

**Compliance Unit**  
**Compliance and Ethics Sub-Committee**  
**Alternative Energy Promotion Development Board**

**1<sup>st</sup> Compliance Report**  
**Findings**

**31 July 2018**

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## **1 Executive Summary**

The overall purpose of the Compliance Unit is to provide oversight of financial activities, quality assurance of implemented activities and capacity building in public financial management of AEPC. The Compliance Unit has one Finance Expert for the day to day operation of the unit's activities. The unit based on the necessity hires external consultants. This is the first Compliance Report post institutionalization of the unit by AEPC. Previous NRREP Compliance Unit Reports are as follows:

- 1st Compliance Unit Report covered reviews carried out in the period January – October 2013.
- 2<sup>nd</sup> Compliance Unit Report covers reviews carried out in the period November 2013 – November 2014
- 3<sup>rd</sup> Compliance Report covers reviews carried out in the period December 2014 –December 2015.

In terms of status of internal audit for the fiscal year 2071/72, 72/73 and 73/74, out of 17 issues identified by the internal audit, status as on 31<sup>st</sup> July 2018 depicts 14 issues have been closed with 3 remaining. In terms of preliminary findings of OAG, the final report of OAG has identified 7 major concerns for the fiscal year 2073/74. Out of 30 issues identified in the 3<sup>rd</sup> compliance report, 22 issues have been settled with other issues in progress. The findings of compliance unit, mainly the issues raised in the IT audit of the software are open. Details of all the issues are given in the respective sections. The summary of the major findings are as per follows:

### **1.1 Legal Status of AEPC**

AEPC is institutionalized under the Development Committee Act 2013. As reported by the OAG final report, "An institution set up as the focal point in renewable energy technologies and mobilizing extensive support receive from development partners should be made sustainable with robust legal foundation. " The process for obtaining sustainability has been initiated. Ministry has formulated a draft committee for the preparation of renewable energy promotion bill and the committee has prepared the draft and it is on final stage to send in cabinet for the approval from parliament.

### **1.2 CREF**

In terms of CREF fund management, CREF has also completed the process of fund management via competitive call on liquidity management. CREF has selected a total of 13 banks for liquidity management. NMB being the current handling bank holds more than 50% of the fund amount at 8.5%

interest rate. The rest of the amount is divided among 12 partner banks with interest rate ranging from 11% to 11.15%

### **1.3 Monitoring, Penalty and MRS (Monitoring and Reporting System)**

Investigation conducted by the Compliance Unit and the findings of OAG suggest increment in deviations reported and penalty amount, hence a clear policy on de-registration of companies needs to be developed and implemented in case of defaulters. In the case of Monitoring and Reporting System, with the software not in function currently, potential risk due to the inevitable circumstances leading to manual penalty calculation needs to be minimized. AEPC should initiate the process to either re-instate the previous software based on the recommendation of IT audit or develop a new software.

### **1.4 Subsidy Application Management System (SAMS)**

The software in operation for the administration of subsidy applications as shown by the IT audits has different issues that need to be resolved. One of the concerns is the lack of documentation of software, which is vital for knowledge transfer and ultimately the sustainability of the software. The lesson learnt from Monitoring and Reporting System needs to be implemented in SAMS to avoid such risk in the future. Hence, AEPC should initiate this process so in the case of future staff turnover, institutional memory of the software remains at AEPC and the software operates without interruptions.

## **2 Final Findings of 55<sup>th</sup> OAG Annual Report, 2074**

The final findings of the 55<sup>th</sup> OAG Annual report, 2074 is given below:

### **2.1 Budget**

The total budget of AEPC for the fiscal year 2073/74 was NPR. 6,275,800,000/-. Total expenditure during the year was amounted to NPR. 3,879,200,000/-

### **2.2 Progress Status**

Total 18% of total populations have electricity access from projects implemented by AEPC during different financial years in micro and small hydro and solar power. More than 3.5 million households have benefited from the use of different renewable energy technologies. As per documents provided by AEPC, the projects status is:

Programme	Units	Progress upto FY 2073/74
Biogas Plant Installation	Number	380,432
Large Biogas Plant installation	Number	88
Micro and Small Hydro Electricity Generation	Kilowatt	29,457
Household Solar Home System	Number	794,276
Improved Cook Stove Installation	Number	1,343,242
Improved Watermill Installation	Number	10,654
Improved Metallic Stove	Number	41,090
Institutional Solar Electricity System	Number	1,701
Solar Mini Grid System	Kilowatt	65

### 2.3 AEPC's Sustainability and Legal Status

AEPC is institutionalized under the Development Committee Act 2013. An institution set up as the focal point in renewable energy technologies and mobilizing extensive support receive from development partners should be made sustainable with robust legal foundation.

### 2.4 Expenditure in projects implemented by other institutions

For Solar Drinking water Project "MajuwaBagarKotedada of Sindhupalchowk District" World Vision International Nepal, JanahitGraminSewaSamiti and the User Committee had an agreement of NPR.12,849,283.81/- for Solar Drinking Water Project. AEPC has made contribution to the project amounting to NPR. 4,000,000.00/- from the budget head Capital Research and Consultancy (29711) signing an agreement withJanahitGraminSewaSamiti, World Vision International Nepal and User Committee. It is irregular to release fund from the said expenditure head where an NGO has contractual obligation to complete the project.

### 2.5 Subsidy Disbursement

The Government subsidy distribution process should be fair and transparent to all the related parties. As per clause 14 of Renewable Energy Subsidy Delivery Mechanism 2073, additional subsidy could be provided to those projects which remain incomplete due to technical and financial problem. The Centre received application from 28 Micro Hydropower projects and 20 Micro Hydropower projects have been provided subsidy amounting to NPR 51,794,107.50/- as first installment. However, AEPC did not publish notice for demand collection and preparation for the collection of name list did not take place. No proper justifications for selection of projects have been provided by the Subsidy Committee. Due to the lack of accountable and transparent policy for the subsidy delivery, there remain possibilities of ineligible

projects accessing the additional subsidy fund. It is recommended that AEPC should formulate the procedures for collection for application for subsidy via public notice, preparation of list and selecting the projects that have met the criteria in order to make the subsidy distribution mechanism fair and transparent.

## **2.6 Clean Development Mechanism**

For minimization of smoke and carbon emission, AEPC received NPR.557,511,013.33/- in the previous year and NPR.110,021,679.10/- in the current year from carbon trading; total NPR.667,532,692.43/- has been deposited in to the carbon fund. No expenses have incurred from the fund. As per the clarification from AEPC, the mobilization guidelines for the fund have been formulated; however, since the approval on the procedure is yet to be obtained, the fund has remained unutilized. This was noted in the previous report but the status of approval has not improved in the current the fiscal year as well, however the status of approval is same in the current fiscal year. Hence for effective utilization of above fund, necessary action needs to be performed.

## **2.7 Monitoring and Penalty**

As per Section 5.1.3 of Renewable Energy subsidy Delivery Mechanism 2070, random sampling monitoring of at least 10% solar home system installed by various installation company is to be conducted via Third Party Monitors. There is provision of penalty of 5%, 50%, 100% & 200% as well as removal of registration on severe condition. All together 62 companies has been fined amounting to NPR.47,851,809/- for non-compliance of the Subsidy Delivery Mechanism based on the monitoring results of the third parties in 2014/15 and 2015/16. Additionally, all together 155 biogas companies have been fined NPR.18,320,000/- for non-compliance of the Subsidy Delivery Mechanism based on the monitoring results of the third parties in 2014/15 and 2015/16. Total penalty amounts to NPR.66,172,000/-, the increment in penalty amount is alarming, hence review of the percentage of sample taken and clear policy on de-registration of companies needs to be developed.

## **2.8 CREF Fund Management**

In the S.N 7.1 of Financial Intermediation Mechanism of CREF for the operation of fund of project the insolvency of bank is also defined. In the case of insolvency of bank the fund will have greater risk, hence diversified portfolio of the fund for minimization of risk is essential. Global IME bank has been selected for working as handling Bank. The total bank balance is NPR.4,635,973,000/- out of which the

handling Bank Global IME bank has NPR.4,407,973,000 which is 95.03% of total fund amount. Investment should be diversified to obtain gain from the differential interest rate and risk due to deposit in single bank

## **2.9 Value Added Tax**

As per memorandum of understanding (MOU) between Government of Nepal (GoN) and DANIDA dated 1<sup>st</sup> December 2012 to implement National Rural & Renewable Energy Programme (NRREP), the portion of VAT out of the total payment made by the programme will be refunded to the NRREP Fund. As per this clause, upto last year VAT refundable of NRs.27,301,844.29/- and this year's NRs.24,882,409.64/- total VAT refund amounts to NPR.52,184,253.93/-. NPR.34,048,264.93/- has been received and balance amount of vat receivable of NPR.18,135,989/- is yet to be received. The remaining VAT amount should be refunded.

## **2.10 Unsettled/Arrear Amount of AEPC**

As per the Annex 1 of the OAG 55th Annual Report, the amount of arrears is NPR. 136,261,000/-.