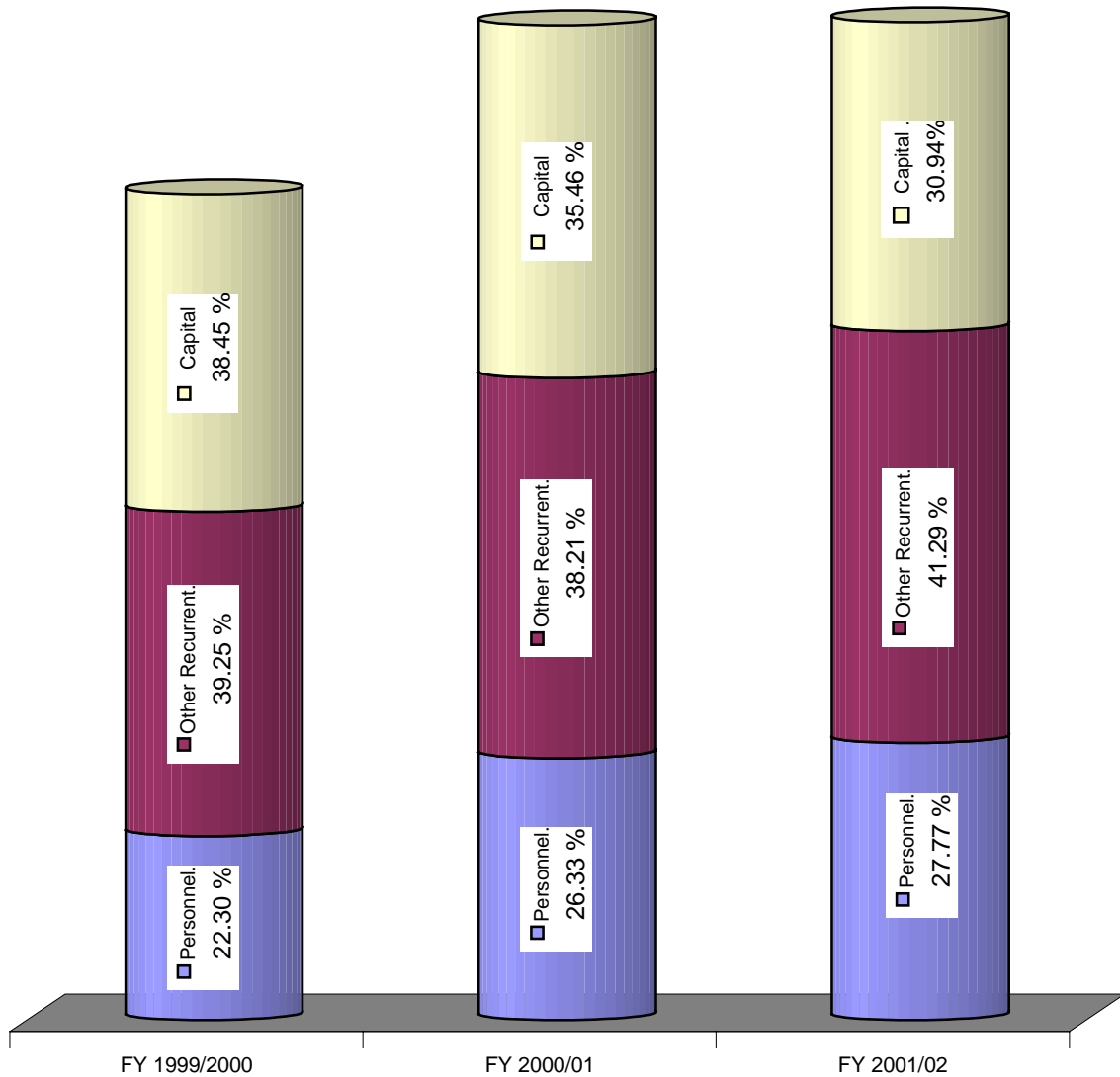


# Consolidated Financial Statements of His Majesty's Government/Nepal Fiscal Year 2001/02



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## Highlights of Government Financial Operations FY 2001/02

### 1. Revenue and Other Incomes

- 1.1 The total revenue collection in FY 2001/02 was NPR 50.45 billion, which represents a 3.09 percent growth over the immediately preceding year. The total revenue collection in FY 2000/2001 was NPR 48.89 billion. FY 2001/02 revenue collection was 83.73 percent of the targeted collection of NPR 60.25 billion. The revenue collection in the immediately preceding year was 92.27 percent of the target. Tax revenue was NPR 39.33 billion accounting for 77.96 percent of the total revenue. The share of tax revenue in total revenue in the preceding year was 79.48. Main revenue heads and their share in the total revenue is as follows:

Revenue Head	Percent in FY 2000/2001	Percent in FY 2001/02
Import duties	21.25	19.18
Value Added Tax (Imports)	14.93	14.55
Individual Income Tax (Business, Industry and Occupation)	4.91	5.74
Corporate Tax from Government Business Enterprises	5.99	3.50
Value-Added Tax (Service)	4.23	4.11

- 1.2 The government received NPR 782.4 million in FY 2001/02 in the form of refund of advances as well as unutilized release amount given in earlier years or recovery of irregularities identified by audit. Such amount is deposited in K.1.6 bank account. The collection in respect of these items was NPR 779.2 million in the preceding fiscal year.

### 2. Analysis of Expenditure

- 2.1 The **total government expenditure** (excluding local government expenditures) in FY 2001/02 was 80.07 billion, which works out to 80.23 percent of the initial budget and 97.17 percent of the revised estimate. The expenditure grew up by 0.30 percent in comparison to immediately preceding year. The previous fiscal year expenditure was 79.84 billion.
- 2.2 The **regular budget estimate** for FY 2001/02 was 49.32 billion. The actual regular expenditure amounted to NPR 48.59 billion, which is 98.52 percent of the budget. Regular expenditure increased by 13.60 percent over the preceding year. Apparently the growth in regular expenditure exceeded that of the revenue growth. In the preceding fiscal year, the regular expenditure was NPR 42.77 billion, which is 98.30 percent of the approved budget of NPR 43.51 billion.
- 2.3 The share of charged expenditure in the total regular expenditure was 25.81 percent representing an increase of 18.45 percent over the previous year. The previous fiscal year expenditure was 24.76 percent in the total regular expenditure.

- 2.4 The total development expenditure in FY 2001/02 was NPR 31.48 billion, which is 62.37 percent of the initial budget estimate and 94.68 percent of the revised estimate. The initial budget estimate was NPR 50.47 billion. Development expenditure decreased by 15.08 percent compared to the expenditure of the previous fiscal year. In FY 2000/2001, NPR 37.07 billion was spent against the initial budget estimate of NPR 48.11 billion, which is 77.05 percent. The development expenditure was funded through the following three broad sources:

In millions NPR

Source	Approved Initial Budget				Actual Expenditure			
	2000/2001		2001/2002		2000/2001		2001/2002	
	Amount	%	Amount	%	Amount	%	Amount	%
HMG	16834.3	34.99	19929.4	39.49	18268.5	49.29	17097.4	54.31
Foreign Loan	19792.7	41.14	16420.1	32.53	12044.0	32.49	7698.7	24.45
Foreign Grant	11481.6	23.87	14120.7	27.98	6753.4	18.22	6686.1	21.24
Total	48108.6	100	50470.2	100	37065.9	100	31482.2	100

- 2.5 Out of the total development expenditure, 72.35 percent was met from the cash released from the central treasury of the government. The remaining 27.65 percent of the development expenditure was either paid directly by the foreign development partners (donors) or was provided by them in kind. The cash expenditure decreased by 14.11 percent over the previous year while the commodity/Direct Payment expenditures decreased by 17.47 percent. The cash expenditure (released out of the central treasury) was 71.54 percent of the total development expenditure in FY 2000/2001. The budget performance analysis of the cash and non-cash (commodity plus direct payment) expenditure shows that incidence of under-spending is high in non-cash segment.

In Millions NPR

Type	FY 2000/2001			FY 2001/02		
	Initial Budget	Actual Expenditure	Percent	Initial Budget	Actual Expenditure	Percent
Cash	32,394.89	26517.21	81.86	35700.43	26517.21	74.28
Non-cash	15,713.70	10548.70	67.13	14769.84	10548.70	71.42

- 2.6 In course of budget implementation, virements between regular budget heads amounted to 11.91 percent where as in the development budget was 9.86 percent. The volume of virements apparently increased in comparison to the previous fiscal year. The virements in the previous fiscal year were 5 percent and 7.24 percent respectively.
- 2.7 The highest share of government expenditure in the past three years went to debt repayments. Following ten sectors consumed more than 80 percent of the total government expenditure

S.No	Expenditure Sector	FY 1999/2000	FY 2000/2001	FY 2001/02
1	Domestic and Foreign Loan Repayment	15.13	12.96	15.24
2	Education	14.04	13.79	16.41
3	Investment in Public Enterprises	10.73	9.71	6.05
4	Finance Ministry Miscellaneous	7.78	12.57	8.95
5	Local Development	6.63	5.82	5.21
6	Road Transport	6.61	6.32	8.27
7	Home Affairs	5.66	7.55	9.30
8	Defense	5.26	4.78	7.35
9	Health	5.09	4.41	4.76
10	Irrigation	4.65	5.12	3.96

Block grant to local governments, other public bodies amounted to 26.35 percent of the total expenditure.

- 2.8 The distribution of **regular expenditure** was, however, different from the total expenditure. Following five sectors alone consumed more than 75 percent of the regular expenditure

S.No	Expenditure Sector	FY 1999/2000	FY 2000/01	FY 2001/2002
1	Domestic and Foreign Loan Repayment	29.06	24.20	25.12
2	Education	19.49	19.23	21.11
3	Finance Ministry Miscellaneous	13.02	17.20	9.49
4	Home Affairs	10.86	13.93	12.44
5	Defense	9.65	8.92	12.06

- 2.9 Major share of the **development expenditure** went to investment in Public Enterprises. Following sectors consumed more than 80 percent of the development expenditure.

S.No	Expenditure Sector	FY 1999/2000	FY 2000/01	FY 2001/02
1	Investment in Public Enterprises	22.40	20.91	15.40
2	Local Development	13.74	12.48	11.40
3	Road Transport	13.24	13.07	14.47
4	Irrigation	9.29	10.67	9.98
5	Education	8.11	7.51	8.75
6	Housing and Physical Planning	7.41	0.94	1.05
7	Agriculture	6.51	6.28	8.20
8	Health	6.41	5.32	5.98

- 2.10 In terms of expenditure line items, Public Works and Capital Improvements occupied the major share of development expenditures during both FY 2000/2001 and FY 2001/02. The percentage was 30.01 and 30.45 respectively.

- 2.11 Personnel expenditure constituted 27.77 percent of the total government expenditure in FY 2001/02. This percentage was 26.33 in the immediately preceding fiscal year. The

personnel expenditures do not include the salaries paid to teachers and local government office-bearers. The distribution of total expenditure has been as follows.

In Millions NPR			
Expenditure Category	FY 1999/2000	FY 2000/01	FY 2001/02
Personnel	14,776.9	21,022.4	22233.2
Other Recurrent	26,014.9	30,505.5	33065.6
Capital	25,480.7	28,307.2	24773.4
Total	66,272.5	79,835.1	80072.2

**Until FY 1999/2000, the recurrent expenditures were within the total cash revenue. However, in FY 2000/01 and 2001/02, the recurrent expenditures exceeded the amount of cash revenue by NPR 2.73 billion and NPR 4.85 billion respectively.**

- 2.12 The total outstanding advance at the end of FY 2001/02 amounted to NPR 1.25 billion, of which NPR 800 million was from regular budget while NPR 448 million was from development budget.
- 2.13 More than eighty-five percent of the outstanding advance belonged to following five ministries:

S.No	Ministry Name	Percent of the total outstanding Advance
1	Ministry of Home Affairs	37.80
2	Ministry of Local Development	24.03
3	Ministry of Physical Planning and Works	10.59
4	Ministry of water Resources	8.38
5	Ministry of Education and Sports	6.21

- 2.14 Internal audit conducted by District Treasury and Controller Office during FY 2001/02 reported an amount of NPR 3.200 billion as irregular expenditures (either not complying with the provisions of Financial Administration Regulations or procedures not followed). This amount represents 4.48 percent of the total cash released from DTCOs. Accounting offices have been instructed to correct the irregularities before final audit is done.
- 2.15 The total accrued expenses at the end of FY 2001/02 amounted NPR 985 million both from development and regular budget. About 90% of the due payment belonged to the following three ministries.

S. No.	Ministry Name	Percent of the total due payment
1	Ministry of Physical Planning & Works	66.22
2	Ministry of Water Resources	11.49
3	Ministry of Home Affairs	11.36

### **3. Cash Flow Position**

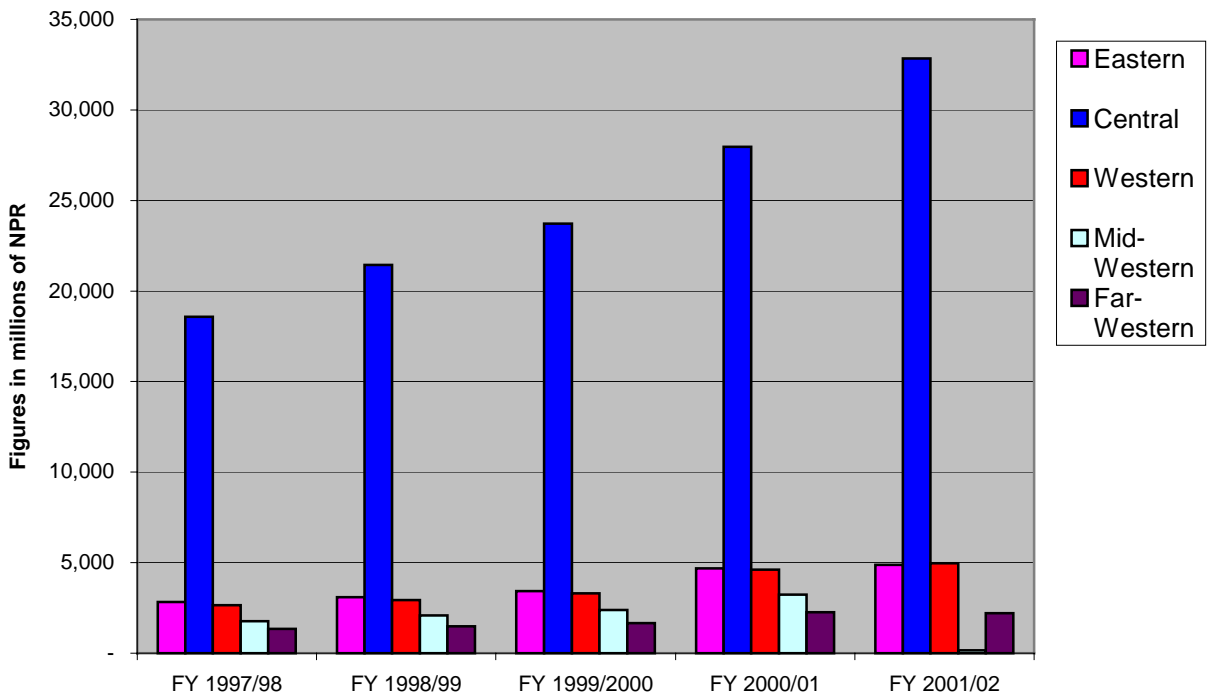
- 3.1 During the fiscal year 2001/02, the cash balance changed by a negative of NPR 7.24 billion and consequently the amount overdrawn from Nepal Rastra Bank amounted to NPR 5.90 billion. The overdraft in FY 2000/2001 was NPR 6.55 billion, which decreased by 9.92 percent in FY 2001/02.
- 3.2 After the introduction of Reimbursement Release System, the unspent cash balance remaining in accounting office's bank account has continuously been declining. At the end of FY 2000/01, such cash balance was NPR 61.7 million, which is much less compared to NPR 104.6 million of fiscal year 1999/2000. But at the end of FY2001/02 such cash balance increased and the amount reached to NPR 108.60 million of which NPR 25.3 was the balance amount from different offices in Achham and Dang districts due to the destruction of concerned banks.

## **Accounting Principles and Assumptions**

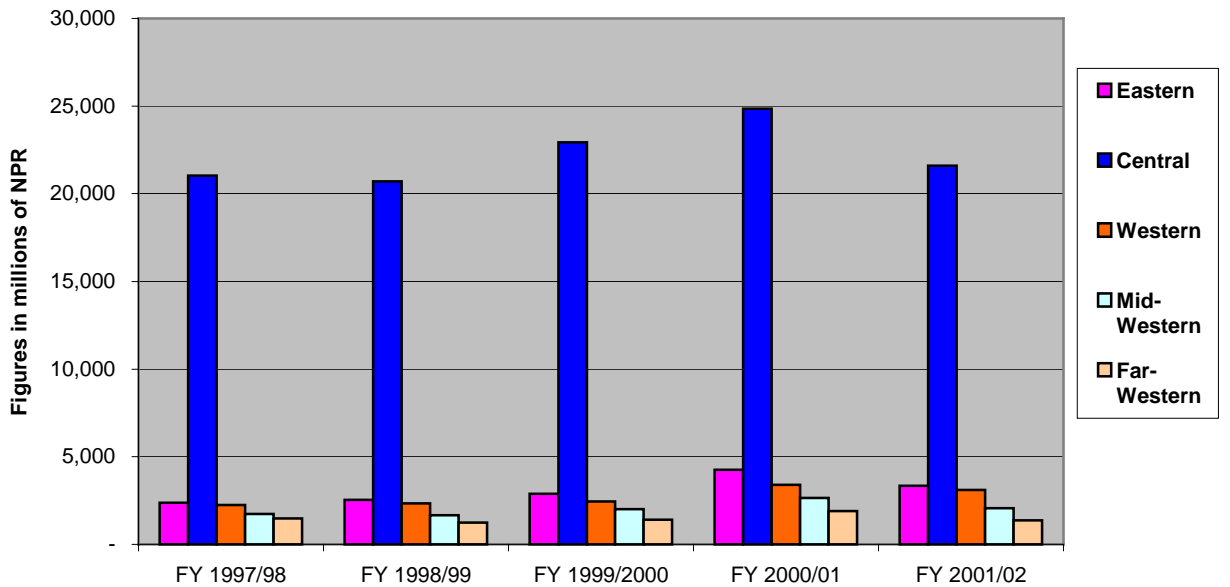
1. The revenue and expenditure of the government are recorded and reported using cash accounting principle. This principle assumes all cash receipts into the consolidated fund account as revenue and all cash payments against a budget head as expenditure.
2. The revenue and expenditure reported include only those affecting consolidated fund account of the government and in those heads that were approved by the Parliament through the Appropriation Act and the passage of Budget Speech.
3. The sum of expenditure also includes amount advanced during the year that remained unsettled until the last day of the fiscal year. The outstanding advance amounted to NPR 1.25 billion, which is about 1.56 percent of the total expenditure of NPR 80.07 billion.
4. The expenditure reported for the fiscal year also includes payments for accrued expenses of the previous year. Certain category of expenses can be accrued as per the Rule 39(8) of Financial Administration Act, 2000. Cash accounting system does not track the payment of accrued expenses as those are paid as though the event of expenditure occurred during the reporting year.
5. The revenue reported is the amount of collection in the government bank accounts (the revenue is deposited into 131 different bank branches of four major banks, namely Rastriya Banijya Bank, Nepal Bank Ltd., Nepal Rastra Bank and Nepal Bangladesh Bank). The revenue reported by the government offices totaled NPR 50.08 billion. The difference occurs because many deposits into the bank during the final week of the fiscal year by the taxpayers are reported to revenue-accounting office in the subsequent year.
6. In the case of block grant (non-freezable) given to local governments and public corporations, the release money is considered as expenditure for the government, although the grant recipient may not have fully spent the money.
7. The expenditure figures are obtained from two sources for consolidation, namely District Treasury and Controller Offices (DTCOs) and concerned Ministries, and are reconciled at the FCGO. Wherever the figures did not reconciled, FCGO has used the DTCO figures because they record the expenditures and also conduct the internal audit. Therefore, reliability of DTCO reports is higher. However, in the case of Direct payments and Commodity Grants, FCGO relies on Ministries or the Project Implementation Units.
8. In case of Direct Payments and Commodity grants, wherever the line-item of the expenditure was not clarified by the reporting entities, FCGO used the line-item shown in the Budget Statement (the Red Book)
9. The non-cash expenditures representing Direct Payments and Commodity Grants by the foreign development partners (donors) are not recorded in government accounts, i.e., those do not pass through the accounting system of the government. FCGO does not have any means of verifying whether any item of expenditure was incurred but was not reported. FCGO cannot ascertain whether no amount was spent or no reporting was done.

10. In case where ministries have reported different release and expenditure from non-cash sources, FCGO has spent amount as both release and expenditure as there is no means of verifying where and how the difference is retained.
11. Although not provided for in the rules, offices often lend money from one budget head to other budget head within the office or to other offices. In order to avoid the double accounting of the expenditure, cash balance has been shown in lending budget head and actual expenditure has been reported in the borrowing budget head.
12. The translation of expenditures incurred in foreign currency for accounts consolidation has been done on the rates prevailing on the value date. Wherever the value date could not ascertained, rate prevailing at the year-end has been taken as the basis.
13. NPR 829,253,613 of the total expenditure reported in the financial statements as incurred from out of foreign grant source is money released from central treasury on the condition of reimbursements to be given by the foreign development partners. During FY 2001/02, NPR 815,399,166 was received from foreign development partners against the reimbursement of previous year expenditure and some portion of current year expenditure. The expenditure included NPR 1,491,036,521 of cash released from the central treasury against the cash grant given by foreign development partners.
14. NPR 3,343,829,993 of the total expenditure reported in the financial statements as incurred from out of foreign loan source is money released from central treasury on the condition of reimbursements to be given by the foreign lenders. During FY 2001/02, NPR 3,331,751,717 was received from foreign lenders against the reimbursement of previous year expenditure and some portion of current year expenditure. The expenditure included NPR 1,629,549 of cash released from the central treasury against the cash loan given by foreign lenders.

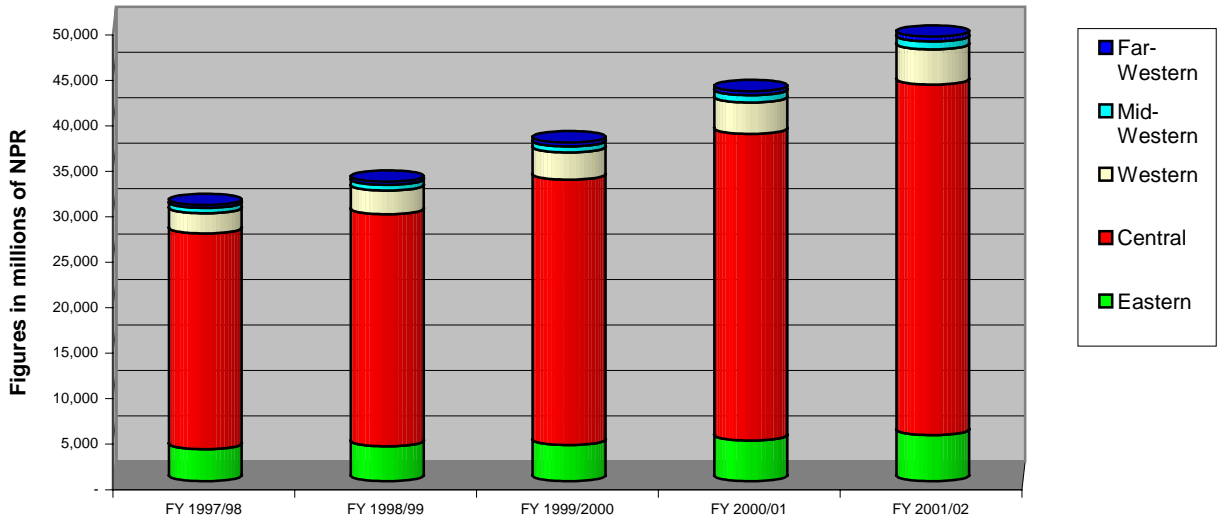
### Regional Distribution of Regular Expenditure



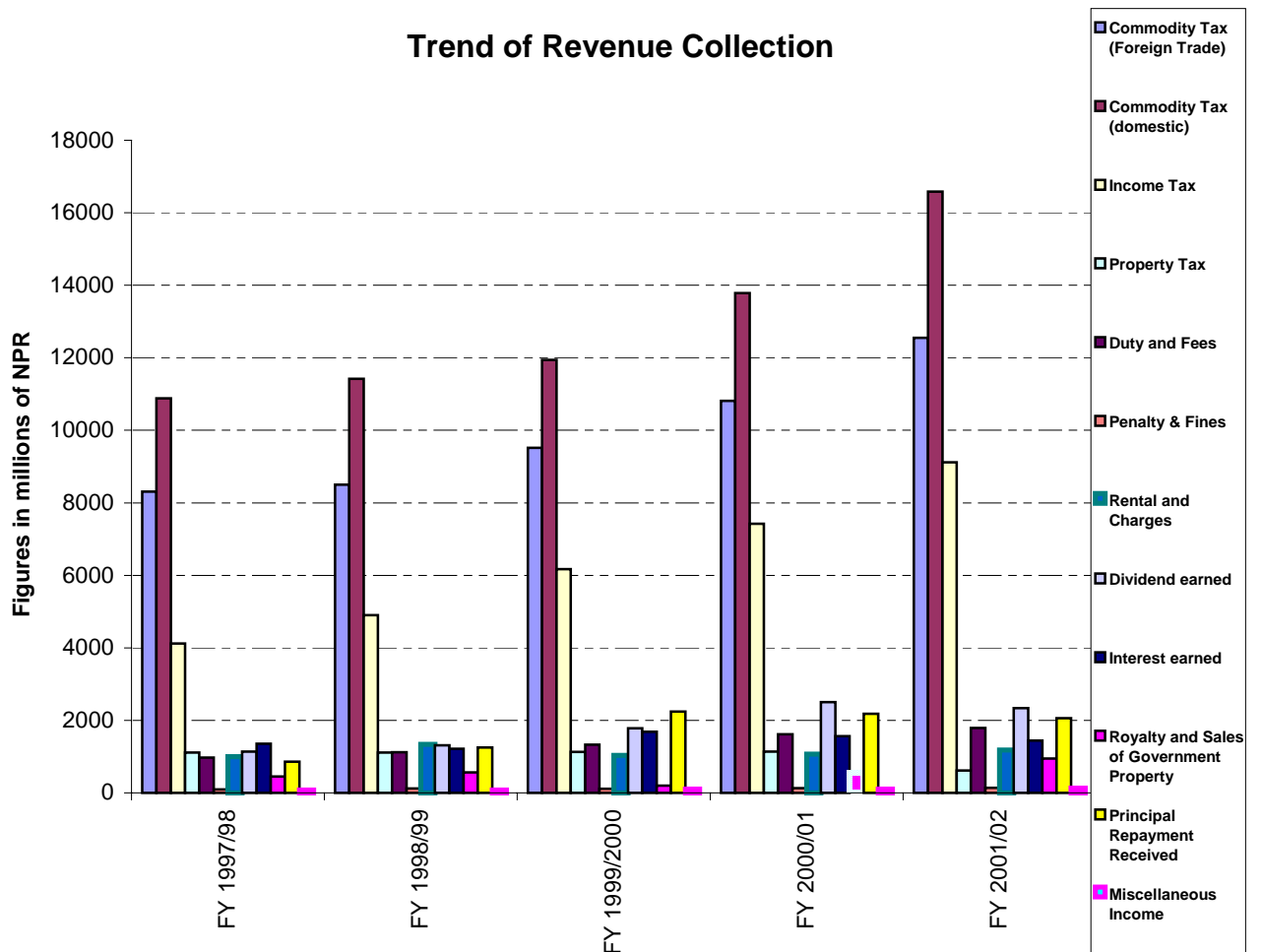
### Regional Distribution of Development Expenditure



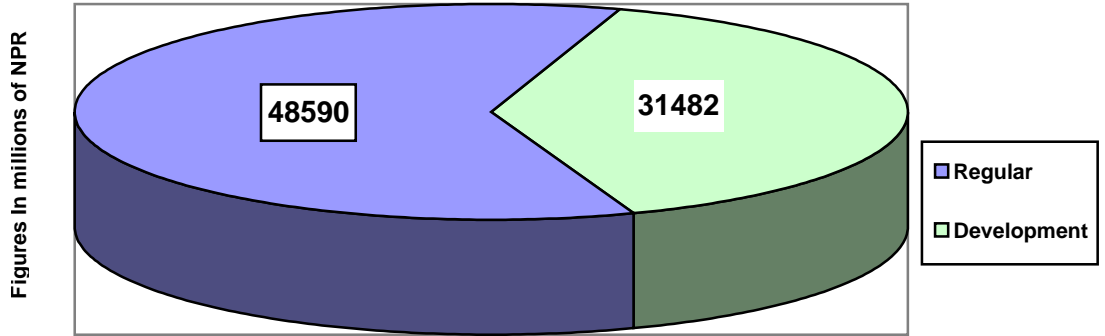
### Region-wise Revenue Collection Trend



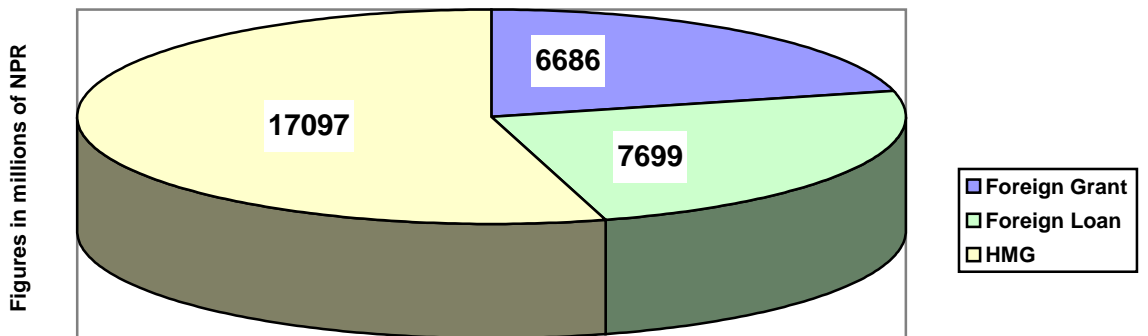
### Trend of Revenue Collection



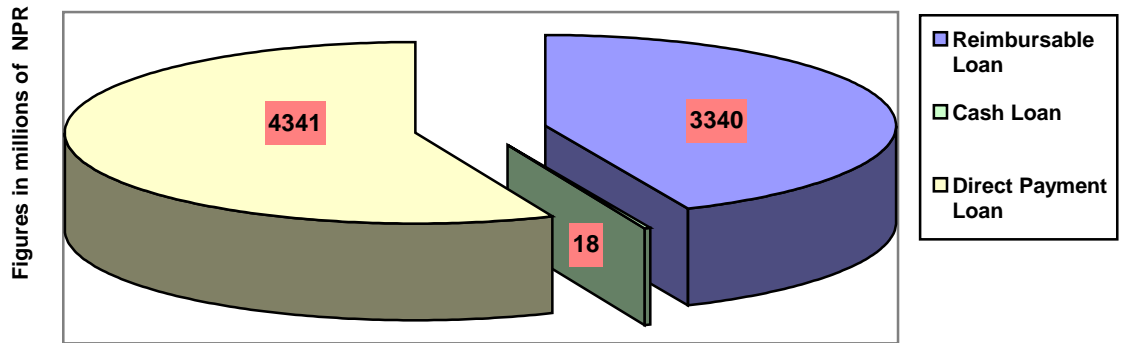
### Regular and Development Expenditure FY 2001/02



### Sourcewise Development Expenditure FY 2001/02



### Development Expenditure in Foreign Loan FY 2001/02



### Development Expenditure in Foreign Grant FY 2001/02

