

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

**Compliance Review 1st Trimester 2018/19
(17th July 2018 to 16th Nov, 2018)**

3rd December, 2018

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1 Introduction

This report documents the findings and conclusions of the status update of the findings as stated in the 1st Compliance Report dated 31st July 2018. The assessment was conducted between 17th November, 2018 and 3rd December, 2018 by the Compliance Unit. The assistance offered officials of Alternative Energy Promotion Centre (AEPCC) is gratefully acknowledged. This trimester review has been conducted concentrating on the OAG and Compliance Unit findings. The internal audit findings of FCGO are superseded by the corresponding final audit conducted by the OAG. The issues closed by the 1st Compliance Review dated 31st July, 2017 are not included in this assessment. The assessment was carried out against the relevant indicators for progress by assigning ratings of High, Medium and Low. The progress levels are reproduced below in Table 1: Levels of Progress:

Table 1: Levels of Progress

Progress Level	Description
High Progress	Represents a situation where the issues identified have been closed by AEPCC management and approval obtained from the Office of Auditor General (OAG)
Medium	Represents a situation where the issues identified have been closed by AEPCC management but approval yet to be obtained from the OAG also represents a situation where the issues identified reflects good progress made
Low Progress	Represents a situation where there is no progress or very less progress made in the the issues identified.

This Trimester review report measures the the trajectory of progress since the 1st Compliance Report dated 31st July, 2017 assessment using an arrow system.

Table 2: Trajectory of progress

Positive progress	↑+
No change	↔

2 Progress Assessments

The findings are based on the Preliminary Report of the Office of Audit General (OAG) for the fiscal year 2073/74 dated 26th February, 2018 and Preliminary Report of OAG for fiscal year 2072/73 and 2071/72. The findings closed during the 1st Compliance Report dated 31st July, 2018 have not been included in the assessment. The following coding system has been used to represent the date and name of the report where the findings have been depicted. In case of OAG findings, the number assigned by the OAG audit follows the codes given below respectively.

Table 3: Basis for coding of findings/issues

PR7374	Preliminary Report 2073/74 of Office of Auditor General(OAG).
PR7273	Preliminary Report 2072/73 of Office of Auditor General(OAG)
PR7172	Preliminary Report 2071/72 of Office of Auditor General(OAG)
CU7475	Compliance Unit Findings of fiscal year 2074/75

Table 4: 1st Trimester Assessment (F.Y. 2018/19)

S.N.	Findings/Issues	Progress as of 31 st July 2018	Progress as of 30 th Nov 2018	Δ	Evidence/Assesment as of 30 th Nov, 2018
Human Resource					
1.	PR7374-3&4: Operations needs to function based on the organizational structure, management as well as division of work as per rule 45(j) of Financial Procedure Rules 2064. For smooth daily operation of the AEPC, 54 employee quotas have been approved. Out of which 46 positions has been fulfilled and 8 remains vacant. This affects daily operation overall achievement.	Low	Medium	↑+	AEPC fulfills its requirement also via contractual staff. Contractual recruitment process such as dated 2075/7/20 (November 6th 2018) announced a vacancy for 19 engineers, 3 technical consultant, 3 Non technical, 18 Assistant level and 6 junior levels. Another vacancy announcement dated 15 nov 2018 for financial expert and Program Consultant (Enginner/Environment/Climate Change).
Capital Expenditure					
2.	PR7374-5: Quarterly targets need to be set and implemented based on the annual budget and programme. Out of the annual total expenditure NPR.3,878,865,895.90/-; 22.06%, 24.53% and 53.41% of the total expenditure has been incurred during first, second, and third quarter respectively. In a single month of Ashad, NPR.152,088,2741.45/- i.e. 39.21% of expenses has been incurred. Even though the Centre had received the authority to spend on time, the trend of incurring major portion of the expenditures in the last quarter ultimately	Low	Low	↔	As per the discussion with AEPC, besides the given management response, the tendering and bidding process and installation at the far flung areas are the one of the main reason behind the delays. The previous Management Response stated that: In the case of mini hydro projects, post completion of construction AEPC conduct power output verification which takes place during the rainy season (Baisakh, Jestha and Asadh). Since the payment is made after the completion of power output verification, the expenditure related to micro hydro projects are bound to be on the higher side during the third quarter. Similarly biogas related activities also takes place during the third quarter. AEPC aims to develop a budget implementation work plan to minimize the trend of high spending during the third quarter.
Internal Control System					

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3.	<p>PR7374-6:As per rule 95 of Financial Procedures Rules, 2064 and other prevailing laws, mechanism for internal control system, risk assessment and identification, monitoring and evaluation needs to be developed based on the nature of work. On assessment of internal control system, following points were noted:</p> <p>a. AEPC has not prepared programme-wise expense account. Programme-wise expenses ledger must be maintained to ensure budgets are spent on the allotted headings and within the limit.</p> <p>b. As per rule 36(8) of financial procedures rules, 2064, “examination shall be made whether the requirements have been met or not, while making payment of any sum”. All the receipts, bills and vouchers of the expenditure indicating "PAID" shall be affixed but AEPC have not complied with this rule.</p> <p>c. Expenditure has been made from different expenditure head without proper clarification.</p> <p>d. Advance account has not been updated.</p>	Low	High	↑+	<p>a. AEPC maintains the program-wise ledger</p> <p>b. AEPC complied with the rule relating to 36(8) affixing PAID stamp.</p> <p>c. The expenditures are as per the budget code/heads provided by Ministry of Finance.</p> <p>d. Advance ledger has been updated</p>
4.	<p>PR7374-8: Annual targets and progress: As per rule 25 of financial procedures rules, 2064, “Each Office which implements the budget and the programme shall prepare quarterly progress report in prescribed format and forward it to the pertinent superior office and to the Funds and Accounts Comptroller Office and to the District Development Committee as well, in the case of a district-level programme.” And as per rule 26, upon receipt of the quarterly progress report under Rule 25, the pertinent superior office shall appraise the physical and financial aspects. The report provided by AEPC has depicted overall 98% progress but some programmes shown below have not met the desired targets.</p> <p>In the progress report, capital expenditure on Office Building Construction amounting to</p>	Low	High	↑+	<p>As per the management response ”AEPC remains on rented property since the GoN is yet to provide land to AEPC. This has resulted in expenditure being “Nil” on the respective budget head. The expenditure head has been removed. The other programs is affected due to the low demand from community and beneficiaries. ”</p> <p>In case additional subsidy to sick projects, the amount is non-freezing amount and hence carries over to the next years.</p>

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	<p>NPR.1,000,000/- has zero progress. Current expenditure programme on Urban Area Biogas Plant Installation amounting to NPR. 875,000/-and Vehicle Battery Charging Station from Solar Power amounting to NPR. 32,500,000/- have made zero progress.</p> <p>Current expenditure programmes on Additional Subsidy to Sick Rural Hydroelectricity Project (NPR. 100,000,000/-), SahaleshLumbini Improved Cook Stove and Solar Electricity System Installation (NPR. 10,001,000), Feasibility Study for Wind Power (NPR. 500,000/-) and New Turbine Pilot Project Study (NPR. 6,000,000/-) have progress of 20%, 33.33%, 40% and 50% respectively. It has been observed either “Nil” or “Very Low” progress in the first quarter though AEPC had obtained spending authority.</p>				
5.	<p>PR7374-9:As per Rule 35 of Financial Procedures Rule 2064, the competent Authority empowered to make expenditure or sanction expenditure, and shall make expenditure & sanction to make expenditure, where the amount is within the approved budget and falls under the concerned expenditure heading. Consultancy service expenses should be shown from account head 22411 and other service under contract should be shown from account head 22412. AEPC has expended remuneration of employees/consultant under contract amounting to NPR.1,188,520/- from voucher no. 453/074/3/16 as programme expenditure and capital grants/subsidy to other organization and individual under account head no. 26423.This practice hampers the overall effectiveness of the program and the true& fairness of the financial statement.</p>	Low	Medium	↑+	<p>As per the management response: ”AEPC ensures that the expenditure will be as per the budget heads with detailed description of the related activities”.</p> <p>This is a principle based arrear. The expenses are incurred based on the related activity without affecting the overall cost and target. AEPC prepares a detailed cost sheet of these activities which discloses the amount of remuneration required for the activities where applicable.</p>
Solar					
Institutional solar panel system: For installation of solar panel system in schools and health posts, cost estimate was prepared amounting to NPR.59,828,450/- for 15 units. Tender of SuryaRoshani Industries Pvt. Ltd and Birat Energy Pvt. Ltd amounting to NPR.45,253,694/-was approved. Following are the findings in the disbursement of payment to the company.					
6.	<p>PR7374-10.1:For installation of Institutional Solar System, AEPC</p>	Low	High	↑+	As per the management response: ”In the case of evidence relating to the

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	provides 60% subsidy of total investment and the beneficiary should bear 40%. On the basis of nature of institution, AEPC has separated NPR. 497,882/- for Package 1 and NPR. 859,352/- for Package 2. While preparing the cost estimate, in case of Package 1 NRs.127,690/- for different electric products/appliances such as 2 desktop computer, 1 printer copier, internet, fax and other appliances and in case of Package 2 NPR.212,440/-for different electric products/appliances such as 5 desktop computers, 1 Printer Copier, internet, fax, and other appliances are seen as the cost/equity of the beneficiary. These institutions have not been selected on the basis of the evidence that these said items are actually in the possession of the beneficiaries. Subsidy should be provided only after obtaining proper evidence of possession.				electronic equipment, as the beneficiary institutions lack these equipments, applying the requisite procurement procedures these equipments were provided to these institutions. The issue arose as these information were not duly recorded in the Subsidy Application Form.” Now the process is duly implemented and the evidences of possession are recorded.
7.	PR7374-10.2: As per the section 89(1) of Income Tax Act, 2058, tax at the rate of 1.5% shall be withheld on payment for contract. However, we observed that the company was withheld less tax on contract payment. In case of V.N. 541/2074/3/19, payment made to Surya Roshani Industries Pvt. Ltd. and Birat Energy Pvt. Ltd. JV, out of total tax to be withheld amounting to NPR. 662,436/-, only NPR.391,931/- was withheld. Hence, the difference amount of NPR.270,505/- must be recovered.	Medium	High	↑+	Closed. The bank voucher details are as follows: Date:2075/2/6 Voucher No: 1428789 NRs. 451807.25 includes NPR. 270,505/- OAG Approval Obtained: OAG's letter no. 75/76/131 Date: 2075/07/13
Solar Tuki Distribution:- Under the programme“Light for Education”, for providing solar tukito 25,000 students of class 9 and 10 of deprived/disadvantaged,dalits andmarginalised family, budget amounting to NPR Ten Croreswas allocated. For distribution of 10 watt solar tukis, tender of NPR.88,547,350/- for package 1, 3 and 4 was awarded to Surya Roshani Industries Pvt. Ltd. to purchase 24,665 solar tuki. Another tender of NPR.8,527,365/- for package 2 awarded to S.L. Solar Asia Pvt. Ltd. to purchase of 2,415 solar tukis. Total amount of NPR.97,074,715/- has been paid. The procurement of the solar tukiis shown below:					
8.	PR7374-11.1: To prepare the estimate of number of targeted students for providing 10 watt solar tuki to them, “District Environment, Energy and Climate Change Section” of District Development Committee coordinated with District Education Office.Total demand of 24,620 units of tuki for all 75 districts for the targeted	Low	Medium	↑+	A file as been preapred but not yet approved by the Secreatry of the line minstry to regularize the expense and has asked for additional evidence. AEPC will prepare the necessary documents and submit the request to the concerned ministry for to regularize the additional cost incurred.

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	student of class 9 and 10 was received. Estimated at NPR.4,047.50/- per unit, total estimated budget amounted to NPR.99,649,450/-. The tenders have been approved citing that the quotation received was lower than the estimated amount. During the contract signing as the schools demanded extra units of tuki, 10% i.e 2,462 tuki, it was included in the contract citing that the quotations received had been lower than the total estimate. However, the list of additional students was not available for verification. The additional payment made to the supplier amounting to NPR.8,838,580/-(per unit cost NPR.3,590/-) is not regular.				
9.	PR7374-11.2: As per section 89(1) of Income Tax Act, 2058, 1.5% tax has to be deducted while payments are made for contracts or agreements. While checking the payment made to the suppliers of solar tuki, TDS amounting to NPR.167,517.61/- has not been deducted, this amount needs to be recovered.	Medium	High	↑+	Closed. The bank voucher details are as follows: Date: 04/01/2075 Voucher No: 1429375 NRs. 167,570.61 total includes both amount/- OAG Approval: OAG's letter 75/76/131 Date: 2075/07/13
10.	PR7374-12: As per the section 89(1) of Income Tax Act, 2058, tax at the rate of 1.5% shall be withheld on payment for contracts; however, we observed that the Centre has withheld less tax on contractual payment. Tax to be withheld NPR.839,436/- but in actual tax withheld NPR.750,129/- and lower TDS amount is NPR.89,307/-, which needs to be recovered.	Medium	High	↑+	Closed OAG Approval OAG's letter 75/76/131 Date: 2075/07/13
Solar Irrigation System Subsidy: AEPC has provided subsidy of NPR.30,526,826/- to 49 farmers under solar irrigation system programme. Findings related to subsidy are mentioned below:					
11.	PR7374-13.1: Cost Estimation: For solar education system, AEPC provides 60% of total cost as subsidy. While checking the bill and voucher of service provider, Sole Tronics Pvt. Ltd. has charged NPR.136/- per watt per solar panel. But as per the cost estimation of AEPC, cost per watt per solar panel is NPR.80/- per watt. During the	Low	High	↑+	As per the management response "The activities were accomplished applying least cost based selection procedure after a competitive bidding process. The irrigation program was a new concept which resulted in deficiency during the cost estimation." AEPC has now implemented the

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	year Sole Tronic Pvt. Ltd. has installed 49 systems with total watt of 74,772 at the rate of NPR. 136/- amounting to NPR. 101,689,92/-. Based on the cost estimation of NPR.80/- per watt, NPR.4,187,232/- additional cost has been paid to supplier which increases the subsidy of GoNby NPR.2,512,339/- and the beneficiary by NPR.1,674,893/-. The cost estimation should be prudent and economical and further the selection should be based on competition and least cost based method.				MRP (Maximum Retail Price) for renewable energy technologies which nullifies such discrepancies in the future. The MRP is published in AEPC website.
12.	PR7374-13.2: AEPC has to prepare database of the individuals and institution that have availed subsidy for solar irrigation system to control occurrence of double subsidy disbursement to same person/institutions. AEPC has not prepared any record of the person who have availed subsidy in case of solar irrigation systems. To control and minimize the risk of multiple subsidy disbursement to same individual/institutions, AEPC needs to maintain records in the software used by AEPC for subsidy administration and produce recent records	Low	Medium	↑+	AEPC has maintained a database on a spreadsheet. LGs based information on demand and disbursement of subsidy which nullify the double subsidy issue. Further AEPC plans to integrate the solar irrigation system module in the subsidy administration software in the future
Solar Street Light: On the basis of recommendation made by local bodies and work completion report of 17 different installer companies, AEPC has disbursed NPR.67,662,207.89/- for installing solar street lights in 29 local levels. Findings related to subsidy are mentioned below:					
13.	PR7374-14.1 As per the section 5.2 (GHA) and 5.2 (JHA) of Renewable Energy Subsidy Delivery Mechanism, 2013, on the basis of the feasibility study report, AEPC has to sign agreement/MoU with local bodies and disburse payment to the installer company on the basis of handover and technical inspection report prepared by the technical team deployed by AEPC for system inspection and transfer. While making payment, AEPC have not collected appropriate supporting documents regarding the handover of such solar street light.	Low	High	↑+	Since the project after the testing and commissioning is considered handed over to the beneficiary, separate process for handing over was not deemed necessary. The testing and commissioning have been conducted and report received at AEPC.
14.	PR7374-14.2: The portion of payment to be borne by AEPC is not mentioned in the agreement between local body and installer of the solar street light, this creates the risk of double payment. Hence	Low	High	↑+	AEPC has requested the local bodies to mention the portion to be borne by AEPC in the agreement in between installer company and local bodies where AEPC is involved.

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	subsidy should be provided to the contracts which clearly mention the amount to be borne by AEPC				
15.	PR7374-15: Excess Payment: NPR.20,000/- have been paid in excess to Baraha Govergas Tatha Nabikaraniya Urja Pvt. Ltd. The amount should be recovered.	Medium	High	↑+	Closed OAG Approval obtained as following: OAG's letter 74/75/134 Date: 2074/12/30
16.	PR7374-16: Consultancy Service Directly Purchased: As per the rule 70 of Public Procurement Regulations 2064, procurement of consultancy service exceeding NPR.1,000,000/- shall be made through open expression of interest only. In the current fiscal year, via expenditure heading "Other expenses", AEPC has procured consultancy services amounting to NPR.2,477,007/- from various service providers staying within the limit of direct procurement threshold of NPR. 500,000/- for monitoring of improved metallic cook-stoves provided to earthquake victims as below. On the basis of nature of the consultancy service to be acquired, this service can be acquired from a single consultant. The payment is not regular.	Low	High	↑+	The practice of receiving at least 3 quotations from different vendors has made this process more competitive at AEPC.
17.	PR7374-17: Payment made without Invoices/Supporting documents: NPR. 1,710,400 disbursed to the various parties without obtaining relevant supporting document. Concerned employee disbursing the amount with supporting document should be made responsible	Low	Medium	↑+	In case of Sun Power Approval obtained as following OAG's letter 75/76/132 Date: 2075/7/13 Other are yet to be found.
18.	PR7374-18: Travelling Allowances: As per rule 7 (4) of Travelling Expenses Rule 2064, there is provision to pay 25% of daily allowance on returning day of field work outside of office, however it has been found that payment of 50% of daily allowance has been made. So excess allowance paid NPR.10,500/- has to be recovered	Medium	High	↑+	Closed Approval obtained from OAG as following: OAG's letter 74/75/134 Date: 2074/12/30
19.	PR7374-19: Advances: Advance taken must be settled or accounted within stipulated time as per rule 74(3) of Financial Procedures Rules, 2064, we observed that the advance of NPR.2,346,905/- have not been settled yet.	Low	Medium	↑+	Amount 2,176,967 closed with the following detail Bank Voucher: 492 Date: 2074/03/19 Approval yet to be from from OAG. Documentation for the remaining

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					amount is in the process.
Alternative Energy Promotion Centre – Capital (3311084)					
Consultancy Service Expenses: AEPC has allocated NPR. 10,300,000.00 as capital research and consultancy service (29711) for solar irrigation project					
20.	PR7374-20.1: Expense Head: As per rule 35 of Financial Procedural Rule 2064, based on the GoN classification of expenses, programme implementation expenses to be incurred from “programme expenses(22522)” and feasibility and research related expenses to be incurred from “capital research and consulting expenses (29711)”. Instead of utilizing the fund for the purpose of researching new method and technologies, AEPC has allocated the fund received for Capital research and consultancy (29711) service to fund the project implemented in coordination with other institutions. Utilizing budget allocated for research and consulting in subsidizing projects is not appropriate. This practice should be discontinued.	Medium	High	↑+	Practice discontinued.
21.	PR7374-20.2: Expenses on projects implemented in coordination other institution: 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 with JanahitGraminSewaSamiti, 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.	Low	High	↑+	The management response stated: Based on the agreement between World Vision International Nepal, JanahitGraminSewaSamiti and the User Committee that had cost estimation of NPR. 12,849,283.81/-, AEPC made a contribution of NPR. 4,000,000.00/- In this scenario, if AEPC was the sole contributor the total amount to be borne by AEPC would have been NPR. 12,849,283.81/-. Hence, contributing to the activity resulted in introduction of new technology, larger public participation and ownership and reduced the cost of GoN. Thus, with lower investment, AEPC was able to complete a project based on new technology enhancing the living condition of general public. This project has created a positive impact and has been economical. Furthermore, the involvement of the said institution was a result of a coordination facilitated by the District Drinking Water Office, Sindhupalchowk.” AEPC discourages this kind of practices

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<p>3311223/4 Improved Rural Energy Service Programme (Kabeli Transmission Project): The agreement between GoN and IDA on 27 June 2011 (Grant No H676-NEP) to complete the Kabeli Transmission Project within 30 June, 2015 was extended till 16 June, 2016. It was agreed to provide SDR 24,000,000.00 (In words: 24 million) out of which SDR 17,300,000 in first installment; SDR 5,800,000 in second installment and SDR 900,000 in final installment was set as the disbursement mechanism. It was mentioned that the amount received in first and second installment to be utilized by Nepal Electricity Authority (NEA) and the third installment by AEPC. A programme to promote alternative source of energy was conducted to the persons affected by transmission line under the programme of Rural Enhancement Energy Services to communities, Third Phase of Kabeli Transmission Line project. In the previous fiscal year total expenditure amounted to NPR.83,564,797.00/- (in words: Eighty three million five hundred thousand seven hundred and ninety seven) i.e. 80.84% and NPR.42,263,506.20/- in the current fiscal year with a grand total of NPR. 125,828,303.20 expensed (121 % of allocated fund).</p>					
22.	<p>PR7374-21: Expenditure and Progress: Under the Improved Rural Energy Service Programme (Kabeli Transmission Project), 6 programmes under Capital Expenditure and 11 Current Expenditure Programme, total 17 programmes had total budget allocation of NPR. 44,519,000.00/- out of which GoN allocated NPR. 32,469,000.00/- and IDA allocated NPR. 12,050,000.00/-. Total expenditure on the behalf of GoN amounts to NPR. 31,775,865.00/- i.e. 97.86% and The World Bank amount to NPR.10,487,640.80/- i.e. 87.03%. In total NPR. 42,263,506.20/- has been expended.</p> <p>As the project was not able to meet the targets and did not complete within the stipulated time, grace period of 1 year was added. But it is observed that the project did not complete even with the additional grace period.</p>	Medium	High	↑+	AEPC will focus on a comprehensive feasibility study and select appropriate mechanism for timely completion of projects of such nature. The Kabeli project is now completed.
23.	<p>PR7374-22: Annual target and progress: As per annual programme and progress report provided by AEPC, out of the target expenditure of NPR. 44,519,000/- under 4 different programmes, 98% of the target has been achieved. NPR. 1,200,000/- has been allocated towards capital programme and 100% target has been said to have been achieved, however according to the financial statement the some of the expenditure amounts to “Nil” which denote that the data relating towards capital programme unrealistic.</p> <p>In the case of one current expenditure “training & development</p>	Medium	High	↑+	The project is completed

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	activities programme” with budget of NPR 800,000/- has “Nil” expenses. The reason behind failure to achieve desired target has not been justified. Although the Taplejung Mini Grid Construction has completed, it is not in operation. Concerned official should be made responsible for not submitting actual progress report				
24.	PR7374-23: Taplejung Mini Grid Construction: The initial phase of Kabeli transmission project was to construct 250kilo watt micro hydroelectricity project. The review mission dated 11 – 20 April, 2015 amended to construct 11 K.V. Taplejung Mini Grid. Based on the notice published in 30 January 2016, an agreement was entered with Cosmic Electrical & Associates Pvt. Ltd in 6 May 2016 to complete the task in 180 days. District development committee was disbursed NPR 37,810,000/- for the task during the previous fiscal year. DDC has not submitted the actual progress report related to the expenditure made on the construction. AEPC has reported 40% completion of the project in its physical progress report. As the work plan for the completion has been extended up to September 2017, actual expenditure made till date out of the total expenditure could not be ascertained. GoN has released NPR. 30,117,286/- to complete the remaining portion of the project. GoN has to bear extra financial burden due to non-completion of project within the stipulated time.	Medium	High	↔	<p>The management response stated that: ” Unforeseen technical and practical difficulties affect the attainment of the desired output within the stipulated time. Since these issues need to be carefully reviewed and resolved by Review Missions, the gap between these review missions prolongs the delays. These unforeseen circumstances need discussion with donor agency, GoN, DDC and the targeted communities and needs to be addressed via Review Meetings.</p> <p>Since, AEPC’s effort to complete the project on time was marred by unforeseen difficulties, AEPC utilized NPR. 30,117,286/- from the GoN source.</p> <p>AEPC has requested the DDC to submit the actual financial details. The report will be submitted once AEPC receives it.”</p> <p>The project is completed</p>
25.	PR7374-24: Disbursement of additional facilities beyond the terms of contract: Under the Improved Rural Energy Service Programme (Kabeli transmission project), besides the social security contribution as per the clause no 3 and 5 of the agreement with individual consultants additional remuneration or indemnification will not be provided to the consultants. The project has provided dashain allowance amounting to NPR.	Low	Low	↔	<p>The management response stated that: ”If there are basis/evidences that justify the disbursement of the allowance, AEPC will submit them otherwise the amount NPR. 334,367/- will be recovered and deposited into the bank.” The process is ongoing.</p>

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	334,367/- which is not mentioned in the contracts of the individual consultants. The amount needs to be recovered.				
26.	PR7374-25: Unspent Expenditure Amount: As per Rule 33 of financial procedure Rule 2064, the unspent amount during the financial year needs to be refunded to the consolidated fund. NPR.692,689.20/-transferred from Improved Rural Energy Service Programme (Kabeli Transmission project) to consultancy service remains unspent in AEPC's bank account. The remaining amount needs to be transferred in to the consolidated fund.	Medium	High	↑+	Closed with Approval obtained from OAG as following Deposited in Revenue Head: 15112: OAG's letter 75/76/131 Date: 2075/07/13
27.	Reimbursement: Amount NPR.270,982.11/- spent by AEPC shown as reimbursable amount from the World Bank. Since the project period has matured, the reimbursable amount need to be settled.	Low	Medium	↑+	The process is ongoing, the file is at the respective line ministry. The file no 75/76/474 dated 2075/6/18
3311103 NRREP (National Rural & Renewable Energy Programme): The estimated amount to be expensed as per agreement is USD 170.10 million (NRs. 23,322,775,288/-). Out of the total fund, USD 113.1 million for 'Central Renewable Energy Fund', USD 40.10 million for 'Technical Support', USD 8.4 million for 'Business Development Renewable Energy & Productive Energy', USD 5.1 million for 'NRREP Management' and USD 3.4 million for 'Studies & Audit Services'. GoN agreed to contribute 40% amounting to NPR. 5,969,829,699/- and the rest 60% amounting to NPR. 8,954,744,400/- is contributed by donor agencies (DANIDA, Norway, Germany (K.F.W), DFID, GTZ, SNV, UNCDF/UNDP and SREP). Grand total of NPR. 14,924,574,000/-					
28.	PR7374-27: Budget expenses & Achievement: Out of the total targeted budget amount for the 5 year period of NRREP amounting to NPR. 14,924,574,000/-, NPR. 12,657,062,234/-was utilized by the last fiscal year. In the current fiscal year amount of NPR. 4,865,524,000/- has been approved for different programme out of which NPR. 2,267,068,947/- has been released and utilized. The project period of 5 years up to July 2017 has ended and GoN has integrated NRREP in its annual programme ensuring the continuation of the programme. Till date total of NPR. 14,924,131,181/- i.e. 99.99% of the budget has been utilized. AEPC has mentioned that the progress achieved is 157% but due to the unavailability of the updated progress report actual physical and financial progress	Medium	High	↑+	NRREP Completion Report completed. The completion reports highlights out of USD 170 million budgeted amount, the total expenditure amounts to 104.1 resulting in 61% utilization of the budget.

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	could not be determined.				
29.	PR7374-28: Annual progress: As per the progress report provided by AEPC, following is the status of target and achievements of NRREP. As per the progress report, NPR.314,728,000/- budget for two programme under productive energy use and NPR.30,000,000/- budget for reconstruction of earthquake affected micro and small industry, there is zero progress. NPR. 302,500,000/- budget for institutional and community biogas plant and two programmes under loan mobilization by central renewable energy fund the progress achieved has been less than 10%. In case of improved metallic cook stove, solar drinking water and irrigation pump installation and other 15 programmes have achieved progress less than 50%. These figures are concerning.	Medium	High	↑+	As per the report progress on 3 programs is nil as these programs were not implemented, progress on 16 programs is less than 50% and progress on 5 programs is more than 50%. Even though the amount of foreign aid to be received from the donor agency as per the agreement was included in annual budget for NRREP program for the fiscal year 2073/74, due to the reason that Denmark decision on closure of their embassy in Nepal and the major donors Norway and Denmark decision to reduce 50% of foreign aid being provided to developing countries resulted in 70% of budget reduction in the renewable energy sector. Furthermore, as fiscal year 2073/74 being NRREP's closing year on the part of the donors, this has directly affected the progress of various programs under NRREP. Hence, due to these unforeseen and uncontrollable circumstances, targeted progress could not be achieved.
30.	PR7374-29: Unreleased Budget: The approved budget under the heading 3311103 of NRREP is NPR.4,865,524,000/-. Out of which under the head "capital subsidy for other institutions and individuals" approved budget of NPR.193,745,000/- was not released from Germany KFW. In the previous year as well, budgeted amount have not been released and expended. Proper clarification is not provided for non-release of budget. Donor agencies will be demotivated due to the inability to spend approved and released budget, hence all the parties involved should be concerned about the utilization of budget to achieve the objectives.	Low	High	↑+	The process of development of Programme Implementation Modality is finalized with KFW.
31.	PR7374-30: Payment made without VAT Invoice: Advocate Mr. Shambhu Prasad Dahal was contracted for NPR. 350,000/- including VAT for translation of Renewable Energy Subsidy Policy into English. The payment made from Voucher No. 349/074/3/18 is without VAT invoice. The VAT	Low	Low	↔	Open, the follow-up is ongoing

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	amount NPR.40,265/- should be recovered.				
Expenses					
32	PR7374-31.1: Payment made for vehicle hire from Hetauda to Kathmandu NPR. 69,000/-via voucher no. 224/074/2/8 was made without appropriate supporting document. The general rate of the transportation business committee rate should be obtained as supporting.	Low	Medium	↑+	The management response stated that: "Due to the remoteness of the areas, the vehicle rates have been expensive and do not match with the average rates of the transportation business committees." AEPC has prepared the necessary documents and submit the request to the concerned ministry to regularize the cost incurred
33.	PR7374-31.2: NPR.24,253/- was paid for motorcycle repair on the basis of the estimate to Mr. Ram Prasad Yadav. The motorcycle is not registered in the name of the AEPC. The budget of AEPC is not meant for personal assets repair; hence, the payment is not regular.	Low	Low	↔	AEPC will prepare the necessary documents and submit the request to the concerned ministry to regularize the cost incurred.
34.	PR7374-32: Advance: It shall be the duty of both the advance provider and the advance receiver to settle the advance within the time limit as specified in the rule 74(3) of financial procedures rules, 2064. We observed that the advance of NPR.21,683,105.21/- have not been settled yet.	Low	Medium	↑+	Advance settled but OAG approval yet to obtained 1.Nepal Urja Bikas Company Amount: 2,600,000 Journal Voucher Number: 25 Date: 2075/6/10 2.Khilung Kalika Agro Firm Amount:19,083,105.12 Journal Voucher Number: 178 Date: 2074/11/15
Scaling Up Renewable Energy Programme (SREP): As per the agreement between GoN and World Bank dated 24 th November 2014, total project cost is USD 7,900,000. The completion date of project is 31 st December, 2019. The objective of the project is to assist NRREP to achieve its goals.					
35.	PR7374-33: Budget expenditure and progress: SREP has budget of NPR.783,127,000/-with completion period of 5 year. Under SREP total expenditure amounts to NPR.8,929,165/- until the previous year. In the current year NPR.179,836,000/- has been allocated, out of which NPR.75,572,136.75/- i.e. 42.02% has been utilized. At the end of current fiscal year (3 rd year out of total 5 year period) NPR. 84,501,302.25/-i.e. 10.89% has been utilized. We observed that the financial progress has not been achieved.	Low	Medium	↑+	The project was adversely affected by the massive earthquake and the financial blockade during the second year of implementation. The project required restructuring during the fiscal year 2073/74, as the restructuring did not complete affecting the activities of the project and progress could not be achieved. Furthermore, the projects implementation modality required co-ordination with the respective local level government; the local level was suffering from a decade long absence of locally elected representatives as local level elections were yet to take place. The bureaucrats were not willing to take the ownership of such programs.

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					In the current context, with the successful completion of local level elections and restructuring. Fiscal year 2074/75 is on track in the achieving the targets of the approved activities
36.	PR7374-34: The progress on off-grid biogas is 7.39%, electricity production via off-grid biogas is 0, Large biogas 56.02% and commercial off-grid plant establishment and operation is 11.36%. 50% of the total project period out of six years has ended but the progress level is not satisfactory. AEPC should be concerned on completion of the project within the project period by effectively implementing the work plan.	Low	Medium	↑+	As stated above
37.	PR7374-35: Excess payment: For the detail feasibility study of the biogas plant, AEPC bears 50% of the liability. Detail feasibility study of a plant costing NPR.1,456,275/- has been completed by Minergy Pvt. Ltd. Hence, NPR.728,137.50/- has to be paid. However, in actual NPR.775,745/- has been paid via voucher no.207/2074/1/25.Hence excess amount of NPR.47,607.50 has to be recovered.	Medium	High	↑+	Closed with OAG approval 74/75/134 Date: 2074/12/30
38.	PR7374-36: Reimbursement not claimed: As per rule 37(2c) of Financial Procedure Rule, 2064, “in cases where reimbursement has to be taken from the Donor for the expenditure incurred out of the sources of the Government of Nepal. It shall collect the statements expenditure and other necessary details from the Subordinate Office or programme implementation unit, examine them, determine the reimbursable amount, prepare the requisition form as per the Guidelines of the Donor and request the concerned Donor for reimbursement within forty-five days in the maximum.”According to the contract with the World Bank for SREP IDA Grant No. TF016552-NP, out of the total expenditure amount NPR. 49,069,872.30/- has not been reimbursed from World Bank.So the amount has to be reimbursed in time	Medium	High	↑+	Closed with OAG approval 75/76/131 Date: 2075/7/13

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39.	PR7374-37: Budget Expenditure: As per schedule 2, part 4C of contract between GON and World Bank for SREP, amount of the subsidy for the selected sub projects should not exceed 20% of actual project cost or approved project cost. It has been observed that selected sub projects have been contracted to be provided 50% as subsidy based on the centre's renewable energy subsidy policy 2013 and renewable energy subsidy delivery mechanism 2013. Subsidy amounting to NPR. 7,468,642/- should be reconciled according to the source of the fund.	Low	High	↑+	As stated in the management response, the grant/subsidy amount from The World Bank is to be determined post financial verification of the Biogas Plant whereas subsidy to the beneficiary group is as per the renewable energy subsidy policy 2016. The portion of grant from The World Bank could not be verified at the time of recording bookkeeping as the financial verification was fixed after the payment. The reimbursable amount NPR.74,68,642/- will be reconciled as expenses from GoN source in the Fiscal Year 2074/75.
South Asia Sub-regional Economic Cooperation(SASEC) (AEPC Component) : As per the contract between GON and Asian Development Bank on 4 th July 2014, the project will start from 2015 and end on 31 st Dec 2021. The total cost of this project is 440 million USD. Out of total cost of project, Asian Development Fund will grant 180 million USD, Asian Development Bank Strategic Fund Donation 11.20 million USD, Norwegian Donation 60 million USD, European Investment bank 120 million USD, GoN 60.33 million USD and from Community 8.47 million USD will be borne. Under SASEC, in the previous year NPR.30,471,057/-, current year NPR.552,57,953/- grand total of NPR.857,29,010/- has been expended.					
40.	PR7374-38: Annual Progress: As per the report obtained from the project in the current year, the project aims to identify feasible location and estimate initial demand collection for 7 small hydropower project, detailed feasibility study and estimate initial demand collection for 10 mini grid solar and solar wind system and installation of 5 wind mast. Out of which, 7 projects identified, 4 projects are in the process of acquiring license, tender has been issued for 400 kilo watt small hydro, 65 kilo watt mini grid solar and solar wind system, and 2 wind mast has been installed. Longer project cycle, user/beneficiary is inability to manage loan, higher hydro project's cost and non-delivery of material to remote construction sites have been identified by the project. To complete the project in time, detailed work plan has to be prepared.	Medium	Medium	↔	As per the management response: "Being a new programme, the progress of the project was adversely affected by additional time required for identification, lengthy project cycle and procedures, high cost resulting in unwillingness of the beneficiary groups, inability of the beneficiaries to manage finance in time and majority of project locations in remote areas resulting in high freight and transportation charge In future to address the issues identified AEPC will revise the modality to the possible extent and develop action plan to conclude activities of the remaining period."
Solar Hybrid Mini Grid system: As per agreement between project and Suryodaya Energy Pvt.Ltd. on 23 rd Feb 2017 for installation of solar/wind energy hybrid mini grid system to be completed by 23 rd July 2017					

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amounting to NPR.1,74,000,075/-(Excluding VAT) is agreed upon. The service provider has been provided first installment amounting to NPR.3,480,015/- as 20% of agreement amount and NPR.2,586,660/- on the basis of first running bill. In total NPR. 6,066,675/- has been disbursed.					
41.	PR7374-39.1: Excess amount paid than agreement: As per agreement made between project and service provider, 90% of total amount is borne by the project and 10% by the User Committee. Till now all the expenses has been borne by the project only, amounting to NPR.6,066,675/- paid to Suryodaya Urja Pvt.Ltd. from V. No. 149/2073/12/30 and 223/2074/2/8. User Committee's contribution (10%) amounting to NPR.606,667.50/- has to be recovered.	Medium	High	↑+	Closed with OAG approval 74/75/134 Date: 2074/12/30
42.	PR7374-39.2: Service provider company Suryodaya Energy Pvt. Ltd has been given advance 20% of amount as first installment (NPR.3,480,015/-) paid via voucher No 149/2073/12/30 is not shown as advance. The amount needs to be shown as advance.	Medium	Medium	↔	Closed OAG approval yet to be obtained
43.	PR7374-40: Reimbursement not claimed: As per rule 37(2c) of Financial Procedure Rule, 2064, in cases where reimbursement has to be taken from the Donor for the expenditure incurred out of the sources of the Government of Nepal. It shall collect the statements expenditure and other necessary details from the Subordinate Office or programme implementation unit, examine them, determine the reimbursable amount, and prepare the requisition form as per the Guidelines of the Donor and request the concerned Donor for reimbursement within forty-five days in the maximum. Out of the total expenditure, NPR.28,538,127/- has not been reimbursed from Asian Development Bank for power expansion project ADB Grant No. 0398 NEP and Loan No. 3139. The amount needs to be reimbursed from the donor agency.	Medium	High	↑+	Closed with OAG approval 75/76/131 Date: 2075/07/13
Security Deposit: As per AEPC's financial report, including previous year's security deposit liability amount of NPR.37,236,763.71/-, the total deposit amounts to NPR.110,132,223.16/-. Post refunding security deposit amounting to NPR.18,122,194/-, NPR.92,010,029.16/- remains as security deposit. Following points are observed regarding refund of security deposit.					
44.	PR7374-41.1: Retention Money:	Low	Medium	↑+	As per the management response: "In

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	As per rule 124(2) of Public Procurement Rules, 2064, retention money has to be refunded after service provider submits the annual income tax return in the Inland Revenue Department. The refund in the case of service provider of solar energy system installation i.e. 10 % retention money will be refunded after inspection from AEPC. Bank Guarantee and inspection report with recommendation for payment could not be tracked while refunding the retention amount. AEPC has refunded the retention money to service provider listed below on the basis of the performance guarantee. The refund of retention money NPR.5,310,291/-is not regular.				this context, the security deposit amount shall not be refunded based on the performance guarantee clause of the Public Procurement Regulation 2064. The refund requires monitoring and recommendation from the respective technical person. AEPC follows the predominant rules and procedures”
45.	PR7374-41.2: Refund of 10% retention money related to Solar energy installer companies is to be provided post the monitoring of the system. The monitoring report needs to deem the installation satisfactory prior to releasing the retention amount. Amount of NPR.1,675,194/- from V.No. 2/2073/5/20 has been refunded to Deep Light Energy Pvt. Ltd. without inspection and recommendation. This has resulted in non-compliance with the procedures before refunding the retention money	Low	High	↑+	As per the management response: ” Details regarding retention money amounting NPR. 16,75,194 refunded to Deep light energy Pvt. Ltd. post completion of all the activities was missed due to human error in the inspection report. In future AEPC will fully update the detail liability statement on refund of retention amount.” The report ha been updated.
46.	PR7374-42: Clean Development Mechanism (CDM): For minimizationof 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 wasnoted in the previous report but the status of approval has not improved in the current the fiscal year as well.	Medium	Medium	↔	As per the management response: The fund mobilization guideline has been sent to the Ministry of Finance for approval. Due to the ongoing discussions on the guideline between the stakeholders, line ministry, National Planning Commission and the Ministry of Finance and consensus yet to be reached, AEPC as of now is not able to utilize the fund. AEPC is committed to utilize the fund in effective manner post approval of the guideline

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Additional Financial support Fund: In the micro hydro projects of remote areas, based on the Renewable Energy Subsidy Delivery Mechanism 2073 additional subsidy support of NPR.78,984,095/- has been provided.					
47.	PR7374-43.1: 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.	Low	High	↑+	<p>As per the management response: ” Assimilating the recommendations on delivery of additional subsidy amount, AEPC in future will ensure that the subsidy delivery process will be made more effective, transparent and informative along with preparation of the indicators of justifiable projects.</p> <p>In the case of the 20 micro hydro projects, AEPC did an analysis of the fundamental aspects of the projects prior to the additional subsidy and only projects that deserved additional subsidy were selected.</p> <p>In future procedures such as notification at the respective area through public mechanism to disseminate information, collection of demand, assorting the demands received, short listing of projects, approval of projects, preparation of criteria and criteria based selection will be duly implemented to achieve accountability and transparency.”</p> <p>Public notice is used for collecting demand for the sick project and checklist has been prepared.</p>
48.	PR7374-43.2: Monitoring/ Inspection: As per Section 6 of Additional Subsidy Delivery Mechanism (First amendment 2071), projects in remote areas which are incomplete due to inability to transport electromechanical equipment are eligible for additional subsidy, NPR.46,946,692.16/- has been disbursed in previous year for transportation of the equipment. However, monitoring of the status of transported equipment and whether the projects have started production has not been determined by AEPC.	Low	High	↑+	<p>As per the management response: ” In Fiscal Year 2073/74, 13 projects out of 30 completed have been provided additional subsidy. Testing and commissioning of the total 30 projects have been completed. The transported equipments related to culverts and civil works are handed over to the user committee at the initial stage. The transported equipments are hence under the ownership of the user committee. AEPC conducts monitoring of the micro hydro projects as per need and during the monitoring the status of the equipments is also examined.”</p>

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49.	PR7374-44: Operation of Service Centres:- As per agreement with regional service centre,the service center should achieve 80% of target at end of the financial year. 9 service centres has expenses amounting to NPR.86,992,352.31/- in current fiscal year. Service centres have not prepared progress report of the above mentioned amount	Low	Medium	↑+	As per the management response ” The closure of NRREP in the mid of the fiscal year 2073/74 is the major reason on service centres not being able to achieve the 80% target.Hence, the agreement with the service centres ended in the middle of the fiscal year affecting the targets adversely.” The service centres are now under output based contract model. Hence, the disbursement happens only post the completion stated outputs.
50.	PR7374-45: Value added tax (VAT):- As per memorandum of understanding (MOU) between Government of Nepal (GoN) and DANIDA dated 1 st 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, until the previous year VAT refundable of NPR.27,301,844.29/- and the current year’s NPR.24,882,409.64/-, grand total VAT refund amounts to NPR.52,184,253.93/-. NPR.34,048,264.93/- has been refunded and balance amount of vat receivable of NPR.18,135,989/- is yet to be refunded. The remaining VAT amount should be refunded.	Medium	High	↑+	Closed The refund of VAT amount NPR.1,81,35,989.74/- has been received through V.no. 01(74/75) dated 2/8/2018. OAG Approval obtained: Letter no:75/76/131 Dated: 2075/07/13
Central Renewable Energy Fund (CREF)					
51.	PR7374-46: Law Enactment: Central Renewable energy Fund (CREF) has proposed that the financial management of the fund should be independent and applies the arm’s length principle. In agreement with development partners, CREF is one part of National Renewable Energy Programme (NRREP) operating as a semi endowment fund. The fund operates on the basis of Ministry of Finance (MOF) approved fund operation guideline. As per CREF statement provided upto august 2017, available fund amounts to NPR. 4,635,973,000/-. There is no separate act, law, rule & regulation relating to operating and management of this fund. So	Medium	Medium	↔	As per the management response: ” CREF’s operation is based on its Operational Guideline approved by the Ministry of Finance. The annual audit provision of the fund is governed by the prevalent laws of Nepal. Recommendation on separate Act and rules for the management of the fund shall be consulted with the line ministry, ministry of finance and development partners.” The Renewable Energy Promotion Bill covers the CREF procedures as well.

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	relevant law needs to be formulated to manage & operate this fund.				
52.	<p>PR7374-47: Accounting System: As per financial procedure act, 2055 section 10 states that accounting of financial transactions should be as per the prescribed procedure of Government of Nepal. As per agreement between GON and donor agencies, financial management of donor fund shall be stated and managed on the basis of accounting principle of Government of Nepal. AEPC is accounting on cash basis double entry system. Additionally AEPC also separately maintains the books of account for the grant received from donor in NAVISON and SAMS Software. These software are not recognized/approved by government of Nepal. So, prior approval and security assurance must be established.</p>	Medium	High	↑+	<p>As stated in the management response: "Accounting system of this organization is in accordance with requirement of Government of Nepal as stated in section 10 of Financial Procedure Act, 2055. Cash basis double entry system is implemented for the budget received from Government every year and all the financial transaction including amount received from development partners are recorded in Navision and SAMS software. Navision is widely used financial software. Use of Navision software is provisioned in the NRREP Administrative and Financial Guideline which was approved by Steering Committee with representatives of government of Nepal and donor agencies. AEPC will proceed with the security assurance and improvement on the software."</p> <p>The IT audit of SAMS software has been completed and recommendation based on findings have been made to AEPC</p>
53	<p>PR7374-48: Statement of Financial report of Fund:- CREF has selected Global IME Bank from April 2014 as the handling bank for effective and independent mobilization of available fund post competition among various banking institutions. Total deposit balance of previous year in bank was NPR.1,220,666,475.23/- and the current year's deposit is NPR.2,921,917,527.16/- and expenses amount to NPR.769,671,085.70/-, the net balance amounts to NPR.2,152,246,441.46/-. Center has not prepared financial statement of CREF since the previous year including assets & liabilities, partner bank balance etc. Due to the lack of financial statement, actual financial position of CREF assets & Liabilities cannot be ascertained. So, AEPC should prepare its financial statement including assets & liability of CREF to know the actual financial position.</p>	Low	High	↑+	<p>The financial statement is available. The audit of CREF is completed.</p>

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54.	<p>PR7374-49: Audit: As per Financial Procedure Act 2055, the liability of audit of institutional and project operated from Consolidated Fund budget is of accountable officer or authority. As per the agreement between AEPC and Global IME Bank, provision of audit states that “In G.C.C.2.6Accounting, Inspection and Auditing, the Client of its designated representative ...as well as to have them audited by auditors appointed by the client and where applicable.” Hence audit of CREF operated by AEPC is out of reach of OAG. While audit of project funded and operated by subsidy from GoN and foreign grants, OAG should be consulted while performing the audit.</p>	Medium	High	↑+	<p>As stated in the management response: ” The condition as per the requirement of the donor agency is not aimed at excluding the scope of OAG. CREF’s operation is agreed upon and approved by respective line ministry and Ministry of Finance.It is evident from the preliminary reports that the audit of CREF has been part of the OAG audits. As per the legal provision that requires consultation with OAG while performing audit of GoN’s grant and donor support, the indicated clause can be discussed with the related agencies and if necessary can be amended.” The CREF audit has been completed</p>
<p>Inspection, Appraisal and Fine &Penalty : On the penalty levied by AEPC on installations related to Solar Home System and Bio-gas Plant on the based on the approved subsidy delivery mechanism, following observations are made:</p>					
55.	<p>PR7374-50.1: As per Section 5.1.3 of Renewable Energy subsidy Delivery Mechanism 2070, random sampling monitoring of at least 10% solar home system installed byvarious installation company is to be conducted via Third Party Monitors. The monitoring deviations are classified as: not installed as per agreement, not meeting quality criteria, could not ascertain the installed person, installed after the first inspection was made, double claim, claiming others’ installation as own, no description of manufacturer and capacity in battery, no manufacturer serial number in panel, multiple claim from a single family, installation in other’s name , installing by making variation in VDC or District, mismatch of serial number of panel and battery mention in application, claiming subsidy without proper knowledge that partial subsidy was provided by other company. There is provision of penalty of 5%, 50%, 100% & 200% as well as removal of registration on severe condition. The condition of cancellation of registration has not been clearly stated although there is provision</p>	Low	Medium	↑+	<p>Total amount recovered until 04-03-2075 is NPR 30,486,449.60/- and balance NPR. 17,365,359.59 needs to be recovered as soon as possible.</p>

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	for such. 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.				
56.	PR7374-50.2: Company wise inspection and penalty status: As per section (11) amount of penalty of NPR.47,851,809.19/- was noted for 62 companies but for major 10 companies penalty of NPR.27,524,714.52/- (57.52%). The 10% sampling of these companies is not enough, hence the sample percentage should be increased for these companies.	Low	Medium	↑+	As stated in the management response: ” The threshold of monitoring 10% is as per the Renewable Energy subsidy Delivery Mechanism 2070. AEPC needs to conduct a technical analysis to justify the increment of the 10% threshold. As the mechanism of penalty is governed by the Renewable Energy subsidy Delivery Mechanism 2070 and AEPC cannot proceed beyond that.” The sample will be increased by 20% from the current fiscal year.
57.	PR7374-50.3: The Bio gas companies which failed to comply with the quality standard/procedure as per Third party monitoring for F.Y 2071/72 and 2072/73 has been levied penalty of NPR.18,319,630.92/-. The amount should be recovered.	Low	Low	↔	As stated in the management response: ” Penalty of NPR. 18,319,630.92/- including NPR. 9,225,242.57/- from 83 companies for F.Y. 2071/72 and NPR. 9,094,388.35/- from 72 companies for F.Y. 2072/73 will be recovered as soon as possible.”
58.	PR7374-51: Interest and Penalty Income: As per S.No 3 of Guiding Design Principles, Financial intermediation Mechanism of CREF, the amount as subsidy and grant which remain unspent has to be invested in safe manner in interest earning instruments and reinvestment of such amount for the expansion for sustainability of the CREF. Similarly S. No 7.2 has mentioned that interest generated will enhance the effectiveness of the fund. Based on the provisions, AEPC has earned interest and fines, the total interest income of the fund is NPR.100,339,246.60/- and penalty booked is NPR.160,748,307.01/- till date. Although the financial procedure has stated the procedure for booking of interest income but it lacks the clear procedure for the booking of fine and penalty, hence approval from GoN is required.	Low	Medium	↑+	As state in the management response: ” Though the recognition of penalty as income in fund is not stated clearly in the Guiding Design Principles, the amount received has been recorded as income and kept in a safe manner. AEPC shall make necessary amendments in the guiding principle on whether the penalty amount shall be booked as income in CREF or deposited in to the GON’s consolidated fund”
59.	PR7374-52: Balance Fund:	Low	High	↑+	CREF has selected a total of 13 banks

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	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				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%
60.	PR7374-53: Foreign Grant Refund:- Sec. 14(2) of Financial Procedure Act, 2055 states that responsible officer should submit income & expenditure details to OAG and FCGO. NRREP established as the basket fund approach with grants DANIDA, Norway and 8 development partners, the grant amount of NPR.4,712,761,123/- is recorded as received. The amount unutilized grant amount is being refunded to the donor including the interest earned and penalty amount. Proper analysis is required in this matter	Low	High	↑+	As stated in the management response: "While there is no doubt that the utilization of the remaining fund will have positive impact on the renewable energy sector, the initiative of the consultant representing the development partners on repartition of the remaining amount along with the interest earned and penalty amount will be as per the contractual agreement between the GoN and the development partners. The implementation of NRREP is based on the Joint Financing Agreement between GoN, Danish Government and Norway Government and post completion of the program the fate of the remaining fund of the donor agencies will be as per the Joint Financing Agreement. In future, in case of new agreements on renewable energy sector with development partners, AEPC will extensively analyze these aspects of exit strategy." Government has agreed to refund the unutilized fund as per the JFA
61.	PR7374-54: Conflict of interest: As per section 62(3) of Public Procurement Act, 2063, in the case of personnel responsible for preparing bidding documents or specifications of a procurement contract or for supervising the implementation of procurement	Medium	High	↑+	As stated in the management response "As per the Section 62(3) of Public Procurement Act 2063, for the governance of central renewable energy fund an Investment Committee (IC) was formed under the coordination of Joint Secretary of the Ministry of Population and

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	<p>contract, a person or firm or organization or company affiliated with him/her, or an employee working in such firm or organization or company cannot participate in the bidding proceedings of such procurement.</p> <p>Personnel of handling bank and partner banks are in the investment committee as representative of Nepal Banker's Association which can lead to potential risk of conflict of interest. There is a possibility that the representative of Nepal Bankers Association in the Investment Committee could favor their bank and financial institution rather than the public interest. Therefore, considerations should be made to deter conflict of interest</p>				<p>Environment. The IC has a provision for one member from the Nepal Bankers Association. This adds value in the IC with expert knowledge on the banking and investment sector leading to effective mobilization of the fund.</p> <p>This member of the IC cannot belong to the banks involved in the bidding process and his/her sole opinion cannot lead the IC's decision, hence conflict of interest is not possible. As a member, he/she is responsible to act independently.</p> <p>The IC coordinated by the joint secretary of Ministry of Population and Environment, executive director of AEPC as member and head of CREF as the secretary discusses the recommendations received and only after an in-depth analysis conclusions are reached upon and analyses discussed in committee, role of representative of Nepal Banker Association will not be superior. No conflict has arose till now due to inclusion of representative of banker association and possibility of rise of such conflict is also less."</p>
62.	<p>PR7374-55: Variation order:</p> <p>As per section 118(1) of Public Procurement Act 2064, once a work under a procurement contract has already been started, if alteration or addition of new item to or replacement to the quantity of such work is required due to technical reasons, the following authority may, after preparing the cost estimate of such alteration and new item, issue a variation order as follows subject to the provision of Section 54 of the Act.</p> <p>There has been a variation agreement of NPR.4,19,200/- on 5 July 2016 to complete the work between 16th July 2017 to 9th December 2017 stating "Variation Order (VO) to HB to Perform Task of Financial Closure; Reconciliation and Reporting". The variation order agreement of NPR. 419,200/- for activities that are of regular nature of the handling bank cannot be deemed regular.</p>	Medium	Medium	↔	<p>According to request letter by CREF for removing the arrear form OAG's report "Certification of non-payment of fee to global IME Bank Ltd." dated 16th may 2018 ref. no. 073/074/075, "CREF had signed an agreement with the bank for providing different services which were not part of the original terms of reference. Hence, the management of the bank and CREF agreed to provide/receive the service against fee payment. In the meantime, Global IME Bank Ltd. also agreed to carry out the services on a no cost basis for a period of six months. The said amount has been booked in arrears during OAG audit. However, as the payment has not been made till date, there is no need to book the amount in arrears."</p>
63.	PR7374-56: Payment made	Low	Medium	↑+	As stated in the management

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	<p>without detail of remaining payment: As per section 40(7) of Financial Procedures Rules 2064, No liability shall be created in a manner to incur expenditure beyond the budget limit for the current year. Provided that in cases where expenditure exceeding the budget for the current year has to be borne in the expenditure headings referred to in Sub-rule (8) by operation of circumstance and for a special reason, the amount due and payable shall be entered in the statement of due amount, setting out the reason for making payment of the amount as per the bill and voucher in the coming year, and got certified by the Office In-charge and the Funds and Accounts Comptroller office within the 15th day of the month of Shrawan (last day of July); and such statement of due amount shall be forwarded with the financial statement to the pertinent superior office, concerned Ministry, Funds and Accounts Comptroller Office and Office of the Auditor General. AEPC have made payment of NPR. 44,693,888/- without any outstanding payment details of previous financial year to the service providing companies.</p>				<p>response: "As per the contract with service provider, record of payable amount will be prepared and attached decision on disbursement to settle the arrears."</p> <p>AEPC prepares the details.</p>
64.	<p>PR7374- Unadjusted amount and its settlement: As per section 108(f) of Financial Procedures Rules, 2064, to maintain records of the irregularities indicated by the Office of the Auditor General in the format specified and update the records of settlement. As per this, from detail provided by AEPC of total unadjusted amount of NPR.385,525,000/-, the amount of NPR.17,107,000/- has been settled and NPR.229,521,000/- remains unsettled. The arrears should be settled.</p>	Low	Medium	↑+	<p>As stated in the management response: " AEPC has maintained record of arrears from 2060/61 to 2072/73. AEPC aims to settle the arrears based on its action plan. Evidences and supporting documents for NPR.12crore arrear has been prepared and will be submitted. For the settlement of principal arrears AEPC is in the process of compiling the required documents and as per the process decreed by the rule 100(3) of Financial Procedures Rules,2064. Out of total arrears, AEPC aims to settle 60% till the end of Asadh of 2075."</p>
OAG Preliminary Report 2072/73					
65.	<p>PR7273-7: Excess payment over agreement Improved Rural Energy Service Programme (Kabeli Transmission Project) As per the clause no. 3 & 5 in agreement of appointed individual</p>	Medium	Medium	↔	<p>Amount yet to be recovered: 1. Program Consultant, Saroj Raj Baral, NPR.24,400/- 2. Program Support Officer, Om Khanal, NPR. 12,980/-</p>

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	consultant has mentioned, no additional allowance or gratuity beside social security contribution is to be provided. The project has provided dashain allowance to the consultants against the agreement amounting to NPR.412,207.00/-				
66.	PR7273-19.3: Excess Payment: As per public procurement act, 2064, rule 122, supplier has to tender the bill with detail of goods, quantity & rate to release the payment, rule 123 states that bill should be approved & authenticate by concern authority on the basis of work performance for the release of payment. Excess payment made on installation of street solar light amounting to NPR.3,161,587/-has to be recovered.	Low	Medium	↑+	NPR. 4,800 recovered from Nepal E Com Concern Pvt. Ltd. NPR. 363,345 from Krishna grill and engineering OAG Letter no: 7475/582 dated 2075/3/10 Remaining Amount: NPR.2,793,442
67.	PR7273-19.4: TDS not Deducted: As per Income Tax Act, 2058, section 89 (1), TDS @1.5% has to be deducted on payments. The total amount of NPR.82,486,470.92/-has been disbursed and tds @ 1.5% amounting to NPR. 1,237,297.72/- has not been deducted.	Low	Medium	↑+	NPR. 3,861 recovered from Suryodaya Urja Pvt. Ltd. NPR. 11,244/ recovered from Supreme Solar Pvt. Ltd. NPR.10,980/ recovered from Nepal E Com Concern OAG Letter no: 1599 dated 19/01/2075 NPR. 80,497.12 from Krishna grill and engineering NPR. 89,631.67 from Urja ghar pvt. Ltd. OAG Letter no: 7475/582 dated 2075/3/10 Remaining Amount: NPR.1,041,083.93/-
NRREP Fund					
68.	PR7273-15: Monitoring, evaluation and penalty: -As per Renewable Energy Subsidy Delivery Mechanism monitoring of at least 10% sample is done through random sampling basis by third party monitors. The penalty for the fiscal year 2013/14 amounting to NPR. 53,070,409.56/- has not been collected till the period of statutory audit.	Medium	Medium	↔	NPR.51,306,431.68/- has been collected via OAG Letter dated 14/12/2074 challani no. 120. NPR. Collected 436,483.98 /- NPR. 1,327,493.90/- remains to be collected.
OAG Preliminary Report 2071/72					
69.	PR7172-11: Advance Payment: An agreement with L.S. Solar Asia for supply of 1500 pieces of lighting and charging system at the time of	Medium	High	↑+	Closed. OAG 7475/581 Dated: 2075/3/10

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	earth quake which has been paid in advance of NPR. 9,892,500/- after submitting bank guarantee. The amount has not been booked as advance in financial statement.				
70.	PR7172-16: 3311083 Alternative Energy Promotion Centre (AEPC): TDS has to be deducted from suppliers on supply of solar light charging system during the earth quake amounting to NPR. 936,642/-	Medium	Medium	↔	Settlement of NPR. 626,695/- via OAG challani no. 45 dated 2073/08/07 and remaining amount of NPR.306,947/- to be settled.
NRREP					
71.	PR7172-4: VAT: As per the contract made between government of Nepal and Danida dated 1 st Dec 2012 entire vat amount paid for the operation of NRREP shall be refunded. As mentioned in contract, vat amounting to NPR. 18,138,241 paid to various suppliers has yet to be refunded.	Medium	High	↑+	Vat refunded NPR. 8,844,283/- via OAG report challani no. 99 dated 26/11/2073. Vat refunded NPR. 2,702,868.76/- via OAG report challani no. 122 dated 12/12/2074. Vat refund remaining NPR. 6,591,089.24/-, OAG letter 73-74 213 dated 2074/2/24. This was an oversight during the annual compliance review dated 31st July 2018.
Compliance Unit Findings 2074/75					
72.	CU7475-1: Missing Subsidy Application Forms Biogas: The digitization process of subsidy application form and subsequent development of a software to view the digitized forms showed a mismatch in number of the forms. The physical reconciliation process could not identify all the forms, hence the forms not found were subject to scrutiny	Medium	High	↑+	Post physical verification conducted, the desk review and internal searching of forms have located substantial number of forms.
73.	CU7475-2: Compensation to levied on Nepal Red Cross Society and Nepal Energy Development Company Limited post monitoring of distribution and installation of renewable energy technologies (Metallic Improved Cooking Stoves ,Small Solar Home Systems and Biogas) to earthquake victims	Medium	High	↑+	Penalty on Nepal Red Cross Society has been levied, total NPR. 2,878,848/- was deducted from the final payment. The compensation amount from Nepal Energy Development Company Pvt. Ltd. NPR. 184,303/- is not applicable as the company was involved in the assessment of the biogas plant not rehabilitation
74.	CU7475-4: Complaint received by the biogas sub-component through anonymous telephone call on Machapuchre Biogas Company, Byas Municipality, Tanahu on submitting Subsidy Application Forms without the constructions of Biogas plants	Low	Medium	↑+	Total 64 numbers of cases are eligible for 200% penalty. Against 64 deviations found, the compensation for domestic biogas plant should be charged to Machapuchre Biogas Company, Byas Municipality, Tanahu. The total amount to be charged is NPR. 3,920,400.00

					The company representative have absconded.
Subsidy Application Management System					
In the new federal context, AEPC plans to develop a Management Information System which will accomodate both subsidy administration of all technologies and monitoring system. As of date, the business requirment document has been completed and the terms of reference for the bid process is undergoing.					
75.	<p>CU7475-5: Documents regarding software testing before taking the software in the production environment and approval of the software to be officially used in Solar Home system Project could not be verified. In the 70th minutes of the Subsidy Review Committee Meeting, it has been mentioned that the software has been demonstrated to the management and they appreciate the work done by IT department. However, any document showing the software has been approved and testing process of software could not be verified. Only based on the demonstration of software by the single person who developed the software himself, it was unofficially used in the project Solar Home System.</p>	Low	Low	↔	As stated in the management response:”The formal approval process will be followed. AEPC management will initiate this process is for SAMS”.
76.	<p>CU7475-6: The following documents associated with the software development could not be verified. As per management all the instructions were communicated verbally and performed the task without any documentation.</p> <ul style="list-style-type: none"> a) Installation and Configuration Manual b) Development Documentation c) Maintenance Manual d) User Manual e) Changelog f) Documentation of software test g) Software Requirement Specification <p>The user manual and software requirment specification documents are critical</p>	Low	Medium	↑+	<p>As stated in the management response ”Due to time and resource constraint, we were not able to develop these manuals. AEPC ensures that these manuals will be developed. Based on the importance/priority of the documentation, AEPC management will initiate the documentation process.”</p> <p>AEPC has developed a business requirement document for a software integrating the federal context, ToR has been published and pre bid meeting conducted.</p>
77.	<p>CU7475-9: The rule as per Subsidy policy for classification of areas in Very Remote (A), Remote(B) and Not Remote(C) has not been duly followed during</p>	Low	High	↑+	The rule has been followed.

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	coding of same in system. The list of deviation is available in the IT audit				
78.	CU7475-9: No audit trail has been developed during the development of the system. The audit records such as what the event was, what system, user or application launched the event and the date and time such event occurred could not be identified in the system.	Low	Low	↔	As stated in the management response " AEPC will initiate the process of maintaining audit trail"
79.	CU7475-10: No disaster recovery plan was made. Although the agreement was signed with the vendor no backup was maintained by such vendor. The system automatically take backup and such back up are saved in the local server but any planning regarding safety of data in case of server get crashed has not been made.	Low	High	↑+	AEPC has maintained the backup system internally, the backup is also maintained outside of AEPC

3 Conclusion:

Table 5 depicts the quantity of the findings in each of the progress levels and Table 6 the trajectory of progress made since the previous assessment of 31st July 2018.

Table 5: Quantification of Progress Level

Progress Level	Quantity
High Progress	42
Medium Progress	30
Low Progress	07
Total	79

Table 6: Changes in Trajectory

Positive progress (↑+)	63
No change (↔)	16
Total	79