried out studies of 115 sub-projects through the consultants with regards to whether or not the completed sub-projects are in operation. When conducted the survey of 9.45 percent sub-projects out of total completed 1 thousand 216 sub-projects, it is revealed that 19.13 percent of sub-projects are not in operation. The grants provided to 19.13 percent of total 1 thousand 216 sub-projects or 232 sub-projects which becomes NRs. 417.6 million have become useless.
Likewise, the Office of Project Implementation Support Group, Pokhara has completed the works amounting to NRs. 1 billion 309.2 million in course of the operation of 256 sub-projects and has also granted the payment of NRs. 575.4 million. Out of the works completed sub-projects, it is acknowledged that 15 sub-projects of vegetable, zinger, and milk processing are not in operation. The program operation should be made effective by taking necessary actions to the grant recipients that have not operated sub-projects as per the Sub-project Operations Directive, 2013 (2070) and clauses of contract.

115. **Reagent and Chemicals** - There has been a situation that the reagents being used in course of the laboratory tests have gone wastage excessively. The percentage of wastage of reagent and chemical shown by National Public Health Laboratory is 64 percent, Bharatpur Hospital is 40 percent (Vitamin B-12), Paropakar Maternity Hospital is 30 percent and Sahid Dharmabhakta National Transplant Center is 40 percent. To control the expenses effectively, the management of reagents & chemicals should be done considering various alternatives.

116. **Use of Software License** - For the Public Key Infrastructure Data Center, the Office of the Controller of Certification has purchased various goods of value NRs. 100 million 749 thousand including 500 units software licenses & other goods of value NRs. 88 million 606 thousand in 2011/12, and 50 software licenses of value NRs. 12 million 143 thousand in 2014/15. Out of the 550 software licenses purchased, only one software license has been used and 549 licenses are kept in stock without any use. Since the validity period of the software license has already expired, the persons involved in the procurement should be held responsible pursuant to the purchases done without identification of the needs and keeping the software idle without any use.

**Economy**

117. **Unproductive Expenditure** - As per the expenditure classification and explanations, the expenses that can be borne from miscellaneous expenditure heading include entertainment, tea & snacks, feast, office security, and guest reception. In accordance with financial statement submitted by the Financial Comptroller General Office, the NRs. 10 billion 830.5 million has been spent against the appropriation of NRs. 1 billion 278.8 million in miscellaneous budget heading, with the increment of 847 percent against the budgeted. Similarly, the arrangement has been made to bear the expenses related to rent of capital assets including vehicles, machinery equipment from the other rent heading. For this purpose, NRs. 1 billion 156.6 million has been spent against the budget appropriation of NRs. 134.2 million increasing expenditure by 861 percent against the budget. Despite of the policy guidelines 2018 issued by the government for maintaining economy and effectiveness in public expenditure, it is not justifiable to incur more expenditure through virement instead of controlling such unproductive expenditure.

118. **Increase in Exchange Rate** - Though the procurement processes of VVIP Medium helicopter completed in previous year, the procurement contract is signed only on 2017/11/16 due to delay in approval of the financial proposal. For the purpose of opening of letter of credit, though the office has provided a cheque of NRs. 1.70 billion to Nepal Rastra Bank on 2018/01/24, but the action is taken only on 2018/05/03 citing the cause the inadequacy of amount for one hundred percent margin. Since the exchange rate of Euro has increased from NRs. 118.08 to NRs. 128.31 during the period, an additional financial burden of about NRs. 146.5 million has to be borne for the contract amount Euro 14 million 334 thousand.

119. **Financial Assistance** - As per Clause 12 of Civil Relief, Compensation and Financial Assistance Procedures, 2011, stipulates that the medical treatment and financial assistances shall be provided to eminent persons of national repute and Home Administration Reform Action Plan 2017 mentions that standards will be framed to make the financial assistance distribution transparent. However, without framing such standards, the financial assistances of NRs. 164 million 35 thousand have been distributed in 2015/16, NRs. 290 million 608 thousand in 2016/17 and NRs. 318 million 27 thousand in 2017/18. The financial assistances
have been distributed up to NRs. 2.5 million per person. The financial assistance of NRs. 37.6 million has been provided to 35 persons in excess of the ceiling fixed.

120. **Insurance Premium** - This year, the 19 foreign missions situated at abroad have done the health insurance of missions’ employees and their dependent families without making any competition and granted the payment of NRs. 134.9 million to insurance companies. The Ministry of Foreign Affairs should make the arrangement of health insurance in a competitive manner by making necessary dialogue with the insurance companies of Nepal.

121. **Difference in Purchase Rate** - Salt Trading Corporation Limited has purchased 27 thousand 191 metric tons of urea fertilizer at the rate of NRs. 32 thousand 668 per metric ton, but the Corporation has also purchased 57 thousand 746 metric tons of urea from China at the cost of NRs. 41 thousand 37 per metric ton. Thus, the urea purchased from China has cost more by NRs. 483 million 276 thousand at the higher rate of NRs. 8 thousand 369 per metric ton. Similarly, pursuant to D.A.P. fertilizer, the Salt Trading Corporation has purchased 22 thousand 159 metric tons at the average rate of NRs. 46 thousand 69 per metric ton from a company which imported from China, whereas the Corporation has also purchased 19 thousand 541.30 metric tons at the rate of NRs. 53 thousand per metric ton from other company of the same country, which has resulted more cost of NRs. 154 million 239 thousand with the higher rate of NRs. 7 thousand 893 per metric ton. Since the purchases have not been made preparing the procurement plan timely basis viewing the ups & downs of rates in international market, the more cost of NRs. 637 million 515 thousand are to be borne. The appropriate procurement plan and procurement process should be prepared to minimize the purchase cost.

122. **Administration Expenditure** - In National Academy of Medical Science, Bir Hospital, in comparison to this year’s income of NRs. 315.4 million, the administrative expenditure is NRs. 335.1 million. In B. P. Koirala Memorial Cancer Hospital, in comparison to the internal income of NRs. 194.1 million, the administrative expenditure has stood NRs. 284 million, which is in more by NRs. 89.9 million (46 percent) than its internal income. In Kanti Children Hospital, in comparison to this year’s income of NRs. 123.7 million, the NRs. 119.2 million has been spent in the administrative employees. Since the internal incomes of the above hospitals are not sufficient to meet their administrative expenditures, the income raising and expenditure controlling programs should be prepared/ implemented to operate the hospitals in the sustainable manner and improve in their financial conditions.

123. **Employee Facilities** - By issuing directives related to economy in government expenditure, the Government of Nepal has scrapped all types of allowances in this year except the local allowance, clothing allowance and dearness allowance being provided by various government entities. It is also mentioned that the provision of the directives shall also be applicable to public enterprises. Nepal Rastra Bank has been providing the 19 types of allowances inclusive of employees’ provident fund, medical treatment fund, gratuity fund and employees’ security fund to employees, and of the allowances, 8 types of allowances are provided to all employees and additional 11 types of allowances are provided to employees’ of specific group. The allowance expenditure becomes 220 percent in comparison to the salary expenditure. This year, in addition to the salary, the bank has spent NRs. 1.32 billion in respect to other allowances. An attention should be given to adhere with the government directives.

- **Efficiency and Effectiveness**

124. **Delay in Procurement** - The Election Commission, while procuring the fast printing speed capacity machines, the machine procurement plan should have prepared to meet the requirements of local level election (first and second phase) to held on 2017/05/14 and 2017/06/28, but the high capacity color printer 1 unit and black & white printer 2 units have been purchased through the direct procurement method without making any competition at the cost of NRs. 245 million 309 thousand only on 2017/11/09 after commissioning of major works. After purchase of the machines, the printing works of ballet papers of members of
House of Representative and members of state Assembly have been done from Janak Education Materials Center Limited and the payment of NRs. 275.8 million has been granted to the Center except the paper purchase. The above situation shows that the printing works have not been carried out in accordance with the objective of purchase.

125. **Repair Maintenance Contract** - Department of Health Services has entered agreements with three service providers in 2016/17 of the amount NRs. 474.8 million for making repair & maintenance of medical equipment & machinery tools of hospitals and health institutions situated at 77 districts covering the contract period of 4 years. As per the agreements, the repair & maintenance of medical equipment and machinery tools of hospitals and health institutions existed in districts should be carried out within 24 hours of notification for the items included in Category-1 and two times in a year for the items included in category-2. Pursuant to this year’s first maintenance, the 3 service providers have been paid total of NRs. 79.56 million including NRs. 19.77 million, NRs. 26.33 million and NRs. 33.46 million respectively in accordance with the lot order. In the very first year of contract agreement, the payment of more quantity than that mentioned in bills of quantity has been granted. In the event of the addition of any equipment, the additional maintenance cost is to be borne with the rates varying as per specification, model, and year of purchase etc. and thus, the inclusion of the specified rates in the bill of quantity has become inappropriate. The payments of excess quantity than mentioned in bills of quantity have been granted in the first year. Out of the amount, the payment of NRs. 22.49 million has been granted with respect to addition of more than 50 percent quantity. Hence, such amounts should be adjusted and recovered making an investigation.

In addition, since the repair & maintenance expenditure of hospitals after the contract arrangement has increased in comparison to the expenditure of before the contract, the annual repair & maintenance contract has not been witnessed economical.

126. **Health Insurance** - The health insurance program has been implemented in 42 districts till now, but on the basis of participation of 237 thousand 977 households and 1 million 269 thousand 288 population, the average participation is limited to only 9.54 percent as compared to number of households and only 10.82 percent as compared to the population, which shows less expansion of accessibility to the program. With respect to participation in insurance plan, the premium of NRs 523 million 474 thousand has been received in this year by Health Insurance Board. The Board has not yet mobilized the received premium amount. From the program, the reimbursement payment of NRs. 674 million 805 thousand has been made to 158 organizations/institutions in respect to treatment services received by 257 thousand 68 insured persons. Up to this year, the reimbursement claims paid amount has found more by NRs. 151 million 331 thousand as compared to the collection of insurance premiums from the service recipients. It appears that the income receivable to the Board is not sufficient to bear the growing expenditure. As a result, the situation will arise where the government has to provide grants to run the business of the board.

127. **Secondary Education Examination** - In regular Secondary Education Examination (SEE) of academic year 2016 (2073) and 2017 (2074), total numbers of students appeared in the examination are 445 thousand 564, and 466 thousand 911 respectively, and the status of results achieved based on grading are as follows:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Academic Year 2073 (Number of Student)</th>
<th>Academic Year 2074 (Number of Student)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Government School</td>
<td>Institutional School</td>
</tr>
<tr>
<td>2073</td>
<td>3.65-4.00</td>
<td>3.6-4.00</td>
</tr>
<tr>
<td></td>
<td>3.25-3.60</td>
<td>3.2-3.6</td>
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<td></td>
<td>2.85-3.2</td>
<td>2.8-3.2</td>
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<td></td>
<td>3.45-3.8</td>
<td>3.4-3.8</td>
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<td></td>
<td>2.05-2.4</td>
<td>2.0-2.4</td>
</tr>
<tr>
<td></td>
<td>0.0-0.8</td>
<td>0.8-2.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3,27,402</td>
</tr>
</tbody>
</table>
In accordance with the result of academic year 2016, the number of students which obtained G.P.A. 2.85 to 4.0 has stood 44.89 percent in case of community schools and 95.47 percent in case of institutional schools and the number of students which obtained G.P.A. 0.0 to 2.0 has stood 55.43 percent 4.24 percent respectively. Similarly, in accordance with the result of academic year 2017, the numbers of student which obtained G.P.A. 2.8 to 4.0 have stood 11.58 percent in case of community schools and 73.96 percent in case of institutional schools, which shows the weak performance of the community schools. From the view point of physical infrastructures, remuneration of teachers and investments in educational field, the educational quality standards of community schools are lower than the institutional schools, and therefore, considerations are to be given to improve of such quality standards making the assessments.

128. **Waste Water Management** - Bagmati Action Plan (2008-2013) has the to establish waste water management centers in 7 places including Gokarna, Guheswari, Tripureswar, Dhubighat, Hanuman Ghat, Sallaghar and Balkumari at the cost of NRs. 16.66 billion to be implemented through Kathmandu Valley Water Supply Limited and High-Powered Committee for Integrated Development of Bagmati Civilization for the management of the contaminated water of Bagmati and its subsidiary rivers. The processing centers of 4 places including - Guheswari, Dhubighat, Sallaghar and Balkumari are under construction phase, but only the designing works of the processing centers of Gokarna, Tripureswar and Hanuman Ghat have been completed. As the construction works of none of the processing centers are completed even the elapse of 4 years period of the preparation Waste Water Management Action plan, the pollution control works of river surrounding areas has not been found effective.

129. **Postal Service Operation** - The scope of the government postal service is decreasing due to development of technology and the operation of postal service, parcels and courier services by the private sector. As compared to the inland transfer of 36 million 830 thousand number of general, registry, insurance, parcels, book-posts made in 2015, the number of transfers has fallen down to 34 million 551 thousand in 2016 and 33 million 451 thousand in 2017. The transaction number of this year has decreased by 1.8 million in comparison to the number of the previous year. The workload of postal services has been decreasing accordingly in comparison to the past years. The services of the postal service should be restructured and diversified considering the changes taking place in postal activities.

130. **Postal Saving Bank** - The postal saving bank had been established in 1974 with the view to support in the country’s development by integrating small amounts capital scattered within the country, and to develop the habit of making some savings among the low income people. The 68 offices have been collecting savings deposits and have the closing balance of NRs. 1 billion 913.7 million at the end of this year. The services of postal saving bank have not become effective due to reasons such as: the accounts of such postal saving banks are not maintained using software, the transactions volume have been growing day by day, the deposit amounts were misused by staffs working in some districts, the investment area are not so wide etc. Though the observation was incorporated in the last year’s report stating that the services of postal saving bank should be reviewed in view of necessity to make safeguard of the mobilized saving amounts in the perspective of expansion of technology and banking system, but the situation has remained status quo.

131. **Coordination** - There are many institutions and programs that operate the poverty alleviation programs separately. The 11 ministries along with Education, Science & Technology, Agriculture & Livestock Development, Women, Children & Elderly Citizen, Labor, Employment & Social Security ministries, have run total of 88 programs covering at lease 1 to 21 programs targeting poor people. The major programs run under the government level are Poverty Alleviation Fund, Micro Entrepreneurship Development Program, Local Governance & Community Development Program, Garib Sanga Bisheswar Program, West-Tarai Poverty Alleviation Program, West-High Mountain Poverty Alleviation Program, and Renewable Energy for Rural Livelihood etc. In addition, large numbers of national and
international non-governmental organizations, private sector, and fiscal sector have also run various programs to support in the objectives of poverty alleviation. In cases where such programs are run through various entities, the coordination is lacking and the double facilities may be provided in some of cases. Considering such circumstances, an attention should be given to operate all programs under a single entity identifying the successful programs amongst the operational programs and give continuity to such programs either by extending programs or re-operating the programs.

132. **Fiber based Technology** - Though the Nepal Telecom Company has initiated the works of extending fiber based technology having unlimited data transfer capacity (FTTH) since 2010/11, the services of this plan have been provided since 2013 only in the limited areas of Sundhara of Kathmandu and Naxal Exchange. Under this service, a target was set to make 100 thousand customers up to 2018 Mid July, but the number of customers has reached only 670. Since the progress of FTTH service extension has not found satisfactory till now, this service should be implemented preparing a strategic plan so as to provide quality service in accordance with the interest and demand of customers.

133. **International Call Traffic** - The international call traffic has been declining along with the development of new technology and social networks. Though there was a significant contribution of international call in the income of Nepal Telecom in past years, but the incomes have gradually fallen to NRs. 11.43 billion, 9.03 billion, and 8.04 billion in fiscal year 2015/16, 2016/17 and 2017/18 respectively. To supplement the loss occurred in international call income, there has been a situation that a new trading strategy should be prepared and implemented.

- **Accountability and Transparency**

134. **Land Fragmentation** - Pursuant to provision of the fragmentation of lands to be done in accordance with nature of land as provided in Section 15 of Land Administration Act, 1977, Ministry of Land Management, Cooperatives & Poverty Alleviation has prohibited in the act of fragmentation of land by issuing a circular on 2017/08/10. However, Land Revenue & Survey Office, Kalanchi has done the fragmentation of the Plot (Kitta) no. 74 land of Machhegaun 9B into various Plot No. 966 to 974 on 2017/12/21, and re-fragmented them into Plot (Kitta) No. 982 to 988. Similarly, the office has done the fragmentation of Plot (Kitta) No.313 land of Bhimdhunga 6C into 7 plots on 2018/04/13, and Land Revenue & Survey Office, Lalitpur has done the fragmentation of the Plot (Kitta) No. 274 land of Godamchaur 3C into 5 Plots on 2018/02/25 and Plot (Kitta) No. 140 land into 7 plots. This shows that the offices have done works against the Circular of the Ministry. While making such fragmentation, single plot of land has been fragmented into tens pieces as a plotting of land by misusing mostly the legal clause of partition amongst families, but such fragmented lands have been sold to third parties in a short span of time for housing purpose.

135. **Convention Against Corruption** - In National Strategy & Action Plan Related to Implementation of United Nations’ Convention Against Corruption 2012, it is mentioned that necessary new laws are to be formulated and various acts including Prevention of Corruption Act 2002 are also to be amended to control all classes, nature and types of corruption. As per the provision, the laws have not been still formulated pertaining to the conflict of interest, protection of informer, the appointment and condition of services of the adviser and other staffs of private secretariat of Prime Minister and other Minister. Additional works are yet to be done for amending the legal provisions to include the subject matter – treating the graft taken by any foreign public officer and officers of public international organization as a crime, and including the immoral activities committed by the private sector as a corruption crime.

136. **Audit** - Whereas public entities are required to adhere the financial accountability by producing the documents of expenditure transactions in audits, some observations relating to non-compliance are given below:
136.1 Section 16(2) of Financial Procedure Act, 1999, provides that each office is to get audited by producing accounts and financial statements of all types of income-expenditure. This year, the Reconstruction Authority, without incorporating in annual program & budget, has shown expenditure of NRs. 70 billion 809.1 million incurred through the direct payment of a development partner. Similarly, the audits have not been carried out for the direct payment expenditure of NRs. 34 million 317 thousand incurred by 14 offices under Land Revenue Department disbursed under the ADB source, the expenditure of NRs. 582.6 million incurred in 7 programs under Department of Local Infrastructure Development & Agriculture Roads, and the NRs. 145.4 million expenditure incurred by Local Governance & Community Development Program from foreign source. While receiving direct payment grants of NRs. 201.8 million from Swiss Agency for Development Cooperation, the Ministry of Labor, Employment & Social Security has made the agreement with the provision of conducting the audits through Class “A” auditors in clause 11 of the agreement.

The audits of above assistance amounts have not been carried out as the amounts not included in central account and the financial statements of the received assistance are not prepared. The assistance amounts should be audited by submitting accounts and financial statements in accordance with the provisions of the prevailing Act and Rules.

136.2 Section 21(1) of National Sports Development Act, 1991 provisions that the audit of National Sport Council shall be carried out by the Office of the Auditor General. However, the Sports Development Rules 1992 provides that the audits of the transactions of Regional and District Development Committees to be run under Government of Nepal budget shall be carried out by a registered auditor, which is against the provision to the Act.

136.3 The audits have not been carried out as the 5 offices including District Post Offices- Udaypur, Rautahat and Lalitpur and Area Post Office Shivanagar (Rautahat) did not submit accounts by completing the internal audits. Actions should be taken by making responsible to the persons that have not presented accounts for audits.

137. Implementation of Lease Agreement - In the report submitted by the Committee constituted as per the decision of the board of directors’ meeting of 2016/05/04 of Bharatpur Hospital, it is stated that one medical college has not implemented the subject matters mentioned in the first agreement, which include the subject such as- constructing 500 beded hospital in the place specified by the Ministry of Health within 5 years of the operation the medical college, and depositing 10 percent amount of the income received from tuition, laboratory and other diagnostic facilities in separate accounts after 10 years’ of operations and using such amounts in development works of the hospital as per the decision Ministry of Education. Though the agreement was signed on 1993 August 8 by secretary level of Ministry of Education, and it is also acknowledged that various revisions are made in the agreement by Ministry of Health and Hospital Development Committees thenafter, but the authenticity of such revision are not made clear. By revising agreement made with the medical college, the arrangement to collect NRs. 900 thousand of 9 bighas land has been agreed. The hospital has to bear the losses of NRs. 6.5 million since the lands are given on lease at minimum price without implementing the provision of collecting 1 percent lease amount of minimum price of land determined by Land Revenue Office as per the provision of Action Plan of Government Land Registration and Granting on Lease, 2014. Hence, an investigation should be made pursuant to the revision made in the agreement and the concerned parties should be held responsible for its impacts. The terms of the agreement should be implemented as specified.

- Service Delivery

138. Adjustment of Employees - Sub-Article (2) of Article 302, of the Constitution of Nepal stipulates that the Government of Nepal may arrange for the delivery of services by making adjustment of the employees serving in the government services at the time of commencement of this Constitution in the Federal, Province and Local levels in accordance with law. Out of the total 136 thousand 614 employees’ positions approved by the government for federal, province and local levels, the 35 percent of approved positions are
allocated in federation, 16 percent approved in provinces and 49 percent approved in local levels. Pursuant to the approved positions, the placement of employees has been done with the adjustment of 39 thousand 960 employees in federation, 13 thousand 821 employees in provinces and 43 thousand 807 employees in local levels. Based on the adjustment of employees, the approved positions of 17.45 percent of federal, 38.01 percent of provinces and 34.52 percent of local levels have remained vacant. In the absence of the fulfillment of approved positions with adjustment of employees in provinces and local levels, which require direct relations with people, the delivery of services has been affected.

139. **Relief and Compensation** - For distribution of reliefs and compensations, the budgets have been released to District Administration Offices from Prime Minister & Council of Ministers, Ministry of Home Affairs and Ministry of Foreign Affairs. Out of the such budget amounts released, the NRs. 7 billion 393 million 657 thousand has been kept as balance in the miscellaneous accounts of District Administration Offices without distributing. The amounts which are still not distributed include NRs. 135 million 884 thousand released from Ministry of Foreign Affairs for the distribution of compensation to laborers, NRs. 4 billion 175 million 113 thousand released from Department of Roads for the distribution land compensation, NRs. 1 billion 893 million 360 thousand advances granted by Nepal electricity Authority and Nepal Army for the distribution of land compensation, and NRs. 1 billion 189 million 299 thousand received from Disaster Relief Fund. The services should be made more effective by distributing the amounts received for reliefs and compensation on timely basis.

140. **Crime Investigation** - For the investigation and control of crimes and maintenance of peace, the Central Crime Investigation Department, Central Bureau of Investigation and other entities of Police Organizations are functioning, but the investigation and control of crimes have not becoming effective. As per the statement obtained with respect to the crime incident related to life-taking, suicide, thefts, organized and financial crimes, social crimes, crimes related to women & children, and vehicle related crimes, only 9 thousand 269 crimes are settled out of the 28 thousand 563 crimes registered in 2015/16, only 8 thousand 982 crimes are settled out of the 31 thousand 462 crimes registered in 2016/17, and only 13 thousand 596 crimes are settled out of the 39 thousand 315 crimes registered in 2017/18. Since the numbers of crime incidents have been rising every year, such incidents should be settled by conducting investigations on timely basis.

141. **Accessibility of Service** - There is a situation that the cancer patients have to wait up to 3 months for making surgeries in B. P. Koirala Memorial Cancer Hospital and wait up to 5 months in Bharatpur Hospital. The patients have to wait up to 1 year for making surgeries in Kanti Children Hospital. When analyzed the statement of surgeries to be made by Kanti Children Hospital after 2019 Mid-January, it is observed that 1 thousand 30 people are still in queue for making the surgeries. The queues up to 3 months are to be awaited for making surgeries in Bir Hospital. In course of discussion in BP Koirala Memorial Cancer Hospital, it is acknowledged that 3 months queues are to be awaited for getting radio-therapy services in the hospital due to break-down of radio-therapy machines time to time. Since the services of the government hospitals are not effective and the patients have to wait long period for getting services, there has been a situation that patients have to visit private hospitals for getting the treatment services.

Out of 61 machines existed in Sahid Dharma Bhakta National Transplant Center, only 35 machines are found in operation at the 2018 Mid July (2075 Asadh End). Out of the machines which are not in operations, the operating life of 15 machines has already expired and 11 machines are in the condition of requirements of maintenance works. Such services can be delivered to only 120 persons per day to the maximum even if the 35 machines are operated 24 hours in a day. It is because of lack of adequate machines and lack of infrastructure and human resources, 145 patients are in queue for getting hemodialysis services, 68 patients are in queue for getting kidney transplant services, and 2 patients are queue for pair exchange services. The above situation shows that there is excessive pressure in getting dialysis and kidney transplant services.
142. **Emergency Service** - In accordance with the Directives Related to Health Institution Establishment, Operations and Upgrading Standards, 2013, the requirement of the emergency beds in comparison to the total number of hospital beds becomes 46 beds in comparison to 460 beds operated by Medical Science National Academy (Bir Hospital), 60 beds in comparison to 600 beds operated by Bharatpur Hospital, and 57 beds in comparison to 570 beds operated by Patan Health Science Academy, but the actual numbers of beds operated are only 44 beds in case of Medical Science National Academy, 12 beds in case of Bharatpur Hospital, and 34 beds in case of Patan Health Science Academy. Since the emergency rooms/beds are not available as specified number, the hospital have been delivering services keeping 2/3 patients in one bed. Hence, the services are to be made intact and effective by arranging necessary 10 percent emergency beds as specified in standards.

143. **Operation of Laboratory** - For the laboratory examination of blood, C.S.F., throat scab, body fluids etc. samples of the high risky diseases such as SARS, Influenza (Flu), Toga-virus, Ebola, Hemorrhagic fever, Nephi, Q-Fever, Plague, Anthrax Rickettsia caused by bacteria and virus, the Bio-Safety Level-3 (B.L.L.3) has been established in National Public Health Laboratory under assistance of the World Bank along with all safety and security materials, and the laboratory is also certified by the World Health Organization in 2015. In the absence of adequate skilled and experienced human resources, the laboratory has not come into operation. For the establishment of the laboratory, the expenditure of NRs. 45 million has been incurred for the procurement of equipment. Though the laboratory is ready condition as sole lab of the country to test the high risk diseases, the laboratory has not been operated utilizing the investment made on it in past, which is not appropriate.

144. **Low Stock of Drugs** - When verified the stock balances of some drugs as of 2018 Mid-July pursuant to the statement availed by the Department of Health Services, the balance of drugs such as Atorvastatin 20 mg, Clotrimazole Pesari 100 mg, Cloxacillin 125 mg, Elnalapril 2.5 mg, Fluoxetine 10 mg, Pralidoxine, Injection 500 mg has remained zero in Central and Regional Medical Stores. Similarly, the stock balance of A. D. Syringe 0.05 ml, Cotrim Tablet and Vitamin A has fallen nil in Central Medical Store. Likewise, the stock balances are found zero of 15 types of drugs along with chloramphenicol in Udaypur Hospital, 9 types of drugs inclusive of Ciprofloxacin in District Public Health Office, Darchula, 47 types of drugs inclusive of Metronidazole in Kanchanpur, 33 types of drugs in Palpa, 10 types of drugs inclusive of Paracetamol in Panchthar, and 11 types of drugs inclusive O.R.L. Ampicillin in District Hospital Sangja. The Department has also stated that it has found the minimum level stock of drugs inclusive of Amoxicillin, Metronidazole while conducted the monitoring of District Health Offices and Health Posts inclusive of Arghakhanchi, Solukhumbu, Ramechhap, and Parsa.

145. **Traffic Management** - Though Metropolitan Traffic Police Division has pointed out the necessity of additional traffic lights in 32 place, street lights in 17 places, under-passes in 21 places, fly-overs in 10 places and sky bridges in 18 places for the proper traffic management of the valley, no improvement has been made yet. There has been difficulty in control of vehicles as the radar guns are available at minimum number and only 4 traffic lights out of 20 lights installed within valley are in running condition. The problems have aroused in the traffic management because the holes of roads are not repaired timely basis. The management of roads, crossings and parking places falls under the jurisdiction of Department of Roads and local levels, the registration and issuance of operating permits of vehicles fall under jurisdiction of Department of Transport Management, and the control of vehicles are done by Nepal Police, but the coordination between these entities has not been properly established. Hence, an integrated traffic management plan should be implemented establishing coordination between these entities.

- **National Pride Projects**

146. **Progress** - The Government of Nepal has declared national pride projects to the 17 projects of importance from the several viewpoints to implement project with high priority, and such
projects’ number has reached 22 up to this year. The expenditure and progress of the national pride projects up to 2017/18 are as follows:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of Project</th>
<th>Commenced Year</th>
<th>Estimated Completion Year</th>
<th>Total cost estimate</th>
<th>Total expenditure till date</th>
<th>Physical/Financial Progress Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Melamchi Drinking Water Project</td>
<td>2001/02</td>
<td>2017/18</td>
<td>35.54</td>
<td>25.20</td>
<td>96</td>
</tr>
<tr>
<td>2</td>
<td>Upper Tamakoshi Project</td>
<td>2010/11</td>
<td>2017/18</td>
<td>49.29</td>
<td>44.74</td>
<td>98.7</td>
</tr>
<tr>
<td>3</td>
<td>Pushpauri (Mid-Hill) Highway</td>
<td>2007/08</td>
<td>2017/18</td>
<td>80.14</td>
<td>26.89</td>
<td>45</td>
</tr>
<tr>
<td>4</td>
<td>Budhi Gandaki Hydropower Project</td>
<td>2012/13</td>
<td>2018/19</td>
<td>278.19</td>
<td>33.95</td>
<td>11</td>
</tr>
<tr>
<td>5</td>
<td>Gautam Buddha International Airport</td>
<td>2013/14</td>
<td>2018/19</td>
<td>30.41</td>
<td>11.95</td>
<td>50</td>
</tr>
<tr>
<td>6</td>
<td>Rani Jamara Kulaiya Irrigation Project</td>
<td>2009/10</td>
<td>2010/01</td>
<td>27.70</td>
<td>10.47</td>
<td>40</td>
</tr>
<tr>
<td>7</td>
<td>Sikta Irrigation Project</td>
<td>2002/03</td>
<td>2019/20</td>
<td>23.02</td>
<td>14.41</td>
<td>60</td>
</tr>
<tr>
<td>8</td>
<td>Babai Irrigation Project</td>
<td>203/88</td>
<td>2020/21</td>
<td>12.69</td>
<td>6.33</td>
<td>50.5</td>
</tr>
<tr>
<td>9</td>
<td>Bibi-Babai Diversion Multi-purpose Project</td>
<td>2011/12</td>
<td>2020/21</td>
<td>33.61</td>
<td>6.98</td>
<td>35</td>
</tr>
<tr>
<td>10</td>
<td>Western Seti Hydropower Project</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>11</td>
<td>Pushpapti Area Development Trust</td>
<td>2000/01</td>
<td>2016/17</td>
<td>2.03</td>
<td>Not Received</td>
<td>40.2</td>
</tr>
<tr>
<td>12</td>
<td>Lambini Area Development Trust</td>
<td>2009/10</td>
<td></td>
<td>6.10</td>
<td>3.74</td>
<td>60</td>
</tr>
<tr>
<td>13</td>
<td>Pokhara Regional International Airport</td>
<td>2014/15</td>
<td>2020/21</td>
<td>21.60</td>
<td>4.39</td>
<td>15</td>
</tr>
<tr>
<td>14</td>
<td>Second International Airport Nigadh</td>
<td>2014/15</td>
<td>2021/22</td>
<td>120.00</td>
<td>30</td>
<td>0.25</td>
</tr>
<tr>
<td>15</td>
<td>Kathmandu-Tara-Madhesh Fast Track</td>
<td>2007/08</td>
<td>2021/22</td>
<td>250.00</td>
<td>11.71</td>
<td>4.65</td>
</tr>
<tr>
<td>16</td>
<td>Railway and Metro Development Project</td>
<td>2009/10</td>
<td></td>
<td>70.97</td>
<td>7.87</td>
<td>13.7</td>
</tr>
<tr>
<td>17</td>
<td>North-South Highway Karnali</td>
<td>2007/08</td>
<td>2022/23</td>
<td>4.10</td>
<td>1.00</td>
<td>12</td>
</tr>
<tr>
<td>18</td>
<td>North-South Highway Koshi</td>
<td>2008/09</td>
<td>2020/21</td>
<td>16.20</td>
<td>2.45</td>
<td>15</td>
</tr>
<tr>
<td>19</td>
<td>North-South Highway Kaligandaki</td>
<td>2009/10</td>
<td>2020/21</td>
<td>22.12</td>
<td>3.94</td>
<td>10</td>
</tr>
<tr>
<td>20</td>
<td>Postal Highway Project</td>
<td>2006/07</td>
<td>2020/21</td>
<td>65.20</td>
<td>30.52</td>
<td>45</td>
</tr>
<tr>
<td>21</td>
<td>President Chure-Terai Conservation Development</td>
<td>2014/11</td>
<td></td>
<td>1.96</td>
<td>Not Specified</td>
<td>*</td>
</tr>
<tr>
<td>22</td>
<td>Gallahi-Trishuli-Mailung-Safrubes- Rasuwagadhi Road</td>
<td></td>
<td></td>
<td>9.50</td>
<td>1.72</td>
<td>18.11</td>
</tr>
</tbody>
</table>

Financial progress is shown as physical progress not available.

146.1 Melamchi water supply Project was started on 2001/02 with a target of completing by 2007/08 to supply 170 million liters of water from Malamchi River of Sindhupalchowk to Kathmandu Valley through constructing 27.5 km long tunnel in first phase, but the targeted completion year has been extended up to 2017/18 revising the period for the fourth time. Up to this year, the work of 27 km tunnel construction has been completed and the works of road construction and laying of pipes in the Kathmandu valley and Melamchi Water Supply Project areas are going on. Similarly, though the project has shown the overall up-to-date physical progress of 96 percent with the total expenditure of NRs. 25.20 billion along with the completion of first phase of water treatment plant of Sundarijal, but the construction work has been stopped due to quitting of work by the construction contractor.

146.2 Upper Tamakoshi Hydropower Project was commenced since 2010/11 with the target of generating 456 megawatt electricity. Though the project’s initial cost was NRs. 35.29 billion and the targeted completion period was 2015/16, the project’s both cost and time has been increasing due to non- accomplishment of works in specified time owing to various causes including happening of earthquake. Accordingly, the revised cost estimate has increased to NRs. 49.29 billion and revised completion time is extended to 2019/20. Though the progress of the project up to this year is shown 98.7 percent, it is stated that the problems have aroused in the installation of equipment due to obstacles in transportation of large/heavy loaded equipment.

146.3 Mid-Hill Highway Project, which has a total length of 1 thousand 776 km that connects Chiyobhanajyang of Panchthar from the east to Jhulaghat of Baitadi to the west, commenced in 2007/08 with an estimate of completing by 2017/18, but the revised schedule shows that targeted completion year has been extended up to 2020/21. The project has completed of the blacktopping of 63 km road, graveling of 125 km road and the construction of 14 bridges in this year and along with this year’s works, the project has completed the track opening of 1 thousand 240 km road, blacktopping of 191 km road, graveling of 516 km road and the construction of 14 bridges up to this year. The project has achieved 45 percent physical progress and 33.95 percent financial progress till this year.

146.4 Budhi Gandaki Hydropower Project, which is situated in between the border of Dhading and Gorkha District and has a potential electricity generating capacity of 1200 MW, has been
commenced since 2012/13 with the target of completing by 2020/21. But, the targeted completion time has been revised up to 2025/26. The cost of the project is NRs. 278 billion. The project has distributed NRs. 10.85 billion compensations in 2017/18 pursuant to the acquisition of 17 thousand 231 ropanies of lands. However, the land compensation of Aarughat and Aarukhet market area of Gorkha and Aarughat market area of Dhading has not been determined yet.

Gautam Buddha Airport has been started from 2013/14 With an objective to develop the tourism sector sustainable manner by upgrading in to international airport. It has a target of completing by 2018/19, but the time of the construction contractor has been extended since the works of the previous year have not been performed as per projected. Against the total cost of NRs. 30.41 billion, the NRs. 4.37 billion has been appropriated in this year with the attainment of one hundred percent financial progress.

Ranijamara Kulariya Irrigation Project has been commenced in 2010/11 with an objective to provide the irrigation facilities in 38 thousand 300 hectares of agriculture suitable lands of Kailali District. Though the project’s initial cost was NRs. 12.63 billion and initial targeted completing time was 2017/18, the project’s both cost and time has been increasing due to non-accomplishment of works in specified time. As a result, the revised cost estimate has increased to NRs. 27.70 billion and the revised completing time has been extended up to 2023/24. The project has incurred the expenditure of NRs. 10.47 billion and achieved 40 percent physical progress up to this year.

Sikta Irrigation Project has been commenced since 2002/03 with an objective to provide the irrigation facilities in 42 thousand 766 hectares agriculture suitable lands by a constructing dam in Rapti River situated Agaiya of Banke District. Though the project’s initial cost was NRs. 12.80 billion and initial targeted completing time was 2012/13, the project’s both cost and time has been increasing due to non-accomplishment of works in specified time. As a result, the revised cost estimate has increased to NRs. 25.02 billion and revised completing time has been extended up to 2019/20. The project has incurred the expenditure of NRs. 14.47 billion and achieved 57 percent physical progress up to this year. There have been obstacles in completion of the project due to various causes inclusive of the weaknesses in contract management.

Babai Irrigation Project has been commenced since 1987/88 to provide the irrigation facility in 36 thousand hectares of agriculture suitable land of Bardiya District. Though the project’s initial cost was NRs. 2.87 billion and initial targeted completing time was 2012/13, the project’s both cost and time have been increasing due to non-accomplishment of works in specified time. As a result, the revised cost estimate has increased to NRs. 12.56 billion and revised completing time has been extended up to 2021/22. The project has incurred the expenditure of NRs. 6.33 billion and achieved overall physical progress of 59.5 percent up to this year.

Bheri-Babai Diversion Project has been commenced since 2011/12 with an objective to generate electricity by diverting 40 Cu. Sec. water of Bheri River into Babai River and to provide irrigation facility in 51 thousand hectares of land. Though the initial cost of the project was NRs. 16.43 billion, the revised cost has been increased to NRs. 33.61 billion along with the construction of dam and power house. Similarly, against the estimated completing time of 2019/20, the revised completing time has been extended up to 2021/22. The project’s three major works include the construction of headwork and 12 km tunnel in Bheri River, and the construction of power house in Babai River. The project has incurred the expenditure of NRs. 6.98 billion and achieved an overall physical progress of 35 percent up to this year.

Pachhim-Seti Hydropower Project has been commenced with an objective of generating a total of 750 megawatt electricity. A three member committee is constituted to give suggestions on project development model, but the report of the committee is still to come.
The construction works of the project has not yet begun as the modality of project construction has not been finalized.

146.11 Project has been commenced since 2000/01 with an objective to develop the Pashupati area as a model place of religious, cultural and eco-tourism based on Pashupati Area Master Plan and the revised target of completing project has been extended up to 2018/19. The total cost of the project is NRs. 2.03 billion, but the overall financial progress till this year has stood only 40 percent as the construction works included in this year’s budget appropriation of NRs. 444.1 million have not been carried out. There has been a situation that the project will not complete within the specified time due to lack of the construction materials and skilled manpower, delay in contract management etc.

146.12 In accordance with the Lumbini Master Plan, the work to develop the holy land of the birth place of Lord Gautam Buddha as an international attraction centre for the Buddhists & peace loving community has been undertaken through Lumbini Area Development Trust Project. The revised cost estimate of the project is NRs. 6.10 billion. Though the works have been undertaken since 1985 (2042) in accordance with Lumbini Master Plan, but the completion time still remains uncertain. The project has achieved an overall physical progress of 80 percent up to this year with the expenditure of NRs. 3.98 billion. The works of land acquisition for the archaeological site of Dev Daha-Ramgram, construction of staff colony as per master plan, black-topping of service roads, and construction of electricity transmission lines are yet to be completed.

146.13 Project has been commenced since 2014/15 with an objective to promote the tourism by constructing Pokhara Regional International Airport setting the target of completing by 2020/21. As per the project execution agreement reached between the Government of Nepal and the Government of China, the construction works have begun from 2017/07/11 (2074/3/27) with the total cost of NRs. 21.60 billion. The necessary works of the construction internal and international aprons and pavements are going on.

146.14 This project has been commenced since 2014/15 with an objective to develop the tourism sector in sustainable manner by constructing the Alternative International Airport at Nijgadh of Bara. The estimated completion time is 2021/22 and the total cost of the project is NRs. 120 billion. The project has spent only NRs. 300 million up to now.

146.15 The total length of the Kathmandu-Terai-Madhesh Fast Track is 76 km, which connects the Capital with Tarai Madhesh. The construction works of this Fast-Track Project has been commenced since 2007/08. This project is handed over to Nepal Army for carrying out the construction works with the approval of Project Implementation Procedures 2017 and has a target of completing by 2021/22. The project has spent NRs. 7.62 billion in this year as against the appropriation of NRs. 8.06 billion. At present, the works of trees cutting and soil cutting & filling are going-on in Nijgath, Budune, Sisneri, and Makhubeshi camp areas.

146.16 The Rail, Metro and Monorail Development Project, which commenced since fiscal year 2009/10, has a goal of constructing and operating 946 km long railway networks beginning from Mechi in the east to Mahakali in the west. It is mentioned that the total cost of the project is NRs. 70.97 billion and all the cost will be borne by the Government of Nepal. The construction works of track opening in 25 km Bardibas-Lalbandi section is going on; the detailed project report of Bardibas-Kankadvitta section has been prepared; only the 50 percent work of detailed project report of Butwal-Gaddachauki Railway has been completed; the construction of 322 meters bridges out of 4 thousand 634 meters has been completed; the construction works of 68 out of 240 culverts have been completed; the acquisition of 227 hectares land are made; and the construction works of various sections are going on.

146.17 North South (Karnali) Corridor Project has a goal to construct 196 km road of Khulalu-Simikot (Humla) Section and 88 km roads of Hilsa-Simikot (Humla), but only 93.7 km tracks have been opened till now. With respect to the targets set in this year to opening of 40 km track in Khulalu-Simikot Section and commencing of the construction works of 4 bridges, it
is acknowledged that the works of 11 km track opening has been completed. The project has achieved an overall physical progress of 12 percent and financial progress of 11.68 percent.

146.18 North-South (Koshi) Corridor Project has a goal to construct and upgrade 162 km road beginning from Basantapur of Tehrathum District to northern border Kimathanka. Amongst the 162 km road, the transportation has been operated in 50 km. The remaining 77 km is graveled road. Till now, the works of 144 km track opening and 69 km graveling have been completed. The project has achieved an overall physical progress and financial progress of 35 percent and 40.39 percent respectively.

146.19 North-South (Kali Gandaki) Corridor Project covers 9 districts beginning from Nawalparasi to Mustang District. The project’s 2017/18 targeted programs include the upgrading of 35 km road and constructing 8 bridges in Gaidakot-Pipaldanda Section, track opening of 50 km road in Jomsom-Korala Section, and upgrading of 30 km road, widening of 25 km road and constructing 4 bridges in Beni-Jomsom Section, but the project has only implemented the works of 34 km track opening and 39 km graveling. Up to now, the track opening of 435 km and graveling of 118 km have been completed. The project has achieved an overall physical progress of 10 percent and financial progress of 8.36 percent.

146.20 Hulaki (Postal) Highway Project has set the goals of constructing 1 thousand 792 km black-topped roads and 149 bridges beginning from Kechna of Jhapa at the east to Dodhara-Chandani of Kanchanpur at the west. In comparison to this year’s targets of black-topping of 34 km road, graveling of 207 km road and constructing 15 bridges, the project has completed the black-topping and graveling works in accordance with the targets set, but constructed only 10 bridges. Till now, the project has achieved the overall physical progress of 25 percent and financial progress 42 percent with the completion of black-topping of 100 km road, graveling of 225 km road and the completing 75 bridges.

146.21 Rastapati (President) Chure-Tarai Project has been classified as a national pride project since 2013/14 with an objective to protect tarai area from the risks of inter-relationship between upper and lower coastal environment. With respect to the total budget appropriation of NRs. 1.91 billion made in 2017/18 to operate various programs the like - purchasing new plants, controlling fires in forests, controlling of forest encroachments & export smuggling, running employment generating programs for poor class people, and conducting programs for the group networking between the coastal residents, the project has achieved 84.3 percent financial progress.

146.22 Galchhi-Trishuli-Mailung-Safrubesi-Rasuwasadhi 82 km Road beginning from Galchhi of Dhading District to Rasuwagadhi of Rasuwa District, the track opening of 19 km road has been completed, construction works in 16 km are going on from the Chinese Government side, black-topping of 3.5 km road has been completed, and the construction works in 11 bridges are going on. The project has achieved the overall physical progress of 54 percent and financial progress of 28 percent.

It is found that the above projects will not be completed in specified time and both the time and costs will be increased due to various causes of lack of implementing capacity, weak contract management, problems/delay in land acquisition and tree cutting, non-implementation of land use policy strictly, lack of co-ordination between entities, non-finalization of implementation modality of projects, and non-preparation of detailed feasibility study and detailed project report etc.

**Norms and Cost Estimate**

147. **Additional Burden** - Section 26(1)(B) of Public Procurement Act, 2007 provides that in the event of the lowest evaluated substantially responsive tender is substantially above the cost estimate, all received tenders may be disapproved or the procurement procedures may be cancelled. To construct swimming pool along with hot water facility, the National Sports Council has prepared the cost estimate of NRs. 379 million 774 thousand inclusive of 5 percent contingency, 10 percent physical contingency, 10 percent price adjustment and 13
percent VAT. For the purpose tender evaluation, the actual cost estimate of the work becomes NRs. 224 million 220 thousand inclusive of VAT. The Council has, however, approved the lowest tender of one construction contractor having contract price of NRs. 252 million 93 thousand. Actually, the tender which quoted more price of NRs. 27 million 873 thousand (12.43 percent) than the cost estimate has been approved. Though the quoted price is substantially high in comparison to the cost estimate, the tender has been approved. So, an investigation should be conducted pursuant to this.

148. **Consistency in Norms** - Section 10(2) of Public Procurement Act, 2007 stipulates that the cost estimate are to be prepared in accordance with the approved norms and the norms being used by Department of Roads specify that the wastage in stone masonry works with cement & sand joint and in the iron rod works shall be 15 percent. However, in the norms of Department of Irrigation and Department of Housing, the wastages in same works have been determined as 10 percent and 5 percent respectively. As a result, the cost works carried out by 7 subordinate entities of Department of Roads under 127 procurement contracts have increased by NRs. 125.87 million in case of stone masonry works and NRs. 11.51 million in case of iron rod works with the total increment in costs of NRs. 127.38 million.

Mahakali River Control Project has implemented procurement contracts preparing the higher cost estimates of NRs. 21. 29 million in comparison to the rates specified in main norms for stone masonry works, cutting and bending of iron rod works and concrete works. The 9 offices inclusive of Department of Irrigation, Medium Irrigation Project, Prosperous Tarai Madesh Irrigation Development Special Program, have carried out the feasibility study works of irrigation projects directly through the consultants without making any competition on the basis of norms approved by the Director General, and have granted the payment of NRs. 216.60 million for such works.

Thus, all necessary norms are to be approved in accordance with the procedures provided in Rules and the construction works are to be carried out on the basis of such approved norms.

149. **Cost Estimate** - Section 10(4) of Public Procurement Act, 2007 stipulates that the public entities shall have to prepare the cost estimates in accordance with the district rates of construction materials, equipment, laborers etc. North-South Corridor Project Office, Taplejung, while making rate analysis of the soil cutting and rock cutting works of 53 km in Dovan-Olangchungola Section, has determined the ratios of 80 percent for machine use and 20 percent for human use, and fixed the rates of NRs. 174.62 per cu. meter for soil cutting and NRs. 705.02 per cu. meter for rock cutting. In the cost estimates of other packages of same road section prepared by the Project Office in this year, the rates have been stated as NRs. 117.22 per Cu. meter and NRs. 411.69 per Cu. meter respectively. It is because of the use of distinct rates, the cost estimates of the package have been overstated by NRs. 75.84 million.

150. **Rate Analysis** - Rule 10(4) of Public Procurement Rules, 2007 provides that the arrangements related to the rate analysis of construction works. Mid-hill Highway Project, Eastern Section has included 15 percent overheads in the price of construction materials while making the rate analysis of filling works of road shoulders. The overheads have been included twice since the overheads are being included again after the calculation of rates of all items with the inclusion of the overheads in the prices of construction materials. Out of the construction works which are undertaken in accordance with the contract agreements in this year, while reviewing the cost estimates of only 8 construction works by the audits, it is observed that the overheads amount added thus is NRs. 11.03 million. Hence, it is necessary to assure that the payment will be granted without making such duplication of overheads amount.

While calculating the rate of the works of preparing embankment (road shoulders filling and rolling) by the same section of the same road, the per Cu. meter price of soil has been determined on the basis of transporting the necessary materials (soil) in trucks from the place 2 km far away. However, it is observed that the soil coming out of digging of the
foundation is sufficient for filling the shoulders of the roads. Since the rate analysis has been done with the estimate of acquiring soil from outside, the cost estimate of soil has inflated by NRs. 84.55 million in the calculation of necessity 743 thousand Cu. meter soil required for the 8 contracts.

151. Quality Standard Test - The Postal Highway Project Directorate has included provisional sum of NRs. 52 million 846 thousand in Bills of Quantities of 12 contracts for quality tests while arranging the procurement contracts of NRs. 11 billion 820.2 million in this year. In making rate analysis for the purpose of preparing cost estimates of the construction works, it has also included NRs. 134 million 118 thousand inclusive of overheads for the quality tests and laboratory tests in some of items along with of reinforced casting, brick masonry works with cement and sand joint. Out of the quality test amounts included in the cost estimates, if reduced the amounts in proportionate to the lower percent of the contract agreement, the amounts included in the contract agreements for quality control and laboratory tests become NRs. 131 million 575 thousand. Since the contract agreements have been made stating twice to one work, an arrangement should be made not to include same item twice in giving payments.

- Public Procurement Management

152. Direct Purchase - Section 8(2) of Public Procurement Act 2007 provides that procurement shall not be conducted slicing one work into pieces as to limit competition. However, 116 subordinate offices operating under Ministries – Urban Development, Irrigation, Water Supply, Physical Infrastructures, Federal Affairs & General Administration, and Education, Science & Technology have made the direct purchases of NRs. 2 billion 54.5 million without making any competition fragmenting the works of infrastructure construction and goods purchases into different pieces. Such procurements should not be made against the provisions of the Act so as to limit competition.

For the purpose of ministries operated under Provincial Governments No. 1,3,4,5,6 & 7, the Building Divisional Offices, Biratnagar, Rupandehi, Surkhet, and Housing Technology Research & Training Center, Hetauda have made the direct purchases of various goods including the machinery equipment, furniture of NRs. 131.9 million in this year, and the 12 offices have made direct purchases and provided the payment of NRs. 394.9 million slicing the works of repair & maintenance and painting of buildings, and road construction into 722 pieces. The 33 Offices along with Sunsari Morang Irrigation Project, Water Induced Disaster Management Divisions Baitadi and Morang, Irrigation Development Division Parsa, have carried out the construction works of NRs. 239.18 million through direct purchase without making any competition fragmenting the cost estimates into numbers of pieces up to NRs. 500 thousand. The work of making direct purchases from a single firm for several times is not in conformity with the Act. The prevalent laws should be complied with while making the procurement works.

153. National Construction Capacity - Nepal has made the commitment to upgrade from the least developed country up to 2022 and become middle income country attaining the sustainable development goals up to 2030. With the implementation of federalism, the goal of “Prosperous Nepal and Happy Nepali” declared by the Government of Nepal is to be attained. For the attainment of the above objectives, the investments from the government and private sector in the projects related to hydro power, road, irrigation, urban development, airport grounds, parks, power houses, factories and other constructions have been growing. For the purpose of attaining the goal of prosperity as envisaged by the government, it is essential to make an assessment of the national construction capacity along with the evaluation of the required human resources and construction entrepreneurs to operate projects related to private and public sector development works, the availability of machinery & equipment required in construction works, the availability of construction materials etc. For this, the assessment work should be done by Ministry of Physical Infrastructure & Transport coordinating with various entities.
154. **Drug Purchase** - To purchase essential drugs that required for operating free health program, the Primary Health Service of Revitalization Division has entered an agreement of NRs. 585.67 million by preparing a cost estimate of NRs. 966.62 million in 2017/08/20. In annual procurement plan, it is stated that the 29 types of drugs will be supplied in 2017/18. Though the purchase works should have completed within this year in accordance with the annual procurement plan, only 8 types of drugs of value NRs. 101.78 million have been received in this fiscal year due to various reasons inclusive of inability to make timely procurement management, and re-tenders are to be invited as the received tenders are not technically approvable. Of the remaining drugs, the 8 types of drugs are supplied partially only and 13 types of drugs have not been supplied in the year.

155. **Letter of Credit** - Rule 113 of Public Procurement Rules, 2007 stipulates that if the goods are not received from the concerned supplier within the specified time that is required to provide such goods through the letter of credit, the letter of credit shall have to be canceled and the advance amount of opening of the letter of credit shall be settled by withdrawing the amount deposited in the bank for the same. As per the statement obtained from Nepal Army, it is observed that total 83 letter of credits advances amounting to NRs. 4 billion 282.5 million of the period from 2000/01 to 2016/17 are yet to be settled, which shows the situation non-receipt of the goods in due time and lack of actions for the settlement of advances. Hence, the advances should be settled by closing letter of credits in accordance with the provision of the Rules.

156. **Construction Work from Non-governmental Organization** - Section 46 of Public Procurement Act, 2007 provides that the works the like, public awareness training, orientation, empowerment, main-streaming may be carried out through the non-governmental organizations. This year, the 6 offices under Ministry of Urban Development have directly carried out the works of drainage construction, road upgrading, retaining wall construction and park construction works from 326 non-governmental organizations and granted the payment of NRs. 1 billion 271.1 million, but the organizations have not issued invoices. There should be controls in such works making responsible to the concerned officials that have incurred expenses by carrying out such public works from the non-governmental organizations.

157. **Wide-body Aircraft Purchase** - Auditor General’s 55th Annual Report included the audit finding that ‘the procedures followed by Nepal Airlines Corporation in procuring A 330-200 series two wide-body aircrafts are not in compliance with the laws and it cannot be assured that the purchase prices are also economical’. Pursuant to the matter mentioned in the Report, discussions were held in Public Accounts Committee of the Federal Parliament and the Committee constituted a subcommittee to make study on the aircrafts purchase. The report submitted by the sub-committee was endorsed by the Committee meeting and the Committee has sent the report to Commission for Investigation of Abuse of Authority for taking necessary investigation. The major observations found in this year while examining the transactions related to this matter are as follows:

157.1 The approved proposal of the purchase of wide-body aircrafts mentions that the first aircraft will be delivered in September 2017 and other aircraft in March 2018, but the contract agreement states that the first aircraft will be delivered in April 2018 and other aircraft in May 2018. The Corporation has received the first aircraft only on 25th June 2018 and second aircraft only on 24th July 2018. Thus, the first aircraft and second aircraft have been received about 9 month and 4 month delay respectively than the dates specified in approved proposal.

157.2 Though the approved business plan related to the purchase wide-body aircraft mentions that the 2 wide-body aircrafts will be operated since 2019 and the destinations for the operations will be Dammam, Seoul, Sydney, Tokyo and Hong Kong, but the destination routes have not been finalized till now. It is because of the failure to operate the aircrafts finalizing the destination, the Corporation has to incur an estimated loss of NRs. 1 billion 663.1 million during 6 months 2018 Mid-July to Mid-January 2019.
The Corporation has taken the total loans of NRs. 23 billion 996.1 million from Employees’ Provident Fund and Citizen Investment Trust. With the loan taken amounts, the Corporation has utilized NRs. 22 billion 901 million 716 thousand to purchase the aircrafts after deducting the service charges and capitalized interests of the two organizations. Since the Corporation has failed to operate the aircrafts in accordance with the business plan, the Corporation is unable to pay the installation of principal and interest of NRs. 804.2 million which is required to be paid within 2019/01/14. There is a situation that the loss amount will grow further if the aircrafts are not operated in long distance routes.

While inviting the proposal related to aircrafts purchase, all proposal submitters are instructed to disclose the price variations in aircrafts if the capacities of the aircrafts such as Maximum Load Take-off Weight (MTOW), Maximum Landing Weight (MLW), and Maximum Zero Fuel Weight (MZFW) are made fluctuations. Out of the proposals received, the approved proposal has stated that the costs with respect to increase in the Maximum Take-off Weight have already been included in the price of aircrafts. The comparative description of the capacities as stated in the proposal and contract agreement are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>As per Proposal</th>
<th>As per Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Load Take-off Weight</td>
<td>242</td>
<td>230</td>
</tr>
<tr>
<td>Maximum Landing Weight</td>
<td>182</td>
<td>180</td>
</tr>
<tr>
<td>Maximum Zero Fuel Weight</td>
<td>166</td>
<td>186</td>
</tr>
</tbody>
</table>

The Corporation has however not made any analysis pursuant to the effect and consequences in capacity, efficiency and price of the aircrafts due to difference in the specification that specified in proposal and specification specified in the acquired aircrafts.

Rule 114(2)(e) the Corporation’s Financial Bylaws 2008 provides that the bid documents to be approved by the Corporation shall contain the matters specified by Public Procurement Monitoring Office in the standard bidding documents. Though the Public Procurement Office has prepared the standard bidding document for the procurement of goods (International Competitive Bidding) by stating the matter that the price adjustment shall not be granted in case of the price fluctuations up to 10 percent in the prices of the goods, but the contract agreement has been arranged against the document by including the provision of granting 2.44 percent price adjustment in the price of the aircraft in accordance with manufacturing price revision formula. As a result, the NRs. 744 million 384 thousand equivalent to USD 6 million 788 thousand 119 at the rate of NRs. 109.66 per Dollar have been paid with respect to the purchase of 2 aircrafts.

To undertake the technical monitoring and handover works of wide-body aircrafts, total of 31 persons inclusive of 3 officers of Employees Provident Fund, 5 officers of Citizens Investment Trust, 1 officer of Ministry of Culture, Tourism & Civil Aviation, 15 high ranking officers of Nepal Airlines Corporation along with the members of board of directors, 1 legal adviser, 4 officials of Nepal Civil Aviation Authority and 1 officer of Nepal Rastra Bank, have gone for overseas visit. Amongst the visits conducted, the General Manager has gone on visits for 3 times, 1 officer of the Corporation has gone on visits for 3 times, 3 officers has gone on visit for 2 times and 1legal adviser has gone on visit for 2 times. For the visits, the total of NRs. 11.19 million has been spent inclusive of daily allowances of NRs. 7 million 374 thousand and air ticket expenses NRs. 3.82 million. Most of persons included in visits are non-technical persons. Since the expenses have been incurred without making any analysis on the needs of visits, except the essential expenses incurred for the technical person, the rest of expenditure amounts related to the visits should be recovered or caused to be recovered.

**Contract Management**

As per Financial Procedure Rules, 2007, the work of approving contract agreement should be done within first trimester period. This year, the ministries of Urban Development, Federal Affairs & General Administration, Irrigation, Physical Infrastructure, Home Affairs, Water Supply and Education, Science & Technology -
entered total of 2 thousand 58 contract agreements amounting to NRs. 54 billion 572 million, and of the agreements entered, the 1 thousand 795 contract agreements amounting to NRs. 50 billion 688.2 million have been awarded in second and third trimester period. Out of the contracts awarded in third trimester, 193 contracts amounting to NRs. 19 billion 280.3 million have been awarded in the last month of fiscal year (Asadh Month).

159. **Competition in Procurement** - Public Procurement Act 2007 (2063) provides various provisions with respect to the promotion of fairness, transparency, accountability and trustworthiness in public procurement processes, and the assurance of equal opportunity in participation of public procurement process without making any discrimination. This year, 30 offices under Department of Roads and Department of Railways have invited 926 tenders for carrying out the construction works having total cost estimates of NRs. 87 billion 541.5 million, and awarded the procurement contracts of total contract price NRs. 70 billion 855.5 million, which is 19.76 percent below of the cost estimate amounts. However, of the procurement contracts made by Department of Roads and Nepal Army in this year, the following 47 contracts have been awarded with the contract prices of 1 percent or less than 1 percent below the cost estimate amounts:

<table>
<thead>
<tr>
<th>Office</th>
<th>No. of Procurement Contract</th>
<th>Cost Estimate Amount NRs.</th>
<th>Approved Amount NRs.</th>
<th>Below Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal Highway Project</td>
<td>12</td>
<td>10,610.0</td>
<td>10,540.0</td>
<td>0.66</td>
</tr>
<tr>
<td>Department of Roads Foreign</td>
<td>5</td>
<td>550.6</td>
<td>547.4</td>
<td>0.58</td>
</tr>
<tr>
<td>Mid Hill Eastern Section</td>
<td>10</td>
<td>6,449.7</td>
<td>6,390.8</td>
<td>0.91</td>
</tr>
<tr>
<td>Project Directorate (ADB)</td>
<td>2</td>
<td>1,567.9</td>
<td>1,562.6</td>
<td>0.34</td>
</tr>
<tr>
<td>Railway Development Project</td>
<td>9</td>
<td>3,065.5</td>
<td>3,073.3</td>
<td>Approved High Bid</td>
</tr>
<tr>
<td>Kathmandu – Tara/Madesh Fast Track</td>
<td>9</td>
<td>8,436.3</td>
<td>8,419.8</td>
<td>0.20</td>
</tr>
</tbody>
</table>

In making procurement contracts, the procurement related activities should be undertaken inviting the fair competition.

160. **Pre-determined Liquidated Damage** - Rule 121 of Public Procurement Rules, 2007 provisions that the liquidated damage should be recovered in the event of non-accomplishment of the works within the specified period set forth in the contract owing to delay caused by the contractor. Though the contractors have not accomplished works in accordance with the contract arrangements, time extensions have been granted time to time without recovering any predetermined liquidated damages. Since the works have not been completed due to causes of the contractors even in such time extended period, the pre-determined liquidated damage of total NRs. 825 million 986 thousand have to be recovered from the contractors, which include NRs. 409 million 538 million to be recovered by 44 offices under Department of Roads, NRs. 384 million 14 thousand to be recovered by Irrigation Development Division Office, Dhanusa and Water Induced Disaster Management Division Office, Dhanusa under 11 procurement contracts, NRs. 27 million 751 thousand to be recovered by 21 District Technical Offices from various contractors pursuant to procurement contracts of roads and bridges, and NRs. 4 million 683 thousand to be recovered by 2 offices under Department of Local Infrastructure Development & Agriculture Roads.

161. **Contract Arrangements of subordinate Offices** – Rule 118 of Financial Procedure Rules, 2007 stipulates that any superior or controlling office shall not interfere in the affairs of an official having authority. The Department of Roads, which is established as a central entity, should act focusing on monitoring & evaluation of the works performed by the subordinate offices and policy formulation activities. However, the Bridge Division, Foreign Division and Postal Highway Directorate of the Department have awarded 77 procurement contracts of price NRs. 26 billion 680.5 million and have sent related documents to subordinate offices for implementation of procurement contracts only after the payment of the first installment of mobilization advance of NRs. 2 billion 374.9 million. The entity which is liable for monitoring and inspection, has been involved in the procurement management works that fall under jurisdiction of subordinate offices. This is not in conformity with prevalent laws. There should be control in such acts.
Incomplete Contracts - Rule 111(1)(B) of Public Procurement Rules, 2007 provides that the construction contractors are required to accomplish the works as per extended time in accordance with the work schedule. Major observations related to this are as follows

162.1 Out of the 3 thousand 860 procurement contract agreements of amounts NRs. 1 trillion 101 billion 358.5 million entered by the 52 offices under Department of Roads, the 807 contract agreements of amount NRs. 35 billion 501.1 million entered by the 27 offices have remained incomplete with the elapse of the contract period. Similarly, as per the statement received from same Department, it is observed that amongst the 1 thousand 168 contract agreements made with the contract price of NRs. 82 billion 520.5 million entered with respect to strategic and local road, the due dates of 338 procurement contract agreements of amount NRs. 21 billion 250 million have remained incomplete with the elapse of time.

162.2 Out of the 3 thousand 835 on-going water supply projects run under Department of Water Supply & Sewerage up to 2017/18, the 3 thousand 422 (89.22 percent) projects are incomplete. Though the total cost of all project is NRs. 128 billion 935.1 million, only NRs. 22 billion 923.2 (17.78 percent) has been expended up to now. Out of such projects, NRs.116.4 million is spend in Burtibang Water Supply Project which commenced from 1999/2000, NRs. 52.3 million is spent in Itahara Water Supply Project, Morang which commenced from 2000/01 at a cost of NRs. 57 million, and NRs. 43.3 million is spent in Dangighat Water Supply Project which commenced from 2000/01 at a cost of NRs. 53 million, but the works of the projects have still remained incomplete. Though the total cost of 261 projects is NRs. 11 billion 411.5 million which commenced in 27 districts prior to the period 1999/00 to 2011/12, only NRs. 4 billion 680.1 million has been spent till now.

162.3 With respect to the agreement made with one contractor on 2016/06/20 for the improvement of main and branch canals of Duduwa Canal of Sikta Irrigation Project at a contract price of NRs. 988.1 million to be completed by 2018/10/18, the payment of NRs. 14 million inclusive of price adjustment and advance of NRs. 83 million 274 thousand have been granted till 2017 Mid-July. After the breakup of the contract and recommendation to keep in blacklist to the contractor on 2018/10/18, a letter has been issued to Prime Commercial Bank, Newroad, Kathmandu for depositing the work performance guarantee amount NRs. 99 million, but the amount has not been deposited till the audit period 2018/12/15.

162.4 The 148 contracts amounting to NRs. 9 billion 785.8 million arranged by the 45 offices under ministries - Energy, Water Resources and Irrigation have not been yet completed within the original due date and the extended date. Total payment of NRs. 4 billion 1.4 million has been granted for the contracts till the 2018 Mid-July. Likewise, the 9 contracts made by Irrigation & Water Resources Management Project Component A, which aims to irrigate 4 thousand 75 hectares of land with the expenditure of NRs. 115.5 million, should have been completed by 2017/18 beginning from 2009, but the works of sub-projects have found incomplete after the payment of NRs. 68 million 492 thousand citing the reasons that the construction contractors of the project have abandoned the contract works and the people's participation has not been mobilized due inactiveness of the user groups.

The works of the contracts should be completed by taking actions such as - recovering the liquidated damages in accordance with the clauses of the contracts, Public Procurement Act 2007 and Rules 2007, forfeiture of performance guarantees and advance guarantees and black-listing of contractors, the contracts which have remained incomplete due to the construction contractors.

162.5 As per the report of Investigation & Problem Resolving Committee of Sick Industry Project constituted as per the decision of 2017/08/18 of Ministry of Urban Development, the works of construction contracts arranged for constructing 133 health institutions have remained incomplete stage. Out of the contracts made from 2008/09 to 2012/13, the works of 30 building construction having the contract price NRs. 504.33 million have already been suspended, but no action has been taken to the contractors in accordance with the provisions
of the Act. The construction works should be completed by taking actions as per the prevalent laws to the contractors that have disappeared by leaving construction works incomplete.

163. **Termination of Procurement Contract** - Section 59 of Public Procurement Act, 2007 and Rule 127 of Public Procurement Rules, 2007 have provided the arrangements related to the termination of procurement contracts. With respect to agreement made by the Division Road Office, Dang on 2013/12/13 for black-topping of Tulshipur-Purandhara Road to be completed by 2015/03/04 at a contract price of NRs. 73 million 936 thousand, the construction contractor performed the works of only NRs. 34 million 349 thousand, but not completed the remaining works. Hence, a decision was taken on 2017/01/12 to recover NRs. 17 million 684 thousand as government dues after deducting the deposit account NRs. 1 million 522 thousand from recoverable amount NRs. 19 million 206 thousand, inclusive of NRs. 11 million 360 thousand - the 25 percent amount of NRs. 39 million 587 thousand the works of which are to be completed. However, the amount of deposit account has not been deposited in revenues and the dues amount has also not been recovered. Those amounts should be recovered.

164. **Price Adjustment** - Section 55(1) of Public Procurement Act, 2007 provides that the price adjustment can be granted while executing the procurement contracts having the period of more than 15 months, and Section 55(2) provides that the price adjustment can be granted if the works are not completed due to delay in works caused by the person making contract agreement and procurement contracts are made on the basis of certain budget. Major observations relating to this are as follows:

164.1 Though the price adjustment formula of the special condition of the contract entered by Postal Highway Project, Janakpur states that the adjustment will be calculated for 85 percent as per specified weightage treating 15 percent as not changeable factor, but the office has entered the contract agreements with 2 construction contractors with the condition of giving weightage of 95 percent for the same and the payments of NRs. 22 million 395 thousand have been made up to this year on that basis. The Mid-Hill Highway Project, Eastern Section, while making the price adjustment of 35 percent work under construction phase (Milestone) has not taken the basis of the indicators of final phase of milestone-1, and consequently, the project has granted the excess payment of NRs. 25 million 599 thousand in 13 contracts up to this year.

Business Road Extension Project, Rupandehi has provisioned the Milestone 1 and 2 in entering contract agreement, and made decision of taking the basis of the price indicators of Nepal Rastra Bank of last month of the work to be completed as per original contract upon the condition of not increasing the financial liability while granting time extension to all contracts, but the project, while giving the price adjustment of 35 percent work, has granted the excess price adjustment of NRs. 10 million 51 thousand in 4 contract agreements exceeding the price index of the last month of works to be completed as per milestone-1. The contract agreements made by Lumbini Circle Road Project, Rupandehi stipulates that the price adjustment will be made in the bill amounts after deducting the mobilization advance, but the excess amount of NRs. 7.77 million has been paid concerning with the price adjustment factor 0.242 of the mobilization advance settled amount, and the project has made the excess payment of NRs.11 million 224 thousand to a construction contractor as it has paid NRs 74 million 608 thousand instead of payable NRs. 63 million 384 thousand. Thus, total of NRs. 18 million 994 thousand should be recovered.

164.2 The contract agreements have provisioned that the correction factor should be used for the calculation of price adjustment if different currency index is used for the calculation instead of the prescribed payment currency. Ranijamara-Kularia Irrigation Project has awarded 2 procurement contracts with an international construction contractor with the clause of giving 20 percent payment in US Dollar and calculating price adjustment using the price index of Reserve Bank of India as source of index. Thus, payment currency and the price index currency is different. Hence, for the purpose of the calculation of price adjustment of foreign currency, the payment should be made by calculating the price adjustment on the basis
correction factors of the Indian currency and US Dollar of the time of base rates and current rates of two currencies as per the provision of the contracts, but the price adjustments have been calculated using the price index of the Reserve Bank of India without calculating such correction factors. This has resulted the excess payment of US Dollar 1 million 187 thousand up to 22nd running bill of contract No. 1 and up to 30th running bill of Contract No. 2, which becomes NRs. 130 million 296 thousand at the exchange of the date 2018/07/16 NRs.109.77 each US Dollar. The excess paid amounts should be recovered.

164.3 Rule 119(3) of Public Procurement Rules 2009 stipulates that the maximum amount of price adjustment shall not become more than 25 percent of original contract. Sikta Irrigation Project Banke, has made the contract agreement with an international contractor on 2068 Paush (2012 January) to construct the main canal work from 17.7 to 35 km at a cost of NRs.2 billion 117.5 million to be completed within 1,095 days. Since the project has signed the contract agreement without determining of the maximum allowable ceiling of the price adjustment, the payment of NRs. 63 million 525 thousand has been made in excess of 25 percent ceiling till the payment of price adjustment NRs. 592.9 million made up to the 18th. running bill. Such amounts should not be paid entering the contract agreement against the provision of Rules.

164.4 Schedule-4 of Rule 22 of Public Procurement Rules 2009 provides that an agreement may be arranged for carrying out the design work and construction works through one contractor. Since the Public Procurement Act and Rules have not specified any details about carrying out the construction works through such procedure and Public Procurement Monitoring Office has also not prepared any sample bid document for this purpose, differences are found with respect to the provisions of price adjustment and variation order. The Department of Roads has stipulated the provision of getting price adjustment while making contract agreement under the design & build procedure. Bridge Project, Eastern Sector No. 1, Mid Sector No. 2, Western Sector No. 3 & 4, and Dharan-Chhatara Road have paid the price adjustment of NRs. 299 million 902 thousand to 51 contractors. Since the contracts seem to be lump sum nature, it is not appropriate to state granting the price adjustment in such contracts.

165. **Coordination and Construction Site** - Rule 6(3) of Public Procurement Rules 2009 provides that the procurement work shall not be commenced without arrangement of the construction sites and Rule 20(3) of Public Procurement Rules 2009 provides that the works of correspondence and consultation about any assistance or approval process shall be completed within first trimester. Central Regional Road Directorate had entered a contract agreement with a joint venture company for conducting maintenance works of 6 roads of 24.4 km at the cost of NRs 85.67 million to be completed within 2015/05/29. Out of the roads included, the maintenance work of one road having 6 km has been completed and the maintenance works of another road (7 km) are on-going, but the procurement contracts of the rest of other roads have been terminated as per decision of 2018/07/08 giving privilege to the contractor citing the reasons the repair works of the roads have already been completed by Kathmandu Valley Road Extension Project and Road Improvement Project during SAARC summit time. Since the procurement contract was made without analyzing the road condition of Roads of Kathmandu Valley, the availability of construction sites and coordinating with other entities, the expenditure of NRs. 14 million 309 thousand out of the expenditure incurred for maintenance of NRs. 22 million 945 thousand has become useless.

166. **Engineering Facility** - As per the decision of 2012/12/17 of Public Accounts Committee, an instruction is issued for not purchasing or not renting any vehicle by including in contracts of any construction work. Similarly, any amount cannot be included in contract under engineering facility. However, total of NRs. 494.7 million have been spent along with NRs. 9.8 million spent by Special Economic Zone Authority entering 3 contract agreements for vehicle renting and paying same amount and made provision of NRs. 131.3 million in vehicle and engineering facilities, NRs. 124.1 million spent by 2 projects under Department of Roads, and NRs. 229.5 million spent by 10 projects under Ministry of Water Supply. Since the expenditure on vehicle rent are incurred at the price which is sufficient enough for purchasing new vehicles and the expenditure incurred with condition of returning vehicles back to the
construction contractors and the expenditure incurred for renting vehicles have not been found economical. The officials which have incurred vehicle rental expenses as against the decision of the Public Accounts Committee should be held responsible.

Similarly, in the Point No. 11 of the Guidelines Related to Budget Implementation, 2017/18 of Ministry of Finance, it is mentioned that the purchase of vehicles cannot be included in the cost estimates of any project and consultancy service. However, the agreements made by Regional Urban Development Project and Kathmandu Valley Development Authority with 5 consultants include the supplying of 12 jeeps, 8 motorcycles and other machinery equipment from provisional sum, and the payment of NRs. 64 million have been made by them with respect to purchases made without making any competition. The officials which have carried out the purchases in contrary to the guidelines of Ministry of Finance should be held responsible.

167. **Contingency Expenses** - Rule 10(7) of Public Procurement Rules 2009 provides that the work charge Staff expenses of 2.5 percent and petty other expenses of 2.5 percent may be included in the cost estimate of construction works. There is no clear policy framed for incurring contingency expenses, various entities under 6 ministries including Infrastructure Development, Irrigation, Urban Development and Federal Affairs & General Administration Ministries have spent NRs. 1 billion 324.9 million through contingencies in this year.

167.1 The codes related expenditure has been specified in Economic Codes and Expenditure Classification issued by the Government of Nepal. Without complying with the codes, the projects and offices under Department of Roads have purchased 12 backhoe loaders, 7 chipping spreaders, 10 tippers/trucks and 1 motorcycle from the expenditure heading of public construction by utilizing NRs. 436.6 million that provided for the purchase of vehicles and equipment.

167.2 Irrigation Department, by obtaining 1 percent contingency amount from the projects and offices under it and getting acceptance of Ministry of Finance on 2017/01/09 for purchasing jeeps, pickups and motorcycles to supervise the offices thereunder, purchased 5 jeeps through its mechanical management section with total cost NRs. 60 million 375 thousand at the rate of NRs. 12 million 75 thousand per jeep. Out of the jeeps which are provided to Irrigation Department, one jeep has remained in damaged condition in the premises of the Department due to accident and the rest 4 jeeps have been used by the Director General and Deputy Director Generals of the Irrigation Department.

In the condition of lacking vehicles in subordinate entities for making supervision, it is not appropriate to use the vehicles in center as against the purpose of purchasing vehicles.

168. **Consulting Service** - Section 29(1)(a) of Public Procurement Act 2007 stipulates that the procurement of consultancy service shall be taken only if works cannot be performed through the office's own human resources. The works which can be performed through the existing human resource of offices have been carried out through the consultants. This year, the offices under ministries – Physical Infrastructure, Urban Development, Irrigation, Water Supply and Federal Affairs & General Administration have spent NRs. 3 billion 4.1 million for the procurement of consultancy services. The costs of projects have been increasing as the consultancy services have been received for the works which can be performed through the departmental human resources. Except for the very essential works, the consultancy service expenditure should be controlled by mobilizing departmental human resources.

168.1 The 12 projects implemented under Agriculture & Livestock Development, Physical Infrastructure & Transports, Energy, Water Resources and Irrigation, and Water Supply ministries have spent NRs. 75 billion 75.4 million up to now along with the expenditure NRs.15 billion 276.6 million incurred in this year out of the total project cost NRs. 116 billion 225.2 million. The expenditure incurred by the projects in consultancy service is NRs. 10 billion 799.4 million. The consultancy expenditure becomes 6.17 percent to 23.69 percent in comparison to the projects’ construction expenditure.
The expenditure of consultancy service should be minimized by utilizing the available human resource in operations of projects.

168.2 Though the Water Induced Disaster Management Department has 50 approved positions of technical human resources and 35 position of them are in fulfilled condition, the payments of NRs. 282.62 million have been made to 54 consultants with respect to survey and study of landslide and river control works without ensuring whether or not the works can be carried out through the departmental human resources. The study reports which were conducted in past years have not been implemented. The consultants should have appointed only on basis of identification of needs, but such need identification has not been done.

169. **Construction Work from User Group** - Rule 97 of Public Procurement Rules 2007 stipulates the matters to be considered while carrying out the construction works through the user groups. Major observations pertaining to this are as follows:

169.1 There exists the provision that any complex work that requires using the heavy machines cannot be carried out through the user groups. The works from user groups should be carried out only after analysis of available capital, technical capacity and human resources of user groups. The participation of user groups has become essential as the Department of Irrigation requires using the heavy machines for works which cannot be carried out without using machines. The works which are beyond the capacity of user groups have not acquired any acceptance for using necessary heavy machines in the works. The works which are beyond the capacity of user groups should be carried out through the contractors.

169.2 Sunsari-Morang Irrigation Project has paid NRs. 61 million 591 thousand by carrying out the gravelling, structure repair of service roads and removing soil of canal from 1 user group for 29 times, and along with this work, the project has paid NRs. 302 million 828 thousand in this year by carrying out the works through 10 user groups for 174 times. Likewise, Underground Water Irrigation Development Division, Lamahi, has paid NRs. 78 million 269 thousand by installing 41 deep tube wells through the user groups. Though such works cannot be carried out without using machines, the user groups have not acquired any acceptance for using necessary heavy machines in the works. The works which are beyond the capacity of user groups should be carried out through the contractors.

169.3 Any work which has cost estimate up to NRs. 10 million along with the share of value added tax, overheads, contingency and people’s participation can be carried through the user groups. However, the 4 offices inclusive of Medium Irrigation Project have carried out 6 projects in this year through the user groups avoiding the tender process, which have the total cost

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### Table: Construction Work from User Group (NRs. in Million)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of Project</th>
<th>Total Cost</th>
<th>Expenses of this year</th>
<th>Expenses up to this year</th>
<th>Consultancy Service Expenses</th>
<th>Consultancy Service Expenses in Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agriculture Commercialization &amp; Trade Project, Kathmandu</td>
<td>5,580.0</td>
<td>1,263.7</td>
<td>5,012.6</td>
<td>809.4</td>
<td>16.14</td>
</tr>
<tr>
<td>2.</td>
<td>Raising Incomes of Small and Medium Farmers Project, Nepalgunj</td>
<td>2,592.0</td>
<td>226.9</td>
<td>1,183.4</td>
<td>239.0</td>
<td>20.19</td>
</tr>
<tr>
<td>3.</td>
<td>Agriculture &amp; Food Security Project, Kathmandu</td>
<td>6,329.2</td>
<td>320.8</td>
<td>5,174.3</td>
<td>979.8</td>
<td>18.94</td>
</tr>
<tr>
<td>4.</td>
<td>High Value Agriculture Crop Development Project, Surkhet</td>
<td>1,487.8</td>
<td>244.8</td>
<td>1,484.3</td>
<td>351.6</td>
<td>23.69</td>
</tr>
<tr>
<td>5.</td>
<td>Construction Project, Kathmandu</td>
<td>515.4</td>
<td>177.2</td>
<td>607.3</td>
<td>139.7</td>
<td>23</td>
</tr>
<tr>
<td>6.</td>
<td>Earthquake Emergency Support Project</td>
<td>2,821.1</td>
<td>727.1</td>
<td>995.2</td>
<td>80.5</td>
<td>8.08</td>
</tr>
<tr>
<td>7.</td>
<td>SASEC Road Connectivity Project</td>
<td>4,714.6</td>
<td>1,002.2</td>
<td>3,683.9</td>
<td>405.3</td>
<td>11.5</td>
</tr>
<tr>
<td>8.</td>
<td>Irrigation &amp; Water Resource Management Project</td>
<td>6,387.5</td>
<td>1,334.3</td>
<td>4,576.3</td>
<td>444.1</td>
<td>9.96</td>
</tr>
<tr>
<td>9.</td>
<td>Building Resilience to Climate related Hazards Project</td>
<td>2,748.5</td>
<td>640.4</td>
<td>1,077.4</td>
<td>235.4</td>
<td>21.85</td>
</tr>
<tr>
<td>10.</td>
<td>Melamchi Water Supply Project</td>
<td>35,540.0</td>
<td>2,480.0</td>
<td>25,200.0</td>
<td>5,266.1</td>
<td>20.89</td>
</tr>
<tr>
<td>11.</td>
<td>Project Implementation Directorate (water supply)</td>
<td>38,837.6</td>
<td>4,603.7</td>
<td>19,399.9</td>
<td>1,429.0</td>
<td>7.37</td>
</tr>
<tr>
<td>12.</td>
<td>Third Small Town Water Supply Project</td>
<td>8,671.5</td>
<td>2,555.5</td>
<td>6,115.7</td>
<td>419.1</td>
<td>6.17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>116,225.2</strong></td>
<td><strong>15,276.6</strong></td>
<td><strong>75,075.4</strong></td>
<td><strong>10,799.4</strong></td>
<td><strong>9.33%</strong></td>
</tr>
</tbody>
</table>
estimate of NRs. 65 million 825 thousand and the cost estimate of more than NRs. 10 million in each project, and made the payment of NRs. 57 million 196 thousand for this purpose.

169.4 The Irrigation Policy 2013 and Rule 97 of Public Procurement Rules 2007 provide that the completed irrigation project should be handed over to user groups for sustainable management of the repairs, maintenance and operations works. However, the 6 offices/projects along with Irrigation Development Division, Dang, and Jhapa, have not performed the handover works of the 182 irrigation projects constructed at the cost of NRs. 738 million 732 thousand. It is because of this reason, the irrigation offices have been still conducting the repair & maintenance works of the projects every year, which fall under liability of the user groups, and the expenditure incurred in this year alone for such repair & maintenance works has figured NRs. 1 billion 241.1 million. Such repair & maintenance expenditure should be reduced by conducting the handover works after the completion of irrigation systems.

169.5 The detailed project report for the constructing Burtibang Town Sewerage approved by New Town Project Office on 2018 April stipulates that the project will cost NRs. 140 million. But, without inviting tender on that basis, the project work has been undertaken through the user groups during year by slicing the work into 6 packages of NRs. 45.3 million slicing each package within ceiling of NRs. 10 million.

- **Quality Standard of Construction Work**

170. **Quality Standard of Bridge** - Kathmandu Sustainable Urban Transport Project had signed a contract of NRs. 226.18 million on 2014/07/23 with a contractor to construct a bridge in Bishnumati River which links Teku and Kalimati, and the payments of NRs. 139.24 million granted till the 12th. running bill. The project office directed the contractor not to carry on the construction work citing reason that the construction works were undertaken by using the inferior quality materials which could not be capable to bear the loads of plying vehicles, but the bridge has been operated completing the construction works. Hence, an investigation should be made with respect to the quality of works undertaken and operations of the bridge.

171. **Damage in Main Canal** - Ministry has formed a committee to investigate the damage occurred due to collapse of main canal of western part of Sikta Irrigation and the report of the committee mentions that the dam of some places in between 17 to 35 km of the canal has collapsed, leakages of water are found due to low length and height of wing walls in most of all constructed aqueducts, beds of canal are broken, service roads have been collapsed and developed holes, slopes of canal are broken, and damages have occurred in the slabs which are used for lining of canal. The Clause 3.2.6 of specification mentioned in Section 2 of contract agreement and the contract agreement made with the consultant stipulate that it is duty of the consultants, contractor and project chief to examine the quality standards of soil and the construction materials used in the construction of canal, however, such quality tests of materials used have not been carried out.

After handover of the section of the canal, the contractor has not performed 66 types of works to be done during defect liability period. The contractor has not corrected works within 1 year, and the defect liability period has not been extended either. The 3 committees formed for examining whether the works have been done in accordance with as-built map; effectiveness in implementation of project has not come due to frequent transfer of project chiefs; and new additional contracts have been arranged instead of bringing effectiveness in implementation of old contract. The construction contractor, project chief and consultants which have not performed works in accordance with the contract agreement should be held responsible.

- **Project Management**

172. **Replacement of Tuin** - In perspective of the materials such as tyre tubes, boats, bamboo mats, tuins used for the purpose of floating/crossing river at local level are becoming hazardous and painful, the tuin replacement program has been implemented as per decision of
2015/10/12 of Government of Nepal. Out of the 187 places where tuins have existed, the replacement of tuins are not feasible in some places as per studies made, and except such places, the suspension bridges are to be constructed in 135 places. Five suspension bridges are to be constructed in Mahakali River which lies in the border area of Nepal and India, but the construction works have not been commenced as the acceptance from Indian Government is yet to be received. Out of the 130 places where the construction works are in process, the construction works of 106 suspension bridges are already completed. The easy crossing services should be delivered by timely completion of the suspension bridges which are possible to construct or which are under construction.

173. **Building and Other Construction** - The Authorization and Program Implementation Directives of Education & Human Resources Development Center mentions that for the purpose of building and other construction works, the agreement with School Management Committee shall be done in first trimester period and such works are to be completed within Mid-June. Though the expenditure of NRs. 5 billion 104 million incurred in this year with respect to physical construction, girl toilets, and school maintenance, the works have not been completed. In course of audits, it is revealed that though the majority of Education Development & Coordination Units have disbursed budgets for the purpose of the construction of school buildings and others, at the same time, they have issued letters to the banks for withholding the amount preventing the concerned schools to incur any expenditure. The disbursements to the schools should not be provided only if the disbursed amounts cannot be spent in the on-going fiscal year. There should be control in the processes of providing disbursements at the end of fiscal year and withholding such amounts.

174. **Outer Ring-road** - On the basis of planned land pooling, the works to develop new planned city and construct 72 km long outer ring-road in 3 districts of Kathmandu valley was initiated in 2004/05. It is stated that the Detailed Project Report of 54.5 km road has been completed and the report of rest 17.5 km is in-process. In course of conducting the Environmental & Social Impact Assessment of the outer ring road, the report relating to identification of area and work-lists has been prepared by conducting interactions with the local land-owners, tenants touched with ring road and the representatives of political parties, and provided to Ministry of Forest & Environment for comments. Though total of NRs. 108.2 million has been spent up to this year, the detailed project report of total road section, and the reports of land pooling and Environmental Impact Assessment report have not been prepared.

**Grant Distribution and Monitoring**

175. **Grant** - Rule 41(3) of Financial Procedure Rules, 2007 provisions that the concerned ministry shall be liable to conduct monitoring & assessment of the provided grants by receiving income-expenditure statements, progress reports, and audit reports. Total budget of NRs. 11 billion 478.7 million is appropriated to then Ministry of Agriculture to provide grant during year under 32 projects for agriculture related activities such as – floriculture business promotion, purchase of chemical fertilizers, fruits seeds/plants, fishery development, crops conservation, crops development, agriculture extension, agriculture & food security, vegetable farming, pool construction, one district one production, agriculture tools etc. Total of NRs. 8 billion 774.6 million have been spent inclusive NRs. 3 billion 195.5 million provided to Agriculture Input Company Limited for purchasing chemical and other fertilizers and NRs. 1 billion 398.9 million provided to Salt Trading Corporation Limited. Major observations relating to this are as follows:

175.1 The status of grants distributed with the objective to increase the production of agriculture sector, and production made of past 5 subsequent years are as follows:
### Fiscal Year Grants in NRs. billions Food Grain Production (in Thousand Metric tons) Vegetable Production (in Thousand Metric tons) Fruit Production (in Thousand Metric tons)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Production</th>
<th>Progress Percent</th>
<th>Production</th>
<th>Progress Percent</th>
<th>Production</th>
<th>Progress Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>8.99</td>
<td>9563</td>
<td>95.94</td>
<td>3589</td>
<td>103.36</td>
<td>979</td>
</tr>
<tr>
<td>2014/15</td>
<td>10.71</td>
<td>9266</td>
<td>90.75</td>
<td>3629</td>
<td>100.8</td>
<td>992</td>
</tr>
<tr>
<td>2015/16</td>
<td>10.04</td>
<td>8614</td>
<td>79.16</td>
<td>3643</td>
<td>99.64</td>
<td>1097</td>
</tr>
<tr>
<td>2016/17</td>
<td>10.78</td>
<td>9345</td>
<td>100.02</td>
<td>4125</td>
<td>111.48</td>
<td>975</td>
</tr>
<tr>
<td>2017/18</td>
<td>8.77</td>
<td>9657</td>
<td>98.62</td>
<td>4099</td>
<td>107.86</td>
<td>1010</td>
</tr>
</tbody>
</table>

While comparing grant money with agriculture production, it is found that 19.13 percent rise in grant money and 3.10 percent decrease in food grain production in 2014/15, 7.37 percent rise in grant money and 11.12 percent decrease in fruit production in 2016/17. Though the vegetable production has been made in accordance with target set in 5 subsequent years, the food and fruit production have been not met the targets. The production and productivity should be raised by proper utilization of grant monies.

175.2 Additional grants of NRs. 528 million 869 thousand have been provided to Agriculture Inputs Company Limited and Salt Trading Corporation Limited for administrative works. Though the government used to provide grants in purchase of fertilizers in past, the grants of this year have been provided for administrative works, which is not appropriate.

175.3 Agriculture Entrepreneur Center has been established under Federation of Nepal Industry & Commerce to contribute in economic development by establishing agro-industrial business and to conduct works such as identification of goods, packaging training, entrepreneurship training, and expansion of storage capacity by analyzing the market and demand of high value and exportable agriculture-based goods. Total grants of NRs. 936 million 548 thousand have been provided to the Center during the period 2013/14 to 2017/18, which include NRs. 84 million 525 thousand from High Value Agricultural Goods Program, NRs. 139 million 268 thousand from High Mountain Agriculture Business & Livelihood Improvement Program, NRs. 55 million 397 thousand from Raising Income Small & Medium Farmers Program, NRs. 184 million 768 thousand from Improved Seeds for Farmers Program, NRs. 192 million 441 thousand from One Village One Production Program, and NRs. 280 million 149 thousand from One District One Production Program. While carrying out works by providing huge grants directly from the approved government budget to the non-governmental organization which is formed for distinct purpose, it has not become possible to conduct the monitoring of such works, and the audits of such grants cannot be carried out by obtaining the related documents along with bills/receipts. As a result, the proper utilization of grant money cannot be assured.

Hence, pursuant to utilization and achievement of the grants, the Ministry should conduct monitoring & evaluation and make review on the policy of giving continuity to such grants.

176. Monitoring of Grant Disbursement - Ministry of Education, Science & Technology has provided total grants of NRs. 13 billion 736.7 million in this year to 11 entities along with University Grant Commission, Technical Education & Vocational Training Council, Medical College Infrastructure Development Committee, which include NRs. 10 billion 859.1 million from recurrent expenditure and NRs. 3 billion 877.6 million from capital expenditure. Likewise, Ministry of Culture, Tourism & Civil Aviation has provided the grants of NRs. 2 billion 188 million 493 thousand to 22 development committees/boards and 93 local levels. The ministries have not formulated a policy relating to providing grants and have not conducted the monitoring with respect to the works performed by those entities from the use of the grant money. The ministries should make arrangements for conducting monitoring & evaluation of the use of the grant monies.

### Tax Deduction and Deposit

177. Tax Deducted at Source - Section 88 and 89 of Income Tax Act, 2001, provide the provision related to the tax deduction at source at the time of making payments. This year, the 530
offices under 25 ministries have not deducted applicable tax at source of NRs. 102.3 million and 101 institutions/Committees have not deducted tax at source of NRs. 25.5 million.

177.1 Pursuant to purchase of tea, cardamom, sutho (dry ginger), chhurpee (hard cheese) made with the persons that are not registered in tax in income year 2013/14 to 2017/18, the 24 taxpayers registered with 5 offices along with Inland Revenue Office, Bhadrapur, Dharan, Thamel, are required to deduct the tax at source of NRs. 55.2 million at the rate of 1.5 percent on the purchase amount NRs. 3 billion 685.4 million, but such taxes at source have not been deducted. Hence, the tax amounts should be recovered and such taxpayers are to be brought into tax net.

177.2 The 23 taxpayers operating heli-charter 7 rescue businesses, which registered with Inland Revenue Offices – Maharajgunj, Tripureswar, Patalisadak, Thamel and Medium Taxpayers Office, have not deducted the tax deduction at source on the payment of helicopter rent NRs. 662 million 266 thousand that recovered from the tourists in respect to rescue operations. The applicable tax NRs. 993.4 million on the payment amount was not collected. One taxpayer of Inland Revenue Office, Battisputali has paid NRs. 237.2 million in 2016/17 in respect to service fees. In the expenditure amount, total revenue of NRs. 51 million 266 thousand should have collected including the tax deduction at source of NRs. 35.6 million and VAT of NRs. 15.66 million applicable to payment granted to non-residents as per Section 8(2) of Value Added Tax Act 1996, but only NRs. 463.9 million has been collected. Hence, the less collected tax of NRs. 46 million 627 thousand should be recovered along with the applicable fees and interest by conducting an investigation.

177.3 Though Nepal Rastra Bank has provided various types of subsidized loans to its employees, it has not computed the income tax from remuneration of its employees by including the amounts in respect to difference in prevalent interest rate and privileged interest rate charged on loan given to employee, as per Section 27 of Income Tax Act 2001. The advance tax of on such facility NRs. 59.8 million (except fees and interest) is to be recovered.

178. Recovery of Tax - As per Section 7 of Value Added Tax 1996, the statement of tax returns relating to recovered Value Added Tax in a month should be submitted to the concerned Inland Revenue Office within 25th day of next month. When conducted verifications from the website of Department of Inland Revenue in respect to the payments of value added taxes to 230 contractors under procurement agreements that provided by 34 offices under Department of Roads in this year, it is observed that the contractors have been shown as non-filers due to non-submission of the monthly tax returns in the concerned tax offices. Hence, the paid value added tax NRs. 244 million 74 thousand and necessary taxes along with applicable fines in respect to timely non-submission of tax returns should be recovered as per Section 29 of the Act.

District Coordination Committees 21 including Jhapa, Morang, Makwanpur, Sarlahi, Rautahat, Rupandehi, Kaillali, have not collected VAT of NRs. 107 million 32 thousand as per the agreement of various income contracts, but have not deposited same amount in federal consolidated fund. Likewise, 14 offices have not recovered of NRs. 203.6 million from income contracts in accordance with agreement. The recoverable amounts should be deposited in revenue account timely basis.

- Mobilization of Fund and Deposit in Consolidated Fund

179. Fund Account Mobilization - The amounts of various funds which were operated in accordance with the provision of then Local Self Governance Act and Rules and the amounts received from revenue allocation have remained as balances in fund accounts of District Coordination Committees. Total balance of various funds is NRs. 10 billion 971 million 244 thousand. Though it is necessary to prepare a standard relating to procedure, distribution and utilization with respect to mobilization of fund received from internal fund and revenue allocation, such standards has not prepared. Hence, such balances of funds should be utilized by preparing necessary procedures.
180. **Non-operative Account** - As per Section 11 of Nepal Agriculture Research Council Act, 1991 (2048), the Council is required to include the income received from its internal source in the Council’s budget and prepare/ implement programs in accordance, however the Council, without including such incomes in its budget, has been showing such income keeping in deposit account. There in a total balance of NRs. 1 billion 306.3 million in non-operative accounts including the previous year’s saving. The amount has remained in account without any use. The operating and capital expenditure of the Council have been included in annual budget of the Government of Nepal and research and development works have been conducted in accordance with the allocation. Hence, the balance amounts existed in the above mentioned account should be deposited in consolidated fund.

181. **Reserves** - In Section 45 (3) of Telecommunication Act 1996 (2053), it is mentioned that Nepal Telecommunication Authority may ask money with the Government of Nepal, if the funds obtained are not adequate for its operations and any excess amount provided by the Government of Nepal need to be refunded to the Government. As compared to the Authority’s reserve balances of NRs 32 billion 198.4 million as of previous year, the reserve balances have reached NRs 32 billion 717.7 million in this year. Out of the amount, if to exclude the balance of Rural Telecommunication Fund of NRs. 18 billion 641.1 million, the remaining balance NRs. 14 billion 706.6 million should be deposited in the consolidated Fund.

182. **Unused Saving** - The analysis of the income & expenditure of Foreign Employment Promotion Board of last 5 subsequent years shows that it has spent only 7.74 to 10.80 percent in comparison to the income earnings. As compared to this year’s available balance of NRs. 5 billion 667.18 million (inclusive of previous year’s balance), it has spent only NRs. 709.28 million (12.51 percent) and kept NRs. 4 billion 957.9 million as balance.

183. **Revolving Fund** - The Directorate of Animal Health has not prepared the consolidated financial statement of 2017/18. As per previous year’s financial statement, it has the total income of NRs. 242.4 million, investment made in the year of NRs. 19.2 million and the closing balance of NRs. 223.2 million. It is necessary to assure that whether the revolving fund has been effectively utilized. The balance amount in the fund should be deposited in revenue account along with the preparation of the consolidated financial statements.

184. **Posted Rate** - The budget of NRs. 500 million was allocated for providing grants of NRs. 5 million per megawatt to the projects that have generated electricity in specified time and NRs. 150 million allocated for giving posted grants. Thus, total of 650 million budgets has been allocated to Ministry of Energy for providing grants. However, the Ministry of Energy has not implemented the program of providing grants per megawatt and has provided the grants of only posted rates to 8 electricity producer companies by making the amendment of program at the last day of this fiscal year. While spending such conditional grant, the basic evidences have not been enclosed. Out of the amounts sent to Nepal Electricity Authority, the undistributed balance of NRs. 209.75 should have deposited in consolidated fund, but has not been deposited.

185. **Management of Balance** - As per Clause No. 4(D) of Central Renewable Energy Fund (Operations) Directive 2014, the funds are to be invested in the areas which is secured or less risky and where it can be operated with income earnings. This year, the Fund has total balance of NRs. 5 billion 54.8 million inclusive the balance of NRs. 3 billion 55.2 million existed in 12 commercial banks and the balance of NRs. 1 billion 999.6 million existed in other banks. In accordance the operations directive, the Fund’s amounts should be mobilized in more income generating fields.

With respect to the carbon (including smoke) reduction Mitigation, the Government of Nepal has received NRs. 667.53 million up to previous year and NRs. 376.56 million in this year from various international organizations. Amongst the amounts received since 2007, NRs. 174.2 million has been spent in this year for the consultancy service and the balance
amount NRs. 1 billion 42.35 million has been kept in bank without making any expenditure. Necessary procedures should be framed for the proper utilization of the Fund amounts.

186. **Balance Amount without Expenditure** - For the unspent balance of the disbursed amounts to embassies in current year, Ministry of Foreign Affairs has been deducting the same equivalent amounts from the disbursements amount of upcoming budget and depositing in revenues amount. As per the financial statements of embassies, out of the unspent balances of recurrent and capital expenditure disbursed to 39 Nepalese missions in abroad, 8 missions have not deposited NRs. 123 million 165 thousand in revenue accounts after deducting freeze amount. Similarly, Nepalese Embassy of Dhaka has not yet deposited NRs. 37.35 million of 2016/17 in revenue account till now. Including the amount, all such amounts should be deposited in revenue account.

The revenues collected by the Nepalese missions in abroad have been deposited in separate accounts of local banks of the concerned countries for interim purpose, and such amounts have to be sent to Ministry of Foreign Affairs for the purpose of depositing in consolidated fund or the Ministry has to deposit in revenue account by deducting equivalent amount from the upcoming disbursements to be provided to such missions. However, of the revenues collected by missions in previous year, 30 missions have still retained NRs. 338.7 million as balances in their concerned local banks even after elapse of 6 months of fiscal year. The amounts should be deposited in revenue accounts.

- **Compliance with Laws**

187. **Compliance with Law** – Section 26(2)(e) of Contribution Based Social Security Act, 2017 (2074) provisions that the amounts collected as social security tax till the time and to be collected in future should be deposited in social security fund. The Government of Nepal has started to collect social security tax since 2010/11 and the 1 percent tax deducted in the payment of remuneration has reached NRs. 22 billion 26.4 million till now. The tax amounts have been deposited in consolidated fund instead of depositing in social security fund, and such deposited amounts are being spent in accordance with Appropriation Act. Thus, the provisions of the Act have not been implemented. Since the social service tax amount of this year has already been deposited in revenue account, there is no such situation that the section of the Act will be implemented. Hence, the provision made in the Act and Rules should be either implemented or amended.

188. **Disagreement with Objective** – Section 5 and 13 of Bonus Act, 1973 (2030) provides that each organization has to allocate an equivalent amount of 10 percent of net profit as bonus to its employees and if any amount remains after distribution of bonus, the 70 percent of such balance should be deposited in welfare fund of the concerned organization and the remaining 30 percent amount should be deposited in national level welfare fund. Though the Fund has been constituted with an objective to operate programs related to interest and welfare of employees/laborers of concerned industrial organizations, the amounts have not been mobilized in accordance with set objective, and the balance of NRs. 16 billion 394 million which has remained balances since previous years has been transferred to social security fund in this year.

The Contribution Based Social Security Fund Act, 2017 provisions that the Fund amounts shall be mobilized in making investment in shares, debentures, providing loans to employees of the government service, constructing of buildings and renting in addition to the interest and welfare of the employees, and Section 32(1) (c),(e),(g),(k) of Act provides that the amounts will be spent in various activities of social securities of the employees of all participating organizations. But, there has been no such situation the amounts contributed in National Level Welfare Fund will be only mobilized in the programs associated with the concerned depositors or the interest, welfare and facilities of employees of the participating organizations in accordance with the set objective. Pursuant to this, the concerned entity should pay attention to this matter on time.
189. **Embosed Number Plate** - An agreement is entered with an international supplier to keep embossed number plates in 2.5 million vehicles at the cost of US Dollar 43.787 million (NRs. 4 billion 787.7 million) and the work schedule provided in the agreement requires to keep 1 million 377 thousand 500 number plates up to 2075 Chaitra (2019/04/13), but only 4 thousand 403 (0.32 percent) number plates have been fitted.

The Constitution of Nepal provides that the official language of the government shall be written in Devanagarik Script, but the agreement has been entered stating that the letter and figure of embossed number plates will be in English Language. The Supreme Court has issued an order to stop the distribution work citing that the arrangement made to write the embossed number plates in English Language is against the provision of the Constitution, and accordingly, the distribution work has been stopped.

The agreement entered with the supplier provides a condition that the embossed number plates of 2.5 million vehicles are to be supplied and personalized in five years period, and 95 percent amount of the agreement needs to be paid even if the works are not completed within the period. Since the work period of the agreement is going to end in near future, there has been a situation that additional liability of NRs.4 billion 540.2 million will be created in accordance with the agreement despite of non-completion of the work of personalizing number plates. Hence, an arrangement should be made not to pay the amount in the state if specified works are not performed.

190. **Certification of Software** - Point No. 3 of Information Technology System (Management & Operations) Directives, 2014 of the Government of Nepal provides that consistency is to be maintained in the information technology system used in government entities, and Point No. 4 of the same Directives provides that an architecture framework is to be set while developing information technology system to conduct own works through electronic medium and has to be sent to Information Technology Department to determine whether or not the system has been prepared in accordance with the architecture framework. Up to 2017/18, the Department has certified the software of only one government entity prepared on the basis of the architecture framework. Other government entities have either developed or purchased software, and they have been using such software for the purpose of work operations, service delivery, accounting and reporting.

The use of any software without the certification from the Department may result inconsistencies in use of software, lack of user logs, unavailability of the digital signature friendly facilities, unnecessary economic burden to the government and lack of quality in software, which may lead to the deficiency of the specified standard based on the government enterprise architecture. Software will become insure if the government entities use any software against the laws and without certification of standards. So, the prevalent provisions made with respect to software use should be complied with.

191. **Bonus Distribution** - Agriculture Development Bank had distributed the bonus of NRs 260 million as advances to its employees in 2008/09 and 2009/10 on the basis of Bonus Rules, 1982 without getting approval of the Ministry of Finance, but the advances have not been cleared till now. The amount should be recovered from the concerned official. Similarly, against the provisions of Bonus Act 1973 (2030), Citizen Investment Trust has distributed the provision made of NRs. 7 million 593 thousand with respect to employees bonus of 2015/16 after elapse of 2 year period, and Nepal Oil Corporation has shown the bonus liability of NRs. 3 billion 130 million. The bonus distributed as against the Act should be recovered and the liability shown amount should be deposited in revenues.

192. **Deposit** - As per Directives related to Operations of Flight by including Flight’s Passengers Service Charge in Air Ticket, 2012 (2069), every international airlines operators are required to retain deposit an equivalent to the amount of one month passengers’ service charge on the basis of seat capacity of each flight, and internal airlines operator companies are required to retain deposit equivalent to the amount of 15 days passengers service charge. As per this arrangement, the 30 international airline operators companies and 18 internal airlines
companies are required to maintain the deposits of NRs. 652 million 141 thousand, but such deposits have not been retained. Nepal Civil Aviation Authority should collect such deposits.

193. **Stabilization Fund** - As per Rule 3(2)(c)s of Petroleum Product and Gas Price Stabilization Fund Rules 2014 (2071), one percent of retail selling price of all types of petroleum products shall have to be deposited in the Price Stabilization Fund. Such amounts deposited in the Fund have reached NRs. 6 billion 345.9 million up to end of this fiscal year. It is appropriate to create the Fund from the amounts received from the levying of additional charge in selling price without receiving such amounts from the profit earnings.

- **Investment Returns**

194. **Returns of Share Investment** - As per the statement obtained from the Financial Comptroller General Office, it is observed that as against the total share investment of NRs. 181.91 billion in 108 institutions up to previous year, the total share investment of the Government of Nepal is NRs. 226.78 billion up to this year inclusive of this year’s additional investment made NRs. 44.62 billion and the addition of NRs 0.25 billion from the receipt of bonus share and adjustment made.

   The government has received bonus share of NRs. 15.7 million from Citizens Investment Trust and the dividends of NRs. 17 billion 429 million from the 13 institutions along with Nepal Telecom, Nepal Rastra Bank, Nepal Civil Aviation Authority. Except mentioned above, no return has been received from the rest 97 institutions in which the government has invested total share investments of NRs. 151.86 billion. It is necessary to bring the effectiveness in management and operations of the public enterprises.

195. **Deposit** - The statement received from Army Welfare Fund shows that it has total deposits of NRs. 26 billion 784.4 million in the 28 commercial banks, 2 development banks and 5 financial companies, foreign currency balance equivalent to NRs. 7 billion 240.6 million, and out of remaining balance of NRs. 6 billion 627.9 million, NRs. 5 billion 522.4 million has been invested in welfare plans and NRs. 1 billion 105.5 million in shares, debentures and saving bonds up to end of this fiscal year (2018/07/16). Out of the total deposits, the NRs. 62.7 million inclusive of the principal NRs. 50.3 million of fixed and saving accounts and accrued interest NRs. 12.4 million thereon have not been recovered within end of this fiscal year, which are in risk. The amounts should be recovered.

196. **Recovery of Interest/ Loan** - Rastriya Banijya Bank has an interest dues of NRs. 1 billion 139.8 million of some loans provided in the condition of the zero balance of principal since previous years. Likewise, Nepal Industrial Development Corporation has total dues of NRs. 1 billion 811.4 million to be recovered with 9 borrowers inclusive of the written off loans and interest as of 2018/05/01. The amounts should be recovered making responsible to the officials that caused loss and damages to the bank without recovering the principals and interest on time.

197. **Reconciliation of Interest Account** - Under other liability account, Nepal Industrial Development Corporation Development Bank Limited has been carrying forward NRs. 152 million 536 thousand since past years as the outstanding interest of loans to be paid to the Government of Nepal. In accordance to letter of Financial Comptroller General Office of date 2018/04/23, the bank is asked to make payment of NRs. 334 million 896 thousand. The concerned officials should be held responsible to make immediate payment by verifying the correct amount.

198. **Change in Exchange Rate** - Though the foreign exchanges have been the major assets of the Nepal Rastra Bank, the normal fluctuations in forex rates have been immensely affecting financial position of the Bank. The Bank had incurred the loss of NRs. 23.75 billion in fiscal year 2016/17 due to 3.63 percent fall in the rate of US Dollar and generated the profit of NRs. 38.27 billion in 2017/18 due to 6.48 percent rise in the rates of the US Dollar. To mitigate the risks caused by fluctuations in forex rates, the Bank should adopt appropriate tools inclusive of hazing.
199. **Investment and Recovery** - Youth Self-employment Fund has invested NRs. 7 billion 271.1 million to 55 thousand 333 entrepreneurs from the period of its establishment to 2018/07/16, and of the investments made, the outstanding investment is NRs. 3 billion 887.6 million at the end of this fiscal year. Out of the total investment made in 1 thousand 437 institutions including in banks & financial institutions, cooperative institutions by the Fund as of 2018/07/16, the unrecovered principal is NRs. 286 million 387 thousand, and the recovery to be made with 192 cooperative institutions is NRs. 208 million 123 thousand inclusive of overdue principal NRs. 173 million 185 thousand, interest NRs. 28 million 334 thousand and fines NRs. 6 million 604 thousand. Amongst them, the NRs. 75 million 855 thousand to be recovered with 47 cooperative institutions which are found problematic.

- **Monitoring and Regulation**

200. **Monitoring of Quality Standards and Measurement** - In accordance with the information received about monitoring and the complaints received through various medium, Nepal Standard & Metrology Department has conducted the monitoring and inspection of 52 industries, and of the such industries so inspected, the various deficiencies are observed in case of the quality standards of 8 ghee & oil industries, 15 cement industries, 7 steel industries, and 4 food industries. It is stated observed that the actions have been taken along with the issuance of cautioned letters to the concerned industries for the deficiencies instructing them to take back the production of the specified batch from the market. However, there has been no basis to assure the instructions issued have been implemented.

Pursuant to measuring instruments, the new licenses have been issued to 11 thousand 946, and renewals have been done by 24 thousand 365 license holders. Though 10 thousand 645 taxis are registered up to this year, only 3 thousand 326 have done renewals. Out of the registered, 2 thousand 191 have not installed the billing printers. The processes of the monitoring and taking action on all types of measurements and taxi meters have been found ineffective. The act of monitoring and inspection should be made effective by extending the scope of monitoring and inspection.

201. **Food Sample Collection and Test** - In order to prevent the adverse impact of the food stuffs used by general people, Food Act, 1966 has determined the minimum quality standard. This year, Department of Food Technology & Quality Control and its subordinate offices have tested various 2 thousand 813 food stuffs by collecting samples and of the foods tested, 354 (13 percent) stuffs have been stated as the non-availability specified standards. The availability of food stuffs below the specified standards will cause the risk of adverse impact in human health.

Joint Market Monitoring Directives, 2012 has made the arrangement relating to the monitoring of meat shops, and Animal Slaughter House & Meat Test Act, 1998 has made the arrangement relating to punitive actions for the operation of meat shops without getting license. While monitoring 484 shops by the Department and subordinate offices amongst the meat shops available in the country, the 288 shops (60 percent) have been found operated without getting registration in concerned offices and 308 shops (64 percent) have been operated without fulfilling the specified standards. Actions should be taken in accordance with the laws to those which have produced and sold substandard goods, mixed-up bad items in goods and not fulfilled the specified standards.

Likewise, amongst the 560 drinking water samples tested by the Department, deficiencies are noticed in 140 samples and the actions have been taken to 54 samples by filing legal cases. However, no action has been taken to any of the industries that have sold and distributed the food & drinking stuffs that has caused adverse impact in human health. Necessary actions need to be taken in accordance with Food Act, 1966.

202. **Monitoring of Cooperatives** - Section 98 of Cooperative Act, 2017 provides that arrangement relating to conducting the inspection and monitoring by the Ministry. As per statistics published in the Statistics by Cooperative Associations and Organization, 2018
(2075), there are 34 thousand 512 associations/ organizations inclusive of those operating saving & loans, multi-purpose agriculture, and vegetables and fruits etc. In such associations/ organization, the share capital of NRs. 273.17 billion has been invested and the deposits of NRs. 302.16 billion and loan investment of NRs. 273.71 billion have been mobilized. The Department has not maintained the record of monitoring of such organizations. The statement obtained in course of audit shows that the Ministry of Land Reforms, Cooperatives & Poverty Alleviation has conducted the monitoring of 19 cooperatives of 8 districts, whilst Department of Cooperative has conducted the monitoring of 109 cooperative associations/organizations. The monitoring work of cooperatives has been found ineffective as the monitoring is conducted only for the smaller number or 138 cooperatives in comparison to total number of cooperatives operated. The monitoring and control work should be made effective.

203. **Problematic Cooperative Institutions** - In the report of 2019/01/19 of Problematic Cooperative Management Committee, it is mentioned that amongst the problematic cooperatives, 10 cooperatives have the total liabilities of NRs. 15 billion 483.9 million including the interests to be paid. As per the statement received from Department of Cooperatives, it is mentioned that the directors of 83 cooperative institutions have disappeared and amongst them the liability of 51 institutions have been identified as NRs. 122.1 million, but the status of others institutions have not been mentioned. Hence, pursuant to problematic and directors disappeared cooperative institutions, the Department should adopt the measures to safeguard of the amounts of shares and deposits of investors and depositors. The Department should conduct search action, and take legal action ascertaining the assets & liabilities of such cooperatives.

204. **Monitoring and Supervision** - Point No. 31 of Directives relating to Health Laboratory Operations Standards, 2016, stipulates that the National Public Health Laboratory may conduct the monitoring any time of the laboratories the licenses which have been issued, and can degrade the standard group of the laboratory or may also cancel the license to laboratory if the specified standards are not found in the event of monitoring. As per the statement furnished by the laboratory, it is revealed that the total licenses are issued to 156 private laboratories (including renewal and new registered) in 2017/18, but the monitoring of such private laboratories has not been conducted in this year after issuance of the licenses.

205. **Price Regulation of Telecommunication Service** – Section 4(2) (d) of Consumer Protection Act, 2018 stipulates that the Industry, Commerce and Supply Ministry shall make the necessary arrangement to prevent or make control any undue price determination by producer, seller, or distributor of goods or services.

In Nepal, two telephone service providers have been providing mobile and telephone services throughout the country and 3 telephone service providers provide the services only in specified areas. For the purpose of determining prices of the telecommunication services in Nepal, Nepal Telecommunication Authority has only set the upper limit of charges for the purpose of determining the service charge on the basis of open market competition. The comparative status of profit share in telecommunication services of the service providers of Nepal and the operating profits (profits before interest, tax, depreciation and amortization) earned by the telecommunication service providers of various countries of the world are provided below:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Service Providers</th>
<th>Country</th>
<th>Operating Profit (Percent)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A Telephone Service Provider</td>
<td>U.S.A.</td>
<td>30.06</td>
<td>September 2018</td>
</tr>
<tr>
<td>2</td>
<td>A Telecommunication Company</td>
<td>U.S.A.</td>
<td>34.17</td>
<td>September 2018</td>
</tr>
<tr>
<td>3</td>
<td>A Telephone Service</td>
<td>U.K.</td>
<td>31.60</td>
<td>March 2018</td>
</tr>
<tr>
<td>4</td>
<td>A Telephone Group</td>
<td>Europe</td>
<td>31.90</td>
<td>2017</td>
</tr>
<tr>
<td>5</td>
<td>A Telecom Company</td>
<td>Germany</td>
<td>24.00</td>
<td>2017</td>
</tr>
<tr>
<td>6</td>
<td>A Telephone Service Provider</td>
<td>Europe</td>
<td>33.33</td>
<td>March 2017</td>
</tr>
<tr>
<td>7</td>
<td>A Telecom Company</td>
<td>Japan</td>
<td>30.90</td>
<td>May 2018</td>
</tr>
<tr>
<td>8</td>
<td>A Telecom Company</td>
<td>Japan</td>
<td>31.70</td>
<td>March 2018</td>
</tr>
<tr>
<td>9</td>
<td>A Telecom Company</td>
<td>China</td>
<td>31.50</td>
<td>June 2018</td>
</tr>
<tr>
<td>10</td>
<td>A Group Company</td>
<td>Malaysia</td>
<td>37.80</td>
<td>A holding Company of 2017</td>
</tr>
</tbody>
</table>
While analyzing on the basis of above table, it is clear that as compared to 24 to 37.8 percent operating profits of the telecommunication service providers of various countries of the world, the operating profits of Nepalese service providers have appeared 58 to 62 percent. Thus, the content of profits in the price of the service in Nepal has remained much higher. The regulating agency has, however, not yet conducted any analysis with respect to the justifiability of the excessive operating profits. The consumers’ interest has not been protected as the general people are bound to receive services at costlier prices. Pursuant to price fixation of such service providers, regular monitoring should be carried out in coordination between the Ministry of Information and Communication Technology and Nepal Telecommunication Authority, and the quality of services and the price should also be regulated.

206. **Drug Standard** - A study conducted by Nepal Health Research Council shows that 29 percent of drugs available in Nepal are not based on the pharmacopeia of any country. As per the statement received from Department of Drugs Management shows that 127 national producers out of 144 producers registered in Nepal are not in accordance with good production practices of the World Health Organization, and 132 producers have not obtained the certificates as per National Drugs Skilled Production Practice Codes, 2015. Amongst the 80 ayurvedic drugs producers registered in the Department, none of producer has obtained the certificates as per the National Drugs Skilled Production Practice Codes. There has been no such situation to assure that the state owned drugs producers inclusive of Sinha Durbar Baidyakhana have complied with the Skilled Drugs Production Code.

In the market monitoring report conducted by the Department, it is mentioned that 7 to 14 percent of drugs on an annual average are not as per the specified standards. The level and standards of raw materials to be used in drugs have not been specified till now, and the Active Pharmaceutical Ingredients (A.P.I.) of drug producers have not been examined as per good production practices of the World Health Organization. The mechanism to test the GMP Quality Test for the drugs imported to Nepal in customs point has not been still formed. Therefore, there has been no such situation to assure that the drugs available in markets are of the specified standards. Necessary mechanism should be developed to maintain the standards of drugs in accordance with the policy and effective measures are to taken to maintain the quality of drugs.

- **Reconstruction and Rehabilitation**

207. **Reconstruction Expenditure and Progress** - Total of NRs. 186 billion 925.9 million has been spent for the reconstruction works of damages caused by earthquake in 31 districts inclusive of 14 highly affected districts and 17 less affected districts up to this year along with this year’s expenditure NRs. 114 billion 765.9 million and the previous year’s expenditure of NRs. 72 billion 160 million. After the elapse of 4 years of happening of earthquake and the passage of 3 years or 60 percent time from the establishment of the Authority, the construction work of 140 km strategic roads and 1060 km district level roads have not been yet commenced.

In accordance with the target set, the construction work of privates houses should have completed within 2 years, but the construction of 268 thousand 575 (32.63 percent) out of 822 thousand 909 private houses, and retrofitting of 7 thousand 448 (14.30 percent) out of 52 thousand 54 private houses have been completed after the elapse of the whole period. Though the construction works of educational and health institutions are required to complete within the 3 years period, only 643 (53.71 percent) out of 1 thousand 197 health institution buildings, 3 thousand 816 (50.52 percent) out of 7 thousand 553 community school buildings, and 2 (12.50 percent) out of 16 buildings under universities have been completed. Similarly,
only 248 (59.75 percent) out of 415 public buildings, 214 (31.19 percent) out of 686 buildings of security agencies, 185 (24.56 percent) out of 753 archaeological and culture heritages, and 1 thousand 705 (56.83 percent) out of 3 thousand water supply and sanitation projects have been completed. The Authority as well as other concerned entities should show more enthusiasm to complete the reconstruction works of the damages caused by earthquake.

208. **House Construction Grant** - Section 5(c) of Earthquake Affected Private House Reconstruction Grant Distribution Procedures, 2015, provides that the affected people are entitled to get first installment NRs. 50 thousand after making grant agreement, second installment of NRs. 150 thousand after construction of the plinth level, and third installment of NRs. 100 thousand prior to the construction roofing works. For the construction total 822 thousand 909 houses, total payment of NRs. 148 billion 747.4 million have already been provided, which includes first installment of NRs. 36 billion 695.2 million provided to 733 thousand 905 persons at the rate of NRs. 50 thousand each, second installment of NRs. 78 billion 505 million provided to 523 thousand 367 persons at the rate of NRs. 150 thousand each, and third installment of NRs. 33 billion 547.1 million provided to 335 thousand 471 persons at the rate of NRs. 100 thousand each. Out of the persons that took the first installment, only 45.71 percent have received the third installment.

For the beneficiaries of 10 districts along with Kathmandu, Lalitpur, and Sindhupalchowk in addition to the grants provided by the Authority of NRs. 300 thousand, an additional grant of NRs. 79.15 million has been provided by various domestic and foreign non-governmental institutions. Since it is not appropriate to receive double grant facilities, the excess grants provided amounts should be recovered and the Authority should investigate and ascertain that whether or not such double grants have been provided in earthquake affected 31 districts.

209. **Reconstruction of Heritage** - As per information received from Department of Archaeology, there exists 5 thousand 402 heritages within Kathmandu Valley out of 7 thousand 402 heritages of the country. Out of them, the 1 thousand 590 heritages of 31 districts are damaged by the 2072 earthquake and the reconstruction works have been commenced for the 1 thousand 178 heritages. Out of them, 221 are completed, 213 are on-going and the construction work of 744 has not yet begun. Total of NRs. 1 billion 322.5 million has been spent in reconstruction of the heritages. Though the reconstruction works have also been carried out through other foreign organizations, local levels, other governmental and non-governmental entities in addition to the Department, the up-to-date records of such works have not prepared. Updated record of heritages should be prepared by conducting regular monitoring and evaluation of the reconstruction works, and the reconstruction works should be completed as soon as possible.

### Sustainable Development

210. **Sustainable Development Goal** - The sustainable development goals have been adopted in accordance with the resolutions of Sustainable Development Agenda 2030 by the General Assembly of United Nations on 2015 September ratified by Head of States & Governments of 193 countries. There are 17 main goals, 169 targets and 230 indicators of the sustainable development. Major observations noticed with respect to the preparation made to attain the sustainable development goals are as follows:

210.1 In Federal Government, the High Level Steering Committee has been constituted to issue guidance by conducting the periodic review of the implementation of sustainable development goals, and Implementation and Coordination Committee under convenorship of the Vice Chair of Planning Commission and other 9 subject-wise committees have been constituted to conduct monitoring of resource mobilization and program implementation, but appropriate institutional structures have not been formed in executing ministries as well as in provincial and local levels. In the federal structures, the role of 7 provinces and 753 local levels becomes vital for the purpose of attainment of sustainable development goals. Hence, the appropriate steering committees and other structures should also be formed in provincial
and local levels under convenorship of head of provinces and chiefs of rural municipalities/municipalities and the appropriate structures should be formed in subject-wise ministries along with the determination of their responsibilities.

210.2 The sustainable development goals have been taken as basis in formulation of 25 years perspective plan and upcoming five year plan. Pursuant to subject matters mentioned as legal and policy basis, the subject-wise ministries of the federal government, provincial governments and local levels should incorporate the activities of the sustainable development goals in the policies, programs and budgets to be framed by them, and efforts should be made to determine the medium-term and long-term goals of sector wise ministries on that basis.

210.3 National Planning Commission has issued Sample Plan Formulation Manual 2018 (2075) for the provincial levels and local levels. Though the federation has started the work of formulating budget and programs by prioritizing plans in accordance with sustainable development goals, but the goals have not been localized by provincial and local levels maintaining harmony in their policy, plan and programs. To internalize the sustainable development goals, the provincial and local levels, while formulating the periodic, annual development plan etc., should prioritize, select and classify plans/projects on the basis of their contribution to be made in attainment of sustainable development goals, and the arrangements of necessary resources and expenditure projection should also be made.

210.4 The people’s awareness need to be enhanced extensively to measure the indicators of provincial and local levels in implementation of the sustainable development goals through their capacity development in collection of necessary data. Though the work of giving codes of the sustainable development goals in annual development programs initiated since previous years, the arrangement of presenting the annual budget appropriation on the basis of such codes has not been done. Therefore, the annual budgets of all levels should be presented on the basis of the codes of sustainable development goals.

210.5 National Planning Commission has prepared a report on the subject of Need Identification, Cost and Fiscal Supply Strategy. The report estimates that an annual investment of NRs. 2 trillion 25 billion is to made to implement the sustainable development goals. It is also mentioned that the annual investment of financial resources of NRs. 585 billion including the NRs 218 billion from public sector and NRs. 367 billion from private sector will become insufficient. Hence, considerations should be given in mobilization of financial resources and mobilizing mass participation in costs and prioritizing investments along with mobilization of foreign aid.

210.6 There is no dependable system to make timely available of necessary credible fragmented data and information on an integrated basis to analyze by integrating data and information to be receivable from various entities, and to conduct the monitoring and evaluation of progresses of sustainable development goals in 2019, 2022, 2025 and 2030. Though the indicators of sustainable development goals are interrelated with one another, no such basis and standards have been prepared to make the evaluation of which program or the activities implemented by the subject-wise ministry would contribute to which goals and to what extent. From this, it appears that there will be difficulty in conducting the mid-term evaluation of the targets. There should be a system to make timely availability of target-wise credible data and information, which are necessary for measuring the indicators of sustainable development goals.

• **Irrigation Management in Command Area**

211. **Use in Non-Agriculture Work** - Land Use Policy 2015, stipulates that the land of the command areas of an irrigation project will be used accordingly by classifying into the agriculture areas. The land of command area has been decreasing due to use of such lands in the establishment of industries, development of settlement areas, and plotting of lands. As per the statements obtained from Sunsari-Morang Irrigation Project and Kankai Irrigation Project, it is noticed that the command areas of the projects used for non-agriculture sector is 3
thousand 577 hectares, which include 997 hectares used for industrial sector, 851 hectares used for land plotting, 1 thousand 416 hectares used for settlement development and 313 hectares used for other purposes.

Out of the total command areas, the 3.78 percent of Sunsari-Morang Irrigation Project and 13.38 percent of Kankai Irrigation Project have been used for non-agriculture purposes. With this, there has been a situation that the proper returns from the investment made in irrigation may not be obtained. The concerned entity should give attention in protection of the irrigated agriculture suitable land.

212. Command Area - Though Sunsari-Morang Irrigation Project has a goal to provide irrigation facilities in 68 thousand hectares of lands, the irrigation facility has been provided only in 58 thousand 146 hectares. Bagmati Irrigation Project has total command area of 122 thousand hectares inclusive of the first phase and second phase. The project has provided irrigation facility in only 45 thousand 600 hectares. Likewise, Kankai Irrigation Project of Jhapa District has provided a statement of the availability of the irrigation facility in 7 thousand 700 hectares as against its goal to provide irrigation facility in 8 thousand hectares. Kamala Irrigation Project, which has total command area of 25 thousand hectares including 12 thousand 500 hectares in Dhanusa District and 12 thousand 500 hectares in Siraha District, has provided the irrigation facilities in total area for summer cropping, but it can provide irrigation facilities only in 10 thousand hectares for winter cropping. The irrigation facilities should be provided in available command areas by conducting regular the repairs and maintenance of constructed canals.

213. Discharge Capacity - The irrigation facilities should be available throughout a year as per the discharge capacity of an irrigation project. Though the intake of Sunsari-Morang Irrigation Project has discharge capacity of 60 cumec, it has provided water discharge of 37.02 to 49.44 cumec in summer season, 30 cumec in Baisakh, Jestha and Asadh, 25.62 cumec in Magh, Falgun and Chaitra. Though Kankai Irrigation Project has water discharge capacity of 10.15 cusec, it has the water discharge of nil in Kartick, 0.87 cumec in Paush, 8.53 cumec in Srawan. Though the eastern canal of Bagmati Irrigation Project has water discharge capacity of 64.40 cumec, it can provide average water discharge of 7 cumec in dry season, and in western canal, it can provide average water discharge of 3 cumec as against its discharge capacity of 48.40 cumec. Thus, the irrigation facilities have not been provided in the command areas throughout a year as per the water discharge capacities of the canals.

In the event of non-availability of irrigation facilities as per the target set, the target of increasing agriculture crop production and productivity will not be achieved, the cost repair & maintenance expenses will rise, and the problem of raising the living standard of people will be remain unaddressed.

- Provincial Government Offices

Pursuant to 68 entities of 7 provinces, the total audit of NRs. 2.62 billion has been completed, and the irregularity of NRs. 190 million (7.25 percent) has been witnessed. The audited figures have appeared the highest of NRs. 694.4 million in Province No. 2, and the lowest of NRs. 200.5 million in the Province No. 5. The irregularity percent as compared to the audited figure has appeared the lowest of 0.07 percent in Karnali Province, and the highest of 23.71 percent in Province No.2. Significant observations relating to this are as follows:-

214. Revenue Collection - The related Schedule-2 of Section 3(2) of Inter-Governmental Fiscal Management Act, 2017, provides that the provincial government is empowered to impose the house land registration fee, vehicle tax, entertainment tax, advertisement tax, tax in agriculture income, service charge duty, tourism fee, punitive actions and fine, and the taxes and non-taxes to be levied in accordance with provincial laws and other prevalent laws which fall under provincial jurisdiction, however the 7 provincial governments have not prepared any proposal during year pursuant to levying or raising the taxes on any subject.
215. **Differences in Facilities** - The service facilities are be provided in accordance with Province laws, Provincial Cabinet Orders, 2018 and other laws formulated by the Province. Pursuant to facilities of officials, there is no uniformly in remuneration, residence facility, and furniture & fuel facilities of Speakers, Deputy Speakers, Opposition Party leaders, Main Whippier, Chief Whippier, Provincial Members and Ministers, State Ministers and Assistant Ministers. Efforts should be made to harmonize the facilities of all officials of provinces.

216. **Budget Expenditure** - In this year, though the 7 provinces have fixed the equalization grant NRs. 7 billion 42.2 million as their budgets, but the expenditure of only NRs. 2 billion 573.1 million (36.54 percent) has been incurred. Out of the expenditure, the recurrent expenditure is NRs. 1 billion 520 million (59.07 percent) and capital expenditure is NRs. 1 billion 50 million (40.93 percent). The recurrent expenditure normally becomes high as this year is the first year of the province establishment, but the policy adopted in incurring such expenditure should be economical.

217. **Direct Purchase** - As per Public Procurement Act 2007, the procurement works are to be conducted on the basis of competition, but all 7 provinces, without making any competition, have purchased goods such as- furniture, computers, laptops, photocopy machines, printers etc. through the direct purchase method with repetitive purchases, and granted the payment of NRs. 304 million 278 thousand for such purchases. Though conducting immediate purchases is essential for the operations of newly established ministries, but the procedures of procurement under special circumstance as specified in Section 66 of the Public Procurement Act, 2007 and Rule 145 of the Public Procurement Rules have not been followed.

218. **Inauguration and Celebration Expenses** - In the inauguration ceremony “Karnali–Rara Tourism Carnival, 2075 (2018)” conducted as per the decision of Karnali Province Government, the six ministries of the province have incurred total expenditure of NRs. 7 million 816 thousand inclusive NRs. 697 thousand spent in publicity, NRs. 704 thousand spent in gift items, NRs. 2 million 124 thousand expended in tiffin and foodings, NRs. 1 million spent in air tickets and transportation.

   In the ceremony organized by Province No-2 in Janakpurdham on 2018/05/11, the expenditure has been incurred for publicity, construction of pandal/tents, welcome gates, people mobilization. Out of such expenditure, NRs. 13 million 449 thousand has been spent in tent/pandal construction without making any competition and NRs. 8 million 404 thousand has been spent for people mobilization.

   Such expenditure should be economical and justifiable.

219. **Election Area Development Program** - To implement the plan/projects selected by members of Province Assembly in accordance with Election Area Development Program Operations Procedures, 2018 (2075), the Office of Chief Minister & Council of Ministers of Province No-2 has provided NRs. 107 million to the concerned District Infrastructure Office at the end of fiscal year at the rate of NRs. 1 million per member showing advances in the name of the concerned assembly members. Such advances amounts have been provided without making any preparation in spite of the plan requisition forms not filled up in accordance with the schedule-1 of program operation procedures, the plan implementation time not specified, the cost estimates of plan not approved, and basic description not prepared and information along with the service recipient beneficiary groups not disclosed along with the preparation of basic description. There should be control in the act of providing advances at the end of fiscal year without fulfilling the required procedures.

220. **Grant Distribution** - Ministry of Land Management, Agriculture and Cooperatives of Karnali Province has provided the grants of NRs. 10.2 million to 10 business firms and cooperative institutions to construct various works and to establish milk cooling centers. The two ministries of Province No-2 have provided the grants of NRs. 12.7 million to the 25 institutions at the end of fiscal year. Since the grants have been provided without taking the basis and standards of capital, long-term action plan, production capacity, consumption of
produced goods, beneficiary population, detailed project proposal of the institutions, the proper usage of such grants cannot be assured. By systematizing the work of providing grants, the assurance should be made with respect to the expenditure incurred and progress achieved.

221. **Consulting Service** - The two ministries of Province No-2 have paid NRs. 4 million 883 thousand to 36 consultants by conducting the detail survey works of roads, water supply projects and the Ministry of Industry, Tourism, Forest and Environment of Far-western Province has spent NRs. 18 million 116 thousand by conducting 35 feasibility studies with respect to the establishment of industrial sector, operations of cable car, tourism sector development etc. One ministry of Province No-1 has paid NRs. 35 million 340 thousand by conducting survey, drawings, design and cost estimate of various construction works inclusive the construction of roads, bridges, view towers, irrigation channel etc. through 24 consultants. The overheads expenses are not to be included while making the cost estimate of a consultancy service, but the payment of overhead expenses of NRs. 4.61 million has been granted by including the overhead expenses. The payment amounts granted as against the prevalent Rules should be recovered.

The implementation of the above mentioned survey, drawing, design conducted by the province government has not been certain, and the required procedures to be followed as per Public Procurement Rules have not been complied with.

222. **Service Delivery** - The service delivery of provincial governments have not been effective due to various reasons such as – less number of laws are formulated (16 to 41), positions are not fulfilled in accordance with approved position, less annual budgets are expended (from 18.68 to 63.98 percent), implementation status of annual programs are weak, the works of formulating policies, standards and procedures to regulate and systematize the service delivery including the determination of minimum standards related to public services and facilities at provincial level are still outstanding. The service delivery of province governments should be made intact and effective with the enhancement of their institutional, technical and resource mobilizing capabilities.

- **Local Level**

Pursuant to local levels, the total audits of NRs. 571.51 billion of 747 out of 753 local Levels have been carried out, and the irregularity of NRs. 24.14 billion or 4.22 percent has been found from the audits. While comparing irregularities percent-wise basis, the lowest of the average irregularity of 7.34 percent is observed in local levels of Province No. 4 and the highest of 26.48 percent is observed in local levels of Province No. 2. Compared to the audited figures, the local levels have irregularities up to 52.65 percent. Major observations pertaining to this are as below:

223. **Local Levels not completed the audits** - As per Section 20 of Audit Act, 2018 (2075) and Section 77 of Local Government Operations Act 2017, each local level shall get the final audit of income-expenditure completed by Office of the Auditor General. The six local levels including Bishnu, Ramnagar and Balara Rural Municipality of Sarlahi, and Hansapur Rural Municipality of Mahottari, and Bungal Municipality of Bajhang have not completed the audits of their accounts in this year submitting their income-expenditure.

With respect to audit backlogs of then 127 village development committees inclusive of Gaushala, Pipara, Samsi, Loharpatti and Manhara-Sisawa of Mahottari District, the village development committees except the Manhara-Sisawa Municipality have not completed their audits even in this year. The situation of not adhering to the provisions of laws and not completing the audits will create the situation of lack of financial discipline. Hence, the necessary action is to be taken up to the withholding of grants to the local levels that have not completed their audits.

224. **Domestic Loan** - Section 68 of Local Government Operations Act, 2017 provides that any local level may take loan with the approval of the concerned Assembly remaining within the recommended ceiling of Natural Resources & Fiscal Commission. Out of the loans taken by
57 municipalities from Town Development Fund for the constructing such as - city hall, street lights, road construction, bus terminals, water supply, shopping complex, and sewerage management & sanitation, the NRs. 1 billion 974.8 million is yet to be redeemed at the end of this fiscal year. Likewise, of the loan investments made by the Fund to 97 user groups under 57 municipalities, the NRs. 4 billion 974.8 million has been shown as still to be recovered.

Amongst the loans taken, NRs. 379.6 million of Biratnagar Metropolitan, NRs. 383.7 million of Birgunj Metropolitan, NRs. 92.5 million of Pokhara Metropolitan, NRs. 45 million of Bharatpur Metropolitan, NRs. 54.1 million of Butwal Sub-Metropolitan, NRs. 87.5 million of Janakpur Sub-Metropolitan, NRs. 30.5 million of Panauti Municipality, NRs. 138.7 million of Siddharthanagar Municipality, NRs. 56.2 million of Bhimdutta Municipality are outstanding. The loans taken by municipalities have not been shown in their consolidated fund accounts.

225. **Unallocated Budget** - Local Government Operations Act, 2017, provides that the income-expenditure estimate shall have to be submitted by preparing budget and program with prioritizing on the basis of local financial position, and without retaining any unallocated amount based on source estimation and ceiling determination. However, the budget and programs have been approved retaining unallocated amount of NRs. 206 million 663 thousand by Shuklaphatta, Krishnapur, Belauri Municipality and Laljhandi Rural Municipality of Kanchanpur District, NRs. 40 million by Bheri Municipality and Borekekotte and Kuse Rural Municipality of Jajarkot District, NRs. 21.14 million by Panchdewal Binayak Municipality and Bannigadhi Jayagadh Rural Municipality of Achham District, NRs. 27.9 million by Akdara Rural Municipality of Mahottari District, NRs. 22 million 935 thousand by Manahara Sisawa Municipality of Mahottari District, and NRs. 12 million by Panauti Municipality of Kavrepalancho District. There should be control in practice of retaining unallocated amounts in making appropriation and incurring expenditure on the basis of executive decision.

226. **Meeting Allowance** - As per the Act related to Local Level Officials and Members’ Facilities, the meeting allowance shall not be entitled unless otherwise stated. In a condition of not specified by the Act related to facilities, the meeting allowances such as ward meeting, executive meeting, special meeting, assembly meeting cannot be provided. But, various local levels have spent NRs. 497 million 559 thousand with respect to the meeting allowances not specified by laws. The payment of facilities not specified by laws is not in conformity with laws.

227. **Incentive Facility** - Section 86 of Local Government Operations Act, 2017 stipulates that the operations, management, terms of service and facilities shall be as specified by federal laws. In addition to the facilities provided to the employees from local level council, assembly, board meeting, the decisions have been made to provide facilities to the employees of local levels such as -the communication facilities, tiffin expenses, monthly allowances, assembly allowances, extra time allowances, incentive allowances etc. The facilities have been provided without formulating any standard and indicator for providing the facilities. With respect to such facilities, the 367 local levels have made the incentives payment of NRs. 368 million 315 thousand in addition to the remuneration specified by federal laws. There should be control in the practice of providing additional facilities based on frequent decisions without formulating any standards.

228. **Official’s Facility** - The payment of other facilities cannot be made other than specified by the Act relating to Local Level Officials and Members Facilities. The 201 local levels have paid NRs. 224.73 million in excess with respect to remuneration, dasain expenses, communication expenses and other facilities. The amounts provided in excess of the provisions of prevalent Act /Rules should be recovered. Similarly, the 15 local levels have incurred NRs. 8 million 746 thousand as uniform expenses for the uniform of their officials. Incurring expenditure not specified in Act is not in conformity with law.
229. **Ceremony and Carnival Expenses** - Each public entity should give attention in the economy and result while making expenditure. Janakpur Sub-Metropolitan has spent total of NRs. 18.5 million along with NRs. 6.71 million spent for a welcome ceremony organized by the Metropolitan on 2018/05/28, and NRs. 4.25 million spent for civil reception, beautification, publicity, sanitation goods procurement, electrification, and operation expenses. The Pachaljharna Rural Municipality of Kalikot District has spent NRs. 4.43 million for 5 day-long village carnival. An attention should be made to maintain such types of expenses within certain limit.

230. **Deposit in Consolidated Fund** - Rule 33(a) of Financial Procedure Rules, 2007 provides that the unspent balance of conditional grants amount should be returned back to District Treasury Controller Office. By committing the acts such as showing the whole disbursed amount as expenditure, booking more expenditure with a motive of not returning amount, transferring the balance amount in local consolidated fund etc. in submission of the financial statements to the concerned District Treasury & Controller Office, the 136 local levels have not returned the conditional grants disbursed amount NRs. 711.85 million in the federal consolidated fund. The amounts should be deposited in federal consolidated fund.

231. **Price Adjustment** - The price adjustment cannot be provided in excess of the condition of procurement agreement. Biratnagar Metropolitan, while making payment of the price adjustment of new fixed rates and added items under urban environment reform project, should have taken the price index of 30 days prior to the decision of price adjustment, but it has paid excess price adjustment of NRs. 24 million 484 thousand without doing so. Dharn Sub-Metropolitan, while making the computation of price adjustment of foreign currency of one water supply project, should have computed the amount on the basis of each currency as per the condition of contract, but by computing with different method, it has paid the excess payment of NRs. 30 million 61 thousand. Siddharthnagar Municipality, Rupandehi, has provided excess price adjustment of NRs. 8 million 840 thousand as it has calculated the total bill amount without deducting the mobilization advances and provisional sum amounts. The total excess price adjustment paid NRs. 63 million 385 thousand should be recovered.

232. **Excess Disbursement** - While providing disbursements of grant amounts to schools with respect to teachers salary and others, an examination need to made whether the required procedures have been fulfilled or not. The 565 local levels have provided the disbursement of NRs. 123 million 125 thousand in excess of the entitlement amounts as they have provided double disbursements without examining the earlier disbursements, re-provided additional disbursements, provided disbursement in respect to retired persons and provided more disbursements than the approved positions. The persons involved in such disbursements should be held responsible, and the excess provided amounts should be recovered by taking actions to the persons that involved in excess disbursements.

233. **Social Service Program** - The Government of Nepal has been providing the social security allowances to elderly citizens, widows, fully disabled, single woman, children, endangered tribes, aadibasi janajati (indigenous nationalities). As per the financial statement submitted by Ministry of Federal Affairs & General Administration, total of NRs. 37 billion 453 million 392 thousand has been spent in social security allowance in this year. In accordance with the Social Security Program Operations Procedures, 2015, the final installment advances need to be settled within 25th of Asadh. While conducting an examination on the basis of sampling check with respect to the unsettled advances of more than NRs. 2 million, the 40 local levels of Province No-2 have not settled advances of NRs 841 million 462 thousand, 13 local levels of Province No-5 have not settled NRs. 242 million 492 thousand, and 14 local levels of Province No-1 have not settled NRs. 154 million 326 thousand. Besides these, the advances of NRs. 39 million 468 thousand of Saru Rural Municipality of Mugu, NRs. 13 million 837 thousand of Nisikhola Rural Municipality of Baglung, NRs. 8 million 814 thousand of Bagchaur Municipality of Salyan, NRs. 3 million 516 thousand of Bheri Municipality of
Jajarkot, and NRs. 2 million 946 thousand of Suryabinayak Municipality of Bhaktapur have not been settled. Actions should be taken to those which have not settled by submitting the required documents in specified time.

234. **Financial Assistance** - As per Local Government Operations Act, 2017, any financial assistance, donation, prize and institutional grants cannot be distributed from the amounts of local levels. The 69 local levels have distributed the financial assistances of NRs. 63 million 125 thousand. Such acts should be controlled by making responsible to the officials that have expended the financial assistances.

235. **Welfare Fund** - Section 91 of Local Government Operations Act, 2017 provides the provisions related to the retirement fund. Every local level is required to deposit amounts in the Fund by deducting 10 percent amount from the prevailing monthly salary of each employee working in the approved position of local service and adding an amount equivalent to such deducted amount. From the equalization grants, the 53 local levels have transferred NRs. 122 million 709 thousand in employee welfare fund. From the single person decision of Chief Administrative Officer of Rajbiraj Municipality of Saptari, NRs. 14 million has been transferred from fiscal equalization grant to employee welfare fund. Such grant amounts cannot be transferred directly to employee welfare fund without making provision in the Act. The transferred amounts should be taken back and deposited in local level consolidated fund.

236. **Direct Purchase** - Section 8(2) of the Public Procurement Act 2007 mentions that any public entity shall not make direct purchase time to time so as to avoid the competition in purchases. Pursuant to the purchases of recurrent and capital asset, the 302 local levels have done direct purchases of NRs. 2 billion 58.45 million without making any competition. The persons making such purchases as against the Act and Rules should be held responsible.

237. **Vehicle Purchase** - Pursuant to vehicles and motorcycles purchased by the local levels, when conducted an examination with sampling basis in course of audit, it is observed that the 172 local levels have incurred the expenditure of NRs. 902 million 653 thousand by purchasing 210 four wheeler vehicles and 221 local levels have incurred the expenditure of NRs. 291 million 385 thousand by purchasing 1 thousand 118 motorcycles, and the total expenditure incurred in such purchases has figured NRs. 1 billion 194 million 38 thousand. The vehicles have been purchased for the purpose of chiefs and deputy chiefs, Chairperson and employees of the local levels and the local levels which have not purchased vehicles have used vehicles by taking on hire. Though some of local levels have purchased vehicles form their internal incomes, most of them have purchased by utilizing the equalization grant amounts. It is revealed that the equalization grant amounts which are to be spent for development and construction works have been expended for getting facilities and consumption related activities.

238. **Tax on Payment** - Section 88 & 89 of Income Tax Act, 2002 provides the provision relating to tax deduction at source in making payment. This year, various local levels have not deducted the applicable income tax and rent tax of NRs.180.60 million deductible as tax at source. Pursuant to the payment granted without deducting the taxes, the applicable tax amounts should be recovered.

239. **Outstanding Amounts** - The outstanding amounts ascertained and specified in agreement need to be received within specified period as per condition of the agreement. Observations related to this are as follows:

239.1 Kathmandu Metropolitan is still to recover NRs. 21.1 million that borrowed from the retention money of deposit. Biratnagar Metropolitan is to recover NRs. 75 million 397 thousand with respect to fee, tax, rent, assets etc., Lalitpur Metropolitan is to recover NRs. 51 million 313 thousand with respect to fee, tax, rent, assets etc., and Pokhara Metropolitan is to recover NRs. 37 million 146 thousand with respect to vehicle parking fee, shutter rent, integrated property tax and export tax etc.
Birgunj Metropolitan has not yet recovered NRs. 259 million 117 thousand from various organizations/institutions with respect to income contract, property tax and shop rent etc., Bharatpur Metropolitan has not recovered the revenue arrears of NRs. 4 million 37 thousand, Janakpur Sub-Metropolitan has not yet recovered NRs. 5.2 million with respect to contract made for fair market, Hetauda Municipality has not recovered NRs. 4 million 375 thousand, Belauri Municipality has not recovered NRs. 2 million 412 thousand, and Gaushala Municipality, Mahottri has not recovered NRs. 2 million 177 thousand with respect to income contract of fair market. Thus, the total amount to be recovered has appeared NRs. 277 million 318 thousand.

The above mentioned outstanding amounts should be recovered and deposited in local consolidated fund.

Unproductive and Distributive Expenditure - Section 76 of Local Government Operations Act, 2017 provides that the accounts of income-expenditure should be maintained responsible manner in accordance with the expenditure classification by controlling all loss, burden, unproductive and distributive expenditure. However, the 22 local levels, without incurring expenditure in accordance with expenditure classification and explanations, have granted the payment of NRs. 15 million 183 thousand with respect to the distributive and unproductive expenditure such as – home tuition, repairs of personal residence, use of government goods in personal residence, grants in respect to personal damages, excessive repairs, irrelevant financial assistance, purchase of vehicles in road inaccessible places, foreign tours from grant amounts, driver expenses for motorcycles, private use of fuel, remuneration for budget speech, picnic expenses. There should be control in such distributive and unproductive expenditure and the person making such expenditure should be held responsible.

Embezzlement of Amounts - In course of transferring NRs. 662 million 837 thousand through cheques from local consolidated fund for the distribution of social security program, one officer of Kattari Municipality, Udaypur has transferred the payment of two cheques amounting to NRs. 39 million 837 thousand in his own bank account. The Municipality office has accounted the embezzled amount under ‘financial irregularity expenditure heading’. The financially irregularized and embezzled amount should be recovered from the concerned person taking departmental actions as per prevalent laws.
4. Areas for Improvement

1. **Budget and Expenditure Management** - The budgets should be allocated in productive areas based on the priorities of the long-term plan, certainty in the receipt of assistances, three-year expenditure projection etc. to attain the goals of the poverty alleviation, gender equality and sustainable development. While making budget expenditure, there should be control in unproductive expenditure maintaining economy and efficiency in expenditure. The system of reward & punishment should be introduced by linking the budget and expenditure management with performance evaluation and career development of the concerned employees.

2. **Foreign Aid** - All foreign aid should be included in national budgetary system, the practice of incurring expenditures through international non-governmental organizations should be controlled. Any foreign aid which is by nature focused on specific groups or publicity of religion and affects the religious & cultural harmony of the country should not be accepted. The received foreign aid monies should be fully utilized through the enhancement of the foreign aid mobilization capability, and the reimbursements of foreign aid should be made in timely manner.

3. **Project Management** - The national construction capacity should be determined by analyzing the availability of necessary means & resources for project construction and the capacity of construction entrepreneurs. The projects should be completed within specified time by resolving the problems observed during project selection and execution of national pride projects and other development & construction works, and the present situation of increasing both the time & cost of projects needs to be improved. In addition, the project managers should be made responsible by conducting performance evaluation based on result-oriented indicators, and the monitoring & evaluation system should be made more effective.

4. **Procurement Management** - The lacunae and weaknesses found in contract management, implementation, work-schedule, time extension, variation, price adjustment, quality of construction works and monitoring should be improved. The works are to be completed by taking actions as per clauses of the contract to the construction entrepreneurs that have not performed works in timely basis. Pursuant to the design-at-built contracts, a clear legal provision should be made pertaining to subject matters inclusive of the norms for preparing cost estimates, tender documents, price adjustment etc. In addition, since the guidelines, directives, and basis of evaluation have not been prepared to invite proposals and make evaluation of the public–private partnership, Built-Own-Operate-Transfer (BOOT), engineering procurement contract and operation, financial lease proposal and making assessment, such documents should be prepared.

5. **Safeguarding Public Property and Usage** – The public & Guthi-owned and forest owned land should be safeguarded by updating the records of encroachment and clearing the encroachments and the government owned properties including houses & lands, vehicles should be safeguarded and utilized by updating the records of such properties. The monitoring works of mining excavation, electricity generation licenses, renewal and production should be made effective. The offering to temple should be properly managed, and the repair & maintenance and conservation of heritages should be carried out.

6. **Service Delivery** - All public entities should determine service delivery standards to provide the delivery of services economically, effectively and efficiently to meet the demands of service recipients and for maximum utilization of the available public resources. In the offices such as land revenues, survey, foreign employment, transport management, where there exit excessive pressure of the service recipients, the role of mediators or middle-person should be minimized by introducing system such as - flex time system, token system, one-window system and help-desk system, and the services should be delivered through electronic medium to reduce the time and cost of service recipients. The delivery of services should be made
more effective by enhancing easy access in health services and distributing free educational materials in timely basis and regular monitoring of markets; there should be system to monitor service recipients’ satisfaction and implementation status of citizens’ charters; and the grievances handling and public hearing processes should be improved.

7. **Reforms in Revenue Administration** - Efforts should be made to improve in revenue projection system, determine the revenue targets making the tax and non-tax rates pertinent, bring all persons operating transactions in tax net, increase tax compliance standard, and make the tax examiner responsible with expansion of the scope of tax examination. There should be arrangements to interlink between all regulating entities through the use of information & technology by making customs evaluation realistic, to make the customs rates explanations more clearer, to link with Inland Revenue Department by effective implementation of billing system, to conduct necessary reviews of the system of granting revenue exemption on the basis individual decision, and to provide the Permanent Account Number (PAN) to all profession and business persons. There should be control in under invoicing and under assessment in import export, building & land, sale of goods & services, bringing all professionals and businesspersons in tax net through the exchange of information, and making arrangement of the requirement to present tax clearance evidence while purchasing the shares, house & land and assets more than specified amount. Efforts should be made to resolve tax disputes on timely basis, recover the revenue arrears strictly, determine loan-capital ratio for the tax purpose. Legal provision should be made to recover taxes in all electronic transactions inclusive of social networks, social media, and online businesses.

8. **Laws Related To Financial Management** - The provision made in Financial Procedure Act 1999 with respect to fines should be revised as per relevancy of time to maintain financial good governance through the enhancement of public accountability and transparency, the responsibilities and accountability should be determined in public sector by defining the controlling entities and controlled entities, and the audit committee should be constituted in every ministry. The legal provisions should be revised with respect to reducing the ceiling of providing advances in construction works and charging interest in overdue advances, making arrangement for obtaining performance guarantee in consultancy services, fixing rates through integrated contract management in respect to the goods along with the stationery to be used by all offices, determining the maximum ceiling for time extension, and adding the defect liability period in construction works. Legal provisions should also be made to invite tender only after the completion of all preparatory works that necessary prior to construction works and taking action to the contractor that keeps the works incomplete without completing such works on time, and not granting the price adjustment in case the time extensions of any procurement contract are granted. Likewise, legal provisions should also be framed inclusive of basis and standards to make the person responsible that have prepared and approved a wrong drawing, design or cost estimates, and the legal provision should also be made to make compulsory declaration from the contractors for the works which are acceptable on the basis of availability of their capacities of capital, equipment, human resources and disallowing the tender if the works of any contractor becomes beyond its capacity.

9. **Compliance With Financial Accountability** – Efforts should be made to implement effectively the provision of overall responsibility and accountability of the works performed by federal, provincial and local level rest upon the Chief Accounting Officer of the concerned entity; make accountable for the decision taken by the elected/nominated officials; develop indicators for public enterprises and projects that operates more than specified amount; appointing chiefs of public enterprises and project chiefs preparing performance contract on the basis of indicators; and evaluating the status of financial accountability compliance of the political officials and employees that are serving above certain level. There should be arrangements for taking departmental actions to the officials that do not present accounts and not get done the internal and final audits, and exchanging information between regulating entities pursuant to the subject of financial management.
10. **Use of Information Technology** – To make time and cost effective of the subject matters such as information flows, collection, service delivery, transparency and decision process through the use of information & technology, there should be arrangement for enhancing IT in offices, getting approval from Department of Information Technology while selecting software to be used in office, assuring reliability of used technology through conducting the system audit, and delivering services through the same type of information technology system by the entities that have similar work nature.

11. **Accounting and Reporting System** – Nepal Public Sector Accounting Standards for public sector entities should be fully implemented in federal, provincial and local levels. The accounts and accounting system should be updated on the basis of international standards. The financial reporting should be made effective by implementing the integrated reporting software that captures the transactions of provinces and local levels in addition to the accounting software being used the Computer Based Integrated Government Accounting System (CGAS). The integrated financial reports should be prepared by consolidating the income and expenditure of provinces and local levels in federal financial reports.

12. **Internal Control and Internal Audit** – Sectorial internal control system and code of conduct should be developed and implemented as per the work nature of the federation, provinces and local levels, and regular monitoring of such activities should be conducted. The organizational structure should be arranged maintaining the operational independency of internal audit, and the effectiveness of internal audit should be enhanced through developing professional capability, implementation of guidelines, standards and directives, undertaking the capacity development and supervision.

13. **Enabling Final Audit** - Budgets and physical resources should be available to maintain professional independency of the employees working in the audit institution and guarantee the administrative and financial independency. In addition, there should be arrangement for making the personnel administration of office of the Auditor General by very office. The auditors’ professionalism development program should be conducted by updating audit policy, standards, and procedures on the basis of good international practices. The audit quality control and quality assurance review system should be made more effective. Additional resources are needed for capacity development of employees to conduct the subject-wise audits such as financial, compliance, environmental, information technology, concurrent audits etc. There should be amendment in laws to review the practice of conducting field audit of each and every expenditure unit, classify the audited entities into controlling entities and controlled entities and conducting the audit of the offices under controlling entities only on the basis of risk based approach without visiting all entities, and taking the responsibility of the controlled entities by the controlling entities. In accordance prevailing federal structure, it is necessary to expand this office’s existing organizational structure in provincial level for the physical presence to this office in provinces.

14. **Financial Management of Provinces** - To make reforms in financial management and expenditure management of the province level, there should be reforms to link the budget appropriation, expenditure and achievement with performance evaluation, control unproductive expenditure, and select and implement the province level pride project and prioritized projects. The province level laws are to be formulated harmonizing with the federal laws in accordance with the Constitution of Nepal, and the standards are to be prepared and implemented to maintain uniformity in terms of service and facilities of all officials. To perform works in accordance with prevailing laws, the internal control system should be framed and implemented as per nature of works to be performed, and the appropriate service delivery system should be adopted to minimize the time and cost of service recipients. The revenue collection should be made effective in accordance with the jurisdiction specified by Inter-Governmental Fiscal Management Act, 2017. There should be arrangements to prepare the consolidated fund accounts of province levels in accordance with formats approved by the Auditor General and submit and deliberate the annual audit reports of province levels in province public accounts committees through provincial assembly.
15. **Financial Management of Local Levels** - To make reforms in financial management and bring effectiveness in utilization of means & resources of the local levels; there should be reforms in budget formulation, implementation and expenditure management to adopt the policies such as – linking the budget allocation, expenditure and achievement with performance evaluation, formulating and implementing the standards for controlling unproductive expenditure, controlling in the practice of allocating budgets in fragmenting many projects, and making investment only in prioritized projects. The local level laws are to be formulated harmonizing with the federal laws in accordance with the Constitution of Nepal, and the standards are to be prepared and implemented to maintain uniformity in terms of service and facilities of all officials. There should be arrangements for collecting trimester income-expenditure statements of local levels by Provincial Accounts Comptroller Office and sending them to federal Ministry of Finance. There should be arrangement for preparing the consolidated fund accounts of local levels in accordance with format approved by the Auditor General and adopting the policy not to make conflict of interest in the settlement of irregularities of local levels.

16. **Audit of Corporate Bodies and Committees** – The corporate bodies and Committees should prepare financial statements as specified by accounting standards and get them audited in specified time. With respect to the minimal returns received from corporate bodies as compared to the investments made by the government in such bodies, it is essential to make reviews and an appropriate alternative for management reforms should also be adopted. In addition, the consultation for the appointment of auditor should be obtained timely for the audits of the substantially owned corporate bodies and the audits of such corporate bodies should be completed timely.

17. **Information Flow and Coordination** - It is essential to develop a mechanism to exchange the financial management related information between regulating agencies such as the Commission for Investigation of Abuse of Authority, Office of the Auditor General, Prime Minister & Council of Ministers, Ministry of Finance, Financial Comptroller General Office, Money Laundering Investigation Department, Inland Revenue Department, Department of Customs, Revenue Investigation Department, Nepal Rastra Bank, etc. Interactions are to be conducted regularly between the stakeholders, parliamentary committees, government entities, universities, boards, media persons etc.

18. **Monitoring, Follow-up Audit and Implementation of Decisions** – The irregularities should be cleared timely basis by making settlement by the concerned official as specified in Financial Procedure Act, 1999 and conducting follow up of such activities. In addition, the records of the decisions and directives of the Public Accounts Committee should be maintained and the monitoring of the implementation status of such decisions should be conducted effectively.
5. Office Activities

1. **Diamond Jubilee Ceremony** – In the presence to Rt. Honorable the President Mrs. Bidya Devi Bhandari, the 60th anniversary (Diamond Jubilee) program 2018 of the Office of the Auditor General was held on 2018/06/29. In the program, highlighting to the matter that the irregularity figures have been growing in spite of reforms made in audit procedures & methodology and the efforts made to make the concerned officials responsible and accountable, and the growth in irregularity figures indicates the lack of fiscal discipline in public entities, Honorable the President had drawn attention of the concerned entities on effective implementation of the findings and recommendations mentioned in Auditor General’s Report pertaining to - budgetary discipline, procurement management, project management, responsibility & accountability, internal control and service delivery etc.

   On the occasion, the Auditor General acknowledged the matter that pursuant to maintenance of the good governance, the office has been moving ahead in a planned manner by determining its vision/mission – “We strive to be a credible institution in promoting accountability, transparency and integrity for the benefit of the people and provide independent and quality audit services to assure that the public funds are efficiently used”. He further added that to make the audits more effective in upcoming fiscal years, the office has a plan to increase the numbers of performance, environmental and information & technology audits with respect to the subject matters of national significance in addition to the financial and compliance audits.

2. **Audit Entrance Meeting** – In the presence of Rt. Honorable Prime Minister Mr. K.P. Sharma Oli, a meeting relating to audit planning of fiscal year 2017/18 was concluded at Office of the Prime Minister & Council of Ministers, Singh Durbar on 2018/07/31 with the participation of Accounts Responsible Officers of the Government of Nepal along with the presence of Chief Secretary of Government of Nepal, General Secretary of Federal Parliament Secretariat, Chief Registrar of Supreme Court.

   In the program, keeping own views on relating legal complexities and fiscal discipline, the Rt. Honorable Prime Minister highlighted to the matter that the level of fiscal discipline would be measured on the basis of the growth in irregularities amounts, the role of political leadership would be vital to maintain accuracy, fairness and transparency in financial transactions of the overall public administration. He had drawn attention of the participants to show activeness in settlement of irregularities existed in public entities and to act in days to come in such a manner any irregularity would not arise in the financial transactions. The Rt. Honorable Prime Minister also directed the Chief Accounting Officers to take actions by identifying corruption related activities of serious nature and to deliver the result-based performances with significant reforms in the fiscal discipline and service delivery for the prosperity of the country.

   Likewise, in respect to fiscal discipline, the Auditor General conducted discussions with Rt. Honorable Acting Chief Justice Mr. Om Prakash Mishra of Supreme Court on 2018/08/16 along with the presence of the Chief Registrar, Registrar and employees, and the Rt. Honorable Speaker Mr. Krishna Bahadur Mahara of House of Representative and Rt. Honorable Chairperson Mr. Ganesh Prasad Timilsina of National Assembly of Federal Parliament meeting them on 2018/08/21. Similarly, meeting Rt. Honorable Chief Justice Mr. Cholendra Sumsher JBR, the Auditor General also conducted dialogue with respect to the audit process and reporting arrangements.

3. **Organization Structure and Approval of Position** – As per decision of the Government of Nepal of date 2018/07/16, the new organization structure and employees’ positions of this office have been approved in accordance with the Office of Auditor General’s Organization & Management Survey Report. The Offices’ number of the approved employees’ positions, which existed 448 previously, has reached 614 at present. In course of implementation of approved organizational structure and position, the liaison offices of the Office of the Auditor
4. **Interaction Program** - In the presence of the Auditor General, the province level interaction and discussion programs were organized in all 7 provinces in the month of December 2018 and January 2019 with the provincial heads, chief ministers, ministers and chairpersons of provincial assembly, chief secretary and secretaries of province and other officials pursuant to the constitutional & legal arrangements and reporting system of the federal, provincial and local level audits and other contemporary issues.

Similarly, 36 programs were organized in 15 districts inclusive of Kailali, Surkhet, Rupandehi, Kaski, Chitwan, Makwanpur, Parsa, Dhanusa, Saptari, Sunsari, Morang, Kavrepalanchowk, Sindhupalanchowk and Dhading covering all 7 provinces. In these programs, the discussion and interaction programs were conducted with around 5 thousand persons/officials along with chiefs of district coordination committee, chiefs of local levels, chief district officers, chiefs of government entities existed in districts, account chiefs, journalists and the representatives of civil societies. In the programs, the participants had put various curiosities and grievances about the status of performances of local levels, problems observed & challenges encountered and various subject matters of audits, which were addressed in course of discussion.

5. **Integrated Financial Management Reform Project** - Under Component B of Integrated Financial Management Reforms Project run under the support of the World Bank, the Office of the Auditor General's Strengthening Project has been implemented from 2018/06/27. This project includes major programs such as – making contemporary reforms in auditing standards, making the audits more effective and qualitative, enhancing the capacity of employees, promoting electronic audits based on information & technology, enhancing the civil participation in public sector audit etc. The grant assistance of US Dollar 40 million will be received from the multi-donors trust fund for the purpose of Office of the Auditor General. The project will be in operation for the three years.

6. **Audit Advisory Committee** - Audit Advisory Committee has been constituted with the inclusion of 16 persons that have acquired specialization in different fields with an objective to enhance trustworthiness & quality of the audit and to carry out reforms in its legal, procedural and practical aspects and to assist in implementation of the audit reports. The Committee has provided the important suggestions/ advices to Auditor General in its 2 meetings held during this year pertaining to federal, provincial and local levels audit procedures, methodologies, and major subjects to be addressed by the audit and the effective implementation of the audit reports.

7. **Assent of Audit Act** - The President has given assent to the bill related to audits on 2019/03/29 which approved by the federal parliament with an objective to make laws related to audits in line with demand of time. With this, the previously implemented Audit Act 2048 (1991) has repealed and the new Audit Act 2018 has come into effect.

In the Act various subject matters including the concurrent audit, audits of grants and assistance, the expansion of office of the Auditor General and audits of province and local levels have been provisioned. In the Act, some additional arrangements have been provided relating to make the reporting system more clearer, and the Auditor General’s authority to issue directives, write for taking actions, reward its employees that have excellence performance, delegate authority, formulate Rules and standards or guidelines.

Likewise, the Act also includes the provision relating to the submission of report to Rt. Honorable the President or Heads of Provinces at any time by conducting the audits in the condition where the current or non-current national properties have caused a huge loss & damage or may cause such loss & damage if an action is not taken immediately. It is expected...
that the improvement made with respect to audit provisions will help in making more trustworthy and enhancing the quality to the audit works, and bring positive results on the audits’ overall aspects in days to come.

8. **Approval of Accounting Format and Economic Code Classification** – The Auditor General approved the Integrated Economic Codes and Classification and Explanations 2074 (2017) which submitted through the Ministry of Finance after amendment & revision by the Financial Comptroller General Office in line with provincial and local level structures, and the formats of financial reporting (AG Form No. 210(A) and AG Form No.210(B)) based on Nepal Public Sector Accounting Standards on 2018/08/21 and 2018/11/25 respectively. It is expected that the implementation of the approved Economic Codes, Classification and Explanations and revised financial statement formats will ease in preparation and presentation of the financial statements of federal, provincial and local levels.

9. **Relation and Communication with Stakeholders** - The relationship with stakeholders has become vital to make effective of the implementation of the audit reports with the enhancement of the impact of audit results. Keeping view to this matter, the Office has been giving an emphasis on conducting regular interactions and discussions with the officials of federal parliament, parliamentary committees, and provincial & local levels, the officials of public enterprises, private sector, media and other stakeholders etc. Similarly, after the implementation of 6 year Action Plan of the Auditor General, this office has been conducting- the regular monitoring of audit field works, discussion & interaction relating to financial management and audit works, flows of information through the issue of press notes, and publishing the monthly bulletin, Audit Journal and websites, and the office has been following the policy to acknowledge mass citizen level about the compliance status of public financial management through the strengthening the relation with communication media.

10. **Office Building** – Rt. Honorable President Mrs. Bidhya Devi Bhandari laid down the foundation stone of this office’s building on 2017/12/04 to be constructed in Anamnagar of Kathmandu with multi storey having the floor area of 11 thousand 159 sq. meter. Presently, the physical progress has remained 60 percent with the completion of the construction works of the outer structure of the building. A contract agreement was signed on 2016/08/15 with a construction contractor for the contract price NRs. 542.2 million to be completed by 2019/09/09. For the construction of the building, the Government of Nepal had provided 10 ropanies 13 aanas of land existed in Anamnagar Kathmandu. It is expected that the construction works of the building will be completed within the specified time.

11. **Other National Activities** – Major national activities performed during the reporting period are as follows:

11.1 A Deputy Auditor General of this Office received the decoration of “Prabal Suprabal Janasewashree” on the occasion of the Republic Day and a Director received the prize of Civil Service Award on the occasion of Civil Service Day, 2073 (2016). Likewise, on the occasion of Diamond Jubilee, the Rt. Honorable President honored a former Auditor General and awarded prizes to 7 employees inclusive of one Assistant Auditor General of this office for their excellence performances.

11.2 This year, 3 Assistant Auditor Generals of the office participated in Senior Executive Development Program and new appointment and placement were made to 23 employees inclusive of 1 Assistant Auditor General, 3 Directors, 11 Audit Officers, 5 Audit Superintendents and 1 Audit Inspector upon the recommendation of Public Service Commission.

11.3 In course of audits & replies and reporting, the Auditor General participated in 367 meetings and discussion programs, (inclusive of 244 external and 123 internal) conducted with the Government of Nepal and officials of public institutions and staffs of this office.

12. **International Activities** - To enhance the audit as per international standards through adopting the good practices prevailed in public sector audit, the following major activities
have been performed in this year with an objective to acquire knowledge about the practices followed by other countries and acknowledge the works performed by this office to other:

12.1 A team consisting of two members led by the Auditor General participated in the program on topic heading “The Contribution of Supreme Audit Institutions in Achieving the Sustainable Development Goals” organized jointly by Social and Economic Activities of United Nations’ Department and INTOSAI Development Initiative in United Nations’ Headquarter New York in 19th. & 20th. July 2018. In the program, a discussion was held on the topic subject the roles of leadership of Supreme Audit Institutions and stakeholders in implementation of Sustainable Development Goals, along with the sharing of information about the audit practices and experiences.

12.2 A team consisting of three members led by the Auditor General participated in the 14th. Annual Assembly and 7th. International Symposium of Asian Organization of Supreme Audit Institutions (ASOSAI) organized in Hanoi of Vietnam from 16th – 22th September 2018, and the deliberations was made in the program pursuant to strategic plan, budget, annual program and capacity development programs of the Supreme Audit Organizations. The Heads and representatives from 46 Supreme Audit Institutions of Asia & Pacific region participated in the meeting. Nepal served as a member of governing board since 2015 to 2018 and re-elected as member for tenure of upcoming 3 years. In the program, a paper was presented on behalf of Nepal pursuant to topic heading “The Role of Supreme Audit Institutions in Attainment of Sustainable Development Goals”.

12.3 The Auditor General participated as a panel speaker in Annual Global Forum organized by Global Partnership for Social Accountability of the World Bank held in Washington D.C. of United States of America since 30th. October to 1st. November 2018. The main objective of the program was to enhance collaboration with civil society organizations, expansion of human capital and mutual respects with international organizations in public audits, and to share knowledge, skill and experiences between the participants.

12.4 A team consisting of two members led by the Auditor General participated in the Third Joint Conference 2019 of Asian Organization of Supreme Audit Institutions (ASOSAI) and European Organization of Supreme Audit Institutions (EUROSAI) on the topic “Audits of Emergency Situation and Emerging Issues” organized in Jerusalem of Israel.

12.5 With joint collaboration of INTOSAI Development Initiative (IDI) and the Office of the Auditor General Nepal a workshop was organized on the topic “Supreme Audit Institutions Against the Corruption” on 2075 Asadh (2018 July) in Kathmandu with an objective to enhance the capacity development of Supreme Audit Institutions to carry out the performance audits on institutional arrangements for corruption controls. In the program, the participation was made from 32 participants of Supreme Audit Institutions of different 11 friendly countries from Asian & Pacific region and 4 instructors from Nepal, Cameroon, Thailand and Guam.

12.6 The participation from employees of this Office was made in various foreign trainings, workshops, seminars, and study programs organized by the Supreme Audit Institutions of friendly countries - China, India, Pakistan, Thailand, United Arab Emirates, Kuwait, Kenya, Austria, Cheek Republic and South Africa. Likewise, the participation from employees of this Office was made in capacity development programs organized by the INTOSAI Development Initiative (IDI) and Asian Organization of Supreme Audit Institutions. As per the requests made by the institutions, the employees of this office had also served as the resource persons in the programs organized by those institutions. With the involvement of IDI instructors, an audit was carried out on institutional arrangements against corruption and the pre-preparation status of implementation of the sustainable development goals.

12.7 This year, two employees of this office represented in the joint audit team for carrying out the audit of South Asian Association of Regional Cooperation (SAARC) Secretariat and its Regional Centers.