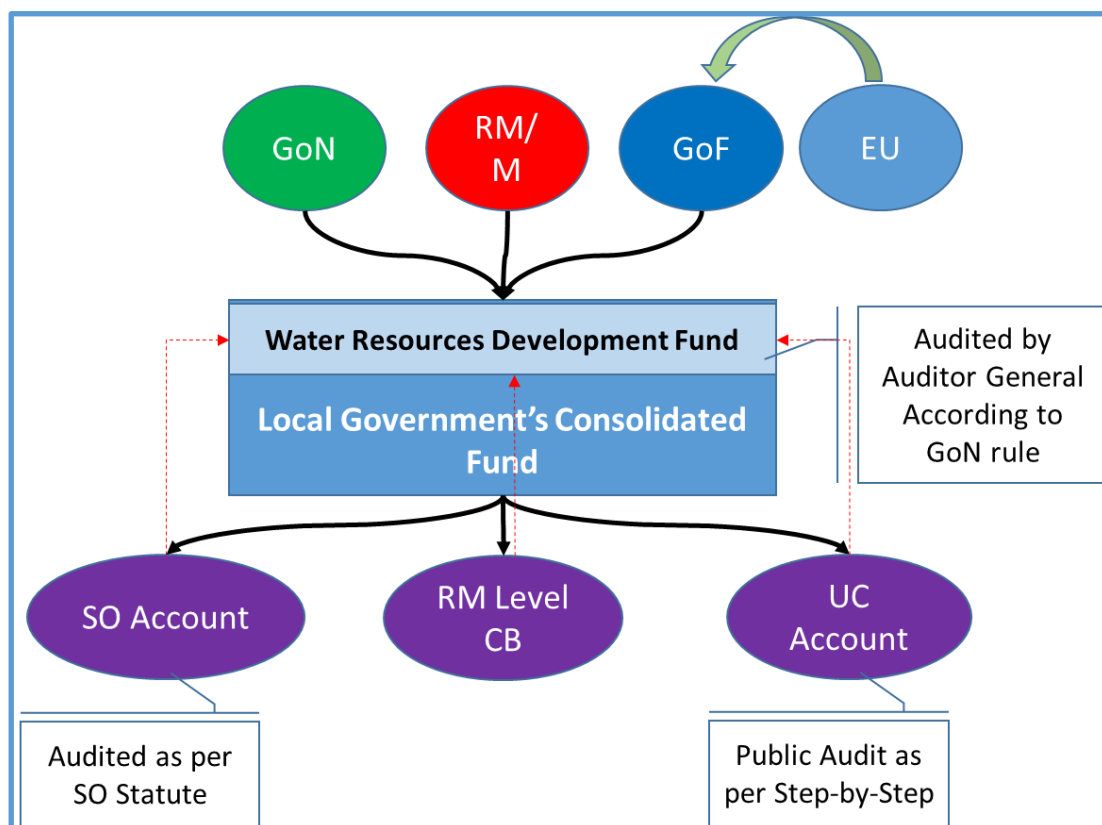




## RURAL VILLAGE WATER RESOURCES MANAGEMENT PROJECT



# SUMMARY OF WATER RESOURCES DEVELOPMENT FUND AUDIT FINDINGS FISCAL YEAR 2074-075

(16<sup>th</sup> July 2017 to 15<sup>th</sup> July 2018)



May 2019

Project Support Unit, Dadeldhura

FCG

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### Annex 1: RM-wise Summary of WRDF Audit Findings Fiscal Year 2074-075

## Abbreviations

AWP	Annual Work Plan	NPR	Nepalese Rupees
CB	Capacity Building	PCO	Project Coordination Office
DCC	District Coordination Committee	RM	Rural Municipality
DDC	District Development Committee	RM/M	Rural Municipality/Municipality
DoI	Deartment of Local Infrastructure	RMPMC	Rural Municipality Project Management Committee
DWSS	Department of Water Supply and Sewerage	RVWRMP	Rural Village Water Resources Management Project
EU	European Union	SO	Support Organization
EUR	Euro (currency)	TA	Technical Assistance
FY	Fiscal Year	TDS	Tax Deduction at Source
GoF	Government of Finland	UC	Users Committee
GoN	Government of Nepal	VAT	Value Added Tax
MEUR	Million Euro	WRDF	Water Resources Development Fund
MNPR	Million Nepalese Rupees	WUMP	Water Use Master Plan

## Summary of Water Resources Development Fund (WRDF) Audit Findings for FY 2074-075 (16<sup>th</sup> July 2017 to 15<sup>th</sup> July 2018)

### Background:

Rural Village Water Resources Management Project (2016-2022) seeks to improve health and reduce multidimensional poverty in remote and rural communities. The Project is funded by Government of Nepal, European Union and Government of Nepal and implemented by Ministry of Federal Affairs and Local Development/Department of Local Infrastructure together with participating Local Level Governments. Local Governments and beneficiary communities also contribute cash and kind for water and livelihood scheme/activities implementation.

Total Budget of the Project is 60.2 MEUR, shared 15 MEUR by Government of Nepal, 20 MEUR by European Union and 15 MEUR from Government of Finland. Local Government's contribution is 5.2 MEUR and Beneficiaries Contribution is 5 MEUR.

The Project was being executed by ten District Development Committees (DDCs) of project working area since FY 2073/074 (15<sup>th</sup> July 2017). After administrative restructuring of the country, the DDCs converted to District Coordination Committees (DCCs) and their role became limited to coordination of development activities. Executive role of development activities transferred to newly establish Local Level Governments (Rural Municipalities and Municipalities - total 563 in the country and 86 in the Project working area).

The Project working area and executing agency changed in accordance with changed administrative structure stipulated in final project document, November 2017, approved by the Project Supervisory Board on 5<sup>th</sup> March 2018.

The report summarizes finding of annual audit of RVWRMP investment fund carried out by Office of Auditor General, Government of Nepal for Fiscal Year 2074-075 (16<sup>th</sup> July 2017 – 15<sup>th</sup> July 2018) in 46 Rural Municipalities/Municipalities. The currency is converted into EURO from NPR on the exchange rate of 1 EUR = NPR 120.

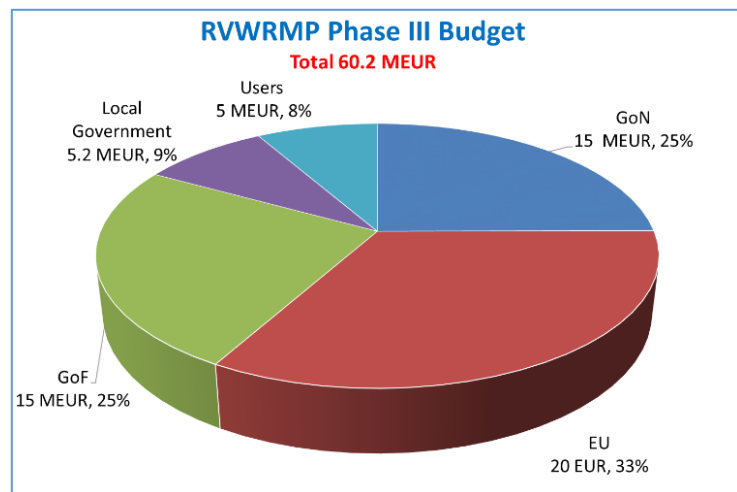


Figure 1: RVWRMP III budget and sharing among stakeholders

### Investment Budget Fund Flow and Audit Provision

Out of total budget 60.20 MEUR, investment budget 45.80 is expended at local level to implement water resources development and livelihood activities and is managed by the Local Government and Users Committees. Government of Nepal contribution (13.8 MEUR) and GoF+EU contribution (21.8 MEUR) are reflected in the ministry of finance's red book, whereas the RM contribution (5.2 MEUR) is

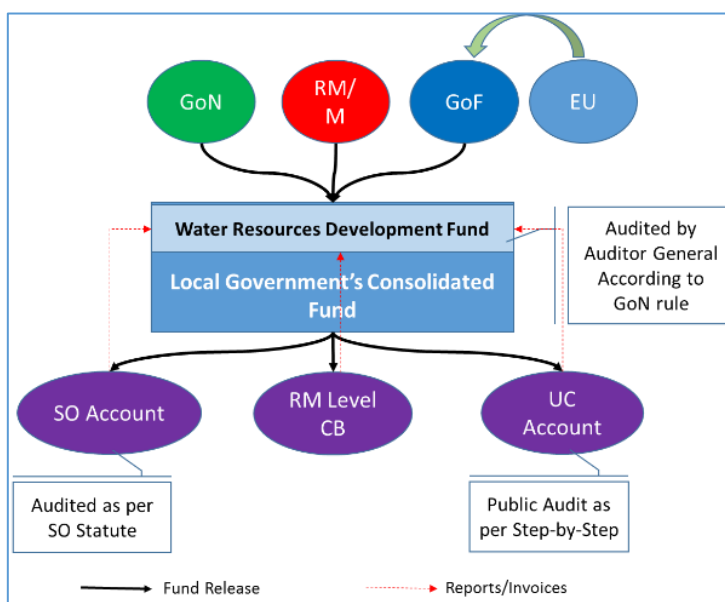
reflected in Local Government's red book. Community contribution (Cash and Kind) equivalent to 5.0 MEUR is reflected in design report of individual schemes.

**Table 1: RVWRMP budget summary (MEUR)**

Heading	GoN	GoF+EU	RM	Users	Total
Investment	13.80	21.80	5.20	5.00	45.80
Capacity Building	0.60	3.70			4.30
TA/Admin/Running etc	0.60	9.50			10.10
<b>Total</b>	<b>15.00</b>	<b>35.00</b>	<b>5.20</b>	<b>5.00</b>	<b>60.20</b>

The investment budget from GoN and GoF+EU (35.60 MEUR) flows to the RM's account and is expended by the office of Rural Municipal Executive. The RM contribution goes to the same account as the Water Resources Management Fund (WRDF).

The Provision for auditing of investment fund (WRDF) in RVWRMP Project Document (November 2017) is - "Auditing of the WRDF accounts is carried out as per the prevailing financial rules and regulations of the Government of Nepal. Therefore, the records, bookkeeping and accounting of these accounts strictly adhere to the principles of financial rules and regulations of the GoN, as applicable to the local governments and the User Committees. Internal audit of these accounts will be done by district treasury and account comptroller office of concerned district and final audit by the Office of the Auditor General. The Chief Administrative Officer on behalf of RM is responsible for timely auditing of the fund."



**Figure 2: Fund flow and audit provisions of WRDF expenditures**

Similarly, the Document provisioned for Users committee auditing as "Since Local Governments have to get their WRDF audited by the Office of the Auditor General a separate audit at UC level is not required. However, RMs should ensure that the users' committees are following the suggested bookkeeping and accounting system and also monitor that the funds are used as intended. In case the RM/project feels it is necessary to have the UC account audited, the management of the audit will be done by RMPMC"

Public audit of the funds released to the UC is mandatory before getting final instalment from WRDF as provisioned in Step-by-step manual. There will be at least three public audits and hearings during the construction of each scheme as per the Step-by-step implementation guideline of the Project.

Though expenses made by Support Organizations are part of the WRDF and audited by Office of Auditor General, SOs separately audit their accounts by an independent auditor as defined in their respective statutes and rules and regulations of the Government of Nepal.

Invoices and financial reports of all expenditures made by UCs and SOs are submitted to the RM office and is audited through regular system of GoN by Office of Auditor General.

## WRDF Expenditure Monitoring System in the Project

The Project monitors the utilization of the Fund transferred to the RMs. For the purpose, a number of monitoring provisions in the Project guidelines ensure proper and systematic use and administration of the funds. . Through full authority and responsibility of expenditure lies with the Office of RME, the following practices are being implemented by the Project in WRDF budget planning and expenditure.

1. **Annual Planning** of the activities by the RMPMC. As a member of the RMPMC, the Water Resources Advisor of the Project facilitates the planning and budgeting. The Project Support/Coordination Office comments and provides feedbacks to the RMPMC.
2. **Memorandum of Understanding** is signed between DoLI and respective RM, where all the preconditions and procedures of RVWRMP related implementation activities are mentioned. All the RMs commit to follow Project guidelines and decisions made by the Project Supervisory Board and the Project Management Team (PMT).
3. To facilitate the RMs and SO teams with the implementation of schemes and capacity building activities, different **Guidelines and Manuals** were developed, approved by the SVB and supplied to the RMs. Project Implementation Guidelines (PIG), Step by Step Manual, Procurement Manual, a Home Garden Management Manual, a Cooperative Manual are some of the key Project guidelines and manuals that guides RMs and SO teams through the implementation..
4. **Capacity Building** is an integral part of RVWRMPs implementation. Different orientation events at UC, RM and SO level on the working modalities, approaches and fund flows create understanding of the Project's standing on expenditure and budgeting. RM accountants are trained on the RVWRMP working modalities, planning and expenditure process and operation of accounting software.
5. The activities at RM level are planned by RMPMC and Water Resources Advisor (WRA), as an in charge of Project management at Technical Support Unit (District) level **recommends** the contracts, payments and reports. In addition, WRA regularly follow-up expenditure status of WRDF in support Gaopalika Water Resources Officer and other staffs.
6. Detailed financial reports are submitted to the PSU on a monthly



*Figure 3: WRDF Monitoring by PSU in Pancheshwor RM*



basis. In case of observations these are communicated back immediately after receiving the report. This is to check whether the expenditures are made according to the Project norms, procedures and agreed contracts. The Project has hired an Accounts Monitoring Officer for monitoring of WRDF expenditures. The PSU carries out field **monitoring visits** of the RMs twice a year.

7. All **Schemes are monitored** minimally three times during a scheme cycle. Public audits are carried out at the same time of the monitoring. Findings of the monitoring are recorded in scheme monitoring books and agreed by all stakeholders and beneficiaries. A Project representative is mandatory to participate in each scheme monitoring visits.

## Total Expenditure and Audit Findings of FY 2074-075

The fiscal year is the first year of Project implementation under the newly formed local governments. Overall progress of the Fiscal Year was more than 90%.

Expenditures from different stakeholders in the FY was;

• GoN	2.634 MEUR
• GoF-EU	3.296 MEUR
• RM/M	0.688 MEUR
• Users (Cash+Kind)	1.237 MEUR
<b>Total</b>	<b>7.855 MEUR</b>

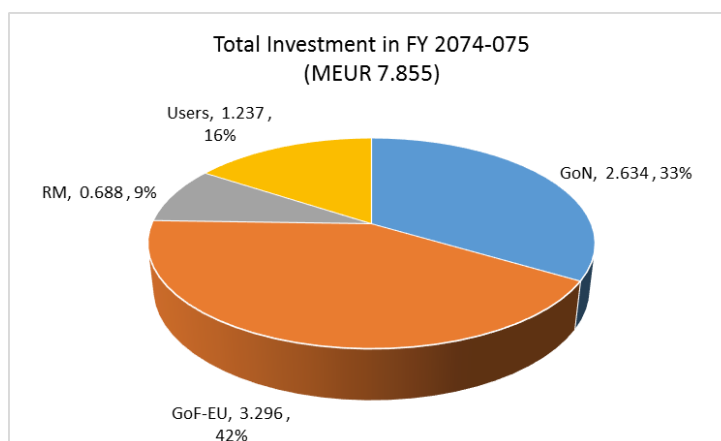


Figure 5: Total investment in FY 2074-075

### Audit Findings:

1. 23 RMs don't have objections from auditors and full accounts are settled.
2. Audit wasn't carried out in Bungal Municipality of Bajhang.
3. Auditors had pointed out the following three types of issues with settlement of accounts in their report.
  - a. Advance released from RM office not settled at the end of the fiscal year.
  - b. Amount to be returned to RM account due to misappropriation of expenditures.
  - c. Other unsettled amounts due to lack of enough evidences or supporting documents or not backed up by proper decisions.

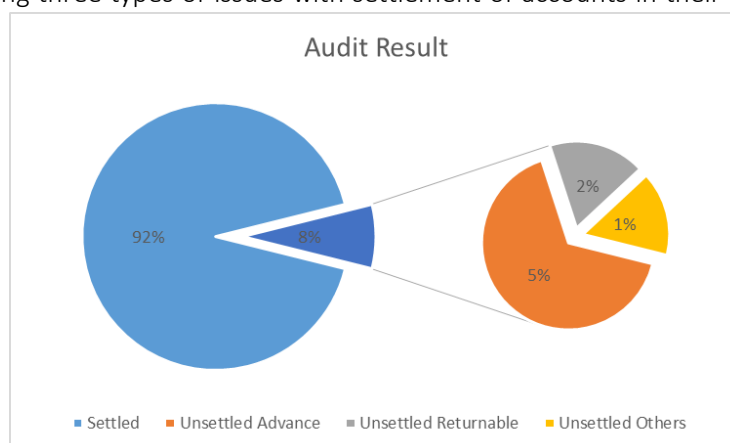


Figure 6: Audit result FY 2074-075

The description of each category is described in the following section. Detail of RMs is presented in [Annex 1](#).



a. **Advance not settled at the end of the Fiscal Year:**

Users' committees receive advance payments from the RM Office for the implementation of the schemes. Similarly, SOs receive advance payments to conduct training activities. According to the GoN rules, the advance payment should be cleared at the end of each fiscal year. If such advances are not cleared by the FY, it is remarked as an unsettled expenditure. The unsettled advances

**Note from the Project**

*According to GoN rule, all the advances should be cleared at the end of the fiscal year. In case of the schemes that are at ongoing stage at the end of fiscal year, the UCs can't clear the advance. Such advances are cleared upon completion of the schemes as a regular process. All the advances are settled after submission of the final bills/evaluation report upon completion of the schemes.*

equivalent to EUR 402,191 from 41 users' committees of 7 RMs and advances taken by 5 SOs/SPs for training and WUMP related activities.

b. **Unsettlement due to misappropriation of Expenditure:** Altogether EUR 109,829 is marked by the auditors as unsettled expenditures to be returned to the RM's account. There are three type of such errors found and pointed out by the auditors as;

- Amount equivalent to **EUR 107,877** is marked as returnable from the UCs to RM account in

**Note from the Project**

*There are two norms of estimating person days required for soil excavation in practice. The first one is the DWSS norms that applies to pipeline trench digging and burying. The second is the DoLI norm that is used for other type of soil related work and is generally used for road construction. In addition the DoLI norm is the same as the DWSS norm for digging drains of the road. The auditor in all five RMs argued that the DoLI norms (of road construction) should be followed while estimating person days for water supply scheme trench digging.*

*DoLI's norms for road construction, rehabilitation and maintenance (Volume III (a)) has set norms of 0.6 person days for 1 m<sup>3</sup> of soil excavation. The same norms under volume III (a) 9 and (a) 23 has set norms for excavation of structures of 1 person day for 1 m<sup>3</sup> of work. DWSS Design Guidelines, Volume 4, rate analysis (analysis 1) has set 1 person days for 1 m<sup>3</sup>.*

*The RMs (in support of RVWRMP-PCO) clarified this issue to the office of the auditor general referring to all the norms in practice, the evidences are submitted by the RMs. It is notable that RVWRMP is using standard DWSS norm from the very beginning in all RMs. Another Finland supported Project RWSSP-WN also applies the same norms. Auditors in the other 41 RMs have not objected the use of the DWSS norms.*

five RMs of Dadeldhura. Audit report opined to follow DoLI road construction norms for water supply scheme implementation.

- Amount equivalent to EUR 1,368 is pointed out to be reimbursed to RM fund from GoF side, due to non-proportionate expenditures between the GoN and the GoF-EU in Sigas RM of Baitadi.

*Note from the Project*

The budget from GoN, GoF-EU and the RM is fixed for each RM in Annual Work Plan of each fiscal year. Out of total central level funding, the share from GoN and GoF-EU is set based on the relative contributions (%). Since the GoN contribution is not always accessible, RMs first try to expend GoN funds. Unspent GoF-EU funds at the end of the year are carried over to the next FY. This is practiced in all the RMs. In the case of Sigas RM the Auditors felt that the expenses should every year be distributed correctly between GoN and GoF-EU. Hence they objected and recommended to reimburse the amount equivalent to EUR 1,368 from GoF-EU to RM account to maintain proportionate expenditure. The auditors did not make objection to similar practices in the other 45 RMs.

- Following expenses have identified issues of real misappropriation and need to be paid back to the RM account.

**Table 2: Misappropriated amount to return back to RM's account**

Sn	Name of RM	Amount (EUR)	Reimbursable by	Remarks
1	Turmakhand, Achham	178	ASTHA Nepal (SO)	TDS not deducted by RM
2	Shivnath, Baitadi	47	RM's staff	Transportation cost paid more than amount mentioned in the Proposal
3	Tribeni, Bajura	282	RM's staff	Training cost overpaid than mentioned in the invoices.
4	Badikedar, Doti	52	Users' committee	Paid more than final valuation
5	Sayal, Doti	25	Two Support Persons	1) TDS not deducted 2) Double payment to one training participant
	Total	584		

*Note from the Project*

Office of RM will get refund above amount from respective SO, UC and respective RM staffs.



- c. **Other unsettlements:** Amount equivalent to EUR 95,649 is pointed out by the Auditors under other unsettlement category. Basically, the objection by the auditor was due to non-availability/submission of enough supporting documents or errors in calculations or lack of proper and enough decisions. This problem has been observed in 9 RMs.

**Table 3: Unsettlements in the RMs due to lack of enough supporting documents/evidences**

Sn	Name of RM	Amount (EUR)	Description
1	Ramaroshan, Achham	21,447	Auditor felt that the SO must be registered in VAT
2	Shivnath, Baitadi	15,340	Pipeline details were not entered in first running bill
3	Sigas, Baitadi	1,919	Asked to confirm the bills are not double paid, because some of bills submitted by UC were from one year earlier
4	Gaumul, Bajura	22,703	Items missed to enter into measurement book.
5	Swamikartik, Bajura	6,750	Amount paid to the school toilet construction is more than allocated in AWP.
6	Tribeni, Bajura	8,343	Amount paid three water supply users committees found more than allocated in AWP
7	Lekam, Darchula	15,775	It's suggested to return the balance at the end of the FY to source (RVWRMP).
8	Badikedar, Doti	1,793	Previous FY's salary of the SP's paid in next FY without proper documentation.
9	Sayal, Doti	1,579	Previous FY's salary of the SP's paid in next FY without proper documentation.
	<b>Total</b>	<b>95,649</b>	

*Note from the Project*

*RM to clear above unsettlements by submitting guidelines/documents/decisions.*

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**Annex 1 : RM-wise Summary of WRDF Audit Findings Fiscal Year 2074-075**

Amount in EURO (1 EUR = NPR 120)

Sn	District	Name of RM	Total Expenditure of WRDF in FY 2074-075 (EUR)				Unsettled Amount (EUR)			
			GoN	GoF/EU	RM	Total	Advance (a)	Returnable (b)	Other (c)	Total
1	Achham	Bannigadhi Jaygadh RM	36,933	34,837	5,467	77,237	-	-	-	-
2	Achham	Chaurpati RM	33,533	48,918	6,253	88,704	-	-	-	-
3	Achham	Mellekh RM	31,950	46,048	4,375	82,373	-	-	-	-
4	Achham	Ramaroshan RM	63,825	94,402	8,986	167,213	-	-	21,447	21,447
5	Achham	Turmakhad RM	49,575	66,771	7,643	123,989	-	178	-	178
6	Baitadi	Melauli M	26,975	40,460	854	68,289	-	-	-	-
7	Baitadi	Pancheshwor RM	71,542	88,980	21,042	181,563	2,000	-	-	2,000
8	Baitadi	Purchaudi M	48,248	74,020	20,833	143,102	-	-	-	-
9	Baitadi	Shivnath RM	33,166	49,524	26,925	109,615	7,875	47	15,340	23,262
10	Baitadi	Sigas M	38,799	57,919	7,700	104,418	8,609	1,368	1,919	11,897
11	Bajhang	Bungal M	56,483	71,697	18,193	146,374	-	-	-	-
12	Bajhang	Chhabis Pathibhera RM	54,317	80,032	26,096	160,445	-	-	-	-
13	Bajhang	Masta RM	38,850	51,677	13,270	103,797	-	-	-	-
14	Bajhang	Talkot RM	68,122	101,148	27,029	196,299	-	-	-	-
15	Bajhang	Thalara RM	84,407	132,989	27,351	244,746	-	-	-	-

Sn	District	Name of RM	Total Expenditure of WRDF in FY 2074-075 (EUR)				Unsettled Amount (EUR)			
			GoN	GoF/EU	RM	Total	Advance (a)	Returnable (b)	Other (c)	Total
16	Bajura	Budhiganga M	24,367	30,679	9,025	64,071	-	-	-	-
17	Bajura	Gaumul RM	115,308	167,078	20,833	303,219	12,735	-	22,703	35,438
18	Bajura	Swamikartik RM	99,383	79,885	8,685	187,953	2,758	-	6,750	9,508
19	Bajura	Tribeni M	80,517	80,580	16,667	177,763	-	282	8,343	8,625
20	Dadeldhura	Aalital RM	100,200	152,029	31,435	283,664	-	72,170	-	72,170
21	Dadeldhura	Ajaymeru RM	50,075	67,595	9,849	127,518	-	7,205	-	7,205
22	Dadeldhura	Bhageshwor RM	45,024	57,303	12,450	114,777	57,736	8,789	-	66,525
23	Dadeldhura	Ganyapdhura RM	36,900	49,037	3,601	89,537	-	7,527	-	7,527
24	Dadeldhura	Nawadurga RM	35,775	50,601	5,513	91,889	-	12,186	-	12,186
25	Dailekh	Bhagawatimai RM	53,408	79,613	12,961	145,982	-	-	-	-
26	Dailekh	Bhairabi RM	47,200	67,621	16,305	131,126	-	-	-	-
27	Dailekh	Chamunda Bindrasaini M	17,100	36,930	3,788	57,818	-	-	-	-
28	Dailekh	Naumule RM	151,575	135,046	37,813	324,434	500	-	-	500
29	Dailekh	Thatikandh RM	36,333	57,526	27,205	121,064	-	-	-	-
30	Darchula	Byas RM	36,250	48,938	16,453	101,642	-	-	-	-
31	Darchula	Duhun RM	37,358	44,167	3,738	85,264	-	-	-	-
32	Darchula	Lekam RM	44,795	45,873	6,858	97,526	22,300	-	15,775	38,075
33	Darchula	Marma RM	41,850	62,094	12,501	116,444	-	-	-	-

Sn	District	Name of RM	Total Expenditure of WRDF in FY 2074-075 (EUR)				Unsettled Amount (EUR)			
			GoN	GoF/EU	RM	Total	Advance (a)	Returnable (b)	Other (c)	Total
34	Darchula	Naugad RM	91,108	130,724	34,223	256,055	72,083	-	-	72,083
35	Doti	Adarsh RM	42,508	23,257	4,131	69,896	28,509	-	-	28,509
36	Doti	Badikedar RM	50,008	67,251	21,061	138,320	-	52	1,793	1,845
37	Doti	Bogtan RM	64,383	96,717	36,768	197,868	-	-	-	-
38	Doti	Sayal RM	38,517	57,844	16,039	112,400	38,701	25	1,579	40,306
39	Doti	Silgadhi Dipayal M	21,250	11,523	7,130	39,903	1,250	-	-	1,250
40	Humla	Chankheli RM	43,292	39,383	5,833	88,508	-	-	-	-
41	Humla	Kharpunath RM	87,650	135,292	15,000	237,942	39,408	-	-	39,408
42	Humla	Namkha RM	69,500	72,172	10,000	151,672	107,725	-	-	107,725
43	Humla	Sarkegad RM	86,800	118,372	12,500	217,672	-	-	-	-
44	Humla	Tanjakot RM	25,892	23,258	7,042	56,192	-	-	-	-
45	Kailali	Chure RM	97,146	97,053	18,687	212,886	-	-	-	-
46	Kailali	Mohanyal RM	126,074	71,130	21,790	218,994	-	-	-	-
<b>Total</b>			<b>2,634,274</b>	<b>3,295,991</b>	<b>687,901</b>	<b>6,618,166</b>	<b>402,191</b>	<b>109,829</b>	<b>95,649</b>	<b>607,669</b>