

Unofficial Translation



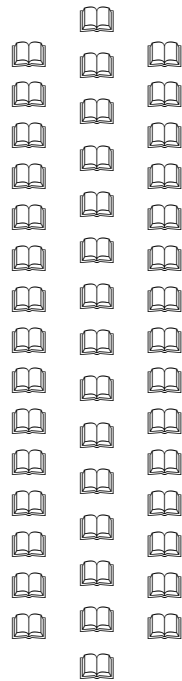
The Forty-fifth
Annual Report of
The Auditor General of Nepal
2008
Executive Summary



Office of the Auditor General
Babarmahal, Kathmandu
Nepal



The Forty-fifth
Annual Report of
The Auditor General of Nepal
2008
Executive Summary



Office of the Auditor General
Babar Mahal, Kathmandu
Nepal

Auditor General of Nepal



Babarmahal, Kathmandu
Nepal.

Letter Reference:- 2065/66 Cha. No.160

Date: November 16, 2008

Subject : The Forty-fifth Annual Report

**Right Honorable President,
Office of the President,
Sital Nibas, Maharajgunj
Kathmandu.**

In accordance with the Article 124 of the Interim Constitution of Nepal, 2007, I hereby submit Annual Report, 2008 incorporating the audit works accomplished in Fiscal Year 2007/08 under the provisions of the Interim Constitution of Nepal, 2007 and Audit Act, 1991.

Yours,

(Bachchu Ram Dahal)
Acting Auditor General

Contents

Government Offices and Overall Audit

S. N	Particulars	Pg
1	Statutory Provisions, Scope and Objectives	1
2	Policy and Work Procedure	2
3	Description of Audited Entities and Its Results	5
4	Consolidated Fund	7
5	Contingency Fund	11
6	Operational Fund	11
7	Receipt and Payment of Appropriation and Financial Statements	12
8	Status of Audit and Irregularities	16
9	Foreign Assistance - Grant and Loan and Repayment of Principal and Interest	20
10	Investment, Liabilities and Deposit	24
11	Audit Observations	30
12	Efforts and Achievements in Settlement of Irregularity	61
13	Overall Scenario of Issues that Require Action	68

Performance Audit

14	Details of Audit	71
15	Deep Tube-well Irrigation Project	72
16	Rehabilitation of Large Government Irrigation Projects	73
17	Medicine and Equipment Procurement Programme	74
18	Management of Hospitals	75
19	Poverty Alleviation Fund	76
20	Contract Works, Inventory and Resource Management	76
21	Fishery Development Center	77
22	Kathmandu Town Development Plan Implementing Committee	77
23	National Land-Utilization Project	79
24	Nepal Army Welfare Fund	80

Corporate Bodies

25	Wholly Owned Corporate Bodies	82
26	Nepal Rastra Bank	89
27	Rastriya Banijya Bank	90
28	Nepal Electricity Authority	91
29	National Seeds Company Limited	91

Substantially Owned Corporate Bodies

30	Legal Provisions and Consultation	92
31	Nepal Oil Corporation	94
32	Agriculture Development Bank	95

Development Boards and Other Entities

33	Accounting Systems	96
34	Tribhuvan University	97
35	National Sports Council	98
36	UN Park Development Board	99
37	Kalimati Fruits and Vegetable Market Development Board	99

Various Funds

38	Roads Board	99
39	Rural Water and Sanitation Fund Development Board	99
40	Council for Social Welfare	100
41	National-Level Welfare Fund	100
42	Pashupati Area Development Trust	100
43	Local Development Fees Fund	101

District Development Committees

44	Income-Expenditure, Project, Monitoring and Advances	101
45	Status of Irregularities	103

Activity of the Office

46	Project Account	106
47	Other Significant Issues	107
48	Future Reforms to be made in Audit	112
49	Annexes	117
50	Charts	173

The Auditor General's Annual Report, 2008

Executive Summary

As specified by the provisions of the Interim Constitution of Nepal, 2007, Audit Act, 1991 and other existing laws, the Auditor General has submitted this Annual Audit Report, 2008 by incorporating details on audit of accounts of FY 2006/07 and arrear accounts of past fiscal years accomplished in FY 2007/08 and major observations there on, detailed account of audited entities, status of irregularities, efforts and achievements made in settlement of irregularities and future reforms required in audit and follow-up audit as well. This is the forty-fifth report of the Auditor General.

Government Offices and Overall Audit

- **Statutory Provisions, Scope and Objectives**

1. **Statutory Provision** – Article 123 of Interim Constitution of Nepal, 2007 has specified the entities and organizations that require to be audited by the Auditor General. Besides, the Audit Act, 1991 has laid down provisions relating to audit methodology, matters to be audited, specific matters to be considered from propriety perspective and audit of corporate bodies, wholly and substantially, owned by the Government of Nepal.
2. **Scope of Audit** - Sub-Article (1), (2) and (5) of Article 123 the Interim Constitution of Nepal, 2007, Section 6 and 7 of the Audit Act, 1991 and other laws, have specified that the scope of work of the Auditor General encompasses audit and advisory tasks related to following entities :
 - All government offices and courts including Supreme Court, Legislature-Parliament, Constituent Assembly, all constitutional bodies including Commission on Investigation of Abuse of Authority, Nepal Army, Armed Police, Nepal Police,
 - Corporate bodies wholly owned by the Government of Nepal,
 - Other entities such as University, Authority, Academy, Various Funds, Development Boards and District Development Committees which require to be audited by the Auditor General under the provisions of law.
 - Consultation on appointment of auditors in substantially owned corporate bodies.

3. **Objectives of Audit** – The main objective of audit is to assist the government and Legislature-Parliament to make the public financial practices transparent, accountable and flawless by examining, analyzing and evaluating the financial transactions and related activities carried out by government agencies, corporate bodies, other entities and Boards through maintaining the independence, impartiality and credibility of public audit.

- **Policy and Work Procedure**

4. **Policy** – As the Supreme Audit Institution of the nation, it is the responsibility of Auditor General, to carry out compliance audit of the government offices and corporate bodies and also to evaluate from the view-point of economy, efficiency, effectiveness as well as propriety. Accordingly, the Office of the Auditor General is consistently following the existing policies and guidelines and also has introduced latest standards and technologies in public audit process. In the process of audit of financial transactions of government offices, entities and autonomous bodies, following policies and work procedures have been given continuation:

Policies

- **To enhance independency, impartiality and credibility in public audit,**
- **To assist in promoting public accountability, transparency and good governance,**
- **To assist in elevating the level of effectiveness in performance of public entities,**

Working Procedure

- **To positively promote authority delineated by law,**
- **To accord priority to performance audit,**
- **To timely report the facts and truth observed during the audit,**
- **To give priority to field audit and inspection,**
- **To encourage the practice of rewarding good performers and penalizing the delinquents,**
- **To suggest practically on measures to be undertaken to overcome the weaknesses existed in financial administrative procedures and practices,**
- **To establish conclusive relationship with the entities to be audited,**
- **To initiate for the planned reforms by introducing of new technology and institutional strengthening in order to enhance the level of audit.**

5. **Working Procedure** – Audit Act, 1991 provides that the Auditor General shall conduct, in detail or sporadically or in samples, final audit of financial and other

related activities of offices or entities submitted for audit, shall prescribe scope, methodology and timing of audit and shall present the facts obtained there from, and shall make critical comments thereon.

The audit procedure has been set on the basis of authority, rights and duties bestowed by the Interim Constitution of Nepal, 2007, Audit Act, 1991 and other legislations, Nepal Standards on Audit as well as other international standards. Similarly, the audit methodology, scope and time period has been determined on the basis of nature of business, functions, financial transactions and internal control systems of the entities to be audited. Depending upon the subject matter, process-oriented or result-oriented modality or mix of both is used in evaluation.

All the Chief Accounting Officers of Government of Nepal are being informed in advance about the work schedule containing the time period for submission of accounts and financial statements for audit, submission of backlog accounts and requests for follow-up audit and audit is being carried out accordingly in the field level itself. Detailed discussions with management is held before commencement and after completion of audit and preliminary reports, containing matters observed during audit, are issued to the field office itself. Besides, visit of public construction sites and project implementation sites and taking interviews with beneficiaries is also in practice.

Audit of all constitutional bodies, government offices, courts, Nepal Army, Armed Police, Nepal Police and other entities such as Universities, Boards, Councils, District Development Committees that are specified by law as to be audited by the Auditor General have been carried out by the Office staff whereas audit of wholly owned corporate bodies have been conducted by the Office staff as well as the licensed professional accountants.

5.1 The following guidelines and directives have been issued in order to maintain impartiality, making the audit a system-based and to enhance quality of audit function that ensures compliance with standards and professional conduct pronounced by the International Organization of Supreme Audit Institutions:

- **Government Auditing Policy Standards,**
- **Operational Guide on Government Audit,**
- **Procurement Audit Guide,**
- **Administrative Expenses Audit Guide,**
- **Revenue Audit Guide,**
- **Performance Audit Guide,**
- **Project Accounts Audit Guide,**
- **Directives to the Auditors for the Audit of Public Enterprises,**

- **General Directives on Government Auditing,**
- **Directives of Auditor General of Nepal, and**
- **Other Directives and Circulars Relating to Audit.**

5.2 In addition to the directives on audit and audit standards, following internal guidelines have been applied consistently in order to maintain uniformity in audit methodology:

- **General Directives on Audit of Revenue and Deposits,**
- **General Directives on Audit of Foreign Assistance (Grant and Loan),**
- **Checklist relating to Accounting and Financial Management,**
- **Directives to Composite Audit Team,**
- **System of Monitoring and Reviewing Audit,**
- **Guidelines on Common Type of Irregularities and Language to be Used,**
- **Guidelines on Segregating Irregularities to be Expressed in terms of Amount and Thematic Issues.**

5.3 Last year, considering the volume of transactions and irregularities of government offices, situated in 20 districts, final audit was just performed on the basis of internal audit conducted by the concerned District Treasury and Controller Office. This year, it was accomplished through composite audit team in 52 districts whereas in others separate teams were deputed on the basis of need.

6. **Audit Report** – Audit of financial statements for the year 2006/07 and the backlog years, to the extent submitted by the entities specified by the Interim Constitution of Nepal, 2007, the Audit Act 1991 and other laws, have been accomplished and major findings observed during the audit have been incorporated in the following sections of the report:

Executive Summary: Major observations raised covering all audited areas have been presented in this executive summary.

Part – 1 **Government Office** – This part contains facts observed during audit of appropriation, revenue, deposits and other transactions made by all government offices including Supreme Court, Legislature-Parliament, Constitutional Bodies like Commission for Abuse of Authority, Nepal Army, Armed Police, Nepal Police, Courts and other entities.

Part – 2 **Performance Audit** – The observations noted with the perspective of economy, efficiency and effectiveness audit of projects, programmes, issues and activities are included in this part.

- Part – 3 **Corporate Bodies, Boards and Other Entities** – Details on audit of Corporate Bodies wholly owned by Government of Nepal, University, Academy, Developments Boards, Funds and other entities and matters related to the advice given on audit of corporate bodies substantially owned by the government are included in this part.
- Part – 4 **District Development Committees** - Details on audit of District Development Committees is presented in this part.
- Part – 5 **Financial Statement of Government Offices** – Charts of budget subhead-wise entity/ministry-wise financial statements of appropriation and entity/ministry-wise financial statements of revenue and deposits of all government offices are incorporated in this part.

Following thematic issues have been taken as the basis in preparation of the Auditor General’s Annual Report:

- **Public Accountability, Transparency and Good Governance,**
- **Presentation of Subject Matters on the Basis of Material Significance and Importance of Entities,**
- **Institutional Approach and Presentation,**
- **Practical Analysis,**
- **Qualitative, Precise and Readable Presentation,**
- **Positive and Supportive Approach,**
- **Matters of Public Interest,**
- **Issues of Policy Reforms,**
- **Interactions and Discussions with Concerned Agencies.**

- 6.1 As this report has been prepared on the basis of audit of financial transactions of government entities and corporate bodies for the year 2006/07 and backlog accounts of previous years, the term Fiscal Year cited in this report generally denotes Fiscal Year 2006/07.
- 6.2 Audit figure denotes disbursed amount in the case of appropriation, realised money in the case of revenue, actual receipts in the case of deposits, figures of Balance Sheet (either the column total of capital and liabilities or of assets) in the case of entities preparing Balance Sheet and current year’s income and expenditure (except of opening balance and closing balance) for those entities preparing Income and Expenditure Statement.
- 6.3 Regarding the corporate bodies wholly owned by Government of Nepal, the Board of Directors of concerned corporate body is responsible for settling the irregularities pointed out by audit. Hence, records of irregularities of such corporate bodies have not been kept by this Office. Similarly, irregularities of

District Development Committees are finalized by concerned District Councils, hence, the irregularity amount of audited fiscal year has been incorporated in the report. The advance money of those entities which carry-forward outstanding advances in their financial statements has not been treated as irregularity.

- 6.4 Follow-up audit is being conducted till the Report is presented for discussion in Public Accounts Committee, provided relevant evidence is produced against any case of irregularity contained in this Report.
- 6.5 As Reports of Supreme Audit Institutions of some countries, few visual photographs have been inserted in this report too in order to present the actual status of activities in the fields. Further, with an objective of making the report more realistic, practice of presenting audit observations in charts has also been continued in this report.

• Description of Audited Entities and its Result

- 7 **Government Office** – This year, audit of accounts amounting to Rs 242 billion 806 million 804 thousand, as shown below, pertaining to 16 thousand 503 units of 3 thousand 342 government offices including Supreme Court, Legislature-Parliament, Constitutional Bodies, Nepal Army, Armed Police, Nepal Police, Courts has been accomplished. The list of government offices that have been audited is in Annex 1.

(Rs. in thousand)

Particulars	To be Audited		Audit Completed		Accounts Not Submitted	
	Units	Amount	Units	Amount	Units	Amount
• 2006/07						
1. Appropriation	11710	134,315,781	11705	134,310,000	5	58,71
2. Revenue	2409	86,121,026	2408	86,121,026	1	-
3. Deposits	2229	14,591,497	2227	14,588,393	2	31,04
4. Other Transactions	136	7,763,805	136	7,763,805	-	-
Total	16484	242,792,199	16476	242,783,224	8	89,75
• Backlog Accounts						
1. Appropriation	1177	1,838,361	3	23,444	1174	1814,917
2. Revenue	442	312,044	-	-	442	312,044
3. Deposits	1067	304,059	24	136	1043	303,923
4. Other Transactions	2	2,539	-	-	2	2,539
Total	2688	2,457,003	27	23,580	2661	2433,423
Grand Total	19172	245,249,202	16503	242,806,804	2669	2442,398

- The column ‘amount to be audited’ comprises of disbursed amount in the case of appropriation, collected money in the case of revenue, receipts in the case of deposits, and actually deposited money in concerned government fund account in the case of other transactions.
- Additions and deletions in previous years’ backlog units and amount thereof are adjusted accordingly.
- Revenue also includes money recovered through settlement of irregularities.

8. **Corporate and Other Bodies, Boards and District Development Committee** – This year, audit of Rs 562 billion 631 million 563 thousand of 894 units of 721 offices pertaining to Corporate Bodies wholly owned by the Government, Boards established under Development Board Act, 1956 and entities like University, Academy, as specified by law, have been completed. The detailed list of audited entities is in Annex 2.

(Rs. in Thousands)

Particulars	Units to be Audited	Audit Completed		Accounts Not Submitted
		Units	Amount (Rs in thousands)	
• 2006/07				
1. Corporate Bodies	36	28	482,384,588	8
2. Boards	272	268	5,623,083	4
3. Other Entities	417	390	38,112,112	27
4. District Development Committees	150	150	17,556,339	-
Total	875	826	543,676,162	39
• Backlog Accounts				
1. Corporate Bodies	19	10	17,255,875	9
2. Boards	235	4	1,553	231
3. Other Entities	418	44	1,698,013	374
4. District Development Committees	10	-	-	10
Total	682	58	18,955,441	624
Grand Total	1557	894	562,631,563	663

- Additions and deletions in previous years' backlog units are adjusted accordingly.
 - Boards include Hospital Support and Town Development Committees as well.
 - District Development Committees include 75 units of Local Development Funds.
9. **Total Audited Amount** – In FY 2007/08, audit amounting to Rs. 805 billion 438 million 367 thousand, as exhibited below, has been completed:

Particulars	Number of Offices	Audit Completed	
		Units	Audited Amount (Rs. in thousand)
• Government Office	3342	16503	242,806,804
• Corporate Bodies	32	38	499,640,463
• Boards	268	272	5,624,636
• Other Entities	346	434	39,810,125
• District Development Committees	75	150	17,556,339
Total	4063	17397	805,438,367

While last year, audit of Rs 748 billion 144 million 745 thousand of 4 thousand 073 offices was completed, this year, audit of Rs 805 billion 438 million 367 thousand of 4 thousand 063 offices has been completed. Similarly, the number of backlog accounts up to last year was 3 thousand 361 units which has reduced to 3 thousand 332 units this year.

- **Consolidated Fund**

10. **Audit of Consolidated Fund** – Article 90 of the Interim Constitution of Nepal, 2007 has made provision for the Consolidated Fund. It has specified that except for the revenues of religious trusts (*Guthi*) all revenues received by the government, all loan raised on the security of the revenues and all moneys received in repayment of any loan under the authority of any Act shall be deposited in this Fund.

Pursuant to Section 10 (4) of Financial Procedure Act, 1998, Financial Comptroller General Office is responsible for preparation of financial statement of Consolidated Fund. Similarly, Section 14 (1) of the same Act states that each year financial statement of the Consolidated Fund shall be submitted to the Office of the Auditor General. Thus, the Financial Comptroller General Office is responsible for the financial statement of Consolidated Fund, as specified by provisions of law and the relevant accounting principles whereas as per provisions made in Clause (c) of Section 4 and Section 8 (1) of Audit Act, 1991, our responsibility is to carry out audit of that Fund and give report along with audit opinion and comments on its fund transactions. We are of the view that the audit, we conducted is sufficient to express our audit opinion on the Consolidated Fund. The Financial Statement of the Consolidated Fund for the year 2006/07, prepared and submitted by the Financial Comptroller General Office, is presented in page 10. Regarding the Financial Statement of the Consolidated Fund, our observations are as follows:

- 10.1 The Financial Statement of the Consolidated Fund shows that Rs 87 billion 712 million 083 thousand (excluding amount recovered from the irregularities raised out by audit) has been accounted by the Government of Nepal as revenue, whereas the books of accounts maintained by all government offices and their office-wise financial statements show that the actual revenue income received by the Government of Nepal is Rs 84 billion 499 million 801 thousand (excluding amount recovered from the irregularities). This has caused a difference of Rs 3 billion 212 million 282 thousand in revenue accounting. The Financial Comptroller General Office does not prepare reconciliation statement to find out the differences in the Consolidated Fund, hence, there is no way to confirm the amount of revenue received.
- 10.2 There is no practice to prepare consolidated statement of revenue arrears to be recovered by the Government of Nepal and submit for audit consideration. While we compiled office-wise revenue statements, collected during the course of audit,

- it has been found that the accumulated revenue arrears at the end of the current fiscal year is Rs 30 billion 59 million 585 thousand. The Financial Statement of the Consolidated Fund does not provide any explanation regarding the revenue arrears.
- 10.3 During the course of audit, it was noticed that, this year, a total loan of Rs 27 billion 945 million 816 thousand including Domestic Loan of Rs 17 billion 892 million 300 thousand and Foreign Loan of Rs 10 billion 53 million 516 thousand has been raised against the revenue. The Financial Statement of the Consolidated Fund shows that only Rs 24 billion 621 million 739 thousand that includes Rs 18 billion 531 million 960 thousand domestic and Rs 6 billion 890 million 779 thousand foreign loan received. Thus, the figures of loan account do not tally at all.
 - 10.4 Article 90 of the Interim Constitution of Nepal, 2007 provides that all sorts of money to be received by the Government of Nepal, except for the **Guthi** money, shall be deposited in the Consolidated Fund Account. The remaining balances of foreign grant and loan lying in Special Account have not been transferred as income in the Consolidated Fund. Foreign cash loan of Rs 2 billion 745 million 575 thousand, spent on various projects, has not been incorporated in the income of the Fund. Besides, the Financial Comptroller General Office has not maintained books of these accounts.
 - 10.5 Further, income and expenditure of Peace Fund and Operational Fund are not incorporated in the Consolidated Fund. Also, other kind of receipts such as tourism fees, Road Board fees, etc received by the Government of Nepal is not accounted for as income in the Fund.
 - 10.6 According to the Financial Statement, Rs 12 billion 744 million 459 thousand has been received as foreign grant assistance. But, during the course of audit it was observed that the exact amount of grant assistance is Rs 12 billion 666 million 991 thousand even after adjusting this year's reimbursable amount and amount received out of previous years' claims in the current year which shows a difference of Rs 77 million 468 thousand in receipt of foreign grant assistance. Further, books of account equivalent to Rs 1 billion 323 million 257 thousand spent under Foreign Grant Assistance has not been produced for audit consideration.
 - 10.7 The Technical Assistance mentioned in the Technical Assistance Booklet tabled in Legislature Parliament, has not been shown in the Financial Statement of Consolidated Fund. Amount of technical assistances could not be ascertained because financial statements of most of the Technical Assistances are not produced for audit,
 - 10.8 The Financial Statement of the Consolidated Fund shows Rs 133 billion 604 million 606 thousand as expenditure, whereas the financial statements produced

- by concerned projects and offices show expenditure of only Rs 134 billion 74 million 233 thousand (excluding Rs 371 million 317 thousand to be borne directly from the Consolidated Fund). Thus, expenditure shown in the Financial Statement of the Consolidated Fund is in excess by Rs 469 million 627 thousand.
- 10.9 The Financial Statement of the Consolidated Fund is not prepared on the basis of books of accounts of projects and offices rather it is prepared on the basis of various data collected from different sources. Also, the Statement lacks comparative figures. The Financial Statement of the Consolidated Fund, which is prepared on Cash Basis, shows that the opening cash balance at beginning of the year as Rs 19 billion 549 million 236 thousand and Rs 26 billion 714 million 398 thousand as negative cash balance at the end of this year.
- 10.10 Although, the transactions of the Consolidated Fund is recorded on Cash Basis, but there is no cash balance shown. As on 16th July 2007, out of total cash received by revenue collecting centers, Rs 86 million 901 thousand is yet to be deposited in the bank. Last year, this amount was Rs 158 million 496 thousand. When last year's balance was deposited in bank this year, it was recorded as Rs 153 million 818 thousand which made a difference of Rs. 4 million 678 thousand. The Financial Comptroller General Office does not have any adjustment details of such difference.
- 10.11 Although, expenditure has to be made within the limit of net budget, after adjusting additions or deletions by means of budget transfers on appropriated budget, the expenditure has exceeded by Rs 6 billion 767 million 709 thousand compared to the budget allocations. The detailed description of excess expenditure over budget is in Annex 3.
- 10.12 During the course of audit, Rs 1 billion 63 million 585 thousand was identified as irregularities to be recovered this year out of which Rs 357 million 247 thousand has been recovered leaving Rs 706 million 338 thousand still to be recovered. However, transactions amounting to Rs 5 billion 279 million 781 thousand pointed out as irregular this year, have not been regularized till the date of submission of this report.

In our opinion, except for the effect of adjustments of audit comments and disclosures, as mentioned in the preceding paragraphs 10.1 to 10.12, Financial Statements of the Consolidated Fund submitted by the Financial Comptroller General Office gives a true and fair view of Income-Expenditure of the Consolidated Fund for the year ending on 16th July, 2007.

Government of Nepal
Ministry of Finance
Financial Comptroller General Office
Financial Statement of the Consolidated Fund
F.Y. 2006/07

(Rs in Thousand)

S.No	Particulars				Amount
	Revenue Income				
1	Balance of Last Year (b/f)				(19549236)
2	Income of This Year :				
	a. Revenue				88351048
	(1) Tax Revenue (Direct and Indirect Tax)			71126728	
	(2) Non Tax Revenue			15559276	
	(3) Ka 1.6 Miscellaneous			1665044	
	b. Wealth (Principal) received on repayment of Loan				1026079
	c. Loan Received against Revenue				24621739
	(1) Domestic Loan			18531960	
	(2) Foreign Loan			6089779	
	(i) Reimbursement Received		3713121		
	• Current Year	2331984			
	o Received through Reimbursement Division	2331984			
	o Directly Received through Treasury Division	0			
	• Previous Years	1381137			
	(ii) Cash Loan		38623		
	• Current Year		0		
	• Previous Years	38623			
	(iii) Direct Payment (Direct Loan)		2338035		
	d. Foreign Grants				13,046,129
	(i) Cash (of Current and Previous Years)			4911344	
	(ii) Reimbursement Received			1844548	
	• Current Year		919380		
	• Previous Years		925168		
	o Received through Reimbursement Division	725139			
	o Directly Received through Treasury Division	200029			
	(iii) Direct Payment (Direct Grants)			4293286	
	(iv) Commodity Grants			1695281	
	d. Other Miscellaneous Income				67436
	(1) Transfer of Freeze Budget (F.Y.2005/06)			111	
	(2) Transfer of Freeze Budget (F.Y.2006/07)			67325	
	(3) Other Income				
	(i)				
	(ii)				
	Total Income				107261525
	Expenditure				
1	Expenditure of Current Year				133604606
	a. Expenditure Charged to Consolidated Fund			23424329	
	(1) Recurrent Expenditure		6663362		
	(2) Capital Expenditure		8625		
	(3) Repayment of Principal		16752342		
	b. Expenditure made through Appropriation Act			110180277	
	(1) Recurrent Expenditure		70458987		
	(2) Capital Expenditure		39721290		
	Source wise Account of Total Expenditure				
	(i) Internal (Government of Nepal) Source		88,847,353	88,847,353	
	(ii) Foreign Grants			13,785,117	
	• Cash		4,692,802		
	• Reimbursable		1,736,929		
	• Direct Payment		6,192,761		
	• Commodity Grants		1,162,625		
	(iii) Foreign Loan			8,214,306	
	• Cash		3,037,938		
	• Reimbursable		2,997,037		
	• Direct Payment		2,289,331		
2	Repayments from Consolidated Fund (Freeze, Ka 1-6 and others)			513,925	513,925
3	Other Expenditures				
4	Money Transferred to Contingency Fund under the Act				
	Total				111,360,702
	Total Balance				(19,541,236)

Signed
Accounts Officer

Signed
Deputy Financial
Comptroller General.

Signed
Joint Financial Comptroller
General.

Signed
Financial Comptroller General.

- **Contingency Fund**

11. **Balance** - Article 98 of the Interim Constitution of Nepal, 2007 has laid down the provision for establishment of Contingency Fund. The provision states that certain sum of money, as specified by Act, shall be deposited in this Fund in time to time, money shall be withdrawn out of this Fund to meet expenses for unforeseen events and such withdrawals shall be replenished, as specified by the Act, as soon as possible. An amount of Rs 2 million 500 thousand which was deposited in 1960 in consonance with the provision of Contingency Fund Act, 1960 is being carried forward as balance.

- **Operational Fund**

12. **Fund Position** – The provision contained in Section 10 (4) of Financial Procedure Act, 1998 articulates that the Financial Comptroller General Office shall cause to maintain books of accounts incorporating all sort of transactions, shall prepare the Central Level Statement of such Funds and submit to the Auditor General for audit. As per the Central-level Statement of the Fund, there is a cash balance of Rs 4 billion 473 million 786 thousand after deducting expenditure of Rs 4 billion 580 million 707 thousand out of the total revenue of Rs 9 billion 54 million 493 thousand which includes last years' carried down balance of Rs 2 billion 242 million 343 thousand of 426 units and this year's revenue of Rs 6 billion 812 million 150 thousand.
 - 12.1 The Central-level Statement of the Fund confirms that Rs 2 billion 242 million 343 thousand has been brought forward as last year's surplus while as per last year's statement, this figure should have been Rs 2 billion 139 million 619 thousand and 10 offices have brought forward a short balance of Rs 221 million 020 thousand. Neither the difference has been explained nor has the reconciliation statement been prepared.
 - 12.2 The Central-level Financial Statement does not completely consolidate all receipts and payments of the Fund. Monies invested in Fixed Deposit Accounts, out of Operational Fund, have been shown as expenditure instead of showing them as investment or cash/bank balance. For instance, Rs 400 million (up to last year) invested in fixed deposit by the National Level Welfare Fund and Rs 800 thousand invested by District Education Fund are shown as expenditure in the Central Statement. The details regarding these investments have not been produced.

Because, the Financial Comptroller General Office does not prepare the Central Account by compiling the details of Funds from each unit liable for operating the Operational Fund Account, we cannot express that the Central-level Financial Statement produced is correct.

▪ **Receipt-Payment of Appropriation and Financial Statement**

The Central-level Financial Statement received from the Financial Comptroller General Office, the position of receipt and payment under appropriation of the Government of Nepal for the year 2006/07 is as follows:

13. **Receipt-Payment** – This year, altogether Rs 131 billion 458 million 749 thousand has been received in treasury as revenue (including foreign grant and loan and Domestic Loan) and Rs 133 billion 604 million 606 thousand has been incurred as expenditure which has ultimately caused a shortfall of Rs 2 billion 145 million 857 thousand. The Statement of Receipt-Payment is in Annex 4.

The total expenditure, compared to last year’s figure, has increased by Rs. 22 billion 715 million 448 thousand (20.48 percent) this year.

14. **Expenditure Charged to the Consolidated Fund** – This year it was estimated this year that Rs 23 billion 652 million 971 thousand is to charge to the Consolidated Fund whereas the actual expenditure charged to the Consolidated Fund is Rs 23 billion 424 million 329 thousand, in other words 99.03 percent (it was Rs 21 billion 145 million 994 thousand last year). Out of the expenditure, 97.83 percent was spent on repayment of principal and interest on loan acquired. The detailed description is in Annex 5.

The total excess expenditure charged to the Consolidated Fund is Rs. 2 billion 278 million 335 thousand (10.77 percent) compared to last year.

15. **Expenditure from the Consolidated Fund** – It was estimated to draw Rs 120 billion 259 million 329 thousand for expenditure out of the Consolidated Fund this year whereas Rs 110 billion 180 million 276 thousand or 91.62 percent has been drawn out in actual. The detailed description is in Annex 6.

16. **Status of Expenditure** – This year, Rs 83 billion 767 million 861 thousand and Rs 60 billion 144 million 439 thousand was estimated to spend on recurrent expenditure and capital expenditure and repayment of principal respectively. In actual, Rs 133 billion 604 million 605 thousand comprising of Rs. 77 billion 122 million 349 thousand and Rs 56 billion 482 million 256 thousand has been spent respectively. The detailed description of total expenditure is in Annex 7, 8 and 9.

Top five ministries that incurred highest amount of expenditure in recurrent, capital expenditure and repayment of principal are as follows:

Recurrent Expenditure		Capital Expenditure and Repayment of Principal	
Ministry	Percent	Ministry	Percent
1. Education and Sports	26.12	1. Finance	44.73
2. Defence	16.49	2. Physical Planning and Public Works	17.64
3. Home	13.98	3. Local Development	13.86
4. Finance	13.08	4. Water Resources	5.38
5. Health and Population	8.39	6. Industry	3.06

The above mentioned mere five ministries covered 78.06 percent of total recurrent expenditure and 84.67 percent of total expenditure on capital and repayment of principal.

By volume-wise, capital expenditure and repayment of principal, the Ministry of Finance appears to be on the top, but it includes Rs 23 billion 183 million 813 thousand repaid Principal, Loan and Share Investment (41.04 percent of total expenditure made on capital and repayment of principal). In case of deducting such amount, the expenditure incurred by the Ministry of Physical Planning and Public Works seems to be the highest.

17. **Appropriation and Expenditure** – This year, budget was appropriated under 52 budget heads comprising of 33 heads for recurrent and 19 for capital expenditure. Out of 52 budget heads, expenditure of 18 budget heads has exceeded estimated budget by 100.95 percent to 198.35 percent. The head-wise budget estimate and detailed expenditure is in Annex 10.
18. **Revenue** – This year, it was estimated to collect Rs 85 billion 375 million 800 thousand as revenue, but as per the Central-level Financial Statement produced by the Financial Comptroller General Office Rs 87 billion 712 million 083 thousand (102.73 percent of estimate) has been collected. The detailed statement is in Annex 11.
 - 18.1 If the amount of Rs 1 billion 665 million 053 thousand, deposited in Ka 1-6 Miscellaneous Account, is added to the revenue shown by the Financial Comptroller General Office which is based on the statement of Nepal Rastra Bank, the actual revenue collected this year comes to Rs 89 billion 377 million 136 thousand.
 - 18.2 The revenue statements, to the extent submitted for audit by 2 thousand 408 government offices, when compiled show Rs 86 billion 121 million 026 thousand as revenue collected this year. As per the statement, if Rs 136 million 992 thousand, comprising of Rs 952 thousand deposited in bank account last year but recognized as income this year and this year's cash balance of Rs 136 million 40 thousand, is deducted and last year's cash balance of Rs 105 million 768 thousand deposited this year is added, the actual bank deposit seems to be Rs 86 billion 89 million 802 thousand. The detailed description is in Annex 12.
- 19 **Scenario of Budget and Expenditure** – The estimated expenditure, tables of disbursement and expenditure incurred from various sources, based on the Central Financial Statements submitted by concerned entity/ministry is incorporated in Part 1 entity/ministry section. As per the statement produced by the Financial Comptroller General Office, scenario of source-wise budget estimate and expenditure is as follows:

(Rs in thousands)

Particulars		Estimate	Expenditure	Expense as % of Estimate
Grand Total		143,912,300	122,604,605	92.84
Recurrent Expenditure		83,767,861	77,122,349	92.07
	Government of Nepal	71,131,602	68,962,503	96.95
	Foreign Grant	9,472,775	6,168,380	65.12
	Foreign Loan	3,163,484	1,991,466	62.95
Capital Expenditure and Repayment of Principal		60,144,439	56,482,256	93.91
	Government of Nepal	32,144,198	38,790,741	120.68
	Foreign Grant	14,255,825	9,632,465	67.57
	Foreign Loan	13,744,416	8,062,050	58.66

20. **Budget Transfer (Virement)** – The Appropriation Act, 2006 has stated that, if it deems that there is surplus in any budget-head and deficiency in other budget-head out of the budget appropriated for the operation or services to be provided by any entity, ministry and secretariat, the government can transfer surplus budget, without exceeding 10 percent, from one or other budget-heads to other budget-heads, disburse funds and spend accordingly. The provision also states that budget appropriated in capital expenditure head can not be transferred to any recurrent expenditure head except to the expenditure head approved for repayment of principal and interest and budget approved for repayment of principal shall not be transferred to any budget-head except in the head approved for payment of interest. Section 8 of the Financial Administration Regulation, 1999 has bestowed authority to Ministry of Finance to transfer funds from one budget sub-head to another budget sub-head within the limit specified by Appropriation Act.

20.1 While analyzing the statements received from the Financial Comptroller General Office, altogether Rs 36 billion 886 million 246 thousand has been transferred out from 355 budget sub-heads and Rs 36 billion 884 million 746 thousand has been added into 437 budget sub-heads. In average, 7.24 percent of the total estimated expenditure has been altered by way of budget transfer. The detail of addition made by means of budget transfer is as follows:

(Rs in thousands)

Percent of Budget Transfer	No. of Budget Sub-head	Estimate	Amount Added by Budget Transfer	Increased Percent	
				Minimum	Maximum
Budget Not Transferred	676	53,816,064	-	-	-
Up to 10 Percent	200	59,360,289	3,039,607	0.01	9.97
Above 10 up to 25	70	14,962,535	2,660,432	10.08	24.15
Above 25 up to 50	45	10,018,396	3,454,302	25.52	50.00
Above 50 up to 75	28	1,308,906	824,707	50.33	74.74
Above 75 up to 100 percent	27	1,681,359	1,470,332	77.42	100.00
Above 100 percent	67	2,764,451	19,885,366	102.52	531914.89
Transferred to budget head having no appropriation	1	-	5,550,000		
Total	1113	143,912,300	36,884,746	-	-

20.2 Among the budget sub-heads where over cent percent budget has been transferred, Rs 1 billion 500 million has been added to capital expenditure budget of the Ministry of Industry, Commerce and Supply for which only Rs 282 thousand was appropriated.

20.3 Instances of budget reduction through budget transfers, compared to initial estimation, are as follows:

(Rs in thousands)

Transfer Percent	No. of Sub-heads	Estimate	Amount Reduced by Budget Transfer	Reduced Percent	
				Minimum	Maximum
Budget not Transferred	758	111,023,135	-	-	-
Up to 10 Percent	184	62,367,774	1,391,295	0.0031	10.00
Above 10 up to 25	54	15,706,453	3,001,557	10.08	24.84
Above 25 up to 50	34	9,455,278	3,550,036	25.33	49.00
Above 50 up to 75	30	7,872,648	4,651,592	50.40	74.44
Above 75percent	38	3,394,072	3,164,216	80.00	100.00
Above cent percent	15	2164,736	17130,469	107.91	3300.00
Budget transferred from head not included in budget			3,997,081	-	-
Total	1113	143,912,300	36,886,246	-	-

An amount of Rs 5 billion 550 million was transferred from budget subhead No 95-4-951 Miscellaneous (under Ministry of Finance) to budget sub-head No 81-5-108 Treasury Bill for which no budget was appropriated. Again, from the same Treasury Bill, Rs 3 billion 997 million 081 thousand was transferred and spent under the budget sub-head which was related to repayment of principal and interest of National Savings Bond, Development Bonds etc.

The practices of transferring out entire budget of one particular budget sub-head or adding up whole amount in one or more budget sub-heads, without any threshold in deduction or addition through budget transfers, do not contribute in maintaining budgetary discipline. This matter was well suggested in previous reports but instead of implementing the suggestions, the practice is still continued.

21. **Submission of Financial Statement** – In Sub-section (2) of Section 14 of the Financial Procedure Act, 1998, it has been stated that Chief Accounting Officers shall prepare and submit Central Financial Statement of each financial year compiling entire receipt and payment of entity/ministry and its subordinate offices to the Office of the Auditor General. Any Chief Accounting Officer, if deems unable to submit such statement in the time prescribed by the Office of the Auditor General, may request, stating reasonable grounds, for extension of the date of such submission and the Auditor General, in accordance with the provision made in sub-section (6), may extend the period up to 35 days.

This year, the last date for submission of the Central-level Financial Statement was set for 16th November 2007, but 18 Ministries submitted

Statements of Appropriation Revenue and Deposits and 2 Ministries submitted Statements of other Income/Expenditure after the expiry of specified date. The detailed description is in Annex 13.

Although, the Chief Accounting Officers are required to submit Central-level Financial Statements incorporating complete detail of foreign assistances including technical assistance, concerned Chief Accounting Officers did not submit such statements.

- 21.1 Section 10 (4) of the Financial Procedure Act, 1998 has entrusted the Financial Comptroller General, the responsibility for preparation of annual Central-level Financial Statements of the Consolidated Fund, Contingency Fund, foreign grants, loan, investments, appropriation, revenue, deposits, expenditure borne out of any assistance or source, whether or not covered by the budget, and all sorts of transactions and to submit the same within the time frame specified by the Auditor General. This year, the deadline of submitting those statements was set for 14th January, 2008 and all the statements, except of Other Income and Expenditure, were submitted within the deadline.

As per the Statement of Technical Assistance, published along with the budget speech, 88 programs (not covered by the Source Book) were expected to receive such assistances. In the course of audit it has been noticed that, besides of these programmes, foreign assistance funds are being received and spent. The Financial Comptroller General Office and concerned Chief Accounting Officers did not submit statements of such foreign assistances that were not reflected in the budget.

- 21.2 Rule 133 (e) of Financial Administration Regulation, 1999 provides that each Ministry, shall acquire detailed account of Commodity assistance, Direct Payment, Assistance on Turn-Key basis, Technical or other kinds of Assistance and also receive Statement of reimbursements, Monthly Statement of Advances and Bank Reconciliation Statement from subordinate offices or projects that are receiving foreign assistance under Sub-rule (2) of Rule 131, shall verify cash disbursements and expenditure with the accounts maintained by the Financial Comptroller General Office and shall prepare and submit the Central Statement to the Office of the Auditor General and the Financial Comptroller General Office within mid-November.

Rule 133 (e) further provides that the Financial Comptroller General Office, on receipt of all details as per clause (d), shall prepare the Central-level Financial Statement and submit the same to the Office of the Auditor General within mid-January. Although, the Central-level Financial Statements submitted by the Financial Comptroller General Office are said to be verified with the statements submitted by entities/ministries, the Statements do not tally with the records maintained by the ministry/entity.

- **Status of Audit and Irregularities**

22 **Position of Irregularity** - This year, Rs. 26 billion 169 million 236 thousand (10.78 percent) has been noted as irregularities during the audit of Rs 242 billion 806 million 804 thousand transacted by 2 thousand 239 offices. Out of those irregularities Rs 16 billion 215 million 805 thousand (61.97 percent of total irregularities) are cleared through follow-up audit before the day of submission of this Report and, as provided by Section 19 of Financial Procedure Act, 1998, the Chief Accounting Officers were appraised with list of offices that did not make any progress in settling the irregularities and were requested to initiate action for early settlement of remaining irregularities. Then after, in accordance with the above mentioned provisions of law, concerned Ministers/State Ministers and heads of entities were communicated with the details of offices, settled and unsettled irregularities. Still, Rs 9 billion 953 million 431 thousand (4.90 percent) is remaining as irregularities (this figure was Rs. 8 billion 253 million 164 thousand last year). The detail of irregularities observed and communicated to the entities is given in Annex 14. The total amount of irregularities comes to Rs 9 billion 966 million 297 thousand which includes Rs 128 million 66 thousand identified through follow-up audit. The stated figure is in excess of Rs 1 billion 713 million 133 thousand compared to last year.

23 **Classification of Irregularities** – The amount of irregularities remained unsettled, out of total irregularities raised during the year even after adjusting the irregularities that were settled through follow-up audit, till the date of submission of the report this year, are categorised as follows:

(Rs in thousands)

Classification	Amount	Percentage
1. To be Recovered	706,338	7.09
• Caused Loss or Damage	667	0.01
• Other Recoverable	705,671	5.92
2. To be Regularized	5,279,781	52.98
• Non-compliance	764,881	7.67
• Non-submission of documentary evidence	4,403,970	44.19
• Balance not carried forward	104,314	1.05
• Reimbursement not obtained	6,616	0.07
3. Advance	3,980,178	39.93
• Staff Advances	47,964	0.48
• Other Advances	3,932,214	39.45
Total Irregularity	9,966,297	100.00

The classification of irregularities is in Annex 15 and Chart No. 1

23.1 The 5 ministries having highest amount of irregularities are as follows:

(Rs in thousands)

Ministry	Amount	Percent	Ministry	Amount	Percent
1. Finance	3,648,860	36.61	2 Physical Planning and Public Works	1,208,591	12.13
3 Peace and Reconstruction	991,703	9.95	4 Education and Sports	850,508	8.53
5 Local Development	800,162	8.03			

The combined figure of irregularities of these ministries covers 79.30 percent of the total figure of irregularities. (This has been exhibited in Chart No. 2)

23.2 Out of recoverable irregularities Rs. 1 billion 063 million 585 thousand observed in the audit of appropriation, revenue and deposits, Rs. 357 million 247 thousand was recovered, during the period of audit and after submission of preliminary reports. Still, Rs. 706 million 338 thousand is yet to be recovered. Among this, the 5 ministries having highest volume of recoverable irregularity are as follows:

(Rs. in thousand)

Ministry	Amount	Percent	Ministry	Amount	Percent
1. Finance	492,810	69.77	2. Physical Planning and Public Works	54,386	7.70
2. Local Development	33,905	4.80	4. Education and Sports	27,158	3.84
3. Land Reform and Management	20,695	2.93			

The combined figure of recoverable irregularities in 5 ministries as shown above is Rs 628 million 954 thousand (89.04 percent).

24 **Other Entities** – This year, audit amounting to Rs 62 billion 991 million 100 thousand pertaining to Boards and other Entities and District Development Committees have been accomplished and irregularities amounting to Rs 2 billion 657 million 905 thousand (4.22 percent of audited figure) has been observed by audit.

Among the irregularities of other entities (Including District Development Committees), Rs 273 million 412 thousand have been pointed out as recoverable.

25 **Overall Irregularity for The Year** – This year, Rs. 12 billion 624 million 202 thousand have been observed as irregularity in course of audit of government offices, Boards, other entities and District Development Committees. It is 4.13 percent of the total audited figure of Rs 305 billion 797 million 904 thousand.

Among the combined volume of irregularities of government offices, other entities and District Development Committees, Rs 979 million 750 thousand has been pointed out as recoverable ones.

26 **Comparison of Irregularity** – The comparative position of irregularities for last 3 years pertaining to government offices is as follows:

(Rs in thousands)

Report	Audited Figure	Irregularity	Percent
2006	189,532,801	9,863,123	5.20
2007	202,141,393	8,253,164	4.08
2008	242,806,804	9,966,297	4.10

- Irregularity noted during follow-up audit is also included in the above figure. (The detail is exhibited in Chart No. 3).

27 **Advances** – Up to last year, the unsettled advance in government offices was Rs 8 billion 669 million 597 thousand, of which Rs 3 billion 336 million 026 thousand (38.48 percent) was cleared and Rs 5 billion 333 million 571 thousand still remains unsettled while adding up this year's advances of Rs 3 billion 980 million 178 thousand on said amount, the total unsettled advance comes to be Rs 9 billion 313 million 749 thousand. The Financial Comptroller General Office, in the Notes to the Financial Statement of Consolidated Fund, has shown Rs 1 billion 336 million 400 thousand as last year's outstanding advance and Rs 3 billion 332 million as closing balance of advance at mid July 2007 of this year..

The year end balance of advances in government offices for last three years is as follows:

(Rs. In thousand)

Annual Report	Year-end Balance of Advances			
	Staff Advance	Other Advance	Total	Percent Increased
2006	735,783	7,374,893	8,110,676	25.43
2007	768,795	7,900,799	8,669,597	6.89
2008	753,026	8,560,723	9,313,749	7.43

Among the government offices, the 5 ministries having highest amount of unsettled advances are as follows:

Ministry	Advance (Rs. In thousand)	Percent of Total Advance
1 Physical Planning and Public Works	1,597,543	17.15
2 Defence	1,557,650	16.72
3. Local Development	1,025,571	11.01
4 Peace and Reconstruction	991,386	10.64
5 Education and Sports	912,860	9.80
Total	6,085,010	65.33

The current status of advances is in Annex 16 and Chart No 4.

28 **Updated Position of Advances** – This year's outstanding advance relating to Boards, other entities and District Development Committees is Rs. 410 million 431 thousand. This year the amount of unsettled advance is Rs. 4 billion 390 million 609 thousand in government offices, Board and other entities. Thus, the cumulative advance of Rs 9 billion 313 million 749 thousand in government

offices plus advances of Boards, other entities and District Development comes to be Rs 9 billion 724 million 180 thousand as the total advance to be settled.

- 29 **Audit Backlogs** – Section 14 of the Financial Procedure Act, 1998 states that financial statements and relating accounts shall be submitted within the deadline specified by the Auditor General, and formal request for extension of deadline shall be tendered if it deems that said documents cannot be submitted in time and penalty and disciplinary action may be initiated against those who fail to submit the statements in time or also do not request for time extension. This year, accounts of Rs. 2 billion 442 million 389 thousand comprising this year’s Rs. 8 million 975 thousand of 8 units and backlog of last year Rs. 2 billion 433 million 423 thousand have not been submitted for audit consideration. However, the total amount of audit backlogs has been reduced by Rs 5 million 316 thousand. The statement of backlog accounts is in Annex -17.

Out of total backlog accounts, following are the 10 ministries that have highest amount-wise backlogs:

Entity/Ministry	% of Total Backlog		Entity/Ministry	% of Total Backlog	
	Amount	percent		Amount	Percent
1. Health and Population	472,425	19.34	2. Physical Planning and Public Works	443,437	18.16
3. Local Development	331,424	13.57	4. Education and Sports	292,273	11.97
5. Foreign Affairs	254,662	10.43			

A total number of 663 units which include 17 corporate bodies, 636 units of Boards and other entities and 10 District Development Committees failed to submit their accounts. This number was 676 last year.

- 30 **Total Backlogs** – Taking into account the unit-wise status, there are altogether 3,332 backlog units in government offices, Boards and other entities, corporate bodies and District Development Committees. As the amount in case of Corporate Bodies, Boards, other entities and District Development Committees cannot be determined, the total backlog units, in terms of terms of amount, could not be ascertained.

If the amount of above mentioned units could be included in the backlogs of government offices, the total figure may further increase.

- 31 **Recovery of Irregularities** – This year, altogether Rs 776 million 590 thousand has been recovered. This includes recovery of Rs 808 million 270 thousand which was recovered within the audit period, Rs 268 million 977 thousand after the submission of preliminary reports, and Rs. 419 million 343 thousand during follow-up audit of previous years’ irregularities. Out of the amount recovered, 5 ministries that made highest recovery in terms of amount and percent are as follows:

(Rs. In thousand)

Ministry	Amount	Percent	Ministry	Amount	Percent
1. Finance	394,292	50.78	2. Information and Communication	94,721	12.20
3. Culture, Tourism and Civil Aviation	52,895	6.81	4. Office of Prime Minister and Council of Ministers	45,150	5.81
5 Local Development	20,695	2.93			

Similarly, this year Boards and other entities have recovered Rs. 4 million 122 thousand. Thus in totality, government offices, Boards and other entities have recovered an amount of Rs 780 million 712 thousand this year. The detailed account of recovery is in Annex 18.

- **Foreign Assistance – Grants, Loan and Repayment of Principal and Interest**

32. **Grants and Loan** – Sub-section (3) of Section 5 of Financial Procedure Act, 1998 states that all grants and loan assistances, in cash or kinds, to be received by the government from friendly nations or international organizations or agencies, shall be incorporated or shall caused to be incorporated in the budget and if any other assistances are to be received, apart from this, also shall be tabled to the Parliament with separate statements along with the budget. Additionally, sub-section (4) of Section 10 of the Act states that the concerned offices shall maintain the books of accounts of expenditure made out of any assistance or source that are not reflected in the budget.

The government is receiving aid in the form of grants, loan or technical assistance from friendly nations and international agencies. On completion of audit, audit reports are issued in the formats prescribed by the donors and meet their requirements.

This year, out of the estimated foreign grant of Rs 23 billion 728 million 600 thousand only Rs 15 billion 800 million 845 thousand (66.59 percent) has been received. The donor-wise and sector-wise statements of foreign assistance are in Annex 19 and Annex 20 respectively. Some significant facts observed in the grants, loan, technical and other miscellaneous assistances are as follows:

- 32.1 Following 5 ministries have received highest amount of grant this year:

(Rs in thousands)

S. No	Ministry	Estimate	Receipt	In Percentage of	
				Estimate	Receipt
1	Health and Population	4,713,967	3,270,016	2.07	69.37
2	Education and Sports	4,025,694	2,888,949	18.28	71.76
3	Local Development	2,796,226	2,452,789	15.52	87.72
4	Physical Planning & Public Works	2,622,778	2,316,911	14.66	88.34
5	Finance	5,051,385	1,473,286	9.32	29.16

32.2 This year, it was estimated to receive by 11 entities and ministries a foreign loan of Rs 16 billion 907 million 900 thousand, actually Rs 10 billion 053 million 516 thousand (59.46) has been received in 9 ministries. Moreover, Rs 3 billion 125 million 628 thousand, spent out of government fund as reimbursable but not reimbursed, has been treated as foreign loan. If the said amount is deducted, the net receipt of foreign loan would be Rs 6 billion 927 million 888 thousand. Adding the reimbursements received in lieu of previous year's claims, the exact amount of foreign loan at end of this year is Rs 6 billion 974 million 676 thousand. Donor-wise and sector-wise statement is in Annex 19 and Annex 20 respectively.

32.3 The 5 ministries that received highest amount of foreign loan this year are as follows:

(Rs in thousands)

Ministry	Estimate	Receipt	In Percentage of	
			Estimate	Receipt
1. Finance	4,938,811	3,196,386	64.72	31.79
2. Physical Planning & Public Works	5,460,528	3,050,117	55.86	30.34
3. Education and Sports	2,560,801	2,115,086	82.59	21.04
4. Local Development	1,129,463	928,695	82.22	9.24
5. Agriculture and Cooperatives	402,764	369,804	91.82	3.68

32.4 This year, Rs 77 million 512 thousand comprising of Rs 9 million 430 thousand for Agriculture Research and Development Fund, Rs 66 million 785 thousand for Saptakoshi Multipurpose Project, Rs 679 thousand for Education for All Programme and Rs 618 thousand for Gender Equality and Women Empowerment have been shown as loan received although these projects are not included in budget estimate.

33 **Technical Assistance** – According to the List of Technical Assistance 2006/07 (not reflected in Budget), Rs 13 billion 724 million 837 thousand (based on the exchange rate on 16th July, 2007) is expected to receive under various 85 agreements. The detailed statement is in Annex 21. Significant facts observed in this regard are as follows:

33.1 Among the above mentioned 88 agreements, 81 are related with 18 entities, ministries and secretariats where as remaining 7 agreements do not specify the related entity. The assistance to be received under these agreements is categorized into following 4 broad headings:

(Rs in thousands)

S.No	Heading	Amount to be Received	In Percentage
1	Consultancy Services	1,232,252	8.98
2	Goods	208,954	1.52
3	Training and Workshops	864,094	6.30
4	Others`	11,419,537	83.20
Total		13,724,837	100.00

- 33.2 Based on the volume, 5 entities/ministries which are supposed to receive highest amount of technical assistance are as follows:

(Rs in thousands)

S. No	Ministry/Secretariat	Number of Agreements	Amount to be Received	% of Total Receipt
1	Forest and Soil Conservation	10	6,407,757	46.68
2	Local Development	6	1,631,542	11.89
3	Health and Population	13	1,196,424	8.72
4	Education and Sports	10	334,464	2.44
5	Agriculture and Cooperatives	6	294,708	2.15
	Total	45	9,864,895	71.88

- 33.3 During the course of audit, it has been noticed that, apart from the programmes listed in the Budget Estimate and List of Technical Assistance, 3 programmes, under Defence Ministry and Local Development Ministry, have received other kinds of assistances. Although, these programmes submitted accounts of Rs 200 million 205 thousand for audit, however, this amount is not included in the Central Financial Statement.

A complete picture of Income and Expenditure of entities/ministries could not be exhibited because of non-submission of Central-Level Financial Statement of Other Income Expenditure including technical assistance and all kinds of foreign assistance as specified in Sub-section (2) of Section 14 of the Financial Procedure Act, 1998. The detail is in Annex 21.

- 34 **Agreements** – As per the statements received so far regarding foreign grant, technical assistance and other assistances mentioned in budget estimate, Government of Nepal has signed 150 agreements with friendly nations and international agencies. Out of these agreements, 47 agreements have not been produced for audit verification. The entities/ministries which did not produce agreements are as follows:

Entity/Ministry	No. of Agreements	Entity/Ministry	No. of Agreements
1. Office of the Prime Minister and Council of Ministers	1	2. Agriculture and Cooperative	4
3. Industry, Commerce and Supplies	6	4. Physical Planning and Public Works	3
5. Women, Children and Social Welfare	3	6. Defence	1
7. Forest and Soil Conservation	9	8. Environment, Science and Technology	2
9. General Administration	2	10. Culture, Tourism and Civil Aviation	5
11. Local Development	6	12. National Planning Commission	2
13. Finance	2	14. National Vigilance Center	1

- 34.1 Section 5 (3) of the Financial Procedure Act, 1998 states that the government, while receiving any kind of grant or loan from foreign agencies, shall enter into an agreement. Further, it is mentioned in Rule 28 of Financial Administration Regulation, 1999 that the Office of the Auditor General shall be consulted in making provision on audit before entering into any agreement.

Although, few ministries have sought advice of this Office occasionally on foreign aid, most of the agreements have been signed without prior consultation of this Office regarding audit arrangement. Although audit provisions have been made in agreements, they are found to be diverse and contradictory to the existing law in many cases.

- 34.2 In the agreements made between Government of Nepal and Government of Switzerland for Sustainable Management of Agricultural Land of Mid-Hill Region Project (Third Phase), Research Project on Hill Maize and Project on Technology Transfer of Brick Manufacturing with Subdued Environment Pollution, it was stated that audit of those projects shall be conducted through “A” grade accounting firms. According to the constitution, Office of the Auditor General is empowered to carry out audit of all government projects. Thus, the provision of audit from the recognized professional accounting firms is contradictory to the provision enshrined in Article 123 of the Interim Constitution of Nepal, 2007.
- 34.3 Similarly, in the revised agreement made on 25/03/2008 between Government of Nepal and the Asian Development Bank regarding Melamchi Water Project which mentions that the accounts shall be audited in accordance with International Audit Standards by a licensed independent auditor.

35 **Reimbursement** – Clause (c) of Sub-rule (2) of Rule 36 of Financial Administration Regulation, 1999 stipulates that offices, that are responsible for applying for reimbursement, shall submit reimbursement application in compliance with the provisions of guidelines and in the forms prescribed by the donor agencies, within maximum of 45 days. It is also stated that the Financial Comptroller General Office shall maintain records of reimbursable budget disbursements and expenditure incurred thereon and shall maintain records of reimbursement applications submitted by the concerned projects, funds reimbursed by donor agencies and funds to be reimbursed and shall monitor and expedite for speedy reimbursement. Some major observations noticed in this regard are as follows:

- 35.1 As per the statement submitted by the Financial Comptroller General Office, Rs 7 billion 391 million 820 thousand, consisting of foreign grant of Rs 4 billion 266 million 192 thousand and loan of Rs 3 billion 125 million 628 thousand, is still to be reimbursed. The highest amount of reimbursable amount in 5 ministries worth

Rs 4 billion 841 million 900 thousand (which is 65.50 percent of total) is given below.

(Rs in thousands)

Entity/Ministry	Pending Reimbursements			Percent of Reimbursable Amount
	Grants	Loan	Total	
1. Education and Sports	1,269,034	1,371,862	2,640,896	35.73
2. Physical Planning and Works	554	1,127,796	1,128,350	15.26
3. Local Development	461,900	138,676	600,576	8.12
4. Water Resources	50,967	230,086	281,053	3.81
5. Agriculture and Cooperatives	3	191,022	191,025	2.58
Total	1,782,458	3,059,442	4,841,900	65.50

- 35.2 The total of pending reimbursements includes grant of Rs 64 million 827 thousand and loan of Rs 914 million 664 thousand (last year it was Rs 985 million 690 thousand) pertaining to the projects which have already closed. It apparently shows that the concerned Ministry/Department have not monitored whether the projects have submitted reimbursement claims in time or not and whether the expenses are being reimbursed or not.

It was suggested in previous reports that the directives and guidelines of donors must be followed in the process of applying for reimbursement and in case of failure the concerned office/project chief should be made accountable. As there has been no satisfactory development towards this, it needs to initiate effective measure.

36. **Domestic Loan** - As per the statement produced by the Financial Comptroller General Office, the total domestic loan of Government of Nepal, till last year, was Rs 94 billion 710 million 669 thousand. Adding up this year's loan of Rs 18 billion 963 million 308 thousand it comes to be Rs 113 billion 673 million 977 thousand and when the repaid loan of Rs 9 billion 213 million 545 thousand and loan of Rs 400 million 802 thousand, reduced through adjustment, is deducted the net outstanding Domestic Loan remains to be Rs 104 billion 059 million 630 thousand. The detailed description is in Annex 22.

Compared to last year, the liability towards Domestic Loan has increased by 9.87 percent.

- 36.1 It was estimated to raise Domestic Loan of Rs 17 billion 900 million this year. But the statement shows the total receipt of Rs 18 billion 531 million 960 thousand whereas it is Rs 17 billion 892 million 300 thousand in actual.
- 36.2 While the Income/Expenditure Statement shows that Rs 17 billion 892 million 300 thousand has been received as Domestic Loan, the Statement of Domestic Loan shows that it is Rs 18 billion 963 million 308 thousand. Thus, there is a difference of Rs 1 billion 71 million 008 thousand between the two statements.

- 37 **Total Loan** – The statement submitted by the Financial Comptroller General Office shows that the total loan raised this year is Rs 317 billion 830 million 871 thousand including Domestic Loan of Rs 104 billion 059 million 630 thousand and Foreign Loan of Rs 213 billion 771 million 241 thousand. The total volume of loan, compared to last year, has decreased due to the changes in the foreign currency exchange rates. The donor-wise and currency-wise statements of foreign loan are in Annex 23 and Annex 24 respectively and the Statement of Domestic Loan is in annex 22.
- 38 **Repayment of Principal and Interest** – The liability of paying back the principal and interest of internal and external loans is increasing year by year. The amount paid back as principal and interest in last three years is as follows:

(Rs in thousand)

<i>Fiscal Year</i>	Repaid Principal	Interest Paid	Total Payment	Increment Percent
2004/05	1,353,318	6,218,011	19,751,329	13.91
2005/06	14,264,778	6,158,698	20,423,476	3.40
2006/07	16,752,341	6,164,013	22,916,354	12.20

The above table shows that, in comparison to last year, the repayment of principal and interest accrued has increased by 12.20 percent this year.

- **Investment, Liability and Deposit**

Regarding the government investments in international organizations and share/loan investments in corporate bodies, Ministry of Finance has produced the detailed statement of investments made in international organizations and the Financial Comptroller General Office has produced the statements of share and loan investments.

- 39 **Share Investment** – Till last year, the total share investment of the government in 99 corporate bodies was Rs 57 billion 529 million 779 thousand. Adding up Rs 4 billion 65 million 795 thousand as addition in investments made this year and Rs 20 billion 299 million 581 thousand added through adjustments and Rs 1 million which was omitted to carry forward last year, the total has reached to Rs 81 billion 896 million 155 thousand, This year, the share investment has increased by 42.35 percent. The detail is in Annex 25.
- 39.1 The Financial Comptroller General Office, has, by stating the information received from concerned corporate bodies, prepared the Statement of Share Investment and shown Rs 185 million 604 thousand in excess of appropriated this year.
- 39.2 The share investment records of the Financial Comptroller General Office and the concerned corporate bodies differ with each other because 5 corporate bodies have understated by Rs 540 million 850 thousand and 8 corporate bodies have overstated Rs 4 billion 975 million 305 thousand as investment. In earlier reports,

need of timely reconciliation of such differences was pointed out but still there is no satisfactory improvement. Some of the major reasons behind these discrepancies between accounts maintained by the government and recipient company's accounts are lack of one-door policy in investment, lack of communication between investing agency of the government and the Financial Comptroller General Office and practices of making investments directly by government agencies instead of Financial Comptroller General Office and so on.

According to the statement submitted by the Financial Comptroller General Office, the total share investment in 99 corporate bodies, including Fuel Corporation which was merged into the Timber Corporation of Nepal, is Rs 81 billion 896 million 155 thousand. If the excess investment of Rs 548 million 850 thousand shown by above mentioned 5 companies is added, the total investment of Nepal Government would be Rs 82 billion 437 million 006 thousand. The companies which have understated the investment should also be pursued to produce correct account of investment.

- 39.3 The statement on share investment shows the cumulative investment of Rs 81 billion 896 million 155 thousand in public and corporate bodies, whereas, share certificates of only Rs 11 billion 114 million 860 thousand (13.57 percent) has been obtained so far. Out of 99 companies, share certificates worth Rs 64 billion 289 million 712 thousand has not been obtained yet from 42 companies.
- 39.4 The statement shows that till 2006/07 excess share certificates worth Rs 47 million 278 thousand has been received from 4 companies. The statement also shows that investment of Rs 79 million 266 thousand made in one company exceeds its authorized capital. The statements regarding share investment cannot be concluded as correct because government do invest in companies, do not maintain financial records but prepare statements on the basis of documents furnished by the companies.

In previous Reports attention was drawn towards practices of making investment without raising the authorized capital, which is not in conformity with law, but no improvement has been made so far.

- 39.5 There is no practice to prepare separate statements segregating investment in wholly owned, substantially owned and partially owned companies. As result, the exact proportion of ownership of the government could not be confirmed. Out of 99 companies, till the date, 30 companies have either been liquidated or dissolved or sold out. But, Rs 983 million 878 thousand, invested in those companies is being just carried forward without making necessary adjustments.
40. **Loans** – According to the Statement of Loans, the total loan provided to the corporate bodies by Government of Nepal, through internal and external resources, was Rs 76 billion 873 million 145 thousand till last year. After adding up new loans, deducting paid back principals and making other adjustments, it

comes to Rs 76 billion 526 million 223 thousand. In totality, the volume of outstanding loans has decreased. Some major observations noticed in this regard are as follows:

- 40.1 It is very important that all kinds of *Tamasuks* (signed bonds) and loan agreements made between the Government of Nepal and recipient corporate bodies need to be collected and recorded properly. It has been noticed that subsidiary loan agreements and *Tamasuks* pertaining to loans of Rs 6 billion 382 million 615 thousand, provided to 33 companies for 67 projects, are not kept in the Financial Comptroller General Office. This issue was raised in previous reports as well. Although minor progress has taken place but significant improvement is yet to be made.
- 40.2 On verification of details of loan, raised from internal and foreign sources as submitted by the Financial Comptroller General Office and statements collected from the concerned enterprises the following discrepancies were found:

(Rs in thousands)

Enterprises	Outstanding Loan up to 2006/07		Differences
	As per the Statement of FCGO	As per the Statements of Concerned Enterprises	
<u>Understated</u>			
1. Nepal Civil Aviation Authority (Internal)	38,291	28,537	9,754
2. Nepal <i>Dhalot Karkhana</i> (Foundry) (Internal)	18,250	2,231	16,019
3. Dipayal Silgadhi Town Development Board (Internal)	1,500	1,450	50
4. Town Development Fund (Internal)	491,272	473,101	18,171
5. Nepal Electricity Authority (Internal)	49,970,994	48,333,052	1,637,942
6. Nepal Water Supply Corporation (Internal)	2,347,942	549,637	1,798,305
7. Nepal Civil Aviation Authority (Foreign)	2,554,274	1,452,541	1,101,733
8. Rural Micro Finance Project (Foreign)	1,324,339	1,255,375	68,964
Total	56,746,862	52,095,924	4,650,938
<u>Overstated</u>			
1. Nepal Electricity Authority (Internal)	1,547,532	1,993,331	(445,799)
2. Nepal Rastra Bank (Foreign)	4,617,105	4,634,690	(17,585)
Total	6,164,637	6,628,021	(463,384)

In the response to the above, the Financial Comptroller General Office has committed to update the records of loan by verifying records of concerned enterprises.

- 40.3 The enterprises stated below, which have taken internal loan, have either been sold or liquidated or privatized by some other means. The maturity dates of loans amounting to Rs 2 billion 226 million 886 thousand invested in these enterprises

have already elapsed, but the government has not settled the accounts by confirming the accrued interest on these loans.

(Rs in thousands)

Company	Loan	Company	Loan
1 Agriculture Tools Factory	50,462	10 Mechi Rice Import/Export Company	209,174
2 Bhaktapur Bricks/Tile Factory	182,780	11 Sagamatha Rice Company	148,738
3 Biratnagar Jute Mill	414,501	12 Seti Mahakali Rice Company	287,402
4 Birgunj Sugar Factory	250,000	13 Nepal Transport Corporation	78,538
5 Cottage Handicraft Emporium	47,252	14 Harisiddhi Brick and Tile Factory	78,343
6 Nepal Jute Development and Trading Company	111,389	15 Pokhara Hosiery	124
7 Far Western Region Rice Company	119,416	16 National Computer Centre	21,480
8 Janakpur Rice Export/Import Company	100,812	17 Agro-Lime Industries	78,253
9 Lumbini Rice Export/Import Company	42,122	18 Lumbini Sugar Mills	8,800
Total			2,229,586

- 40.4 The enterprises given in following table, that did not paid foreign loans, have either been sold or liquidated or privatized by some other means. Although, the need of initiation towards recovery of such loans was highlighted in last report, the situation has not improved so far. In its response, the Financial Comptroller General Office has informed that proposals to write off these loans have been initiated.

(Rs in thousand)

Company	Loan	Company	Loan
1. Tobacco Development Company	2,152	6 Bhaktapur Bricks/Tile Factory	30,000
2. Nepal Coal Ltd. (Liability Payment)	5,414	7 Nepal Rosin and Turpentine	4,296
3. Nepal Transport Corporation (Japanese Bus)	9,603	8. Birgunj Sugar Factory	34,542
4. Raghupati Jute Mills	20,328		
5. Himal Cement	60,287	Total	166,622

- 40.5 Till last year, total matured internal loan to be recovered amounted to Rs 2 billion 746 million 372 thousand (principal) and Rs 1 billion 531 million 929 thousand (interest) which, at the end of this year, reached to Rs 3 billion 73 million 20 thousand principal and Rs 1 billion 883 million 879 thousand interest accrued thereon. It is 11.90 and 22.98 percent more compared to last year. There is no practice to recover principal and interest accrued as per the terms and conditions specified in loan agreements, hence, such matured principal and interests must be recovered effectively. These facts were pointed out in the previous reports but no improvements have been noticed.

- 40.6 The internal loan of Rs 13 million 2 thousand, invested in Nepal Metal Company through Ministry of Industry, Commerce and Supplies in 2005/06, has not been recorded in the books of account.

40.7 The Financial Comptroller General Office has not maintained record of loan of Rs 1 billion 947 million 302 thousand, financed through foreign sources, provided this year, on different dates, to Nepal Electricity Authority to undertake 6 various programmes. In this regard, the Secretary of Ministry of Finance, on 10/11/2008, has committed to set up task force in Ministry and Financial Comptroller General Office to confirm the loan amount.

40.8 Last year's balance of foreign loan was Rs 68 billion 386 million 659 thousand. Adding this year's loan of Rs 2 billion 519 million 707 thousand and deducting adjusted loan of Rs 3 billion 894 million 432 thousand the balance remains to be Rs 67 billion 11 million 934 thousand. Out of this, principal of Rs 992 million 190 thousand has been recovered. Thus, at the end of the year, the net balance of foreign loan stands to be Rs 66 billion 19 million 744 thousand. Further, last year's balance of Rs 68 billion 386 million 605 thousand has been carried down erroneously as Rs 65 billion 793 million 63 thousand, which has caused a short balance of Rs 2 billion 593 million 596 thousand. The reduction of loan of Rs 2 billion 2 million 627 thousand caused by conversion of Japanese Yen into Nepalese Rupees, addition of Rs 31 million 171 thousand caused by conversion of Rs 507 thousand Canadian Dollars to Nepalese Rupees and addition of Rs 500 thousand of District Development Committee, Bajhang and Rs 3 million 200 thousand of Urban and Environment Improvement Project which were omitted from carrying forward from last year's balance have been adjusted this year.

Last year, the loan of Rs 409 million 641 thousand, provided to Nepal Telecommunication Company through Belgium Government was shown as negative balance in the books of account. This account has been adjusted this year by adding Rs 511 million 206 thousand in loan account showing a credit balance of 104 million 264 thousand. The basis of such addition and adjustment need to be produced.

40.9 The closing balance of internal loan, till last year, was Rs 8 billion 486 million 486 thousand from which repaid principal of Rs 33 million 135 thousand has been deducted and this year's loan of Rs 213 million 797 thousand and Rs 1 billion 839 million 331 thousand which was omitted to record previously but adjusted this year has been added. Thus, as per the statement, the total outstanding internal loan at the end of this year is Rs 10 billion 506 million 479 thousand.

Pursuant to Rule 142 (1) of Financial Administration Regulation, 1999, the Financial Comptroller General Office has been bestowed with responsibility to get all kinds of accounting formats approved and put them in use and clause (b) of Rule 160, has made it responsible for preparation of Central Accounts of appropriation, revenue and deposits, maintain accounts of foreign assistance, grants, loan and interest and dividend, prepare Central-level Financial Statements and get them audited.

The above mentioned facts reveal that there are weaknesses and deficiencies like lack of effectiveness in accounting of matured principal and accrued interest as specified in the loan agreements, prevalence of practices just to put in record of repaid principal and interest instead of maintaining complete books of accounts of loan, non-recovery of recover matured principal/interest, providing loans without specifying the rates of interest and so on. The need of adopting a system that ensures timely recovery of principal/interest and dividend by maintaining updated and correct accounts was highlighted in previous report however, no notable improvement has been made in this regard.

Inn this connection, the Financial Comptroller General Office, has responded that the suggestion have been taken up seriously and assured of making it more effective.

- 41 **Investment in International Organizations** – The Government of Nepal, in the capacity of a member country, has made investments in the World Bank, the Asian Development Bank, the International Monetary Fund (IMF), International Development Agency (IDA), International Financial Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA). Till the date, such investment has reached to Rs 3 billion 777 million 555 thousand (inclusive of US Dollar 2 million 817 thousand). In addition to this, 85.82 Troy Ounce Gold is also invested separately. The detailed description of investment is in Annex 27.

- 42 **Total Investment** – As per the statements produced by the Ministry of Finance and the Financial Comptroller General Office, investment made in shares, loan and in international organizations, which was Rs 138 billion 141 million 459 thousand last year, has become Rs 162 billion 197 million 953 thousand this year marking an increment of 17.41 percent.

This total figure may further increase if the value of assets and outstanding revenue of Rs 1 billion 17 million 744 thousand handed over to Nepal Water Supply Corporation and excess share investment of Rs 410 million 517 thousand shown by 8 companies and excess loan investment of Rs 212 million 870 thousand shown by 2 recipient companies are also taken into consideration.

- 43 **Loan By Guarantee** – The liability created due to Loan by Guarantee till last year was Rs 2 billion 54 million 364 thousand which remain unchanged this year. The detailed is in Annex 28.

Although the government has discontinued the practice of providing guarantee to the companies to raise loan, however, previously acquired loan by 25 companies on its guarantee have not been paid by the concerned enterprises. Some of them have already been dissolved and some are facing financial crisis. Some of the companies have not got their accounts audited hence their exact position could not be ascertained. It is apparent that ultimately the government has to bear the financial liability in case these companies fail to repay the debts

- 44 **Deposits** – Rule 160 of Financial Administration Regulation, 1999 has made the Financial Comptroller General Office responsible for preparation of Central Account of Income and Expenditure of Deposits and getting it audited. According to the statement submitted by the Financial Comptroller General Office, the total outstanding Deposit at the end of the year is Rs 4 billion 25 million 180 thousand. The details on Deposit are in Annex 29.

The statements, to the extent submitted for audit, show that total outstanding Deposit at the end of the year is Rs 4 billion 175 million 687 thousand. But, the bank statement of Deposit Account given by Nepal Rastra Bank shows that the bank balance at the end of the year is Rs 4 billion 148 million 783 thousand and thus there are difference in balance of Deposit.

It has been noticed in the statements that the Financial Comptroller General Office has shown deposits of Rs 40 million 55 thousand pertaining to 19 offices in under the head of different ministry other than concerned ministry. It is also noticed that in the absence of a system that ensures transfer of Deposit are before merging or closing of any office and unnecessary access provided to corporate bodies and other entities to operate the ‘Kha 3’ Deposit Account also have created discrepancies in Central Account of Deposits. Extra effort to prepar a realistic Statement of Deposit is needed.

- **Audit Observations**

Major observations raised during the course of audit of appropriation of government offices are presented in Part 1 of the Report. Out of them, some of the major obseravtions are stated below:

- 45 **Compliance of Law** – Some of the significant observations regarding implementation of Civil Service Act, 1993, Civil Service Regulation, 1993, Financial Procedure Act, 1998, Financial Administration Regulation 1999 and other legislation are cited below:
- 45.1 Section 20 of the Financial Procedure Act, 1998 states that irregularities like misappropriated or embezzled money or transactions that do not comply with the provisions specified by law, shall be recovered from person and, if that could not be recovered, shall be forwarded to Central Recovery Office. Among the irregularities included in Annual Report 2006 and previous reports, irregularities amounting to Rs 17 billion 746 million 155 thousand (excluding advance of Rs 8 billion 669 million 597 thousand) are still remaining unsettled but only irregularities equivalent to Rs 104 million 8 thousand have been forwarded to Central Recovery Office. This clearly shows that the statutory obligation of forwarding the recoverable irregularities to the Central Recovery Office is not being effectively discharged.

- 45.2 Sub-section (2) of Section 7b of the Civil Service Act, 1993 states that salary shall not be paid without obtaining salary confirmation report. If salary is been paid without obtaining confirmation report, salary and allowance and other perks paid to the particular employee, shall be recovered, as government dues, from the official appointing such employee.

The information to the extent collected in course of audit shows that this year, altogether 946 offices under 19 entities/ministries have incurred expenses of Rs. 3 billion 452 million 622 thousand in salary without obtaining salary confirmation report. Ministry of General Administration, the accountable body to provide salary confirmation report, itself has incurred Rs 18 million 155 thousand without confirmation. In this situation, if the amount of salary and allowance paid out in contrary to the Act is to be treated as irregularities, a significant portion of salary and allowance will have to be counted as irregularity. Improvement in this regard was anticipated because the second amendment of the Civil Service Act had added the provision which states that salary paid without obtaining confirmation report shall be recovered, as government dues, from the official paying the salary. Proper attention is very much needed for the effective enforcement of the legal provision.

- 45.3 Similarly, Sub-rule (1 e) of Rule 126 of the Education Regulation, 2002 states that the annual salary of the teachers shall be confirmed from **Sikshyak Kitabkhana** (Teacher Records Office). This year too, most of the District Education Offices disbursed salary and allowances to the school teachers without obtaining salary confirmation report.
- 45.4 Since last few years, in the Report, it was pointed out the need to make an additional clause regarding salary confirmation report of policemen from Police Record Office in the regulation and the need to be cautious in salary payments without confirmation report. This year too, audit found that, without obtaining salary confirmation report, 39 police offices have paid salary of Rs 420 million 242 thousand and 34 offices paid Rs 709 thousand as grades to the police personnel whose **Sheet Rolls** (permanent data sheet) were missing. Similarly, 114 offices which obtained salary confirmation report paid out Rs 1 million 996 thousand in terms of grade which exceeded the grades referred in the report. The money paid in excess must be recovered.
- 45.5 According to Section 18a of Civil Service Act, any civil servant of one office could be sent on deputation to other to take up duties related to the same office only, for a period of maximum 3 months in a year. Similarly, it states that approval of Ministry of General Administration shall be obtained before sending any civil servant on deputation to an office where there is no civil post or before sending back from deputation. If it is found that any civil servant is sent on deputation in contrary to these provisions, the money spent in salary, allowance and other perks for the said civil servant for that period shall be recovered as government dues from the official liable for issuing deputation order. In course of audit it was noticed that this year 21 employees of 15 offices under 7

entity/ministry have been sent on deputation for the period more than specified by law and have spent Rs 2 million 95 thousand in salary/allowance which is also not in confirmatory with existing law.

- 45.6 The Financial Administration Regulation, 1999 stipulates that where the current year's budget is not enough to meet the expenses, because of special reasons, under budget heads specified in sub-rule (8) of Rule 39, the dues as per bills and receipts should be listed down in the format of Annex 6 - Details of Outstanding Payable stating the reason for listing as payable for next year and the format should be duly attested jointly by the Office Chief and District Treasury and Controller Office by the end of July. The Statement on Outstanding Payable compiled and submitted by the Financial Comptroller General Office shows that 22 entities and ministries have recorded Rs. 475 million 236 thousand payable dues for next year. The dues include Rs 263 million 433 thousand of Ministry of Physical Planning and Public Works, Rs 40 million 37 thousand of Ministry of Defense, Rs 82 million 989 thousand of Ministry of Water Resources and Rs 38 million 459 thousand of Ministry of Home Affairs.

The provision further states that the concerned office may pay previous dues from current year's budget if such dues belong to salary, allowance, rent, clothing, food stuff, current transfer grants, subsidy, construction or maintenance of buildings or public works and maintenance as per agreement provided current year's budget is adequate, further provided that these dues are prelisted in prescribed format of Detailed Statement of Outstanding Payable. But it has been noticed that expenses pertaining to repairs, other office goods, telephone, water, electricity charges have also been paid from current year's budget. These expenses are not permissible under the provisions of Regulation.

- 45.7 Rule 54 of the same Regulation states that each office shall maintain the detailed record of land and building occupied and owned by the office and forward a copy of the list to the concerned Ministry or Department and District Treasury and Controller Office. Most of the offices have not maintained the record of land and building which was raised in previous reports but found unchanged.
- 45.8 Rule 127 of the same Regulation provides that the responsible staff, while submitting statement of accounts for the Month of Asadh (end month of the fiscal year) to their concerned Ministry/Department, shall attach a list of current advances and previous outstanding advances by classifying date as expired and unexpired and the concerned Ministry/Department, keeping the record of such advances, shall initiate actions as stated in Rule 125 and 130 against those failing to clear advances within due date. But, the Ministries/Departments are found to be very inactive towards updating the record of outstanding advances and settling them. Though, this fact was highlighted in previous reports, the situation has been found to be as it was.
- 45.9 The Cabinet, through a decision dated 06/03/2003, regarding the loss of public property because of arson or terrorism in government offices, had laid down a

procedure to be followed while making assessment of such losses, preparation of reports and writing off the value from the books of accounts. The related provisions of the Financial Administration Regulation, 1999 states that value of damaged property are to be written off on the basis of the value assessed in the report of Loss Assessment Committee. Following offices had suffered loss of property because of fire, explosions and attacks, but the process of writing off the value of damages have not undertaken yet.

(Rs in thousands)

Office	Date of Incident	Details of Damage			Total
		Cash	Goods	Physical Infrastructure	
Land Tax Office, Bardia	5/05/2007	8	540	3,170	3,718
Land Tax Office, Kanchanpur	2006	-	44	-	44
Land Reform Office, Parsa	1/02/2007	-	-	-	Not Specified
Total		8	584	3,170	3,762

46 **Peace Fund-** This fund has been established under the Peace Fund Operation (procedure) Regulation, 2006 in order to develop plans for the Constitutional Assembly Election, rehabilitate the conflict displaced people, strengthen the state of law and order, and to streamline the Maoist army. A nine member committee, under the chairmanship of Finance Minister, has been constituted to supervise and operate this Fund. This year an amount of Rs 2 billion 78 million 839 thousand, including of Rs 1 billion 442 million 857 thousand disbursed by the Government of Nepal and foreign aid of Rs 635 million 982 thousand donated by United Kingdom, DANIDA, Switzerland and Government of Norway, has been deposited in the Fund. This year, Rs 437 million 763 thousand has been drawn out of this Fund to give advance money to Central Cantonment Management Coordinator's Office in order to manage the supplies, construction of cantonment infrastructure and livelihood of Maoist fighters and still there is a balance of Rs 1 billion 641 million 76 thousand. The advance given to the Central Cantonment Management Coordinator's Office has not been settled yet.

47 **Consultancy Services** - Rule 81 of the Financial Administration Regulation 1999, provides that consultancy services, if deem necessary for carrying out feasibility study, drawing, designing, supervising construction works of the project, may be procured after assessing the availability of skilled technicians or manpower, machine equipment and available budget. During the course of audit, it has been noticed that clear cut basis of cost estimates of consultancy fee are not available; consultants are used in duties other than mentioned in the TOR; consultants are appointed even in the works which are not technically complex; and consultancy fees are being paid to one person providing consultancy services in more than 2 projects at a time. Some additional observations regarding this matter are given below:

47.1 Rule 81 (9) of the Financial Administration Regulation 1999, states that professionals listed as proposed team members of any consultancy firm, submitting proposal for consultancy services, must have declared their commitment to work in the team. It has been found that, in 2 foreign aided projects running under Roads Department, an existing consultant, before completion of the project, submitted another project proposal for a different project listing himself as technical manpower of the firm. The proposal was evaluated and accepted and the consultant received the payment of remuneration as the consultant. Thus, one individual received remuneration from two or more projects as a full time consultant. Some of the instances selected in this regard are shown as below:

Project → Consultant ↓	Roads Survey and Design (Foreign)	Roads Sector Development Project Detailed Survey and Design	Roads Network development Project	Detailed Survey of Bridges	Highway Information Management System Survey
A	April-July 21 2007 3.5 months FT	-	7 March – 7 July, 07 2 months PT	-	15 Feb-15 June 4 months FT
B	April - August, 2007 5 months FT	-	-	-	7 Mar – 7 July, 07 2 months PT
C	April 2007 0.72 months FT April-August 2007 2.27 months PT	April – July 4.5 m FT -	From July 7 months FT -	June 3 – 4.5 months FT -	March 1 – may 21 FT -
D	April-August 2007 5 months FT	-	-	-	15 Feb – 15 July 5 months FT
E	April-May 2007 2 months FT	-	April- August 2007 5 months FT	From June 1,7..5 months 3 contracts	15 Feb – 15 July 5 months FT
F	May, 1 month FT	-	August-November 4 months FT	3 June, 4.5 months	-
5	7 April – 15 May 07 1.5 months FT	May-July 3 months FT	June-July 2 months FT	From 3 June 6 months FT	-
h	May-July 2007 1.5 months PT	August 0.5 months PT	July-August 2 months FT	-	-

Note : In the above table, FT denotes Full time and PT denotes Part time engagement of the consultants

47.2 Regarding the remuneration, accommodation facility and expenses pertaining to social obligation of consultants, the Financial Administration Regulation, 1999 contains no specific provision that could provide basis for estimating the cost of consultancy services. Because of this situation, the Ministry of Water Resources and its subordinate offices, while preparing the cost estimate of consultancy services, have followed either the rate approved by the Department Chief as guided by Rule 63 (4) or rates used by other non-government organizations or the rates agreed in similar past consultancy services. This has resulted to diverse situation hence a clear mechanism should be developed for estimating cost of consultancy services.

47.3 During the feasibility study phase of Drinking Water Projects under Budhabare, Belbari and Lamki Town Projects, 3 consultants currently engaged in the projects were paid Rs 4 million 619 thousand, comprising of Rs 1 million 662 thousand, Rs 1 million 605 thousand and Rs 1 million 352 thousand respectively for Test Boring Works through direct variation orders and without bidding process, although the Terms of Reference of the agreement did not contain any provision of such test boring. The quality standards of those test borings cannot be ensured as the construction and evaluation of borings were done by the same consultant, who was engaged in preparing drawing and designs, cost estimates and supervision of the construction works. As clarification in this regard, it is stated that the jobs have been assigned to the consultants because of their competency rather than work experience in such jobs. It is not appropriate to engage same consultants to undertake construction and evaluation of works that are not covered by the agreement.

48 **Price adjustments** - In clause 41 of the agreement made between Small Urban Drinking Water and Sanitation Project Office, Fikkal and a construction company, it is mentioned that, for the purpose of price adjustment, the price index of construction material prevailed on the date 28 days prior to the last date for submission of bids, published by Nepal Rastra Bank shall be used as the basis. The last date of tender submission was 5/04/2005 and the price index of Nepal Rastra Bank was 154.5 and, if calculated on that basis, Rs 1 million 485 thousand should have been paid as price adjustment against Interim Payment Certificate No 1 to 5. Instead the price index of 159.8 to 179.90 was taken as base and on that basis Rs 1 million 824 thousand was adjusted. Thus, the payment of Rs 383 thousand, including excess payment of Rs 339 thousand and Rs 44 thousand paid as VAT on it, should be recovered.

Although the Project Office, in a response letter, has stated that actions have been initiated to recover 58.82 percent of the payment, entire amount should be recovered.

49. **Cancellation of Projects** – Nijgadh Drinking Water Project, Bara to be completed in 2005/06, which was launched at the cost of Rs 67 million 398 thousand. The consumer committee had earlier decided not to implement the program on the ground that the design and the cost estimate did not consider the existing structures and the projected water charges. On the basis of this decision, the Department of Drinking Water, on 17/07/2007, cancelled the project and closed down the project office. Before constructing the structures, Rs 3 million 535 thousand had already been spent on pre-feasibility study, feasibility study and services of a non-government organization. Likewise, in the construction phases of 2005/06 and 2006/7, the office had spent Rs 5 million 869 thousand including an advance of Rs 5 million. Including all these expenditure, a total amount of Rs 9 million 404 thousand has been spent in this project. Preparation of cost estimate without considering the status of existing structure which was supplying water at

that time became the main reason of rejection of the project and money spent on the Project has been wasted.

Although the office has been closed, 9 types of equipment like computer, fax machine, digital camera etc. worth Rs 159 thousand, as per the inventory record, has not been handed over. Such equipment should be handed over properly.

- 50 **Advance Payments** - Small Urban Drinking Water and Sanitation Project Office, Birendranagar and a joint venture contractor signed an agreement of Rs 173 million 943 thousand excluding VAT. Clause 21 of the agreement states that disputable issues shall be resolved in understanding of both parties and in case both parties could not come to a common point the issue shall be referred to International Chambers of Commerce.

Due to the excessive demand of price adjustment by the contractor a dispute occurred which was taken to International Arbitration Court for arbitration as it could not be resolved. In order to settle this issue, a meeting was arranged between Project Management Office, Consultant and representative of the contractor on 29th to 31st September, 2006 and in accordance with the decision taken in that meeting, the contractor was paid with an advance of Rs 19 million 9 thousand equivalent to 70 percent of cost of DI pipes supplied by the contractor in the site. Although the agreement did not contain any provision of paying advance against the materials supplied in the construction site, the contractor was paid before the pipe connection works were completed.

- 51 **Mobilization Advances** - Rule 119 (4) of the Financial Administration Regulation, 1999 stipulates that maximum 20 percent of contract cost can be paid in advance against the bank guarantee for mobilization work, provided the contract agreement contains the provision of advance payment. Agreements made with the contractors normally contain the provision of advance payment of certain percent of contract cost, excluding VAT, for mobilization work against bank guarantee. Some instances of advances paid in contrary to the provisions of agreements are follows:

- 51.1 The agreement made with a contractor, engaged to fabricate steel truss bridge over Puluwa River of Sankhusabha, states that 15 percent of contract cost, excluding VAT, shall be paid as advance for work mobilization. The contract cost was Rs 103 million 139 thousand, excluding VAT, but the contractor was paid Rs 17 million 792 thousand equivalent to 15 percent of contract cost of Rs 118 million 614 thousand, including VAT. Actions should be initiated against such payments that are contrary to the law.
- 51.2 In Mudhe-Khandbari Roads, 3 contractors submitted 3 bank guarantees worth Rs 15 million 57 thousand in order to receive mobilization advance equivalent to 15

percent of contract cost. Although the validity of all three bank guarantees have expired on 16/07/2007, the advance money has not been settled yet.

- 51.3 As per the clause 14.2 of the agreement, a joint venture contractor, engaged in upgrading 13 km road from Basantpur to Mudhe, was paid Rs 17 million 105 thousand as 15 percent mobilization advance against a bank guarantee which was valid up to 20/09/2007. While the validity of the bank guarantee has already been expired, the contractor neither renewed the bank guarantee nor has the contractor been asked to submit fresh guarantee.
- 51.4 The management of Supreme Court signed an agreement with a supplier to supply servers, computers, UPS, printers etc worth Rs 15 million 631 thousand within 18/06/2007. The agreement did not contain any provision regarding advance. Even after the supplier failed to deliver the materials on stipulated date, through a decision of 13/07/2007 an amount of Rs 14 million 800 thousand, excluding security deposit and TDS, was given as advance, against a bank guarantee of Rs 16 million and this advance was settled only in 25/03/2008. In one hand, advance was granted at the end of fiscal year, although the agreement does not permit and on the other, the supplier has delivered the materials long after the expiration of agreed date. In response to this, the Supreme Court has informed that the supplier had submitted invoice and an application requesting the Court to approve for 17 day's delay, including permission to pay a penalty of Rs 133 thousand for those delayed days because the materials were delivered on 31/07/2007 only.
- 52 **Engineering Facility** – It has been noticed that the contract agreement, made to fabricate steel truss bridge over Piluwa River in Sankhuwasabha, to be completed within 580 days, contained the provision of supplying following engineering facility items, which normally belong to general items, supplied through the contractors.

(Rs in thousand)

Item No.	Particular	Amount
1.1	Office establishment (2 nos.)	3,500
1.2	Office Furniture	2,700
1.3	Office Repair and Maintenance (2 nos.)	700
1.4	Residence (3 nos.)	400
1.5	Furniture for Residence	2,700
1.6	Residence Repair and Maintenance (3 nos.) 60 months	740
1.7	Vehicles (3 nos.) 60 months	6,240
1.8	Office Supplies (2 offices) 40 months	500
1.9	Supplies for Residence	440
1.10	Survey Equipment 120 man months	500
1.11	Assistant Staff	1,040
Total		19,460

As mentioned above, agreement has allocated Rs 19 million 460 thousand for Engineering Facility through the contractor. If Rs 19 million 460 thousand is

spend in Engineering Facility, out of contract amount of Rs 103 million 139 thousand, the cost of construction works comes to Rs 83 million 679 thousand only. Further, Rs 440 thousand for residence and Rs 2 million 700 thousand for furniture has been allocated. The justification of estimating the need of furniture costing Rs 2 million 700 thousand for just 3 houses is not available. The agreement intends to spend 23.25 percent of total cost in engineering facility only which has augmented the total project cost. It is not justifiable to arrange for supply of goods separately for the staff through public works contractor by including cost of such goods in the overall cost of the project.

- 53 **Variation** – In an agreement, made between Roads Sector Development Project and a foreign consultant representing a Nepali Consultancy Company, consultancy fees was quoted including 15 percent advance income tax on it. While making payment of fees, only 1.5 percent was added to the fees and saved Rs 7 million 63 thousand. This savings was ought to be freezed (return back to the Consolidated Fund) or to be paid in lieu of tax but that amount was used in first variation order to undertake engineering survey of additional 168 kilometers. Variation orders have to be issued only after assessing the actual needs, but it seemed that, in this case, variation order have been issued just to spend the saved tax money. Such expenses must be controlled.
- 54 **Incomplete Contracts** - It was estimated that Rs 86 million 377 thousand shall be required for repairing chainage no. 52 to chainage no. 72+725 kilometers of Mirchaiya-Sunkoshi Road with otaseal etc. The contract was awarded for Rs 53 million 513 thousand on the condition that work would complete within 17/11/2006, which was extended up to 6/04/2007. The contractor has been paid Rs 29 million 784 thousand for additional works, out of total variation order of Rs 60 million 683 thousand. It has been noticed that 55.56 percent of total works under this contract has been completed which includes only 37.25 percent of bituminous work, the main component of the contract. The works found to be incomplete as the project period expired on 16th July 2007.

The validity of the bank guarantee worth Rs 10 million 934 thousand, totaling Rs 4 million 871 thousand work mobilization advance and performance bond of Rs 6 million 63 thousand, submitted by the contractor has expired on 10/08/2007. The project office has issued notice to refund back the bank guarantee money but till 2/10/2007 the money has not been received.

- 55 **Work Completion** – Generally, the engineer, after completion of major works mentioned in the agreement, can issue substantial work completion certificates with an understanding that the contractor shall complete the remaining works within the maintenance period. But nowhere the precise meaning of remaining works which is permissible to complete within the maintenance period, is found. It has been found that the project offices have issued substantial work completion certificates, even though contract works are left incomplete. Some of the instances in this regard are as follows:

55.1 Divisional Roads Office, Siraha issued substantial work completion certificate of Katari-Sunkoshi Roads Project on 27/11/2007 stating that the Project has completed on 25/11/2007. Even after the issuance of substantial work completion certificate, the contractor was paid Rs 1 million 724 thousand, on 8/05/2007 through 11th running bill (January to March) for constructing 1 thousand 171 cubic meter sub-base and 705 cubic meter base course in different places of chainage number 0+915, 10+420 to 500 and 25th to 26th kilometer at the rate of Rs 900 and Rs 950 per cubic meter respectively. In fact, the substantial work completion certificate was issued although, sub-base and base course works which are the main component of road construction, have not been started. In such cases, Roads Department should technically evaluate and justify proceedings.

55.2 Narayanghat–Mungling Road Rehabilitation Project under Division Roads Office Chitwan, have issued Substantial Work Completion Certificate regarding two contract works although major portion of construction (anchoring work) have not begun at all.

(Rs in thousand)

Contract Works	Contract amount including variation	Certificate issue date	Valid up to	Cost Estimate of Anchoring	Contract amount of Anchoring	Total Payment This Year (including Anchoring)	Payment to date	End Date of Performance Bond
24 to 36 K.M.	108,541	8/04/2006	12/05/006	21,074	5,520	10,419	103,443	17/08/2007
Rehabilitation of 8 to 24	106,485	28/05/2006	23/05/006	12,828	1,680	2,917	109,402	18/08/2006

55.3 In the above mentioned contract, the contractor has neither completed the anchoring works nor submitted the final bill of the contract. During the site visit, in connection with audit, it was found that anchoring works were not completed and there were lots of potholes in the road constructed. In one hand, the issuance of substantial work completion certificate, before the completion of main work, has relieved the contractor from liability to recuperate the defective constructions and on the other, the government has to bear additional financial burden. It is important to set up a practice that makes the consultant, who has issued the substantial work completion certificate long before the beginning of main part of contract work, accountable and find way out to complete the works left midway.

56 **Unfinished Works** – In November 2002, an agreement of Rs 55 million 711 thousand was made with a joint venture construction company for river training works in the left bank of Bagmati river, up to 9 km north of Nepal-India border with a target to complete within December 2003. But it remained incomplete and left in an abandoned condition for whole 5 years. The validity of the bank guarantee, submitted by the contractor while getting advance of Rs 5 million 64 thousand, has expired on 1/07/2007.

Similarly, in July 2003, an agreement of Rs 35 million 260 thousand was made with another joint venture construction company for river training works from 9 to 18.25 km in left bank of same river, with a target to finish within December 2005. In 2004/05, the contractor received a payment of Rs 7 million 947 thousand and the completion date of the contract was extended to 31/06/2006, then after nothing happened. All other remaining works as mentioned in the contract have been left incomplete. Additionally, validity of the bank guarantee and performance bond, submitted for advance of Rs 3 million 878 thousand, also has expired on 20/02/2007. The project has not initiated to recover the money equivalent to bank guarantee from the bank as well.

- 57 **Tax Relief** – Clause 73.2 of the agreement, made on 21/05/2006, between Sikta Irrigation Project and a contractor engaged for head works construction provides following provision regarding local tax liabilities to be borne by the contractor:

"The prices bid by the Contractor shall include all customs duties, import duties, business taxes, and income and other taxes that may be levied in accordance with the rules and regulations in being on the date 28 days prior to the latest date for submission of bids in Nepal on the contractor's Equipment, Plant materials and supplies (permanent, temporary, and consumable) acquired for the purpose of the Contract and on the services performed under the Contract. Nothing in the Contract shall relieve the Contractor from his responsibility to pay any tax that may be levied in Nepal on profits made by him in respect of the Contract."

Similarly, clause 73.5 of the same agreement, regarding import of equipment and spare parts equivalent to 10 percent of project cost, provides that:

"Construction plant, vehicles, equipment, materials and other items required for the execution of the Works or covered by items in the Bill of Quantities which the contractor imports into Nepal which will be either incorporated into the Works or re-exported on completion of work will be exempted from import license fees, customs duties, taxes, fees and contribution levied by the Government.

"In the event that any such duties, taxes, fees and contributions are imposed the Contractor may claim payment for the amount so paid and the Employer shall reimburse to the Contractor such sums in Nepalese Rupees, provided that the Employer shall not be liable to the Contractor for any loss resulting from delays in customs clearance including demurrage charge, if any.

"Provided further that the Contractor shall pay and shall not be entitled to the reimbursement of customs duties, taxes, fees and contributions payable under the law, or the rules and regulations of the Government, in force at the time on all

plants, materials or other items which he disposes off in Nepal pursuant to Clause 73.5 here above."

Clause 73.2 of above said agreement states that the contractor, since he has incorporated all taxes and fees in the quoted price list, shall not be relieved from any of such taxes and clause 73.5 further states that construction equipment, vehicles, materials and other items imported but remained after use in project or still unused, up to 10 percent, shall be exempted from all taxes and fees. The last paragraph of the agreement clarifies that the contractor cannot be exempted from any taxes and fees levied on other imported goods. But it has been found that the project has reimbursed to the contractor Rs 112 million 574 thousand, towards customs, VAT and other duties paid at the custom point while importing construction materials like cement, iron rod etc. for head-works construction.

In this connection, the project office, in its response, has stated that revenue paid as customs and other taxes and fees has been reimbursed to the contractor according to the circular of Ministry of Finance, dated 11/09/2006, which says that customs duties, VAT, local development taxes and all other fees shall be levied in full, as followed in permanent import, in equipment and construction materials that are enlisted in the Master List of the project and the government of Nepal shall reimburse such money to the importer. Also it has been stated that the project office has taken this issue very seriously and has initiated to remove such conflicting clauses from the contract document of the main canal.

Because, the cost of customs duties, taxes and fees etc. has already been included in the price quoted in accordance with clause 73.2 of the agreement and the contractor cannot be exempted from any tax liability, the act of reimbursement is totally contradictory to the agreement. Hence, this money should be recovered.

58 **Other Structures** – It was agreed that the farmers shall install shallow tube-wells in 37 clusters and field office of the Underground Shallow Tube-well Irrigation Project, Banke shall construct other structures and accordingly the project undertook the work of electric installations in 36 clusters. But, Nepal Electricity Authority, showing the cause of low voltage, did not provide electric connection. As result, Rs 8 million 252 thousand and Rs 26 million 599 thousand invested in these clusters by the farmers and Nepal Government respectively became futile. The project office, in its response, has clarified that all the electrification works were installed under the supervision and as per the standards of Nepal Electricity Authority but they did not furnish any information about shortage of electricity to the project office which has deprived the farmers from using the irrigation facility.

59 **Grants** – This year, the Ministry of Local Development disbursed grant of Rs 5 billion 594 million 729 thousand (it was Rs 3 billion 246 million 495 thousand last year), comprising of Rs 1 billion 290 million 596 thousand to 75 District

Development Committees, Rs 399 million 584 thousand to 58 municipalities and Rs 3 billion 904 million 549 thousand to 3 thousand 915 Village Development Committees. This grant is equivalent to 4.19 percent of total expenditure of the nation. Compared to the last year, grant provided to those entities this year is 72.33 percent higher.

The audit of these grants and other self-generated income of the District Development Committee is conducted by this Office. But, the audit of income and expenditure of grant and self-generated income of the municipalities and Village Development Committee do not come within the jurisdiction of this Office, hence there is no way to comment on it.

- 60 **Monitoring** – In Rule 40 (4) of the Financial Administration Regulation, 1999 states that it shall be the responsibility of the Ministry of Local Development to let the District Development Committees compile detailed account of each local authority clearly showing the grant money received from the government, physical progress of programmes conducted by them and financial statements indicating whether that has been audited or not and to forward copies to the National Planning Commission and the Ministry of Finance, within 3 months of closing date of the financial year. Although, the Ministry prepared brief progress report of programmes and projects, it has not prepared up to date reports, on the prescribed format, showing the status of audit as well.
- 61 **Competition** - This year, the Government of Japan, under Special Agriculture Production Programme, donated 4 thousand 200 metric ton of urea fertilizers which were sold through Agriculture Inputs Corporation for Rs 156 million 262 thousand. The income received from the proceedings was deposited in Japan Grant Account. It is a common practice, before selling anything, whether it is a produce of Nepal Government or goods received by Nepal Government, to arrange for competition among the buyers. In contrary to this practice, the Ministry of Agriculture and Cooperatives has sold 293 metric ton urea fertilizers amounting to Rs 7 million 42 thousand at the rate of Rs 24 thousand per metric ton to Agriculture Inputs Corporation without any competition.
- 62 **Rent of Warehouses** – This year, an agreement was signed between the Ministry of Agriculture and Cooperatives and the contractor on 11/03/2007 to dispose off 6 thousand 583 metric ton fertilizers lying in the warehouses of Agriculture Inputs Corporation. The agreement stipulates that the contractor shall dispose first lot of fertilizers within 15 days of agreement and remaining shall be disposed within a month. It was agreed that, if the contractor fails to dispose entire quantity, the warehouse rental charges payable by the government to the Agriculture Inputs Corporation shall be paid by the contractor. As per the agreement, entire fertilizers were to be disposed off by 25/04/2007, but only 537 metric ton was disposed on time and remaining were disposed only on 7/08/2007. Thus, the rental charge of Rs 2 million 333 thousand for 100 days, paid by the government, should be recovered from the contractor.

- 63 **Award of Contract** – Section 23 of the Guidelines on Forest Products Sales/Auction Procedure, 2003, provides that, once the bid process is finalized, the concerned bidder shall be notified to deposit necessary amount within 10 days, and, in case of failure to deposit money within the stipulated time or did not response, the bid submitted by the second or third bidder shall be accepted. If the bidders request, with genuine cause, for date extension the District Forest Officer may extend the date by 7 more days. If the necessary money is not deposited within the extended time too, the security deposit money shall be confiscated and re-auction notice shall be issued.

District Forest Office, Kailali approved the bid to sell by auction 21 lots of wood containing 19 thousand 363 cubic feet. Later, the concerned bidder claimed that woods and fire-woods were missing from the stacked and piled logs (*Ghat gaddi*) and refused to deposit the approved bid money. Due to this event government suffered a loss of Rs 4 million 22 thousand which needs to be investigated.

- 64 **Educational Fee Structure** – Rule 147 of the Education Regulation, 2002 states that private schools shall submit and get approval of proposed fee structure and deposits, to be charged to the students, two months prior to the commencement of academic session. Till the date, none of the private schools have submitted their fee structure for approval of the Ministry. This point was highlighted in last year's report as well, but the status has found unchanged. An arrangement should be made so as to get approval by the private schools from the Ministry before charging fees from the students.

- 65 **Double Budget Release** – Last year, it was found that District Education Offices (DEO) released double budget of Rs 16 million 317 thousand. This year too, 47 District Education Offices have released double budget while disbursing budget for salary and allowance of the teachers working in community schools, stationeries and administrative expenses. This year, they have disbursed double budget of Rs 17 million 43 thousand to schools in lieu of salary and perks of teachers for the same period. On receipt of preliminary reports, 16 DEOs recovered Rs 1 million 303 thousand, deposited back in Consolidated Fund and requested for follow-up audit from this Office. Remaining amounts are still left unrecovered.

Also, the excess disbursement of Rs 420 thousand in scholarship and Rs 850 thousand in school improvement programme, which was noted by internal audit, has not been recovered yet.

In this way, every year millions (*crores*) of amount is being disbursed in excess and recovered back when the audit raises the objection. The unreliability of internal control system has been brought into the knowledge of the Chief Accounting Officers in 1/09/2007. Appropriate actions should be taken against

the person responsible for disbursing improperly and excessively and the disbursed money should be recovered immediately.

- 66 **Girl Education Fund** – In order to minimize the gender discrimination as set by “Millennium Development Goals” and to avail scholarship to the girls studying in school/campus level, a Girl Education Fund of Rs 94 million 926 thousand has been set up in the Ministry in 2004/05 and Girl Education Fund Operation Procedure, 2004 has been brought into force.

Till this year, Rs 162 million 836 thousand, including this year’s disbursement of Rs 68 million, has been deposited in this fund, while deducting the expenses including administrative expenditures of Rs 14 million 179 thousand, balance of Rs 148 million 657 thousand is still remaining in the Fund. Out of the balance, Rs 80 million is invested in Fixed Deposit. There is no information on Rs 8 million made available to the University Grants Commission for scholarship distribution.

The procedure set for scholarship distribution states that for the first year 20 percent of accumulated funds shall be used and from the second year, 60 percent shall be allocated to UGC and 40 percent to the Higher Secondary Education Board. Under the said procedure, out of cumulated figure of Rs 162 million 836 thousand till this year, 20 percent or Rs 32 million 567 thousand should have been distributed however, only Rs 14 million has been distributed. The Fund has been set up to provide scholarships in order to enhance women empowerment by minimizing gender discrimination, but scholarships were not distributed and kept idle simply because of lack of time and this must be taken seriously.

- 67 **Social Audit** – Rule 171(a) of Education Regulation, 2002 and paragraph 3.2 of Procedure for Social Audit in Schools, 2005, provides that reports should be submitted, within specified time, after completing all regular procedures like formation of committees, arrangements for presence of stakeholders during social audit, finalization of modality of report. Similarly, it is stated that the Social Audit Committee constituted in community schools shall give final shape to the work procedure and shall conduct social audit of schools within mid-June every year. Schools that have been handed over to the community must go through social audit every year else, the budget disbursement may be held up. But, all the community schools have not submitted social audit reports. Arrangement should be made to get social audit conducted and reports submitted.

- 68 **Dual Ownership** – Section 26 (c)1 of Land Act, 1964 states that, any land owner or tenant of a land where tenancy exists, wish to abdicate their share of ownership to the land owner or tenant and delist the land from the register of tenancy-attached land, shall apply jointly to designated authority, enclosing all the evidences available, within the time specified. Section 26 d of the same Act also states that, if both land owner and tenant fail to agree and one of the party applies

within the prescribed time frame, the designated authority shall summon both parties, hear the case and go through proof, bring into consensus and divide the land fifty/fifty to both parties and delist the land from the register of tenancy-attached land.

According to the progress report received from the Ministry of Land Reform and Management, applications registered in the subordinate offices and settled cases by them regarding the land with dual ownership are as follows.

Applicant	Number of Applications Registered			Settled This Year	Not Settled	
	Last Year	This Year	Total		Number	Percent
Tenant	16,401	647	17,048	3,822	13,226	77.58
Land Owner	13,303	2,207	15,510	3,833	11,677	75.29
Joint	1,105	324	1,429	544	885	61.93
Total	30,809	3,178	33,987	8,199	25,788	75.88

The above table shows that more than 75 percent of registered cases are yet to be settled. It is obvious that work load goes on mounting if applications registered are not taken up and settled in time and it negatively affects the service delivery to the public. Hence proper attention should be paid in prompt settlement of such cases by developing work plans.

- 69 **Shop Rentals** – Eleven shops, owned by Land Revenue Office, Dilibazar, located in prime commercial area of Indrachowk, have been rented out at the rate of Rs 89 to 1 thousand 502 per shop annually and these rates were approved in 1985.

The Land Revenue Office has not initiated to review the rates which were fixed 23 years before, although the shops are located in main business center of Kathmandu. In one hand, rent charges are so minimal and in the other, 7 tenants have not paid rent of Rs 98 thousand due for previous and current year. Attention was called in this regard in previous reports but progress was not noticed. The Ministry should go in action for conservation of these shops and revise the rental charges.

- 70 **Stacking/Piling of Logs (Ghatgaddi) Management Fund** – Guidelines for Sale and Auction of Forest Products, 2003 states that expenses, incurred in stacking/piling of logs, if paid through any entity or budget, shall be recovered separately and be deposited in the treasury. Likewise the expenses, if met through loan or credit from any source, shall be recovered separately from the bidder during auction sales and replenished back to the source. The Ministry has also approved the Bye Laws Relating to Funds for Stacking/Piling of Logs, and made effective from 1/01/2007. It has been arranged that budget received from Government of Nepal and donor agencies for the purpose of stacking/piling of logs are deposited in this Fund.

The approved work plan of 25 District Forest Offices of Terai and Inner Madhes specifies that District Forest Offices shall operate Integrated Funds for

collection of wood/fuel-woods, cutting and chopping and hauling and stacking/piling them. But it has been seen that the Forest Offices have operated number of Fund Accounts and, in some cases, Deposit Accounts, are also used and because of this, transactions could not be properly recorded.

This year, District Forest Office Kailali has recovered Rs 12 million 963 thousand as collection cost of woods from the highest auction bidder and paid to the collectors of woods and fuel woods as recommended by the Forest Technician but it never maintained records of volume-wise account of cutting/chopping of woods, amount and names of the parties to receive the payment and money recovered from auction bidder etc. Without collecting any proof, it simply paid out money on the basis of mere estimate submitted by the Forest Technician. Even, advance tax, as per the Income Tax Act, 2001 was not deducted.

- 71 **Printing** – Financial Administration Regulation, 1999, states that one shall not or shall not cause to procure in small volumes just to avoid the tender process. However, it has been found that Supreme Court, under negotiation, has paid Rs 4 million 289 thousand to a firm, having working relation for some years, in lieu of printing 5 thousand copies each of 12 volumes of Nepal Law Journal 2004 and 2005 at the rate of Rs 0.20 per page without competition. This price was quoted in the quotations submitted in 2004/05. There is no legal provision that permits to assign jobs on the basis of previous rates and without competition.
- 72 **Deposit** – Section 113 (1) of the Financial Administration Regulation, 1999, states that each office shall maintain individual-wise separate ledgers of deposit (refundable) accounts. But, 6 District Courts, including Kathmandu District Court, have not maintained individual-wise ledger of deposits. In the absence of individual ledger, audit could not verify whether the individual applying for deposit refund had actually deposited money earlier or not. This year, the courts refunded a sum of Rs 61 million 628 thousand but audit could not confirm whether the actual depositors received the money back or not.
- 73 **Tax Deductions** – A Court, in the case of house owner, the plaintiff vs hotel operator, the defendant, on payment of rent, passed a judgment to pay the house owner Rs 3 million 541 thousand deposited by the defendant in lieu of house rent. Accordingly, Rs 3 million 523 thousand was refunded to the plaintiff deducting Rs 18 thousand as court fees at the rate of .05 percent. But, it failed to deduct Rs 528 thousand house rent tax, in accordance with Section 88 (1) of the Income Tax Act, 2001 on the amount refunded.
- 74 **Expenses on Maintenance of Law and Order** – This year, the Ministry of Home Affairs and its subordinate offices have incurred following expenses in maintaining law and order:

(Rs in thousand)

Approving Authority	2006/07	2005/06	2004/05
Prime Minister	-	-	3,745
Home Minister	3,880	11,939	1,810
Secretary, Ministry of Home Affairs	2,302	3,025	3,487
Inspector General of Police	3,655	4,689	2,700
Inspector General of Armed Police	2,500	2,160	1,850
Chief Investigation Officer, National Investigation Department	7,764	9,891	9,100
Regional and District Investigation Officers	1,436	1106	1,295
Regional Administrators	601	,649	600
Zonal Administrators	-	5,082	-
Others	-	2,358	148
Total	22,138	40,899	24,735

For the purpose of maintaining law and order, the Council of Ministers, through a resolution approved in 17/06/2001, authorizing one time maximum expense of Rs 2 thousand to the Chief District Officer, Rs. 10 thousand to the Regional Administrator, Rs 20 thousand to the Secretary, Rs 50 thousand to the Minister and beyond with the permission of the Prime minister. Likewise, the Council of Ministers, in 14/02/1997, had also approved that in the case of Police, the Office Chief, depending upon the level of post, may incur a one-time expense of Rs 500 to Rs 10 thousand maximum. In 26/01/2006, the Council of Ministers revised this provision and authorized the Regional Administrator to incur Rs 50 thousand and the Minister of Home Affairs to incur one-time expense of Rs 500 thousand or to approve the expenditure to that extent. Later, the Public Accounts Committee of House of Representatives, in 1/08/2006, passed an order to follow the previous limit of expenses and as result, this year, expenses were incurred within the limit previously agreed.

This year, out of Rs 10 million 352 thousand appropriated in Miscellaneous budget head of the Ministry of Home Affairs, Rs 6 million 142 thousand has been spent in confidential activities (payment to secret informers) for the maintenance of Law and Order, Rs 3 million 010 thousand on refreshments and Rs 1 million 200 thousand on house rent, overtime allowance and food for staff working overtime in citizenship cell and control room of the Ministry. The subordinate offices under the Ministry also have incurred such kind of expenses towards confidential activities.

75. **Financial Assistance** – This year Ministry of Home Affairs has distributed financial assistance of Rs 280 million 667 thousand comprising of Rs 145 million 738 thousand through the Ministry (including assistance provided through Miscellaneous budget head of Ministry of Finance) and Rs 134 million 929 thousand through rehabilitation programme (Ganeshman Singh Peace Campaign). The detail is as follows:

(Rs in thousand)

Assistances provided as approved by Home Minister and Home Secretary	2006/07	2005/06	2004/05
<ul style="list-style-type: none"> Ex-gratia to dependant family of police staff killed in various incidents and medical support to injured ones 	39,034	133,800	18,586
<ul style="list-style-type: none"> Additional Ex-gratia to those killed or injured ones in Belbari, Nagarkot, Terai and other places 	11,628	4,658	1,576
<ul style="list-style-type: none"> Financial support to various individuals and charitable organizations 	3,004	27,867	2,016
<ul style="list-style-type: none"> Payments in lieu of Medals and Decorations 	1,483	8,600	4,000
<ul style="list-style-type: none"> Other Expenses 		581	-
Sub-Total	55,149	175,506	26,178
Assistances distributed under the decisions of the Council of Ministers and other special resolutions			
<ul style="list-style-type: none"> Grants to the Central Natural Disaster Relief Board 	25,000	25,000	25,000
<ul style="list-style-type: none"> Financial support to the conflict victims 	20,000	3,140	12,255
<ul style="list-style-type: none"> Financial support to various individuals and charitable organizations 	21,562	-	730
<ul style="list-style-type: none"> Compensation for loss of Property 	8,348	-	17,427
<ul style="list-style-type: none"> Financial support to the family of Martyrs 	5,721	20,420	-
<ul style="list-style-type: none"> Financial support to Maoist Victims Organization and other charitable organizations 	3,600	-	-
<ul style="list-style-type: none"> Financial support to political sufferers 	2,341	-	-
<ul style="list-style-type: none"> Financial support to Central Haj Committee 	2,150	-	-
<ul style="list-style-type: none"> Compensation those who suffered torture 	1,867	-	-
<ul style="list-style-type: none"> Others 	-	454	4,225
Sub-Total	90,589	49,014	59,637
Grand Total	145,738	224,520	85,815

The expenditure incurred in last 3 years made under Rehabilitation Programme (Ganeshman Singh Peace Campaign) is given below :

(Rs in thousand)

Particulars of Financial Assistances	2006/07	2005/06	2004/05
<ul style="list-style-type: none"> Ex-gratia to the dependant family of deceased ones 	20,975	36,600	78,275
<ul style="list-style-type: none"> Compensation to the conflict victims in lieu of property damages 	27,626	53,341	79,095
<ul style="list-style-type: none"> Medical support to the injured ones 	1,568	3,221	4,024
<ul style="list-style-type: none"> Scholarship to the children of deceased ones 	82,499	23,000	12,282
<ul style="list-style-type: none"> Allowances to Widows 	2,261	1,351	1,166
Total	134,929	117,513	174,842

The Council of Ministers, in different dates, has made decisions to provide financial supports, in different rates, to dependant family of Nepal Police and Armed Police Force personnel killed during insurgency, to dependant family of general public killed in various accidents and injured during conflict, to vehicle owners whose vehicles were vandalized during bandhs and strikes and to displaced people due to conflict. It has been a practice to provide financial support, at the rate of Rs 2 thousand per head, to the financially weak, Ascetics and Hermits, physically weak and sick, hapless and Rs 10 thousand per charitable organization. Additionally, under Rehabilitation Programme (Ganeshman Singh Peace Campaign), financial supports to dependants of killed ones, medical supports to injured ones, compensation towards property damages, scholarship to the children of deceased and allowances to the spouse of deceased ones are being provided in different rates.

Such financial supports should be distributed transparently by setting a fixed criterion. The total financial support distributed in last 3 years is as follows :

(Rs in thousand)

Fiscal Year	Approved by Minister and Secretary	Under Decision of Cabinet	Approved by Minister and Secretary (Ganeshman Singh Peace Campaign)	Total
2004/05	79,399	2,416	174,842	256,657
2005/06	175,506	24,014	117,513	317,033
2006/07	55,149	90,589	134,929	280,667

- 76 **Law and Order Expenses - Army** – According to a resolution of Council of Ministers, dated 04/03/2004, expenses incurred by Nepal Army, for maintaining law and order, may not require bills and receipts, provided the expenses are approved by the Commander-in-Chief.

This year, Rs 3 million 754 thousand, including Rs 2 million 700 thousand spent by the Department of Military Intelligence under the Office of the Chief of General Staff (CGS), the then Royal Palace Security Military Guards etc. and Rs 1 million 54 thousand spent by the Department of Military Operation (DMO). The status of expenditure made in law and order during last 3 years is as follows:

(Rs in thousand)

Offices	2006/07	2005/06	2004/05
Department of Military Intelligence (DMI), Office of the Chief of General Staff (CGS)	2,700	2,835	28,649
Department of Military Operations (DMO), Office of the Chief of General Staff (CGS)	1,054	3,374	20,263

As entire expenses have been approved by the Commander-in-Chief, the supporting documents have not been verified.

- 77 **Rental of Helicopters** - Helicopters are being taken on rent by the Ministry of Home in order to carry out different rescue operations like mobilizing police

personnel for peace keeping and carrying injured people in case of accidents to different hospitals. This year, a sum of Rs 57 million 483 thousand has been paid (this was Rs 98 million 979 thousand last year), including Rs 55 million 438 thousand to private airlines and Rs 2 million 45 thousand to offices under Nepal Army. Out of this amount, books of account equivalent to Rs 7 million 662 thousand, pertaining to fiscal year 2005/06, could not be produced for audit scrutiny because it was sent to Commission for Investigation of Abuse of Authority for further investigation. Nevertheless, the Ministry has informed that the books of accounts have been returned back, but not available for audit.

- 78 **Confiscation of Deposits** – Section 27 (5) of the Public Procurement Act, 2006 provides that if the lowest bidder, who has submitted Performance Bond as earnest money, fails to sign the agreement, the second lowest bidder may be called for signing the agreement, by confiscating the deposit kept by the first bidder. The Special Economic Zone Project operating in Bhairahawa, called sealed tenders for construction of road, sewerage and parking area at the estimated cost of Rs 35 million 200 thousand and approved the tender for Rs 20 million 275 thousand. However, the bidder did not turned up for signing the agreement within the stipulated time and, on this ground, the contract was awarded to the second lowest bidder for Rs 24 million 261 thousand on 14/05/2007.

The earnest money deposited by the first lowest bidder has not been confiscated yet. Action should be taken against officials responsible for not confiscating the deposits as per the provisions of law and earnest money should be recovered.

- 79 **Transportation of Food Grains** – In order to maintain timely, regular and adequate food supply, the government, in fiscal year 2006/07, appropriated a total budget of Rs 365 million including Rs 325 million for the Subsidy on Food Grain Transportation for 30 remote and extremely remote districts of mountainous and hilly regions, Rs 20 million for Interest Subsidy on Buffer Stock Programme and Rs 20 million for Voluntary Retirement Scheme for Employees. In these budget heads, a total of Rs 356 million 47 thousand has been spent by transferring (virement) Rs 10 million from Voluntary Retirement Scheme for employees.

Nepal Food Corporation had earlier made an agreement with an airlines company to transport food grains by air from Surkhet to Jumla, Humla, Dunai and Jufal of Dolpa, Rara and Gamgadhi of Mugu, Bajura and Kalikot. This year, Rs 195 million 45 thousand has been paid to the company in lieu of transportation of 37 thousand 956 quintals of food grain to those 8 places. Following are the comments raised in this regard.

- 79.1 The Surkhet Branch of the Corporation, through bidding process, transported 26 thousand 448 quintals of food grains from Surkhet to Jumla, Mugu, Kalikot, Dolpa, Humla and Bajura and spent Rs 137 million 502 thousand. In this case, it has been found that payment is made only on the basis of contents mentioned in

- the *chalani* (bill of lading) without submitting the proof of consignment notes and official invoice of the transporting airlines. This kind of practice of making payments of freights, without attaching supporting documents shows the absence of transparency in the transactions and lack of reliable internal control mechanism. As the response to this comment, the Corporation has stated that arrangements, to make future payment against the consignment note and official invoice, have been put in place.
- 79.2 The agreement signed with the airlines contained the rate of air lifting from Surkhet only. But the contractors were ordered to transport food grains straight from Nepalgunj and freight charge of Rs 57 million 543 thousand was paid by adding the truck carriage costs from Nepalgunj to Surkhet at the rate of Rs 75.41 per quintal. In fact, the rate of truck carriages from Nepalgunj to Surkhet was quoted by a different contractor in previous contract. It is not lawful to order one contractor to transport at the rate quoted by other contractor without going through open competition process.
- 79.3 In order to maintain internal control in sales of food grains, gate-passes should be provided while taking the food grains out of godowns of the Corporation and passes should be verified with issue notes. The Zonal Offices of Dhangadhi, Nepalgunj and Surkhet Branch Offices do not have this kind of verification mechanism. Hence, the management must install the system of verifying issue notes and godown gate passes so as to make the internal control mechanism dependable and transparent. The Corporation has responded that needful actions are being taken to develop issue notes, control ledger and gate passes.
- 80 **Medical Assistance** – Every year, the Ministry of Health and Population has been providing medical assistance to various officials and civilians, requiring medical treatment within or outside the country. This year, the Ministry, on the approval of Cabinet, provided Rs 7 million 505 thousand at the rate ranging from Rs 7 thousand to Rs 500 thousand to 60 individuals and on the approval of Committee chaired by the Health Minister, under the authority delegated by the Cabinet, the Ministry distributed medical assistance of Rs 44 million 462 thousand including Rs 9 million 980 thousand to 258 cancer patients, Rs 6 million 790 thousand to 208 heart patients, Rs 15 million 382 thousand to 380 kidney patients and Rs 4 million 805 thousand to 413 individuals suffering from other diseases.

Similarly, additional statements have been received which confirms the distribution of Rs 2 million 108 thousand to 30 patients under treatment in Martyr Gangalal Heart Disease Centre and Rs 400 thousand at the rate of Rs 100 thousand each to 4 patients undergoing treatment in Bharatpur Cancer Hospital out of which, bills and receipts equivalent to Rs 1 million 350 thousand paid to 6 patients is not available. Although, the Public Accounts Committee, as per its decision made on 31/ 07/2006, had issued instructions not to provide financial assistance in cash as far as possible and to make all kinds of hospital-wise

expenses public However, the Ministry has made a cash distribution of Rs 57 million 65 thousand. Last year, it was Rs 4 million 964 thousand.

Section 23(1) of the Act Governing the Remuneration and Perquisites of Members of Parliament and Staff, 1997 (revised in 2001) states that, in case any staff or any Member of the Parliament, because of any fatal disease, has to go to foreign hospitals for treatment, shall be eligible to receive an advance equivalent to one year's salary provided the Speaker or the Chairman approves it and the advance shall be gradually recovered from the monthly salary of such staff or the Member. The Ministry of Finance, under the resolution dated 31/07/2007, paid financial assistance of Rs 7 million 341 thousand (Rs 6 million 594 thousand hospital bill, 372 thousand airfare and miscellaneous Rs 375 thousand) to a then Member of Parliament as reimbursement of the expenses for treatment in a foreign hospital. The provisions of the above mentioned Act was not complied with in this case.

- 81 **Safe Maternity Services** – In Section 7 sub-section 1 of Guidelines on Safe Maternity Services Motivation Procedure, 2006 (with Revision), which states that Rs 300 per child shall be paid to the service provider, providing maternity services at home. It is also stated that the Chief of Public Health Office, on the basis of recommendation of ward chairman, women volunteer and chief of the concerned health center shall pay the motivation allowance for providing maternity services at home. Similarly, women folk visiting health centers for maternity services, on the basis of remoteness or accessibility of their village, shall be paid Rs 500 to Rs 1 thousand 500 as conveyance allowance and the service provider shall be paid Rs 300 motivation allowance in each case of child birth. This year, a total amount of Rs 21 million 017 thousand has been paid to the maternity service providers by 47 District Health Offices for 70 thousand 58 babies birth at their own home within its jurisdiction. It has been noticed that District Public Health Offices provided advance money to the health centers for this purpose on proportional basis and settle the advance accounts. On scrutiny of documents submitted by the health centers of those 47 Districts, it has been found that 21 thousand 393 babies were given birth in facilitated centers and Rs 19 million 911 thousand were paid as conveyance allowance and Rs 6 million 418 thousand were paid to the service providers. Thus, in total Rs 47 million 346 thousand has been spent in these services. In order to clear the advances provided for maternity services at home, recommendation from women health volunteers and VDC ward chairman is required. But advances were settled on the basis of approval of the Health Centre Chief only, which proves that the guidelines are not being followed completely. Non-observance of guidelines may hinder the implementation of prevailing internal control mechanism and it may result in the misuse of public money. Therefore, the ministry needs to make arrangements for compliance of guidelines.
- 82 **Audit** – Pursuant to Section 16 (2) of Financial Procedure Act, 1998, all the offices are required to submit accounts of all sorts of income and expenditure and

financial statements to the Office of the Auditor General and get them audited. An agreement has been made with a donor agency for US Dollar 1 million 115 thousand to procure 5 thousand anti-mosquito nets and distribute them in 12 districts under the Malaria and Kalazar Disease Control Programme. The special condition of the agreement in regards to the provision of audit, signed on 6/02/2007 between the donor and the Ministry of Health and Population, states that "The parties agree that the Auditor General of Nepal shall conduct annual audit of program expenditures in accordance with its national responsibilities". The Ministry submitted financial statements of Rs 133 million 495 thousand which was directly disbursed to the programme. The programme did not produce its true income and expenditure account as per the provisions of the agreement hence audit could not make any comment on the financial position of the programme.

83 **Misappropriation of Funds** - Section 11 (1) of Financial Procedure Act, 1998, has clearly articulated that all responsible officials shall make payments and prepare books of account of such transaction properly and abiding all legal provisions. But, it was noted that District Health Office, Morang has drawn out Rs 44 thousand in 8/11/2006 and Rs 500 thousand in 10/11/2006, without any bills or receipts and recording in the Journal Vouchers, Bank Cash Book, and Subsidiary Ledger of Advance etc. This was brought into the notice of the Ministry on 8/05/2008, but not responded. Later, an explanation was received stating that the money had been withdrawn by mistake of the concerned office and the money had been deposited in Consolidated Fund on 7/08/2008. The internal control needs to be strengthened and action should be taken against the officials who are responsible for drawing money from the government fund for unspecified purposes.

84 **Double Payment** – District Health Office, Bajura paid Rs 315 thousand as group life insurance premium of the staff for the period of 14/01/2006 to 14/06/2007 on 17/06/2007. Again same amount was booked as expenses on the same day and subsequently on 3/07/2007 also. Thus, Rs 630 thousand was repeatedly booked as expenses thrice.

Similarly, District Development Committee, Sarlahi, while paying the salaries to the staff of sub-health posts for the month of January/February 2006 and April 2007, embezzled Rs 278 thousand by incurring salary expense twice. Also, the District Health Office, Bajhang misappropriated Rs 88 thousand by recording double salary expense of some of its staff for the months of July, August and November, 2006. Official action should be initiated against the responsible official for misappropriation and the money should be recovered.

85 **Revenue Policy** – This year, information on Revenue/Expenditure of the government is made through the public announcement. The Revenue Policy, contained in the announcement, states that the revenue proposals are put forth with a view to promote exports, to achieve overall economic growth, to make

revenue administration simple, hassle free and taxpayer friendly by means of developing coordination with private sector, to build an environment where payment of tax can be made a dignified action, to identify new areas of revenue generation by broadening the tax base, to make timely review of tax rates and to transform the existing revenue administration into a service-oriented by simplifying the system and more transparent and enhancing the capabilities so as to increase the overall revenue collection.

While examining the documents in the course of Revenue Audit it was observed that 'Rapid Tax Audit' of the Income Return filed by tax payers have to be conducted effectively in order to minimize instances like non-imposition of penalty on delayed submission of TDS, allowing excess exemption, filing of returns with understated incomes, non-disclosure of method inventory valuation, allowing additional expenses, operation of business without licenses, non-collection of income tax etc. Likewise, it was noticed that proper recording and follow up have not been made to recover royalty and default loan and interest receivable by the government etc and the major audit observations have been incorporated in Part 1 of the Report.

- 86 **Tourism Service Fee** - Article 90 of the Interim Constitution of Nepal, 2007 provides that all sorts of money to be received by the Government of Nepal, except for the *Guthi* money, shall be deposited in the Consolidated Fund. Section 14 of the Finance Act, 2006 provides that tourism service fee of Rs 500 shall be levied upon each foreign national, departing Nepal by air, and such money shall be deposited in the bank account of Nepal Tourism Board and to be utilized in tourist promotional activities. This year, the Board has earned Rs 182 million 655 thousand in lieu of Tourist Service Fees. Any charges or fees levied under any Act, according to the Constitution, instead of depositing in the Consolidated Fund, can not be deposited in Board's bank account directly and spend it. Therefore, money raised against such fees should be deposited in the Consolidated Fund, should be included in appropriation and disbursed to concerned entity to operate the activities.
- 87 **Revenue Bank Deposit Slips** – The Company Registrar's Office, this year, collected Rs 90 million 068 thousand from Firm Registration Fees. It was reported by the internal audit that, although bank deposit slips are attached, Rs 811 thousand paid by 49 companies are not actually deposited in the bank. The office, under a decision, instantly referred this case to the District Police Office for further investigation which is not yet concluded. Last year also, it was highlighted in the Report that Rs 1 million 855 thousand, supposed to be deposited through bank deposit slips, by 132 companies could not be reconciled with bank statements of Nepal Rastra Bank. This case is also still not concluded till the date of audit.

As the mal-practices of registering companies by enclosing fake bank deposit slips are continuing, actions on such sensitive issues must be concluded in

time and steps, to make the internal control process effective, must be taken instantly so that no more fake revenue deposit slips are submitted in future.

88 **Tax Audit** – According to Section 101 of the Income Tax Act, 2001, the Department, if deems justifiable and consistent with the spirit of the Act, is authorized to revise the tax liability of any individual who has been assessed under Section 99 or 100 of the Act and according to this provision, few income returns, considering the risk factor, were brought under detailed tax audit. According to the data collected during audit, the Department had fixed a target to conduct detailed tax audit of 7 thousand 727 income returns including 3 thousand 481 returns from this years' list and 4 thousand 246 from previous year's were selected for tax audit, however only 3 thousand 357 returns (46.24 percent) were audited.

88.1 Out of 99 thousand 506 income returns filed by tax payers this year, only 3 thousand 481 returns (3.50 percent) were selected for detailed tax audit, but, only 44.10 percent of selected returns could be completed. Out of previous pending income returns and filed this year, only 3 thousand 573 returns (3.59 percent) were re-assessed and additional sum of Rs 2 billion 550 million 124 thousand were demanded from the tax payers. This amount is equivalent to 5.16 percent of total revenue collection made by Inland Revenue Offices this year. The revenue collection has not been effective because the IROs could not conduct tax audit of returns filed in the offices.

88.2 All tax assessment must be completed within 4 years from the date of filing of income returns by tax payers according to Section 20 of the Value Added Tax Act, 1995 and reassessment to be made under Section 101 must be completed within 4 years from the last date of filing income returns according to Section 99 of Income Tax Act, 2001. Unless the present system, that permits selection of income returns for full tax audit by the Department and the IROs, that allows to carry out tax audit of previous four years, three previous and one current year, and permits to revise the tax assessment, to the date allowed by the law, is not reviewed, the situation will prevail where four year's period is elapsed before the final audit is conducted. In order to solve this problem, the attention was called through the Report last year to initiate for review of Income Tax Act, 2001 and revise it so that there is 4 years period to make reassessment from the date of filing of income returns. No improvement has been made in this regard.

After the tax audit, the files and returns are submitted for final audit. If the final audit raises any comment and the IRO, if finds the comment genuine and deems that the assessments require additional taxes or needs to be undertake re-assessments, may review the assessment and do accordingly. The revenue related statutes of Nepal provides that the revenue offices can issue revised tax assessment within a period of 4 years maximum. In this situation, the queries raised in the audit report can only be implemented if tax audit is completed within exactly 3 years by IRO and produced for final audit.

88.3 If the revenue offices complete detail tax audit on the 4th year or on the last month before expiry of the period, there is very little chance that comments and suggestions raised by the final audit could be implemented. For instance, out of tax audit of 231 income returns of different income years carried out by the Large Taxpayer Office, the specified period of 4 years relating to 42 statements expired on the day of commencement of final audit. Under the legal provision, maximum time available to revise the tax assessment for the year 2003/04 was 14/01/2008. Keeping this reality in view, the final audit of tax assessment files, under the jurisdiction of Large Tax Payers Office, was given priority this year and partial audit report was issued to the revenue office. The main objective of preparing partial report was to enable the concerned revenue office to proceed for revised tax assessment within stipulated time period. However, the concerned revenue office did not take timely action on the issues raised in the audit report.

In one hand, there is a constraint of 4 year's time limit in revising tax assessment and on the other, the IRO offices do not conduct tax audit in time. These reasons have impeded the implementation of comments and suggestions furnished by the final audit and this has technically limited the scope of audit.

88.4 Section 15 of the Income Tax Act, 2001 has laid down the procedures and method of calculating trading stocks. Additionally, the guidelines of preparation of income statement, published by Inland Revenue Department, has clearly stated that the methodology adopted in valuation of the closing stock must be enclosed with the income statement. While checking some tax files which have completely undergone through tax audit by Inland Revenue Office, Jhapa, it revealed that tax payers have not enclosed the statement containing name, price of goods and methodology adopted to calculate the closing stock. Some of the instances are as follows :

(Rs in thousand)

Name of the Tax Payer	Income Year	Closing Stock	Name of the Tax Payer	Income Year	Closing Stock
One Marketing Co.	2003/04	3,088	One Impex	2002/03	3,484
	2004/05	4,387		2003/04	3,694
One Emporium	2002/03	5,501	One Iron Store	2004/05	3,896
	2003/04	6,445		2005/06	4,459
	2004/05	7,010		2003/04	3,227
	2005/06	7,074	2004/05	3,023	
One Emporium	2002/03	5,945	One Store	2002/03	2,700
	2003/04	3,402		2003/04	2,074
	2004/05	4,464		2004/05	2,225
	2005/06	5,842		2005/06	2,600

Out of the files that have undergone full tax audit, 20 tax files were reviewed and found that, not any file provided information about the goods traded by the tax payer. In tax audit reports, words like 'dealing in various goods' are

used to describe the nature of businesses. It is evident that the tax payers do not maintain even the preliminary books of accounts and other documents required as per the Accounting Standards and prevailing laws and on their part, the revenue offices have conducted detailed tax audits without reviewing the statements and documents enclosed. In the absence of statements which do not disclose value of closing stocks, the tax audit conducted cannot be relied upon.

- 88.5 Inland Revenue Office, Kathmandu Area no 2, has also conducted tax audit and declared the tax files complete although the statements submitted by the tax payers do not contain basic documents that disclose the purchase, closing stock of the business. Some of the instances are as follows :

(Rs in thousand)

S. No.	Tax Payer	Details not Submitted	Income Years	Amount
1	One Computer Dealer	Purchase	2004/05	13,088
		Closing Stock	2004/05	4,341
		Purchase	2005/06	23,909
		Closing Stock	2005/06	8,143
2	Dealer of Various Goods	Purchase	2005/06	39,122
3	One Medical Store	Purchase	2004/05	16,560
		Closing Stock	2004/05	2,481
		Purchase	2005/06	24,019
		Closing Stock	2005/06	2,400
4	One Photo Goods Dealer	Details of Outstanding Payments	2005/06	1,928
		Closing Stock	2005/06	30,606
5	One Handicraft Dealer	Purchase of Garment	2002/03	18,772
		Purchase of Handicraft	2002/03	10,966
		Closing Stock	2002/03	3,788
		Purchase	2003/04	28,147
		Closing Stock	2003/04	3,876

- 88.6 One Airlines Company, under the jurisdiction of Large Tax Payers' Office, has submitted financial statements showing chartered income of Rs 840 thousand and chartered expenditure of Rs 17 million 566 thousand. The statement shows that the expenditure in comparison to the income is abnormally high. The tax audit did not consider this huge claim made under Section 13 of the Act. Additional probe relating to this abnormal claim of Rs 17 million 566 thousand is very much needed.

- 88.7 The financial statement of FY 2005/06 of a taxpayer, registered with Inland Revenue Office, Biratnagar and dealing in packing materials like pouches, carton etc., shows that the total purchase of raw materials is Rs 231 million 680 thousand (totaling last year's closing balance of Rs 89 million 085 thousand and this year's purchase of Rs 142 million 595 thousand) and deducting the consumed raw material of Rs 96 million 684 thousand during the year, the closing balance remained Rs 164 million 996 thousand. It seems that the firm has used 92.14 percent raw materials from last year's stock and used only 7.86 percent and has

left 94.67 percent stock from this year's purchase. Although the tax audit report has noted the existence of closing stock but it failed to mention whether the balance has been verified or not.

According to the statement, the taxpayer has a loan of Rs 73 million 304 thousand still to be paid back and has paid Rs 6 million 478 thousand as interest in that year. Out of the interest expenses, Rs 1 million 355 thousand paid for the previous year has been disallowed and rest Rs 5 million 123 thousand has been allowed for expense claims. This reveals that taxpayers procure goods using loan money, keep a huge closing stock and claim for VAT refund. According to this year's data on VAT, till 2005 claims worth Rs 5 million 705 thousand has been received for VAT refund and till 2006 July Rs 4 million 128 thousand is still in credit. Despite of these situations, it is noticed that tax audits are conducted without detail check up of closing stocks and resulting to under-collection of revenue.

- 89 Section 21 (1) of the Income Tax Act, 2001 states that additional charges like penalties can not be claimed as expenses. One tax payer, in Casino business, claimed back the expense of Rs 13 million 417 thousand which was paid as penalty to the government for delay payment of royalty in 2003/04. But the LTPO failed to pay due attention towards this matter while issuing revised tax assessment, hence, it should be reviewed into again and the necessary charges, penalties required according to the Income Tax Act, 2001 should be recovered.
- 90 From mid-May 2006, the government has introduced performance based incentive scheme in the Large Tax payers Office in order to bring effectiveness in the tax regime. Under this mechanism, allowance equivalent to 200 percent (maximum) of the salary, based on various indicators, is provided and accordingly this year, Rs 4 million 370 thousand has been paid. The Department, in its report, has mentioned that after the induction of this policy, the revenue collection has grown up by 54.21 percent, settlement of arrears has increased by 8.41 percent and number of tax audit has augmented by 52.14 percent. Figuratively improvement achieved is quite encouraging, but qualitatively it is not so because weaknesses like Demand Record Book are not updated, tax payers name deleted from the Record Book without adequate proof, non-initiation to bring various organizations and enterprises operating in the jurisdiction of the office into tax net, ineffective recovery of revenue arrears etc. are still to be found. Reforms must be brought in these issues.
- 91 **Tax Settlement Commission** - Section 23 (b) of the Value Added Tax Act, 1995 and Section 142 of the Income Tax Act, 2001, both, clearly state that notwithstanding to any existing law, no any other law, except to the Finance Act, which is enacted every year for the purpose of revision, addition, deletion, reduction, exemption of the rates of tax or writing off any tax levied under this Act, shall be formulated to revise or alter or make any provision in the matters of tax.

Government of Nepal, on 6/09/2006, constituted Tax Settlement Commission, 2006, in order to settle pending tax cases of up to income year

- 2004/05, which were filed but not settled due to disputes. But it has been found that the Commission, on ad hoc basis, summoned to bring undisputed files/documents of firms of 22 Inland Revenue Office and settled those files. In fact, the statements were submitted in 2005/06 only and even assessment works were not done. This kind of ad hoc and non-transparent practice of settling tax cases, through personal deal, should be discouraged. In this regard, the Finance Secretary, on 22/07/2008, has put forth the commitments that in future commissions shall be constituted once the Income Tax Act, 2001, and Value Added Tax Act, 1995 are revised.
- 92 **Operation of Business without Licence** – Section 7 (1) of the Finance Act, 2006 states that Foreign Employment Service Charge shall be levied upon each individual, going abroad for employment, at the rate of 2 percent of total expenditure. In the section 3 (4) of the “Guidelines on Foreign Employment Service Charge, 2006”, it is stated that licence for operating such business should be obtained within 16th September 2006. But 12 firms, under the jurisdiction of Inland Revenue Office Kathmandu Area No 2, are operating such foreign employment business without obtaining licence within the deadline prescribed by the Guideline. Also, these firms have not submitted monthly statement too. Therefore, these 12 firms should be charged Rs 180 thousand, at the rate of Rs 15 thousand each, as per section 16 (5) and (6) of the Excise Act, 2006 and other 20 firms, not observing section 7 of the Finance Act, 2006 and section 16 (5) and (6) of the Excise Act, 2006, should be charged Rs 300 thousand penalty, at the rate of Rs 15 thousand each, totaling Rs 480 thousand should be recovered from them.
- 93 **Freight Charges** - Section 7 (20) of the annex no. 1 of the Finance Act, 2006 states that excise duty paid in India shall be allowed to deduct from the customs duty to be paid in Nepal on the goods imported under Duty Refundable Procedure (DRP) but it shall not be deductible from freight, insurance, losses due to difference of prices and other charges. Two companies imported 137 Indian cars through Birgunj Customs Office and while processing the Customs Declaration Form, they were allowed to add freight charges, from Delhi to Raxaul, in the value of cars and because of this, the amount of customs duty, to be paid in Nepal, is to be found less than the excise duty paid in India. On this ground the companies were exempted from customs duty. It is inappropriate to add freight charges in the cost for DRP purpose and give exemption against the provision of the Finance Act. Therefore, customs duty of Rs 347 thousand on the value of Rs 1 million 460 thousand should be recovered from the two private limited companies. In response to this, the concerned office has stated that process of recovery has begun.
- 94 **Internal Check** - In order to bring effectiveness in revenue collection, the Department of Customs had issued an instruction on 13/02/2002 to all customs offices to internally check the processed Customs Declaration Forms on the same day or the next day through a staff not involved earlier. This year, 6 customs offices have recovered additional customs duty of Rs 3 million 981 thousand through internal check of the Forms. Other 12 Customs Offices including

Tribhuvan Airport, Tatopani, Krishnanagar, Nepalgunj etc. have not conducted internal check.

The details of customs duties recovered by 10 major customs offices after conducting internal check and amount of customs duty to be recovered, identified by final audit, is as follows:

(Rs in thousand)

S.No.	Customs Office	Number of Customs Declaration Forms	Declaration Forms Checked Internally	Percentage of Test Check	Recovery by Internal Checking	Recoverable Irregularity raised by Audit
1	Dry Port	5,064	3,798	75	3,585	5,270
2	Birgunj	150,035	50,583	3,371	270	46,998
3	Bhairhawa	133,310	Not Known	Not Known	74	16,427
4	Biratnagar	21,686	Not Known	Not Known	42	21,097
5	Mechi	16,729	Not Known	Not Known	6	1,273
6	Dhangadhi	8,855	Not Known	Not Known	4	161
7	Tribhuvan Airport	59,907	Not Checked	Not Checked	-	70,645
8	Tatopani	26,027	Not Checked	Not Checked	--	2,228
9	Nepalgunj	42,248	Not Checked	Not Checked	-	17
10	Krishnanagar	107,015	Not Checked	Not Checked	-	4
Total					3,981	164,120

Although, additional duties are being recovered through internal check, there is an absence of regular monitoring and reporting of such errors and their recovery and also directives issued to the inspectors and agents, involved in inspecting imported goods and their valuation for customs purpose, are not enough to keep them alert. The inspectors, while processing the forms, do make remarks if they find the process incorrect or necessary documents are not enclosed, but the follow-up in this regard, in order to conclude the process, is not made. Among 4 customs offices, that did not apply internal checking system, huge amount of recoverable irregularities have been noticed in Tribhuvan Airport and Tatopani Customs Office. All custom offices should be attentive towards the fact that effective internal control system is contributing in rectifying the errors taking place in revenue collection.

- 95 **Alteration in Classification Code Number and Tariff** - During the processing of Customs Declaration Forms for imported goods, the customs offices should confirm that code number of goods, as classified in the Customs Tariff Booklet published by the Department of Customs and Tariff Code mentioned in Section 1 of Annex 1 of Finance Act, 2006, are correctly recorded in Declaration Forms.

This year, during the sample tests of Customs Declaration Forms processed by some of the Customs Offices, it revealed that revenue was under-collected by Rs 2 million 012 thousand due to the alteration of classification code number of goods and tariff code. Among them, some major examples of

processed Declaration Forms in which code number of goods and tariff have been altered are stated below:

- 95.1 A Private Limited Company dealing in mobile phones, who imported prepaid cards worth Rs 54 million 934 thousand from UK, was charged customs duty Rs 14 million 280 thousand, inclusive of customs duty, vide 13 Customs Declaration Forms using classification code number 8542:10 and tariff of 10 percent. According to the classification, this kind of goods should fall in category of classification code 4911:99 and tariff should have been 20 percent. Thus, exempted amount of Rs 6 million 207 thousand, inclusive of Customs Duty, caused by difference of 10 percent should be recovered.
- 95.2 A Private Limited Company, who imported trans-receivers worth Rs 253 million 937 thousand for the purpose of extension of network, submitted 6 Customs Declaration Forms under classification code 8517.90 and 8525:20 and was charged 5 percent customs duty. But, those goods should belong to the category classification of 8544:19 and 10 percent tariff should have applied. This has caused a direct revenue loss of Rs 14 million 404 thousand. This amount should be recovered.
- 95.3 A Private Limited Company, who imported telecommunication equipment worth Rs 35 million 889 thousand from Israel, got through the customs paying Rs 7 million 303 thousand, inclusive of customs duties, under the classification code 8525:20 at 5 percent tariff. Among the imported goods, there were goods like cable, connectors and adopters worth Rs 13 million 108 thousand. Among them, cables should fall under classification code 8544:19 with 15 percent tariff, connectors under 8529:10 with 10 percent tariff and adopted under 9533:40 with 10 percent tariff. As 5 percent tariff was applied to entire goods, the difference of Rs 850 thousand should be recovered.
- The same company, while importing antenna worth Rs 13 million 299 thousand from Germany, was charged Rs 2 million 706 thousand, inclusive of customs duties, under 8517:90 with 10 5 percent tariff. But, the Customs Tariff Book has classified those goods under classification code number 8529:10 the tariff of which is 10 percent. Thus the short collection of Rs 751 thousand caused by applying different code should be recovered.
- 95.4 A Private Limited Company, who imported monitoring cable connectors worth US Dollar 96,914, was charged customs duty of Rs 6 million 321 thousand under classification code 9030:90:85 and 5 percent tariff. As per the classification code, these goods belong to classification category 8547:20 tariff of which is 10 percent. Therefore, the difference of Rs 714 thousand should be recovered.
- 95.5 A company imported various telephonic goods from China worth US Dollar 1 million 466 thousand (equivalent to Rs 95 million 594 thousand) and paid customs duty of Rs 19 million 449 thousand inclusive of customs at the rate of 5

percent. According to the Pro-forma Invoice, goods include Installation Materials (cable) worth 64 thousand 996 US Dollars and Cable and Accessories worth 19 thousand 137 US Dollars where as the Commercial Invoice indicates that Installation Material worth 84 thousand 132 US Dollar is imported. As the cables belong to classification code 8544:20, the tariff of 15 percent should be applied. Therefore, the difference of Rs 620 thousand, caused by the application of different code, should be recovered.

96 **Exemption without Proof** – Annex 1 of the Finance Act, 2006, states that the government, under Section 13 may grant full or partial customs facility to diplomats, under Section 14 may provide partial exemption in Customs tariff, under Section 15 may waive the tariff charging only one percent customs duty in the goods imported or recommended to import by concerned authority of Nepal Government and under Section 22 may waive or reduce tariff, specified by the law, by publishing notice in Nepal Gazette. Pursuant to these provisions of exemption, the Ministry of Finance notified in Nepal Gazette, on 17/06/1999 that exemption may be granted to import of equipment relating to telecommunication exchange and network extension works provided all the prescribed process according to the section 9 (1) of the Customs Act, 1963 are fulfilled. But some customs offices released goods from the customs with exemptions under the provisions of law, without proper documents that proves the authenticity of exemptions. Among them, Tribhuvan Airport, Birgunj, Bhairawaha and Mechi Customs Offices released goods with customs exemption of Rs 374 million 933 thousand. Some of the instances in this regard are as follows :

96.1 A company, dealing in mobile telephones, imported GSM mobile equipment, through 7 Customs Declaration Forms, from various countries and the Ministry of Information and Communication recommended charging only 5 percent in accordance with Part 3 Number 13 Volume 49 of Nepal Gazette published in 17/06/1999. When this case was referred to the Department of Customs, the Department advised to charge the customs duty including all applicable tax, fees and charges under the law. But, in fact, only 5 percent was charged and because of this, a revenue of Rs 9 million 003 thousand was lost. In this regard, the concerned office has informed that, in order to recover the revenue, the party has been communicated in writing.

Similarly, a company imported various telephone equipment from China worth Rs 5 million 589 thousand and paid customs duty of Rs 11 million 379 thousand inclusive of customs at the rate of 5 percent and other taxes. The company should have been charged 10 percent customs duty, hence, short collection of Rs 442 thousand should be recovered.

96.2 The government, on 5/07/1998, had decided to apply 1 percent tariff in cases related to section 12.7 of Electricity Act, 1992. On this ground the Department of Customs sent a memo to Bhairahawa Customs Office, on 2/08/2006, and the Customs Office, through 3 Customs Declaration Forms applying 1 percent tariff

rate, released turbine and spare parts, imported for Kaligandaki “A” Hydro Electricity Project, valued at Rs 109 million 636 thousand for customs purpose. The act of granting exemption based on the legal provision, enacted eight years before, instead of making contemporary provision in Finance Act, has caused a revenue loss of Rs 5 million 343 thousand. Actions to recover this loss must be initiated.

- 96.3 Government of Nepal can, reduce or waive fully or partially, rates of fees and charges and taxes levied as per the prevailing laws, by notifying in Nepal Gazette. Without notifying in Nepal Gazette, Birgunj Customs Office, following a minister-level decision, made on 26/10/2006, exempted customs duty of Rs 349 million 600 thousand to be paid by Nepal Oil Corporation on import of 40 thousand kilo liter aviation fuel needed for international flights. Similarly, Tatopani Customs Office also released jackets and raincoats worth Rs 7 million 297 thousand imported from China by Police Headquarter on exemption. These actions have caused under-collection of revenue to the government.

Likewise, Tribhuvan Airport Customs Office, by enclosing the letter sent by the Department of Customs confirming of minister-level decision on exemption, has granted exemption of Rs 1 million 128 thousand in imports through 4 customs declaration forms to 3 organizations.

- 96.4 Section 13 sub-section 4 (a) of Annex 1 of Finance Act, 2006, provides that construction equipment and machinery including vehicles and carriers, imported for operation of projects within Nepal in the name of contractor or projects, under the agreements made with Nepal Government or under the decisions of Nepal Government, may be allowed to import temporarily on Bank Guarantee instead of customs duty or listing in the records maintained for the purpose. While there is no provision of exemption in customs duty in imports of goods for the projects being undertaken by local contractors, Bhairawaha Customs Office has granted the facility of 1 percent customs to the contractor on import of 1 thousand 845 metric tons of cement to be used in Hile-Khandbari Road Improvement Project, Contract No. 1 and 2 on the basis of a letter from Department of Customs dated 26/02/2007. The contractor has received this facility in import of 1043 metric tons till 2006/07 and in import of 120 metric tons up to the date of audit. Thus, there has been a loss of Rs 2 million 891 thousand because of this import facility. This money needs to be recovered.

Similarly, Mechi Customs Office released two complete sets of Hydropower generating equipment, worth US Dollar 369 thousand (or valued at customs for Rs 26 million 823 thousand), which a Hydropower company imported from China, by charging Rs 675 thousand inclusive of 1 percent customs duty and 1.5 local development fees excluding VAT. The company was exempted from VAT of Rs 3 million 593 thousand under a minister-level decision dated 29/10/2006. By law, it is required to pre-notify in Nepal Gazette by the government before providing VAT exemption in the cases of goods listed in sub-

group 18 of group 11 of Annex 1 of VAT Act, 1995, but the legal requirement is not fulfilled in this case.

- 97 **Under-Collection of Fee** – It is provided in Section 18 of the Finance Act, 2006 that, in 2006/07, Urban Roads Construction and Maintenance Fees shall be levied upon each vehicle at the time of registration at the rate of 1.5 percent in all kinds of cars, jeeps, vans and minibuses and Rs 3 thousand in each motorcycle. Under this provision, Bagmati Zone Transport Management Office has collected Rs 118 million 006 thousand as Urban Roads Construction and Maintenance Fees this year. But, It has been found that the collection was short by Rs 1 million 167 thousand, as shown below, while charging at the rate of 1.5 percent on the total value of vehicles, which was Rs 77 million 830 thousand as per the Import Declaration Forms. In this regard, the Ministry has informed about the actions being initiated to recover from concerned party.

(Rs in thousands)

S.N.	Importers	Value as per Import Declaration Forms	Valued by the Office	Difference of Value	To be recovered at 1.5 percent
1	(a) Company (10)	414,306	340,031	74,275	1,114
2	(b) Individual (2)	2,642	1,380	1,262	19
3	(c) Office (1)	4,587	2,294	2,293	34
	Total	421,535	343,705	77,830	1,167

- 98 **Registration Fees** – In Registration Section of *Muluki Ain* (Civic Code) 1963, it is stated that all kinds of *Tamasuk* (Deed of Debt or Mortgage) must be registered. Regarding Registration Fees it is stated in Clause A (8) of Annex 4 of Finance Act, 2006 that in the cases of *Dristi Bandhak* (simple mortgage) 1 percent of total value shall be charged, in Clause B (2) that in the cases of *Dristi Bandhak* or loan against collateral provided from banks or financial institutions, licensed by Nepal Rastra Bank, Rs 2 hundred to Rs 2 thousand shall be levied as service charge on each loan and in Clause C (8) that in the cases of loan provided by Cooperative Societies to its members, the registration charges on the loan value up to Rs 200 thousand shall be exempted.

- 98.1 Among the *MalPot* (Land Revenue Offices), of which audit was performed, some registered deeds of 5 Land Revenue Offices located within Kathmandu Valley in the name of banks and financial institutions within a period of a month (minimum) were checked. During the test checks, it has been noticed that, instead of charging 1 percent registration fee, the provision of Clause B (2) has been applied and flat service fee of Rs 200 to Rs 2000 were charged. Because these offices applied different provision of Finance Act, this year the government lost a revenue of Rs 70 million 802 thousand.

- 98.2 During registration of mortgages of over Rs 200 thousand in the name of Cooperative Societies, it has been found that Clause A (8) of Annex 4 of Finance

Act has been applied in most of the cases. But, Land Offices of Dillibazar, Chabahil, Kalanki, Lalitpur, Bhaktapur and Kaski charged flat service fees of Rs 200 to Rs 2 thousand with Cooperative Societies and in this process these offices collected a short revenue of Rs 13 million 324 thousand.

- **Efforts and Achievements in Settlement of Irregularities**

99 **Irregularities** – According to Section 2 (m) of Financial Procedure Act, 1998, “Irregularity” means any transaction that is executed without fulfilling prescribed prerequisites articulated in existing laws or that has not been recorded in books of accounts as specified and financial transaction that is pointed out by audit as transaction carried out irregularly or improperly. In this regard, this Office has been performing its duties, by prescribing its scope of work and by developing working procedure in accordance with the provisions of Constitution, Audit Act, and other concerned laws and generally accepted audit principles, by conducting audit of government offices, corporate bodies, Boards and Committees and other organizations and submitting reports thereof and making follow-up audit by examining the evidential documents, supporting in settlement of irregularities, produced by the management.

100 **Record of Irregularities** – Section 20 of the Financial Procedure Act, 1998 provides that item-wise record of irregularities, pointed out in Auditor General’s Report as recoverable and realizable, shall be maintained in central-level as well as in operating level offices. The prevailing law has made the Chief Accounting Officers responsible for initiating actions to clear and settle the irregularities by maintaining an up-to-date record of irregularities.

Most of the entities/ministries have not updated Central Record of Irregularities which contains details of irregularities of their offices and their subordinate offices. A practice, among the entities, of copying the record maintained by this Office for its internal purpose and making request for follow-up audit on that base is increasing. Because, a common perception is that the correct record on irregularities can only be found in the Office of the Auditor General as the Auditor General’s Annual Report contains up-to-date information of irregularities, follow-up audit, volume of settled irregularities and net outstanding irregularities.

101 **Provisions regarding Settlement of Irregularities** - Section 18 (1) of the Financial Procedure Act, 1998 states that the responsible officer shall be liable for settling the irregularities, raised by the audit, either by collecting the documentary evidence or regularizing or causing to regularize the transaction or by recovering the irregular amount. Similarly, Sub-section (2) states that the Chief Accounting Officer shall be liable for supervising the proceedings taking place to settle such irregularities and getting them cleared as per prevailing laws. Section 19 of the same Act states that concerned office shall settle the audit irregularities within 35 days of receipt of notice or within extended period, if extension is sought, else the Auditor General shall inform the same to the Chief Accounting Officers.

Accordingly, the concerned Minister or State Minister or chief of constitutional bodies are also informed, to initiate further and settle or cause to settle the remaining irregularities that could not be settled in the level of the responsible person and the Chief Accounting Officer.

- 101.1 During the follow-up audit, irregularities are cleared and settled on the basis of proof of recovery or evidential documents or proof of regularization made by the Chief Accounting Officer as per the provisions contained in Rule 159 of Financial Administration Regulation, 1999, Financial Procedure Act, 1998, and resolutions of Council of Ministers dated 6/01/2003 and 17/09/2005 and additionally, on the basis of decision and instructions issued by the Public Accounts Committee. But, it has been noticed that many of the requests for follow-up audit either do not contain sufficient evidences or found to be regularized without any legal bases and in such cases the concerned offices are informed about the inability to make follow-up audit.
- 101.2 Irregularities have to be cleared within the time frame specified by the Regulation. In case of recoverable irregularities, the Chief Accounting Officer, if fails to recover through regular process, forward the list of such irregularities to the Central Recovery Office (*Kendriya Tahasil, CRO*) for enlisting in central record. Once recorded in CRO, the irregularities could be deleted from the Central Record of Irregularities through follow-up audit. Except the cases of misappropriation, embezzlement and recoverable ones, as specified in Section 24 of Financial Procedure Act, other general irregularities, which could not be settled through regular process, could be sorted out by Irregularities Settlement Committee, constituted under Section 23, on basis of propriety perspective and recommendation of the concerned entity/ministry.

102 Settlement of Irregularities and Follow-up Audit – Efforts used in settlement of irregularities and follow-up audit are as follows:

- 102.1 Each year, while informing about annual audit work schedule to the Chief Accounting Officers, this Office always fixes up certain date, which normally falls on mid-March, for settling of irregularities through follow-up audit. In order to facilitate this process, this Office has given continuation to follow-up audit by extending the deadlines on the requests of Chief Accounting Officers and the recommendation made by the Public Accounts Committee. According to the annual audit work schedule slated for Fiscal Year 2006/07, the final date for conducting follow-up audit was fixed for mid-March, but, the process of follow-up audit was discontinued for some time because none of the existing laws contain the provision which authorize this Office to conduct follow-up audit of previous year's irregularities. In this regard, discussion meeting on the outstanding irregularities up to 2005/06 was organized by Legislature Parliament and in the presence of Chief Secretary, Finance Secretary and Auditor General, it was decided to settle irregularities remained up to 2006/07 within the time period specified by the Act, to update records as soon as possible and to settle pending

irregularities through follow-up audit as usual and also decided to record previous irregularities properly to closely monitor during the regular audit. Adhering to this decision, this Office is conducting follow-up audits to settle out previous irregularities.

In that meeting, it was also decided to proceed for revision of the concerned statutes regarding follow-up audit, but, it could not be materialized, hence the problem has not been properly addressed.

- 102.2 It is the practice to delete the irregularities, noted during the audit of entity/ministry and offices, instantly if evidence against any irregularity is submitted during audit or before issuance of preliminary audit report, if evidences are produced during primary discussion with responsible officials on draft audit report and if the response of concerned entity on preliminary audit report are attached with adequate evidences.

Besides normal submission of preliminary report, it is the policy of this Office to call for instant attention of responsible officials of the entities/ministries if any case of loss or damage, embezzlement or misappropriation, which is serious in nature and requires prompt action, is found during the audit.

- 102.3 In accordance with the provisions contained in Section 19 of the Financial Procedure Act, 1998, this Office has been furnishing information to the Chief Accounting Officers about the unsettled irregularities and, if still irregularities are no settled, to the concerned Ministers. Similarly, the heads of Constitutional Bodies are also advised on the unsettled irregularities of their organizations. Additionally, the Chief Accounting Officers are provided with the texts being drafted for inclusion in the Annual Audit Report. It is expected that these processes will positively help in the settlement of the irregularities.
- 102.4 It has been the policy of the Office to conclude follow-up audit within 15 days of receipt of request letter from concerned entities and, in case follow-up audit cannot be done, information is served to the concerned offices by specifying the reasons.
- 102.5 As the audit teams, engaged for field audit, are also assigned to conduct follow-up audit directly at concerned office, it is hoped that this will help to settle irregularities on the spot where the irregularities were originated.
- 102.6 The Irregularity Settlement, Evaluation and Monitoring Committee, constituted to monitor the status and to make regular follow ups of concerned entities and ministries in order to settle pending irregularities under Rule 150 of Financial Administration Regulation, 1999, has played a very significant role in settling age old irregularities. In this connection, the Committee has been issuing directives to the entities/ministries on settlement of irregularities, specifying target figures, collecting and reviewing monthly progress reports from concerned entity/ministry

including this Office and submitting quarterly reports to the concerned Minister and half-yearly reports to the Prime Minister.

In a resolution made by the Council of Ministers on 17/08/2005, it was decided that entities/ministries should settle 28 to 50 percent of volume of pending irregularities. Only 30 entity/ministries have met 29.06 to 100 percent target.

The Public Accounts Committee has constituted various 7 sub-committees, on 30/06/2006, to deliberate on the Annual Report. Within this period, the Committee deliberated on the audit and irregularities of various ministry and secretariates and produced its 13th and 14th Report, 2006 and First Report of Public Accounts Committee, Legislature-Parliament, 2007. The Committee, in order to deal with the irregularities, issued instructions to all ministries, secretariates and departments to clear out pending irregularities within 13/04/2007 and started its monitoring as well. The Public Accounts Committee, by inviting meeting of accountable high-level officials, discussing and instructing them to strictly comply with the law in the course of discharging public accountability, has demonstrated its significant role in bringing the organizations in line to comply with financial discipline and observe the public accountability. This Office is also regularly participating in such meetings called by the Public Accounts Committee.

Because of all these endeavors, the gradual improvement in settling of irregularities is being visible. Obviously, the irregularity, its consequences and progress should not be measured in mere figures. Symptoms of improvement in some system-related issues which cannot be expressed in figures have taken place, while some areas have already been improved the Chief Accounting Officers have expressed their commitments to effectively manage the internal control system so that common errors are not repeated again. Undoubtedly, the above mentioned efforts should be taken as positive achievement in the directions towards minimizing financial absurdity and maintaining financial discipline.

- 102.7 In order to ensure the maintenance of financial discipline, it is necessary to produce backlog accounts for audit and evidences of settled irregularities for verification in follow up audit. When accounts are not produced for audit, opinion on the financial transactions can not be expressed. Up to the 44th Report of the Auditor General, accounts of 2 thousand 669 units equivalent to Rs 2 billion 442 million 398 thousand have not been submitted for audit consideration. Despite of repeated instructions made by Public Accounts Committee of Legislature Parliament to produce arrear accounts for audit, only 27 units have produced accounts of Rs 23 million 580 thousand which demonstrates that even the instruction of the PAC has not been fully pursued. The arrear accounts comprise the accounts pending from the fiscal year 1978/79. If the trend of deferring further the audit of pending accounts continues and no one is penalized for failure to

produce accounts for audit, it can be predicted that after some time lag, audit of those accounts may be of hardly any value.

102.8 The data on last 3 years' follow-up audit pertaining to the government offices is as follows:

(Rs. in thousand)

Report	Balance up to Previous Report	Follow-up Audit			Balance (including New Additions)
		Amount	Percent	Added This Year	
2006	28,529,986	8,489,624	29.76	9,863,123	29,903,485
2007	29,888,876	11,726,288	39.23	8,253,164	26,415,752
2008	26,416,024	9,484,136	35.90	9,966,297	26,898,185

The entity/ministry-wise detail of irregularities and settlement is in Chart No 5.

- Irregularities amounting to Rs 272 thousand pertaining to 1 entity and 5 ministries has been adjusted in 'Balance up to Previous Report' column.

102.9 Out of the previous irregularities, follow-up audit of Rs 9 billion 484 million 136 thousand was carried out this year and following 5 ministries have submitted for highest volume follow-up totalling of Rs 6 billion 439 million 923 thousand (67.90 percent of total follow-up audit) :

(Rs in Thousands)

Ministry	Irregularities up to Previous Report	Follow-up Audit	Percent of Follow-up Audit Compared to Irregularity	Percentage compared to Follow -up
1. Finance	6,799.113	3,082,462	45.34	32.50
2. Education and Sports	2,541.832	1,050,360	41.32	11.07
3. Physical Planning and Public Works	3,181.860	976,018	30.67	10.29
4. Home	2,081.551	667,392	32.06	7.04
5. Water Resources	1,896.454	663,691	35.00	7.00
Total	16,500.810	6,439,923	38.14	

102.10 The current figure of irregularity, after deducting this year's settlement and adding up new irregularity raised this year, is Rs 26 billion 898 million 185 thousand (last year it was Rs 26 billion 414 million 752 thousand). The 5 ministries having highest amount-wise irregularity are as follows:

(Rs. in thousand)

Ministry	Total Irregularity Amount	Percent of Total Irregularity
1. Finance	7,365,511	27.38
2. Physical Planning and Public Works	3,414,433	12.69
3. Local Development	2,426,223	9.02
4. Education and Sports	2,341,980	8.71
5. Defence	1,828,803	6.80
Total	17,376,950	64.60

The current status of irregularities pertaining to the government offices is in Annex 30.

102.11 Regarding Boards and other entities, the pending irregularities and the end result of follow-up audit for last 3 years is as follows:

(Rs. in thousand)

Report	Balance up to Previous Report	Settled by Follow-up Audit			Balance (including New Additions)
		Follow-up Audit	Percent	Irregularities Added This Year	
2006	24,650,416	4,794,357	19.45	3,680,758	23,536,817
2007	23,421,045	4,467,828	19.07	3,882,477	22,835,694
2008	22,835,694	3,493,816	15.30	2,657,905	21,999,783

The current status of irregularities pertaining to the Boards and other entities is in Annex 31

102.12 Last year, irregularities of Rs. 16 billion 194 million 116 thousand inclusive of Rs. 11 billion 726 million 288 thousand pertaining to government offices and Rs. 4 billion 767 million 828 thousand pertaining to Boards and other entities was cleared through follow-up audit. This year, irregularities of Rs. 12 billion 977 million 952 thousand including Rs. 9 billion 484 million 136 thousand and Rs. 3 billion 493 million 816 thousand respectively were settled through follow-up audit.

102.13 The status of recoverable irregularities and actually recovered by government offices, other organizations and District Development Committees for last 3 years is as follows:

(Rs. in thousand)

Report	Irregularities to be Recovered	Actual Recovery
2006	2,267,876	1,450,998
2007	2,148,523	2,585,246
2008	1,341,119	780,712

The current status is in Chart No. 6

103 **Grand Total of Irregularity** – The total unsettled irregularities pertaining to the government offices, Boards, other Entities and District Development Committee is Rs. 48 billion 897 million 968 thousand (this was Rs. 50 billion 214 million 601 thousand last year). This figure includes the irregularity of District Development Committees for the current year only. In comparison to last year, volume of irregularities has decreased by 2.62 percent.

104 **Suggestion for Settlement of Irregularities** – Analyzing the status of settlement of irregularities and follow-up audit conducted as per the provisions of Financial Procedure Act, 1998 and Financial Administration Regulation, 1999, following measures deem necessary to be undertaken in order to implement audit of

financial transactions and follow-up audit of entities/ministries and their subordinate government offices:

- 104.1 It has been very necessary to make the internal audit perpetual, qualitative, competent and reliable so as to minimize the irregularities against compliance audit. In order to strengthen the functions of internal audit it is necessary to enhance the capacity of the Financial Comptroller General Office.
- 104.2 The officials, responsible for settlement of irregularities as specified by law, need to be more vigilant and accountable in collection of evidences and in identifying the reasons for regularizing the unlawful transactions. It is very much necessary to settle the queries at the time while it was identified and make the responsible official to collect documents and evidences within the deadline set by law i.e. 35 days of notification of irregularity and to initiate and conclude the actions as per the existing law, in one hand and, in the other, it is equally essential to make the concerned official fully accountable.

Irregularities are being raised, because the official engaged in financial transactions do not organize supporting documents and remain reluctant to produce at the time of audit. There is no progress in follow-up audit because the officials do not account for the settled irregularities and produce for follow-up audit with evidences during field audit. The Ministry should make arrangement to warn those officials on the ground of negligence in duty if irregularities are noted in the absences of evidences or details of evidences are not produced to the auditor for follow-up audit. Also, the Ministry should regularly monitor the status of irregularities and their settlement and should care for the implementation of the suggestions put forth by internal and final audit.

- 104.3 In order to reduce the volume of irregularities, arrangements should be made to produce sufficient proof, evidential documents and books of accounts instantly during the field audit.

The observance of financial discipline and volume of irregularities must be taken as a basis of performance evaluation of responsible officials.

- 104.4 Sometime, offices at operating level often seek opinion or approval or consent of concerned ministry or any other regulating authority and carry out financial transactions on the base of such opinion or approval or consent. If any irregularity is found during the audit of such transaction, according to the present practice the burden of settling such irregularity come upon the concerned office. But, it is very difficult in the part of subordinate offices to clear such irregularities found in the financial transaction carried out on the basis of such opinion or approval or consent. Hence, the entity which issued opinion or approval or consent should bear the responsibilities of irregularities found in the financial transaction carried out on the basis of such opinion or approval or consent and proceed for settlement.
- 104.5 Regarding the settlement of irregularities, apart from the provisions contained in the existing law, a resolution of the Cabinet dated 6/01/2003 has bestowed the

authority upon the Chief Accounting Officers to settle the irregularities up to fiscal year 1996/97. According to this resolution, the Chief Accounting Officers have been authorized to write off amounts as specified and settle the irregularities caused by absence of evidential documents and other unlawful transaction by revisiting the proofs.

The situation, where Auditor General is consistently pointing out irregularities but entities responsible for using public resources remain adamant to respond on the audit reports, do not initiate to settle the irregularities and try to settle them after a long time in a way contradict to the provisions of law, definitely cannot be taken as a sound financial administration. These practices not only augment the volume of irregularities but also call for anomaly in financial administration which might lose credibility of financial transactions. Therefore, all Chief Accounting Officers not merely try to regularize the irregularities but emphasize upon regularizing them only after initiating actions against the responsible individual indulging in irregular activities

- 104.6 The instructions and suggestion provided to Nepal Government by Public Accounts Committee, after deliberating on the Report of the Auditor General, should be in time bound manner. The pace in settling irregularities through follow-up may speed up if the status of implementation of suggestion and instructions put forth by the Public Accounts Committee in previous years could be monitored closely
- 104.7 Implementing procedures of law should be made clear and simple by making contemporary revisions in the legislations relating to financial administration. Obviously, irregularity originates from financial transactions, therefore, all financial transactions should be supported by complete evidence, well documented and recorded properly in the books of accounts that complies the existing law and accounting standards, all procurement processes, goods or services, should be made transparent and competitive, all functions should be performed as permitted under decentralized authority, all periodic reports should be submitted in time, all agreements made with friendly nations and international agencies should be precisely executed. These actions definitely can bring irregularities to nil or at least reduce considerably. If everybody could be accountable towards these aspects, financial discipline could be enhanced significantly.
- 104.8 The concerned offices, if it deems that recoverable irregularities could not be recovered despite of continued efforts within a year, should, as per the provisions of law, forward the list of such irregularities to the Central Recovery Office for enlisting in Central Public Record. For this purpose, legal provisions should be amended if deems necessary for effective implementation.
- 104.9 The accounting system currently used by the government is Cash-based. This system is purely based on Budgetary Principle and there is no provision of carrying forward of advances. As there is no in-built mechanism of preparation of consolidated statement of outstanding advances, all advances are shown as

irregularities. This, too, has increased the volume of irregularities. Therefore, it is necessary to review the present practice in order to improve the accounting system where outstanding advances are carried forward in the books of accounts.

104.10 The tendency of not coming in action instantly and not concluding the irregularities on the same year also has shed impact on the continuing increment in volume of irregularities. It can be said that unresponsiveness in implementation of law and absence of initiation in penalizing the wrong doer are the basic reasons behind increment of irregularities.

In case of age old irregularities, it is very difficult to collect evidences and settle them in present context because either the legal provisions have been changed or concerned individual or documents do not exist or available documents are far from reliability or construction works or acquired goods do not exist at all. In this situation, it would be appropriate to assess the gravity and consequence of the irregularity and settle under the present law and in case of recoverable ones forwarded to concerned authority for enlisting and necessary actions.

- **Overall Scenario of Issues that Require Action**

105 **Advance Tax** - This year, when audit pointed out that 581 government offices failed to deduct advance tax of Rs 25 million 322 thousand, altogether 105 offices have acknowledged the recovery Rs 2 million 168 thousand. Similarly, when audit raised the issue of non-deduction of advance tax equivalent to Rs 5 million 238 thousand by 159 Boards and other entities, one of them recovered only Rs 1 thousand. This year, advance tax of Rs. 28 million 313 thousand is still to be recovered because they are either not deducted or deducted but not deposited in the Consolidated Fund by government offices, Boards, other entities and District Development Committees. Tribhuvan University and Sanskrit University, though, have deducted advance tax of Rs 10 million 535 thousand but have not deposited in the Consolidated Fund. Including those figures as well, altogether Rs 38 million 848 thousand advance tax is yet to be deposited to the government fund. The overall scenario of advance tax not deducted is in Annex 32.

The details of advance tax not deducted for last 3 years are as follows:

Report	Advance Tax not Deducted (Rs. in Thousand)
2006	57,050
2007	15,887
2008	28,313

Sub-section (5) of Section 90 of Income-tax Act, 2001 stipulates that in the event of the person, who is supposed to deduct advance tax, does not deduct the tax or does not deposit, the person who has paid the tax and the person who is supposed to deduct the advance tax would be jointly as well as individually liable to deposit the said tax amount in the Consolidated Fund. But the process of action

against the responsible persons, pursuant to this provision, was not initiated strictly which has lured others not to deduct advance tax and, even deducted, not to deposit the tax money in the Consolidated Fund.

Individual responsible for not deducting advance tax as per the law or not depositing deducted tax money in the Consolidated Fund, should be penalized as per the Income Tax Act, 2001.

- 106 **Revenue Arrears** – On the basis of statements received from the entities/ministries and details collected, to the possible extent, during the course of audit, it is found that Rs 30 billion 59 million 585 thousand (this was Rs 32 billion 823 million 798 thousand) is standing as the revenue arrears at the end of this year. Compared to last year, this year the revenue arrears have reduced by 8.42 percent. The status of last 3 years’ revenue arrears is as follows:

Annual Report	Arrears (Rs. in Thousand)	Increase Percent
2006	28,997,925	3.51
2007	32,823,798	13.19
2008	30,059,585	(8.42)

The current status of revenue arrears is in Annex 33 and Chart No. 7.

- 106.1 Out of the total arrears of Rs. 30 billion 59 million 585 thousand, 5 entities/ministries holding highest amount of revenue arrears are as follows:
(Rs. in thousand)

S.N.	Entities/Ministries	Arrears	
		Amount	Percent
1	Finance	26,624,061	88.57
2	Supreme Court	2,851,938	9.49
3	Water Resources	380,944	1.27
4	Forest and Soil Conservation	110,251	0.37
5	Culture, Tourism and Civil Aviation	52,541	0.17

As per the table, arrears of above-mentioned 5 entities/ministries cover 99.86 percent of the total revenue arrears.

- The total arrear includes Rs. 3 billion 461 million 314 thousand which is under consideration of Appellate Court as disagreed by the tax payers and have filed appeal against the assessment of Income-tax, previously called Sales Tax and Excise Duty under the Ministry of Finance.
- Out of the customs arrear, the Indian Excise amounting to Rs. 3 billion 347 million 772 thousand (DRP) paid by importers is shown as money to be refunded.

- 106.2 The existing provisions of law stipulate that any revenue, which, by law, must be deposited within the date specified by law, shall be recovered from the

responsible person by desisting his business activities or by confiscating his fixed or current assets. This provision is not enforced effectively which has resulted to substantial increment in revenue arrears. Therefore, effective enforcement of law is needed.

Besides outstanding irregularities, it is essential for government offices to make arrangement for timely action for recovery and make other follow up actions in respect to audit backlogs, revenue arrears and pending cases of reimbursable foreign grants and loans. The government offices need to take instant actions in the cases of non-deductions of advance tax by corporate bodies, non-depositing of deducted tax in proper government fund and non-receipt of dividends from corporate bodies. Such amount, as given below, is Rs 68 billion 560 million 286 thousand at the end of current year (this was Rs 71 billion 464 million 166 thousand last year).

(Rs. in thousand)

Particulars	Amount
Overall Aspects Which Needs Action to be Taken	68,560,286
Irregularity and Audit Backlog	29,340,583
1. Irregularity remaining to be settled (including advance)	26,898,185
2. Audit backlogs	2,442,398
Revenue Arrears and Others Items to be Recovered	39,219,703
3. Revenue arrears to be recovered	30,059,585
4. Reimbursable Foreign Grants	4,266,192
5. Reimbursable Foreign Loans	3,125,628
6. Advance tax not deducted and deducted but not deposited in the Consolidated Fund by Corporate Bodies	208,737
8. Dividends to be received from Corporate Bodies	1,559,561

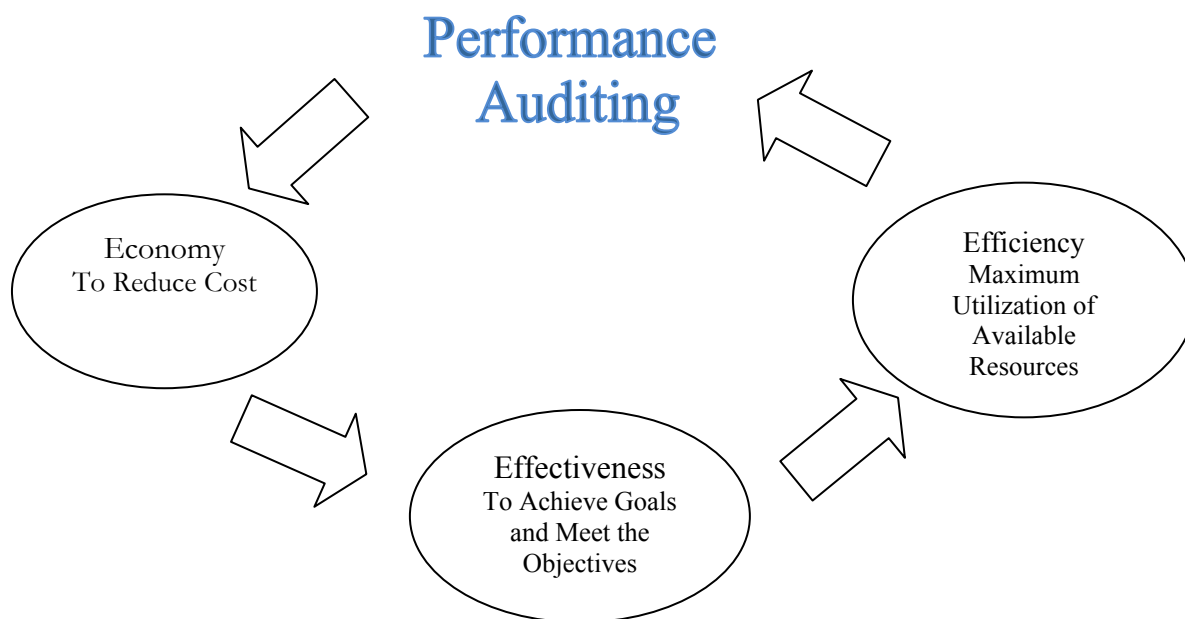
The balance sheets of 20 corporate bodies, audited this year, show that Rs. 4 billion 714 million 942 thousand has been set aside as provision for income tax. But, only 19 bodies have paid a total sum of Rs 5 billion 656 million 199 thousand in advance.

The amount of irregularity of Boards, other entities and District Development Committees which has to be settled, by initiating immediate actions, is Rs 21 billion 999 million 783 thousand. Last year, this figure was Rs 23 billion 798 million 849 thousand.

Performance Auditing

- **Audit Observation**

In general, performance audit is defined as the act of testing the transactions by the perspective of economy, efficiency and effectiveness guided by the procedures and practices pronounced by INTOSAI (International Organization of Supreme Audit Institutions) and Supreme Audit Institutions of other nations. It is a general practice to keep following issues in focus while applying principles of economy, efficiency and effectiveness in government audit:



The approach of Performance Audit is applied to test whether the projects, programmes or organizations follow the above mentioned principles or not. This year, 19 programmes were selected for testing under Performance Audit.

Project/Programmes

1. Customs Reform Project
2. Deep Tube-well Irrigation Project (Lahan, Biratnagar)
3. Rehabilitation of Large Government Irrigation Projects
4. Fisheries Development Programme
5. National Land Utilization Project
6. Kathmandu Valley Road Extension Project
7. Education For All Programme

Activities

8. Medicine and Equipment Supply Programme (Including Follow-up)
9. Contract Management, Inventory and Resource Mobilization (Division Road Office, Morang)
10. Project Operation and Management, Water and Sanitation Division Office, (Makawanpur and Hetauda)
11. Management of Public Health Office, (District Public Health Office, Kathmandu and Bhaktapur)
12. Nepali Army Welfare Fund
13. Management of Nepal Police Hospital
14. Management of National Reserves and Wildlife Conservation (Bardia and Chitwan)

Entity/Office

15. Kathmandu Valley Town Development Project Implementation Committee, Kathmandu
16. Aids and Venereal Disease Control Centre
17. Poverty Alleviation Fund
18. District Development Committee, (Banke and Chitwan)
19. Management of Hospitals (Lumbini, Zonal Hospital and Bharatpur Hospital)

Detailed audit observations related to Project/programmes have been highlighted in Part 2 of the Report. Some of the major observations are cited below:

- **Deep Tube-well Irrigation Project**

- 107 **Termination** – In 2006/07, Biratnagar field office of the Project started installation of Tube-well no. 10, in order to facilitate 327 farmers of 32 household, to irrigate 40 hectare of land in Khudunabari, Jhapa – 6. This project was terminated when the tube-well, at its completion stage, could not discharge water more than 12 liters per second even at the depth of 115 meters. Out of the estimated project cost of Rs 5 million 353 thousand, almost Rs 2 million 880 thousand has been spent in the construction. Even deducting the cost of reusable materials like pipes and accessories, Rs 1 million 242 thousand spent on tube-well construction has been wasted.
108. **Unproductive** – Work on tube-well no. 1 installed by Field Office, Lahan, in Ghadana -5 Siraha, was started in 2003/04 and completed in 2004/05. A contractor completed it at a cost of Rs 892 thousand. In this project, water discharge was found to be only 18 liters per second which is far lower than average. Presently, this deep tube well has reached in an unusable condition which has turned the investment into unproductive one.
- 109 **Water Discharge** - It was expected that after the completion of the deep tube well project, constructed according to the design and project cost, will discharge 40 liters per second per tube-well in Sirha, Saptari, Sunsari and Jhapa. The actual water flow during the construction and after construction of the project is as follows :

District	Tube Well No	Flow litre/sec	Percent compared to estimate	District	Tube Well No	Flow litre/sec	Percent
Jhapa	1	20	50.0	Siraha	1	18	45.0
Jhapa	2	22	55.0	Siraha	2	35	87.5
Jhapa	3	20	50.0	Siraha	3	20	50.0
Jhapa	5	15	37.5	Siraha	4	30	75.0
Jhapa	9	22	55.0	Saptari	7	42	105.0
Jhapa	10	12	30.0	Saptari	8	40	100.0
Sunsari	4	35	87.5	Saptari	9	40	100.0
Sunsari	6	46	115.0	Siraha	5	27	67.5
Sunsari	7	48	120.0	Sunsari	8	48	120.0

The above table reveals that some of the tube-wells could not discharge water as designed. Altogether, 6 Tube wells that were supposed to discharge 40 liter per second have discharged more than 40 where as 12 wells could discharge only 12 to 35 litres per second.

The main objective of the project has been affected negatively as water could not be discharged as envisaged because some important works to be done during the feasibility study phase were not undertaken.

- **Rehabilitation of Large Government Irrigation Projects**

110 **Non-recovery of rents** – Various machines and equipment owned by the project were rented out to District Development Committee, Bara and Parsa in the past. The rent of Rs 74 million 836 thousand, comprising of Rs 12 million 473 thousand and Rs 62 million 363 thousand respectively, is remaining unrecovered.

111 **Management of Equipment** – Heavy equipment of the project is scattered and lying open in the office premises. This can be clearly seen in the adjacent picture.



Heavy equipment lying in open ground

These equipments could not be sold on auction as well because of non-availability of safe parking for such equipment and non-availability of staff to work in inventory section and decision from the Department of Irrigation is still awaited regarding determining the minimum price of the equipment. The equipment is lying in open ground and this may deteriorate auction value.

112 **Water from Canal** – In the agreement signed between government of Nepal and India, in October 27, 1971, it was stipulated that Nepal shall receive 850 cusec (24.1 cumec) water regularly from Don Branch Canal, India. But, within the period of three years, only 75.25 to 79.54 cusec water has been discharged to Nepal. During the joint exercise undertaken to measure the water discharge in 2006, it has been found that the water discharge was short by 23 percent. In rainy seasons, the rainwater carried the soil and sands from both banks of canal and deposited in the canal bed and the farmers, while redirecting the unnecessary rain water, pour them into the canal which resulted in raising the bed level of canal by 20 to 30 cm each year. The slope of canal should be appropriately built in order to protect the canal from siltation, but the eastern canal of Nepal is 92 km long and the ratio of slope is only 1:500 and this has slowed down the flow of water. This has added the problem of siltation. According to the Division, lack of appropriate technology that safeguards the entire canal bed from siltation and sedimentation of soil and lack of repair and maintenance of canals are the main causes of siltation and this has resulted to increasing expenses in cleaning of siltation. Because of the reduction in water flow in the canal itself, Nepal is unable to receive water as stipulated in the agreement made with India.

- **Medicine and Equipment Procurement Programme**

- 113 **Transportation** - Department of Health, Directorate of Medicine Procurement and its subordinate offices have not yet developed policy whether to transport the procured medicine through private transporters or through its own staff and vehicles. In 2006/07, the Directorate has incurred expenditure of Rs 1 million 196 thousand in transporting Iron Tablets, Jeevan Jal, family planning materials, Health Post kits etc. Similarly, the Regional Stores of, Biratnagar and Nepalgunj has spend Rs 459 thousand and Rs 148 thousand respectively in carrying goods through its staff.

- **Management of Hospitals**

- 114 **Income from Rents** – In a 5 year agreement signed between Lumbini Zonal Hospital and Universal College of Medical Sciences on 1/04/1998, it was agreed that the College shall pay Rs 2 million each year for the use of hospital premise and clinical field and from the third year 10 percent shall be added to the rent each year. Although the agreement covered the period of 1997/98 to 2002/03, the College came into operation after a year only and on this basis the agreement was made valid up to 2003/04. Thus, the hospital made an income of Rs 11 million 282 thousand within 5 years.

Under the first agreement, the hospital received Rs 2 million 662 thousand from the College. Later, in order to maintain uniformity in rent, consent of the Ministry of Health and Population was sought to charge 5 percent of tuition fee per student. The hospital signed another agreement in 15/09/2004 for 3 years, to be effective from 1/04/2004, at the rate of Rs 768 thousand per year and within the period the hospital earned Rs 2 million 304 thousand. Again, in 8/04/2007, the agreement was renewed for another 3 year at the rate of Rs 1 million 80 thousand annually. But in 2006/07 the hospital received only Rs 768 thousand instead of Rs 1 million 080 thousand (Rs 312 thousand less). Had the hospital continued with the rent rate as contained in the first agreement, the hospital would have earned an amount of Rs 24 million 872 thousand. In the name of uniformity, the rate was reduced and hospital earned only Rs 14 million 666 thousand. In this way the income of the hospital reduced by Rs 10 million 206 thousand till mid July 2006.

- **Poverty Alleviation Fund**

- 115 **Balance in Non-Operative Accounts** – This year, Rs 1 billion 562 million 852 thousand was deposited in the non-operative account, from which Rs 1 billion 138 million 968 thousand was transferred to operative accounts of 4 thousand 976 community organizations under the agreement leaving a balance of Rs 423 million 882 thousand in the non-operative account. The Fund has booked these amounts as expenses but these amounts are yet to be reimbursed from the donor agencies. The balance of non-operative account includes Rs 13 million 363

thousand balance of FY 2004/05, Rs 92 million 284 thousand balance of FY 2005/06 and Rs 318 million 235 thousand balance of FY 2006/07.

If the balance money could be invested in a savings account at minimum 3 percent of interest, it could have generated an income of Rs 12 million 716 thousand a year. The balances of non-operative funds could not be properly mobilized because existing laws do not permit to open interest bearing accounts, accounting such income could be quite complicated and appropriate systems are lacking in mobilizing such funds.

116 **Approval of Proposals** – The project proposal submitted by communities should have been approved after evaluating them as per the provisions of the Programme manual. But, proposals take as long as 19 months to get approval from the Fund. Two main reasons for late approval are absence of time table in approval process of the proposals in the manual and existence of system that authorizes the Central Office only to approve the project proposals although proposals are submitted in huge numbers from the districts. Because of this delay, projects do not operate in time and target groups are deprived of the benefit expected from the project.

117 **Disbursement** – Once the community organizations are established, it is expected that funds disbursed from the Poverty Alleviation Fund will be deposited in the bank account within the specified period. In this regard, a study of 162 community associations was conducted and found that in some cases it took 1 year 2 months 25 days to get the money deposited in the operating account of the organizations. In some extreme cases, programmes were not implemented at all because of long delay in fund disbursement.

The absence of a fixed time line within which funds should have been disbursed after the approval of proposals and existence of long procedures to fulfill, have caused delay in budget disbursement. These complexities may result in non-achievement of objectives, delay in producing outputs and possibility of decline in trust of common users towards the programme.

• **Contract, Inventories and Resource Management**

118 **Delays** – Contract works must be well managed by making timely decisions. A contractor was awarded a contract to build a bridge over Brahmananda River near Baraha Kshetra which lies in the Chatra Barah Kshetra Road for an amount of Rs 7 million 585 thousand. The contract work was supposed to begin in 17/11/2002 and complete on 24/11/2004. The contractor was given work order on 26/11/2002 and while constructing the bridge, it was reported the cracks were found in the foundation rock of



New bridge site in Chatara. Old decaying bridge over Brahmananda River is seen in the picture

the bridge. Then after in November 2003 the fact was communicated to the concerned Department along with the report of the consultant which confirmed that the place is not appropriate for bridge construction and requested to redesign whole project. Still the detail design and survey report has not received.

According to the annual work plan a budget of Rs 93 thousand has been appropriated for site selection, feasibility study and detail survey and design of that bridge and as per the revised programme the authority has been delegated to Roads Department, Bridge Section. Agreement was made for the bridge construction but works could not begin because of many reasons and it was sent back to design phase again. But, the agreement has not been terminated yet and advance money of Rs 500 thousand provided to the contractor could not be recovered.



Budhikhola Bridge as on 5/12/2007. It was expected to be completed on 15/11/2004.

According to the agreement signed with a contractor to construct Hattimudha

Bridge over Budhi Khola, in Morang District, which was supposed to begin on 20/10/2001 and expected to complete on 15/11/2004, for Rs 14 million 358 thousand (excluding VAT). Till November 2003, the contractor was paid Rs 5 million. For the construction of the bridge, budget was appropriated in FY 2005/06 but it could not be used and in FY 2006/07 there was no budget appropriated. The contractor was provided Rs 1 million 300 thousand mobilization advance on 24/12/2003, the bank guarantee of which expired on 3/12/2004. Even after the non-clearance of advances the due dates of contract and the bank guarantee were also not extended.

In this regard, the concerned office has explained that works could not be completed because the contractor filed a suit in the court and the case is still under consideration. But it did not explain the contents of the case. As the works did not complete in time, the project cost increased in many folds but the problems of local travelers remained unchanged.

• Fisheries Development Centre

- 119 **Utilization of Pond** – The Fisheries Development Centers should have developed their programmes so as to maximum utilization of their available physical infrastructures. During the study of 4 such centers out of 11, it was found that the land, fishponds, and building owned by them are underutilized and fish production remained below targets. The result of the study is given below:

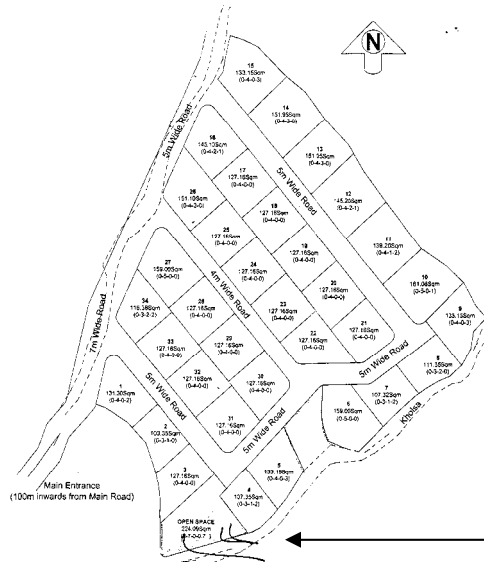
(Area in Hectare))

Fishery Development Training Centre	Total Area	Area covered by office, paths and others	Pond Area	Utilized Ponds		Fish Production M. tons		Fish per hectare
				Number	Area	Target	Progress M. tons	
Jankapur	31.00	17.74	13.26	23	3.45	5	2	0.58
Bhairahawa	23.00	5.30	17.70	14	0.80	2	1.60	2.00
Hetauda	50-86	30.50	20.36	12	11.30	5	4.70	0.416
Bhandara	28.00	7	21	8	6.00	7	7.10	1.18

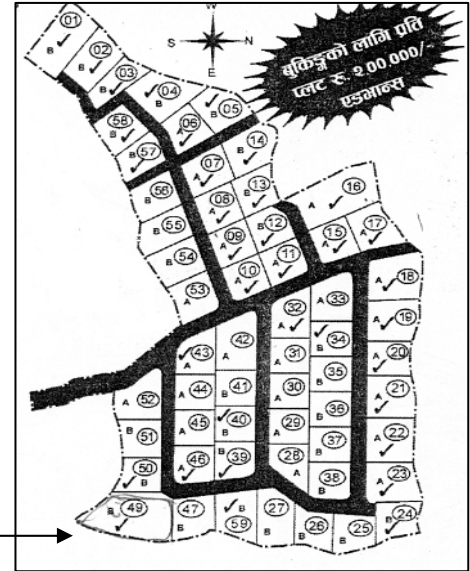
The productivity ratio of fish ponds operated by the Fish Development Centers is lying between 0.416 to 2.00 metric tons per hectare only. The objective of Tenth Plan is to increase the national productivity of fish production to 4.05 metric tons per hectare. Although, the objectives of these Centers are to raise the productivity of fish production to 3.65 metric tons per hectare, the current productivity ratio of the fish ponds managed by these Centers is very low and this proves that the fish ponds are not efficiently operated. The Center has informed that the reasons behind the low production of fish, in comparison to the national target, are the inadequate budget allocation for the operation of fish ponds and adaptation of the policy of minimal utilization of available infrastructure.

- **Kathmandu Valley Town Development Plan Implementing Committee**

120 **Compliance of Standards** – A Housing Company applied, along with site plans, for the approval of land development project to be operated for sales in two plots covering 5 thousand 593 square meters in the locality of Ward No 7, Dandpauwa Village Development Committee, Kathmandu District. The Kathmandu Valley Town Development Plan Implementing Committee, following a decision made in 18/04/2008, approved the land development plan on the condition that the plan will leave an open space of 224 square meter and 895 square meters for public road. The Company, just to avoid the monitoring by the authorities, made an obscure advertisement in a daily scribe on 6/05/2008 with just personal contact numbers hiding the identity of the company. The map of site plan approved by the Committee and advertized for sales is presented below:



Map Approved by the Board



Map advertised by the company



Photo of approved site



Photo of unapproved site

In the advertisement, a plot which was supposed to be an open area as per the approved site plan is shown as plot 'B 49' and marked as "sold". While applying for the approval, there were 34 plots of land, but the company advertised with total 58 plots of land adding 24 'unapproved' plots of land on its own will. Also the advertisement shows that more than 50% of plots are marked as 'sold'. While the area of land development has been increased than approved, open space has not been added in that ratio. Open spaces are normally kept in equal distance of all plots, but in this case the open space is planned in south-east corner. Because the open space is not in the mid-distance, all the users of housing plan are not in position to get uniform benefit from the open space.

Further, the plot approved for open space has also been sold. Earlier the housing company had shown a stream in east-south side in its proposed site plan whereas the technical report shows Rajkulo (*a historical canal*) in east and west of the site. The approved housing map, endorsed by the Committee, does not indicate the exact position of Rajkulo or the stream. The company and the Committee, both are silent on the possible hazard because of Rajkulo or the stream. During the discussion made in this regard, the Committee has acknowledged that dialogue with the housing company has begun.

121. **FAR Coverage** – A private house, with a floor area of 413 square meters, located in commercial sub-sector of Kathmandu Municipality, Ward No 11 Babarmahal, south of Singha Durbar and west of Mrigendra Medical Trust, applied to construct a new building. According to the Building Standard, a new house could be built on 50 percent of total land area and Floor Area Ratio (FAR) should be 1:3 of land area. But it has been found that the new building has been constructed in that land covering 285 square meters which is 69% of land where as only 207 square meters (50%) was permissible for that purpose. Similarly, the building contained a constructed area of 1 thousand 919 square meters which is 1:4:6 Floor Area Ratio (FAR) whereas the maximum permissible floor area is only 1 thousand 240 square meters under the standard Floor Area Ratio (FAR). Initially, the building was approved for 5 storey whereas when completed it had 6 storey in north and 7 in south. The regulating authorities have not taken any action although the building is constructed inconsistently with the established building codes.
122. **Codes** – On 5/03/2004, Kathmandu Municipality made a special decision to permit a person to construct a house in Ward No 12 Teku, Pachali, Kathmandu with 1:4 Floor Area Ratio (FAR). Later, when Town Development Board revoked the decision, the house was constructed using 1:3 Floor Area Ratio (FAR) standard. It has been found that the particular house has encroached 9.1 meter of public road to build an underground floor and also has covered 996 square meters more floor area than 2,874 square meters permissible under the Building Construction Codes

- **National Land-Utilization Project**

- 123 **Implementation of Project** – According to Rule 39 (f) of Land Regulations, 1964, the major duties, function and authority of Land Utilization Council are to develop land utilization policy and its work procedure, to approve programmes relating to it, to prescribe of monitoring and evaluation procedures, to eliminate the duplication of land utilization programmes undertaken by various agencies, and to issue directives regarding land utilization to various agencies, projects and district committees.

The third meeting of Land Utilization Council, held on 14/01/2002, approved the policy, functions and the organization structure of the Council. But, the policy and functions were not published in printed form. In the resolution no.

3 of the 6th Meeting of the Council, held on 125/02/2008, it is again decided to gather the opinion or comments of Council Members on the draft paper on policy and functions to be adopted in future by the Council regarding land utilization and to discuss under this agenda in next Council Meeting. But, the meeting could not be called till 2008 July. Even after 7 years of the formation of Land Utilization Council, the process of developing Land Utilization Policy and Procedures, the major task of the Council, is still uncertain. In the absence of policy, functions and duties, the exact responsibility of the entity could not be defined and in the absence of implementing procedures programmes could not be launched.

- **Nepal Army Welfare Fund**

124. **Status of Fund** – The main objective of this Fund, established in 1975 and financed by the contributions of the Nepal Army personnel working in UN Peace Keeping Mission on the request of United Nations, is to run various programmes for the benefit of retired and currently serving army personnel and their relatives. This Fund is now being operated under Army Act, 2007.

Till last year, the cash balance of this fund was Rs 10 billion 293 million 714 and adding this years' income of Rs 4 billion 64 million 177 thousand (deducting loss on currency exchange rate of Rs 786 million 307 thousand) and deducting this year's expenses of Rs 3 billion 180 million 555 thousand, the net balance at the year end is Rs 11 billion 177 million 336 thousand. The balance figure is inclusive of Rs 208 million 350 thousand invested in Bonds.

125. **Procurement** - All offices should follow the existing rules and regulation in all kinds of procurement. If any activity is to be done in the Fund, it is conducted through the unit of Nepal Army related with that particular work. According to this practice, health related works are conducted through Army Health Department.

The Department of Army Health calls for sealed tenders for supply of medicine and health equipment in required volume staying within the limit of approved budget. But while signing contracts for goods supply, it was noticed that contracts are signed for less quantity than mentioned in tender documents and later, medicine and equipment are purchased in open market. This has encouraged following the practice of direct market purchase. In 2006/07, purchase agreement was signed for Rs 113 million 924 thousand, but goods worth Rs 62 million 58 thousand only were procured through tender.

The practices of procuring 19 to 61 percent of approved tender, instead of procuring in full as agreed before and purchasing required medicine, medical and surgical goods from the direct market without competition is definitely not economy.

126. **Fixed Deposit Investment** – Considering the existing rules and regulations, the balance monies of the Fund should be invested in activities or institutions which are of comparatively low risk and high yielding. Some observations in this regards are as follows :

126.1 Nepal Rastra Bank has, with an announcement declared following banks and financial institutions problematic, yet the Fund has deposited considerable amount of money in Fixed and Savings Bank Account of these institutions.

S. N.	Banks	Deposited Amount (Rs in thousand)	Date announced by Nepal Rastra Bank.
1	Nepal Cottage and Small Industry Development Bank	240,900	21/08/2006
2	United Development Bank	73,000	27/12/2006
3	Nepal Development Bank	250,000	12/10/2007

The Fixed Deposits of Rs 236 million 400 thousand invested in 8 accounts of Nepal Cottage and Small Industry Development Bank and Rs 57 million in 3 accounts of United Development Bank are already matured but it has not been possible to draw out the money or renew fixed deposit accounts.

126.2 Nepal Rastra Bank has suspended the permission of limited banking services provided to Amaravati Multipurpose Cooperative from 1/12/2007. According to the Cooperatives Act, cooperative societies are not allowed to accept deposit and provide loans except to the members. Because of this reason, Rs 91 million 231 thousand invested in Fixed Deposit Account and Savings Account of that institution could not be taken back. The invested amount of in this institution may prove to be risky.

126.3 The Fund has established Sunachury Emulsion Plant to produce explosives and has invested Rs 245 million 592 thousand in shares in FY 1999/2000 to till date. Feasibility study or investment analysis of return was not carried out before establishing the plant. The plant started its commercial production from 2006/07. In the absence of concrete policy in operation of plant and its management, the investment has turned into a non-yielding business. In one hand, there is dearth of income source to undertake welfare programmes, on the other a huge sum of money invested in the plant has remained idle with possibility of uncertainty of returns in future.

127 **Documents** – According to the practice, Self-sustainment Team, deputed in the Peace Keeping Force under United Nations, carries with them necessary machinery tools, equipment, and other goods and supplies for the first month from Nepal. The daily allowances and expenditure incurred for uniforms, other materials and contingent on equipment needed during the mission are reimbursed from United Nations. But it has been noticed that documents, regarding the purchases of materials and other expenses while deputing teams in various

missions, are not well maintained. This year, Rs 4 billion 122 million 097 thousand has been received as reimbursement against such expenses. But there is no way to determine the amount to be received in reimbursement in the absence of detail accounts of purchase of equipment and materials, reimbursable amount and actual amounts received as reimbursement. It is inappropriate not to maintain the records so as to ensure the actual receipts and recoverable amount.

128. **Outstanding Payable** – The Building and Works Department has made a payment of Rs 37 million 633 thousand last year’s outstanding dues, on the basis of List of Outstanding Dues, for building construction completed last year. This payment comprises of Rs 34 million 488 thousand paid to various firms and construction companies and to an army personnel for wages on the basis of muster roll (*Dor Hajiri*) of labor used in the works undertaken in self supervision. The wages of labor based on the muster roll (*Dor Hajiri*) should have been paid on the spot, but on the contrary, it was kept unpaid, included in List of Outstanding Dues and paid this year. At end of the year, Rs 25 million 576 thousand, to be paid to the suppliers of various construction materials and contractors, which could not be paid because of non-disbursement and included in the List of Outstanding Dues for next year.
129. **Audit of Loan Investments** – This year loan amounting to Rs 57 million, totaling Rs 851 million 400 thousand till the date, was paid as housing loan to all levels of staff Nepal Army. Similarly, Rs 34 million 178 thousand was paid to Insurance Section as insurance subsidy. But, the accounts of loan provided by Loan Section and payments made by Insurance Section have not been produced for audit.
- 130 **Performance Audit** – In totality, performance audit of 19 projects /programmes /entities covering sectors related to finance, social infrastructure building, water resources, health etc have been conducted this year. While auditing and evaluating these sectors under the perspective of economy, efficiency and effectiveness, the areas mentioned below need to be improved:

• Delay in Decision Making,	• Non-utilization of Procured goods
• Piling of stocks in excess of required quantity	• Hospital Wastes poorly managed due to lack of proper guiding manuals
• Failure in sorting out disputes and hurdles in time	• Installed Shallow Tube-Well out of operation
• Non-completion of Projects in stipulated time	• Non- accomplishment of programmes due to lack of adequate budget appropriation
• Non-recruitment of Specialists in the number of the posts approved	• Lack of repairs and maintenance of Health equipment
	• Health research projects conducting without approval

Accordingly, altogether 228 suggestions, related to activities of projects / programmes or entities for reforms of which 114 suggestions to be implemented immediately and 114 suggestions to be implemented in future are presented in Part 2 of the Report. It is anticipated that the timely initiation by concerned authorities, regarding implementation of these suggestions, shall contribute in mitigation of weaknesses and improvement in performance during the execution of activities or providing services to people.

Corporate Bodies

- **Wholly Owned Corporate Bodies**

131 **Statutory Provision** – Section 6 sub-section (1) of the Audit Act, 1991 states that corporate bodies wholly owned by Government of Nepal shall be subject to audit by the Auditor General of Nepal. Sub-Section (2) of the same Act states that the Auditor General may, if deems appropriate, may appoint professional auditors, licensed under prevailing law, to render audit on its behalf.

Similarly, Section 7 (3) of the Act, states that corporate bodies substantially owned by the Government shall consult the Auditor General while appointing auditors and sub-section (4) states that after completing the audit, the concerned body shall forward a copy of such audit report to the Office of the Auditor General.

132 **Status of Audit** – To the extent of statement received there are 36 corporate bodies, wholly owned by the Government of Nepal. This year, audit of 38 unit years, pertaining to 32 enterprises, were completed. Among them 28 were related to 2006/07 and rest 10 to previous backlog years. The audit status till this year is as follows :

Annual Report	Bodies to be Audited		Audit Completed		Pending	
	Number	Unit Years	Number	Unit Years	Number	Unit Years
2006	37	62	27	40	10	22
2007	37	59	29	40	8	19
2008	36	55	28	38	8	17

Out of audit completed, audit of Nepal Airlines Corporation (FY 2004/05 and 2005/06), Nepal Civil Aviation Authority (FY 2005/06) and Nepal Water Supply Corporation (FY 2005/06) were conducted by engaging the staff of this Office. The audit of Nepal Airlines Corporation (FY 2004/05) is in final stage and in other's case preliminary checking has been completed. Besides, audit of projects like Community-based Ground Water Irrigation Sector, Rural Self Sustaining Fund, Third Livestock Development Projects etc, being operated under Nepal Rastra Bank were also conducted by the Office of the Auditor General itself.

Out of the corporate bodies, wholly owned by the Government of Nepal, final audit of following 18 enterprises and preliminary audit of 8 enterprises pertaining to fiscal year 2006/07 were performed by appointing licensed professional auditors.

(a) Enterprises Completing Final Audit

- | | |
|---|--|
| 1. Nepal Rastra Bank | 10 Nepal Electricity Authority |
| 2. Employees Provident Fund | 11 Nepal Food Corporation |
| 3. Rastriya Banijya Bank | 12 Rural Housing Company Ltd. |
| 4. Citizen Investment Trust | 13 Nepal Telecom Ltd |
| 5. Nepal Television | 14 Hetauda Cement Industry Ltd |
| 6. Rastriya Samachar Samiti | 15 Nepal Drugs Limited |
| 7. Agriculture Inputs Company Ltd | 16 Sanskritik Sansthan |
| 8. Nepal Telecommunication Authority | 17 National Seeds Company Ltd. |
| 9 National Construction Company Nepal Limited | 18 Bhaktapur Brick/Tile Factory (In Liquidation) |

(b) Companies completing Preliminary Audit

- | | |
|---|--|
| 1. Agro-Lime Industry Ltd.(In Liquidation) | 5 Janakpur Cigarette Factory Ltd. |
| 2. Janak Education Materials Center Ltd. | 6. Herb Processing and Production Company Ltd. |
| 3. Nepal Transit and Bonded Warehouse Co. Ltd | 7 Hetauda Textiles (In Liquidation) |
| 4. Diary Development Corporation | 8 Nepal Rosin and Turpentine Ltd. (In Liquidation) |

Final reports of above mentioned 13 corporate bodies could not be prepared because the Board of Directors of those corporate bodies failed to endorse the financial statements and provide response on the preliminary audit report.

133. **Backlog Audit** – Till last year, 8 enterprises had the backlog accounts for 19 financial years and out of this 6 enterprises completed audit of 10 financial years this year. Among them, only preliminary audit of Nepal Railway Company, Nepal Airlines, Gorakhpatra Corporation and Udayapur Cement Industry Limited could be completed because the response on preliminary audit report and financial statements endorsed by the Boards of Directors were not available. The current status of backlog audit is as follows:

Corporate Body	Financial Year/s	Audit Completed Years	Backlog Years
1. Agriculture Tools Factory Ltd.	2001/02 – 2006/07	-	6
2 The Timber Corporation of Nepal	2004/05 – 2006/07	-	3
3 Nepal Railway Company Ltd.	2003/04 - 2006/07	2003/04	3
4 Gorakhapatra Corporation	2005/06 - 2006/07	2005/06	1
5 Udayapur Cement Factory Limited	2005/06 - 2006/07	2005/06	1
6 Nepal Airlines Corporation	2004/05 – 2006/07	2004/05 – 2006/07	1
7 Dairy Development Corporation	2005/06 – 2006/07	2005/06 – 2006/07	-
8 Bhaktapur Bricks Factory Ltd	2000/01 – 2006/07	2000/01 – 2006/07	-
9 Tobacco Development Company	2006/07	-	1
10 National Trading Limited	2006./07	-	1
Total Number of Years	21	12	17

The Agriculture Tools Factory is in liquidation. The accounts up to the date of liquidation have not been produced for audit and are lying as backlog.

The audit of Gorakhapatra Corporation, for the year 2005/06, has been completed and preliminary audit report has been issued. But, it could not be finalized because the management could not endorse the financial statement. Similarly, the management did not produce the financial statements for 2006/07, hence it also remained as backlog. In the case of The Timber Corporation of Nepal, the auditor, as per the request of the management, was appointed for the year 2004/05 and 2005/06 but audit could not commence because the management failed to produce financial statements. Similarly, regarding Nepal Airlines Corporation, final audit of 2004/05 and preliminary audit of 2005/06 have been completed but audit of 2006/07 could not commence in the absence of the financial statement. The audit of Nepal Railway Company for the year 2003/04 also could not finalized because the response on preliminary audit report and endorsed financial statements by the Boards of Directors were not available. Likewise, auditor for the year 2004/05 has been appointed but the audit could not commence. In the case of Tobacco Development Company which is in liquidation long before but the liquidator has not completed the assigned job yet.

- 134 **Status of Profit and Loss** – While analyzing the capital investment of Nepal Government and the state of profit and loss of 28 enterprises, audit of which are completed so far, it revealed that total capital invested in 14 enterprises is Rs 58 billion 020 million 793 thousand and they have earned a profit of Rs 12 billion 173 million 395 thousand. The capital fund of 12 enterprises which are running at loss, is Rs 4 billion 216 million 089 thousand and have incurred a loss of Rs 994 million 554 thousand. There is no government investment as share in Employees Provident Fund and Nepal Telecommunication Authority. The detailed description of profit and loss is in Annex 34.
- 134.1 This year, among the profit making enterprises, profit of Rs 5 billion 652 million 688 thousand earned by Nepal Telecommunication Company is noteworthy. Similarly, among the enterprises that are running at loss is Nepal Water Supply Corporation with a total loss of Rs 596 million 532 thousand.

- 134.2 Nepal Rastra Bank has shown a profit of Rs 4 billion 208 million 735 thousand but has suffered a huge loss in foreign exchange. Nepal Rastra Bank had earned a profit of Rs 6 billion 233 million 648 thousand last year from foreign exchange transaction but this year, it has lost Rs 12 billion 960 million 007 thousand.

Rastriya Banijya Bank has registered a profit of Rs 1 billion 224 million 605 thousand. But it has written back Rs 1 billion 616 million 911 thousand which was made provision for bad and doubtful debt last year as income this year. This amount is not the profit earned from business operation.

- 134.3 In totality, this year, 28 enterprises with combined capital fund of Rs 62 billion 236 million 882 thousand, compared to the cumulative figure of profit or loss, shows a cumulative loss of Rs 19 billion 227 million 795 thousand (which is 30.89 percent of capital investment). Enterprise having highest amount of cumulative losses are Rastriya Banijya Bank with Rs 19 billion 675 million 655 thousand and Nepal Electricity Authority with Rs 5 billion 801 million 737 thousand. The detailed description is in Annex 34.

The major reasons behind such huge losses are weak internal control system, ineffective internal audit, increase in production cost, inability to run in full capacity, lack of clear cut long-term government policy regarding corporate bodies, impertinent decisions of Board of Directors, lack of sense of accountability among the members of Board of Directors, absence of effective and timely supervision of activities of the enterprises by regulating authority etc.

- 135 **Provisions and Adjustments** – While analyzing the state of profit and loss and provisions made by 9 enterprises, including Employee’s Provident Fund, Nepal Water Supply Corporation, Nepal Food Corporation, Nepal Television, Rural Housing Company Limited, Nepal Telecom Limited, Nepal Transit and Bonded Warehouse Company Limited, Nepal Construction Company Limited and Nepal Civil Aviation Authority, it has been noticed that Rs 8 billion 706 million 369 thousand has to be added in provision for additional liability.

Deficiencies like either not to make provision at all or make insufficient provision for employees’ gratuity, medical benefits, provident fund and other liabilities, under-provisioning for interest on loans, non-accounting of exchange losses incurred in foreign loans, insufficient provision against overdue loan and advances, accounting of loan and interest accrued thereon inappropriately maintained, non-capitalization of used assets even after the completion of projects and non-deduction of depreciation etc are found this year too.

- 136 **Dividend** – Dividend of Rs. 1 billion 559 million 561 thousand payable to the government has not been paid yet. Nepal Telecom Ltd. alone has to pay Rs 1 billion 500 million 239 thousand including Rs 239 thousand for the year 2005/06 and Rs 1 billion 500 million for the year 2006/07. Although, Janak Education

Materials Centre and Janakpur Cigarette Factory Limited have set aside Rs 6 million 469 thousand and Rs 5 million 500 thousand respectively as dividend but they have not paid yet. Rastriya Banijya Bank has not paid accumulated dividend of Rs 47 million 220 thousand including Rs 39 million 350 thousand of last year and Rs 7 million 870 thousand of this year in lieu of Preference Shares.

Hetauda Cement Factory Limited, National Seeds Company Limited and Nepal Food Corporation are in profit this year but they have not made any provision for dividend. The detail description on dividend is in Annex 36.

- 137 Nepal Rastra Bank, although, provisioned Rs 3 billion 438 million out of its operating activities, has yet to deposit in the government treasury.
- 138 **Fixed Assets** – The value of net assets, as per the balance sheets produced for audit, owned by 26 out of 28 enterprises is Rs.76 billion 212 million 241 thousand after deducting depreciation of Rs. 43 billion 137 million 272 thousand from the total book value of Rs.119 billion 349 million 513 thousand. Including the assets shown as work-in-progress of Rs. 37 billion 358 million 581 thousand of 13 enterprises the value of total asset has reached Rs.113 billion 570 million 822 thousand. The two enterprises namely Bhaktapur Bricks/tile Factory and Nepal Rosin and Turpentine Industry Limited, are in liquidation, hence their fixed assets have not been included in this figure. Detail description in this regard is in Annex 37.

It has been observed that under-deduction of depreciation on assets due to no-capitalization in time, Asset Registers are not up-to-date, assets are capitalized without any reasoning, adjustments are not made for lost, damaged or sold assets by reckoning gain or loss in such transactions, assets are revalued without completing proper process, assets are not insured, ownership certificates of land are not confirmed, original values of assets, though they are completely damaged, are recorded in assets register. These inconsistencies definitely do not help to exhibit true and fair value of assets.

- 139 **Advances and Debtors** – According to the statements produced during audit, it revealed that 17 out of 28 enterprises has yet to recover staff advance of Rs. 86 million 051 thousand, 17 to recover staff loan of Rs 6 billion 974 million 257 thousand, 26 to recover other advance and deposit of Rs 7 billion 202 million 469 thousand and sundry debtors of Rs 44 billion 310 million 702 thousand. Deducting the provision for bad and doubtful debts of Rs. 19 billion 080 million 619 thousand made by 11 enterprises, Rs. 39 billion 484 million 860 thousand still remains as unsettled advance and debtors. Detail description in this regard is in Annex 38.

In the course of audit, it was noticed that officials are not keen to initiate in settling and recovering of advances and debtors, mature periods are not categorized, additional advances are added although previous advances are not

cleared, advances are provided more than required, loss-in-use, if exceeds a fixed norm, is shown as advance in the name of concerned individual instead of making recovery instantly, Letter of Credit accounts are not closed even the goods have been received, debit and credit balances with government and other parties are not confirmed, confirmation letters from debtors are not received, debtor accounts are exhibited in totality, instead of detailed names, in financial statements and sufficient provisions are not made for doubtful debt and advances.

140 **Share Capital** – Regarding Share Capital/Capital Fund according to the statements submitted by 15 enterprises, it has been found that 4 enterprises have under-stated by Rs. 5 billion 010 million 789 thousand whereas 11 have shown Rs. 1 billion 004 million 115 thousand more than the amount shown by the Financial Comptroller General Office. Even if, both short and excess figures are adjusted still there remains a difference of Rs 4 billion 006 million 674 thousand. Among the enterprises that showed less share capital, Civil Aviation Authority of Nepal with Rs. 3 billion 795 million 346 thousand and Nepal Electricity Authority with Rs. 1 billion 194 million 540 thousand are prominent ones. The enterprises that show excess share capital are Dairy Development Corporation with Rs 425 million 208 thousand, Nepal Water Supply Corporation with Rs 462 million 886 thousand, Citizen Investment Trust with Rs 35 million 991 thousand and Nepal Rosin and Turpentine Industry Limited with Rs 30 million 240 thousand. Despite of these differences in share capital, both, the concerned enterprises and the Financial Comptroller General Office have not reconciled and confirmed their accounts.

141 **Income Tax Provision** – Out of 17 enterprises, that have get completed audit of current year and require to pay income tax by law, 11 enterprises have made income tax provision of Rs 4 billion 522 million 602 thousand. Altogether 15 out of those 17 have paid advance tax of Rs. 5 billion 610 million 423 thousand. Nepal Electricity Authority, Rastriya Banijya Bank, Rural Housing Company Limited, Nepal Food Corporation and Nepal Water Supply Corporation although have paid advance tax of Rs 1 billion 466 million 492 thousand, they did not make any provision for income tax. Among the enterprises that have deposited highest amount of advance tax, Nepal Telecom Ltd with Rs 3 billion 861 million 637 thousand and Nepal Electricity Authority with Rs 1 billion 157 million 914 thousand are on the top of the list. Nepal Rosin and Turpentine Industry and Agriculture Lime Industry are in liquidation hence no provisions have been made for income tax

This year, altogether 9 enterprises namely National Construction Company Limited, Nepal Transit and Bonded Ware-house Company Limited, Nepal Drugs Limited, Rastriya Banijya Bank. Civil Aviation Authority of Nepal, Dairy Development Corporation, Agro-Lime Industry Limited (in liquidation), Citizen Investment Trust, and Rural Housing Company Limited, have collected TDS of Rs. 36 million 722 thousand which is yet to be deposited in the concerned bank account of Internal Revenue Offices.

- 142 **Submission of Income Return** – According to the Income Tax Act, enterprises are required to submit their income return to Inland Revenue Office within 3 months of expiry of fiscal year or within mid-January provided extension is granted, else, they shall be liable of penalty at the prescribed rate on the total volume of annual transaction. But none of the enterprises have submitted their income returns in any Inland Revenue Office in timely manner. This issue was also highlighted in last Report, yet there is no improvement.
- 143 **Royalty** – Till the date, Rs. 1 billion 690 million 973 thousand which is to be paid as Royalty to the government for the year 2005/06 has not been paid. The figure includes Rs 670 million 963 thousand of Nepal Electricity Authority, Rs 1 billion 3 million 339 thousand of Nepal Telecom Limited, Rs 9 million 141 thousand of Nepal Rosin and Turpentine Limited (in liquidation) and Rs 7 million 520 thousand of Nepal Television.
- 144 **Loan and Interest** – Till the date, Rs 60 billion 767 million 095 thousand, comprising of Rs 52 billion 7 million 304 thousand foreign loan and Rs 8 billion 759 million 791 thousand Domestic Loan is outstanding to be paid by 18 enterprises to the government. Among them, 9 enterprises have to pay Rs 19 billion 74 million 174 thousand as the principal and interest accrued there on. Among the enterprises that have to pay highest amount of interest are Nepal Electricity Authority with Rs 16 billion 745 million 994 thousand and Civil Aviation Authority of Nepal with Rs 1 billion 507 million 894 thousand. The due date of Rs 594 million 848 thousand, out of total loan of Rs 1 billion 838 million 243 thousand received by Nepal Water Supply Corporation, which is included in above mentioned figure has already expired.
- 145 **Privatization and Dissolution** – Since 1993, under the policy of economic liberalization and free market economy, the government had started privatization of its wholly owned or substantially owned enterprises in a planned way or dissolve them if it deemed not possible to privatize. The main objective of this policy is to deliver services, currently being delivered by state owned enterprises, through private sector by providing private sector enterprises an opportunity to lead the market. Altogether 29 enterprises have been put through this process. Due to unnecessary time lagging in the sale of assets and setting off liabilities of some dissolved enterprises, the process prolonged indefinitely and consequently the government has to bear administrative costs unnecessarily. For instance, the privatization process of Tobacco Development Company, Hetauda Textiles, Nepal Rosin and Turpentine Industry Limited, Bhaktapur Bricks/Tile Factory, and Agriculture Tools Factory can be cited. Similarly, liquidation processes of the two substantially owned enterprises, Mechi and Sagarmatha Rice Exporting Company Limited and Far-Western Seti Mahakali Rice Exporting Company Limited, which were dissolved 24 years earlier, has yet not concluded.

Even in the cases of privatized enterprises, like the case of Balaju Textiles, the privatization process could not take the final shape because of the prolonged dispute between the government and the buyer on the issue of difference in valuation of existing assets made before privatization and at the time of privatization. In the absence of promptness in sorting out the disputes, government has to bear unnecessary administrative costs.

Because the liquidators appointed to carry out liquidation proceedings could not complete within the stipulated time, the value of assets and liabilities could not be finalized for a long period of time.

Although, the liquidation work of Bhaktapur Brick/Tile Factory has been concluded in May 2008, the complete information on value of assets and liabilities has yet to come. The term of the liquidator of Hetauda Textiles has been extended many times but till July 2008 there has been no progress. Bansbari Leather Shoe Factory, Harisidhi Bricks/Tile Factory and Bhrikuti Paper Mills were liquidated in 1993, their registration as company has not been de-listed yet. Nepal Coal Limited was liquidated in 2002, still the proceedings have not completed.

146. **Board of Directors** – It has been decided to implement the policy to appoint only skilled and professional individuals as the members of Board of Directors and to downsize the number of Directors to 5, but in some enterprises, this number is already defined by their concerned laws and bye laws. Hence, they are unable to implement this policy until the concerned laws and bye-laws are revised.
147. **Operation Benchmark** – Enterprises differ with each other because of their work nature and specialty. Enterprises which are continuously in profit are enjoying higher financial perks and facilities in the form of salary or allowance or in any other name. But these enterprises, which lie above this benchmark, are also indirectly burdening with unlimited liability over the government because they have not maintained any reserve funds for various liabilities like gratuity, pension, provident fund, insurance etc. that have to be paid in future in accordance with the laws and imposition of unseen unlimited financial liability to the government.
148. **Annual Accounts-** Trends are increasing long delay for preparation of financial statements; to avoid preparation of annual accounts; to stay away from audit; try to linger with many excuses if compelled for audit and especially the enterprises that are likely to incur losses try to cover up their financial position. These anomalies are increasing day by day because of the fear-free environment where responsible authorities, who act on their free will without taking care of the benefit and betterment of the organizations, are never made liable for punishment.
149. **Audit Observations** – The audit observations noticed during the audit of fully owned enterprises, the comparisons on balance sheets, profits and loss accounts and other financial statements are presented in in Part 3 of Annual Report.

Besides, above mentioned analysis, some noteworthy points regarding the audit of wholly owned enterprises are as follows:

- **Nepal Rastra Bank**

150. **Compliance of Law** – The Bank has made share investments in Deposit Insurance and Credit Guarantee Corporation, Citizens Investment Trust, Nepal Stock Exchange, National Productivity and Economic Development Centre, Agricultural Projects Services Centre, Rastriya Beema Sansthan, Rural Micro-Finance Development Centre, Rural Development Banks, Cottage and Small Industries Development Bank, Nepal Industrial Development Corporation, Nepal Development Bank and Credit Information Bureau and also has provided funds as seed money in some projects. These enterprises, although, according to Nepal Rastra Bank Act, 2002 they should have refunded back on the attainment of the maturity, have not refunded back the investment. Among them, Agricultural Projects Services Centre is out of operation.

The need and objectives of the provision made for the facilities of employees and other provisions appropriated from the net profit, according to section 41 of Nepal Rastra Bank Act, 2002 is not made clear. As per section 43, the Bank is required to furnish with a copy of budget approved by the Board of Directors to the government for information, which is not done. Also, the Bank has not been able to submit its financial and other statements, which is mandatory to submit within 4 months of the end of the fiscal year as per section 91 and 93.

- 151 **Investments** – Section 75 (7) of the Nepal Rastra Bank Act, 2002 states that the Bank shall invest, not more than 10 percent of government revenue collected previous year, in government securities. But it has been found that the Bank, till July 2007, has invested Rs 14 billion 97 million 544 thousand in government treasury bills and saving bonds. This figure is equivalent to 19.50 percent of Rs 72 billion 282 million 086 thousand, the total revenue collected by the government in previous year. Similarly, the Bank has shown Rs 4 billion 472 million 150 thousand, interest free IMF Bond provided by the Ministry of Finance in lieu of payment made to International Monetary Fund (IMF) on behalf of Nepal Government under the provision of Britton Woods Treaty Act, 1961 as its investment. According to the provision made in Section 75 (4) of the Nepal Rastra Bank Act, 2002, the Bank can not provide interest free loans to the government. On the expiration of the validity, the Bank, instead of recovering money from the Ministry of Finance, extended period for next five years. Thus the Bank has invested Rs 9 million 221 thousand in non-yielding development bond which is contrary to section 75 (4) of the Act and Rs 29 million 559 thousand accrued interest from interest bearing investments has also not recovered yet.

The Bank has invested a total amount of 477 million 488 thousand including Rs 12 million 835 thousand in 5 subsidiary companies, Rs 35 million 683 thousand in 4 associate companies, Rs 60 million 55 thousand in shares of 5

other enterprises and Rs 253 million 400 thousand as seed money in Rural Sustainability Fund. On the whole investment, a bad and doubtful debt provision of Rs 120 million 100 thousand has been made so far. It is no disclosed whether the Bank possess an additional voting authority besides the ownership voting authority according to IAS (International Accounting Standard) 27. Although, the Bank is not authorized to make investments more than 10 percent of total share capital of banks and financial institutions, as per section 75 (4) of the Nepal Rastra Bank Act, 2002, but it has been noted that most of the share investments made in such banks and financial institutions exceed the limit.

- 152 **Liability** – The Bank has not booked a payment of Rs 1 million 756 thousand to settle a claim of a joint venture company and Rs 75 thousand in lieu of administrative expenses, according to the verdict of Arbitration Tribunal in 10/08/2007 as per IAS 10.
- 153 **Fund Transfer** –Nepalgunj Branch had called for tenders for ‘Fund Transfer’ and it was re-tendered because there were only two bidders. In the second call, only one bidder submitted the tender and the same was accepted for US Dollar 1200 per hour. The company was paid Rs 15 million 600 thousand. In fact that company had quoted US Dollars 800 per hour for the same job in earlier bid but the bid was cancelled because there were no sufficient numbers of tenders. Pokhara Branch, without bidding and asking for performance bond, engaged the same company for the same job at the rate of US Dollar 1100 per hour.

- **Rastriya Banijya Bank**

- 154 **Non-banking Assets** – The total value of land and building, taken in possession by the bank itself in the course of loan recovery, at the end of the year has reached to Rs 321 million 600 thousand. But it has not been able to take charge of those properties as 62 individuals and companies are still occupying the property. The bank has not acquired ownership certificate of some of the land and buildings, however, the value of those properties is incorporated in the value of non-banking assets.
- 155 **Agency Accounts** – Altogether Rs 10 million 811 thousand receivable from and Rs 19 million 047 thousand payable to the agency banks whose accounts has already closed, is still shown as receivable and payable. It is unnecessary to continue these accounts because the businesses have been already ceased with them. Confirmation letters and bank statements from some of the agencies have not been obtained. On 29/04/1992, the bank had purchased US Dollars 1 million 500 thousand at higher rate and sold on lower rate on the same day which caused a loss of Rs 14 million 175 thousand. The loss is still shown in pending account and no body has taken care to recover from the wrong doer. The provision of Rs 230 million 800 thousand is not adequate to cover up agency accounts because foreign

currency at the end of the year is computed at other rates instead of exchange rates prevailing at the year end; receivable and payable accounts with agency banks which have been closed for years are still not adjusted; bank balance of Rs 1 billion 12 million 200 thousand in 6 accounts which are still not in operation but not adjusted; balances are carried down without obtaining confirmation letters. Although, the Investigating Committee had ordered to scrutinize the foreign agency bank accounts, pending for many years, with 17 items of receivable of Rs 79 million 472 thousand and 16 items of payable of Rs 30 million 781 thousand but there is no progress because necessary information and basic documents were not available. Similarly, last year's pending ledgers of foreign agency banks, with receivable of Rs 3 million 750 thousand from 10 banks and payable of Rs 10 million 553 thousand have been not adjusted yet.

156 **Lending in Priority Sector** – In previous years, the bank had received Rs 349 million 592 thousand, equivalent to 50 percent of claims, from Credit Guarantee Corporation, as interim compensation against unrecovered loans provided by 85 branches in previous years. The Bank claimed the remaining 50 percent but it was rejected to compensate on the ground that the Bank, as per the clause 20 (5) of the Credit Guarantee Bye-Laws, 1998, did not furnish any information about the legal actions initiated to recover the loans within a year of receipt of the interim compensation. Additionally, the corporation has further acknowledged the Bank to refund even the interim compensation too. In this regard, the Bank has explained that the receivable compensation is only Rs 49 million 716 thousand, and not Rs 349 million 592 thousand, and the difference is the interest claimed for the gap period between the first claim and the second claim. But the Bank could not produce any evidence to prove it.

157 **Deposits** – It is found that in many branches, clients draw money exceeding to the balance in their current or savings accounts. Till July 2007, the total amount of such drawings is Rs 67 million 500 thousand and these drawings should have been incorporated in the recoverable debts and shown in the asset side of the balance sheet. But, except of some branches, most of all branches, instead of showing in the balance sheet, just reduced the total deposit by such amount.

- **Nepal Electricity Authority**

158 **Share Capital** - Nepal Electricity Authority has shown that the total share investment of the government including pending share allocation, is Rs 26 billion 382 million 184 thousand. This year, Rs 6 billion has been added in the paid up capital to make it Rs 25 billion and rest Rs 1 billion 382 million 184 thousand is shown under pending share allocation account. There is no explanation for showing capital in such pending accounts. According to the Central Financial Statement of Investment, produced by the Financial Comptroller General Office, at the year end the total investment of the government in Nepal Electricity Authority is Rs 26 billion 194 million 500 thousand and it differs from the statement produced by the Authority.

- 159 **Fixed Assets** – The Authority had, for the first time in 1988/89, obtained service of an expert and made the evaluation of its assets and every year onwards it used the revaluation index of the World Bank in evaluation of its assets. But, this year, as per the decision of Nepal Electricity Authority, Board of Directors dated 12/03/2008, it adopted the policy of using historical costs of all fixed assets. Under this change in accounting policy, the Revaluation Reserve Fund of Rs 9 billion 829 million 600 thousand was used to settle the Revaluation Expense of Rs. 9 billion 804 million 100 thousand and rest Rs 25 million 500 thousand has shown in loss without any reason.
- 159.1 The Authority has not up dated its records of fixed assets. Because of this, no explanation could be obtained for the reduction of Rs 52 million 500 thousand in assets value and written down depreciation of Rs 80 million 500 thousand in Schedule 4 of the Balance Sheet.
- 159.2 The Authority has made a provision of Rs 419 million against an asset, book value of which is Rs 531 million 100 thousand. The original cost of that asset, which had been damaged completely and virtually not in physical existence, was Rs 921 million 700 thousand and the till date depreciation of Rs 396 million has been written off. This has over valued the asset by Rs 112 million unnecessarily.

- **National Seeds Company Limited**

160. **Misappropriation** – A committee was set up to probe into the case of misappropriation of 8 metric tons of unprocessed and 12 metric tons of processed seeds of wheat during the sales and the committee submitted its report indicating names of accused staff involved in this fraud. In rule 98 (h) of the Personnel Administration Regulation, 2005 of the Company, it is stated that any employee, if causes, willfully or by negligence, any loss or damage of cash or commodity or any document of the company shall be liable for dismissal from the company without declaring unfit for being in the service of the company in future. In this case, the Company did not initiate any action against the culprit. Action should be initiated against the culprit and the value of wheat seed should be recovered.

Substantially Owned Corporate Bodies

- **Legal Provisions and Consultation**

- 161 **Statutory Provisions** – According to the Section 7 subsection 2 clause (e) of Audit Act, 1991, “Corporate Bodies Substantially Owned by the Government of Nepal” means the corporate bodies, of which 50 percent or more shares or assets, are owned by the Government of Nepal. Similarly, sub-section (1) of Section 7 of

Audit Act, 1991, states that the audit of such corporate bodies shall be conducted as per the existing laws. Sub-section (2) of the same Act further states that, notwithstanding to anything in this context, shall consult the Auditor General while appointing the auditors. In this respect, this Office has issued guidelines on the procedures to be followed by such corporate bodies in 1998.

The Government has no exact data on the numbers of the corporate bodies substantially owned by it. Financial statements collected for the audit purpose show that at least 26 corporate bodies are in operation. Among these 26 substantially owned enterprises, Himal Cement Industry Limited and Gorakhkali Rubber Industry Limited have been privatized and, therefore, only 26 of them are in existence.

162 **Operational Performance** – Operational Performance of most of the enterprises is not satisfactory. For some enterprises continuity of existence itself has been a question. Some reasons behind this pathetic condition are lack of adequate reserves for bad and doubtful debts, not to incorporate accrued liabilities in the books of account and make provisions against them, proof of ownership of non-banking assets neither acquired nor brought into use, face value and intrinsic value of investments are not considered while making provisions against investment losses, age old projects undertaken by the enterprises has been left in the state of under-construction since many years, net worth of capital to remain negative, returns on investments not received, direct costs exceed the income etc. The real picture of profit or loss of enterprises, although running at profit, can not be confirmed because they do not maintain books of accounts as required by Accounting Standards.

163 **Status of Consultation** –The status of consultation, made by Nepal Government under the law for the advice on appointment of auditors in the substantially owned enterprises, till July 2007 is as follows:

Corporate Bodies that Consulted for Advice

Enterprises	Advice Sought for the Year	Audit Completed Year
1. Agriculture Development Bank	2006/07-2007/08	2006/07
2. Nepal Oil Corporation	2006/07-2007/08	2006/07
3. Deposit Insurance and Loan Guarantee Corporation	2006/07-2007/08	2006/07
4. Industrial Districts Management Limited	2006/07-2007/08	2005/06
5. Nepal Metal Company	2006/07-2007/08	2006/07
6. Nepal Stock Exchange Ltd.	2006/07-2007/08	2006/07
7. Chilime Hydro Power Company	2006/07-2007/08	2005/06
8. National Productivity and Economic Development Centre	2005/06	2006/07
9. Nepal Engineering Consultancy Services Ltd.	2006/07	2006/07
10. Town Development Fund Board	2006/07	2006/07
11. Mechi Sagarmatha Rice Export Company Ltd. (In Liquidation)	2005/06	2003/04
12. Far Western Region Seti Mahakali Rice Export	2005/06	2003/04

Enterprises	Advice Sought for the Year	Audit Completed Year
Company Ltd.(In Liquidation)		
13. Nepal Industrial Development Corporation	2006/07	2003/04
14. Cottage Handicrafts Sales Emporium Ltd. (In liquidation)	2004/05	2002/03
15. Nepal Orind Magnesite Company Ltd	2004/05	2001/02
16. Sajha Swastha Sewa	2006/07	2006/07
17. Rastriya Beema Sansthan	2002/03	2000/01
18. National Drilling Company of Nepal	2004/05	2004/05

Corporate Bodies that did not Consult

Enterprises	Status of Consultation
1. Butwal Spinning Mills Ltd	Statement not Received
2. Himal Cement Industry Limited	
3. Gorakhkali Rubber Industries Limited	
4. Eastern Region Rural Development Bank	Statement of 2005/06 Received
5. Western Region Rural Development Bank	
6. Mid-Western Region Rural Development Bank	Statement of 2006/07 Received
7. Far-Western Region Rural Development Bank	
8. Middle Region Rural Development Bank	

Although, advices on appointment of auditors are instantly provided, enterprises themselves are found to be unable to prepare financial statements in time and get them audited. For instance, Nepal Industrial Development Corporation was advised on appointment of auditor for 2 financial years 2005/06 and 2006/07 but it has not been able to get audit completed. Rastriya Beema Sansthan was advised for the appointment of auditors for the backlog accounts up to 2002/03 but audit has been completed up to 2001/02 only. Similarly, on the request of Nepal Orind Magnesite Limited, the advice on appointment of auditor up to 2004/05 was provided instantly, but audit up to 2001/02 has been completed so far.

- 164 **Major Audit Observations** – This Office, according to the Section 7 subsection 2 of Audit Act, 1991, has been advising with panels of auditors to render audit of the substantially owned enterprises. Some of the major observations noticed from the audit reports received in this Office are exhibited below:

- **Nepal Oil Corporation**

- 165 **Operational Result** - The Corporation has suffered a loss of Rs 3 billion 863 million 364 thousand in 2005/06 and Rs 1 billion 921 million 272 thousand in 2006/07, the cumulative loss till the date is Rs 7 billion 229 million 991 thousand, which is 7,475.56 percent of Share Capital. The cumulative loss and overall financial position of the Corporation show that its net worth has dropped to minus Rs 6 billion 937 million 596 thousand and because of this, the auditor has issued qualified report.

Although the financial statement shows that cumulative liability of the Corporation is Rs 7 billion 329 million 040 thousand, it may reach to Rs 9 billion if the additional liabilities pointed out by the auditor are added. The scenario of the Corporation is not good because selling price of the oil is constant, purchasing price of oil is rising and the Corporation has lost Rs 1 billion 921 million 272 thousand this year. In one hand, the oil price is controlled by the government and on the other, government is not ready to subsidize losses caused by the stagnant oil price and this situation confirms that the Corporation is not in position to follow the “Going Concern” principle any more.

There is the situation that a sum of Rs 391 million 450 thousand may add further on the top of this year’s loss because the Corporation has not made any provision for decline in the value of assets and investments, bad and doubtful debts, income tax payable etc which, according to the Accounting Standards, should have made in the financial statements.

- 166 **Share Capital** – The 20th Meeting of Director’s Board, held in 1997, had decided to increase the authorized and issued capital to Rs 500 million, but the capital structure mentioned in the Memorandum of Association and the Articles of Association has not been revised yet. The capital of the Corporation is still limited to Rs 96 million 715 thousand only.
- 167 **Transparency** – As per the provisions of Nepal Accounting Standards, the Corporation should have consolidated all the activities in the financial statements produced by the Corporation, but it has not consolidated the accounts of solely owned Staff Welfare Fund. No reasoning has been given for omitting those accounts from the financial statement of the Corporation.

• **Agriculture Development Bank**

- 168 **Operation Results** – This year, the Bank has earned a profit of Rs 1 billion 58 million 449 thousand which was Rs 353 million 525 thousand last year. The cumulative loss, till last year, was Rs 7 billion 796 million 745 thousand which reduced to Rs 6 billion 949 million 987 thousand at the end of this year.

This year, an additional provision of Rs 1 billion 500 million 085 thousand has been made and if provisions for staff medical benefit, security funds, house leave allowance and sick leave allowance have to be made, the balance figure of profit may change significantly.

- 169 **Share** – The consent of shareholders has not been obtained before registering the assets and liabilities of previous Agriculture Development Bank according to the provisions contained in the Company Act 2005. Neither the approval of Annual General Meeting has been obtained before registering this bank as Agriculture Development Bank Limited, in July 2005, under Company Act, 2005. Share holders holding 916,369 shares were not recognized as share holders and paid up

capital of 91 million 636 thousand 900 rupees has been shown in the column of other liabilities.

- 170 **Preference Shares** – Clause 6 (2) of the Bank Bye-Regulation states that the terms and conditions of Preference Shares shall be as prescribed by the Annual General Meeting. Till now no Annual General Meeting has been called except the extraordinary Annual General Meeting called on 16/03/2007 after its registration on 15/07/2005. While the Extraordinary Annual General Meeting had approved to issue Rights Shares of Rs 4 billion 853 million, non-redeemable Preference Shares of Rs 5 billion 903 million has been issued adding Rs 1 billion from the side of Nepal Government. It is not known whether approval of Nepal Government has obtained or not.
- 171 **Loan** – According to the loan classification, loan loss provision of Rs 5 billion 687 million 951 thousand was enough, but the bank has made a loan loss provision of Rs 7 billion 188 million 036 thousand making an excess provision of Rs 1 billion 500 million 085 thousand. Foreign employment loan of Rs 4 million 949 thousand and an individual loan of Rs 16 million 477 thousand and accrued interest of Rs 18 million 062 thousand has been shown as sundry debtors which is quite different in nature.

Altogether, Rs 510 million 28 thousand, out of receivable interest against the loan, has been written off in the form of rebate or waiver or concessions. The figure includes Rs 319 million 823 thousand written off as rebate in interest.

Development Boards and Other Entities

- **Accounting Systems**

Out of 1 thousand 342 units to be audited including 689 Boards and other entities established by the government under different Acts, Regulations and Resolutions in order to meet the objectives of the development programmes and 653 pending units of previous years, audit of 706 units, comprising of 658 of current year and 48 units of previous years has, been accomplished this year.

- 172 **Accounting System** – In the constituting statutes of most of the Boards/entities it is stated that the accounting system shall be as prescribed by the government, but no accounting system and related policy have been prescribed so far. However, some of them have adopted commercial principle of accounting and some have followed Cash-based system. Although the cash-based system is adopted, the financial statements are produced in such a way that they include the debtors and creditors as well. These Boards/entities are unable to demonstrate the actual state of affairs because the accounting system presently followed by them does not exhibit true position of capital, liability and assets. There is no indication of any

improvement so far though it has been suggested, in past reports, to prescribe accounting system and accounting policy at the time of establishment of these Boards/entities.

- 173 **Advances** – This year, Rs 129 million 936 thousand, including staff advance of Rs 20 million 147 thousand and other advance of Rs 109 million 789 thousand, is remaining as unsettled advance. It was continuously highlighted in previous reports that most of the Board/entities have not carried forward the advances of previous years in their accounts. This year, some degree of improvements has been noticed but National Sports Council has not incorporated the advance of Rs 82 million 263 thousand in its Balance Sheet.
- 174 **Universities** – This year, audit of Rs 6 billion Rs 516 million 282 thousand pertaining to Tribhuvan University, Nepal Sanskrit University, and Lumbini University has been accomplished. As Tribhuvan University does not prepare consolidated financial statement incorporating transactions of all of its subordinate offices and constituent campuses, this has made difficult to confirm total income, expenditure, assets and liabilities of entire University. Altogether the University has made an income of Rs 864 million 202 thousand from internal source and made an expenditure of Rs 2 billion 837 million 938 thousand (excluding advances).

Nepal Sanskrit University also has not prepared consolidated statement. It has earned an income of Rs 9 million 793 thousand from its internal source and made an expenditure of Rs 145 million 435 thousand (excluding advances). Lumbini University, though has not earned any income, has incurred an expense of 3 million 307 thousand excluding advances.

Till now, Tribhuvan University and entities under it have not furnished information on the numbers, bank balances and operation status of various Funds operated by them. Rule 8 of Tribhuvan University Financial Management and Provident Fund Regulation, 1993 states that special financial procedures shall be developed and adopted for the operation of Funds or Trusts, but, this clause has not been enforced so far. The financial statements of various Funds including Human Resource Development and Welfare Fund (from 2003/04), Scholarship and Medal Fund, Employees Provident Fund (from 1983/84), etc operated by the Central Office have not been yet submitted for audit verification. Similarly, Repair and Maintenance Fund of Rampur Campus (from 2002/03 to 2004/05) and Permanent Fund, Medal and Scholarship Fund, Staff Welfare Fund, Career Development Fund, and Pension and Gratuity Fund (from 2005/06) of Nepal Sanskrit University have not been submitted for audit. Unless the updated statements and accounts of these Funds are produced, the exact status of those Funds could not be confirmed.

- **Tribhuvan University**

175. **Affiliation Fees** – As per Rule 51 of Tribhuvan University, Organization and Academic Administration Regulation, 1993, each private campuses affiliated with the University must abide by the terms and conditions and instructions issued by it, else the University can suspend or cancel the affiliation. The Executive Council on 1/08/2000 has decided that each affiliated campus should deposit a month’s tuition fee per student and again on 15/07/2004 it has decided to recover a levy of Rs 250 per student on each of the constituent campuses. Till date it is estimated that there are 417 affiliated campuses and a total number of 105 thousand 632 students are studying in those campuses. But very few campuses have deposited the levy in full or partial. This levy is collected through Dean’s Office of concerned faculties, put in Deposit Accounts and some are spent and some are invested in Fixed Bank Accounts. Hence, list of affiliated campuses should be well prepared, collect the service charge regularly and in timely manner and deposit in central fund account.
- 176 **Central Fund Account** - As per Rule 6 (2) of Tribhuvan University, Organization and Academic Administration Regulation, 1993, the campuses are required to deposit 10 percent of other fees collected from the students, besides the regular tuition fees, in University Central Fund. But till the date, the University and its departments, offices and campuses have not deposited the share in the Central Fund Account. This year, it has been noticed that 55 out of audited entities have yet to deposit Rs 27 million 918 thousand as share of Central Fund.
- 177 **Basis of Use** – Schools, water supply offices, petrol pumps, nurseries etc. are being running in University owned land and building. Laboratory Secondary School, owned by the University, has been handed over to a private party to operate it. The University has not earned any income from the school till date. When the audit demanded the reasons of handing over the School and school premises to a private party and the agreement made to this effect, the University itself was found to be unaware of all these events.
- 178 **Excessive Number of teachers** – The number of students and teachers in Faculty of Botany under Institute of Science and Technology and faculty of History and Culture under the Institute of Humanities in Post Graduate Campus, Morang, is as follows:

S. No.	Faculty	Level	Number of Teachers	Number of Students
1	History	Post Graduate	7	2
2	Culture	Post Graduate	6	3
3	Botany	Post Graduate	8	8
		Total	21	13

This year, Rs 3 million 857 thousand has been spent in salary of those faculty teachers. It means that Rs 297 thousand has been spent per student. This

cost per student is almost 4 times higher than the university average cost per student of Rs 77 thousand.

179. **Conservation Fee** – Various agreements have been made between National Parks and Wildlife Conservation Department and private businessmen in order to operate hotel and tourism related business within and outside Chitwan National Parks. According to these agreements, the businessmen have to pay conservation fees to National Nature Conservation Trust equivalent to fees and royalty payable to the National Parks and Wildlife Conservation Department. Till last year, the conservation fees yet to be collected from the businessmen was Rs 12 million 927 thousand which, adding this years' arrear of Rs 9 million 085 thousand, has become Rs 21 million 985 thousand. Further, the Trust has not incorporated such over due conservation fees, along with the late fees, to be recovered from hotels and resorts, in its balance sheet as receivables.

- **National Sports Council**

180. **Fixed Assets** – The Council has not maintained assets register with proper disclosure of specification, price, location of assets and physical condition of each asset and depreciation, as required by the prevailing Accounting Standards, has not been charged depreciation in the assets valued at Rs 17 million 023 thousand. Out of the fixed assets worth Rs 17 million 023 thousand comprising furniture, vehicles and equipment, list of assets worth Rs 13 million 933 thousand or 81.85 percent of total assets value, was not available. As physical verification of these assets have never been carried out, actual condition and existence of age old assets could not be ascertained.
181. **Regulation** – In Section 28 of National Sports Council Act, 1991, it is provided that the Council, with pre-consent of the government, can prepare its regulation. Under this authority, the Council has approved the Financial Administration Regulation, 2005 for implementation. In the course of obtaining the consent of the government to implement the regulation, only the consent of Secretary of the Ministry of Education and Sports has been obtained. In legal terms, consent of the government means the consent of the Council of Ministers. Therefore, the Regulation, as per the provision of the Act, is not legally endorsed.
182. **Audit** – Section 21(2) of National Sports Council Act, 1991, states that audit of the Council shall be conducted by the Office of the Auditor General. The Regional and District Sports Development Committees are constituted under the aegis of the Council, hence, audit of these Committees should have come inevitably under the jurisdiction of the Office of the Auditor General. But Rule 13 ((1) and Rule 20 (g) of the Sports Development Regulation, 1992 states that audit of the financial activities of the Regional and District Sports Development Committees shall be conducted by the auditors appointed by the Council. Because of these provisions, the accounts of Regional and District Sports Development Committees have never been produced to the Office of the Auditor

General for audit consideration. It is unlawful to incorporate audit provision in the Regulation in contrary to the provision of the Act.

- **UN Park Development Board**

183. **Payment without Work** – UN Park Development Board, this year, has paid Rs 128 thousand on the basis of supporting documents like measurement book, bill of quantities, work progress report etc for forestation, walk way construction and earth filling in 4 places. Among the works, it has been found that one contract worth Rs 292 thousand was assigned without any competition and contract documents were not available for another contract of Rs 988 thousand. When the particular site was inspected, it was found that the ‘completed works’ for Rs 1 million 280 thousand, as confirmed by the Board on 7/07/2008, has been found that the ‘entire work was not done at all’.

- **Kalimati Fruits and Vegetable Market Development Board**

184. **Rent Rates** – In Rule 18 of Kalimati Fruits and Vegetable Market Development and Operation Regulation, 2004, it is stated that rent shall be reviewed every 5 years, in Rule 18.3 it is stated that rent of shops and stalls shall be increased by 10 percent from second consecutive year of agreement. On 29/08/2006, a joint meeting was held between Kalimati Fruits and Vegetable Market Development Board and Fruits and Vegetable Dealers Association and Wholesale Dealers Association and it was agreed to fix the rent rate by increasing 20 percent on the top of existing rent and to reduce the annual increment to 7 percent. This agreement was approved by the Board on 30/08/2006 and later on 7/11/2006, Nepal Government (secretary level) affirmed its consent to implement the agreement. This has caused reduction in annual loss by Rs 3 million 565 thousand compared to position before the new agreement.

Various Boards

- **Roads Board**

- 185 Roads Board has been collecting road fees from the vehicles plying in the roads specified by Public Roads Fees Act, 1997. This year, the Board raised Rs 18 million 242 thousand from the road fee collecting booths of Naubise, Kurintar, Gaindakot and Tikauli of Roads Division Office, Chitwan, but did not submit books of accounts for audit consideration. Last year also, it did not submit the accounts of Rs 12 million 262 thousand although the income was included in the Central-level Financial Statement. The correctness of the statements could not be confirmed without conducting audit of transactions.
- 186 **Double Payment** – The Board had earlier paid an advance amount of Rs 2 million 170 thousand to Roads Department equivalent to 2.7 percent (workers

accident insurance 1% and annual roads maintenance 1.7%) out of the budget approved for Routine Maintenance Programme of Division Roads Office – 25, Banepa – Sindhuli Road, and Surkhet Jumla Road etc.. The Department later refunded Rs 736 thousand after spending Rs 1 million 434 thousand out of it. The resolution approved by the Cabinet on 22/01/2007 in this regard states that the contingency expenditure (equivalent to 23 percent of labor (supervisors, workers) cost) shall also include insurance of laborers. Following this decision, some Division Offices and Projects have already spend the money (23 percent of labor cost) and again the amount of Rs 1 million 434 thousand, spent by the Roads Department, has shown as expense which has caused to incur expenses excess to the established norms.

- **Rural Water and Sanitation Fund Development Board**

187 **State of Implementation** – The water and sanitation projects, listed in the approved annual programs, are classified into development phase and implementation phase and funds are disbursed in different installments as agreed in the agreements signed with helping organizations and user groups. Additional funds are disbursed only after evaluating the use of disbursed funds and the actual contribution of user groups and the progress and performance achieved by the concerned project. Till 2006/07, the Board has spent Rs 363 million 720 thousand in development phase of 2 thousand 273 projects and Rs 1 billion 299 million 14 thousand in implementation phase of 1 thousand 662 projects. Out of this, the Board has also suspended 140 projects, including 103 projects of development phase and 37 of implementation phase, after investing Rs 175 million 80 thousand in these programmes.

188 **Excess Payments** - In order to operate 11 projects of development phase and implement phase in Khotang, Arghakhanchi and Nawalparasi, 4 helping organizations submitted finance proposals of altogether Rs 4 million 364 thousand, but the Board agreed to finance Rs 4 million 935 thousand and disbursed accordingly. The money disbursed exceeding the financial proposal should be taken back.

- **Social Welfare Council**

189 **Rental Charges** – The total outstanding rental charges, including this year's arrears, to be recovered by the Council, from various 54 individuals and organizations is Rs 15 million 870 thousand which was Rs 14 million 140 thousand last year. It is obvious that the volume of such unpaid rentals will grow further if actions are not initiated against those who fail to pay the rental charges in time as per the agreement. The Council needs to put additional effort to recover the outstanding arrears.

- **National Level Welfare Fund**

- 190 **Status of the Fund** – Section 13 of Bonus Act, 1973 states that, enterprises, after distributing bonus from the amount appropriated for bonus, shall deposit 70 percent of the remaining in the enterprise level welfare fund established in accordance with Labor Act, 1991 and rest 30 percent shall be deposited in the National Level Welfare Fund, 1999, which is to be spent on safeguarding of rights and benefits of employees. The Bonus Regulation, 1974 states that the money accumulated in the Fund shall be used, on approval of the Board of Directors, in providing financial help to the employee or any member of his/her family fallen victim of natural disaster or accident, in establishment of schools for the benefit of children of employees, establishment of child care centers or development of housing colonies etc.

Currently, there is a bank balance of Rs 610 million 97 thousand in the Fund after deducting administrative expense of Rs 1 million 183 thousand incurred this year from last year's balance of Rs 611 million 280 thousand, comprising last year's carried forward balance of Rs 470 million 164 thousand and this year's income of Rs 141 million 116 thousand. There is no any strategy or work plan to mobilize the money accumulated in the Fund has been prepared yet.

- **Pashupati Area Development Trust**

- 191 **Special Puja (Holy Rites)** - According to the decision of the Pashupati Area Development Council, taken in 15/05/2005, out of the income received in *Pashupati Bhandar Tahabil Karyalaya* (the treasury office of the Lord) specific amount shall be deposited in Permanent Fund, Development Fund, Main Store (Treasury) and a sum of specified money shall be set aside for *Pura Bhog, BalBhog, Lagat Bhog* (daily offerings to the Lord) and the rest shall be handed over to the *Pujari* (priests) for performing other holy rites. This year, only fractional account of income from special worships, performed by 4 **Bhattas** (special priests), has been recorded. According to the documents, devotees have paid Rs 9 million 217 thousand for performing 2 thousand 879 special holy rites but receipts of Rs 101 thousand only has been issued to the devotees. It was observed that those rite worth Rs 9 million 116 thousand were directly handled by the 4 Bhattas and this shows that the above mentioned decision of the Council could not be implemented. Further, the income earned from special holy rites of Lord Pashupatinath has not been included in income and expenditure.

- **Local Development Fees Fund**

- 192 **Fees Collection-** Rule 4(1) of Local Development Fees Regulation, 1999 provides that each year Local Development Fees shall be collected through Customs Offices, in accordance with Finance Act, and deposited in the Local Development Fund. This year, 22 Customs Offices specified by Finance Act, have

collected Rs 2 billion 82 million 181 thousand, at the rate of 1.5 percent of customs charge paid. But the Ministry of Local Development, based on the information provided by Nepal Rastra Bank, has shown deposit of Rs 1 billion 840 million 721 thousand in its financial statement. Thus, the ministry has accounted Rs 241 million 460 thousand less than what the customs offices deposited in the bank. It is apparent that the office-wise statements should be reconciled with the central statement produced by Nepal Rastra Bank and confirm the correct income.

- 193 **Street Lights** - Section 9 of the Finance Act, 2006 states that one-sixth of total fees collected in the Fund shall be used in payment of street light electricity bills to be paid by municipalities. For this purpose, the Ministry is required to collect payable amount in lieu of electricity from the municipalities and pay to Nepal Electricity Authority. Although, Rs 1 billion 840 million 721 thousand has been collected this year and Rs 306 million 787 thousand should have been paid in lieu of street light according to the proportion specified by the Act, but it has been found that only Rs 70 million has been paid. Arrangements should be made that evidence of outstanding bills should be collected and subsequently paid to Nepal Electricity Authority according to ratio determined by the Act.

District Development Committees

This year, audit of Rs 17 billion 556 million 339 thousand (including Rs 1 billion 233 million 29 thousand of Local Development Funds) pertaining to 75 District Development Committees has been accomplished.

• Income-Expenditure, Project Monitoring and Advances

- 194 **Income and Expenditure** – This year, 75 District Development Committees have made an income of Rs 9 billion 916 million 599 thousand which includes government grant of Rs 5 billion 339 million 807 thousand and internal source of Rs 4 billion 576 million 792 thousand and deducting the expenditure of Rs 7 billion 913 million 46 thousand, a sum of Rs 2 billion 3 million 553 thousand has been transferred as balance for next year.

Similarly, there has been an income of Rs 1 billion 44 million 964 thousand in the Local Development Fund of the District Development Committees. Out of it Rs 597 million has been spent and balance of Rs 447 million 964 thousand has been transferred as balance for next year.

- 195 **Advances** – The outstanding advance till last year was Rs 881 million 662 thousand which was brought down as 869 million 176 thousand only. Out of this, advances of Rs 140 million 567 thousand was cleared this year and adding this year's advance of Rs 280 million 495 thousand as remaining balance of Rs 728 million 609 thousand although it should have been Rs 1 billion 910 million 4

thousand. But, as 23 District Development Committees brought forward in excess of Rs 45 million 368 thousand and 25 District Development Committees brought forward under-stating by Rs 57 million 854 thousand compared to previous year's balance, the total outstanding advance of Rs 996 million 617 thousand has been carried forward for next year. District Development Committees, Lalitpur has not submitted details of last year's balance and this year's outstanding advances Rs 3 million 300 thousand. Thus, exact balance of advance could not be ascertained and it has created confusion in all matters.

The repetition of past practices, like non-clearance of advances within stipulated time, non-reporting of the list of overdue advances within 7 days of the month to the authority, carrying forward short or excess outstanding balance in next year's account and non-initiation of actions against those who do not clear advances have caused to increase the advance amount every year. Due to repetition of such improper activities, there is no way to confirm the exact outstanding advances of District Development Committees

- 196 **Monitoring and Evaluation** - In Local Self-Governance Act, 1998, it is mentioned that while formulating plans, priority should be given to consumer-oriented schemes that promote inclusion and environment conservation, schemes with participatory approach and income generating schemes so that local resources, skills and capability could be utilized and on that basis, periodical and integrated plans should be developed and implemented. Besides the planning approach, the Act provides that the Monitoring Committee should monitor and report whether resources have been mobilized as planned or not, whether implementation are taking place in accordance with the work-plan or not and whether there are any obstacles and obstructions in implementation.

It has been noticed that most of the District Development Committees, did not prioritize plans, did not develop periodical plans with participatory approach, did not consider for environment friendly projects, instead, approved plans with heavy equipment which need lots of fuel, did not care for zero or minimal participation of general people and other organizations, did not prepare implementation plan, did not develop indicators of quality and effectiveness, did not follow the work plan, did not provide necessary instruction to the user groups, did not follow the provisions of agreement, provided advance repeatedly instead of providing advance money after partial completion of works and adopted practices of ratifying by the Council long after the completion of works.

It has been observed that mobilization of resources could not be determined due to above said reasons, two or more than two government agencies and non-government agencies are being involved in one particular area because of non-formulation of integrated plan and local resources could not be mobilized in income generating schemes. As the projects do not complete in time, volume of advances has increased. The outstanding advance of Rs 996 million 617 thousand till this year is its example. Due to the absence of supervision and monitoring the

quality of work could not be maintained. It has also seen that user groups are allowed to undertake projects that are beyond their capability where higher level of expertise are required and also construction materials are being used without going through technical tests.

Therefore, plans should be formulated in such a way that they could mobilize local skill and resources, become participatory, have feature of inclusion and environment friendly. Periodical Plans should be formulated and implemented in accordance to the work plan. Projects should complete in time, should maintain quality level, and should be handed over instantly after completion and user groups should be made responsible for operation and maintenance. The projects should be regularly monitored and supervised so that resources can be properly mobilized and achieved results should be taken to the target group.

- **Status of Irregularities**

197 **Unlawful Transactions** – The major irregularities found in audit of District Development Committees include non- recovery of dues from contractors for a long time, fail to deposit collected money in the bank accounts, no-confirmation of bank balances through bank reconciliation, to provide financial perks excess of limit specified in the regulation, to book expenditures without proper bills and receipts, to provide financial assistances excess of limit permitted by law, non-deduction of advance tax, fail to deposit deducted tax amount in the Consolidated Fund, to incur expenses on behalf other government offices in contrary to budgetary norms etc because of these reasons, transactions of Rs 855 million 120 thousand (4.87 percent of total audited figure) including Rs 782 million 248 thousand of District Development Committees and Rs 72 million 872 thousand of Local Development Fund has been noted as irregularities. Last year, it was 7.82 percent.

Rule 116 of Local Body (Financial Administration) Regulation, 1999, requires that irregularities raised by final audit shall be cleared within the 35 days of intimation and, in the case where it deems not possible, shall apply for extension of the time limit. Accordingly, the concerned Local Body is empowered to impose penalty or recommend for disciplinary actions against the employee who fails to settle the irregularities, however no instance of such action is found.

198 **Advance Tax** – According to sections 87, 88 and 89 of the Income Tax Act, 2001 advance taxes need to deducted in all sorts of payment, but 60 District Development Committees have not deducted advance tax of Rs 2 million 564 thousand.

199 **Value Added Tax** – Section 14 (1) of Value Added Tax Act, 1995 and Rule 17 (1) of VAT Regulation, 1996 states that any individual registered with VAT shall issue Tax Invoice in a prescribed format, but it has been observed that 30 District

- Development Committees have paid Rs 4 million 714 thousand VAT money without receiving proper Tax Invoice.
- 200 **Taxes and Fees** – Under Local Self-Governance Act, 1998, District Development Committees are authorized to levy tax, service fees, rental charges and other charges. It is also stated in section 260 of the same Act that, if such taxes and fees are not recovered from any individual, it shall be recovered as the government dues however, 62 District Development Committees have not recovered Rs 231 million 126 thousand including Rs 201 million 149 thousand outstanding of previous years and outstanding amount of Rs 29 million 977 thousand for this year.
- 201 **Additional Perks** – Section 250 Sub-section (3) of Local Self-Governance Act, 1998 states that local bodies may provide local allowance and other perks to its staff provided that it lies within the budget limit, resources and means. The Committees, under Section 265 (2) of the Act, are required to formulate bye-laws to carry out the functions articulated in the Act. But, District Development Committees of Kathmandu, Dhanusha and Bara paid out Rs 1 million 47 thousand in the name of *Dashain, Tihar* (Festival) Allowance, annual leave payments and other allowances which is not in conformity with legal provisions.
- 202 **Refund of Grant** – Although, Rule 32 of Financial Administration Regulation, 1999, states that any money out of government grant, if remains unspent within a financial year, shall be refunded back to the concerned District Treasury and Controller Office, District Development Committees of Taplejung, Kapilbastu, Palpa and Dang have not refunded back the balance of Rs 5 million 105 thousand unspent money at end of the financial year. This amount should be deposited in the Consolidated Fund.
- 203 **Operational Expenditure** – According to Rule 45 of Local Body (Financial Administration) Regulation, 1999, District Development Committee may use maximum 25 percent of total income collected as, tax, charges, service fees and rentals, in administrative purposes, according to Rule 44 one percent or Rs 50 thousand in financial assistance, and according to Rule 46, one percent in miscellaneous development works. This year, 70 District Development Committees, crossing this limit, have spent Rs 169 million 168 thousand more in administrative expenses (it was Rs 201 million 740 thousand last year). Similarly, 19 District Development Committees have provided financial assistance of Rs 6 million 106 thousand more than limit and 19 District Development Committees have distributed financial assistance of Rs 6 million 106 thousand exceeding the budget limit and 47 District Development Committees have incurred expenditure of Rs 8 million 421 thousand in excess to the approved budget. Following are the 5 District Development Committees that have spent exceeding the limit:

(Rs in thousand)

District Development Committee	Collected Tax	Limit of Expenditure	Expenditure Incurred	Excess
Financial Assistance				
Bhaktapur	26,313	263	2,710	2,447
Kalikot	608	50	826	776
Palpa	6,557	66	451	385
Tanahu	3,839	50	300	250
Syangja	1,773	50	297	247
Total	39,090	479	4,585	4,105
Administrative Expenses				
Parsa	9,485	2,371	12,821	10,450
Rautahat	4,003	1,001	11,203	10,202
Saptari	6,524	1,631	8,454	6,823
Sunsari	16,792	4,198	10,063	5,865
Siraha	4,978	1,244	6,643	5,399
Total	41,782	10,445	49,184	38,739
Contingency side				
Jumla	827	8	1,032	1,024
Parsa	9,485	95	585	490
Banglung	2,584	26	500	474
Mahottary	5,251	53	493	440
Tanahu	3,839	39	439	400
Total	21,986	221	3,049	2,828

If excessive expenditures are made from the income of District Development Committees, it may affect adversely to the local level development works of Village Development Committee and Municipalities. The need of controlling such activities was well highlighted in previous reports but no improvements have been made in this regard.

- 204 **Reimbursement** – Eight District Development Committees have not yet taken back Rs 10 million 862 thousand given as loan to other organization and offices. Among them, Bhaktapur and Dhanusha has yet to get back Rs 4 million 427 thousand and Rs 2 million 228 thousand respectively
- 205 **Consumer Committees** – Rule 70 of the Local Body (Financial Administration) Regulation, 1999 states that among the works to be launched in local level, works up to Rs 1 million, on priority basis, shall be assigned to User's Committee formed by local Consumer Committees and specific procedures shall be followed in this regard. Some significant facts regarding the priority and procedures are as follows:
- 205.1 In Rule 70 (a) of the Regulation, it is mentioned that the District Development Committee shall classify the Consumer Committees subjectively, register them

- and up date the list time to time. District Development Committee of Banglung, Kailali, Makwanpur, Nawalparasi, Dhanusha, Bhaktapur and Lalitpur has assigned local level projects to the Consumer Committees without classifying and registering them. In order to enhance the performance of the assigned jobs, it is essential that Consumer Committees be classified and registered as per the provision of the Regulation.
- 205.2 Rule 70 (i) of the Regulation states that the Consumer Committees shall be assigned labor-intensive projects only instead of works with complicated in technical nature and works requiring heavy equipment. But it has been found that District Development Committees of Nawalparasi, Makwanpur, Laitpur, Sindhupalchowk and Shyangja have assigned the Consumer Committees with complex works like black topping of roads and paid Rs 40 million 192 thousand. The quality level of such works, undertaken by Consumer Committees, cannot be assured in the absence of technical know how. Hence, these Consumer Committees should be assigned labor-intensive works only as per the provision of the Regulation.
- 206 **Internal Audit** – Section 232 (1) of the Local Self Governance Act, 1998 stipulates that internal audit of District Development Committee shall be rendered by the internal audit section of the concerned Committee. But District Development Committee of Okhaldhunga, Myagdi and Sunsari have not yet established internal audit section. Internal audit section must be established in order to made internal control system reliable and effective.
- 207 **Land Protection** - District Development Committee, Kathmandu owns a piece of land, plot no 55, covering an area of 32 ropani 14 annas, in Ward No 2 (c), Mahadevsthan Village Development Committee, Thankot, Kathmandu. It is made known that some unauthorized persons are cultivating the land without the consent of District Development Committee. Similarly, total 44 ropanies of land scattered in various plots in Ward No 6 (b), Balambu Village Development Committee, are found to be recorded in the inventory book, but the ownership certificates are not obtained yet. These lands must be protected properly.

Activity of the Office

- **Project Accounting**

As per the agreements, signed to execute development projects, funded by Government of Nepal and loan and grant assistance of friendly nations and agencies especially the World Bank, Asian Development Bank (ADB), Norway, Denmark, DFID, Finland, Japan, Saudi Fund and OPEC Fund, contain the provision that final audit shall be conducted by the Office of the Auditor General, this Office has been carrying out audit of these projects and issuing audit reports. Accordingly, following projects, funded by foreign loan and grant assistances, have been audited this year and their audit reports enclosed with the financial statements have been issued through the Ministry of Finance.

(a) Projects funded jointly by the World Bank and Other Donors

1.	Rural Water Supply and Sanitation	11.	Health Sector Projects
2.	Telecommunication Sector Improvement Project	12.	Pension Reform and Capacity Bilding
3.	Electricity Development Fund	13.	Financial Sector – Technical Assistance
4.	Alternative Energy Promotion Centre	14.	Economic Reform Technical Assistance
5.	Nepal Electricity Authority	15.	Financial Sector Reconstruction Project
6.	Community School Support Programme	16.	Avian Influenza – Animal Health
7.	Agro Business Commercialization Project	17.	Avian Influenza – Human Health
8.	Road Maintenance and Development Project	18.	Education for All Project
9	Institutional Strengthening of Office of the Attorney General	19.	Poverty Alleviation Fund
10.	Implementation of Community School Support	20	Rural Access Development and Decentralization

(b) Projects funded by the World Bank

1.	Poverty Alleviation Fund Board	4	Second Rural Water Supply and Sanitation Project
2.	Nepal Telecommunication Authority	5	Financial Sector – Technical Assistance
3.	Nepal Electricity Authority		

(c) Projects funded jointly by ADB and Other Donors

1.	Community Ground Water Irrigation Project	12	Kathmandu Valley Water Service Improvement Project
2.	Rural Electrification and Distribution Project	13	Kathmandu Valley Water Supply Improvement Project
3	Small Urban Water Supply and Sanitation Project	14	Community-based Livestock Development Project
4	Crops Diversification Project	15	Decentralized Rural Infrastructure and Livelihood Project
5	Institutional and Financial Governance Project	16	Community-based Irrigation Agriculture Sector Project
6	Melamchi Water Supply Project	17	Skills for Employment Project
7	Teachers Education Project	18	Sub-Regional Transport Facilitation Project
8	Roads Network Development Project	19	Rural Infrastructure Development Project
9	Higher Secondary Education Project	20	Education for All Project
10	Urban and Environment Improvement Project	21	Gender Equality and Women Empowerment
11	Community-based Water Supply and Sanitation Project	22.	Rural Schools Sector Development Project

(d) Projects Operated under Other Loan Assistance

1.	Western High Altitude Mountain Poverty Alleviation Project	2	Agriculture (Millets) Research Project (Swaminathan Foundation, India)
2	Community Forests & Livestock Farming	5	Kalanet Research Project
3	National Tuberculosis Centre		

As the project audit report needs to be verified with the Project Account, it was expected that the concerned ministry/entity submit such project account at least 15 days ahead. But it has been found that offices produce project accounts very late and, once submitted, then start requesting for immediate issuance of project audit reports without leaving virtually no time to this Office to verify the authenticity of figures. It is anticipated that in future Ministry of Finance, concerned ministry, Financial Comptroller General Office and concerned projects will assist by all means to produce project accounts in time.

• **Other Activities**

208 **Audit of United Nations Development Programme** – Among the various UNDP funded projects being operated in Nepal, altogether 10 projects were audited, 5 projects jointly by the auditor appointed by the Programme and staff assigned by this Office and another 5 by the staff of this Office, as per the understanding made between this Office and United Nations Development Programme, and reports thereof have been submitted. In these 10 projects, UNDP has funded Rs 903 million 137 thousand till the date. All expenses including traveling allowances incurred during audit of those projects was borne by UNDP.

209 **Participation in Election** – On the request of Election Commission, altogether 198 staff, from the level of Helper to Special Class Officer, of this Office, assigned in the Constituency Election, held on 10/04/2008. The 3 Deputy Auditor Generals of Special Gazetted Class, engaged as the Chief of Election Monitoring Team for the districts of Banke and Bardia, Udayapur and Siraha, and Darchula. Other 33 Gazetted Class II Officers, 133 Gazetted Class III Officers, 16 Non-gazetted Class I, 8 Non-gazetted Class II and 5 of other classes were involved in various duties relating to the election.

- 210 **Anniversary Function** – On 29/06/2008, an annual function to mark the 50th anniversary of establishment of the Office of the Auditor General was organized. On that occasion Honorable Speaker of the Legislature-Parliament, Heads of Constitutional Bodies, Finance Minister, Chief Secretary, former Auditor Generals, Deputy Auditor Generals and staff members of the Office were present.

Addressing on that occasion, the Honorable Speaker highlighted the significant contribution made to the nation by the Office of the Auditor General and expressed that it should continuously be reformed and he also assured of his full support in increasing perquisites of audit staff and enhancement of physical facilities of the Office.



- On the same occasion, the Finance Minister expressed his opinion on the need of marching ahead with appropriate package programmes for institutional strengthening of audit and he pledged the support of the Ministry of Finance in this regard. On the occasion of the anniversary, the Office had organized various programmes like intra-office essay writing, poems, chess tournament, eloquence contest etc.
- 211 **Support** - As requested by the Institute of Chartered Accountants of Nepal, one Assistant Auditor General was nominated to undertake the duty of Election Officer in the election of President and Vice President of the Council and he successfully performed assignment task.
- 212 **Audit of the Office**– A chartered accountant has been appointed to carry out internal audit of the Office of the Auditor General for the year 2006/07. The final audit of the Office is completed by its own staff in consonance with the provisions made in Interim Constitution of Nepal, 2007 and Audit Act, 1991.
- 213 **Personnel Management** – Out of total approved post of 449 as of 16 July, 2007 altogether 395 posts have been fulfilled. In this regard, the Public Service Commission has been requested to fulfill remaining 54 posts of various levels.

On the date of enforcement of Civil Service (Second amendment) Act, 2007, the Nepal Audit Service ceased and was absorbed in the Civil Service Act. In accordance with Section 2(4)c 1 of the Civil Service (Second amendment) Act, 2007, this year, 11 Audit Officers of Gazetted Class III and 60 audit superintendents of Non-gazetted Class I have been promoted to Director, Gazetted Class II and Audit Officer Gazetted Class III respectively through the process of special promotion.

Likewise, in accordance with the provisions, regarding timebound promotion after 10 years of service, contained in the Regulation Governing the Staff of the Office of the Auditor General, 1994, 2 Audit Superintendents have been promoted to Audit Officer, Gazetted Class III level. Similarly, 10 Audit Inspectors have been promoted to Audit Superintendent, Non- Gazetted Class I on the basis of performance evaluation process and class levels of 2 Light Vehicle Drivers and 24 Office Helpers have been elevated to second level and fifth level respectively.

During this period, 1 Assistant Auditor General and 1 Audit Superintendent got compulsory retirement due to age bar and 1 audit superintendent has resigned from his post.

- 214 **Rewards and Felicitations** – On the auspicious occasion of 50th year of establishment of the Office of the Auditor General, 1 Assistant Auditor General, 4 Audit Officers, 1 Audit Superintendent, 1 light vehicle driver and 1 office helper, altogether 8 staff were felicitated with Certificate of Honor and a special reward of six month's salary in recognition of their excellent services rendered to this Office.

Similarly, 6 staff completing 35 years of continual service and 2 staff who were relieved from service under compulsory retirement within the year were also felicitated.

- 215 **Motivation Rewards for Follow-up Audit** – Due to the activeness shown by the Irregularity Settlement, Evaluation and Monitoring Committee in evaluation and monitoring in settlement of irregularities, in making follow-up in this regard and in collection of progress report from all entities and submission to the Cabinet, the scope of work for settlement of age-old irregularities has augmented tremendously. This Office has also carried out the follow-up audit all the year round and such follow-up audits have been also carried out during field audit. In these activities, the staff of this Office have involved very meticulously and have worked besides their normal office hours. In order to motivate them further, an amount of Rs 1 million 500 thousand has been distributed as reward.

- 216 **Participation** – The acting Auditor General and the staff of the Office have participated in the meetings of International Organization of Supreme Audit Institutions (INTOSAI) and other meetings, seminars and training programmes organized by other international organizations. In this context, a team led by the Acting Auditor General attended the Nineteenth Congress of INTOSAI held in Mexico City from 5th – 10th November, 2007 and also participated in the meeting “Strategy Planning for Quality Audit” held in Cambodia from 3rd – 5th December, 2007 organized jointly by the Asian Organization of Supreme Audit Institutions (ASOSAI) and INTOSAI Development Initiative.

The Acting Auditor General also attended the International Conference on “Corruption free Asia : Long-term Vision” held in Doha, Qatar at the invitation of the Auditor General of Qatar.

- 217 **Training and Seminars** – Every year, with an objective to enhance professional capability, staff are nominated for participation in various national and international training and seminars so that they could gain necessary skill, knowledge and experience. This year, altogether 407 staff have participated in various training programmes, seminars and conferences organized by the Office and other organizations in the country and outside country as well. The brief account of such training and seminars are as follows :
- 217.1 Altogether 9 Gazetted Class III officers went to India under the scholarship offered by the Comptroller and Auditor General of India on the subjects namely Audit of Public Enterprises, Audit of Information Technology, Performance Auditing and Environment Auditing and Attestation of Financial Statements. Likewise, one officer participated in the training programme organized by Computer Management Cooperation Limited, India under Colombo Plan, two in training course on International Auditing held by the Office of the Auditor General of China, one each in training programme on Performance Audit and IT Audit organized in Malaysia, one in Capacity Building Programme held in Thailand, two in International Training Programme on Performance Audit organized in Lahore, Pakistan, two in Seminar on Public Sector Leadership organized by DANIDA Fellowship held in Denmark, one each in South Asian Workshop on Parliamentary Public Account Committee and in Financial Audit Information held in Sri Lanka and one in a seminar in Japan. Besides, one officer each participated in Trainers Training Programme on ASOSAI-IDI Quality Assurance Workshop held in Laos, in Internal Audit Training Programme for Government Auditor held in Korea and Regional Seminar on Anticorruption organized in Indonesia.
- 217.2 Two Officers were separately assigned for an inspection visit of Police Unit in Haiti and Armed Police Unit of UN Mission Liberia.
- 217.3 An orientation programme was organized for the office staff to be deputed in 52 districts on under Single Audit Team arrangements. Similarly, one officer attended a training programme by Nepal Administrative Staff College, a Gazetted Class I Officer participated in Senior Executive Development Programme organized for the Gazetted Class I officers held by the same College, 91 office staff attended a training programme on Mountaineering Liaison Officers organized by the Ministry of Culture, Tourism and Civil Aviation, 3 participated in Second General Assembly of Union of Government Accountants of Asian Nations, one in seminar on Revenue Collection and Reporting, one in seminar organized by the Peace and Reconstruction Ministry and 3 staff in Seminar organized by the Institute of Chartered Accountants of Nepal.

Likewise, 25 office staff attended a programme organized by Norwegian Embassy to share experiences on performance audit.

217.4 Likewise, 1 staff participated in a training programme on E-governance organized by Higher Level Commission on Information Technology, 9 in seminar organized by Nepal Accounting Standards Board, 3 in international conference held by the Institute of Chartered Accountants of Nepal, and 2 in the training programme conducted by Financial Comptroller General's Office. Also, 355 staff have participated in the Continued Professional Training Programme organized by the Office itself. Likewise, 18 staffs have participated in the training programme conducted by National Information Technology Center.

218 **Professional Studies** – Pursuant to the Regulation Governing the Staff of the Office of the Auditor General, 1993, and Civil Service Act, 2007, staff of the Office are being nominated to pursue the professional course of Chartered Accountancy and till this date, altogether 8 staffs have completed the course. The professional competence of this Office has enhanced by their service delivery. Currently, 6 of them are in the service of the Office. In order to entice the professional man power to continue services in the Office, specific retention packages in the form of financial perks were submitted to the government for approval which is not yet approved.

Similarly, this year, 1 Audit Inspector has been provided with an opportunity to enroll in 2008 batch of “Executive Masters in Business Administration” offered by Nepal Management Association. Till the date 3 have been provided with this opportunity.

Two Officers, one under personal endeavor to study MBA and another to pursue study of ACCA, have been granted extraordinary leave and study leave respectively and were permitted to go abroad.

219 **Inspection of Foreign Missions** – One Assistant Auditor General and one Director were assigned to make follow-up audit, to inspect inventory management and to make field study of Nepalese Embassy and Permanent Missions from 29/05/2007 to 26/06/2007.

Similarly, one Audit officer and one Audit Superintendent were assigned to conduct field audit of three missions from 18/05/2007 to 4/06/2007

220 **Expenditure vs. Achievements** – Audit always, directly or indirectly, contribute in the effort of bringing effectiveness in financial administration and curb the leakage by best utilization of public fund. Its contributions cannot be always judged on the basis of financial involvement. The share of recoverable irregularities among the total irregularities is very significant. Most of such irregularities are being recovered as well.

This year too, Rs 780 million 712 thousand was recovered from such irregularities and deposited in the treasury. If the recurrent expenditure of Rs 101 million 476 thousand incurred by this Office in 2006/07, is compared with total recovered money, it can be concluded that Rs 769 has been recovered against the audit expense of Rs 100. If the outstanding recoverable items of Rs 706 million 338 thousand from government office and Rs 273 million 412 thousand from the District Development Committee, Boards, Universities and other organizations, are recovered the ratio may be much higher.

Similarly, the audit expenditure, if compared with the audit accomplished figure of Rs. 805 billion 438 million 367 thousand and follow-up audit figure of Rs 12 billion 977 million 952 thousand, it is evident that audit of Rs 856 thousand and follow-up audit of Rs 13 thousand has been accomplished at the cost of Rs 100.

- 221 **Discussion on Annual Reports** – In past days, discussion on the Reports of the Auditor General were remained pending in the Public Accounts Committee. Now, after the reinstatement of Peoples’ Democracy, the reconstituted Public Accounts Committee has again started the discussion on those reports and has concluded to those pending reports. In this endeavor, the Office of the Auditor General also has provided its best cooperation to the Public Accounts Committee to the possible extent. Even in this very year, Public Accounts Committee has begun its discussion on audit reports on ministries, secretariats of Nepal Government and constitutional bodies. But after the election of Constituent Assembly, it took some time to constitute the Committee. Because of this reason discussion on observations of some of the ministry has yet to start. The directives of the Public Accounts Committee, issued after the discussion and assessment of the reports, has considerably helped to settle the age-old irregularities. The Committee has also issued directives to initiate actions against the authority responsible for maintaining financial discipline. It is expected that the directives will help in maintaining transparency in audit functions as well.

The issues raised by the audit should not always be viewed as criticism but should show awareness and sensitiveness towards their implementing aspects and should pledge firm commitment to initiate action, under the provisions of law, against the wrongdoers. Moreover, no one can deny the fact that if we move ahead with periodic appraisals and analysis of prevailing procedures, processes, policies and legal provisions and step forward for the improvement on its basis, the problems existing in the financial administration will gradually minimized. This will further help to maintain public accountability, transparency, good governance and systems of performance reporting.

In this report, attempts have been made to identify and analyze the unlawful activities and irregularities prevailing in financial administration and financial transactions. In the report, to the extent possible, it has been attempted to present the predominating deficiencies and inadequacies, strong and weak aspects

of financial administration, and to present practical recommendations for the betterment of financial administration. Assimilating the reformatory indications being visible, efforts have been made to establish positive relationship with the entities liable for audit, by keeping independence and impartiality of audit intact, so that public financial activities remain clean, accountable and transparent. Nevertheless, everybody should remain always cautious to face the challenges posed by the inherent weaknesses due to fast growing volume of financial activities and scope of work. It is our humble feeling that all concerned should remain vigilant and development-oriented every time and move ahead with a truly clean, disciplined, dignified and lawful financial administration.

- **Future Reforms to be Made in Audit**

The basic economic objective of the state is to build the national economy independent, self-sustained and progressive-oriented by prioritizing and nurturing national public and private enterprises; by minimizing economic disparity; by developing situation where no one is exploited economically in the name of caste, sex, class or origin; distributing economic productivity and benefit equally on the basis of social justice; and by restraining from concentrating the available economic resources and means among few individuals. Everybody should be attentive towards the control mechanisms of misuse, extravagance, loss and leakage of public resource and means. Sincerity in compliance of law, transparency of transaction and sense of accountability are very much essential in operation of financial administration of the nation.

Audit reports provide assurance regarding to correctness of the financial position and results of financial transaction of any audited organization. The basic objective of audit is to strengthen public accountability, good governance, work performance reporting and transparency. In order to achieve these objectives, the Office of the Auditor General is sincerely carrying out its responsibility. For this, financial transactions and the financial statements of the organization, to be audited, should contain certain basic features, systems and standards. It is not that, the Office of the Auditor General has never given any suggestions, in its Annual Reports, so that the reports are easily accepted in financial sector and be qualitative. The sincere implementation of suggestions definitely will cause in reduction of the revenue leakage, develop sense of economy, efficiency and effectiveness in acquisition and mobilization of public resources and will ensure successful implementation of reporting systems and assure transparency in public activities and all these will result into improvement of financial administration as a whole. Again, it is not that suggestions are not implemented at all. But, if we look at pace and modality of implementation of suggestions, there is no room for feeling contented. Irregularities do occur every year and they get corrected as well. But, the issues like non-effectiveness of reform endeavors in financial administration as expected, revenue leakage, corruption, violations, state of anarchy, ambiguity, lack of reporting system are posing as matters of concern in all corners. In order to bring reform in all these issues, audit puts forth the following suggestions:.

222 **Approval of Legislature Parliament** – By the viewpoint of audit, it is an universal convention that no financial transaction should take place without consent, approval and knowledge of the Parliament. In our system, receipt and use of so many foreign aids are still not reported to the Legislature-Parliament and the Auditor General. Now, it is the time that nation get rid of such practices.

223 **Financial Administration Procedure** - Article 90 of the Interim Constitution of Nepal, 2007 has made the provision of the Consolidated Fund. The provision states that, except for the revenues of religious trusts (**Guthi**), all revenues received by the government, all loans raised on the security of the revenues and all moneys received in repayment of any loan made under the authority of any Act and any other revenue, whatsoever, shall be deposited in this Fund.

Article 91 of the Constitution states that no money shall be drawn out of Consolidated or any other government Fund except for expenditure to be charged upon the Consolidated Fund or expenditure to be met under Appropriation Act or expenditure to be met in the form of advance under an Act when the Appropriation Bill is under consideration or expenditure to be met in special condition under Vote of Credit Bill supported by a simple statement of expenditure.

According to above mentioned provision of the Constitution, all sorts of income, except of **Guthi** money, received by the government should be deposited in the Consolidated Fund and no money could be spent from the government treasury without bringing into budgetary purview. Still, every year, revenues like Local Development Charges, Tourism Fees, etc are levied through Finance Act, deposited in Funds like Operational Fund, Local Development Fund, Peace Fund and are spent. This type of activity is totally contrary to the Constitution. It is apparent that all government income, as articulated by the Constitution, should be deposited in the Consolidated Fund and should be used as allocated by the Appropriation Act.

224 **Role of Audit** – The financial transaction of public sector of the nation should not remain outside the domain of the Auditor General. Till now, a number of agreements for foreign aid are being signed with donor agencies, accepting the provision of audit by licensed auditors instead of bringing it under the purview of the Auditor General. There exists no other means to enlighten the Legislature Parliament with an independent opinion in the cases where the Auditor General is not allowed to check. Therefore, it is necessary to have a system that ensures the Auditor General of full access to auditing, monitoring and reporting on the activities rendered in collection of internal or external resources and their use.

225 **Independency of Audit** – Undoubtedly the Auditor General should be kept independent in all activities. But, always the time, the Auditor General has to depend for financial resources, human resources etc upon the will of Executive body. The office of Auditor Generals of friendly nations and some independent

- experts are looking keenly and with great concern in this matter. The Auditor General also has been raising this matter seriously every year. Still, the Auditor General has to depend upon Executive body for many things, from financial resources to professional visits of the Auditor General and his staff, which has adversely affected the independency of the Auditor General. Hence, the system that forces the Auditor General and his staff to remain dependant upon the Executive Body even to discharge duty independently should be ended.
- 226 **Accounting Systems and Accounting Standards** – There would not be any uniformity in the accounts and financial statements, prepared without determining conceptual requirements to be disclosed in the financial statements. The accounts, prepared under different standards can not be integrated or compared. Hence, accounting frame-work that guides the preparation of accounts and statements, accounting standards should be developed and the statements, produced on that basis only, should be submitted for audit consideration.
- 227 **Financial Statements** – Till the date, all government agencies follow the practice of preparing separate statements for appropriation, revenue, deposits or other transactions. Even the accounts of Consolidated Fund have been prepared on the basis of data collected from different sources instead of integrating financial statements produced by offices that actually carry out the transactions. Sometime, one single office may have to prepare more than one financial statement. If all these statements could be compiled together and prepare one integrated financial statement, it would facilitate to develop and implement the system of submitting office-wise audit report which displays the public expenditure made by the government and financial accountability.
- 228 **Audit** – In the absence of clear-cut concepts on accounting policies and accounting of financial activities of the organization, it has not been possible to bring uniformity in submission of accounts among the organization. And because of the same reason, audit, which has to be conducted within the sphere demarcated by concepts on accounting policies and accounting, could not be developed as envisaged. Although, the Office of the Auditor General has applied Auditing Standards pronounced by INTOSAI and other professional auditing standards in audit works, it still needs additional exercises to make full compliance with those standards. The practice of determining the scope and methodology of audit by law should be modified and environment should be created where auditing standards, developed in tune with international level, be applied in audit of all entities.
- 229 **Audit Methodology** – A lot of changes in technicality of audit has been occurred in international scenario. Although audit is being conducted according to the Government Auditing Standards which in fact is developed on the basis of International Auditing Standard, reforms should be brought in traditional audit methodology and attention should be focused on Fund based Audit and Risk based Audit. The techniques on extended audit and risk based audit should be

developed and a system that ensures the submission of audit report shortly after the end of fiscal year.

- 230 **Management** – It is essential that public financial activities should be kept clean and accountable by positively promoting the authority bestowed by the law and keeping independence, impartiality and credibility aspect of audit side by side. For this purpose, the Office has developed standards, guidelines, guidance notes and directives and implemented which is intended to guide the staff engaged in audit in maintaining independence and to standardize the audit works. Obviously, the personnel, involved in audit remain most of the time in stressful and challenging state because of ever growing work load, passing of odd remarks and comments on nature of work and technicality of audit function. For this reason, attractions like further study, training in national level or international level and other facilities for the existing manpower in the Office should be supplemented in order to enhance the knowledge, skill and efficiency of staff should be provided in timely manner.

Although, facilities and financial perks play a very crucial role in motivating the staff and enhancing their delivery capability, the Office has not been able to provide them such facilities. Even in this state, the Office is obligated to send its staff to field audit assignment in remote and formidable districts where they have to devote extra time in morning or evening. Therefore, it is essential that the staff engaged in audit are provided with physical facilities besides the professional allowances in order to enable them to remain courageous, unbiased and independent to face the ever mounting work load and posing challenges by observing the professional integrity.

- 231 **Settlement of Irregularities** - Regarding the settlement of irregularities, Financial Procedure Act, 1998 and Financial Administration Regulation, 1999, have made provisions. Further, to speed up the settlement of irregularities, Irregularities Settlement, Monitoring and Evaluation Committee has been established. In order to deal with recoverable irregularities, the Act has provided for *Kendriya Tahasil Karlaya* (Central Recovery Office) as well. Also, in order to minimize the irregularities, the Cabinet Meeting held on 6/01/2003 had, under a special resolution, bestowed the authority upon the Chief Accounting Officers to settle the irregularities contained in the reports up to Report, 1999. This Office, through the audit and the reports, has been providing suggestions on budget preparation, implementation, monitoring and evaluation system, process and practices of incurring expenditure, probable cases of misuse, loss and damages, position of revenue administration and possible leakage in revenue, worthiness of public expenditure, economy, efficiency and effectiveness of acquisition and utilization of resources. Still, the volume of irregularities could not be scaled down as envisaged and this definitely is not a good indicator of financial administration.

232 **Follow-up Audit** - According to the annual audit plan slated for Fiscal Year 2006/07, the final date for conducting follow-up audit was fixed for mid-March, but, the process of follow-up audit was discontinued for some time because none of the acts contain the provision which authorize this Office to conduct follow-up audit of previous year's irregularities. In this regard, a discussion meeting on the outstanding irregularities up to 2005/06 was organized by Legislature Parliament and in the presence of Chief Secretary, Finance Secretary and Auditor General, it was decided to settle irregularities remained up to 2006/07 within the time period specified by the Act, to update records as soon as possible and to settle pending irregularities through follow-up audit as usual and also decided to record previous irregularities properly to closely monitor during the regular audit. Adhering to this decision, this Office is conducting follow-up audits to settle out previous irregularities.

In that meeting, it was also decided to proceed for amendment of the concerned legislation addressing the provision of follow-up audit and, accordingly, the Ministry of Finance was instructed to take needful action to proceed for amendment but the process for amendment has yet to start. Hence, concerned legislations must be amended so as to clearly address the issue of follow-up audit.

233 **Conclusion** – It would be a great support to eliminate existing defects in the financial administration if only the responsible officials of public entities consider audit as an awareness measure for the management, and at the end it will provide great support in achieving national economic objectives as envisaged by the Constitution. In order to enable the audit to contribute in enhancing accountability in the financial administration and to promote financial transparency in public sector, timely reforms should be made in accounting concepts, accounting systems, audit methodology, audit independence and bring alertness against unlawful activities.

Finally,

The Office of the Auditor general is highly inspired to discharge the accountability of accomplishing audit with invaluable cooperation from the Legislature Parliament, Public Accounts Committee, Government of Nepal, donor agencies, entities that submitted for audit, friends in profession and all other concerned. Likewise, I have felt that media sector has extended a great cooperation to us by analyzing and clearly explaining the issues incorporated in the Annual Report of the Auditor General and publicizing the facts. The perseverance and untiring efforts of Office staff which made possible to accomplish this responsibility of public audit. For all this, I would like to express my gratitude and my sincere thanks to all concerned.

(Bachchu Ram Dahal)
Acting Auditor General